



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

Department Name: Auditor-Controller  
Department No.: 061  
For Agenda Of: 12/11/2007  
Placement: Administrative  
Estimate Time:  
Continued Item: NO  
If Yes, date from:  
Vote Required: Majority

TO: Board of Supervisors  
FROM: Department Director(s) Robert W. Geis, CPA (x2100)  
Contact Info: Heather Harkless, CPA (x2456)

**SUBJECT: Single Audit Reports for fiscal years ended June 30, 2006 & June 30, 2007**

**County Counsel Concurrence:**

As to form:  Yes  No  N/A

**Auditor-Controller Concurrence:**

As to form:  Yes  No  N/A

**Other Concurrence:** N/A

As to form:  Yes  No  N/A

**Recommended Action(s):**

Receive and file the County of Santa Barbara's Single Audit Reports for fiscal years ended June 30, 2006 & June 30, 2007.

**Summary:**

Per the *Single Audit Act* entities that have program expenditures of federal awards in excess of \$500,000 per year are required to have annual audits, commonly referred to as *Single Audits*. The audits are conducted by independent outside auditors in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The County expended \$111,539,164 in federal funds during fiscal year 2005-06; the single audit was performed by the County's independent auditor, KPMG LLP. The County expended \$115,026,618 in federal funds during fiscal year 2006-07; the single audit was performed by Brown Armstrong Accountancy Corporation.

**Background:**

The *Single Audit Act* (officially the *Single Audit Act Amendments of 1996*) is intended to promote sound financial management, including effective internal control, with respect to federal awards administered by state and local governments and not-for-profit organizations. The OMB Circular A-133 audit standards require the auditee (i.e., the County) to:

1. maintain internal control for federal programs,
2. comply with the laws, regulations, and the provisions of contracts or grant agreements,
3. prepare appropriate financial statements, including the schedule of expenditures of federal awards (SEFA),
4. ensure that the required single audits are properly performed and submitted when due, and
5. follow up and take corrective actions on audit findings.

The Circular A-133 audit standards also promote consistency and uniformity among Federal agencies responsible for the audit of states, local governments and non-profit organizations expending Federal awards.

Although inter-related, the single audit differs from the County's annual financial audit in that the single audit focuses on compliance with federal regulations and internal controls over federal programs, while the financial audit focuses on the fair presentation of the County's financial statements. The County's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006 was previously received and filed by your Board on September 26, 2006. The CAFR for the year ended June 30, 2007 was previously received and filed by your Board on September 11, 2007.

The scope of the County's Single Audit for both FY 2005-06 & FY 2006-07 covered six major programs:

- Food Stamps
- Medicaid
- Child Support
- Foster Care
- Temporary Assistance for Needy Families
- Workforce Investment Act

For FY 2005-06, KPMG noted reportable conditions (significant deficiencies in the design or operation of an internal control over compliance) in each of the programs, and material weaknesses in the major programs listed above. A material weakness is a condition in which the design or operation of internal controls does not reduce to a relatively low level the risk that non-compliance with applicable laws or regulations, that would be material to a major federal program, whether caused by error or fraud, could occur and not be detected in a timely manner by employees in the normal course of performing their duties. The material weaknesses stem from exceptions noted in the required annual redeterminations of eligibility and the proper authorization of employee timesheets. The findings indicate a lack of adhering to formal policies and procedures that ensure accurate payment of benefits and other expenditures. Detailed explanations are noted in findings nos. 06-02, 06-03, 06-04, 06-11 and 06-18 of the report.

For the FY 2006-07, Brown Armstrong noted material weaknesses in three of the six programs: Foster Care, Medicaid, and Temporary Assistance for Needy Families. The material weaknesses stem from exceptions noted in the required annual redeterminations of eligibility. Lack of investigative procedures regarding eligibility requirements can lead to inaccurate benefit calculations, benefit overpayment and inaccurate participant data. Detailed explanations are noted in findings nos. 07-01, 07-04 and 07-09 of the report.

Single Audit Reports are due nine months after fiscal year end; the FY 05-06 Single Audit Report missed the March 31, 2007 deadline by eight months. The lateness of the report stems from the Single Audit Report for FY 2002-03, wherein the auditors noted reportable conditions in the major federal programs, necessitating additional audit work, which in turn led to a late filing. As a result, the County was first designated as a "high-risk auditee" in FY 03-04. This designation subjects the County to significantly more audit work. The County will continue as a high-risk auditee until it submits its Single Audit Report on-time and without any qualifying findings for two years. The Auditor's Office initiated an ongoing Single Audit process improvement effort in FY 04-05 that focuses on increasing awareness in the grant-recipient departments of the importance of accurate and timely information for the Schedule of Expenditures of Federal Awards and methods for achieving, along with increased scrutiny and

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analysis by the Auditor's Office of the inputs. This effort is in addition to the steps, detailed in the Single Audit Report, that the departments are taking to correct their audit findings.

The most recent FY 06-07 Single Audit Report was completed three months prior to the deadline of March 31, 2008. For the FY 06-07 audit, the County has contracted with a new audit firm, Brown Armstrong Accountancy Corporation. Brown Armstrong begins their single audit work several months earlier than the previous firm did. When comparing the two audit reports, material findings were reduced from six to three, and overall findings were reduced from twenty five to ten in FY 06-07. The single audit report is current and a complete, timely filing of the report is expected for the upcoming years while the County continues its efforts to pursue an unqualified "clean" report from our auditors.

**Fiscal and Facilities Impacts:**

Budgeted:  Yes     No

**Fiscal Analysis:**

For FY 05-06, Single Audit costs were commingled with the CAFR and RDA audit costs. The original contract of \$117,300 was revised to \$200,000 due to the scope expansion of the Single Audit Report. For FY 06-07, the total audit contract is \$128,400 of which \$36,840 is attributed to the Single Audit. The internal audit division of the Auditor-Controller's Office also allocated a significant number of audit hours assisting the external audit firm.

**Staffing Impact(s):**

**Legal Positions:**

**FTEs:**

**Special Instructions:**

**Attachments:**

County of Santa Barbara Single Audit Report for the fiscal year ended June 30, 2006.

County of Santa Barbara Single Audit Report for the fiscal year ended June 30, 2007.

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**cc:**