

County of Contra Costa
Office of the County Administrator
MEMORANDUM

DATE: May 23, 2014

TO: FINANCE COMMITTEE:
Supervisor Mary N. Piepho, Chair
Supervisor Federal D. Glover, Vice Chair

FROM: 
DAVID TWA, County Administrator
By LISA DRISCOLL, Finance Director

SUBJECT: **COUNTYWIDE SINGLE AUDIT FOR THE
FISCAL YEAR ENDING JUNE 30, 2013**

On November 8, 1999, the Board established a policy and procedure for addressing the annual findings and recommendations of the County's external auditors. The procedure directs that the Board refer the annual Single Audit findings to the Finance Committee, and that the County Administrator make a report to the Finance Committee on the current- and prior-year audit findings and recommendations that identifies what corrective action has been taken or is planned to be taken on each recommendation. Inasmuch as the current year Single Audit report encompasses all unresolved or pending audit issues from prior-year audits, this report responds directly to the current-year Single Audit report (FY ending June 30, 2013).

Internal Control Over Financial Reporting. Government Auditing Standards require the external auditor to obtain reasonable assurance that the general-purpose financial statements are free of material misstatement. The external auditor found one instance of material weakness in internal control: 2013-001 "Accounting for OPEB Obligation" and two instances of significant deficiency in internal control with 2013-002 "IT Governance and General Computer Controls" and 2013-003 "Schedule of Expenditures of Federal Awards Completeness". No instances of noncompliance material to the basic financial statements of the County were disclosed.

Internal Control Over Compliance. Government Auditing Standards and OMB Circular A-133 (which is applicable to federal programs) require the external auditor to report on both compliance with and internal controls over the major federal programs carried out by the County. The external auditor cited instances of material weakness with 2013-004 "Sub-recipient Monitoring" and 2013-005 "Sub-recipient Monitoring".

The reportable conditions are described in the following report:

◆ Finding 2013-001: Accounting for OPEB Obligation

Background: Both of the primary actuaries who worked on the County's OPEB valuations left Buck Consulting. The newly assigned Buck Consulting actuaries were not able to adequately explain the discrepancies in the assumptions used by the previous actuaries in the 2010 and 2012 valuation reports and the assumptions provide to the County. It appeared that the County's actuary used an incorrect basis for amortizing the UAAL. Additionally, the County was advised, by their former external auditor, that they did not need to amortize the OPEB obligation. The changes to assumption and amortization resulted in a net adjustment to the OPEB obligation at July 1, 2012 of \$177 million.

Corrective Action: Prior to the audit, the County recognized the error and formally chose a new actuary. The County consulted with its new actuary and new auditors and recomputed and restated the prior year's net OPEB obligation. The adjustment of \$177 million to the net OPEB obligation was recorded in the Comprehensive Annual Report (CAFR) for fiscal year ending June 30, 2013. In the future, the Auditor-Controller's Office will submit the OPEB information to the County Administrator's Office for review and approval. Additionally, the County Administrator's Office will formally submit OPEB assumptions to the Board of Supervisors for adoption.

◆ Finding 2013-02: IT Governance and General Computer Controls

Recommendation: The auditor recommends that the County Chief Information Officer should plan and budget for an independent IT risk assessment to be performed to identify all the possible risks to the County IT department, delivery of IT services and the accuracy and integrity of the County financial and personnel data. The risk assessment should identify potential threats to an IT infrastructure, prioritize the likelihood and impact of those threats and determine appropriate safeguards or actions.

Background: During the audit, the auditor noted that the County Department of Information Technology had not completed a formal IT risk assessment to help identify risks pertaining to the delivery of IT services and the accuracy and integrity of the County's financial and personnel data.

Corrective Action: Periodic IT control reviews are being performed in order to document IT policies and procedures to ensure compliance with County policy and Best IT Management Practices. The Department of Information Technology is also planning to have a business impact analysis performed and will submit annual self-assessments for validation of IT Control practices.

◆ Finding 2013-03: Schedule of Expenditures of Federal Awards Completeness

Recommendation: The auditor recommends that the County improve its process for reviewing expenditures reported in the Schedule of Expenditures of Federal Awards (SEFA) prior to being submitted to the Auditor-Controller. Additionally, the auditor recommends that the Auditor-Controller's Office reconcile the detailed listing of expenditures to the SEFA for each significant federal program prior to the submission to external auditors.

Background: During the Audit, the auditor found that the County included misstatements in its draft SEFA. The misstatements include overstated expenditures and overstated amounts of sub-recipients. The breakdown of expenditure amounts was corrected by the County prior to the issuance of the 2013 SEFA.

Corrective Action: The Auditor-Controller will revise the grant inventory listing sheets sent to departments to include a recommended management signature line in order to validate that the inventory sheets were reviewed and approved by management. The grant inventory sheets will also be revised to include a column for departments to identify pass-through agencies, aiding in the verification of the pass-through categorization. The Auditor-Controller does not have the resources available to reconcile the SEFA. However, the following measures have been put in place to promote the accuracy of the SEFA using available resources: Board of Supervisor's agendas are reviewed to identify federal grants applied for during the fiscal year; current year SEFA is compared to the prior year SEFA to determine if any programs are missing; the information on the grant inventory sheets is compared to the department generated grant questionnaires and discrepancies are investigated; and departments are required to provide a schedule of any costs disallowed by grantors. Lastly, the County has requested that the auditors hold a work session for department program personnel to improve the accuracy of the SEFA.

◆ Finding 2013-04: Sub-recipient Monitoring

Recommendation: The auditor recommends that the County implement a system of monitoring the timely submission of status and audit reports by sub-recipients.

Background: During the audit, the auditor found that sub-recipients were not properly monitored, audit reports were not requested by the County as required, and no tracking mechanism existed to ensure that sub-recipients took appropriate corrective action regarding audit findings.

Corrective Action: The Sheriff's Office revised the Sub-recipient Monitoring Policy to specify that quarterly reports are required from sub-recipients regardless of whether reimbursement was being sought. The policy was also revised to state that the Sheriff's Office would conduct site visits in order to assure compliance with the provisions of the grant agreements by sub-recipients. The department will follow the procedures reflected in the revised Sub-recipient Monitoring Policy.

◆ Finding 2013-005: Sub-recipient Monitoring

Recommendation: The auditor recommends that the County implement policies to ensure that audit reports are received from sub-recipients and develop appropriate follow-up procedures to ensure that appropriate corrective actions are taken in instances of non-compliance.

Background: During the audit, the auditor found that the Contra Costa County Fire Protection District neither received nor requested audit reports from sub-recipients and did not establish a mechanism to track instances of non-compliance and ensure corrective action, thus not complying with OMB Circular A-133.

Corrective Action: The Contra Costa County Fire Protection District agrees that future MOUs between the District and sub-recipients will contain a provision requiring the sub-recipients to provide audit reports for the District's review. If no audit reports are provided, the District will make inquiries to obtain any such reports.

Prior Year Findings

◆ Finding FS2012-01 & FA2012-06: Oversight of Independently Operating Departments and Preparation of Schedule of Expenditures of Federal Awards.

Recommendation: The auditor recommended that the County implement the following procedures to ensure accurate reporting of the Schedule of Expenditures of Federal Awards (SEFA): continue to educate departments on OMB Circular A-133 requirements for the SEFA; regularly review and enhance the written policies and procedures that describe the necessary steps to compile the SEFA; and consider the costs and benefits of a centralized review process for the SEFA and requirements for departments to make quarterly reports to the Auditor-Controller identifying their SEFA monitoring procedures and their work to address compliance.

Background: The SEFA was adjusted during the audit to correct expenditures for 14 programs resulting from inaccurately reported federal expenditures and led to the late identification of additional programs to be tested.

Corrective Action: The corrective action is in progress and the same finding was reported in 2013-003. As noted earlier, the Auditor-Controller will revise grant inventory sheets to include management sign-off and will continue to have the auditors hold work sessions with departments to improve the accuracy of the SEFA.

◆ Finding FA2012-01: Sub-recipient Monitoring

Recommendation: The auditor recommended that the County implement a tracking mechanism to monitor timely submission of quarterly reports by the sub-recipients, and also implements follow up procedures to contact the sub-recipients if they fail to submit quarterly reports on time. This is the same recommendation as last year and is carried forward.

Background: During the audit, the auditor noted that sub-recipients of grants were not submitting quarterly reports as required by the Memorandum of Understanding between the County and the sub-recipients. Quarterly reports were submitted only when reimbursement requests were filed by the sub-recipient.

Corrective Action: Not corrected. The conditions resulting in this finding continue to exist and have been reported in finding 2013-004.

♦ Finding FA2012-02: Reporting

Recommendation: The auditor recommended that the District Attorney's Office review all instructions provided by the Auditor-Controller regarding the reporting of federal expenditures and ask questions to ensure compliance with the reporting requirements as defined by OMB Circular A-133.

Background: During the Audit, the auditor found that the District Attorney's Office did not accurately report the amount of federal expenditures for a prior fiscal year due to confusion about the required reporting period.

Corrective Action: Corrected.

♦ Finding FA2012-03: Activities Allowed or Unallowed/Allowable Costs

Recommendation: The auditor recommended that the County implement procedures to ensure that there is proper support for all items submitted for grant reimbursement, in particular food purchases. The auditor also recommends that the County allocate all expenditures based on their actual purpose, rather than the proposed budget, or to reconcile cost allocations on a periodic basis acceptable to the granting agency.

Background: During the audit, the auditor noted that the County Workforce Development Board allocated expense payments based on the predetermined budget instead of using the actual costs to determine the benefit received by each program and, additionally, that there was no reconciliation performed between the budget amount and the benefit received by each program. Additionally, one of the items selected for testing included reimbursement for food without reasonable explanation of how the expenditure was necessary and reasonable.

Corrective Action: Corrected.

♦ Finding FA2012-04: Procurement, Debarment, and Suspension

Recommendation: The auditor recommended that the County's Public Works Department – Capital Projects Unit implement a check for debarment or suspension during the procuring of contractors for federally funded projects over \$25,000 by reviewing the Excluded Parties List System maintained by the U.S. General Services Administration.

Background: During the audit, the auditor reviewed Public Works' policies and procedures on procurement and determined that the verification of suspended or debarred vendors was not performed as the Capital Projects Unit was not aware of the compliance requirement.

Corrective Action: Corrected.

♦ Finding FA2012-05: Activities Allowed and Unallowed/Allowable Cost

Recommendation: The auditor recommended that the County establish a procedure to ensure that payments to providers cease when they no longer meet the service requirements of a grant.

Background: The auditor found that Health Services reporting procedures were not effective to ensure timely communication in the event that a provider is no longer providing service related to the program. During the audit it was found that one of the providers had continued to receive benefit payments for two months subsequent to her last day of service charged to the program. The payments were made under the assumption that the provider continued to provide the same amount of hours of service as in the past

Corrective Action: Corrected.

Attachments

cc: Elizabeth Verigin, Assistant Auditor-Controller, Auditor-Controller's Office
Joanne Bohren, Chief of Audit Services, Auditor-Controller's Office
David Livingston, Sheriff
Jeff Carman, Fire Chief
Ed Woo, Chief Information Officer
Robert Calkins, Conservation & Development