



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: 03/24/2009  
Placement: Set Hearing on 04/07/09  
Estimated Tme: 15 minutes on 04/07/09  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

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**TO:** Board of Supervisors

**FROM:** Department Robert W. Geis, CPA (x2100)  
Director(s)  
Contact Info: Jennifer Christensen (x2134)  
Heather Harkless (x2456)

**SUBJECT:** **Single Audit Report for the fiscal year ended June 30, 2008**

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**County Counsel Concurrence**

As to form: N/A

**Other Concurrence:** N/A

As to form: N/A

**Recommended Actions:**

Set a hearing for April 7, 2009 to receive and file the County of Santa Barbara's Single Audit Report for the fiscal year ended June 30, 2008.

**Summary Text:**

Under the *Single Audit Act*, entities that have expenditures of federal awards in excess of \$500K 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. During fiscal year 07-08 the County expended approximately \$114M in federal funds excluding fee for service Medicaid and other vendor type transactions. The County's Single Audit was performed by Brown Armstrong Accountancy Corporation of Bakersfield, California (Brown Armstrong).

In previous fiscal years the independent auditors noted significant audit findings and the Single Audit was filed untimely. As a result, the County was designated as a high-risk auditee. Although the County has been able to correct the issue of late filing, there continue to be findings in almost all of the same major programs. Federal financial exposure could be as high as \$1M for the major programs audited. According to departmental management, governmental agencies have not proceeded with action to request the return of funds related to these or prior findings. At this point in time, the County remains a high-risk auditee. In order to become a low-risk auditee, department management must eliminate the findings causing the County's high-risk status.

**Auditor-Controller Concurrence**

As to form: N/A

**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 Single Audit contains both compliance and financial components. The audit standards require the auditee (the County) to:

1. maintain internal control for federal programs,
2. comply with the laws, regulations, and 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.

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 and materially accurate presentation of the County’s financial statements. The County’s Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008, was previously received and filed by your Board on October 13, 2008.

The Single Audit requires the independent auditor to evaluate the County’s status as high-risk or low-risk. A high-risk auditee is a recipient which has a high risk of not complying with Federal laws and regulations, while a low-risk auditee is the exact opposite. The County is currently considered a high-risk auditee.

A high-risk auditee status results in increased County audit costs due to extended audit procedures that must be performed. Furthermore, increased scrutiny from outside organizations also results from this status. To be considered a low-risk auditee certain criteria must be met for the previous two fiscal years. The table below depicts the criteria and items that were not met by the County for fiscal year 07-08.

Criteria	Met by the County?
<i>Single Audits performed on an annual basis</i>	<i>Yes</i>
<i>Auditor’s opinions were unqualified</i>	<i>No</i>
<i>No material weaknesses (internal control deficiencies)</i>	<i>No</i>
<i>No noncompliance with a material effect on the program</i>	<i>No</i>
<i>No known or likely questioned costs exceeding five percent of the program Federal award expended</i>	<i>No</i>

An **unqualified opinion** is the same as a clean opinion, while a **qualified opinion** signifies that the auditor found material instances of noncompliance within a major program.

The Single Audit opinions by major Federal program audited for the last two years are as follows:

<b>Federal Program</b>	<b>07-08</b>	<b>06-07</b>
<i>Food Stamps</i>	Qualified	Qualified
<i>Medicaid</i>	Qualified	Qualified
<i>Temporary Assistance for Needy Families (TANF)</i>	Qualified	Qualified
<i>Child Support</i>	Qualified	Qualified
<i>Foster Care</i>	Qualified	Qualified
<i>Workforce Investment Act (WIA)</i>	Unqualified	Qualified
<i>Highway Planning &amp; Construction</i>	Unqualified	Not audited

Below is the schedule that Brown Armstrong used to assess instances of noncompliance and determine materiality of the findings:

Finding Number	Major Program	Sample Size	Number of Deviations	Material Non-Compliance Risk Level	Qualitative Evaluation	Consolidated Risk of Material Non-Compliance
08-01	Foster Care	46	17	High	High	High
08-02	Child Support	46	1	Moderate	Low	Low
08-03	Child Support	46	10	High	High	High
08-04	Medicaid	46	9	High	High	High
08-05	Food Stamps	46	6	High	Moderate	High
08-06	TANF	46	4	High	High	High
08-07	TANF	46	2	High	High	High

Examples of material noncompliance included in the report for the major Federal programs, fiscal year 07-08, are listed below. Refer to the Single Audit Report for a listing of all findings. Findings below are based on a sample size of 46 for each program. Findings were predominately related to providing benefits to ineligible participants and deficiencies in performing required procedures.

***Foster Care***

- Potentially unallowable costs of \$79,035 resulting from the following:
- Six recipients should have been paid through State, not Federal funds.
- One payment was directed to the wrong Federal program.
- One payment was for a child transferred to a different County.
- Two files where a required permanency plan was not developed and/or adopted.

***Child Support***

- Six files where orders to locate parents were issued untimely.
- Three files with a lack of enforcement of support obligations including wage garnishment.

***Medicaid***

- Three files where redetermination of eligibility was untimely.
- Three files had no verification of participant social security numbers.

***Food Stamps***

- Six files where benefits were calculated incorrectly based on data in the file.

***TANF***

- Four case files where participant income wasn't verified for periods required.

Material instances of noncompliance are reported to the Federal awarding agency. It is the responsibility of the Federal awarding agency to issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action. The Auditor-Controller's Office has not been consistently informed by departments of communications with grantor agencies concerning audit findings. It is imperative that the Auditor-Controller be included in communications on the subject of audits contemporaneously and on an ongoing basis.

It is possible that the disallowed amounts could be recovered by the grantor agency. Federal financial exposure could be as high as \$1M (Foster Care \$500K, TANF \$500K) for the major programs audited.

In order to become a low-risk auditee, management must ensure that proper controls are put into place to eliminate the findings that continue to affect the grant recipient departments. Until such time as adequate controls are implemented by the grantee departments, the County is unable to achieve its performance measure of receiving an unqualified opinion.

**Performance Measure:**

Receive an unqualified opinion on the Federal Single Audit report.

**Fiscal and Facilities Impacts:**

Budgeted: Yes

**Fiscal Analysis:**

For FY 08-09, 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, in order to reduce the contract cost to the County.

**Staffing Impacts:**

None

**Special Instructions:**

None

**Attachments:**

County of Santa Barbara Single Audit Report for the fiscal year ended June 30, 2008.

**Authored by:**

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**cc:** Michael F. Brown, County Executive Officer  
Kathleen Gallagher, Director, Department of Social Services  
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Patricia Stewart, Chief Probation Officer, Probation