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NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Pamela Kindig - Auditor-Controller
Auditor - Controller
REPORT BY: Karen Querin, Audit Manager, 253-4588
SUBJECT: Monitoring Reports of grant compliance and Audit Reports of County of Napa Revolving Fund audits as listed in the Recommendation

RECOMMENDATION

Auditor-Controller requests the Board accept, and instruct the Clerk of the Board to file, the following County of Napa Monitoring and Audit Reports:

1. Fiscal Monitoring Letter of Napa County Health and Human Services Agency of the Workforce Investment Act Funds awarded by Workforce Investment Board for the Fiscal Year ended June 30, 2005;
2. Monitoring of County of Sonoma Human Services Department for Workforce Investment Act Funds awarded by Napa County Regional Training and Employment Center for the period of October 1, 2003 to September 30, 2004;
3. Monitoring of County of Napa Health and Human Services Agency for Workforce Investment Act Funds awarded by Napa County Regional Training and Employment Center for the period of October 1, 2003 to March 31, 2004;
4. Health and Human Services Agency, Family Preservation Revolving Fund for the Fiscal Year ended June 30, 2004;
5. Health and Human Services Agency, Training and Employment Center Revolving Fund for the Fiscal Year ended June 30, 2004; and
6. Department of Corrections, Inmate Cash Revolving Fund for the Fiscal Year ended June 30, 2004.

EXECUTIVE SUMMARY

The Internal Audit Section of the Napa County Auditor-Controller's Office has monitored and audited the financial statements of the following. Acceptance of said audit reports are requested.

1. Monitoring of Napa County Health and Human Services Agency of the Workforce Investment Act Funds awarded by Workforce Investment Board for the fiscal year ended June 30, 2005;
2. Monitoring of County of Sonoma Human Services Department for Workforce Investment Act Funds awarded by Napa County Regional Training and Employment Center for the period of October 1, 2003 to September

- 30, 2004;
3. Monitoring of County of Napa Health and Human Services Agency for Workforce Investment Act Funds awarded by Napa County Regional Training and Employment Center for the period of October 1, 2003 to March 31, 2004;
 4. Health and Human Services Agency, Family Preservation Revolving Fund for the fiscal year ended June 30, 2004;
 5. Health and Human Services Agency, Training and Employment Center Revolving Fund for the fiscal year ended June 30, 2004; and
 6. Department of Corrections, Inmate Cash Revolving Fund for the fiscal year ended June 30, 2004.

FISCAL IMPACT

Is there a Fiscal Impact? No

ENVIRONMENTAL IMPACT

The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

Monitoring and Revolving Fund Audits

The Auditor-Controller's Office performs monitoring of grants on behalf of the Napa County Regional Training and Employment Center and audits of the financial records of all County Departments. Staff conducted the following monitoring in accordance with the applicable sections of the Federal Register, Single Audit Act of 1984 and the provisions of OMB Circular A-133, A-110 & A-102:

1. Monitoring of Napa County Health and Human Services Agency of the Workforce Investment Act Funds awarded by Workforce Investment Board for the fiscal year ended June 30, 2005;
2. Monitoring of County of Sonoma Human Services Department for Workforce Investment Act Funds awarded by Napa County Regional Training and Employment Center for the period of October 1, 2003 to September 30, 2004;
3. Monitoring of County of Napa Health and Human Services Agency for Workforce Investment Act Funds awarded by Napa County Regional Training and Employment Center for the period of October 1, 2003 to March 31, 2004;

In addition, staff conducted the following audits of the Revolving Funds in accordance with auditing standards generally accepted in the United States of America and as stipulated in the engagement letter with the Department:

1. Health and Human Services Agency, Family Preservation Revolving Fund for the fiscal year ended June 30, 2004;
2. Health and Human Services Agency, Training and Employment Center Revolving Fund for the fiscal year ended June 30, 2004; and
3. Department of Corrections, Inmate Cash Revolving Fund for the fiscal year ended June 30, 2004.

Results of the Monitoring: A monitoring report may contain findings in any of the following four categories:

1. Material Noncompliance
2. Immaterial Noncompliance
3. Questioned Costs
4. Disallowed Costs

Results of the Audits: An audit report may contain findings in any of the following four categories:

1. Material Noncompliance
2. Material Internal Control Weakness (Reportable Condition)
3. Immaterial Noncompliance
4. Immaterial Internal Control Weakness

The monitoring report for County of Sonoma Human Services Department did not have findings noted during the examine of the period of October 1, 2003 to September 30, 2004. However, the Napa County Health and Human Services Agency and Department of Corrections had findings which have been summarized below:

MONITORING

Napa County Health and Human Services Agency of the Workforce Investment Act Funds awarded by Workforce Investment Board

Category 2: Immaterial Noncompliance

Cost Identification and Resource Contributions At the One-Stop - Each partner's portion of the One-Stop costs is not identified in dollar values. To ensure each partner contributes fairly in relation to the benefits to their programs it is important to identify costs in dollar terms. Resource contributions have been defined by assigning the type of resources that each agency will provide. The State has focused increased emphasis on quantifying costs in the Monitoring Guide version that was issued January 2005. In that document they reference Federal Regulations 29 95.23 and 29 97.24, and the Department of Labor One-Stop Comprehensive Financial Management Technical Assistance Guide.

County of Napa Health and Human Services Agency for Workforce Investment Act Funds awarded by Napa County Regional Training and Employment Center

To understand the context of the findings, it is important to refer to the signed copy of the reports, specifically the Department's or County's responses, on file with the Clerk of the Board. The status of findings have been updated within the recommendation contained in the reports. In some instances, the findings have been cleared prior to the issuance of the report.

Category 3: Questioned Costs

Claims Charged Against Programs - It was noted that TEC claimed \$1,012.72 against the INCLUSION program for payment of the annual premium deposit adjustment payable to State Fund Insurance. The nature of the deposit was not known at the time of the monitoring.

Separation of Duties - It was noted that a single individual prepares the reimbursement requests and approves them before submitting them to the Auditor-Controller's Office. To the extent possible, critical duties should be segregated to serve as a check and balance on the employee's integrity and to maintain

the best control system possible.

Errors in Reimbursement Requests for Salary, Benefits and Other Expenses - It was noted that TEC's reimbursement requests against the INCLUSION and DEVELOP grants contained the following errors for the months of September and October of 2003:

- | Employee #1 (DW) - 24 hours were charged to the INCLUSION grant, however, DW confirmed that all their time was really spent on the DEVELOP project.
- | Employee #2 (BT) - 42.5 hours was charged to the INCLUSION grant. BT had actually worked 43 hours on the INCLUSION project.
- | The County Funds is reflective of Employee #3's (TO) time being allocated based on Employee #4's (TZ) time (80% - County / 20% - Program cost pool). A note should be made on the worksheet to re-reflect how this is derived.
- | The INCLUSION grant provisions allow for reimbursement of travel at a rate of \$0.345 per mile. Employee #5's (JP) mileage reimbursements in the amounts of \$120.24 and \$46.50 were calculated using rates of \$0.36 and \$0.375 per mile, respectively. TEC's reimbursement request were overstated by a net amount of \$8.73.
- | The allocation of the State Fund Insurance to the INCLUSION grant was calculated incorrectly. \$207.56 in earnings was included in the INCLUSION earnings in error. This amount should have been charged to (560) WIA 501 DLW according to the ADP Report.
- | A contract payment to Napa Personnel Systems in the amount of \$708.32 for services provided in September 2003, which is prior to the INCLUSION grant's effective date, was reimbursed with INCLUSION grant funds.

The net effect of the errors above results in \$339.92 in questioned costs.

Resource Sharing Reimbursement - It was noted that Training and Employment Center Division (TEC) did not receive any reimbursement for the use of the copiers from their One-Stop partners nor was an allocation method established in the Resource Sharing Agreement (Agreement). The cost of the copiers, excluding paper, toner and other maintenance charges, was \$7,271.30 for the fiscal year ended June 30, 2004. The cost is recorded in a program cost pool and is divided amongst the various grants received by TEC on a monthly basis. The amount of the questioned cost was not determined for purposes of the report; however, the amount incurred monthly by each grant should have been reduced by a prorated portion of the reimbursement.

The agreement commenced July 1, 2003; however, the agreement was not executed until June 1, 2004. Despite the delay in the execution of the Agreement, TEC was reimbursed for rent through the monitoring period.

Fiscal Oversight Policies - The issuance of the revised OMB Circular A-133 relating to federal grants and contracts dictates an increased emphasis in the area of policies and procedures relating to the procurement of goods and services. During the examination of Inter-Departmental Agreement between the Regional Employment Training Office and the Training and Employment Center Division, it was noted that there was no written policy for the following areas as of August 3, 2004:

- | All monitoring and oversight documentation be available for review by the Federal and State officials in accordance with the Code of Federal Regulations – Title 29, Part 97, Section 42.
- | All monitoring records are retained for three years in accordance with the Code of Federal Regulations – Title 29, Part 95, Section 44.

Procurement Policies - The issuance of the revised OMB Circular A-133 relating to federal grants and contracts dictates an increased emphasis in the area of policies and procedures relating to the procurement of goods and

services. It was noted that there was no written policy for the following areas:

- | Designation of subrecipient and vendor in accordance with the Code of Federal Regulations – Title 29, Part 99, Section 210. (draft policy provided on August 4, 2004)
- | Criteria for a lease vs. purchase analysis in accordance with the Code of Federal Regulations – Title 29, Part 95, Section 44.

During the examination it was also noted that Division's policy for small purchases was in compliance with the Workforce Investment Act Directive 00-2; however, it was not in compliance with the Napa County Purchasing Manual. The Napa County Purchasing Manual requires that the small purchase limit for goods is \$500 compared to the amount allowed by the directive of \$50,000.

Required Contract Provisions - During the examination of contracts, it was noted that there was no provision in the following contracts specifying the mandatory standards and policies related to energy efficiency in accordance with the Code of Federal Regulations – Title 29, Part 97, Section 36(i)(13):

- | Agreement Number 6031 – From June 17th, 2003 to June 30th, 2004.
- | Agreement Number 6029 – From June 17th, 2003 to June 30th, 2004.

Amended "TEC Fiscal Procedures" Required - As a result of our examination, we found that the "TEC Fiscal Procedures" had not been updated since July 1, 2001. From July 1, 2001 to June 30, 2003, the Training and Employment Division was a separate Department under the County Executive Office. On July 1, 2003 the Department was placed under the responsibility of the Health and Human Service Agency (HHSA) as a Division. At the time of this transition, the Health and Human Service Agency created two (2) new procedures, "Cost Allocation Principles and Guidelines" and "TEC Spenddowns" that incorporate a majority of the procedures outlined in the "TEC Fiscal Procedures".

Timely and Accurate Reimbursement Requests - We noted that the Training and Employment Division's Reimbursement Requests are not being filed timely. The Reimbursement Requests for July through December 2003, January 2004, February 2004 and March 2004 were not submitted to the Accounting Section of the Auditor-Controller's Office until May 25, 2004. Problems in receiving timely and accurate financial information can significantly impact management's ability to effectively guide the Division. Critical areas such as budgetary controls and cash flow can both be negatively impacted.

AUDITS

Health and Human Services Agency, Family Preservation Revolving Fund

Category 4: Immaterial Internal Control Weakness

Cash Management Issue - During our examination, we noted that there was one (1) instance where the claim for reimbursement from the Fiscal Accounts Payable Clerk was not made until one (1) month after the receipt had been provided by the Eligibility Worker. In addition, there were two (2) instances where receipts for disbursements were not received until one to seven (1 – 7) months after the check had already been cut. This may be due to the client not submitting their receipts to the Eligibility Worker in a timely manner. It may also be due to the Eligibility Worker not submitting the client receipts to the Fiscal Accounts Payable Clerk promptly.

Health and Human Services Agency, Training and Employment Center Revolving Fund

Category 2: Material Internal Control Weakness

No Procedures for the Revolving Fund - As of December 29, 2004, there were no procedures for the Training and Employment Center Revolving Fund on file. Having current procedures for receipts, disbursements, payroll, and reconciliation processes are important, to ensure that the department has some consistency in making sure that those who perform the same job function, complete tasks in a similar fashion.

Department of Corrections, Inmate Cash Revolving Fund

Category 4: Immaterial Internal Control Weakness

No Record of Voided Checks - The Department of Corrections handles voided checks in the following manner. When the Administrative Office Assistant mails a check to an inmate who is no longer in custody and the check is returned (no longer at the address, moved, wrong spelling, etc.) the check is voided and attached to the CJIMS monthly statement. If the check is voided because of a mistake (wrong spelling, wrong amount), it is voided and attached to the CJIMS monthly statement (if it was entered into the system). If the check was not entered into the system, it gets attached to the duplicate showing, "VOID".

In the examination of the Cash Disbursements, it was noted that there were two (2) instances where a voided check did not appear on any Inmate Cash Monthly Statement. All checks need to be entered into the CJIMS system, regardless of whether it is a void or not. A lack of accountability arises when voided checks are not posted into CJIMS.

No Date of Reconciliation - In the examination of the Cash Account, it was noted that there was no date of reconciliation marked on either the bank statement, or the Napa County Inmate Cash Account reconciliation.

Non-Reimbursement of Bank Service Charge - In the examination of the Cash Account, it was noted that there was one (1) instance where a bank service charge had not been reimbursed to the Inmate Cash Checking Account or the Inmate Cash Trust Account. The total amount of bank fees was \$433.65, of which \$136.64 has not yet been reimbursed.

These reports are presented to the Board of Supervisors for acceptance into public record to demonstrate compliance with the request for audits and fiscal monitoring by the Grand Jury, the County Executive Office and the contractual agreements between the Napa County Regional Training and Employment Center with the County of Sonoma and Napa, Health and Human Services.

To understand the context of the above findings, it is important to refer to the signed copy of the reports, specifically the Department's or County's responses, on file with the Clerk of the Board. The status of findings have been updated within the recommendation contained in the reports.

SUPPORTING DOCUMENTS

None

CEO Recommendation: Approve

Reviewed By: Lynn Perez