

County of San Bernardino

Auditor-Controller/Treasurer/Tax Collector
Internal Audits Section

Community Development and Housing: FY16 Single Audit Follow-Up



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Mission Statement

The San Bernardino County Auditor-Controller's Office is committed to serving our customers by processing, safeguarding, and providing information regarding the finances and public records of the County. We perform these functions with integrity, independent judgment, and outstanding service. We are accurate, timely, courteous, innovative, and efficient because of our well-trained and accountable staff.

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April 18, 2018

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SUBJECT: Community Development and Housing – FY16 Single Audit Follow-Up

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 a follow-up audit of the implementation of the recommendations noted in the County of San Bernardino's Single Audit for the fiscal year ended June 30, 2016 (FY16) for the Community Development and Housing Department (Department). The objective of the audit was to determine if corrective actions for the Department's FY16 Single Audit findings have been implemented. 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 have provided a status of the audit findings identified in the original audit report issued on March 31, 2017. The Department has implemented corrective actions for all of the findings from the original audit report.

We sent a draft report to the Department on April 3, 2018.

We would like to express our appreciation to the personnel at the Community Development and Housing Department who assisted and cooperated with us during this engagement.

Respectfully submitted,

Oscar Valdez

Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By:



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Community Development and Housing: FY16 Single Audit Follow-Up

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FY16 Single Audit Follow-Up

The Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) 2 CFR 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance) require nonfederal entities that expend \$750,000 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 FY16 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 the Uniform Guidance. VTD issued the report on March 31, 2017. In accordance with the Uniform Guidance, the auditee is responsible for follow-up and corrective action on all audit findings.



Scope and Objective

Our audit examined the policies, procedures and other corrective actions that were completed as of the date of fieldwork, December 19, 2017.

The objective of this follow-up audit was to determine whether the Department implemented the recommendations contained in the prior audit report, *County of San Bernardino FY16 Single Audit Report*, issued on March 31, 2017.

Methodology

In achieving the audit objective, the following audit procedures were performed, including but not limited to:

- Interviews.
- Walk-through of activity.
- Review of policies and procedures.



Prior Finding 2016-006

Program: Community Development Block Grant (CDBG) – Entitlement Grants Cluster

CFDA No.: 14.218

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Allowable Costs/Cost Principles, Cash Management

Instance of Non-Compliance – The County (Economic Development Agency Department-EDA) has not established written procedures to implement the cash management requirements of *2 CFR Section 200.305*. Further, the County (EDA Department) has not established written procedures for determining allowability of costs in accordance with *Subpart E – Cost Principles* or the conditions of the Federal award.

Recommendation:

We recommend the County (EDA Department) review its policies and formalize written procedures related to cash management requirements within *2 CFR Section 200.305* and allowable costs in accordance with *Subpart E – Cost Principles*.

Current Status: Implemented

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department. The Department has formalized adequate written procedures related to cash management requirements within *2 CFR Section 200.305* and for determining the allowability of costs as described in accordance with *Subpart E – Cost Principles*.



Prior Finding 2016-007

Program: Community Development Block Grant (CDBG) – Entitlement Grants Cluster

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Significant Deficiency, Instance of Non-Compliance -- The County (EDA Department) did not have a system of internal controls in place in order to ensure that all necessary adjustments were made to the estimated costs charged to the program, such that the final amount charges to the Federal ward was accurate, allowable, and properly allocated, in accordance with *2 CFR 200.430*.

Recommendation:

We recommend the County (EDA Department) implement policies and internal control procedures related to allowable costs for personnel for federal grants to ensure that the required budget to actual reviews are performed and documented in accordance with *2 CFR 200.430*. We also recommend that the County (EDA Department) reconcile, on a quarterly basis, payroll costs charged to the program to the timekeeping system and the labor distribution reports.

Current Status: Implemented

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department. The Department has implemented policies and internal control procedures related to allowable costs for personnel for federal grants to ensure that the required budget to actual reviews are performed and documented in accordance with *2 CFR 200.430*. The Department also reconciles payroll costs charged to the program to the labor distribution reports on a quarterly basis or whenever there is a draw of funds for the program.



Prior Finding 2016-008

Program: Community Development Block Grant (CDBG) – Entitlement Grants Cluster

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Allowable Costs/Cost Principles

Significant Deficiency, Instance of Non-Compliance – We noted the County (EDA Department) did not receive preapproval from HUD to charge indirect costs to the HOME program. We also noted the County (EDA Department) did not prepare a formal indirect cost rate proposal or calculate the 10% de minimis rate in accordance with the *Uniform Guidance*.

Recommendation:

We recommend the County (EDA Department) develop an indirect cost rate proposal in accordance with *Uniform Guidance* or use the 10% de minimis rate permitted by the *Uniform Guidance*. We also recommend that the Department submit the indirect cost rate proposal as part of the application for funding as required by HUD.

Current Status: Implemented

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department. The Department added guidance in their manual stating they will claim costs using the 10% de minimis rate unless there is a negotiated indirect cost rate with a federal cognizant agency. The Department also identified in their grant agreements that the 10% de minimis rate will be used.

Prior Finding 2016-009

Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Allowable Costs/Cost Principles, Cash Management



Instance of Non-Compliance – The County (Economic Development Agency Department-EDA) has not established written procedures to implement the cash management requirements of 2 CFR Section 200.305. Further, the County (EDA Department) has not established written procedures for determining allowability of costs in accordance with *Subpart E – Cost Principles* or the conditions of the Federal award.

Recommendation:

We recommend the County (EDA Department) review its policies and formalize written procedures related to cash management requirements within 2 CFR Section 200.305 and allowable costs in accordance with *Subpart E – Cost Principles*.

Current Status: Implemented

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department. The Department has formalized adequate written procedures related to cash management requirements within 2 CFR Section 200.305 and for determining the allowability of costs as described in accordance with *Subpart E – Cost Principles*.

Prior Finding 2016-010

Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Significant Deficiency, Instance of Non-Compliance -- The County (EDA Department) did not have a system of internal controls in place in order to ensure that all necessary adjustments were made to the estimated costs charged to the program, such that the final amount charges to the Federal ward was accurate, allowable, and properly allocated, in accordance with 2 CFR 200.430.



Recommendation:

We recommend the County (EDA Department) implement policies and internal control procedures related to allowable costs for personnel for federal grants to ensure that the required budget to actual reviews are performed and documented in accordance with 2 CFR 200.430. We also recommend that the County (EDA Department) reconcile, on a quarterly basis, payroll costs charged to the program to the timekeeping system and the labor distribution reports.

Current Status: Implemented

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department. The Department has implemented policies and internal control procedures related to allowable costs for personnel for federal grants to ensure that the required budget to actual reviews are performed and documented in accordance with 2 CFR 200.430. The Department also reconciles payroll costs charged to the program to the labor distribution reports on a quarterly basis or whenever there is a draw of funds for the program.

Prior Finding 2016-011

Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Allowable Costs/Cost Principles

Significant Deficiency, Instance of Non-Compliance – We noted the County (EDA Department) did not receive preapproval from HUD to charge indirect costs to the HOME program. We also noted the County (EDA Department) did not prepare a formal indirect cost rate proposal or calculate the 10% de minimis rate in accordance with the *Uniform Guidance*.

Recommendation:

We recommend the County (EDA Department) develop an indirect cost rate proposal in accordance with *Uniform Guidance* or use the 10% de minimis rate



permitted by the *Uniform Guidance*. We also recommend that the Department submit the indirect cost rate proposal as part of the application for funding as required by HUD.

Current Status: Implemented

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department. The Department added guidance in their manual stating they will claim costs using the 10% de minimis rate unless there is a negotiated indirect cost rate with a federal cognizant agency. The Department also identified in their grant agreements that the 10% de minimis rate will be used.

Prior Finding 2016-012

Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Program Income

Significant Deficiency, Instance of Non-Compliance – As a result of our program income testwork, we noted that program income generated with Federal awards was not expended for current costs prior to drawing down additional grant funds, and is remaining in the fund.

Recommendation:

We recommend the County (EDA Department) implement policies and procedures to comply with program income compliance requirements as stated in the HOME and CDBG Guidebook and the Uniform Guidance. We also recommend that the County (EDA Department) develop and implement internal cash management policies and procedures related to program income, which should include a tracking mechanism to ensure that program income is used before drawing down on new HOME funds.

Current Status: Not applicable due to regulation change.

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department.



On December 2, 2016, HUD published an interim final rule governing the HOME program components of the action plans for local governments (§ 91.220) and States (§ 91.320). This new HOME interim final rule became effective January 3, 2017, however, CDH did not become aware of this rule change until August, 2017. Specifically, this rule revises sections § 91.220(l)(2)(i) and § 91.320(k)(2)(i) to require the participating jurisdiction to include uncommitted program income, repayments, and recaptured funds that it has received during the previous year in the resources it describes in its annual action plan. The rule gives participating jurisdictions the option to include program income, repayments, or recaptures expected to be received during the program year in the summary of anticipated Federal resources described in their annual action plan instead of requiring program income to be used before drawing down any new HOME funds.

The Department has implemented policies and procedures to comply with the new program income compliance requirements.

Prior Finding 2016-013

Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Special Tests and Provisions – Housing Quality Standards and Qualification as Affordable Housing

Significant Deficiency, Instance of Non-Compliance – For 5 of the 5 HOME assisted rental housing projects selected for testwork, the County (EDA Department) did not perform on-site inspections for Housing Quality Standards in the required frequency based on the number of HOME assisted units. It was noted that for 2 of the 5 HOME assisted rental housing projects selected for testwork, on-site inspections were not performed during fiscal year 2015-2016.

For 2 of the 5 HOME assisted rental housing project loans selected for testwork, the County (EDA Department) did not follow up on deficiencies that were noted as a result of the on-site inspections.

For 5 out of the 5 HOME assisted rental housing project loans selected for review, the County (EDA Department) did not perform annual reviews of the information on rents and occupancy of the HOME-assisted rental housing project



loans selected for review, annual reviews were not performed during fiscal year 2015-2016.

Recommendation:

It is recommended that the County (EDA Department) implement policies and procedures to ensure the requirements for the frequency of on-site Housing Quality Standards inspections and the review of information on rents and occupancy of HOME-assisted housing units are in accordance with the HOME program requirements.

Current Status: Implemented

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department. The Department has implemented policies and procedures detailing the requirements for the frequency of on-site Housing Quality Standards inspections and the review of information on rents and occupancy of HOME-assisted housing units. Based on our sample of three inspections from FY17, the department has begun performing the required inspections. The Department has also scheduled out all inspections for the current year.

Prior Finding 2016-014

Program: Home Investment Partnership Program (HOME)

CFDA No.: 14.239

Federal Grantor: U.S. Department of Housing and Urban Development (HUD)

Award Year: FY 2015-16

Compliance Requirement: Special Tests and Provisions – Wage Rate Requirements

Instance of Non-Compliance – As a result of our testwork, we noted the County (EDA Department) did not consistently receive the certified payrolls from construction contractors/sub-contractors within the required timeframe as stated in the U.S. Department of Labor regulations.



Recommendation:

It is recommended that the County (EDA Department) implement policies and procedures to ensure construction contractors/sub-contractors submit certified payroll within the timeframe required by the U.S. Department of Labor.

Current Status: Implemented

As of January 2017, the Department is no longer the Economic Development Agency Department, but the Community Development and Housing Department. The Department has implemented policies and procedures to help ensure construction contractors/sub-contractors submit their certified payroll within the timeframe required by the U.S. Department of Labor.