

Sonoma County

Auditor-Controller-Treasurer-Tax Collector

Internal Audit Report

**Fiscal Monitoring:
County of Sonoma
Human Services Department
Youth Education & Employment Services
and Sonoma County Youth Ecology Corps**

For the Period: July 1, 2019 - June 30, 2020

Engagement No: 3240
Report Date December 16, 2020



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Executive Summary

Executive Summary

The County of Sonoma Human Services Department (HSD) awarded grants totaling \$1.5M to five community based organizations (CBOs) to provide youth education and employment services.

At the request of the HSD, the Internal Audit Division of the County of Sonoma Auditor - Controller - Treasurer - Tax Collector's Office (ACTTC) performed certain monitoring procedures for the months of August and October of 2019 for all of the five CBO's that received funds during the fiscal year ending June 30, 2020.

One CBO did not track and report payroll expenses for a staff member in a manner that met financial record keeping and cost principles for federal awards. Another CBO did not have strong internal controls for tracking and reporting payroll expenses, and did not claim program expenses for the Sonoma County Youth Ecology Corps (SCYEC) summer program in a manner that met financial record keeping and cost principles for federal awards. Lastly, one CBO did not correctly update an insurance expense allocation table for the fiscal year resulting in a net under claimed insurance expense for the periods under review.

Additionally, we noted that the single audits for two of the CBO's did not show their Youth Education and Employment Services (YEES) grant expenses in their respective Schedules of Expenditures of Federal Awards for the fiscal year ending June 30, 2020.

We noted no other material exceptions.

Introduction and Background

Introduction

We have completed the monitoring procedures requested by the County of Sonoma HSD relating to claims for the Youth Education & Employment Services (YEES) and Sonoma County Youth Ecology Corps (SCYEC) programs from federal Workforce Innovation and Opportunity Act (WIOA) and Temporary Assistance for Needy Families (TANF) funds for the months of August and October 2019.

Background

For many years the HSD has provided federal Workforce Investment Act (WIA) funding to CBOs to assist youth, aged 14-21 years of age, with education and employment skills. WIA was replaced by WIOA effective July 1, 2015. In recent years and for the year under review, additional county funding including funding from the Sonoma County Water Agency and Services to Transitional Aged Youth was also provided.

The services being provided to individuals include, but are not limited to, the following:

- Youth Education and Employment Services
 - Outreach and recruitment to attract interested and eligible youth.
 - In-depth objective assessment.
 - Development of an individual service strategy.
 - Case management.
 - Tutoring.
 - Study skills and instruction.
 - Alternative secondary school services.
 - Summer employment opportunities.
 - Paid and unpaid work experience.
 - Occupation skills training.
 - Leadership development opportunities.
 - Adult mentoring.
 - Comprehensive guidance counseling.
- Sonoma County Youth Ecology Corps
 - Outreach and recruitment to attract interested and eligible youth.
 - Ecology-based work experience opportunities.
 - Environmental education.
 - Development of post-secondary and career opportunities.
 - Soft skill development.

The five CBOs that were awarded WIOA, TANF, and other county funding during the contract period were The Center for Social & Environmental Stewardship (CSES), Conservation Corps North Bay (CCNB), Petaluma People Services Center (PPSC), Social Advocates for Youth (SAY) and West County Community Services (WCCS). Reimbursement requests from each CBO were based on amounts incurred for:

- Staff Wages and Benefits
- Youth Wages and Benefits
- Crew Leader Wages and Benefits
- Work Experience Staff Wages and Benefits

Background

- Work Experience Staff Support (not case management)
- Rent/Lease of Facility
- Utilities/Building Maintenance
- Telephone/Communications
- Insurance Expense
- Equipment Rental/Lease/Maintenance
- Office Supplies/Expenses
- Books/Education Materials
- Staff Mileage/Travel
- Staff Training/Conferences
- Work Experience Materials/Equipment
- Crew Transportation Costs
- Youth Support/Incentives
- Other Fees
- Indirect Costs

HSD is responsible for performing ongoing monitoring of the CBOs awarded funds. To assist in fulfilling that responsibility, HSD engaged Internal Audit to perform certain monitoring procedures on the claims submitted to HSD for the months of August and October 2019.

Objective, Scope, Methodology and Staff Acknowledgement

Objective

The primary objective of this monitoring engagement was to determine if the CBO's are meeting financial record keeping requirements of OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards with a special emphasis on salaries and wages.

Scope

The monitoring was for the period July 1, 2019 to June 30, 2020. As directed by HSD, we conducted revenue and expenditure testing on August and October of 2019 reimbursement claims submitted by each CBO. The scope of our work included the following:

- A review and evaluation of internal controls, as described by the management of the five CBOs, designed to ensure compliance with the above requirements.
- Tests of transactions reported in the claims.
- Follow up to determine the status of previous audit report findings and recommendations.

Methodology

We performed the following procedures:

1. Obtained copies of the HSD award agreements and any amendments with the CBOs to verify the existence and amount of funding available and to be disbursed.
2. Primarily through inquiry, reviewed and evaluated the CBOs' system of internal controls over record keeping and claim preparation.
3. Verified that the funds disbursed by HSD were received, posted to the CBOs' books and deposited to their bank accounts.
4. Traced the personnel costs and selected operating expenditures to appropriate supporting documents and to the books of the respective CBOs.
5. Ensured that expenditures were recorded in the correct period of the CBOs' general ledgers.
6. Reviewed the overhead allocation methodology where applicable.

Staff Acknowledgement

We would like to thank the management and accounting staff of the five CBOs monitored, as well as the accounting staff of HSD for their time, information, and cooperation throughout the engagement.

Current Year Findings, Recommendations and Other Matters

We identified three items, as noted below, with a Risk Classification C: Control Findings, as a result of our procedures. For purposes of reporting our audit findings and recommendations, we classify audit report findings into three distinct categories to identify the perceived risk exposure. These categories are outlined in detail in Appendix B of this report. Except as discussed below, the claims for the months of August and October 2019 were supported by approved invoices, time sheets and entries in the CBOs' books.

FINDING 1

The Executive Director of PPSC did not keep daily records of time spent on grant related activities during the period covered by our review. Thus we are not able to provide any assurance that \$1,197 in Executive Director salaries and benefits claimed by PPSC for that period is accurate.

Internal Audit only reviewed program award claims for the months of August and October in the fiscal period, and cannot form an opinion on any other months claimed in the fiscal period. It is likely that the remaining months of the fiscal reporting period also have such internal control weaknesses. This was a finding for PPSC in last year's monitoring as well, however we noted that this exception applied to multiple staff last year and only the Executive Director this year.

RECOMMENDATION:

- a) HSD should address this internal control finding over the tracking and reporting of payroll with PPSC.
- b) Given that PPSC had the same finding in the prior year and were not able to support \$8,496 in costs, we recommend in the future HSD review appropriate supporting documents before releasing funds to PPSC.
- c) HSD should review all of PPSC's Executive Director salaries charged to the program and request reimbursement for amounts not adequately supported with daily time records.

MANAGEMENT RESPONSE:

- a) Management concurs and will request that PPSC have the Executive Director track hours spent on the grants on a daily basis.
- b) If PPSC becomes a subrecipient again, HSD will require supporting documentation prior to payment.
- c) HSD will review all of PPSC's Executive Director salaries charged to the program and request reimbursement for amounts not adequately supported with daily time records.

FINDING 2

CCNB claimed staff costs in August of 2019 based on time spent on other programs for the months of June, July and August. In August and October of 2019 there were instances where incorrect pay rates were used and, in other cases, the staff time used in the calculations did not agree with the supporting time records. CCNB did not have procedures in place requiring reconciliation between the claims filed and relevant supporting documents and accounting records.

OMB financial record keeping cost principles for non-profit organizations do not allow direct allocations of salaries based on budget estimates. Allocating time based on a fixed or budgeted percentage of time is not an acceptable method of tracking time for federal grants. Estimated cost can only be claimed if supported by an appropriate time study.

Current Year Findings, Recommendations and Other Matters

We noted \$12,518 in questioned payroll costs in August for the SCYEC program, and \$97 in over claimed payroll costs in October for the Career Pathways Program (CPP), as well as \$2,693 in under claimed payroll costs in October for the YEES program. The variances in claimed amounts to the supporting documentation appear to be due to both internal control weaknesses and not using acceptable methods of tracking time for federal grants, per OMB financial record keeping cost principles for non-profit organizations.

While we found that the Sonoma County Youth Ecology Corps (SCYEC) August claim was prepared in a manner that was not in accordance with OMB financial record keeping cost principles for non-profit organizations, resulting in \$12,518 in questioned costs, we do not believe in total that CCNB claimed more expenses than they incurred for the program in the fiscal reporting period.

RECOMMENDATION:

HSD should:

- a) Review the SCYEC claims from this CBO for the entire fiscal period and determine how to address the non-compliance.
- b) Assure that the CBO assess and address their internal control weaknesses with payroll processing and claim preparation.
- c) Ensure that all CBOs are aware of OMB financial record keeping cost principles for non-profit organizations.

MANAGEMENT RESPONSE:

- a) Management concurs and will review the SCYEC claims for the entire fiscal period and address the non-compliance with CCNB.
- b) HSD will ask CCNB to address the internal control weaknesses with payroll processing and claim preparation.
- c) Contract language is in place in the fiscal provisions of each contract. It is our understanding that by the agency signing the contract they are stating that they have read and understand what they are agreeing to.

FINDING 3

As result of not creating an updated insurance expense allocation table for the fiscal year ending June 30, 2020 claims, CSES under claimed insurance costs by \$174.99 in the months reviewed. The allocation allocates actual insurance cost based on full time employees assigned to various programs.

RECOMMENDATION:

- a) CSES should assure that allocation tables are correctly updated prior to submitting claims. Additionally, we recommend that CSES review all claim periods in the fiscal year and reconcile the miscalculation of the insurance allocations. If any claim adjustments need to be made, we recommend that the CSES work directly with HSD to make any needed adjustments.

MANAGEMENT RESPONSE:

- a) Management concurs and will request that CSES review all claim periods in the fiscal year and reconcile the miscalculation of the insurance allocations.

Current Year Findings, Recommendations and Other Matters

CONCLUSION

For the months of August and October 2019 the CBO's appear to be meeting financial record keeping requirements of OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards except for the findings noted above.

OTHER MATTERS

We noted that the single audits for two of the CBO's (WCCS and PPSC) did not show their YEES grant expenses in their respective Schedules of Expenditures of Federal Awards for the fiscal year ending June 30, 2019.

Prior Year Findings and Recommendations

FINDING 1

For one of the five CBOs, recipient signatures were not obtained for \$265 in incentive gift cards distributed to the youth employed by the CBO per its records. Thus we are unable to determine if that cost represents an authorized use of grant funds.

RECOMMENDATION:

We recommend HSD advise WCCS to follow its policy of obtaining signatures of gift card recipients for all gift cards issued to properly support compliance with the grant requirements.

STATUS: Closed

WCCS updated their Incentives & Supportive Services Policy, which now includes that incentives or support services receipts will be signed by both the client (youth) and staff, and additionally that receipts will be maintained in both the client file and with the YEES Program Manager and the Fiscal Manager as appropriate. We found no instances of Youth receiving incentive gift cards in this year's testing.

FINDING 2

One of the CBO's monitored did not track and report payroll expenses for the month of November in a manner that met OMB financial record keeping cost principles for non-profit organizations.

SAY claimed an allocation of the Chief Operating Officer's salary to the grant in November as a direct cost based on a budgeted estimate.

OMB financial record keeping cost principles for non-profit organizations do not allow direct allocations of salaries based on budget estimates. Allocating time based on a fixed or budgeted percentage of time is not an acceptable method of tracking time for federal grants.

Internal Audit only reviewed program award claims for the months of July and November in the fiscal period, and cannot form an opinion on any other months claimed in the fiscal period. It is likely that the remaining months of the fiscal reporting period also have such non-compliance.

RECOMMENDATION:

HSD should review the claims from this CBO for the entire fiscal period and determine how to address the non-compliance.

HSD should ensure that all CBOs are aware of OMB financial record keeping cost principles for non-profit organizations.

STATUS: Closed

HSD worked with SAY management to review the entire fiscal period and reconciled the disallowed costs. We found no instances of direct allocations of salaries in our testing of August and October 2019 for this year's monitoring of SAY.

Prior Year Findings and Recommendations

FINDING 3

Two of the CBO's lacked strong internal controls over the tracking and reporting of payroll expenses for the months of July and November.

Based on our examination of the support provided by CCNB and PPSC we cannot assure that all salaries and benefits claimed to the County were based on actual time spent on grant related activities. Not all staff members are tracking hours spent on grant related activities on a daily basis, as a result the risk that hours are incorrectly charged to grant related activities is high.

Internal Audit only reviewed program award claims for the months of July and November in the fiscal period, and cannot form an opinion on any other months claimed in the fiscal period. It is likely that the remaining months of the fiscal reporting period also have such internal control weaknesses.

RECOMMENDATION:

HSD should address internal controls findings over the tracking and reporting of payroll with CCNB and PPSC.

STATUS: Repeat Finding

As stated above in the Current Findings and Recommendation section of this report, we found again that we could not assure that all salaries and benefits claimed to the County by CCNB and PPSC were based on actual time spent on grant related activities.

We note that CCNB continued to show weaknesses in internal controls over payroll, however we do note that staff are now completing timesheets to show hours worked on the programs by day.

We note that PPSC has all but one staff member now completing timesheets to show hours worked on the programs by day. In last year's monitoring multiple staff were not showing hours worked on the programs by day, and we consider this an improvement.

Appendix A: Schedule of Funds Awarded and Selected Months Claimed, Audited and Questioned

County of Sonoma Human Services Department
Youth Education & Employment Services
Fiscal Monitoring
Schedule of Funds Awarded and Selected Month Claimed, Audited, and Questioned
For the Period July 1, 2019 - June 30, 2020

Contract	CBO	Funds Awarded	August & October 2019 Claimed	August & October 2019 Audited	August & October 2019 Questioned	% Claimed/ Award
ET-CFSES-YEES/SCYEC-1920	The Center for Social and Environmental Stewardship	\$ 137,945	\$ 31,788	\$ 27,691	\$	23.04%
ET-CCNB-YEES/SCYEC-1920	Conservation Corps North Bay	844,911	79,948	69,476	12,615	9.46%
ET-PPSC-YEES/CSYEC-1920	Petaluma People Services Center	107,877	16,124	14,456	1,197	14.95%
ET-SAY-YEES/SCYEC-1920	Social Advocates for Youth	278,513	23,027	20,416		8.27%
ET-WCCS-YEES/SCYEC-1920	West County Community Services	129,476	9,244	6,623		7.14%
Total		\$ 1,498,722	\$ 160,131	\$ 138,662	\$ 13,813	10.68%

Appendix B: Report Item Risk Classification

For purposes of reporting audit findings and recommendations, audit report items are classified into three distinct categories to identify the perceived risk exposure:

➤ **Risk Classification A: Critical Control Weakness:**

Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s), policies, and/or business goals of a department/agency or the County as a whole. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

➤ **Risk Classification B: Significant Control Weakness:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.

➤ **Risk Classification C: Control Findings:**

Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process.

The current status of implementation of recommendations will be followed up no later than the end of the second fiscal year after the report has been issued. Critical control weakness findings will be followed up between six months and one year of the date of the report.