



***Final
Report***

County of San Diego, California

Auditor and Controller

Countywide Internal Controls for Grant Administration

Office of **A**udits & **A**dvisory **S**ervices

**September 2008
Report No. A07-012**



COUNTY OF SAN DIEGO

INTER-DEPARTMENTAL CORRESPONDENCE

September 30, 2008

TO: Nick Macchione, Director
Health and Human Services Agency

W. Harold Tuck, Chief Information Officer
County Technology Office

Christopher P. Gilmore, Deputy Controller
Auditor and Controller

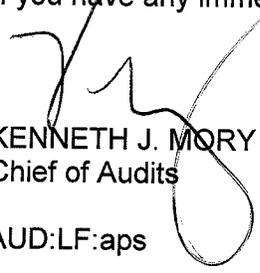
FROM: Kenneth J. Mory
Chief of Audits

FINAL REPORT: COUNTYWIDE INTERNAL CONTROLS FOR GRANT ADMINISTRATION

Enclosed is our report on the Countywide Internal Controls for Grant Administration Audit. The report includes audit findings and recommendations.

We have reviewed your responses and have attached them to the audit report. The actions taken and planned, in general, are responsive to the findings and recommendations in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations.

If you have any immediate concerns about the report, please contact me at (858) 495-5662


KENNETH J. MORY
Chief of Audits

AUD:LF:aps

Enclosure

c: Donald F. Steuer, Chief Financial Officer
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Ebony N. Shelton, Group Finance Director, Finance and General Government Group
Terry Hogan, Group Finance Director, Health and Human Services Agency
Rick Wanne, Deputy Director, Health and Human Services Agency, Agency Contract Support

EXECUTIVE SUMMARY

In accordance with the Office of Audits & Advisory Services' (OAAS) audit work plan, we have completed an audit of the Countywide Grant Management Internal Controls. The objective of the audit was to identify existing internal controls for the administration and oversight of grant monies received by the County of San Diego (the County) and to evaluate the design and effectiveness of internal controls related to grants.

OAAS issued a Countywide grant management internal control survey to gain a general understanding of the system of controls in place. The survey results indicated that Countywide internal controls to administer grants are reasonably effective.

OAAS selected the Health and Human Services Agency (HHSA) to evaluate the effectiveness of internal controls over grants since HHSA receives the majority of grants awarded to the County. The audit also involved a review of existing controls to review and monitor access to the Oracle system.

Countywide Audit Findings – OAAS review and analysis of the existing Grant Inventory Report (GIR) found that the report does not accurately present actual grants received by the County. Audit work also found that no record retention policy has been developed for system access records. As a result, we were unable to verify and evaluate the completion and authorization of information system access forms.

HHSA Audit Findings – Overall we found that HHSA's internal controls over grant funding are generally effective. However, OAAS identified the following opportunities for strengthening internal controls over grant management and related contracts:

Aging and Independence Services (AIS) – The audit tested internal controls over the Nutrition Program grant as administered by AIS. OAAS found that during FY 2006-07, AIS over-billed \$10,412 of grant expenditures resulting in improper billing of grant costs and non-compliance with grant contract terms and conditions. We also found that AIS did not claim and collect grant revenue monthly as specified within the grant agreement; rather grant reimbursement was claimed and collected every six to twelve months. Further, the audit identified data integrity issues with program reports prepared by AIS. Last, the audit discovered that AIS does not properly safeguard checks and other instruments of value.

Community Action Partnership (CAP) – The audit tested internal controls established by CAP for the administration of the Winter Shelter Program grant. OAAS found insufficient segregation of duties in regards to the administration of the grant. The audit also discovered certain inefficiencies in the contract administration and procurement process.

Mental Health Services (MHS) – The audit tested internal controls over MHS' administration of the Project for Assistance in Transition for Homeless (PATH) grant and related contracts. The audit identified data integrity issues with program reports prepared by MHS. In addition, OAAS determined that insufficient contract fiscal reviews were completed during FY 2006-07.

Alcohol and Drug Services (ADS) – Audit work assessed the internal controls over the Drug Court Partnership (DCP) grant as administered by ADS. The audit found discrepancies with the grant revenue collected from the funding agency and the revenue accrued in the Oracle system. As a result, we noted that revenue was overstated at the end of the period by \$33,895. The audit also found that grant claim reimbursements are not reviewed, reconciled, and validated by management. This condition increases the risk of significant errors, multiple reimbursements claimed from more than one funding source, and the inability to rationalize the cost allocation process used.

Fiscal Services Support Division (Fiscal) – OAAS reviewed and reconciled outstanding accounts receivable for selected grants. Our reconciliation of open invoices for the PATH grant found \$211,410 in grant revenue rolled over from prior years that was not properly accounted for and applied to outstanding invoices. We also found that a single award was created to account for monies received from two different agencies to fund two separate projects: the Winter Shelter Program and the Family Advocate O'Farrell Community School Program. Individual awards should be set up for each revenue source that fund separate projects for better revenue tracking.

Recommendations: The following recommendations have been provided in an effort to assist in addressing the exceptions noted above.

- Auditor and Controller (A&C) should request that award descriptive fields within the Projects and Grants Module be modified to better classify and report awards as grants.
- A&C should consider maintaining specific information for each grant as suggested by the California State Accounting and Standard Procedures for Counties.
- County Technology Office (CTO) should develop and adopt a record retention policy for system security records.
- AIS should ensure that grant revenue is claimed, collected, and reported within guidelines.
- AIS and MHS should evaluate training needs of staff for the preparation of program reports. Further, management's review process should be enhanced to facilitate detection of errors.
- AIS should develop procedures to establish controls for adequate safeguarding of assets.
- MHS must ensure that fiscal contract reviews are completed as scheduled and are conducted in accordance with HHSA Contract Administration and Monitoring Policy.
- CAP management should ensure that incompatible duties are properly segregated.
- CAP management should establish a formal business process to improve the administration of the Winter Shelter grant contract.
- ADS should establish a process to assure the distribution of grant claims to Fiscal for timely and accurate revenue recognition.
- ADS management needs to improve their review and validation efforts of revenue claims.
- HHSA Fiscal staff should enhance their fiscal oversight and reconciliation of grant revenues received and outstanding accounts receivables.
- HHSA Fiscal should consider establishing two separate awards to account for revenue funding the Winter Shelter Program and the Family Advocate O'Farrell Community School Program.

INTRODUCTION

The Office of Audits & Advisory Services (OAAS) completed an audit of Grant Management Internal Controls, in accordance with our FY 2007-08 audit work plan. The objective of the audit was to identify existing internal controls for the administration and oversight of grant monies received by the County of San Diego (the County) and to evaluate the design and effectiveness of internal controls related to grants.

The County counts on numerous sources of revenue to finance ongoing operations. For the year ended June 30, 2007, the County reported a total of \$1.8 billion in revenues from operating grants and contributions. The funds were received from Federal, State, and local government agencies as well as other funding institutions.¹ The County receives grant monies for numerous purposes: community services projects, health related programs, housing development programs, and fire and public safety services, among others.

According to the existing Grant Inventory Report, the Health and Human Services Agency (HHSA) is the recipient of over 85% of the awards received by the County. Therefore, detailed testing of internal controls and transaction details was focused on grants awarded to HHSA.

BACKGROUND

HHSA is an integrated organization that provides a broad range of services to the community including indigent health, mental health, public health, substance abuse services, public guardian, self-sufficiency, and protective services to neglected children and older adults.

During FY 2006-07, HHSA's revenue totaled nearly \$1.5 billion from which approximately \$1.3 billion consisted of intergovernmental revenues. Intergovernmental revenues include funds received from Federal, State, and other Local government sources in the form of grants, shared revenue, subventions, and payments in lieu of taxes. The Government Accounting Standards Board (GASB) defines grants as a contribution or gift of cash or other assets from another government to be used or expended for specific purpose, activity, or facility.

Organizations that award and receive grants must have an adequate internal control system in place to ensure that funds are properly used to achieve intended results. As outlined within the Committee of Sponsoring Organizations (COSO) Internal Control Integrated Framework, there are five components of internal control that are essential for adequate grant management:

- Control Environment – provides an atmosphere in which people conduct their activities and carry out their control responsibilities.
- Risk Assessment – establishes mechanisms to identify, analyze, and manage risks.
- Control Activities – help ensure management's directives to mitigate identified risks are carried out.

¹ This information was obtained from the Comprehensive Annual Financial Report for the year ended June 30, 2007. The Management's Discussion and Analysis indicates that operating grants and contributions of \$1.8 billion accounted for 50% of the total revenues received by the County. These monies are received from parties outside the County and are restricted to one or more specific programs. Examples of operating grants and contributions include State and Federal revenues for public assistance programs and health and sanitation programs.

- Information and Communication – provides that relevant information is captured and communicated throughout the organization.
- Monitoring – ensures that the entire process is monitored and modified as conditions warrant.

These controls can be applied to objectives in operations, financial, or compliance categories to conduct entity, process, or activity assessments. In this audit we are assessing financial control objectives at the grant process and activity levels.

AUDIT SCOPE AND LIMITATIONS

Our audit focused on understanding and analyzing the control activities that prevent and detect potential mismanagement and misuse of grant funding. As part of these assurance activities, OAAS conducted a Countywide survey to assess general internal controls over the grant administration function.

However, due to the materiality of grants to HHSA operations, detailed testing was performed on internal controls over grants within HHSA. The audit scope of the detailed testing was limited to funding awarded during FY 2006-07. We conducted test of controls and transaction details on the following HHSA programs and selected grants:

HHSA Program	Grant/Award Name	Award No.	Revenue Amount
Aging and Independence Services	Nutrition Program for Seniors	113871	\$215,777
Community Action Partnership	Winter Shelter Program	112841	\$121,802
Mental Health Services	Project for Assistance in Transition for Homeless (PATH)	113977	\$944,192
Alcohol and Drug Services	Drug Court Partnership (DCP)	104247	\$485,234
Public Health Services	Healthy San Diego	104687	\$878,750

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

METHODOLOGY

OAAS implemented a multi-faceted methodology to identify and evaluate internal controls related to grants. The following bullets highlight the methods used:

- Reviewed Countywide Grant Inventory Report as gathered by the Auditor and Controller (A&C);
- Identified the accounting process in Oracle to account for grant funding received;
- Conducted and evaluated a Countywide survey to assess general internal controls over grants;

- Requested a list from all County departments of all Federal, State, and other grants administered by each department;
- Discussed the Single Audit process with external auditors;
- Conducted interviews with A&C staff responsible for coordinating the Single Audit report;
- Contacted the County Technology Office to discuss system security related issues;
- Performed multiple interviews and discussions with HHSA's staff to gain an understanding of internal controls over grants;
- Reviewed Countywide and interdepartmental policies and procedures governing the administration of grants;
- Selected a judgmental sample of grants awarded to HHSA during FY 2006-07, as reported to us by HHSA management. For each item in the sample, the auditor performed the following:
 - Control Environment: Determined whether the proper attitude and consciousness toward internal controls was established by management responsible for the administration of selected grants.
 - Risk Assessment: Determined whether management had identified and evaluated events that could threaten the accomplishment of objectives with regards to grant activities.
 - Control Activities: Reviewed and assessed policies and procedures in regards to grants, segregation of duties, physical controls, reports, training, roles and responsibilities, and reconciliation and review process.
 - Information and Communication: Evaluated existing reports used by management to assess access privileges to information systems.
 - Monitoring: Identified and evaluated supervisory activities for adequate oversight of grants.
- Examined a random sample of invoices related to grants to determine appropriateness of expenses claimed for reimbursement.

AUDIT RESULTS

Countywide Grant Management and Internal Controls

OAAS performed a review of Countywide grant internal controls which consisted of conducting a grant management internal control survey and analyzing the responses. Our analysis of survey responses indicated that Countywide internal controls to administer grants are reasonably effective.

Further, through survey results, we found that less than one third of County departments have implemented the use of the Accounts Receivable (AR) Oracle Module to process billings related to grants.² Many County departments that have not set up funding sources as billable awards within Project and Grants Oracle Module (PNG) are recording such revenue in the General Ledger Oracle Module (GL) only and relying on external applications to do their billing. The AR Module allows users to better balance program costs with program revenues. Further, it

² County departments that have implemented the AR Oracle Module are: Probation, Health and Human Services Agency, Department of Planning and Land Use, Department of Public Works, Agriculture, Weights and Measures, Department of General Services, Housing and Community Development, and Department of Environmental Health.

increases the visibility and accountability of the expenditure reimbursement process with grantors.³

Additional audit work identified the following exceptions:

Finding I: Countywide Grant Inventory Report Data is Not Reliable

Our review and analysis of the existing Countywide Grant Inventory Report (GIR) determined that the report does not accurately present actual grants received by the County. The GIR is a compilation of all awards by departments. The descriptive field within the award classification in PNG does not distinguish between grants, cost reimbursement contracts, and fees. As a result, the GIR includes any Federal and State funding received even though some of this funding may not actually be a grant, such as Medi-Cal, Tobacco Settlement Funding, Realignment Fees, etc.

The State of California Accounting and Standard Procedures for Counties requires that Counties maintain a proper grant inventory report in order to ensure control over grants.⁴ It also provides guidance in regard to specific grant information records that should be kept for each grant (see Appendix for a sample form).

Finding II: Unable to Verify Authorization for System Access

OAAS was unable to determine the appropriateness of access granted to Oracle end-users as the relevant supporting documentation was not available. County management indicated that computer access forms are not maintained consistently by departments since there is no formal record retention requirement. We contacted the Chief Technology Office (CTO) Security Officer to identify record retention policies for system access authorization forms. The CTO Security Officer indicated that Computer Services Registration Form (CSRF) are completed by the departments and submitted to Northrop Grumman (NG) for processing. However, no formal retention policy has been developed. As a result, the CTO confirmed that individual departments do not always maintain copies of the CSRFs. Further, the CTO indicated that while NG indicated that they maintain copies of the CSRFs, there is no provision within the contract that specifies how long these forms should be maintained.

The lack of an adequate record retention policy for CSRFs results in insufficient documentation maintained which consequently results in management's inability to retrieve, reconstruct, and validate systems access granted. Since there is no County criterion in place, OAAS looked at industry standards for Information Technology (IT) governance such as the Control Objectives and related Information Technology (COBIT) Framework for guidance. COBIT Section DS11.2 Storage and Retention Arrangements recommends defining and implementing procedures for effective and efficient retention and archival of IT related documents to meet business objectives, security policy, and regulatory requirements.⁵

³ *Administrative Manual Item 0030-1 (DRAFT form)* will require the creation of awards within PNG for all revenue contracts and grants. This new process will also entail the use of the AR Module since an AR customer must be set up to establish an award.

⁴ *Accounting Standards and Procedures* – Chapter 23 Grant Accounting.

⁵ **COBIT DS11.2 Storage and Retention Arrangements** - Defines and implements procedures for effective and efficient data storage, retention and archiving to meet business objectives, the organization's security policy and regulatory requirements.

HHSA Grant Management and Internal Controls

OAAS' approach included a review of HHSA's grant internal controls. The audit found that HHSA's management and employees have established an environment that sets a positive and supportive attitude toward internal controls and conscientious management. Further, we found that HHSA is one of the first County groups to implement the PNG Oracle module and use billable awards for grants and other funding sources. This has resulted in better accountability and visibility with grantors that can be used to ensure timely requests for reimbursement from the granting agencies.

Overall we found that HHSA's internal controls over grants are generally effective for the management of grant funding. Further, the results of our testing did not identify instances of fraud or abuse of grant monies. However, the audit identified the following opportunities for improvements that if not corrected properly, could lead to a lack of accountability, potential loss of assets, and failure to comply with grant requirements.

Finding III: Opportunities Exist for Strengthening Internal Controls over Grant Management and Related Contracts

Audit work on each HHSA Program identified a number of control weaknesses with the grant administration and oversight process. More specifically:

Aging and Independence Services (AIS)

Overstated Grant Reimbursement Claim – Audit work found that AIS over-billed \$10,412 of grant expenditures to the funding agency resulting in improper billing of costs and non-compliance with contract terms and conditions.

OAAS selected a grant awarded to AIS by the City of San Diego (the City) for detail review. The agreement between AIS and the City states that AIS shall provide nutrition services to the senior community and reimbursement for eligible expenditures will be made by the City. The agreement defines eligible expenditures as actual costs incurred on contractor services. During FY 2006-07, actual contract service costs amounted to \$185,064. However, AIS submitted two invoices to the City with a total claim of \$195,476. AIS management indicated that billing was incorrectly processed based on budget allocation instead of actual costs. According to AIS management, they contacted the City and obtained authorization to keep the \$10,412 of grant monies to offset other costs related to the program not usually covered by the grant. AIS management was unable to provide documentation to validate the City's authorization to use the additional funding.

Delayed Grant Revenue Collection – Our audit work found that AIS did not process monthly claims to recover expenditures related to the Nutrition Program funded by the City. The agreement between the City and AIS states that monthly reimbursements would be processed for eligible expenditures; however, audit work found that AIS processed reimbursement claims once or twice a year.

Board of Supervisors Policy B-29 specifies that it is the department's responsibility to recover full cost for services provided and requires that departments pursue prompt collection of all

revenues.⁶ AIS management indicated that because of recent personnel transitions, claims were not processed according to contractual terms. Inadequate cost recovery process results in failure to maximize County revenue on a timely manner and in an inefficient use of County dollars.

Programmatic Reports Data Integrity Issues – OAAS reviewed and reconciled programmatic reports prepared to report grant activities related to the Nutrition Program. The City requires the development and submission of monthly reports with specific program data gathered from contractors. During the auditor's review and reconciliation of program reports, it was noted that AIS did not prepare and submit required reports in accordance with contractual terms. Further, we found that the supporting documentation for some of the data included in the report was incomplete, missing, or did not reconcile. AIS management acknowledged that some of the supporting documentation was not available because it was not gathered from the contractors.

The submission of invalid and inaccurate program report data to grantors could potentially result in loss of funding and repayment of funds already received.

Inappropriate Safeguarding of Assets – While assessing the internal controls over a grant administered by AIS, OAAS discovered that AIS does not properly safeguard checks and other instruments of value. More specifically, we found three checks and numerous property tax rebate vouchers locked in a filing cabinet. One of the checks was for a \$5,000 award and had been in the filing cabinet for over two weeks. While the cabinet was locked, we noted that all staff had access to the filing cabinet.

AIS staff stated that the \$5,000 check had not been deposited because they were waiting to establish an award number within Oracle for proper allocation. AIS staff indicated that inadequate physical security of checks and cash vouchers had been identified in the past but no action was taken to address the issue.

Inadequate safeguarding of checks and items with cash value increases the risk of County assets being misappropriated, lost, or misplaced. Generally accepted internal controls require strong physical controls for securing and safeguarding vulnerable assets as part of an effective system of internal controls.

Community Action Partnership (CAP)

Insufficient Segregation of Duties – OAAS evaluated the adequacy of staff's responsibilities in regard to the administration of grants. Our review of the Winter Shelter grant administered by CAP, found that the same individual is responsible for claim reimbursement preparation, approval, submission, and receipt of funds. Management indicated that grant reimbursements have always been processed in this manner and was never considered an issue.

Generally accepted internal controls require adequate segregation of duties to ensure that effective checks and balances are in place to minimize the risk of loss. Lack of sufficient segregation of duties creates the opportunity for misconduct and increases the likelihood of fraud.

⁶ Board of Supervisor's Policy B-29- Fees, Grants, Revenue Contracts - Department responsibility for cost recovery.

Absence of a Formal Business Process for Adequate Contract Management – We assessed the administration of a grant awarded by the City of San Diego (the City) for the funding of the Winter Shelter Program and identified certain inefficiencies in the administration process. While the contract is signed by the Housing and Community Development (HCD) Director, the contract identifies HHSA as responsible for the administration of the project. OAAS found that there is no formal business process in place between HCD and HHSA for adequate management, monitoring, and communication in regard to the administration of the contract with the City. Also, HHSA management has not been engaged in the contract review and acceptance process, and roles and responsibilities have not been defined. For instance, the contract requires detail data as reported by the Department of Housing and Urban Development (HUD) to be included in the annual program report to the City. HHSA is unclear as to whose responsibility it is to provide such data given that they are unable to provide it.

OAAS contacted HCD's staff and they indicated that full responsibility for the administration of the contract should be fully transferred to HHSA in order to increase efficiency and streamline services provided.⁷

Good contract management practices require efficient communication and clear roles and responsibilities between the parties involved to improve the administration process and provide adequate level of services.

Mental Health Services (MHS)

Programmatic Reports Data Integrity Issues – OAAS reviewed and reconciled programmatic reports prepared to report grant activities related to the Project for Assistance in Transition for Homeless (PATH) grant. The State of California partially funds the PATH program and requires the submission of annual program reports with accurate and reliable data in order to measure performance. Our review of the PATH annual program report identified a number of errors and irreconcilable data. MHS management stated that the staff responsible for the preparation of the annual program report was new to the position and lacked sufficient training and experience.

The submission of invalid and inaccurate program report data to grantors could potentially result in loss of funding and repayment of funds already received.

Insufficient Fiscal Reviews of Contractor's Invoices – We reviewed the adequacy of fiscal reviews conducted by Mental Health Services (MHS) on grant service providers' invoices. Our review determined that during FY 2006-07, there were 54 fiscal reviews scheduled for 54 contracts; however only 24 reviews (45%) were completed.

MHS' management indicated that on October 2006, the Agency Contract Support (ACS) transferred the responsibility of contract fiscal review and contract oversight to MHS. MHS developed the contract fiscal review schedule but was unable to complete all planned reviews.

⁷ HCD Director submitted a letter to HHSA management dated August 9, 2007, in which they requested the transfer of the contract administration responsibilities to HHSA in order to increase efficiency and streamline services. HHSA did not concur with the request.

Adequate fiscal reviews help ensure that service providers are compensated for only allowable, reasonable, and verified costs.⁸ The lack of sufficient fiscal oversight of contractor's invoices increases the risk of overpayments, fraud, waste, and abuse of County funds.

Alcohol and Drug Services (ADS)

Overstated Grant Revenue Accrued – Auditors assessed internal controls and grant oversight process for the Drug Court Partnership (DCP) program administered by ADS. Through the review, discrepancies were noted with the revenue claimed and collected from the State and the revenue accrued in the Oracle system. ADS staff is responsible for preparing grant claims and submitting them to the State for payment and to Fiscal Services Support Division (Fiscal) for revenue accrual in the Oracle system. Audit work found that claims sent to the State were not submitted to Fiscal for proper and timely revenue recognition within the system. Instead, during FY 2006-07, Fiscal staff estimated revenue accruals, as instructed by ADS staff. Estimated revenues recorded totaled \$485,234, and actual revenue claimed and collected during the year totaled \$451,339. As a result, revenue was overstated at the end of the fiscal year by \$33,895. A subsequent adjustment processed on January 2008 corrected the difference.

Interview data determined that inadequate communication and coordination between ADS and Fiscal personnel was the cause of the discrepancies noted with revenue accrued in the system. Per Government Standards Accounting Board (GASB) standards, revenues are recognized in the period in which they are both measurable and earned. Revenues are considered earned when the good or service is provided.

Lack of Managerial Reviews of DCP Grant Claims – Audit work determined that DCP quarterly claims sent to the State by ADS staff are not reviewed and validated by management. It was also noted that the process used to prepare DCP claims is not consistent due to a number of variables such as fund availability, allocation of costs to other funding sources, deadlines, and State directives. OAAS' reconciliation of selected claims found a number of mathematical errors in the spreadsheet used to support the final quarterly claim. The lack of managerial evaluation and reconciliation increases the risk of significant errors, multiple reimbursements claimed from more than one funding source, and the inability to rationalize the cost allocation process used.

Interview data indicated that, because service providers' invoices are the source of the State claim, staff solely relies on the validation conducted by program staff and no additional review of the final claim is required.

Generally accepted internal controls require that managerial reviews, approvals, reconciliations, and authorizations since they are a key element of a strong system of internal control.

Fiscal Services Support Division (Fiscal)

Inadequate Monitoring and Accounting of Grant Funding Received – OAAS' approach included a review of outstanding accounts receivable associated with grants selected for detail testing. While reconciling outstanding invoices associated with the PATH grant, we noted that

⁸ HHS Policy G-4.16 outlines requirements for in-depth reviews of contractor's invoices which should consist of a more rigorous examination and verification than the routine process utilized to review and approve payment.

there were two invoices totaling \$136,702 that had been opened for over six months. We also found that according to revenue receipt records, HHSA had already received full allocation from PATH grant monies for FY 2006-07. Fiscal staff researched this issue and discovered \$3,629 rolled over from FY 2001-02 and \$207,781 rolled over from FY 2004-05 that were not properly accounted for and applied to outstanding accounts receivable. Available funding received from prior fiscal years should have been immediately applied to open invoices leaving an unused balance of \$71,079. Further, staff should have contacted the State to request the transfer of unspent funds to the following fiscal year.

Not properly monitoring and accounting grant funding received and applying the funds to open invoices resulted in improperly stating accounts receivable for the period. Further, unspent revenue received was not properly reported to the funding source, as required.

Inadequate Award Establishment in Oracle Financials – The Family Advocate O’Farrell Community School Program and the Winter Shelter Program are administered by CAP/HHSA. These programs are funded by different agencies: the San Diego Unified School District and the City of San Diego, respectively.

Audit work found that Fiscal personnel established a single award in the Oracle system to account for revenue received for the funding of these two projects. According to PNG Oracle Module policy, individual awards must be set up for each revenue source that funds different projects. The award information is used for general ledger reporting purposes to determine the revenue source. Not creating awards according to established business rules, results in the inability to properly identify and track revenue received by funding sources.

RECOMMENDATIONS

OAAS recommends that the following actions be taken to strengthen the grant management process and related internal controls:

Recommendation I: The most efficient way to ensure that the Grant Inventory Report only includes actual grants is modify the descriptive field within the award to read: Federal Grant, State Grant, Other Grant, Internal County, Other Federal, and Other State. Once the descriptive field is modified, the Grant Inventory Report parameters (ran through Discoverer) should be adjusted to only include Federal, State, and Other Grant instead of all awards recorded in PNG. A&C management should coordinate with NG to address this issue.

Recommendation II: A&C management should enhance controls over grants by maintaining grant information records for each grant as suggested by the California State Accounting and Standard Procedures for Counties sample form (see Appendix).

Recommendation III: The CTO should establish and document consistent policies and procedures for all County departments to require the retention of system security documents for an adequate time period to ensure retrieval, reconstruction, and verification of data.

Recommendation IV: AIS management should ensure that grant revenue is claimed, collected, and reported within the guidelines established by the Nutrition Program grant agreement, and in accordance with the standards and procedures established by the A&C. In

particular, reimbursement claims should be prepared monthly and reflect actual costs incurred by the County. Further, adequate and sufficient documentation should be maintained to validate costs claimed and verify additional funding authorizations received, if any.

Recommendation V: AIS and MHS management should evaluate training needs of staff responsible for the preparation of program reports and track necessary training. Further, management should make sure that performance reports are prepared and submitted timely and are supported by sufficient and reliable information. Last, management's review techniques of programmatic reports should be enhanced to facilitate detection of errors and oversights.

Recommendation VI: MHS should strengthen their contract monitoring processes by ensuring that contract reviews are conducted according to schedule. Further, in order to obtain reasonable assurance that no overpayment, fraud, or abuse has taken place, the review process should be adequate and sufficient in accordance with HHS Contract Administration/Monitoring Policy G-4.16.

Recommendation VII: CAP management should ensure that incompatible duties related to the Winter Shelter grant management are properly segregated. In particular, the responsibilities of invoice preparation, approval, and receipt of monies from the funding source should be adequately segregated.

Recommendation VIII: HHS and HCD management should establish a formal business process for better coordination and communication related to the administration of the Winter Shelter grant contract. HHS and HCD management should work jointly in the review and acceptance of contract terms to ensure that there is mutual agreement in regards to the project expectations.

Recommendation IX: AIS management should develop procedures to establish controls for adequate safeguarding of monetary assets. These procedures should include, at the minimum, the following requirements:

- All checks should be endorsed upon receipt "for deposit only".
- Checks and property tax rebates vouchers should be maintained in the safe.
- Adequate monitoring of property tax rebate vouchers should be exercised.
- Access to the safe should be restricted and strictly monitored.

Recommendation X: ADS staff should establish a process to ensure that revenue claims are immediately distributed to Fiscal for timely and accurate revenue recognition in the Oracle system.

Recommendation XI: ADS management needs to improve their review and validation efforts of grant invoices submitted to the State. In addition, written guidelines should be developed for the preparation of quarterly DCP claims. Doing so would not only provide direction to current staff but also help in the succession planning in the event of employee turnover.

Recommendation XII: Fiscal staff responsible for the administration of the PATH grant should enhance their fiscal oversight efforts in regards to:

- Ensuring that comprehensive reconciliations of grant funding received and expenditures incurred are periodically conducted.

- Ensuring that outstanding invoices are properly monitored and investigated.
- Ensuring that carry over requests for any unspent grant funding are promptly submitted to the State.

Recommendation XIII: Continue to observe PNG Oracle Module policies related to award set up and maintenance. Also, for consistency purposes and better revenue tracking, ensure that two awards are established to separately account for grant funding the Winter Shelter Program and the Family Advocate O'Farrell Community School Program.

COMMENDATION

The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by all County Departments that completed the internal control survey, County Technology Office, Central Projects and Accounting Services, and Health and Human Services Agency, in particular, their Fiscal Services Support Division officers and staff throughout this audit.

AUDIT TEAM

Laura Flores, Senior Auditor, CIA, CGAP (Project Lead)
Evans Owala, Auditor II, CISA

Appendix

ACCOUNTING STANDARDS AND PROCEDURES

23.07 Grant Control (continued).

Sample Form

CFDA # _____ Date _____

GRANT INFORMATION RECORD

1. Title of Grant Project _____
2. Grant Objectives _____
3. Dept. _____ No. _____ Contact Person _____ Phone _____
4. Grantor Agency _____ Grant I.D. No. _____
5. Funding Source and Statutes: Name _____ Statute No. _____
6. Contract Status: Awarded _____ Applied For _____
7. Contract Period: From _____ To: _____
8. Will program occupy county facilities? No _____ Yes _____ Location _____
Square Footage Occupied _____
9. Budgetary
 - (a) Revenues will be deposited into _____ Dept. _____ Index _____ Account _____
 - (b) Appropriations will be recorded in _____ Dept. _____ Index _____ Account _____

10. Fiscal Data

Costs Included in Grant Contract	<u>Sources of Contributions to Grant</u>				
	1 Federal Revenue	2 State Revenue	3 County Contributions	4 Other Contributions	5 Total Grant
(a) Personnel(*)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
(b) Services/Supplies	_____	_____	_____	_____	_____
(c) Equipment	_____	_____	_____	_____	_____
(d) Indirect Costs (*)	_____	_____	_____	_____	_____
(e) Other Charges Misc.	_____	_____	_____	_____	_____
(f) Total Grant	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Percentages					100%
(g) Unfunded Co. Costs (*)	////////	////////		////////	
Total Cost of Grant	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
(h) What has been/will be the net county cost each year of the grant?					
	FY _____ (Act/Est)	FY _____ (Act/Est)	FY _____ (Act/Est)	FY _____ (Act/Est)	Total
Appropriations	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Less: Revenues	_____	_____	_____	_____	_____
Net County Cost	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

11. How many years has grant been funded? _____ Is grant renewable? Yes _____ No _____

12. Other Data/Comments

* Please present detail and calculations on reverse side of this sheet.

ACCOUNTING STANDARDS AND PROCEDURES

23.07 Grant Control (continued).

INSTRUCTIONS FOR COMPLETING THE GRANT INFORMATION RECORD

Lines

(1 — 7) Current data relating to attached grant application.

(8) "County facilities" includes county building space, whether it is owned, rented, leased or leased with an option to purchase.

Indicate below:

(a) Address _____

(b) *Square footage to be occupied _____

(10) Fiscal Data

(a) Personnel:

Indicate here county employees' salaries and benefits \$ _____

Indicate here non-county employees' salaries and benefits _____

Total Personnel Costs \$ _____

(b) Services & Supplies: (Indicate additions to your departmental budget for this grant).

(c) Equipment: (Indicate additions to your departmental budget for this grant).

(d) Indirect Costs: (Computation)

	Dept. No.	County Salaries & Benefits	Departmental Indirect Rate*	Indirect Cost
County Employees (see 10a)	_____	_____	_____	_____
	_____	_____	_____	_____
	_____	_____	_____	_____
Total (From 10a above)		\$ _____		
Total Indirect — Transfer to Line 10d				\$ _____

(e) Other Charges and Misc. (detail if any miscellaneous)

(g) List below additional contribution of county resources not included in grant application.

Salaries Direct \$ _____

Salaries — Administrative** _____

Services and Supplies _____

Equipment _____

Indirect Costs _____

Total (Transfer to Line 10g) \$ _____

(h) Show appropriation, revenue, and net county cost by fiscal year. Amounts shown are actual expenditures and actual revenues expected to be paid or received during the fiscal year. Indicate whether figures are estimated. Total revenues must equal sum of Federal, State and other revenues in Columns 1, 2 and 4 of Line 10(f). Total net county cost must equal county contributions on Line 10(f), Column 3.

* Departmental indirect rates and space allocations are available from the Auditor-Controller's office.

** Include here only that portion of administrative salaries that is not included in the computation of the department's indirect rate.

**DEPARTMENT RESPONSE
HEALTH AND HUMAN SERVICES AGENCY**



County of San Diego

HEALTH AND HUMAN SERVICES AGENCY

1700 PACIFIC HIGHWAY, SAN DIEGO, CALIFORNIA 92101-2417
(619) 515-6555 Fax (619) 515-6556

NICK MACCHIONE, FACHE
DIRECTOR

TERRY HOGAN
FINANCE DIRECTOR

July 23, 2008

RECEIVED

TO: Kenneth J. Mory, Chief of Audits
Auditor & Controller, D-305

AUG 19 2008

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: Terry Hogan, Executive Finance Director
Health & Human Services Agency, P501

**Response to "Countywide Internal Controls For Grant Administration Final Draft
Report: - HHSA Grant Management and Internal Controls**

HHSA agrees with the findings and recommendations for opportunities to strengthen internal controls over HHSA grant management and related contracts. Many recommendations have already been implemented. Specifics are provided below:

Recommendation IV: AIS management is ensuring that reimbursement claims are prepared monthly and reflect actual costs incurred by the County. All documentation that supports the costs claimed, including any additional funding authorization, is retained in accordance with document retention requirements.

Recommendation V: AIS and MHS management are ensuring that staff preparing program reports are trained on the timely, accurate and reliability requirements of these reports. Management has enhanced their review of these reports to ensure accuracy and timeliness.

Recommendation VI: MHS is conducting contract reviews on schedule and in accordance with HHSA policy.

Recommendation VII: The responsibilities of the Winter Shelter grant management are in the process of being segregated. Fiscal accountants approve the invoice and the receipt of funds has been directed to come directly to the Fiscal mail unit and then to the Fiscal deposit unit.

Recommendation VIII: HHSA and HCD are in the process of establishing a formal business process for the administration of the Winter Shelter grant.

Kenneth J. Mory
July 23, 2008
Page 2

Recommendation IX: AIS management has established all the listed safeguarding of monetary assets procedures.

Recommendation X: ADS and Fiscal have improved communication regarding revenue claims and the need for accurate and timely revenue recognition.

Recommendation XI: ADS is in the process of writing guidelines for the preparation of quarterly DCP claims to the State which include a review and validation of the claims by management.

Recommendation XII: Fiscal staff have enhanced the oversight efforts for the PATH grant including comprehensive reconciliations of revenue and expenditures; monitoring of accounts receivable invoices and carry over requests for unspent funding are properly approved by funding agency.

Recommendation XIII: Fiscal has established two separate awards for the CAP grants and continues to monitor all awards to ensure award set up assists in tracking grants and revenue.



TERRY HOGAN
Executive Finance Director
Health & Human Services Agency

TH/dm

cc: Nick Macchione, HHSA Director, P501
Paula Landau-Cox, HHSA Director of Operations, P501
Rick Wanne, Deputy Director, HHSA Agency Contract Support, W472
Pam Smith, Deputy Director, HHSA AIS & East Region, W433
Alfredo Aguirre, Deputy Director, HHSA Mental Health Service, P531A,
Jennifer Schaffer, Deputy Director, HHSA Behavioral Health Division, P431A
Rene Santiago, Deputy Director, HHSA Central & South Regions, W408

**DEPARTMENT RESPONSE
COUNTY TECHNOLOGY OFFICE**

From: Green, Susan L.
Sent: Monday, September 15, 2008 10:14 AM
To: Mory, Kenneth
Subject: RE: Quarterly Status Report - Transition Audit A08-004A

Ken: I reviewed the Grants Audit. The only recommendation that applies to the CTO is the retention of the CSRFs by NGIT. We agree with your finding and will be issuing a letter to NGIT to require them to keep the hard copy documents for a specified period of time.

Let me look at the other one.

Susan

**DEPARTMENT RESPONSE
AUDITOR AND CONTROLLER**



COUNTY OF SAN DIEGO

INTER-DEPARTMENTAL CORRESPONDENCE

August 13, 2008

RECEIVED

AUG 15 2008

TO: Kenneth J. Mory
Chief of Audits

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: Chris Gilmore, Deputy Controller
Auditor and Controller

FINAL DRAFT REPORT: COUNTYWIDE INTERNAL CONTROLS FOR GRANT
ADMINISTRATION

The following are our responses addressing the audit finding and recommendations related to the subject report.

Finding 1: County Wide Grant Inventory Report is Not Reliable

- **Management Response to Finding 1:** The actual PNG award Project Budget Source descriptive flexfield values are: County, Federal Grant, Other, Other Federal, Other Grant, Other State, State Grant. The departments must select the Project Budget Source value on the Award Descriptive Flexfield at the time the award is established. If the funding source is not a grant, the department should not select a value with Grant in the description.

Recommendation 1: The most efficient way to ensure that the Grant Inventory Report only includes actual grants is modify the descriptive field within the award to read: Federal Grant, State Grant, Other Grant, Internal County, Other Federal, and other State. Once the descriptive field is modified, the Grant Inventory, Report Parameters (ran through Discoverer) should be adjusted to only include Federal, State, and Other Grant instead of all awards recorded in PNG. A&C Management should coordinate with NG to address this issue.

- **Management Response:** We concur. The actual PNG award Project Budget Source descriptive flexfield values are: County, Federal Grant, Other, Other Federal, Other Grant, Other State, State Grant. The Grant Inventory Report has been corrected by limiting the reported data to awards that have been designated as grants.

STOCK # 75-3344

Final Draft Report: Countywide Internal
Controls for Grant Administration
Page Two
August 14, 2008

Recommendation II: A&C management should enhance controls over grants by maintaining grant information records for each grant as suggested by the California State Accounting and Standard Procedures for Counties sample form.

- **Management Response:** We do not concur. The suggested State Controller's Office (SCO) manual sample form would not enhance controls and would not be an effective alternative to the Oracle report discussed above. Our rationale is the following:
 1. The use of the SCO manual form, by itself, would be very inefficient.
 2. The suggested reporting format cannot be fully automated because all of the required data elements do not reside in Oracle, PeopleSoft and Kronos.
 3. The development of an automated report with partial information would be costly and inefficient and would not provide better controls or reporting information.
 4. Finally, combining partially automated data with another platform e.g. Excel, for the purpose of merging it with keyed manual data would be very inefficient and time consuming.

If you have any questions, please contact Shirley Carrero, Central Projects and Accounting Services (CPAS), Manager at (619) 531-5349.



CHRISTOPHER P. GILMORE
Deputy Controller

AFC:CG:lmr