

CALIFORNIA DEPARTMENT OF PUBLIC HEALTH

Independent Auditor's Report

COMPLIANCE AUDIT OF THE PUBLIC WATER SYSTEM SUPERVISION PROGRAM

For the Fiscal Year Ended June 30, 2012



JOHN CHIANG
California State Controller

March 2013



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California State Controller

March 29, 2013

Ron Chapman, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
Sacramento, CA 95814

Dear Dr. Chapman:

Following is the report on the compliance audit of the California Department of Public Health's Public Water System Supervision Program for the fiscal year ended June 30, 2012.

Our audit found that the department complied, in all material respects, with the compliance requirements of the Public Water System Supervision program.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/vb

cc: Jean Iacino, Chief, Internal Audits
California Department of Public Health (via e-mail)
Karen Petruzzi, CDPH Audit Coordinator
California Department of Public Health (via e-mail)

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JOHN CHIANG
California State Controller

Ron Chapman, M.D., M.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
Sacramento, CA 95899-7377

**INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS ISSUED IN A PROGRAM-SPECIFIC AUDIT**

We have audited the accompanying schedule of expenditures of federal awards for the Public Water System Supervision Program of the California Department of Public Health for the year ended June 30, 2012. This financial statement is the responsibility of the department's management. Our responsibility is to express an opinion on the financial statement of the program based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards under the Public Water System Supervision in conformity with accounting principles generally accepted in the United States of America.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

March 29, 2013

**Schedule of Expenditures of Federal Awards
For the Public Water System Supervision Program
Year Ended June 30, 2012**

<u>Federal Agency/Program Title</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
U.S. Environmental Protection Agency: Public Water System Supervision	66.432	\$ 6,552,452

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

NOTE 1— BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal Public Water System Supervision program activity of the California Department of Public Health. The information presented in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the department, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the department.

NOTE 2— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.



JOHN CHIANG
California State Controller

Ron Chapman, M.D., M.S.P.H., Director
California Department of Public Health
1615 Capitol Avenue, MS 0500
P.O. Box 997377
Sacramento, CA 95899-7377

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE PUBLIC WATER
SYSTEM SUPERVISION PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE PROGRAM-SPECIFIC AUDIT
OPTION UNDER OMB CIRCULAR A-133**

Compliance

We have audited the California Department of Public Health's Public Water System Supervision Program's compliance with requirements described in the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the department's program for the year ended June 30, 2012. Compliance with the requirements of laws, regulation, contracts, and grants applicable to its program is the responsibility of department's management. Our responsibility is to express an opinion on the department's Public Water System Supervision Program compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained on Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have direct and material effect on the Public Water System Supervision Program occurred. An audit includes examining, on a test basis, evidence about the department's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the department's compliance with those requirements.

In our opinion, the department complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its Public Water System Supervision Program for the year ended June 30, 2012.

Internal Control Over Compliance

Department management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulation, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the department's internal control over compliance with the requirements that could have a direct and material effect on its Public Water System Supervision Program in order to determine the auditing procedures for the purpose for expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the department's internal control over compliance.

A deficiency in the internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness, as defined above.

This report is intended solely for the information and use of department management, others within the department, and the federal awarding agency, and is not intended to be and should not be used by anyone other than these specified parties.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

March 29, 2013

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

SECTION I—Summary of Auditor’s Results

1. The auditor’s report expresses a qualified opinion on the Schedule of Expenditures of Federal Awards of the California Department of Public Health’s Public Water System Supervision Program.
2. No instances of noncompliance material to the Schedule of Expenditures of Federal Awards of the Public Water System Supervision Program were disclosed during the audit.
3. No significant deficiencies in internal control over the Public Water System Supervision Program are disclosed.
4. The auditor’s report on compliance with requirements that could have a direct and material effect on the Public Water System Supervision Program expresses an unqualified opinion.
5. We determined that the California Department of Public Health is a high-risk auditee.

SECTION II—Financial Statement Findings

No findings were noted.

SECTION III—Federal Award Findings and Questioned Costs

No findings were noted.

Summary Schedule of Prior Audit Finding Year Ended June 30, 2012

Finding 2011-1: Unallowable payroll expenses**Environmental Protection Agency, Public Water System Supervision, CFDA 66.432,
Grant No. F00909909 (Grant Year 2009)**Condition

The Public Water System Supervision (PWSS) Program provides water system support and engineering services to various water systems throughout California. The program is funded by federal grants and water systems that are charged a fee for the services rendered by the program. Program employees use timesheets to account for the time they spend providing services to each water system. The time is then entered into the department's time-accounting system. The department's time-accounting system is used to report expenses for the PWSS Program and to capture billable hours for services rendered to the water systems. The department used two different time accounting output reports in the preparation of local water system invoices and federal grant requests and as a result, some of the employee hours charged to the PWSS federal program were also billed to the water systems. By billing both the federal grant and the water systems, the department received revenue twice for the same expenditure.

Recommendation

The California Department of Public Health should ensure that payroll hours billed to the water systems are not included as PWSS Program payroll expenditures. Correction of this problem will likely require reprogramming the time-accounting system. Although timesheets are properly reviewed by supervisors, the department should institute the internal control procedures of reviewing payroll expenditures charged to the PWSS Program.

Current Status

The department agrees that payroll hours billed to the water system should not be included as PWSS Program payroll expenditures. Correcting this problem required reprogramming the time accounting system (TAS). The department has reprogrammed the TAS system and implemented an internal control policy. The time accounting staff has been trained to ensure adequate and accurate billable hours are accounted for on a monthly basis. The department randomly reviews 20-30 employees submitted billable hours against funding codes and payroll expenditures to ensure that the hours reported to accounting match the hours charged to the specific fund. Implementing these verification procedures ensures that internal operating systems are working efficiently.

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