

County of Contra Costa
Office of the County Administrator
MEMORANDUM

DATE: June 2, 2015

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, 2014**

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, 2014).

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 significant deficiency in internal control with 2014-001 "Schedule of Expenditures of Federal Awards Completeness". No instances of material weakness in internal control were identified.

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 found no instances of material weakness nor significant deficiency in internal control over compliance.

The reportable conditions are described in the following report:

◆ Finding 2014-001: Schedule of Expenditures of Federal Awards Completeness

Recommendation: The County should improve its review process by requiring department management to review and sign off program expenditures prior to being submitted to the Auditor-Controller. Additionally, the Auditor-Controller should reconcile the detailed listing of expenditures to the SEFA for each significant federal program prior to the submission to the external auditors.

Background: The County's Sheriff's Office overstated expenditures in its draft schedule of expenditures of federal awards (SEFA) by \$4,538,768 due to prior year expenditures being reported twice and understated the amount of subrecipients by \$136,514. The County was able to correct the expenditure amounts reported in its SEFA prior to its issuance.

Corrective Action: The Auditor-Controller incorporated the recommended management signature line on all grant inventory listing sheets sent to the departments and all departments responded with the sheets signed by management. The Auditor-Controller does not have the sufficient staffing necessary to reconcile the SEFA, however, implemented several additional review measures to promote the quality of the reported SEFA information. The Auditor-Controller has also organized multiple education sessions for departments in Single Audit reporting and compliance.

Prior Year Findings

◆ Finding 2013-001: Accounting for OPEB Obligation

Background: The County's actuary used an incorrect basis for amortizing the UAAL. The County was advised that they did not need to amortize the OPEB obligation and understood that the amortization was factored into the biennial OPEB valuation. The errors resulted in a net adjustment to the OPEB obligation at July 1, 2012 of \$177 million.

Corrective Action: Corrected.

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

Recommendation: The auditor recommended that the County Chief Information Officer 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: In progress. The County is considering conducting a countywide security audit in phases over multiple years, beginning with high-risk systems.

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

Recommendation: The auditor recommended 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 subrecipients. The breakdown of expenditure amounts was corrected by the County prior to the issuance of the 2013 SEFA.

Corrective Action: In progress – see Finding 2014-001. The Auditor-Controller revised 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 Auditor-Controller, however, does not have the resources available to reconcile the SEFA. 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 set up work sessions between the auditors and department program personnel to improve the accuracy of the SEFA.

◆ Finding 2013-04: Subrecipient Monitoring

Recommendation: The auditor recommended that the County implement a system of monitoring the timely submission of status and audit reports by subrecipients.

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

Corrective Action: Corrected.

◆ Finding 2013-005: Subrecipient Monitoring

Recommendation: The auditor recommended that the County implement policies to ensure that audit reports are received from subrecipients 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 subrecipients 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: 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
Ed Woo, Chief Information Officer