



Mary B. Bedard, CPA
Auditor-Controller-County Clerk

KERN COUNTY AUDITOR-CONTROLLER-COUNTY CLERK

1115 Truxtun Avenue, 1st and 2nd Floor • Bakersfield, CA 93301-4639

March 26, 2019

Board of Supervisors
Kern County Administrative Center
1115 Truxtun Avenue
Bakersfield, CA 93301

**AUDIT OF COUNTYWIDE SUBRECIPIENT MONITORING
AS OF FEBRUARY 1, 2019
Fiscal Impact: None**

We are filing the internal audit division's report of compliance and internal controls of the Countywide Subrecipient Monitoring as of February 1, 2019. A copy of our report, including findings and recommendations and suggested improvements, is attached. The following is a summary of our audit:

Findings and Recommendations: None
Suggested Improvements: Six

The internal audit division concluded that management of the Departments has satisfactorily established and maintained an effective process for governance, risk and internal control in the areas examined.

Therefore, IT IS RECOMMENDED that your Board receive and file this report.

Sincerely,

A handwritten signature in cursive script that reads "Mary B. Bedard".

Mary B. Bedard, CPA
Auditor-Controller-County Clerk

MBB/taj/acv/esm/lcp/mac/rls

Attachment

cc: County Administrative Office
Aging and Adult Services, Behavioral Health and Recovery Services,
Department of Human Services, Employee Training Resource,
Planning & Natural Resources, Public Health



**COUNTYWIDE SUBRECIPIENT MONITORING
COUNTY OF KERN
REPORT OF COMPLIANCE AND
INTERNAL CONTROLS**

**FOR FISCAL YEARS ENDED
AS OF FEBRUARY 1, 2019**

**Mary B. Bedard
Auditor-Controller-County Clerk**

**COUNTYWIDE SUBRECIPIENT MONITORING
COUNTY OF KERN
TABLE OF CONTENTS
AS OF FEBRUARY 1, 2019**

	Page
Auditor's Report	1
Findings, Recommendations, Suggested Improvements and Observations.....	5



AUDITOR'S REPORT

Board of Supervisors
County of Kern

Our internal audit division recently completed a Compliance and Internal Control audit of the subrecipient monitoring of Aging and Adult Services, Behavioral Health and Recovery Services, Human Services, Employer's Training Resource, Planning and Natural Resources and Public Health as of February 1, 2019. This internal audit assignment was conducted in accordance with the approved internal audit plan.

Purpose

Billions of dollars in Federal grant money is awarded to state and local governments annually for programs and projects to benefit the public. To facilitate compliance and prevent possible misuse of Federal funding, Congress passed The Federal Grant and Cooperative Agreement Act in 1977 to aid governmental agencies in its use of funds by outlining the roles and specifications of contracts, cooperative agreements and grants.

As time passed, the Federal regulations expanded and multiple sets of Federal regulations for the different types of recipient entities emerged. In an effort to be more efficient and transparent, the Office of Management and Budget (OMB) guidance was incorporated into the comprehensive codified guidance for Federal award recipients known as the Code of Federal Regulations (CFR). Presently, the instructions have been revised to what has become known as 2 CFR Part 200, *The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The Code has also provided more guidance on how subrecipients are defined and what the Federal requirements are for both pass-through entities and their respective subrecipients. As a result, subrecipient monitoring became a requirement for local governments to ensure Federal funding is spent for its intended purposes.

The purpose of our audit was to determine Departmental compliance with County Policies and Procedures, and to evaluate the adequacy, efficiency and effectiveness of Departmental governance principles, risk management and internal controls related to their respective federal requirements over subrecipient monitoring.

Scope

The Scope of our audit was to observe and evaluate the subrecipient determination and monitoring procedures of Aging and Adult Services, Behavioral Health and Recovery Services, Human Services, Employer's Training Resource, Planning and Natural Resources and Public Health as of February 1, 2019.

Methodology

We conducted our audit in conformance with the Institute of Internal Auditors (IIA) International Standards of the Professional Practice of Internal Auditing, unless otherwise stated in this report. These standards require that the internal audit activity be independent and internal auditors be objective in performing their work. The Standards also require that internal auditors perform their engagements with proficiency and due professional care; that the internal audit function be subject to a program of quality assurance; and that the results of engagements are communicated.

Audit work was conducted on the basis of questionnaire, inquiry, observation, confirmation and verification of supporting documentation and identified processes.

Quick and efficient implementation of audit recommendations and suggestions further enhances the value of an audit. To assist in this process, the internal audit division has identified four core categories for the classification of recommendations and suggestions:

- 1) Compliance - Functioning in accordance with governing laws, regulations, policies and other authoritative guidance.
- 2) Cost Reduction - Appropriately minimizing costs of County operations.
- 3) Efficiency - Performing effectively without duplication of effort or waste of time, material or money on unnecessary activities.
- 4) Risk Reduction - Appropriately using techniques which mitigate or minimize operational or control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of controls, errors or irregularities may nevertheless occur and not be detected. Specific examples include, but are not limited to, resource constraints, carelessness, distraction, management override, poor judgment, and circumvention by collusion. Also, there is the possibility that the procedures may become inadequate due to changes in conditions, and compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.

Management Responsibilities in Terms of Governance, Risk and Controls

Management is responsible for the establishment and maintenance of effective systems of governance to:

- Promote appropriate ethics and values within the department.
- Ensure effective organizational performance, management and accountability.
- Communicate risk and control information to appropriate areas in the department.

In addition, management is responsible for the establishment and maintenance of an effective system of internal control and risk management. The objectives of the system of internal control are to provide management with reasonable, but not absolute, assurance that:

- Objectives are achieved.
- Financial and operational information are reliable.

- Operations and programs are effective and efficient.
- Assets are safeguarded.
- Laws, regulations, policies, procedures and contracts are complied with.
- Risks are identified, appropriate risk responses selected, communicated and managed.

The principal safeguard against fraud, misstatement and irregularities is an effective system of internal control. However, because of the limitations in any system of internal control, the prevention and detection of fraud is management's responsibility. Management is also responsible for implementing corrective actions to address process and control deficiencies.

Department Background

Aging and Adult Services

The Aging and Adult Services Department has approximately eight subrecipients, some of which have multiple contracts with the Department. The majority of these subrecipients assist the Department with tasks such as caregiver support, homemaker and nutrition services.

Behavioral Health and Recovery Services

The Behavioral Health and Recovery Services Department has several subrecipients with multiple contracts which assist the Department in providing a variety of services including narcotic treatment, crisis intervention, child and adult care.

Human Services

The Department of Human Services has approximately forty-four subrecipients. The majority of these are foster-care facilities for which the Department is required to perform subrecipient monitoring by the State.

Employer's Training Resource

Employer's Training Resource has approximately twelve subrecipients, the majority of which are for youth programs.

Planning and Natural Resources

The Planning and Natural Resources Department has approximately forty subrecipients for a variety of programs, which assist the Department in development of the unincorporated areas of the County, building multi-family units for low-income residents and aids in providing shelter to residents experiencing an immediate crisis.

Public Health

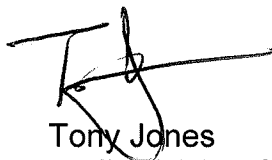
The Public Health Department has approximately seven subrecipients rendering various services pertaining to nutrition education and obesity prevention program, housing opportunities through rental and utility assistance and case management services for persons with Acquired Immune Deficiency Syndrome (AIDS).

Summary

This report records the results of our internal audit findings and recommendations, looking at possible ways in which controls and operations could be improved to overcome identified weaknesses in control and increase the adequacy, efficiency and effectiveness of controls based on the risk identified.

The matters raised in this report are only those which have come to our attention arising from our audit that we believe should be brought to the attention of your Board. The internal audit division concluded that management of the Aging and Adult Services, Behavioral Health and Recovery Services, Human Services, Employer's Training Resource, Planning and Natural Resources and Public Health Departments have satisfactorily established and maintained an effective process for governance, risk and internal control in the areas examined.

This report is intended for the information and use of management, others within the Department, and the Board of Supervisors. However, this report is a matter of public record and its distribution is not limited.



Tony Jones
Audit Division Chief
February 6, 2019

**COUNTYWIDE SUBRECIPIENT MONITORING
COUNTY OF KERN
FINDINGS, RECOMMENDATIONS,
SUGGESTED IMPROVEMENTS AND OBSERVATIONS
AS OF FEBRUARY 1, 2019**

Aging and Adult Services

On Thursday, January 24, 2019, we reviewed the Department of Aging and Adult Service's process for monitoring its subrecipients and selected a sample to test for existence and compliance with federal regulations. We did not note any issues regarding the Department's subrecipient monitoring process; however, there were some reporting issues identified at the time of the audit and therefore we have provided suggestions to the Department noted in the Suggested Improvements section of this report. The Internal Audit Division will monitor the Department's Progress. We also noted some areas where the Department has done exceptionally well in their monitoring process and have noted this in the observation section of this report.

Behavioral Health and Recovery Services

On Tuesday, January 22, 2019, we reviewed the Behavioral Health and Recovery Services Department's process for monitoring its subrecipients and selected a sample to test for existence and compliance with federal regulations. We noted some areas where improvement could be made and therefore have provided suggestions to the Department noted in the Suggested Improvements section of this report. We also noted some areas where the Department has done exceptionally well in their monitoring process and have noted this in the observation section of this report.

Employer's Training Resource

On Tuesday, January 15, 2019, we reviewed the Employer's Training Resource Department's process for monitoring its subrecipients and selected a sample to test for existence and compliance with federal regulations. We noted some areas where the Department has done exceptionally well in their monitoring process and have noted this in the observation section of this report.

Human Services

On Monday, January 14, 2019, we reviewed the Department of Human Service's process for monitoring its subrecipients and selected a sample to test for existence and compliance with federal regulations. We noted an area where improvement could be made and therefore, have provided a suggestion to the Department noted in the Suggested Improvements section of this report. We also noted some areas where the Department has done exceptionally well in their monitoring process and have noted this in the observation section of this report.

Planning and Natural Resources

On Wednesday, January 23, 2019, we reviewed the Planning and Natural Resource Department's process for monitoring its subrecipients and selected a sample to test for existence and compliance with federal regulations. We noted some areas where improvement could be made and therefore have provided suggestions to the Department

noted in the Suggested Improvements section of this report. We also noted some areas where the Department has done exceptionally well in their monitoring process and have noted this in the observation section of this report.

Public Health

On Friday, January 25, 2019, we reviewed the Public Health Department's process for monitoring its subrecipients and selected a sample to test for existence and compliance with federal regulations. The Department regularly performs yearly fiscal monitoring and review of contracts, including site visits to determine that sound accounting practices, personnel policies and practices are implemented in the contracts with its subrecipients. We noted some areas where the Department has done exceptionally well in their monitoring process and have noted this in the observation section of this report.

Findings and Recommendations:

Findings are issues which present a serious enough risk to require consideration by management and a written Department response. During our fieldwork we identified no findings.

Suggested Improvements:

Suggestions for improvement are for issues that the auditor considers not to be of an immediate serious nature and/or for issues which the Department is able to correct at the time of the audit. Unlike formal audit findings, written Departmental responses are not required for these issues. During fieldwork we identified some areas where improvements could be made, and we provided the Department with suggestions for making these improvements. Our suggestions are detailed in the Suggested Improvements section below:

1. Aging and Adult Services Department – Subrecipient Expenditure Reporting

During fieldwork of the Department's subrecipient monitoring audit, it was noted that the subrecipient expenditures have not been included on the Federal Assistance Confirmation, causing the expenditures to not be properly reported on the Schedule of Expenditures and Federal Awards (SEFA).

We suggest the Department properly report the subrecipient expenditures every year as required by federal regulations.

Value Added: *Compliance*

2. Department of Human Services – Onsite Visits

During review of the Department's subrecipient monitoring process, we noted their risk assessment tends to put most of the subrecipients in the medium-risk tier. Therefore, little to no on-site monitoring is considered necessary by the Department, even though some recipients have multiple findings on their audit reports and some recipients are not responsive at all.

We suggest the Department strengthen both its risk assessment and monitoring process to include on-site visits for the providers that have a higher risk of non-compliance to ensure subaward funding is in accordance with its intended goals.

Value Added: *Risk Reduction, Compliance*

3. Behavioral Health and Recovery Services – Subrecipient Determination

During review of the Department’s subrecipient monitoring process, we noted that the process for determination of a subrecipient versus a subcontractor is not well documented. The contracts division can determine a subrecipient through experience; however, they do not document how or why they are considered a subrecipient.

We suggest the Department create a formal determination procedure to enable staff to properly and consistently distinguish between a subrecipient and subcontractor.

Value Added: *Risk Reduction, Compliance*

4. Behavioral Health and Recovery Services – Risk Assessment

During review of the Department’s subrecipient risk-assessment process, we noted that even though the Department thoroughly monitors its subcontractors and subrecipients, they only have a documented risk-assessment for Substance Abuse Prevention and Treatment (SAPT) subrecipients.

We suggest the Department either start documenting the risk assessment of each subrecipient or document the Department’s policy that all subrecipients are automatically high risk.

Value Added: *Risk Reduction, Compliance*

5. Department of Planning and Natural Resources – Subrecipient Determination

During review of the Department’s subrecipient monitoring process, we noted that the process for determining between a subrecipient and a subcontractor is not well documented. Subrecipients are currently determined through experience and an application process.

We suggest the Department create a formal determination procedure to enable staff to properly and consistently distinguish between a subrecipient and subcontractor.

Value Added: *Risk Reduction, Compliance*

6. Department of Planning and Natural Resources – Risk Assessment

During review of the Department’s subrecipient risk-assessment process, we noted that even though the Department thoroughly monitors its subcontractors and subrecipients as high-risk, the risk-assessment was not formally documented as the standard procedure.

We suggest the Department either start documenting the risk assessment of each subrecipient or document the Department's policy that all subrecipients are automatically high risk.

Value Added: *Risk Reduction, Compliance*

Observations:

Observations are significant details that the auditor notices while in performance of the audit that may be important to the reader. They can be positive in nature, commending the Department for taking initiative. They could also be negative in nature; however, if negative, they are not considered to be as significant as suggested improvements and written Departmental responses are not required. During fieldwork we identified some areas where the Departments should be commended. Our observations are detailed in the Observation section below:

Aging and Adult Services

The Aging and Adult Services Department obtains contractual agreements with entities providing services. Adherence to the California Department of Aging (CDA) guidelines require that all contracted entities are deemed to be subrecipients once engaged. While CDA guidelines detail the eligibility of participants and corresponding sources of funding per program, the Department is proficient and proactive in its compliance with any and all changes to Federal guidelines.

Once subrecipients are contracted, the Aging and Adult Services Department performs a litany of monitoring activities to ensure the appropriate use of funding for each program. Each program is subject to a fiscal monitoring exercise annually, alternating between both an on-site and desk audit while most program monitoring is conducted via an on-site audit every other year, unless more frequent monitoring is required by the Federal agency.

Regarding risk assessment(s), the Department performs a qualitative risk assessment during its fiscal audit process to determine the depth of any necessary additional monitoring procedures. The Department is assertive in monitoring subrecipient activities to ensure each program appropriately fulfills its intended purpose.

In the event a program is deemed substandard, the Department gives appropriate notice to the subrecipient(s) for remediation, as well as offers appropriate training, as necessary. Staff performs their duties with due care as evidenced by its willingness to aid providers in filling out all required paperwork. In the rare event of complete noncompliance and/or continuous lack of quality, the Department will cease to use the subrecipient. Overall, Aging and Adult Services is dedicated to carrying out each program to the highest level of quality possible demonstrating both due care and professionalism.

Behavioral Health and Recovery Services

The Department monitors their contracts and subrecipients with the utmost diligence; however, they believed their current methods could still be improved. As a result, they founded their own Contracts Division to manage both contracts and subrecipients. Even

though this greatly increased their productivity, BHRS found that they can still increase their efficiency by developing their own live contract monitoring program which allows authorized users to review and manage contracts, including subrecipients. The system automatically notifies users if a contract requires attention (i.e. missing documents, expiring insurance, etc.). The Department's management and controls of both contracts and the subrecipients go above and beyond what is required.

Employer's Training Resource

Employer's Training Resource (ETR) has one of the most detailed and well-written subrecipient and contract plans in the County. All contracts must go under scrutiny by a team of employees. Each determines if it is a subrecipient or a subcontractor and assigns them a score. The score determines the risk and if they met specific subrecipient criteria. ETR provides written examples and explanations to ease the rating process. Once completed, the managers put together a spreadsheet with the average rating of the reviewers. Further evaluation is done to verify the award amount that the subrecipient will receive. Each step of the process must be signed and dated. This ensures verification of each procedure completed, that subrecipients fulfill the program requirements of their agreement and to check compliance with Workforce Innovation and Opportunity Act (WIOA) rules and regulations.

Human Services

This Department has a difficult task as the State of California requires the Department of Human Services to perform subrecipient monitoring of the foster-family providers, even though the County does not pay them, or have contact within the organizations. The foster-family providers are paid directly from the State. The Department has had a difficult time contacting some of the more reluctant foster-family providers; however, they proactively seek to obtain the required information from the providers and document their process well. Per review of its monitoring process, we noted that the Department has a documented subrecipient policy. The policy outlines the complete process of monitoring subrecipients, from identifying subrecipients to acting against non-compliant subrecipients. The Department properly documents their determination of subrecipient versus a subcontractor and performs a risk-assessment for each subrecipient identified. The Department's formal documentation of its subrecipient monitoring policy is above expectation.

Planning and Natural Resources

The Planning and Natural Resources Department selects its subrecipients via a rigorous application process. The application details the source(s) of funding, purpose of the grant, and corresponding guidelines. The Department is actively involved with all subrecipients through thorough fiscal monitoring upon receipt of invoices and back-up documentation, as well as on-site monitoring from the start to the completion of construction and housing projects. Additionally, the Department assists subrecipients with any questions or concerns and has staff available to help train subrecipients as necessary. While some grants require monitoring after completion, a portion require indefinite monitoring. Although required, the proactive monitoring performed by the department demonstrates both quality and commitment in its monitoring responsibilities.

Public Health

The Department has a complete and detailed system setup to identify and monitor its subrecipients. The Department completes a subrecipient determination checklist, which elicits various criteria, such as: decision-making authority, nature of the award, award risk, and the entity's business environment. At the end of the checklist, the Department is able to make an overall determination of the relationship with the entity receiving funds whether a subrecipient or contractor.

The Department regularly performs yearly fiscal monitoring and review of contracts with its subrecipients. The purpose of fiscal monitoring is to determine whether a contractor is following sound accounting practices, regulatory requirements, and its own established procedures in recording and documenting financial transactions. On-site visits emphasize the accounting practices for program activities. Other items being reviewed are the subrecipient's personnel policies and practices, and confidentiality practices as they pertain to the contracts.

The Department's processes involve the preparation of a monitoring procedures guide and a financial accounting and internal controls questionnaire which is required to be answered by the subrecipient. We conclude that based on the procedures and documentation obtained from the Department, the fiscal and on-site monitoring of subrecipients is deemed to be one of the most complete and well-thought out processes.