

# **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, 2011*



**JOHN CHIANG**  
California State Controller

October 2012



**JOHN CHIANG**  
**California State Controller**

October 1, 2012

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:

The 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, 2011.

Our audit found that, except for the effects of the noncompliance reported on the Schedule of Findings and Questioned Costs described in item 2011-1, the department complied, in all material respects, with the compliance requirements of the Public Water System Supervision program. The noncompliance in item 2011-1 describes an instance in which the department charged to the federal program employees' hours that were also billed to the local water systems. By billing both the federal grant and the water systems, the department received revenue twice for the same expenditures.

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**  
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)

# Contents

	<u>Page</u>
<b>Independent Auditor’s Report on Schedule of Expenditures of Federal Awards Issued in a Program-Specific Audit .....</b>	<b>1</b>
Schedule of Expenditures of Federal Awards for the Public Water System Supervision Program .....	2
Notes to Schedule of Expenditures of Federal Awards .....	3
<b>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 .....</b>	<b>4</b>
Schedule of Findings and Questioned Costs.....	6
<b>Attachment—CDPH’s Response to Draft Audit Report</b>	



**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, 2011. 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, except for the effects of the noncompliance reported on the Schedule of Findings and Questioned Costs, described in item 2011-1, 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

October 1, 2012

---

**Schedule of Expenditures of Federal Awards  
For the Public Water System Supervision Program  
Year Ended June 30, 2011**

---

Federal Agency/Program Title	Federal Catalog Number	Federal Expenditures
<b>U.S. Environmental Protection Agency:</b> Public Water System Supervision	66.432	\$ 7,828,247

The accompanying notes are an integral part of this schedule.

## **Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2011**

---

**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, 2011. 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.

As described in item 2011-1 in the accompanying schedule of findings and questioned costs, the department did not comply with requirements regarding allowable cost/cost principles that are applicable to its Public Water System Supervision Program. Compliance with such requirements is necessary, in our opinion, for the department to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2011.

## 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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 requirements 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a material weakness.

The California Department of Public Health's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the department's response and, accordingly, we express no opinion on the response.

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

October 1, 2012

---

## Schedule of Findings and Questioned Costs Year Ended June 30, 2011

---

### 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. One material weakness in internal control over the Public Water System Supervision Program disclosed during the audit is reported in Section III.
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 a qualified opinion.
5. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Section III of this schedule.
6. 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

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

The Public Water System Supervision 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 Public Water System Supervision Program and to capture billable hours for services rendered to the water systems. During our audit, we noted that 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 Public Water System Supervision 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.

---

## Schedule of Findings and Questioned Costs (continued)

---

### **Finding 2011-1** (continued)

Title 2, *Code of Federal Regulations*, Part 225 (2 CFR 225) requires the department to reduce the Public Water System Supervision Program federal grant reimbursements by the amounts received from the water systems. Appendix A, Subpart (C)(1)(i), states, “To be allowable under Federal awards, costs must . . . be the net of all applicable credits.” Appendix A, Subpart (C)(4)(a), states, “Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards. . . .”

We tested a sample of 40 employee timesheets, totaling 6,288 hours. Of these 40 timesheets tested, 22 contained an estimated 464 hours that were expensed to the federal program and also billed to the water systems, resulting in a projected error rate of 7.38% ( $464 \div 6,288$ ). The total known questioned direct labor costs are approximately \$25,300. Based on our projected error rate, the projected questioned costs, including indirect costs, are approximately \$436,600.

The department was not aware that it was expensing payroll costs that were also being billed to the water systems. The error was partially due to the department’s improper programming of its time-accounting system. The department did not have an internal control process to review payroll costs to ensure that the system was not billing both the water districts and the federal program for the same costs.

### Recommendation

The California Department of Public Health should ensure that payroll hours billed to the water systems are not included as Public Water System Supervision 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 Public Water System Supervision Program.

### CDPH’s Response

CDPH agrees that payroll hours billed to the water system should not be included as Public Water Systems Supervision (PWSS) payroll expenditures. CDPH corrected this problem by reprogramming the time accounting system (TAS). Effective March 1, 2012, Drinking Water reprogrammed TAS to ensure that we bill regulatory hours to water systems and not the Public Water System Supervision Program.

CDPH agrees that we should reinstitute the internal control procedures. Effective March 1, 2012, Drinking Water reinstated review of payroll expenditures charged to the program on a monthly basis followed by supervisory review. To ensure correct accounting of billable hours, Drinking Water randomly selects a sample of timesheets and reconciles them with TAS. We have trained additional staff to review the monthly payroll expenditures.

In addition, the audit noted that some of the CDPH employee hours charged to the PWSS federal program were also billed to the water systems. CDPH will reimburse the water systems for this duplicate billing through its normal billing procedures. Beginning with fiscal year 2011-12 billings, which Drinking Water will prepare in October 2012, CDPH will credit the water system bills.

**Attachment—  
CDPH’s Response to  
Draft Audit Report**

---



RON CHAPMAN, MD, MPH  
Director

State of California—Health and Human Services Agency  
California Department of Public Health



EDMUND G. BROWN JR.  
Governor

AUG 02 2012

Andrew Finlayson, Chief State Agency Audits Bureau  
State Controller's Office, Division of Audits  
P. O. Box 942850  
Sacramento, California 94250-5874

Dear Mr. Finlayson:

Enclosed is the California Department of Public Health's (CDPH) response to the State Controller's Office draft report, entitled "Compliance Audit of the Public Water System Supervision Program for the Fiscal Year Ended June 30, 2011." CDPH appreciates the opportunity to respond.

If you have any questions, please contact Karen Petruzzi, CDPH Audit Coordinator, at (916) 650-0266.

Sincerely,

*Kathleen Billingsley for Dr. Ron Chapman*

Ron Chapman, MD, MPH  
Director & State Health Officer

Enclosure

California Department of Public Health Response to the State Controller's Office  
Compliance Audit of the Public Water System Supervision Program  
for the Fiscal Year Ended June 30, 2011  
July 2012

**RECOMMENDATION 1:**

**The California Department of Public Health (CDPH) should ensure that payroll hours billed to the water systems are not included as Public Water System Supervision 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 reinstitute the internal control procedures of reviewing payroll expenditures charged to the Public Water System Supervision Program.**

**CDPH Response 1:**

CDPH agrees that payroll hours billed to the water system should not be included as Public Water Systems Supervision (PWSS) payroll expenditures. CDPH corrected this problem by reprogramming the time accounting system (TAS). Effective March 1, 2012, Drinking Water reprogrammed TAS to ensure that we bill regulatory hours to water systems and not the Public Water System Supervision Program.

CDPH agrees that we should reinstitute the internal control procedures. Effective March 1, 2012, Drinking Water reinstated review of payroll expenditures charged to the program on a monthly basis followed by supervisory review. To ensure correct accounting of billable hours, Drinking Water randomly selects a sample of timesheets and reconciles them with TAS. We have trained additional staff to review the monthly payroll expenditures.

In addition, the audit noted that some of the CDPH employee hours charged to the PWSS federal program were also billed to the water systems. CDPH will reimburse the water systems for this duplicate billing through its normal billing procedures. Beginning with fiscal year 2011-12 billings, which Drinking Water will prepare in October 2012, CDPH will credit the water system bills.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**