

City of Berkeley



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CONSENT CALENDAR
September 15, 1998

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor *AMH*

Subject: HEALTH AND HUMAN SERVICES GRANT BILLING AUDIT

RECOMMENDATION:

That Council accept the Health and Human Services Grant Billing Audit.

That Council request that the City Manager provide Council with quarterly reports which address the status of audit findings and recommendations until all recommendations are implemented or findings are cleared by alternative means. The first report should be presented to Council by November 17, 1998.

BACKGROUND:

One-third of fiscal year 1996-97 grant dollars which HHS must bill to obtain funding were reviewed. Prior year receivables associated with these grants were also reviewed. 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 (determined from the review of receivables) 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.

A quarterly grant report prepared by Finance with input from HHS provides outstanding grant receivable and unbilled expenditure information. This report contained significant errors and was 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.

The following control issues and concerns were also noted:

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 Written policies and procedures regarding revenue contract application and processing in the HHS Department are outdated and are not followed.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

FINANCIAL IMPLICATIONS:

When large sums of general fund money are unnecessarily advanced to fund HHS grant programs (due to untimely billing) the City's losses can be measured by the interest which was not earned because this money was loaned out interest free, and was not available for other purposes.

Inaccurate reporting of grant receivables and grant activity can negatively impact financial decisions made by City management.

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Approved by:


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