



County of Santa Cruz

AUDITOR - CONTROLLER'S OFFICE

GARY A. KNUTSON, AUDITOR - CONTROLLER

June 19, 2000

Agenda Date: June 27, 2000

Honorable Members of the Board of Supervisors
701 Ocean Street
Santa Cruz, California 95060

Subject: Special Report on the Family Support Administrative Trust Fund

Dear Members of the Board:

Per the new legislation that provides for the reorganization and funding of Family Support Programs, our office was required to certify the extent of any "excess incentive funds" accrued to the program as of June 30, 1999. During that certification process, we identified a significant unexplained balance in the Family Support Administrative Trust Fund.

As a result, we conducted a review with the cooperation of the recently appointed District Attorney and his new Family Support manager and we thank them for their assistance. Our review was based on the procedures and practices, or lack thereof, established under the former management and has resulted in the following findings:

- \$806.132 representing State reimbursements for indirect cost and interest earned thereon had not been transferred from the Family Support Administrative Trust Fund to the County General Fund. It appears that these funds were not transferred by the District Attorney's Office in order to maintain a reserve to provide funds to cover increased budget requests or offset under realized revenues for the benefit of the Family Support Division of the District Attorney's Office. To our knowledge, this reserve was not authorized by the Board of Supervisors.
- Amounts budgeted as expenditure and revenue estimates historically have been materially understated.
- The Family Support Administrative Trust Fund does not reimburse the General Fund Family Support Program in a consistent and timely manner in accordance with State policy. These delays cause a loss of interest income to the General Fund.

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- The Family Support Program is not in compliance with State law regarding the calculation of "Excess Funds".

We have recommended that the Family Support Division develop and implement specific internal controls, obtain copies of State procedures and practices manuals, and become knowledgeable of applicable State statutes. Attached is the complete report for your information.

We have discussed this report with the District Attorney and he concurs with the findings and recommendations. It is therefore recommended that your Board: 1) accept this special report, 2) direct the District Attorney to implement our recommendations with the assistance of the Auditor-Controller, and 3) authorize the Auditor-Controller to transfer the funds from the trust fund to reimburse the General Fund for those indirect costs and accrued interest in the amount of \$806,132.

Sincerely,


Gary A. Knutson
Auditor-Controller

cc: Mr. Ron Ruiz, District Attorney
Ms. Susan Mauriello, County Administrative Officer
County Counsel

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**REPORT ON THE REVIEW OF
DISTRICT ATTORNEY/FAMILY SUPPORT TRUST FUND
FOR THE FISCAL YEARS 1993-1994 THROUGH 1998-1999**

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DISTRICT ATTORNEY/FAMILY SUPPORT TRU ST FUND REVTEW

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Auditor's Report

May 3, 2000

BOARD OF SUPERVISORS

County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

SUBJECT: DISTRICT ATTORNEY/FAMILY SUPPORT TRUST FUND REVIEW

In September 1999, AB 150 passed requiring that the County Auditor certify the amount of unexpended Family Support funds based upon standards determined by the State. The State form, TEMP 2 180, specified how the excess incentive funds were to be calculated and reported. The County of Santa Cruz submitted a completed TEMP 2 180 to the State in December 1999. Santa Cruz County reported, per the requirements of the form, that there were \$180 of excess incentive funds.

During the certification process, we observed that at the end of the 1998- 1999 fiscal year there was a significant balance in the District Attorney/Family Support Trust Fund. The Division of Family support was not able to explain the source of the fund balance. In addition, we observed several weaknesses in the internal control structure in the area of administrative reimbursements from the State.

Scope

As a result of the above, we performed a limited review of the Family Support Trust Fund for six years ending June 30, 1999. The objectives of this review were to:

1. Determine the source of the balance in the Family Support Trust Fund, and determine if any of the balance is owed to the County General Fund or the State General Fund.
2. Evaluate the internal controls relating to the administrative reimbursements received from the State.

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The scope of our review was limited to a review of documentation detailing the administrative expenditure reimbursements claimed and deposits received. We prepared schedules to document cash flow, revenues, expenditures, indirect cost reimbursements, and interest earned. We also researched and documented the available history and claiming procedures for indirect cost reimbursements and excess funds.

Summary and Conclusion

Based upon our review of the Family Support Trust Fund, and our review of the related controls, we have determined that:

1. Indirect cost reimbursements and the related interest earned should be transferred from the Family Support Trust Fund to the General Fund. Because these amounts relate to prior years, the following amounts should be transferred to the General Fund as a prior period adjustment:

Indirect cost reimbursements fiscal years 1993- 1994 through 1998- 1999	\$460,353
Interest earned during fiscal years 1993- 1994 through 1998- 1999	72,509
Indirect cost reimbursements and interest apportionments	<u>270,718</u>
fiscal years prior to 1993- 1994	
	\$803,580

2. The Trust Fund should reimburse the General Fund for \$2,552 of unreimbursed prior year expenditures. This is a cumulative balance from 1994- 1995 through 1998- 1999.
3. None of the balance in the Trust Fund is owing to the State
4. Excess funds existed for fiscal year 1997- 1998 and were fully expended in fiscal year 1998- 1999. The 1997- 1998 funds were not identified and transferred to a separate fund as the Welfare and Institutions Code required.
5. Subsequent to the end of the review period, we found that during the first three quarters of the current fiscal year 1999- 2000:

The Trust Fund earned interest on the cumulative indirect cost reimbursement balance, from July 1, 1999 through May 31, 2000 of the current fiscal year 1999- 2000, in the amount of \$29,034. This amount should be transferred to the General Fund.

Indirect cost reimbursements in the amount of \$35,166 have been received during the first three quarters of the current fiscal year 1999- 2000. These funds should be transferred to the District Attorney's operating budget immediately to reimburse the General Fund for overhead expenditures.

In addition to the amounts in this report, as of June 6, 2000 there remains a balance of \$1,533,239 in the Trust Fund for activity during the current fiscal year 1999- 2000. Transfers for the current fiscal year 1999- 2000 have not been made in a timely manner and need to be completed by fiscal year end. In the future, transfers should be done on a monthly basis in accordance with the State Procedures Manual.

6. The internal controls, relating to the administrative reimbursements received from the State, need improvements

Findings and Recommendations

1. Indirect Cost Rate Reimbursements

Finding:

Based on our review of six years, the District Attorney consistently budgeted an amount significantly less than the actual indirect cost reimbursement amounts claimed. WC were unable to document the reason for the understatements. However, it would appear, based on statements, that the District Attorney's Office retained these funds to augment spending or to offset revenue shortfalls. To our knowledge, these reserves were never authorized by the Board of Supervisors.

The District Attorney/Family Support Division did not transfer \$460,353 of the indirect cost reimbursements received from the State to the District Attorney's office, (see Exhibit B for an analysis of these monies.) Since fiscal year 1993-1994, the Family **Support** Division received \$640,691 of indirect cost reimbursements; however, only \$180,338 was transferred to the District Attorney's administrative operating budget as other revenue. The indirect cost reimbursements were paid to the County by the State, to reimburse the District Attorney for administrative overhead costs. The 1999 indirect cost reimbursement training materials, produced by the State Department of Social Services, state that the reason for the indirect cost reimbursement is "to reimburse the District Attorney for Administrative Overhead costs." WC were unable to identify any expressed authority to retain those funds rather than transfer them to the County General Fund.

Interest, in the amount of \$72,509, was earned in the Trust Fund on the indirect cost reimbursements during fiscal years 1993-1994 through 1998-1999.

The amount of indirect cost reimbursements attributable to fiscal years prior to fiscal year 1993-1994 is believed to be \$270,718. We have already reconciled and certified the amount in the Trust Fund that is excess incentive funds, and we believe that balance in the Trust Fund attributable to fiscal years prior to fiscal year 1993-1994 is indirect cost reimbursements.

Recommendation.

Indirect cost reimbursements, and the related interest earned on these reimbursements, should be transferred to the General Fund in the following amounts:

Fiscal years 1993-1994 through 1998-1999 indirect cost reimbursements to be transferred	\$460,353
Interest earned on indirect cost during Fiscal years 1993 - 1994 through 1998-1999	\$ 72,509
Fiscal years prior to 1993 - 1994 remaining indirect cost reimbursements and apportioned interest to be transferred	\$270,718

WC also recommend that the District Attorney budget other revenue to include 100% of the indirect cost reimbursements and that future transfers to the District Attorney's operating budget be for the entire amount of the indirect cost reimbursement received from the State. The transfer should be made to the District Attorney's Office immediately following the receipt of the funds from the State to reimburse the General Fund for overhead expenditures.

Subsequent Event:

We also determined that interest in the amount of \$29,034 was earned through May 31, 2000 of the current fiscal year 1999-2000 on the accumulated indirect cost reimbursement fund balance in the Trust Fund.

Also: \$35,166 of indirect cost reimbursement has been collected during the first three quarters of the current fiscal year 1999-2000. The claim for \$35,166 indirect cost reimbursement from the second quarter of 1999-2000 was paid and deposited into the Trust Fund. The Division should transfer \$35,166 to the District Attorney's Administrative Operating Budget, and transfer \$29,034 of interest, to the General Fund by June 30, 2000. The claims for the first and third quarters are in process and have not been received yet.

2. Excess Funds

Finding:

The Division did not comply with Welfare and Institutions Code Section 15200.97, by identifying excess funds. This code section defines excess funds, describing how and when the excess funds may be expended. The Family **Support** Division did not prepare any schedules to determine if they ended the fiscal years 1996-1997, 1997-1998 or 1998-1999 with excess funds. Based upon a review of revenues and expenditures, including revenue for expenditures applicable to these years, fiscal years 1996-1997 and 1998-1999 ended with the Trust Fund's expenditures exceeding revenues, i.e. no excess funds. The Trust Fund ended fiscal year 1997-1998 with revenues exceeding expenditures, resulting in excess funds. The excess funds for fiscal year 1997-1998 of \$399,551 were applied to the Trust Fund's fiscal year 1998-1999 negative balance of \$536,976. The excess balance from fiscal year 1997-1998 has been fully expended to cover part of the fiscal year 1998-1999 negative balance.

We also found that the Division did not comply with The Welfare and Institutions Code Section 15200.97 by separating excess funds. The code required that all excess funds be deposited into a special fund established by the County for this purpose. The excess funds must be expended within two years following the fiscal year of the receipt of the funds. The exception to this rule, is to submit an approved written plan with the State. After the two year period, any unexpended funds should revert to the State General Fund.

Recommendation:

We recommend that the District Attorney: 1) prepare schedules each fiscal year end to determine if there are excess funds available, and 2) must transfer any excess funds to the special fund in a timely manner. The Division must include accrued revenue and expenditures.

3. Accrual of Revenue

Finding:

The Family **Support** Division did not accrue quarterly administrative expenditure reimbursement revenue at the fiscal year end. This caused the Trust Fund to be overstated and revenues in the General Fund to be understated.

Recommendation:

We recommend the District Attorney accrue all revenue anticipated from the State that is measurable and available but not received by the end of the fiscal year. This accrual of revenue will allow the Division to properly determine if there are excess funds at the end of the fiscal year.

4. Accounting for Quarterly Administrative Expenditures Claims and Reimbursements and Administrative Expense Advances

Finding:

Quarterly administrative expenditure claims, advances from the State, and final reimbursement payments were not properly documented, monitored or reconciled. The Family Support Division did not match deposits received to outstanding claims. The Division was not able to determine which advances and reimbursements have been received, and which are outstanding. To determine if excess funds are available, or to determine if revenue should be accrued at year end, these transactions must be analyzed.

Recommendation:

We recommend that quarterly administrative expenditure claims, advances, and final reimbursement payments be properly documented, monitored and reconciled. A formal ledger or schedule should be maintained to monitor when expenditures are submitted to the State for reimbursement, and when the final reimbursement for the expenditures is received from the State.

We also recommend that the Division determine the basis for the monthly advances received from the State, and a formal ledger or schedule be maintained to track the receipt of these advances. The reasons for any changes in the advance amounts should be researched.

5. Expenditure reimbursement transfers from the Family Support Trust Fund to the General Fund

Finding:

The Family Support Division has not transferred reimbursements to the General Fund in a consistent, or timely manner. The State Department of Social Services, Fiscal Management and Control Manual, Section 25-220.1 specifies that the transfers must be timely and must be made as soon as the necessary information is available.

Although the Trust Fund received monthly advances from the State, the Trust Fund reimbursed the General Fund on an inconsistent basis. This delay in the transfer of funds: allowed the Trust Fund to unnecessarily accrue interest on the State advances and final payments before reimbursing the General Fund. There was also a net \$2,552 over the last 5 years that were not reimbursed to the General Fund resulting from the lack of reconciliations.

The daily administrative expenses of the District Attorney/Family Support Division are charged to the General Fund. The State advances the Family Support Trust Fund an estimated amount each month to pay for these administrative expenses. At the end of each quarter, the Division files a claim with the State for reimbursement of the administrative expenditures, which are incurred in the General Fund. The State makes a payment to the Trust Fund for 66% of the amount of the quarter's expenses, after audit adjustments and less the advances already received. This final reimbursement from the State may take several months to receive. The Division makes a reimbursement transfer from the Trust Fund to the General Fund, either at the end of the quarter, or after the claim is actually paid by the State.

Recommendation:

We recommend that the Trust Fund reimburse the General Fund \$2,552 for prior year expenditures. We recommend that the District Attorney/Family Support Division comply with Section 25-220.1 and transfer funds from the District Attorney/Family Support Trust Fund to the General Fund monthly as the information becomes available. These transfers should be made for the full amount of the advance, immediately after the advance is

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received from the State. When the State pays the final administrative expense reimbursement for the quarter, a reconciliation should be performed to determine if the General Fund has been reimbursed in full for the quarter's expenditures, and any necessary additional transfers should be made promptly.

6. Indirect Cost Rate Reimbursements

Finding:

The Family **Support** Division did not have any procedures in place to document, monitor or reconcile the indirect cost reimbursement claims submitted to the State, with the payments received from the State.

Recommendation:

We recommend that the District Attorney develop and maintain ledgers or schedules sufficient to document, monitor, and reconcile the amount of indirect cost reimbursement claims submitted to the State, with payments received. Any differences should be resolved.

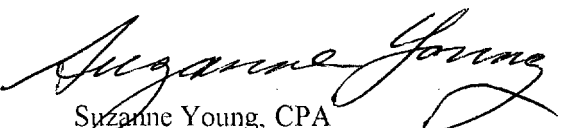
7. State Department of Social Services, Fiscal Management and Control Manual

Finding:

The District Attorney/Family Support Division did not have a copy of the State Department of Social Services, Fiscal Management and Control Manual. Section 25-200.8 of this manual requires that appropriate staff in each County be cognizant of the regulations, rules and requirements contained in this manual, and shall employ administrative techniques to assure that performance of fiscal functions be consistent with **such** requirements. Staff was not aware of this manual and reported a copy was not available. Failure to have this manual available did not allow staff to be fully cognizant of the regulations, rules and requirements. Lack of awareness and compliance with portions of this manual was observed during our review regarding transferring expenditure reimbursements, as noted in finding #5.

Recommendation:

We recommend that management comply with Section 25-200-8, General Administrative Responsibilities, of the Fiscal Management and Control Manual. Management should obtain a copy of the manual from the State, have it accessible to staff and update it timely. Management should require that the appropriate staff be cognizant of and follow, the rules, regulations and requirements contained within the manual. Management should ensure that appropriate staff take advantage of training opportunities to maintain their knowledge of regulations and stay abreast of changes.


Suzanne Young, CPA
Audit and Systems Manager

District Attorney/Family Support Trust Fund Reconciliation
Fiscal year ending June 30, 1999

June 30, 1999 balance available per FAMIS	\$543,144
Plus: Revenues received in fiscal year 99/00. that should have been accrued to fiscal year 98/99	<u>262,988</u>
Total balance available at June 30, 1999	806,132
Indirect cost reimbursements not transferred:	
to the DA's operating budget 1993/1994 - 1998/ 1999	- 460,353
prior to 1993/1994 including apportioned interest	- 270,718
Accumulated interest earned on ICR reimbursements (from fiscal year 1993/ 1994 - 1998/1999)	- 72,509
Outstanding reimbursements due to the General Fund (For fiscal years 1994/ 1995 - 1998/ 1999)	<u>- 2,552</u>
Revised Beginning Balance in Trust Fund for fiscal year 1999/2000	\$ 0

**District Attorney/Family Support Trust Review
Indirect Cost Reimbursements
Fiscal Year 1993-1994 through 1998-1999**

	Quarter Ending	Claimed Agency Personnel Costs	Indirect cost Rate	County's ICR payment from the State (66% of claim)	ICR transferred to District Attorney's operating budget	Remaining ICR to be transferred
1993/1994	1,2,3,4	4 quarters combined <u>1,887,066</u> 1,887,066	9.17%	114,209	0	114,209
1994/1995	1,2,3,4	4 quarters combined <u>2,095,156</u> 2,095,156	6.91%	95,552	(29,325)	66,227
1995/1996	1,2 3 4	2 quarters combined in lump sum 484,662 619,082 1,103,744	5.81% 5.81%	39,471 42,324 81,795	 (30,000)	39,471 12,324
1996/1997	1 2 3 4	529,699 641,455 556,705 649,082 2,376,941	6.29% 6.29% 6.29% 6.29%	 98,676	 (30,000)	 68,676
1997/1998	1 2 3 4 suppl.	562,256 730,540 623,924 813,650 17,064 2,747,434	6.78% 6.78% 6.78% 6.78% 5.81%	 122,833	 (30,000)	 92,833
1998/1999	1 2 3 4	714,813 857,989 881,348 806,766 3,260,916	5.93% 5.93% 5.93% 5.93%	 127,626 \$640,691	 (61,013) (\$180,338)	 66,613 \$460,353
Total reimbursements received,						\$640,691
Total transferred to the District Attorney's operating budget:						<u>(180,338)</u>
Balance to be transferred from fiscal years 1993-1994 through 1998-1999:						\$460,353

Notes

Indirect cost reimbursements are calculated by:
(Claimed agency personnel costs X indirect cost rate) X 66% = Indirect Cost Reimbursement

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**District Attorney/Family Support Trust Review
Interest earned on Indirect Cost Reimbursements
June 30, 1995 - May 31, 2000**

Fiscal Year	ICR Balance at June 30	Accumulated interest at June 30, 1999	Accumulated interest at May 31, 2000	Total interest earned
1994	\$114,209.00	\$34,742.52	\$8,115.88	\$42,858.40
1995	66,226.68	15,674.29	4,462.52	20,136.81
1996	51,795.00	9,092.41	3,317.56	12,409.97
1997	68,676.00	7,882.16	4,171.22	12,053.38
1998	92,832.93	5,117.56	5,337.00	10,454.56
1999	<u>66,613.00</u>	<u>0.00</u>	<u>3,629.32</u>	<u>3,629.32</u>
	<u>\$460,352.61</u>	<u>\$72,508.94</u>	<u>\$29,033.50</u>	<u>\$101,542.44</u>

Notes:

Interest is compounded quarterly, beginning the fiscal year following receipt of payment
The interest rate is a quarterly average of the rate earned in the County's treasury pool.
Interest for April and May 2000 is compounded monthly.

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**District Attorney/Family Support Trust Review
General Fund Revenues and Expenditures
Fiscal Year 1994-I 995 through 1998-I 999**

<u>Fiscal year</u>		<u>Cummulative Balance</u>
94195	Beginning Balance loaded from FIRMS conversion	0.00
	Revenues:	2,845,196.12
	Expenditures:	<u>(2,845,141.89)</u>
	Ending Balance June 30, 1995	54.23
95196	Beginning Balance	54.23
	Revenues:	3,083,018.65
	Expenditures:	<u>(3,084,356.89)</u>
	Ending Balance June 30, 1996	(1,338.24)
96/97	Beginning Balance	(1,284.01)
	Revenues:	3,875,613.56
	Expenditures:	<u>(3,876,884.72)</u>
	Ending Balance June 30, 1997	(1,271.16)
97/98	Beginning Balance	(2,555.17)
	Revenues:	4,230,555.86
	Expenditures:	<u>(4,230,553.00)</u>
	Ending Balance June 30, 1998	2.86
98199	Beginning Balance	(2,552.31)
	Revenues:	4,729,754.00
	Expenditures:	<u>(4,729,754.00)</u>
	Ending Balance June 30, .1 999	0
	Cummulative ending balance June 30 1995 - 1999	<u>(\$2,552.31)</u>