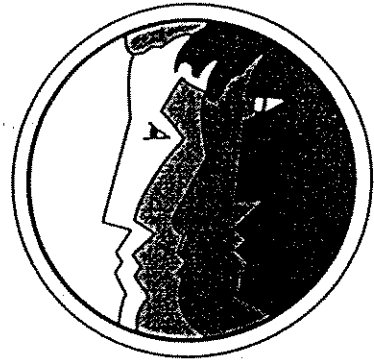


City of Berkeley



*Health and Human Services  
Grant Billing Audit*

*September 15, 1998*

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## I. INTRODUCTION

Grants-in-aid (grants) are an important source of support for many City of Berkeley programs. The City's outside auditing firm, KPMG Peat-Marwick, LLP, observed in their management letter on the June 30, 1996 Comprehensive Annual Financial Report (CAFR) that billing of grantors by City departments appeared to be untimely. Untimely billing of grants directly affects general fund cash balances. In the absence of sponsor payments, grant funded programs operate on working capital advanced from the general fund.

### A. OBJECTIVE

This audit was performed to determine whether the Health and Human Services (HHS) Department submits bills for grant funding by due dates stipulated in grantor award documents.

### B. SCOPE AND METHODOLOGY

We audited HHS grant financial activity for the 1996-97 fiscal year. We also considered prior year HHS grants receivable balances. Records obtained through February 5, 1998 were used to perform the audit. We examined a judgment sample of four awards to HHS for the fiscal year. These four awards were comprised of six grants related to distinct HHS programs. As part of our survey work we also reviewed three other grants. These latter three grants were not subjected to the same level of testing as the sampled grants. The nine grants reviewed have an award value of \$2,021,974 or 33 percent of the billable grant dollars identified by HHS. Grants reviewed were selected from the Fiscal Year 1996-97 Third Quarter Ending Grant Report prepared by Finance. Grants reviewed were chosen because the amount of the award was large, or because the grant report indicated billing timeliness problems.

Audit procedures included:

1. Interviewing personnel in HHS and Finance regarding grant billing and accounting processes.
2. Contacting funding agencies for billing information and to obtain their opinion regarding City of Berkeley billing performance.
3. Reviewing City policies and procedures, and Administrative Regulations (ARs) pertaining to grant billing.
4. Examining records pertaining to grant billing and accounting.

The audit was conducted in accordance with Government Auditing Standards.

**C. SUMMARY AND CONCLUSION**

We reviewed approximately one-third of fiscal year 1996-97 grant dollars, which HHS must bill to obtain funding. We found delinquent billing to be a problem.

Delinquent billings fell into two categories:

1. Billings which were delinquent up to 2.5 months. In some cases these delays appeared to be reasonable.
2. Grants which were not billed until after the end of the grant period (very delinquent billings).

As a result of delayed billing, the general fund was required to advance approximately \$730,000 during fiscal year 1996-97 and \$800,000 during fiscal year 1995-96 for program expenses related to grants we reviewed. While general fund money is typically advanced to support HHS grant funded programs before grantors are billed, timely billing is essential to minimize general fund cash requirements and the loss of interest.

The quarterly grant report prepared by Finance could be very useful. However the reports we reviewed contained significant errors and were unreliable with respect to some HHS grants. The quarterly report for the quarter ending June 30, 1997 overstated total unbilled HHS grant program expenses by an estimated \$1.9 million (70 percent). The report also overstated estimated HHS grant receivables by approximately 20 percent. These errors are important because of their impact on management action. It is a disservice to users if the information is not reliable.

Additionally, we noted the following control issues and concerns:

1. Some grant checks were not deposited for two months or more. There is a measurable loss in interest income when receipts are not timely deposited.
2. For the last several years, year end accounts receivable balances for mental health programs were incorrectly recorded.

Written policies and procedures regarding revenue contract application and processing in the HHS Department are outdated and are not followed. As a result, this rather complicated process may not be performed as intended by management.

Our recommendations for corrective action related to these findings are presented in section II. Findings and Recommendations below.

#### D. BACKGROUND

##### Importance of Grant Funding to HHS

Grants accounted for approximately 32 percent of the adopted HHS budget for fiscal year 1996-97. HHS identified 52 open grants for fiscal year 1996-97 which required billing to receive sponsor payment. The total award amount reported for these grants was \$6,080,654. Most grantors fund HHS programs on a continuing basis over years.

##### Grant Execution and Billing

Program managers are responsible for preparing and submitting grant proposals and/or funding applications to grantors. They are also responsible for insuring that HHS provides the services funded. Three management analysts in the HHS Administrative Services Division prepare most of the financial data for grant proposals and funding applications. The program managers and the analysts are responsible for meeting grant application deadlines. The analysts also maintain budget and accounting information for each grant in FUNDS\$, the City's automated accounting system. Generally, billings submitted to a grantor will not be paid until the grantor has an executed grant agreement on file. Most billings are prepared by HHS analysts, although some HHS programs staff may also bill grantors. Grant payments are generally sent to the employee that prepared the billing. The employee deposits the payment with the City Treasury.

##### Quarterly Grant Activity Report

The Finance staff prepares a quarterly report on grants received. The report shows, by grant, the award amount, and expenditure, billing, and receivable information. The report is prepared from information provided by the departments, or obtained from FUNDS\$ by Finance staff. Finance distributes the report to the departments and the City Manager's Office. After the report is issued, Finance and HHS staff members meet to identify any errors in reporting the status of HHS grants. However, if errors are noted, an amended report is not issued according to Finance staff.

##### Year End Account Receivables

At the end of each fiscal year, the HHS Senior Budget Specialist provides Finance with a grants receivable schedule. Finance staff uses this schedule as the basis for recording year end receivables in FUNDS\$.

**II. FINDINGS AND RECOMMENDATIONS****A. UNTIMELY BILLING OF GRANTS**

Monthly or quarterly billings were submitted to grantors after permissible billing dates for six of nine grants reviewed (the billing date for one grant had not passed at the time of the audit). The most delinquent billings were for grants managed by the Health Promotions Division. HHS did not submit billings in accordance with grant terms. Instead, the billings were submitted to the grantor several months to a year after the grant expired. Based on amounts we developed from transaction analysis, the general fund advanced \$738,804 in fiscal year 1996-97 and \$800,883 in fiscal year 1995-96 to support these programs until grant payments were received (See Exhibit 1). Reductions in available General Fund resources may negatively impact all City of Berkeley programs supported by this fund.

A number of reasons for delinquent billings were provided by HHS staff that prepared them and by other HHS staff members. The following reasons appear to be the major causes for severely delinquent billings in the Health Promotions Division:

1. The analyst who prepares Health Promotion Division grant billings appeared to have too heavy a workload. This analyst prepares and/or oversees preparation of the fiscal sections of grant applications. He also prepares and/or supervises preparation of budgets, billing, and accounting for 38 grants. This appeared to be a very large number of grants to assign to one person to manage. This assignment compares with 12 grants and four grants respectively assigned to two other HHS Administrative Services analysts.

It should be noted that we made no evaluation of the relative complexity of the grants managed by the other two analysts in comparison to the 38 grants managed by the Health Promotions Division Management Analyst. These 38 grants accounted for more than half the total grant dollars awarded to HHS for fiscal year 1996-97. The analyst noted that his manager, the HHS Senior Budget Specialist, had offered help, but he declined the offer. He stated that he felt it would take longer to train someone than to do the work himself.

2. The Health Promotions Division analyst did not always follow grantor billing procedures. As shown on Exhibit 1, there were a number of instances where billings were submitted using the incorrect forms, and instances where the analyst did not use the grantor's forms for billing because they were not provided on a diskette. The analyst may not have been aware of changes in procedure instituted by grantors in

these cases.

3. The Health Promotions Division analyst was not timely receiving time studies needed to prepare billings. Preparation of these time studies is the responsibility of an HHS statistician.

Some reasons given for late, but not seriously delinquent, billings (bills submitted up to 2.5 months after the permissible billing date) were: that new personnel were assigned to the task and had to learn procedures; that billing information was not readily available from program staff who provided services; and that staff were required to give priority to other tasks.

We contacted grantor financial managers regarding their concerns about the timeliness of HHS billings. We were informed by one manager that program billings were commonly late, and that as long as the grant was billed close to the last due date, there would be no objection. At some point however, funding would be withdrawn and a petition required to effect payment. Two other grantor managers were more concerned about billing timeliness, however, and one stated that the agency was considering levying a delinquent billing penalty of 1.5 percent of the late billed amount, per grant terms.

#### Recommendations

1. We recommend that HHS management determine whether the workload assigned to the Health Promotions Analyst is excessive. If the workload is determined to be excessive, consider task realignment.

#### *HHS's Response*

*The department has submitted a Personnel Requisition to hire another Associate Management Analyst to reallocate work assignments in order to relieve current staff excessive workload. This position was approved within fiscal year 1998-99 during the City Council's Annual Budget adoption.*

#### **Auditor's Response**

We assume that HHS management has evaluated the workload of the Health Promotions Analyst as recommended and determined that added staff is warranted. We wish to note, however, that we did not recommend additional staff for the HHS Administrative Services Division. It was not clear from our work whether what appeared to be a workload imbalance should be corrected by reallocation of existing resources, added resources, or additional staff training in grant administrative processes. This is a matter for HHS management decision.

2. We recommend that HHS grant billings be brought up to date and maintained on a current basis.

**HHS's Response:** Health and Human Services is currently up to date with all billings, with the exceptions of Maternal Child Health and Early Periodic Screening and Diagnostic Treatment billings. These billings require statistical time studies from Public Health staff and as of June 26, 1998 the time studies have not been submitted to Administrative Services. We will work with Public Health staff to ensure timely completion of time study statistical data.

3. We recommend that a grant billing date schedule be developed by HHS and be periodically reviewed by HHS management to insure that general fund working capital advances to the department are minimized.

**HHS's Response:** The department presently uses the Grant Data Sheets identifying billing requirements. The department will develop a grant billing schedule and review the schedule each month to assure timely billings.

**B. UNTIMELY DEPOSIT OF GRANT PAYMENTS**

HHS management requires all payments against billings to be deposited with Treasury immediately on receipt. We noted that it sometimes took two months or more for HHS staff to deposit grant checks. Interest is lost to the City when payments are not timely deposited.

The following situations were identified:

1. Fiscal Year 1996/97 WIC Grant	2 months to deposit a grant check for March/April 1997 billings which totaled \$31,693. Deposited 9/12/97.
2. Fiscal year 1996/97 AIDS Education and Prevention Grant	2 months to deposit a grant check for the 1st quarter billing which totaled \$12,999. Deposited 4/30/97. 3.5 months to deposit a grant check for the 3rd quarter billing which totaled \$22,778. Deposited 10/27/97.

3. Fiscal year 1995/96 AIDS Education and Prevention Grant	2 months to deposit a grant check for billings for all four quarters totaling \$163,210.93. Deposited 4/30/97.
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### Recommendations

We recommend that grant payments be deposited immediately on receipt in accordance with HHS management policy. We also recommend that HHS staff members who receive payments be reminded of the importance of promptly depositing payments with the Treasury.

### *HHS's Response*

*The Health and Human Services Department's policies and practices are to deposit all revenues to the City Treasury immediately upon receipt. During the Audit, the Auditor relied on the State staff's invoice processing and scheduling dates as a basis for the opinion that there were delays in depositing grant checks. This was not confirmed by any actual review of checks or other documents to support this assertion.*

### Auditor's Response

Written confirmations and third party records, such as those obtained from the State grantor agencies, have long been an accepted audit technique used to confirm whether or not a problem condition exists with an auditee. In this case it was used to confirm that deposits which appeared to be untimely were in fact untimely. To further support the finding, HHS was requested to provide documentation which would indicate that the instances of untimely deposits cited in the finding contained inaccuracies. Nothing was provided. Because the audit has documented that untimely deposit of grant money is a concern, we recommend the audit recommendation be implemented.

## C. HHS INFORMATION REPORTED IN THE FISCAL YEAR 1996-97 FOURTH QUARTER ENDING GRANT REPORT CONTAINED SIGNIFICANT INACCURACIES

The report, "FY 96-97 Fourth Quarter Ending Grant Report (6/30/97)," is intended to provide outstanding grant receivable and unbilled expenditure information. We found however that the report contained significant errors which diminish its usefulness. The two schedules we reviewed in this report contained material inaccuracies:

"Grant Activity - 7/1/96 through 6/30/97" Schedule

This schedule identifies the grant award amount, program expenditures, amounts billed, amounts received, and estimated receivable activity for fiscal year 1996/97. This information is shown for each grant and in total for all HHS Department grants. The schedule reported that HHS had not billed grantors a total of \$2,742,308. This was incorrect. We estimate that the reported amount overstated the unbilled expenses by \$1,948,048 (70 percent). The error occurred primarily because information for three grants which fund the City's Mental Health Program was incorrectly reported by HHS and misinterpreted by Finance. We found that inaccurate reporting on these same three Mental Health Program grants resulted in an overstatement of total grants receivable for HHS by approximately \$856,405 (20 percent). While this report is meant to provide financial performance information to management, it is a compilation of data and may not reconcile fully with accounting data in FUNDS. Errors in the report are important, however, because of the potential impact on management action. For example, the Director of HHS is interested in receiving a report which accurately details the financial status of each HHS grant.

We found reporting errors in five other grants in the "Grant Activity - 7/1/96 through 6/30/97" schedule:

Number of Times Each Reporting Error Occurred (5 Grants Reviewed)			
Award Amount Incorrect or Omitted	Unbilled Expenses Overstated	Footnote Error	Amount Billed Incorrect
2	2	1	1

For the grants reviewed, the reporting errors apparently occurred because:

1. Staff preparing the schedule did not always have a correct understanding of grant activities, or did not receive required information (such as copies of billings) from HHS.
2. There are no written policies and procedures in either HHS Administrative Services or Finance to help insure an accurate, consistent, and complete report is prepared.

"June 30, 1996 Grants Receivable Outstanding as of June 30, 1997" Schedule

This schedule shows HHS grant awards with outstanding accounts receivable balances from June 30, 1996 as of June 30, 1997 (Very old receivables). This schedule did not include five grants with outstanding prior year receivables balances totaling \$44,634. This understated prior year receivables by 7 percent. Prior year receivables balances for five grants were also omitted from this schedule in the report for the quarter ended September 30, 1996. The total outstanding receivables balances for these grants was \$259,018. This omission caused the report to understate prior year HHS outstanding receivables balances by 16 percent.

The Finance staff member who prepares the Quarterly Grant Activity Report stated that reporting errors apparently occurred because June 30, 1996 grants receivables information from both schedules was not reconciled by Finance staff. There are no written policies and procedures to help insure this schedule is prepared accurately.

**Recommendations**

1. We recommend that Finance submit a draft Quarterly Grant Report to HHS Administrative Services for review and corroboration.

*Finance's Response*

*Drafts of the details of the Quarterly Grant Report are distributed to and discussed with HHS grant billing staff prior to finalizing the report, in order for them to answer questions, provide better information, etc. We are now, beginning with the FY1997/98 Third Quarter Grant Report, giving a draft of the complete report for their review and corroboration.*

*HHS's Response*

*HHS concurs with the Finance Department's response to this recommendation. We have begun to review and collaborate with the Finance Department to verify accuracy of data.*

2. We recommend that written procedures be developed by Finance which will provide reasonable assurance that Quarterly Grant Reports are accurate and complete before being issued.

*Finance's Response*

*All of the information reflected in the Quarterly Grant Report is either provided to Finance by the individual City departments (i.e. billings made during the quarter) or the transactions are coded by the City department staff before they are input in FUNDS (I.E.*

*expenditures and revenues). What is needed is for complete billing information to be submitted to Finance on a timely basis, and for expenditures and receipts to be properly coded by departmental staffs.*

*Finance is in the process of completing written procedures for all functions, including the grant report, and will include procedures for assurance that the reports are as accurate and complete as can be, given the information provided by the individual City departments.*

***HHS's Response***

*HHS concurs with the response provided by the Finance Department.*

3. We recommend that when schedules in the quarterly report contain the same information, steps be taken to insure that the information is internally consistent. We also recommend that Finance develop procedures to describe the reconciliation process.

***Finance's Response***

*We are not sure what internal inconsistencies to which the Auditor is referring, so we are unable to respond specifically to this recommendation. However we will continue to strive to improve our report review process to eliminate internal inconsistencies in the report.*

*We disagree with the recommendation that Finance develop procedures to describe the reconciliation process. Finance was given the responsibility for monitoring grant billing to determine (and report to the City Manager) whether grants were being billed on a timely basis.*

*Grant accounting is decentralized within the individual departments in the City of Berkeley. As of this date, Finance has not been assigned the responsibility nor given the resources to maintain grants receivable subsidiary ledgers.*

***Auditor's Response***

The audit recommends that Finance develop a procedure that will insure that when the exact same information is reported in two places in the quarterly grant report, the information reported is the same in both places. This was a problem identified during the audit. This finding and recommendation was discussed with Finance Department Management at a formal meeting (exit conference), and Finance was given more than a month to request and obtain further clarification. The recommendation should be implemented.

*HHS's Response*

*HHS concurs with the response provided by the Finance Department.*

**D. MENTAL HEALTH PROGRAM ACCOUNTS RECEIVABLE BALANCES WERE INCORRECTLY RECORDED AT THE CLOSE OF THE LAST THREE FISCAL YEARS (1994-95 THROUGH 1996-97)**

At the close of each of the last three fiscal years, year end receivables balances for Mental Health programs have been incorrectly recorded in FUNDS\$.

**1. Incorrect June 30, 1997 Medi-Cal Funded Mental Health Program Accounts Receivable Balance**

HHS did not give Finance accurate June 30, 1997 receivables information for the Medi-Cal funded Mental Health Program. Specifically, HHS directed Finance not to establish a June 30, 1997 receivable due from Medi-Cal. As a result, payments for February through June 1997 Medi-Cal billings which totaled \$240,216 were incorrectly recorded in FUNDS\$ as fiscal year 1997-98 revenue rather than as fiscal year 1996-97 revenue. This does not comply with generally accepted accounting principles (GAAP) which require that revenues be recognized when measurable and available under the modified accrual basis of accounting. Based on discussions with knowledgeable HHS and Finance staff members, submission of incorrect year end Medi-Cal receivables information by HHS has occurred in prior fiscal years.

**2. Inappropriate offset of June 30, 1996 Mental Health Receivables Balances with Realignment Funds Payments**

Total June 30, 1996 accounts receivables balances for three Mental Health programs were incorrectly recorded in FUNDS\$ as \$67,514 rather than \$207,005. The \$139,491 understatement occurred because Finance incorrectly applied state realignment funds to the year end receivables balance. This resulted in an understatement of Mental Health receivables balance. This accounting treatment incorrectly assumes a direct relationship between the Mental Health program receivable balances and state realignment funds. State realignment money is an apportionment of state sales tax revenue which the City automatically receives. This differs from Mental Health program receivables which represent money the City has earned (but not yet received) for providing specific services.

### 3. June 30, 1995 Mental Health Programs Accounts Receivable Balances

While recording the June 30, 1995 receivable for Mental Health programs in FUNDS, Finance incorrectly recorded \$72,431 as deferred revenue (a liability) rather than revenue. The \$72,431 represents grant money due from the State for Mental Health program services rendered. Governmental GAAP 10.16 states that unless prohibited by grant requirements, grant revenue is to be recognized simultaneously with the grant expenditures. This was not done. As a result, liabilities were overstated by \$72,431. Knowledgeable Finance staff stated that \$72,431 of the year end receivable balance was accounted for as deferred revenue because payment had not been received from the grantor within 60 days after the June 30, 1995 year end. This was not in compliance with Generally Accepted Accounting Principles (GAAP).

#### Recommendations

1. We recommend that Finance discontinue the practice of reducing year end grant receivable balances by applying state realignment funds to balances to be carried forward.

#### *Finance's Response*

*Finance has agreed to discontinue reducing year end grants receivable balances by applying state realignment funds to balances carried forward, although realignment funds are transferred to the operating account to cover expenditures not collected from the other four funding sources; Medi-cal Mental Health funds, Medicare funds, Mental Health fees, and Alameda County.*

#### *HHS's Response*

*HHS concurs with Finance's response.*

2. Additionally, we recommend that Finance record year end grant receivables balances in FUNDS in compliance with GAAP as revenue, not as deferred revenue.

#### *Finance's Response*

*The Auditor's recommendation " that Finance record year end grant receivables balances in FUNDS in compliance with GAAP as revenue, not as deferred revenue" gives the erroneous impression that these transactions are not being recorded in compliance with GAAP when the Auditor knows that they are. Effective July 1, 1995, grants receivable for expenditure -driven grants have been reflected in the City's general ledger and financial statements as revenue, and that is still the case today. The Auditor was informed of this, but still chose to make this recommendation based on a finding related to a transaction prior to July 1, 1995. We think it would be more helpful to the*

*reader of this report to be informed that an error in recording was made during the 1994/95 fiscal year, but was corrected in the 1995-96 fiscal year, and not to be given the impression that these types of transactions are currently being recorded incorrectly.*

#### **Auditor's Response**

During the audit, Finance Department management stated more than once that grant funding received more than 60 days after a fiscal year had ended should be accounted for as deferred revenue. The audit recommendation that Finance record year end grant receivables balances as revenue, and not as deferred revenue, was made because of these statements. Finance correctly recorded grant receivable balances as revenue the last two fiscal years.

#### ***HHS's Response***

*HHS concurs with Finance's response.*

3. We recommend that HHS prepare accounts receivable information following GAAP. That is, that accounts receivable and related revenue be recorded in the proper year, when measurable and available.

#### ***HHS's Response***

*Revenues for the proper year are deposited and coded to identify the year in which costs are incurred. Special prior year codes are established each year under department code 96 (i.e. 9696 would refer to FY 95/96; 9697 for FY 96/97, etc.) This has been a practice for the past six or more years.*

#### **Auditor's Response**

In each of the last three fiscal years, ending with fiscal year 1996-97, Mental Health program accounts receivable and related revenue were not recorded in compliance with GAAP. The practice HHS describes in their response relates to recording of payments and does not pertain to the proper recording of year end receivables and related revenue for Mental Health programs. We strongly recommend that HHS implement the audit recommendation, and agree to comply with GAAP.

### **E. INCOMPLETE HHS YEAR END GRANTS RECEIVABLES DOCUMENTATION**

As part of the fiscal closing process, HHS staff submits a schedule to Finance which shows the year end account receivable balance to be established for each HHS grant. The schedule is not prepared in journal entry form. Some receivables proposed by HHS had credit (negative) balances. Receivable accounts should not display credit (negative) balances. Additionally, written explanations of what each receivable represents were not

made, nor was support documentation, such as a copy of the May and June billings provided by HHS. Because this was not done, the rationale for recording year end grant receivables was not readily seen and could not be evaluated for reasonableness. Finance staff stated that they found that accounts receivable balances that HHS listed in the schedule were not always accurate.

#### Recommendations

1. We recommend that HHS Administrative Services explain negative balance items in writing, and provide support documentation to Finance when appropriate.

#### *HHS's Response*

*The agreement between HHS and Finance did not require a schedule to be prepared in journal entry form. The Grants Receivable report was prepared based on documentation in the FUNDS system. Receivable balances which reflect a credit or negative balance usually result from advances or prospective payments which carry into the next fiscal year. In other cases credit balances reflect actual billings and may exceed expenditures reflected in the FUNDS system. Medi-Cal revenues may also exceed the amount of revenues budgeted.*

*City budget reports for the year-end and billings are used to prepare the year-end grants receivable schedule.*

#### Auditor's Response

Receivable accounts should not display credit (negative) balances. When an accounts receivable schedule contains negative balances the basis should be explained in writing, so that the information is not misunderstood. In terms of GAAP a credit balance in a balance sheet account implies a liability, i.e. HHS owes money to a granting agency. Transmittal of complete information about accounts receivable from HHS to Finance will assure correct reporting for the future.

2. We also recommend that journal entries accruing grant receivable balances be reviewed and approved in writing by an HHS manager before submission to Finance.

#### *HHS's Response*

*HHS prepares Grants Receivable reports based upon the City's year end FUNDS reports and the reports are verified by the Management Analyst for each division of HHS. HHS has not previously been required to submit this report in journal entry form.*

*HHS will discuss this recommendation with Finance during the scheduled grants accounting meetings in fiscal year 1998-99.*

**Auditor's Response**

Incorrect year end grant receivables were identified during the audit. Finance staff also stated that they find year end grant receivable balances provided by HHS are not always accurate. To help provide a reasonable assurance that year end grant receivables are properly prepared by HHS, the audit recommendation should be implemented. That is, the basis for each year end grant receivable should be identified in writing by HHS, receivable information sent to Finance should be in journal entry form, and all journal entries should be reviewed and approved in writing by an HHS manager.

**F. WRITTEN HHS GRANTS MANAGEMENT POLICIES AND PROCEDURES ARE OUTDATED**

HHS procedures for revenue contract application and processing are outdated and are not used. For example, the Administrative Regulation (AR) 4.1 titled "Grant Application Review Procedures" is still a part of these procedures even though this AR is no longer in effect. Current procedures do not address how staff is to apply for and receive grants for existing programs, though most grants HHS receives are for program continuation. The City Manager can accept these grants under Resolution 56,776 N.S. which became effective in 1992. HHS procedures do not reflect this policy since they were last updated in October 1985.

Grant application and execution processes are fairly complex. For this reason current policies and procedures are needed to insure that HHS staff complies with management intent and the terms of grant agreements. The HHS Senior Budget Specialist stated that she was updating the procedures.

**Recommendations**

1. We recommend that HHS develop and maintain comprehensive policies and procedures for grant applications and processing.

***HHS's Response***

*HHS applies for grants and contracts consistent with the requirements of Requests for Applications/Proposals that are received from various external agencies. Whether the applications are for continuous or new sources of funds, HHS requests follow the guidelines of the grantor agency.*

**Auditor's Response**

HHS's response does not acknowledge that their internal written procedures for grant application and processing are outdated and are not being used. It also implies that they

do not intend to implement the audit recommendation. During the audit, HHS management stated that these procedures were in the process of being updated. The audit recommendation should be implemented.

Exhibit I  
**Billings Prepared by the Health Promotions Analyst  
 After Contract had Ended**

Grant Title	Billing Freq/ Due Date	Entire Grant Billed After the Contract Ended	Amount Billed	
			Fiscal Year 1995/96	Fiscal Year 1996/97
1. EPSDT - State Allocation	Monthly Billing  Billings due in 60 Days	All 4 Qtrs billed on 7/16/97*, 10.5 months after the due date for the final billing.  All 4 Qtrs billed 9/30/97, 2 months after the due date for the final billing.	\$79,127	\$81,475
Maternal and Child Health 2. MCH/CPSP 3. Prenatal Education	Monthly or Qtly Billing Billings due in 45 days, Final invoice 90 das	All 4 Qtrs billed 11/14/96, 1.5 months after the due date for the final billing. No Qtrs billed as of 1/23/98** when fieldwork for this grant was concluded. \$493,414 represents the grant funding awarded.	\$389,397	\$493,414
4. AIDS Education & Prevention	Monthly or Qtly Billing Billings due in 30 days (60 days requested on 12/9/96), Final invoice 90 days	All 4 Qtrs billed on 11/14/96, 1.5 months after the due date for the final billing. Billings were within 60 days ( or slightly over).	\$163,210	NA
5. EPSDT Public Health Nurse	Qtly Billing  Billings due in 60 days.	All Qtrs billed 7/16/97*, 10.5 months after the due date for the final billing. All Qtrs billed 9/30/97, 2 months after the due date for the final billing. Billings totaled \$163,915 FY 94/95 Qtrs 3 and 4 were billed 6/28/96***, 10 months after the due date for the final billing. Billings totaled \$98,183	\$169,149	\$163,915
Total			\$800,883	\$738,804

\* = Billed earlier, but the wrong forms were used. The billing preparer stated the billing resubmission was not prepared for another seven months after the first billing submission had been rejected because the State would not send him the forms on a diskette, and he did not want to prepare the billings on the forms the State provided.

\*\* = HHS Management was unaware billings had been rejected and a new billing had not been submitted until it was brought to their attention by the auditor on 1/20/98. Billing was rejected because the wrong form was used.

\*\*\*= Original billing dated 9/21/95 was not paid, and was resubmitted on 6/28/96. Reason a resubmission was required is unknown. Reason for delay is unknown.