

# **State Controller's Annual Conference with County Auditors October 2015**

## **Division of Audits Update**



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# Agenda

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- Overview
- Redevelopment Agency Asset Transfer Reviews
- Successor Agency Reviews
- Property Tax Audits
- Court Revenue Audits
- Mandated Cost Audits
- Questions



# Redevelopment Agency Asset Transfer Reviews

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- Review Universe 402 Agencies
- Final Reports Issued 400
- Reports In-Process 2
- Total Dollar Findings \$7.3 Billion

As of 10/2/15



# Successor Agency Asset Transfer Reviews

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- Audit Authority H&S Code section 34177.3
- Pilot Reviews
  - Davis, Morgan Hill, Ontario, Montclair, Brea, Oakland, City of Industry, Beaumont, Irvine, Suisun City, El Cerrito
- Scope of Reviews

As of 10/2/15



# Property Tax Audits

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- Final Reports Issued 6
- Reports In Process 9
- Next in the queue:

• Fresno	• Monterey
• Placer	• San Diego
• Siskiyou	• Santa Barbara
• Imperial	• Sonoma

As of 10/2/2015, for calendar year 2015



# Court Revenue Audits

- Final Reports Issued 3
- Reports In Process 8
- Next in the queue:

• Calaveras	• El Dorado
• Glenn	• Madera
• Santa Barbara	• Yolo
• Ventura	• Mono

As of 10/2/2015, for calendar year 2015



# Mandated Cost Audits (MCA)

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## General Information



# MCA (continued)

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## Filed County Claims Data

- Recent Filed County Claims History:

FY 2009-10	983 claims	\$237 Million
FY 2010-11	817 claims	\$118 Million
FY 2011-12	678 claims	\$52 Million
FY 2012-13	559 claims	\$47 Million
FY 2013-14	457 claims	\$30 Million



# MCA (continued)

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## Mandated Cost Programs Data

- Active Mandate Programs for Local Agencies
  - 27 active mandate programs for FY 2013-14
- Suspended Mandate Programs for Local Agencies
  - 59 suspended mandate programs for FY 2013-14 and FY 2014-15
- Alternatives to Filing a Mandate Claim



# MCA (continued)

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## Payments to Local Agencies



# MCA (continued)

## 2015 Total Annual Payments

Annual Payments issued on August 12<sup>th</sup> and 17<sup>th</sup> of 2015

Local Agencies	\$41,496,377
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## Principal Payments for Pre-2004 Claims

Payments issued on June 22<sup>nd</sup> of 2015

Counties	\$479,215,641
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Cities	\$135,706,134
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Special Districts	\$3,383,958
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<b>Total Payments</b>	<b>\$618,305,733</b>
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# MCA (continued)

## Interest Payments for Pre-2004 Claims (1<sup>st</sup> Round)

Payments issued on August 27<sup>th</sup> of 2015

Counties	\$52,749,904
Cities	\$21,968,623
Special Districts	\$1,017,605
<b>Total Payments</b>	<b>\$75,736,132</b>

## Interest Payments for Pre-2004 Claims (2<sup>nd</sup> Round)

Payments to be issued in early October 2015 –  
(Estimated)

Counties	\$72,436,498
Cities	\$17,678,249
Special Districts	\$616,983
<b>Total Payments</b>	<b>\$90,731,730</b>



# MCA (continued)

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- Unpaid pre-2004 mandate claims should be paid-in-full by December 31, 2015, ahead of the FY 2020-21 deadline per Government Code section 17617.
  - For details on principal and interest payments, please visit the State Mandated Programs page on the SCO website at:  
  
[www.sco.ca.gov/ard\\_mancost\\_payments\\_pre-2004.html](http://www.sco.ca.gov/ard_mancost_payments_pre-2004.html)
- SB 84 (Chapter 25, Statutes of 2015) directs the Department of Finance to work with the Legislative Analyst's Office and the Secretary of State to evaluate alternatives to fund election-related mandates and report to the Legislature by September, 2016



# MCA (continued)

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# MCA (continued)

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## Audit Results For FY 2014-15

- Published county audits
  - 12 audits (consisting of 71 claims)
  - \$48 million in claimed costs and \$21 million in adjustments (primarily ineligible costs), a 45.5% error rate



# MCA (continued)

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## Programs Currently Being Audited

- Absentee Ballots
  - Offsetting savings issue
- Crime Statistics Reports to Department of Justice
- Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP): Out-of-State Mental Health Services Health Benefits for Survivors of Peace Officers
- Interagency Child Abuse and Neglect
- Open Meetings Act/Brown Act Reform
- Peace Officers Procedural Bill of Rights



# MCA (continued)

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## General Overview of Audit Process



# MCA (continued)

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## Audit Process

- Initiate field audit within 30 days of phone contact date
- Send claimant an audit notification letter
- Hold entrance conference
- Update claimant on audit issues throughout audit
- Present claimant with audit findings and detailed work papers prior to exit conference
- Discuss draft audit findings at exit conference
- Issue draft audit report to Chief Fiscal Officer
- Request any comments concerning draft report within 10 days of receiving report



# MCA (continued)

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## Audit Process (continued)

- Issue final report to governing board (Chairman or President, County Board of Supervisors)
- Solicit feedback of audit via customer service surveys sent to claimant's contact representative after issuance of the final audit report



# MCA (continued)

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## Audit Standards

- *Government Auditing Standard*

## Audit Scope

- To determine whether costs claimed are:
  - Supported by appropriate source documents
  - Not funded by other sources
  - Not unreasonable and/or excessive, and
  - Directly related to the reimbursable activities specified in the program's parameters and guidelines



# MCA (continued)

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## SCO's Audit Criteria (Hierarchy)

- Commission-adopted parameters and guidelines
- Commission-adopted statement of decision
- Commission staff analysis
- Statutory provisions



# MCA (continued)

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## Source Documentation Requirements

- Parameters and Guidelines state:
  - Only actual costs may be claimed
  - Actual costs are those costs actually incurred to implement the mandated activities
  - Actual costs must be traceable and supported by contemporaneous source documents that show:
    - The validity of such costs
    - When the costs were incurred, and
    - The relationship of the costs to reimbursable activities



# MCA (continued)

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## Primary Reasons for SCO Audit Adjustments

- Unsupported costs
- Costs claimed for activities that are not identified in the parameters and guidelines as reimbursable
- General audit issues
  - Productive hourly rate errors
  - Indirect cost rate errors
  - Indirect costs applied to the wrong base
  - Offsetting revenues as applicable are excluded



# MCA (continued)

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## Audit Resolution (IRC)

- Information regarding the filing of an Incorrect Reduction Claim (IRC) is on the Commission's website at – [www.csm.ca.gov](http://www.csm.ca.gov)

(Click on Forms for Filing a Claim and Incorrect Reduction Claim (IRC) Form)



# MCA (continued)

## Outstanding County Appeals

- Outstanding county appeals (Incorrect Reduction Claims) with the Commission for the following programs [9]:
  - Domestic Violence Treatment Services (1 - Santa Clara)
  - HDS (1 - Los Angeles)
  - HDS II (1 – Los Angeles)
  - HDS, HDS II, and SEDP: Out-of-State Mental Health Services (1 – Orange)
  - Peace Officers Procedural Bill of Rights (1 – Santa Clara)
  - SEDP: Out-of-State Mental Health Services (3 – Los Angeles, Orange, San Diego)
  - Sexually Violent Predators (1 - Santa Clara)



# SCO Website



[WWW.SCO.CA.GOV](http://WWW.SCO.CA.GOV)

(Under Controller's Programs and News)

## Links to Audit and Oversight Reports, and More Information

- Controller's Redevelopment Asset Reviews
- Controller's Audits of State and Local Agencies <sup>1</sup>
- Controller's Revenue Audits
- Controller's Oversight of Independent Auditors' Audits of Local Agencies
- Search for Additional Audits
- Information on Ordering Printed Copies of Controller's Audits

<sup>1</sup> *For Mandates Page – click on State Mandate Information on left side bar under QUICK LINKS)*



# Questions

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