

**AUDITOR-CONTROLLER/RECORDER
TREASURER/TAX COLLECTOR
COUNTY CLERK**



COUNTY OF SAN BERNARDINO

LARRY WALKER
Auditor-Controller/Recorder
Treasurer/Tax Collector
County Clerk

Reply to:

AUDITOR-CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

TREASURER/TAX COLLECTOR • 172 West Third Street, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 387-6716

December 1, 2010

Mitch Slagerman, Director
Community Development and Housing
290 North D Street, 6th Floor
San Bernardino, CA 92415

SUBJECT: SINGLE AUDIT FOLLOW-UP AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing and OMB Circular A-133 we have completed a follow-up audit of the implementation of recommendations noted in the County of San Bernardino's Single Audit for the fiscal year ended June 30, 2009 (FY09) for the Department of Community Development and Housing (CDH).

Executive Summary

During the FY09 Single Audit performed by Vavrinek, Trine, Day & Co., LLP (VTD), it was found that CDH did not submit federal reports on time, complete subrecipient monitoring, or expend program income prior to requesting entitlement funds for the Community Development Block Grant program. VTD recommended that the department develop and enforce procedures to ensure the County is in compliance with reporting, monitoring and cash management requirements.

We found that CDH has created procedures to ensure that reports are submitted on time, but we were not able to verify whether subsequent reports had been submitted on time since CDH does not maintain confirmation documentation. Although subrecipient

monitoring was not complete for FY10, CDH has developed a risk assessment and plan for subrecipient monitoring to be implemented in FY11. CDH developed procedures to expend program income prior to requesting entitlement fund on an individual project basis. However, through communication with HUD (Housing and Urban Development), we discovered that this will not be acceptable since HUD views program income for the County in the aggregate.

We further recommend that the department strengthen their internal controls over grant requirements by maintaining confirmation of report submittal, implementing their new subrecipient monitoring risk assessment and plan, and developing procedures to track and remit aggregate program income in excess of allowed amounts back to HUD prior to requesting entitlement funds.

Background

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require nonfederal entities that expend \$500,000 or more of federal awards in a fiscal year to have a single or program specific audit. The county's external auditors, Vavrinek, Trine, Day & Co., LLP (VTD), conducted the county's FY09 single audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133. VTD issued the report on March 19, 2010. In accordance with OMB Circular A-133, the auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the county must prepare a summary schedule of prior audit findings that include status of all audit findings included in the prior audit's schedule of findings relative to federal awards. Our schedule will be provided to VTD, the County Administrative Officer and the Board of Supervisors.

Objectives, Scope and Methodology

The objective of this follow-up audit was to determine whether CDH implemented the recommendations contained in the FY09 Single Audit report. To achieve this objective we:

- Reviewed implemented policies
- Reviewed reports submitted to the federal awarding agency
- Reviewed and tested subrecipient monitoring as of June 30, 2010
- Researched acceptable cash management practices

Prior Audit's Observations, Findings and Recommendations with Current Status

The details of the prior audit's observations, findings and recommendations and their implementation status are below:

FINDING 2009-01-Reports were not submitted on time.

Program: Community Development Block Grant (CDBG)

Instance of Non-compliance –It was noted that the first and second quarter required SF-272 reports were not submitted within the required timeline during the fiscal year 2008-09. It was noted through review of the key line items on Form HUD 60002 that line 3 Dollar Amounts of Award was incorrectly reported to HUD for fiscal year 2008-09.

Recommendation:

In response to the prior year finding, it was noted that the County Department has begun to implement procedures as noted by the timely submission of the 3rd and 4th quarter reports. We recommend that the County Department continue submitting on a timely basis all the required reports to HUD, and that form HUD 60002 is properly prepared and reviewed before it is submitted to HUD.

View of Responsible Official and planned Corrective Actions:

The County will continue to follow the policies and procedures instituted in March of 2009 to assure timely submission of the Quarterly Cash Transaction Report.

Current Status

Partially implemented. Although procedures were developed to ensure the timely submission of CDH's Quarterly Cash Report, staff actually preparing and submitting this report were not aware of these procedures. Also, CDH does not receive any confirmation to document timely submission of this report, so it could not be verified that reports have been submitted on time since the implementation date.

Further Recommendations

We recommend that procedures be distributed to and reviewed with staff involved in preparing and approving Quarterly Cash Transaction Reports. Furthermore, we recommend that CDH receive some form of confirmation that the report was received by HUD, either through a receipt request or certified mail.

FINDING 2009-02-Subrecipient monitoring was not completed.

Program: Community Development Block Grant

Instance of Non-compliance –We noted the following based on our testing performed over subrecipient monitoring:

- The subrecipient agreements dated before March 31, 2009 do not identify the CFDA title and number.
- Of the 15 subrecipients tested, we noted the County did not perform on-site monitoring over two (2) subrecipients.

Recommendation:

In response to the prior year findings, it was noted that the County Department has begun to implement procedures to ensure compliance with subrecipient monitoring requirements. We recommend that all contracts with subrecipients properly describe/disclose the specific source of funding (e.g., the CFDA title and number) in order for the subrecipient to be aware of any Federal funds that they might be receiving through the County. In addition we recommend that subrecipient monitoring is properly enforced and performed throughout the fiscal year.

View of Responsible Official and planned Corrective Actions:

The County will continue to follow the policies and procedures instituted in March of 2009 to assure that the award identification is within the contract agreements between the County and subrecipients. The County will continue to monitor subrecipients' use of federal awards through site visits, regular contact, or other means that will provide reasonable assurance that the subrecipient administrators are in compliance. Subrecipients will be assessed with a risk analysis developed by Community Development and Housing and those that are deemed high risk will be monitored.

Current Status

Partially implemented. Current contracts and the template for new contracts have been updated to include the CFDA title and number. However, subrecipient during-the-award monitoring was not completed for some subrecipients in FY10. Furthermore, a risk assessment was not performed to justify why certain recipients were not monitored. CDH has developed a risk assessment model to be conducted on their subrecipients in FY11 to adjust the level of monitoring to the risk of each subrecipient in order to efficiently monitor all subrecipients.

Further Recommendations

We recommend that this risk assessment be conducted immediately to ensure that during-the-award monitoring is complete for the coming fiscal year.

FINDING 2009-03-Program income was not expended prior to request for entitlement funds.

Program: Community Development Block Grant

Significant Deficiency - Instance of Non-compliance –As a result of our testwork, we noted the County Department is drawing down entitlement funds prior to depleting the current available resources collected directly by the County Department. This practice of cash management was performed by the County Department to meet the timeliness requirement set by the Housing and Urban Development Department.

Recommendation:

We recommend that cash management procedures are developed and enforced to ensure that program income is used prior to the request for entitlement funds.

View of Responsible Official and planned Corrective Actions:

The County is developing procedures that will expend program income prior to entitlement funds. The department will maintain a revolving loan program that will be funded by program income and will maintain a balance of \$500,000. This program assists homeowners with loans to rehabilitate their homes and has not entitlement allocation.

Current Status

Not implemented. CDH has developed procedures to allocate program income to various CDBG projects and then require those projects to expend the program income prior to drawing down any entitlement funds. However, this is contrary to the HUD requirement found in 24 CFR 570.504(b)(2)(iii):

At the end of each program year, the aggregate amount of program income cash balances and any investment thereof (except those needed for immediate cash needs, cash balances of a revolving loan fund, cash balances from a lump-sum drawdown, or cash or investments held for section 108 loan guarantee security needs) that, as of the last day of the program year, exceeds one-twelfth of the most recent grant made pursuant to Sec. 570.304 shall be remitted to HUD as soon as practicable

