



# MULTNOMAH COUNTY Auditor's Office

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503-988-3320

## Audit Report

July  
2008

LaVonne Griffin-Valade, Multnomah County Auditor

Judith DeVilliers, Principal Auditor

## Implementation of the External Auditor's Recommendations

### Follow-up of the FY07 audits

#### Background

To provide additional independence in the external audit process, the Multnomah County Auditor's Office agreed to monitor the county's external audit of financial statements and federal awards and to provide administrative and technical assistance to the county's Audit Committee. As part of this new function, we agreed to conduct a follow-up of the county's implementation of recommendations made by the external auditors, Moss Adams LLP, in their Fiscal Year 2007 (FY07) audits. The Board of County Commissioners was briefed by Moss Adams on February 14, 2008, and a summary of the results of those audits follows.

Financial Statement Audit The result of the financial audit was an unqualified opinion on the county's financial statements. As part of the financial statement audit, Moss Adams provided a management advisory letter to the Board noting these issues:

- A continued lack of timely reconciliations of the Health Department's EPIC billing system to the county's SAP system was reported as a significant deficiency under auditing standards.
- Management advisory comments included recommendations relating to the following: (1) authorized bank signers; (2) budget over expenditure; (3) payroll expense coding; and (4) an interfund loan.

Federal Awards Audit Moss Adams' report on the county's compliance with requirements applicable to major programs in accordance with *OMB Circular A-133* resulted in four findings:

- The first related to the financial statement finding concerning the Health Department's lack of reconciliations noted above.
- The second finding was considered a significant deficiency in internal control and an instance of noncompliance relating to payroll reporting on several federal grants.
- The third finding was an instance of noncompliance in the Weatherization program.
- And the fourth related to a lack of controls and an occurrence of fraud in a program in the Health Department.

Moss Adams also issued a management advisory letter related to the audit of federal awards with the two recommendations regarding the timely submission of reports and site reviews of sub-recipients.

## Scope and Methodology

Our follow-up of the implementation of recommendations from Moss Adams' audits of the county's financial statements and federal awards included interviews with management and staff and a review of pertinent documents. We also worked with staff in the Finance Division of the Department of County Management (DCM) who have been providing assistance to departments to resolve the findings from the Moss Adams audits.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives

## Results

### **Timely reconciliation between EPIC and SAP for accounts receivables – Implemented:**

This recommendation is included in both the financial audit and the federal awards audit. Health Department management reported they have quarterly EPIC to SAP reconciliations completed for December 2007 and March 2008, and expect to be timely for the June 2008 year-end reconciliation. They also report they will begin doing reconciliations for payments in addition to accounts receivable reconciliations.

### **Financial audit management advisory recommendations – Implemented:**

In addition to the significant deficiency noted above, Moss Adams became aware of several matters that represented opportunities for strengthening internal controls and operating efficiencies. DCM has implemented two of these recommendations – procedures for bank signatures and procedures for interfund loans. Management has procedures for ensuring that bank signature authorizations are updated as needed and has detailed procedures for accounting for interfund loans. As recommended, reporting for interfund loans for FY08 will disclose the restricted/dedicated part of the General Fund loan to the Federal State Fund.

Implementation of the other two management advisory recommendations has been made by the Department of Community Services. Management has revised procedures to ensure that the spending of all dedicated funds as compared to the budget will be monitored and reviewed timely. Management has also created a new procedure to ensure payroll costs allocated to capital projects are updated timely.

### **Federal awards audit findings and recommendations**

Moss Adams had four recommendations relating to findings noted in the "Schedule of Findings and Questioned Costs." The first recommendation which related to the significant deficiency reported in the financial audit and discussed above has been implemented. Status for implementation of the other three recommendations is discussed below.

#### ***1) Payroll reporting - Partially Implemented:***

Some payroll costs charged to federal grants in the Health Department and the Department of County Human Services (DCHS) were based on grant budgets rather than actual payroll costs. Payroll costs are required to be reported as actual time or based on an approved alternative method.

The Health Department reported they are now collecting certifications twice a year for employees who work on only one grant. They will continue to use the Relative Value Unit (RVU) method of allocating time to multiple grants based on clinic visits for the 500+ employees working in a clinical setting. This alternate method was approved by the federal government in 2000. Management also reported they will begin requiring time sheets for approximately 70 employees who work on multiple federal grants; however, this new process will not be fully implemented until FY09.

DCHS reported they have begun doing time studies for staff who need this done and will continue refining the process throughout this coming year. Additionally, the Finance Division has been working with departments other than those identified in the audit to ensure they have a process to meet the federal guidelines for reporting payroll expenses on federal grants and awards.

**2) *Weatherization program eligibility – Implemented:***

DCHS has a procedure in place and has reminded staff of the need to independently verify eligibility for the Weatherization program for clients who are also in the Energy Assistance program.

**3) *Health Department cash accounts – Implemented:***

The Health Department reported they have had training for all employees involved with cash handling, changed their procedures, and implemented an audit/review process to ensure cash handling procedures are being followed.

**Federal awards audit management advisory recommendations – Implemented:**

Moss Adams provided management advisory comments in addition to the findings noted in the “Schedule of Findings and Questioned Costs” for the audit of federal grants.

The first of these related to timely grant reporting. According to management the Health Department is currently up-to-date with federal reporting requirements. The other recommendation related to on-site fiscal monitoring. The Finance Division has modified policies and procedures and developed a risk-based approach to on-site fiscal monitoring that will improve the rotation of on-site monitoring, while still meeting the monitoring responsibilities on a timely basis.

**Recommendations:**

We commend all departments for having implemented the recommendations from the external auditors.

We recommend the Health Department continue its efforts in timely reconciliations of EPIC to SAP which occur on a quarterly basis, and that they fully implement their plans for using time sheets to document payroll costs for employees who work on multiple federal grants.

**Management’s response letter can be found on the following page.**



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TO: LaVonne Griffin-Valade, Auditor Multnomah County  
FROM: Mindy Harris, CFO *Mindy Harris*  
Department of County Management

DATE: July 11, 2008

SUBJECT: Fiscal Year 2007 External Auditor Comments Follow Up

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Thank you for the opportunity to review the Auditor's follow-up report on the County's implementation of external audit recommendations made by Moss Adams as a result of the 2007 year-end audit.

As your follow up report notes, many of the external auditor's recommendations have been addressed by Departments, and those recommendations that have not been fully implemented are still in progress. The Department of County Management Finance and Risk Management division recognizes and appreciates the hard work and effort put forth by Departments to address concerns and recommendations raised by our external auditors. We will continue to work with and assist Departments in their implementation of Moss Adams recommendations.

We appreciate the follow-up work your office has done with Departments responsible for addressing and implementing recommendations provided by the external auditors as a result of the fiscal year 2007 audit. If you have any other questions or need further information please don't hesitate to contact me.