

**SANTA BARBARA COUNTY
BOARD AGENDA LETTER**



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

Agenda Number:

Prepared on: 6/18/02
Department Name: Auditor-Controller
Department No.: 061
Agenda Date: 6/25/02
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Robert W. Geis, C.P.A.
Auditor-Controller

STAFF CONTACT: Ed Price, C.P.A.
Audit Manager - Ext. 2456

SUBJECT: Audit Report on Probation Department Grant Contractor - Girls Inc. of Santa Barbara

Recommendation(s):

That the Board of Supervisors accept and file the audit report on Probation Department Grant Contractor - Girls Inc. of Santa Barbara dated May 10, 2002.

Alignment with Board Strategic Plan:

The recommendation is primarily aligned with Goal No. 3. Strengthen the County's Administration and Organization.

Executive Summary and Discussion:

Upon the request of the Probation Department, we reviewed the accounting processes in place to determine the contractor's ability to accurately gather, track, document, and report fiscal data essential in meeting grant objectives and fulfilling contract commitments.

In summary, we concluded that Girls Inc. has not devoted the attention to fiscal operations necessary to assure an acceptable level of fiscal accountability. Lack of consistent fiscal staffing has led to delinquent preparation of invoices, no annual cost report, and no annual audited financial statements.

In its role of administering the expenditure of public funds, we advised the Probation department to contractually establish mutually agreed upon fiscal reporting goals and milestones with Girls Inc. and to monitor the agency's progress on an on-going basis.

Mandates and Service Levels:

No change in programs or service level.

Special Instructions:

None

Fiscal and Facilities Impacts:

No change in programs or service level.

Concurrence:

N/A



Probation Department

*Report on Grant Contractor
Girls Inc. of Santa Barbara*

May 10, 2002



**INTERNAL AUDIT DIVISION
SANTA BARBARA COUNTY AUDITOR-CONTROLLER**

Table of Contents

Probation Department - Girls Inc.

<i>Background</i>	1
<i>Purpose and Scope</i>	2
<i>Summary and Conclusion</i>	3
<i>Findings and Recommendations</i>	4
Girls Inc.	
Infrastructure	5
Staffing	5
Accounting System	6
Challenge II Grant Invoices	6
Challenge II Grant Cost Reports	8
Project Management	8
<i>Appendix</i>	10

Background

Probation Department - Girls Inc.

Probation Department Mission Statement

- Requiring responsible behavior of offenders
 - Facilitating services to victims
 - Enforcing court orders
 - Providing information and recommendations to the courts
-

The Probation Department has served Santa Barbara County for over 91 years with correctional programs. It serves the Courts by providing intake, investigation, and supervision services. These services provide the Courts with the information needed to make well-informed decisions to insure community safety. The Probation Department also assists adult and juvenile offenders in establishing and maintaining law abiding, productive lives. The law, Court orders, the risk the offender presents to the community, and the needs of the offender and family determine what type of service is provided.

As part of carrying out its mission, Probation has applied for and is currently participating in the State Board of Corrections Juvenile Crime Enforcement and Accountability Challenge Grant II (Challenge II). To efficiently deliver services, Probation has partnered with several community-based organizations (CBOs) funding them under the terms of the Challenge II grant.

Probation has contracted with Girls Inc, of Santa Barbara to provide counseling services under the Challenge II grant. Terms of the agreement include reimbursement for actual salaries & benefits, services & supplies and administrative overhead. Additionally, Girls Inc., must also meet both a hard dollar and in-kind match requirement.

The management of the Probation Department in fulfilling their responsibility of monitoring grant recipients became concerned as Girls Inc. invoices, the annual cost report and audited financial statement became delinquent. ■

Purpose and Scope

Probation Department - Girls Inc.

Audit Purpose

- ☑ *Determine Why Girls Inc Grant Reports & Invoices are Delinquent*
- ☑ *Identify any opportunities for improvements*

TThe purpose of our review was to assess the accounting processes in place at Girls Inc. of Santa Barbara to determine why their Challenge II grant reporting and invoicing were delinquent and if possible, to identify any opportunities for operational improvements.

To obtain an understanding of the accounting policies and procedures, we interviewed appropriate staff and examined selected documents and records. We also evaluated the internal control structure and its impact on the invoicing and cost reporting process.

Our review was performed in accordance with internal auditing standards established by the Institute of Internal Auditors and included all procedures which we considered necessary to provide a basis for reporting on the areas reviewed. ■

Summary and Conclusion

Probation Department – Girls Inc.

Results

- ☑ *Fiscal staff lack adequate training*
 - ☑ *Business manger position recently filled after being vacant over a year.*
 - ☑ *Basic invoices for 10 months June 2001 through March 2002 now submitted*
 - ☑ *Successful business manager & trained staff are key*
 - ☑ *Fiscal administration needs agency's commitment to accountability*
-

Girls Inc. is a valued community organization and by all accounts, program delivery historically has always been highly regarded. However, late invoicing, failure to timely file the 6/30/01 cost report and failure to provide audited financial statements for their fiscal year ending 12/31/00 were indicative of significant administrative problems within the organization.

Focus on program delivery and a corresponding lack of emphasis on the importance of fiscal administration has led to the deterioration of the agency's fiscal operation. Fiscal staff lacks adequate training and the business manager's position has, until recently, been vacant for over a year. This situation is also somewhat compounded by the needed replacement of the existing accounting software and other complex accounting demands for: subsidiary publishing business, major capital project, in-kind match calculations, administrative overhead allocations and program cost sharing.

We noted that during April, basic invoices were submitted covering the ten-month period of June 2001 through March 2002. We also noted that time card documentation supporting program salary costs was adequate. (Salary costs and administrative overhead—a fixed percentage of salary—makes up the vast majority of the invoice). Reporting of the in-kind match (rent) on the invoices still needs to be enhanced, as we found no documentation of how the amount claimed is computed.

The degree to which the agency's accounting function is rehabilitated depends upon the effectiveness of the new business manager, the retention of competent, well-trained fiscal staff, and most importantly, a commitment to fiscal accountability by the agency. We suggest that Probation fiscal staff monitor progress being made on a periodic basis. Failure to do so may result in the County's fiscal exposure and could jeopardize future grant funding.

Probation should contractually establish mutually agreed upon milestones for this and other CBO contracts to include reporting dates and requirements, along with appropriate consequences if milestones are not met. ■

Findings and Recommendations

Probation Department – Girls Inc.

Girls Incorporated of Santa Barbara

Background: Community Based Organizations (CBOs) today face a difficult environment challenged with balancing efficient program delivery and cost effective administration. They must maintain an infrastructure that can provide the accountability necessary to satisfy donors, grantors, service receivers and the community at large.

CBOs traditionally are not necessarily able to pay salaries commensurate with job requirements and responsibilities. They must often search for employees with specialized technical skills who find satisfaction in the intrinsic compensation that comes from helping others. Once the proper fiscal staff is in place, a formal communication process between program staff and fiscal staff is essential for effective financial administration.

Girls Inc. is not unlike many other CBO in these regards. However, there are notable factors that complicate their accounting function. Advocacy Press is a publishing company subsidiary of Girls Inc. While its role is limited primarily to filling orders and publishing books to support agency programs, it basically operates as a business model instead of a non-profit. This adds a layer of complexity to the accounting process and accounting system requirements. Additionally, the agency's accounting software is outmoded and no longer supported by Microsoft and needs to be replaced.

Another complicating factor is the major expansion project of building a new facility in the Goleta area. Undoubtedly a project of this magnitude requires significant executive and fund raising resources over a typical non-expansion year.

Details of our findings and suggested corrective actions for the benefit of the agency's management are presented below.

Findings and Recommendations

Probation Department – Girls Inc.

Infrastructure

Finding: The current infrastructure supporting fiscal administration is ineffective and jeopardizes the organization’s ability to meet its program missions. As evidenced by the findings detailed below, insufficient support of the accounting function has led to a significant deterioration of the organization’s fiscal operations. While current program delivery is still highly regarded, the ability to meet fiscal deliverables has not yet been re-established.

This fiscal infrastructure issue encompasses more than just the Challenge II grant reporting. The issue impacts all of the organization and if not corrected could lead to ill-will among donors and partners. Fiscal accountability is essential for the long-term survival of all organizations and is necessary to maintain positive stakeholder relationships.

It appears that reliance for fixing the effects of the accounting problems is currently focused on the business manager. We wish to caution Girls Inc., that the amount of work to restore the accounting function to acceptable standards in a reasonable time frame may exceed the capacity of one individual. Accordingly, additional accounting resources—whether hired or contracted—than currently anticipated may be necessary.

We sincerely hope that this inquiry is the stimulus that provokes Girls Inc. to restore its fiscal operations to the level of quality comparable to its programs.

Recommendation: The board and management needs to seriously address the findings identified below. A firm commitment to fiscal administration may be able to avert fiscal calamity and provide an infrastructure to sustain the organization into the future.

Findings and Recommendations

Probation Department – Girls Inc.

Staffing

Finding: We noted that long-term vacancies in the accounting function, both at the staff and supervisory levels have been significant over the past 18 months. A general lack of training has served to exacerbate the situation.

Recommendation: We suggest that the following may help Girls Inc. in developing and retaining an effective accounting staff:

- Make sure the financial compensation is adequate, as good employees are difficult to find and even more costly (in more terms than money) to replace,
- Make the accounting function important in the organization, that is, give it stature equal to program delivery,
- Evaluate accounting employees skills and provide training where needed,
- Provide specialized training such as grant cost reporting,
- Board members should be cognizant of the intimidation factor and consider the impact when interacting with staff.
- Do not overlook the knowledge and advice on accounting issues that can be obtained from the external CPA firm.

Accounting System

Finding: The current accounting software system, Great Plains, is a MS-DOS based program for which Microsoft has discontinued technical support. Accordingly, Girls Inc. is in the process of purchasing and installing a new system. We noted that the implementation and conversion of such systems can be demanding of the organization resources.

Recommendation: To aid in the success of this endeavor, we suggest that a reasonable needs assessment be made before purchasing any particular software package and that sufficient resources be allocated in the planning phase before actually converting. While all conversions tend to create a lot of temporary chaos, they also present wonderful opportunities to analyze current program & line item structure and reporting needs.

Findings and Recommendations

Probation Department – Girls Inc.

Challenge II Grant Invoices

Finding: Accounting processes and lack of accounting staff have resulted in invoices not being prepared in a timely and accurate manner. Adequate documentation supporting invoiced amounts was not being properly developed and maintained.

Recommendation: All invoices should be prepared and submitted along with supporting documentation on a monthly basis. Invoices are basically comprised of four categories: personnel costs, administration, services and supplies, and in-kind match. Initially, and until the process can be refined, the focus should be on billing for Personnel and Administration costs as they are the most material and the simplest to support.

Recommendation: Personnel costs can be easily documented as time sheets are generated each payroll cycle. To facilitate the process:

- Copies should be made of time sheets for persons coding time to the grant each payroll cycle and put into a separate file.
- A spreadsheet should be used to accumulate personnel costs then should be updated each cycle
- At the end of the month, tabulate the total personnel costs from the spreadsheet
- Enter the Personnel costs into the invoice and calculate Administration costs as they are mathematically derived from the Personnel costs.
- Submit photocopies of time sheets and tabulation spreadsheet with invoice

Recommendation: Efforts should be made to identify Service & Supplies expenses as paid for inclusion in each month's invoice. Similar to the handling of time sheets, invoices for services & supply items should be photocopied as they are paid, and included in the monthly grant invoice file for inclusion in the current invoice. However, if such expenses are not readily available, submission of the invoice should not be delayed. Instead, those expenses should be included in the next month's invoice.

Findings and Recommendations

Probation Department – Girls Inc.

Recommendation: Finally, the rent in-kind match, while not an actual expense being reimbursed, needs to be reported on each invoice. Fortunately, once the annual amount is calculated, unless there have been significant changes in the underlying factors, the same amount can be claimed each month (one twelfth). This annual calculation should be completed at the beginning of each grant period and submitted along with supporting documentation. Specific requirements of this calculation are available from the Probation department.

Challenge II Grant Cost Reports

Finding: The annual cost report due from Girls Inc. to the County at the end of the grant period was not prepared and transmitted to the Probation department within the timeframe required by the grant agreement.

Recommendation: Girls Inc. needs to ensure that the annual cost report, and any supporting documentation required, is promptly filed by the due date. To assist in this effort, the Probation department has prepared spreadsheet templates that the grant recipient can complete.

Project Management

Finding: We noted a general lack of sound fiscal processes in place to assure the successful attainment of the agency's fiscal objectives on an on-going basis into the future.

Recommendation: Girls Inc. should consider implementing basic project management techniques. Starting with a project plan that lists all identified accounting related projects that need to be accomplished by priority and the individual responsible for the project. Periodically (weekly/monthly) the status of each individual project should then be reported to monitor the projects.

Findings and Recommendations

Probation Department – Girls Inc.

Example projects to be considered:

- New accounting software system needs assessment
- New accounting software selection & implementation
- Grant annual cost reporting process
- Grant invoicing process
- Grant in-kind match calculations

* * * * *

This report is intended solely for the use of the management of the Probation Department and Board of Directors and management of Girls Inc., of Santa Barbara. However, this report is a matter of public record and its distribution is not limited.

The Internal Audit Division wishes to express its appreciation to members of the Probation Department and Girls Inc. who candidly and fully cooperated with us in this review. ■

Respectfully submitted May 10, 2002,

C. Edwin Price, Jr. CPA
Audit Manager

John Torell, CPA
Assistant Auditor-Controller

**INTERNAL AUDIT DIVISION
SANTA BARBARA COUNTY AUDITOR-CONTROLLER**

Appendix

We identified several causes contributing to the inaccurate and untimely Challenge II Grant reporting. Like all significant problems, the causes are usually plentiful and interrelated. We believe that to varying degrees factors of **staffing**, **infrastructure**, **complex accounting processes**, and the **accounting system** have contributed to the state of affairs. The diagram below is presented to provide agency management with an overview of the interrelationships among the above factors and the elements critical to success in each area.

