

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Law and Justice Group:

OMB A-133 Compliance –
Subrecipient Monitoring Audit



Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector

268 West Hospitality Lane
San Bernardino, CA 92415-0018
(909) 382-3183

Website: www.sbcounty.gov/atc

Fraud, Waste & Abuse Hotline: (800) 547-9540

Auditor-Controller/Treasurer/Tax Collector

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Audit Team

Denise Mejico

Chief Deputy Auditor

Mary Barber, CPA, CGMA

Internal Audits Manager

Rachel Ayala

Supervising Internal Auditor III

Phaedra Green

Internal Auditor III

Deborah Buckingham, CPA

Internal Auditor III

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



- 268 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 890-4045
- 268 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0360 • (909) 387-8308 • Fax (909) 890-5797

Matt Brown
Assistant Auditor-Controller/Treasurer/Tax Collector

John Johnson
Assistant Auditor-Controller/Treasurer/Tax Collector

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Phyllis K. Morris, Public Defender
Chairperson, Law and Justice Group
Law Offices of the Public Defender
172 West 3rd Street, 2nd Floor
San Bernardino, CA 92415-0008

SUBJECT: OMB CIRCULAR A-133 COMPLIANCE – SUBRECIPIENT MONITORING AUDIT

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 05-20 entitled Internal Operational Auditing, we have completed an audit of the Law and Justice Group Administration (Administration) for the period of July 2013 through June 2014. The objectives of the audit were to determine whether the Administration's subrecipient monitoring process is in compliance with OMB A-133 and whether the internal controls over the subrecipient monitoring process are in place and effective. We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors.

We determined that oversight procedures for subrecipient monitoring need to be improved. We identified several procedures and practices that could be improved. We have listed these areas for improvement in the Audit Findings and Recommendations section of this report.

We sent a draft report to management on November 3, 2015 and discussed our observations with management on November 18, 2015. Management's response to our recommendations is included in this report.

We would like to express our appreciation to the personnel with the Law and Justice Group Administration who assisted and cooperated with us during this engagement.

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



Denise Mejico

Chief Deputy Auditor

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Law and Justice Group:

OMB A-133 Compliance – Subrecipient Monitoring Audit

Executive Summary	1
Audit Background	2
Scope, Objectives, and Methodology	3
Audit Finding and Recommendation	4



Subrecipient Monitoring

Edward Byrne Memorial Justice Assistance Grant

The Edward Byrne Memorial Justice Assistance Grant (JAG) Program (U.S. Code, Title 42, Section 3750) is the primary provider of Federal criminal justice funding to State and local jurisdictions. JAG funds support all components of the criminal justice system, from multi-jurisdictional drug and gang task forces to crime prevention and domestic violence programs, courts, corrections, treatment, and justice information-sharing initiatives.

The Law and Justice Group Administration serves as the pass-through agency for the JAG Program and administers the federal funding to the various local jurisdictions, or subrecipients. Therefore, the Law and Justice Group Administration is responsible for:

- *Determining Subrecipient Eligibility*
- *Confirming Subrecipient's System for Award Management Registration*
- *Identifying to the Subrecipient the Federal Award Information*
- *Monitoring the Subrecipient's Use of Federal Awards During the Award Period*



Scope and Objectives

Our audit examined the Law and Justice Group Administration's subrecipient monitoring activities for the period of July 2013 through June 2014. We conducted our fieldwork at the office of the Law and Justice Group. The objectives of our audit were to:

- Determine if the subrecipient monitoring process was in compliance with OMB A-133.
- Determine if the internal controls over the subrecipient monitoring process were in place and effective.

Methodology

In achieving the audit objectives, the following evidence gathering and analysis techniques were used, including but not limited to:

- Researching Federal compliance requirements pertaining to subrecipient monitoring.
- Interviewing Administration personnel responsible for administering federal funding to subrecipients.
- Reviewing and testing subrecipient documentation to verify compliance with federal funding requirements.



Finding 1: Oversight procedures for subrecipient monitoring need to be improved.

OMB Circular A-133 Compliance Supplement (March 2014) requires a pass-through entity to be responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Additionally, OMB Circular A-133 suggests establishing a tracking system to assure timely submission of required reporting, such as financial reports, performance reports, audit reports, onsite monitoring reviews of subrecipients, and timely resolution of audit findings.

As the pass-through agency for the Edward Byrne Justice Assistance Grant, the Law and Justice Group Administration (Administration) is responsible for performing procedures to ensure that subrecipient activities are routinely monitored. Staff indicated that they perform activities to comply with the OMB Circular A-133 requirements for monitoring the subrecipients' subaward activities. However, we specifically identified the following areas in which the Administration's overall monitoring controls need to be improved:

- There was no formal recordkeeping system providing details of regular communication with the subrecipients (i.e., emails, telephone conversations, etc).



- There were infrequent site visits to the subrecipient to review program-related documentation, such as payment documents that support expenditure activity.
- There was insufficient documented evidence pertaining to the subrecipients' adherence to the federal requirement for submitting a single audit report.

Compliance with federal requirements cannot be determined if the Administration does not maintain the appropriate supporting documentation for the federal award period.

Recommendation:

We recommend that the Administration enhance its subrecipient monitoring activities by implementing the following procedures:

- Develop a recordkeeping system that would provide chronological details of all forms of communication with the subrecipients. The system should also include the nature of the communication.
- Conduct consistent and frequent monitoring activities, such as site visits, that would provide reasonable assurance that the subrecipients are in compliance with federal requirements.
- Maintain documented evidence that would confirm the subrecipients' adherence to the federal requirement for submitting a single audit report. This evidence may be in the form of:
 - An actual single audit report.
 - A copy of the Data Collection Form from the Federal Audit Clearinghouse (FAC) website verifying that the subrecipients' single audit report has been issued. A copy of the form would only be sufficient if the subrecipient's single audit report did not include any audit findings.
 - A formal letter from the subrecipient stating their reasons for not having a single audit conducted for the given fiscal year.

Management's Response:

Management concurs with the general recommendation that the County of San Bernardino Law and Justice Group (L&JG) enhance its subrecipient monitoring



activities, but does not agree with the specific procedures identified in the audit report.

In response to the recommendation:

Develop a recordkeeping system that would provide chronological details and the nature of all forms of communication with the subrecipients.

As the primary recipient for U.S. Department of Justice, Justice Assistance Grant Program (JAG) grants, the County has a responsibility to monitor all subrecipients to ensure that grant funds are being used for authorized purposes and as required by grant agreements and applicable regulations. The L&JG does not believe that a detailed tracking of all forms of subrecipient communication, by email, phone conversation, etc., best serves the objectives of subrecipient monitoring, nor does it ensure grant compliance. Management is concerned that this procedure would redirect limited staff resources away from actual subrecipient training and document review.

In response to the recommendation:

Conduct consistent and frequent monitoring activities, such as site visits, that would provide reasonable assurance that the subrecipients are in compliance with federal requirements.

While potentially beneficial – and warranted if there is evidence for concern – site visits are not a required activity and are not necessarily the most effective tool for subrecipient monitoring. The L&JG maintains a web-based JAG Tracking and Reporting System, which is accessible by subrecipients, specifically for financial monitoring. The system was developed in 2010 and received a significant upgrade in 2015; additional enhancements are currently underway. Improvements will allow for subrecipient uploads of official financial reports (such as the Single Audit), system-generated quarterly financial status reports, and procurement, expenditure and asset-management documentation. This functionality will both facilitate monitoring and ensure that the grant financial record is readily available to L&JG administrators, subrecipients, and internal/external auditors.

In response to the recommendation:

Maintain documented evidence that would confirm the subrecipients' adherence to the federal requirement for submitting a single audit report.



It is the current practice of the L&JG to annually review the subrecipient's Comprehensive Annual Financial Report (CAFR) and to receive and review a hardcopy and/or an electronic version of the subrecipient's most recent Single Audit. These reports are either provided by the subrecipient or downloaded directly from the subrecipient's official website. Single Audit submissions are then verified by the L&JG against the U.S. Census Bureau, Federal Audit Clearinghouse (FAC), Image Management System (IMS), a web-based system used to query and download Single Audit reports. There is some time delay inherent to the availability of audit information on IMS. It should also be noted that there was a cyberattack to gain access to the FAC in July 2015 and IMS was offline for approximately six months.

Any late submissions or negative findings from either the CAFR or the Single Audit that potentially relate to grant compliance would be deliberated and discussed with both the subrecipient and the grantor, and formally documented. Appropriate actions, such as increased monitoring, would then be determined and implemented.

Auditor's Response:

While we have provided suggestions on ways to improve subrecipient monitoring, it is ultimately the responsibility of the Law and Justice Group Administration to determine specific monitoring activities based on a risk assessment of the subrecipients. The planned improvements to the JAG Tracking and Reporting System should provide opportunities to improve subrecipient monitoring. The planned actions regarding Single Audit report submissions will correct the related deficiencies noted in the finding.