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August 22, 2012

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Workforce Development Department
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SUBJECT: SINGLE AUDIT FOLLOW-UP

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, 2010 (FY 2010) for the Workforce Development Department (WDD).

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 FY 10 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 31, 2011. 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 Executive Officer and the Board of Supervisors.

Objectives, Scope and Methodology

The objective of this follow-up audit was to determine whether WDD implemented the recommendations contained in the FY 2010 Single Audit report. To achieve this objective we:

- Reviewed policies
- Interviewed departmental staff
- Tested a sample of case files
- Obtained the department 's ARRA payment documents
- Reviewed and tested a sample of payment documents to determine whether the required ARRA information was properly documented

Conclusion

Policies pertaining to eligibility documentation appeared to have been placed in operation. However, out of ten files tested, one was missing the supervisor's signature to indicate the file was reviewed for eligibility. Additionally, the procedures to ensure the required ARRA information is notated in the Comments Section of the payment document have not been implemented. Therefore, there is room for additional improvement as described in the further recommendations section of this report.

Prior Audit's Observations, Findings and Recommendations with Current Status for Finding 2010-04

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

FINDING 2010-04: Eligibility documentation was not maintained.

Program: Workforce Investment Act, ARRA-Workforce Investment Act

Material Weakness, Material Instance of Non-compliance – During fiscal year 2008-2009 and part of fiscal year 2009-2010 the County Department operated the WIA program in a paperless environment by transitioning from maintaining manual hardcopy case files for eligibility determination to performing eligibility determinations electronically by using an electronic case management Virtual One Stop System (VOSS) which integrates with the State's MIS system.

We noted that the Virtual One Stop System was used in determining eligibility by the County Department. Each participant had an electronic

case file that indicated that a Workforce Development Worker completed an application of each participant based on eligibility criteria within an electronic case management Virtual One Stop System which integrates with the State MIS system. However, we noted that during the period of July 1, 2009 through February 28, 2010 the County neither collected or stored specific eligibility supporting documentation in paper form or imaged electronically to support critical eligibility information in the system. We noted that the Department of Labor requires that supporting documentation to support eligibility be maintained by the County.

Per our review of eligibility case files for compliance we noted as March 1, 2010 the County Department started collecting and storing specific eligibility supporting documentation (i.e. copies of driver's license, social security, evidence of displacement) in paper form to support critical eligibility information in the system. However we were unable to identify a key internal control in place over the eligibility requirement that mitigates the risk of non-compliance.

Recommendation:

Based on our inquiry with Department management we recommend that the County Department continue to implement formal policies and procedures to ensure the County is in compliance with the Department of Labor eligibility documentation requirements over the WIA program as well as develop internal control procedures to ensure compliance with Eligibility.

View of Responsible Official and planned Corrective Actions:

Effective March 1, 2010, WDD implemented formal procedures that required staff to obtain and maintain hard copies of all required documents used to support eligibility compliance for each WIA participant.

WDD will reinstitute the internal Quality Assurance (QA) reviews which were in place prior to going paperless under Integration. This internal QA review is conducted by a Staff Analyst from the WDD Administrative office who reviews 10 cases per worker per month for all workers with full caseloads and a smaller amount of cases for each worker with a reduced caseload. Additionally, WDD recently hired additional supervisors that will be responsible for performing case file reviews to ensure eligibility compliance on an ongoing basis.

Current Status: Partially Implemented

WDD has developed and implemented internal control procedures that require the newly hired supervisors to review all eligibility case files. However, one of the ten case files tested did not have the supervisor's signature to indicate the file was reviewed for eligibility compliance.

Further Recommendation

We recommend that the supervisors and management, not part of Quality Assurance (QA), perform monitoring to assess whether the QA process is operating effectively and as designed. Workforce Development Department should consider incorporating eligibility compliance measures in work performance evaluations (WPE) to ensure that departmental personnel are held accountable for adherence to the required program eligibility protocol.

Management's Response

The Workforce Development Department (WDD) will continue the administrative monitoring and eligibility compliance procedure to ensure quality control.

After the June 30, 2010 Single Audit review, WDD developed and implemented internal control procedures that required newly hired supervisors to review all eligibility case files. Additionally, WDD established a Centralized Data Unit (CDU). The CDU serves to streamline the data entry process of WIA eligibility and activities, ensure completion and review all appropriate eligibility documents for all clients has taken place, and the review and signature of the supervisor to ensure the accuracy of the data entered. The CDU technicians review all eligibility documentation, WIA program forms, and review paperwork for appropriate signatures.

Further enhancing our compliance procedure, in December of 2011, the CDU was modified to add an additional step of quality assurance to ensure that all current and future participant case files contain complete information with accurate reporting of eligibility and signatory compliance. The modification was that all CDU Technicians, one previously stationed in each of the three Employment Resource Centers (ERC), were consolidated at the WDD administrative office for the purpose of administrative oversight of the eligibility and data entry process and no longer report to ERC Supervisors. Now any inaccuracies and discrepancies are identified in "real time" and are corrected prior to data being entered into the eligibility system and overseen by a Supervisor located in the Administrative office.

Auditor's Response

In addition, WDD should review its work performance evaluation process to ensure compliance criteria are included within the work performance evaluations and that employees are held accountable when the evaluations are written. Also, WDD should assign an employee to perform periodic monitoring to see if controls are functioning as intended. The assigned employee should be knowledgeable about the process and have sufficient authority to identify and report to the management of the process and a level above.

Prior Audit's Observations, Findings and Recommendations with Current Status for Finding 2010-05

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

FINDING 2010-05: ARRA information not communicated to subrecipients

Program: Workforce Investment Act – Cluster (Includes ARRA)

Instance of Non-Compliance – It was noted that the ARRA information was not communicated to subrecipients at the time of disbursement of funds as required by *OMB Circular A-133*.

Recommendation:

We recommend the County enhance its procedures to ensure that ARRA award information is consistently included in subrecipient communication at the time disbursements are made as required by *OMB Circular A-133*.

View of Responsible Official and planned Corrective Actions:

Based upon the Single Audit Observation, effective immediately the Workforce Development Department (WDD) will implement a procedure of notating in the Comment Section of all payment documents the appropriate Workforce Investment Act ARRA information associated with the disbursement. It is WDD's understanding that notations made in the Comment Section of payment documents sent to the County Auditor-Controller/Treasurer/Tax Collector (ATC) for processing will appear on the warrant subsequently issued by ATC.

Current Status: Not Implemented

In all five disbursement transactions tested, WDD did not communicate the required ARRA information to the subrecipients when the funds were disbursed. However, WDD wrote a procedure to communicate the required ARRA information to subrecipients at the time of disbursement by documenting the information in the Comments Box on the PV.

Our review of the disbursement transactions also showed evidence of the department's efforts to comply with the ARRA disbursement requirements. We noted that four transactions listed the CFDA number on the payment documents.

Further Recommendation

We recommend that management incorporate a formal control framework into the Department's day-to-day operations by considering the following:

Strengthen the control environment

- Develop and implement adequate ARRA policies and procedures to specifically include compliance with federal grant programs
- Ensure that persons with approving authority thoroughly review all grant-related documents to ascertain whether all required information is being communicated
- Establish periodic training for departmental staff responsible for carrying out federal grant functions

Establish methods to communicate information

- Cascade federal grant program information down to employees so they can effectively and efficiently perform their respective duties.
- Ensure that employees have a means in which to communicate any deficiencies encountered while performing their responsibilities.

Improve monitoring activities

- Continuous monitoring of the department's operations would assure management that employees are complying with the established policies and procedures.

Management's Response

The Workforce Development Department (WDD) will re-enforce and has already updated the administrative compliance procedure to continue to ensure ARRA disbursement communication information requirements are in compliance.

The original corrective action plan was submitted in April 2011 and implemented before June 30, 2011. The Corrective action was to include three data elements in the comments section of the payment document which would be included on the payment stub. The data elements were the CFDA number, the award number the funding source and the payment amount. In April 2011, WDD started including the funding source and CFDA number in the comment section of all payment documents. The award number was not included until November 2011 as it was unavailable from the State of California. During this compliance review it was brought to WDD's attention that the payment amount should also be included. The amount in the comment section of the payment document has since been included and the compliance procedure updated.

Auditor's Response

In addition, WDD should establish methods to effectively communicate information to departmental staff and to improve monitoring activities. Management should perform internal periodic monitoring procedures for ARRA disbursements to identify whether the required ARRA information of OMB A-133 is properly communicated to subrecipients.

Thank you for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

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