



October 8, 2008

Mr. David Maxwell-Jolly, Director
California Department of Child Support Services
P.O. Box 419064
Rancho Cordova, CA 95741-9064

Dear Mr. Maxwell-Jolly:

Final Report—Agreed-Upon Procedures, Santa Clara County Department of Child Support Services

Enclosed is the Department of Finance, Office of State Audits and Evaluations' (Finance), report on the Agreed-Upon Procedures Engagement of the Santa Clara County Department of Child Support Services' (County) fiscal year 2005-06 Local Child Support Agency Administrative Expense Claim Schedules and Certifications. This engagement was performed under an interagency agreement between the California Department of Child Support Services (Department) and Finance.

The *Findings* section of this report provides instances of the County's non-compliance with applicable federal and state codes and regulations. The findings pertain to internal control deficiencies and fiscal non-compliance. Recommendations, if any, will be provided by the Department to the County.

We appreciate the County's assistance and cooperation with our evaluation. If you have any questions regarding this report, please contact Susan M. Botkin, Manager, or Robert L. Scott, Supervisor, at (916) 322-2985.

Sincerely,

Original Signed by:

David Botelho, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Ralph Miller, Director, Santa Clara County, Department of Child Support Services
Ms. Mary Clasi, Fiscal Officer, Santa Clara County, Department of Child Support Services
Ms. Mary Ann Miller, Deputy Director, Office of Executive Programs, California Department of Child Support Services
Ms. Linda Adams, Chief, Financial Planning Branch, California Department of Child Support Services
Ms. Barbara Owens, Manager, Office of Audits and Compliance Branch, California Department of Child Support Services

AGREED-UPON PROCEDURES

Santa Clara County
Department of Child Support Services
Child Support Enforcement Program
Fiscal Year 2005-06 Certifications

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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INDEPENDENT ACCOUNTANT'S REPORT ON AGREED-UPON PROCEDURES

Mr. David Maxwell-Jolly, Director
California Department of Child Support Services
P.O. Box 419064
Rancho Cordova, CA 95741-9064

The Department of Finance, Office of State Audits and Evaluations (Finance), performed the procedures enumerated below which were agreed to by the California Department of Child Support Services (Department). The procedures were to evaluate the Santa Clara County Department of Child Support Services' (County) fiscal year 2005-06 Local Child Support Agency Administrative Expense Claim Schedules and Certifications (CS 356). Finance also evaluated whether the certifications were prepared in accordance with applicable federal and state codes and regulations.

This agreed-upon procedures engagement was conducted in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States and pursuant to *Standards for Attestation Engagements* issued by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, Finance makes no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures Performed and Summary Results of Those Procedures

Allowable Costs

From the sample selected, determine whether amounts reported on the CS 356 were allowable costs under: (a) Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for Catalog of Federal Domestic Assistance Number 93.563, (b) OMB Circular A-87, and (c) other applicable federal and state codes and regulations. A sample of claimed expenses was selected for each of the following CS 356 line item categories: (A) personnel services expenses, (B) operating and total direct services contract expenses, (C) electronic data processing (EDP) expenses, (D) laboratory expenses, (E) abatements, and (F) health insurance and performance incentive expenses.

A. Personnel services expenses

- A sample of 11 staff (4 percent) was selected from one bi-weekly pay period in 2005-06 to evaluate personnel services expenses. This sample included EDP staff, non-EDP staff, and staff dedicated to the California Child Support Automation System conversion.

- Total personnel expenditures reported on the CS 356 were traced to the general ledger, payroll registers, timesheets, and Memorandum of Understanding.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations.

B. Operating and total direct services contract expenses

- A sample of \$5,566,613 (66 percent) out of \$8,493,111 of total claimed operating and direct service contract expenses were selected for evaluation. The sample included space, utilities, janitorial services, and payments to vendors and other County departments.
- Transactions were traced to invoices, agreements, vendor activity reports, and other pertinent documents to determine if the expenditures were program related, properly supported, and paid during the certification period.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations except for the following reportable item:

- The County expended \$1.29 million on capital leasehold improvements without prior approval as required by federal regulations.
- The County did not charge the capital leasehold improvement expenditures in the period incurred as required by federal regulations.

See Finding 1 in the *Findings* section of this report.

C. Electronic Data Processing (EDP) expenses

- A sample of 66 percent of non-staff EDP expenditures was selected for evaluation.
- Transactions were traced to invoices, and other pertinent documents to determine whether the expenditures were program related, supported, and paid during the certification period.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations.

D. Laboratory expenses

- A sample of \$16,079 (28 percent) out of \$57,352 of total laboratory expenditures claimed was selected for evaluation.
- Laboratory expenditures were traced and agreed to invoices and vendor activity reports to determine if the expenditures were program related, supported, and paid during the certification period.

The expenditures selected for evaluation complied with applicable federal and state codes and regulations.

E. Abatements

With the exception of the federal and state allocation advances and the operating transfers in, all other interest and program income is required to be abated and reported as such on the CS 356. The following procedures were performed to determine whether interest and program income were properly abated:

- All interest and program income were identified.

- A sample of each type of revenue was examined to determine whether the correct amounts were reported as abatements on the CS 356.
- The methodology of the allocation of interest was reviewed.

Interest Income

Interest Income is earned on current operating fund advances and Child Support Trust Fund balances. The County invests idle fund cash balances in a secured, diversified portfolio. Interest is computed based on an average daily cash balance and is distributed to participating funds on a quarterly basis. The completion of the above procedures provided the following information:

- Interest income is apportioned twice quarterly to the County.
- Interest income was abated on the CS 356 as required by federal and state codes and regulations.

Other Program income

Other Program income includes undistributable collections, outlawed warrants, laboratory fees collected, sub-lease payments, and other miscellaneous revenue.

Program income selected for evaluation complied with applicable federal and state codes and regulations.

F. Health Insurance and Performance Incentives

Health Insurance and Performance Incentive expenses were not claimed on the CS 356 for fiscal year 2005-06. Therefore, this procedure was not applied.

G. Excess Funds

The County child support services fund balances were identified and reviewed. The County has reconciling procedures in place to account for actual costs claimed on the CS 356 to funds that were advanced.

The County's child support services program administrative fund balance complied with applicable federal and state codes and regulations.

H. Internal Control

A limited review of the County's internal control over the CS 356 claim process was performed. Based on assessments performed during fieldwork, the following areas were reviewed in detail: CS 356 reporting procedures, interest income apportionment, personnel and payroll, contract monitoring, fixed assets, and fund balance.

To understand the internal control of the County the following procedures were performed:

- Inquiries of County staff were conducted to determine the procedures related to the CS 356 reporting, interest income apportionment, personnel, and contract monitoring.
- The single audits and internal audit reports for fiscal years 2004-05 and 2005-06 were reviewed to determine whether internal control weaknesses were identified by other auditors.
- Interest apportionment computations were recalculated to verify accuracy.
- Equipment listings were analyzed to assess completeness and accuracy.

- Fund balances were analyzed to determine whether the balances appeared excessive.

The results of the procedures performed identified the following internal control deficiencies:

CS 356 reporting procedures:

- There are no written procedures for preparation of the CS 356, creating a control absence.
- The bridging documents used for preparing the CS 356 did not reference the accounting and supporting documentation relied upon for producing the reports.

See Finding 2 in the *Findings* section of this report.

Interest income

- The County does not adequately monitor the administrative costs charged to the pooled investment proceeds.

See Finding 2 in the *Findings* section of this report.

Personnel and payroll expenditures

- The Administrative Services Manager's responsibility to monitor, review, and approve personnel related expenditures is incompatible with her responsibility to serve as a back-up person to key Personnel Action Requests into the Santa Clara County personnel database. This incompatible duty is considered a material weakness to reporting EDP and Non-EDP Personnel Services Expenses.

See Finding 2 in the *Findings* section of this report.

Contract expenditure monitoring

- The County does not monitor the legal process service contract and the Information Systems Department (ISD) contract payments.
- The County does not monitor common area maintenance charges.

See Finding 2 in the *Findings* section of this report.

Fixed assets

- Two network servers purchased in April 2006 at \$8,325 each were not included in the August 2006 County-wide Annual Inventory Certification.

See Finding 2 in the *Findings* section of this report.

Fund balance

- The County does not use a year-end or other periodic accounting system-generated report to tally program administrative revenues, expenditures, and changes to fund balance.

See Finding 2 in the *Findings* section of this report.

Finance was not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion. Accordingly, we do not express such an opinion. Had additional procedures been performed, other matters might have come to our attention that would have

been reported to the Department. Any recommendations will be provided to the County by the Department.

This report is intended solely for the information and use of the Department and the County, and is not intended to be and should not be used by anyone other than the specified parties. To the extent claimed by the County and allowed by law, confidential or proprietary information provided to the auditors will not be released to the public. However, this report is a matter of public record and its distribution is not limited.

Original Signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations
(916) 322-2985

August 5, 2008

The agreed-upon procedures performed disclosed the following reportable items. Any recommendations will be provided to the Santa Clara County Department of Child Support Services (County) by the California Department of Child Support Services (Department).

FINDING 1 The County Made Capital Expenditures without Approval

Condition: The County expended \$1.29 million of grant funding on building modifications without providing the Department an opportunity to review and approve the capital expenditures as required by federal regulations. In addition, the County did not charge the expense in the period in which it was incurred as required by federal regulations. Therefore, the expenditures are not allowed.

Fiscal Year	Interest	Principal	Total
2002/03	\$44,065	\$27,135	\$ 71,200
2003/04	94,336	65,543	159,879
2004/05	87,476	72,407	159,883
2005/06	73,543	827,942	<u>901,485</u>
Totals			<u>\$1,292,447</u>

The \$1.29 million expended on unapproved capital expenditures represents grant funding diverted from direct child support enforcement activities and a disregard of federal and state funding priorities.

Criteria: OMB Circular A-87, Attachment B, Section 15.b (3) and (4) states that Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency. In addition, capital expenditures will be charged in the period in which the expenditure is incurred.

FINDING 2 Internal Control Weaknesses

Condition: The procedures completed identified the following internal control weakness:

Inadequate Contract Monitoring—The County does not adequately monitor contracts or review operating expenditures. This increases the risk of overcharges and expenditure reporting errors.

- Legal process service fees and Information Systems Department invoices are paid without verifying the contract rate for services rendered.
- The County did not review common area maintenance charges of \$32,086 for the year for accuracy and validity.
- The County did not verify the accuracy of the administrative charges deducted from the pooled investment fund.

No written CS 356 report preparation procedures—The County does not have written procedures for the preparation of the CS 356, and the worksheets do not reference source accounting system documents used to populate the schedules. This puts the County at risk for reporting errors when the key person is reassigned or leaves county employment.

A Lack of Segregation of Duties—A key management person has full access capability to the County's Personnel & Payroll System while simultaneously having incompatible monitoring responsibilities. This increases the risk and opportunity for illegal or fraudulent acts.

Inadequate fixed assets tracking procedures—Two network servers purchased in April 2006 at \$8,325 each were not included in the County-wide August 2006 Annual Inventory Certification.

No accounting system generated Fund Condition Statement available for maintaining grant fund accountability—The County does not make use of a fund condition statement, either manual or system generated, which reflects the status of beginning and ending fund balances.

The above internal control deficiencies increases the risk that the County will not be able to (1) make efficient use of grant funding, (2) report reliable financial information to the Department, or (3) comply with federal and state code and regulations.

Criteria:

Code of Federal Regulations (CFR) Part 45, Section 92.40 (a), states that Grantees are responsible for managing the day-to-day operations of grant and sub grant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

OMB Circular A-21 states that no costs shall be allocated as direct costs if they have been included in facilities and administrative cost pools.

Local Child Support Agency Letter 02-36 states that child support funds are all monies received by local child support agencies to administer the child support program, and must be deposited into interest-bearing accounts. All interest earned on Child Support Enforcement program funds must be reported on the CS 356 as abatement.

OMB Circular A-133 Compliance Supplement, Part 6, Internal Controls states that control activities are the policies and procedures that help

ensure that management's directives are carried out. This includes operating policies and procedures that are clearly written and communicated.

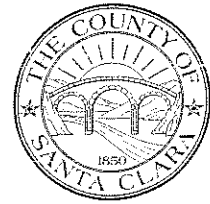
CFR Title 45, Section 92.20 requires fiscal controls and accounting procedures sufficient to permit the tracing of funds. In addition, the Department of Child Support Services Plan of Cooperation, Section IV Fiscal Administration, Subsection Accounting and Record Keeping #2 states that the Local Agency shall maintain accounting and fiscal record keeping systems sufficient to ensure that claims for available funds are submitted in accordance with applicable State and federal requirements.

The Santa Clara County's Fixed Assets Policies and Procedures states that all fixed assets over \$5,000 are to be capitalized and reported to the County through the Annual Inventory Certification.

Department of Child Support Services (DCSS) Plan of Cooperation, Section IV, Fiscal Administration (1) states that the County shall maintain accounting standards and systems consistent with uniform accounting procedures prescribed by federal and state requirements.

COUNTY'S RESPONSE

County of Santa Clara
Department of Child Support Services



2851 Junction Avenue
San Jose, California 95134
Main Line 408-503-5200; FAX 408-503-5252
TTY 408-503-5230; Toll Free 1-888-687-7500
Ralph E. Miller, Director

September 18, 2008

David Botelho, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA 95814

RE: Response to Findings; Agreed-Upon Procedures Engagement of the Santa Clara County Department of Child Support Services' (County) fiscal year 2005-06 Local Child Support Agency Administrative Expense Claim Schedules and Certifications.

Dear Mr. Boelho,

Santa Clara County Department of Child Support Services' response to the findings presented in report dated 8/21/2008 is provided:

FINDING 1: The County Made Capital Expenditures without Approval

Finding:

The County expended \$1.29 million of grant funding on building modifications without providing the Department an opportunity to review and approve the capital expenditures as required by federal regulations. In addition, the County did not charge the expense in the period in which it was incurred as required by federal regulations. Therefore, the expenditures are not allowed.

Response:

Santa Clara County DCSS will not provide a response to this finding in this document to the Department of Finance. This finding will be discussed directly with the State Department of Child Support Services.

FINDING 2: Internal Control Weaknesses

Finding:

Legal process service fees and Information Systems Department invoices are paid without verifying the contract rate for services rendered.

Response:

Legal Process Service Fees -
Santa Clara DCSS has implemented procedures to verify contract rates for services rendered.

Information Systems Department invoices -

Santa Clara DCSS verified contract rates for services rendered. The prior IT manager unexpectedly retired and his documentation could not be located. Procedures have been implemented to ensure the documentation of this verification is retained and accessible.

Finding:

The County did not review common area maintenance charges of \$32,086 for the year for accuracy and validity.

Response:

The \$32,086 of common area maintenance (CAM) and property taxes charged to DCSS in FY2005/2006 was based on estimates rather than actual expenditures. The validation of the actual expenditures did not occur until the following fiscal year when the property management company provided the final reports.

Processes have been implemented by the County Facilities and Fleet Department to regularly monitor and request back-up documentation for all CAM charges. Santa Clara DCSS will also monitor Facilities and Fleet's documentation of charges.

Finding:

The County did not verify the accuracy of the administrative charges deducted from the pooled investment fund.

Response:

The County Auditor Controllers' Office confirmed that an error was made in the calculation of administrative charges to Santa Clara DCSS which resulted in too much interest being paid to DCSS in fiscal year 2005/2006. Processes have been implemented to ensure this does not occur in the future.

Finding:

No written CS 356 report preparation procedures—The County does not have written procedures for the preparation of the CS 356, and the worksheet does not reference source accounting system documents used to populate the schedules. This puts the County at risk for reporting errors when the key person is reassigned or leaves county employment

Response:

Santa Clara DCSS agrees to develop written procedures for the preparation of the CS356.

Although the Excel worksheet used by Santa Clara DCSS does not reference the specific source accounting report used to prepare the worksheet, the CS356 department file includes a copy of the report used which provides the report number. All other supporting documentation used to prepare the worksheet and the CS356 is located in the department file.

Santa Clara DCSS has three staff trained to prepare the CS 356 therefore the risk for report error when the key person is reassigned or leaves county employment is minimized.

Finding:

A Lack of Segregation of Duties—A key management person has full access capability to the County's Personnel & Payroll System while simultaneously having incompatible monitoring responsibilities. This increases the risk and opportunity for illegal or fraudulent acts.

Response:

The County limits the number and type of staff that access the County Personnel system. Santa Clara DCSS only has one staff person allowed access plus her manager. No other staff can be granted access because the type of staff allowed access must be a confidential employee and DCSS

has only employee in this category. The County will not grant access for other department's to access each other's Personnel data so the only option at this time is to grant access to the manager.

Finding:

Inadequate fixed assets tracking procedures—Two network servers purchased in April 2006 at \$8,325 each were not included in the County-wide August 2006 Annual Inventory Certification.

Response:

Santa Clara agrees that it did not track the two network servers in the County-wide fixed asset system however both servers were tracked in the department's inventory system. In addition to the County system, Santa Clara DCSS tags and tracks fixed assets in its internal system. It was confirmed and proof provided to the DOF auditors that the servers were tagged and tracked.

Processes have been developed to ensure fixed assets are properly recorded in the County system in addition to the department system.

Finding:

No accounting system generated Fund Condition Statement available for maintaining grant fund accountability—The County does not make use of a fund condition statement, either manual or system generated, which reflects the status of beginning and ending fund balances.

Response:

A manual system to track Fund Condition was provided to the auditors. The Santa Clara County DCSS was told by the DOF auditor that a "system" generated statement is lacking.

Mr. Robert L. Scott, DOF Auditor/Evaluation Supervisor, referred to a report used by Santa Cruz County DCSS as an excellent example of the type of report that should be obtained for maintaining fund accountability. Mary K. Clesi contacted Keith Johnson, Administrative Services Manager, at Santa Cruz DCSS to obtain a copy of their report. The intent was to use the Santa Cruz report to design a similar report in the Santa Clara County financial system. Mr. Johnson was unable to determine which report Mr. Scott referred to so he contacted him for more information. Mr. Johnson reported that he did not receive a return phone call from Mr. Scott therefore Santa Clara DCSS has been unable to develop a "system" report that would meet the DOF Auditor's finding. Santa Clara DCSS will continue to work with the DOF Auditors to secure the report sample for future use.

Sincerely,

Original signed by:

Ralph E. Miller, Director
Department of Child Support Services

- c: Mary K. Clesi, Departmental Fiscal Officer, Santa Clara County, Department of Child Support Services
Idell Hunter, Administrative Services Manager, Santa Clara County Department of Child Support Services
Leshia Luu, Manager, Santa Clara County, Finance Agency
Vinod Sharma, Controller Treasurer, Santa Clara County, Finance Agency
Robert L. Scott, Auditor/Evaluation Supervisor, Office of State Audits and Evaluations, Department of Finance

Linda Adams, Chief, Financial Planning Branch, California Department of Child Support Services
Mary Ann Miller, Deputy Director, Office of Executive Programs, California Department of
Child Support Services
Barbara Owens, Manager, Office of Audits and Compliance Branch, California
Department of Child Support Services

EVALUATION OF RESPONSE

The Department of Finance, Office of State Audits and Evaluations (Finance), reviewed the Santa Clara County Department of Child Support Services' (County) response to the draft report.

The County did not respond to Finding 1. However, we urge the County to devise and implement preventive or detective fiscal compliance controls to identify and correct future non-compliant fiscal transactions from being approved, processed, and paid.

The County concurred with Finding 2. However, the County has chosen to accept the fraud risk in personnel expenditures by allowing a key manager to retain the incompatible duty of creating employee records in the County personnel database in the absences of the unit personnel processor. In addition, the County has chosen to accept the risk of compromising its ability to maintain grant fund accountability by using an off accounting system mechanism to track grant funding balances. The County is urged to re-evaluate its risk acceptance on a periodic basis.

In the final matter mentioned in the response, an attempt was made to contact the Santa Cruz County Department of Child Support Services. If the County requires additional information, Finance is available to provide assistance.

As the County has not provided any evidence to change the conditions summarized in Findings 1 and 2, Finance's report is unchanged.