



City of  
Corpus  
Christi

**AU14-011**  
**Corpus Christi-Nueces County Public Health District**  
**and**  
**Financial Services Department**  
**Grant Accounting**

**City Auditor's Office**  
**Arlena Sones, CPA, CIA, CGAP**  
**City Auditor**

**May 22, 2015**

# Executive Summary

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This is the second of two reports communicating the results of an audit of the Corpus Christi-Nueces County Public Health District (Health District). The first report was released in January 2015, and it communicated issues related to the Health District's 1115 Waiver projects.

## **Audit Objectives**

The objectives of this portion of the audit are to determine if Health District clinic supervisors are provided with financial information to manage their programs and to determine if grant program revenue and expenditures are properly accounted for and reported.

This report contains 15 issues related to grant accounting beginning with the budget process. Issues continue throughout the grant management process and end with the City's consolidated annual financial statements (CAFR) and the Single Audit.

We identified revenue streams in the Health District grant fund (1066) which are not grant related and belong, in part, to the City's general fund and to Nueces County. The City's Financial Services Department and the City's external auditor estimate the amount to be approximately \$700,000.

It should be noted that some of the issues related to grant accounting affect the other 18 grant funds in the City.

## **Audit Conclusions**

We conclude that Health District clinic supervisors are not provided sufficient financial information to manage their programs, and grant revenue and expenditures are not properly accounted for or reported.

Recommendations are made to City Executive Management, the Health District and Financial Services Department.

## **City Auditor's Evaluation of Management Response**

Audit standards (GAGAS 7.37) require us to evaluate management responses and to address responses that do not adequately address the recommendations. We have done so for Issues C, H, L, M, and O in the body of this report.

Finally, we would like to acknowledge the commitment of the Health District to its patients and clients.

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## Introduction

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### Background

To address allegations received in 2014 regarding the Corpus Christi-Nueces County Public Health District (Health District), we divided audit work into two reports. In January 2015, we released the first audit report which addressed the allegations related to the 1115 Waiver projects. This report documents our audit of financial matters that affect clinic operations throughout the Health District.

The Health District's mission is to assure the general health and physical well-being of the community. The Health District is co-funded by the City of Corpus Christi (the City) and Nueces County (the County). In FY 2014, the City budgeted \$2.6 million to fund the Health District. Additional funding was provided through various federal and state grants. The City was awarded nine grants through the Texas Department of State Health Services (DSHS) totaling \$1,825,660. See Exhibit 1 below.

### Exhibit 1

<b>DSHS Grant Year 2014</b>	
<b>Grant Project Description</b>	<b>Amount</b>
Women, Infant, and Children (WIC)	\$ 1,059,339
Immunization Local	241,637
Regional and Local Services Section	164,368
Infectious Disease Control	5,000
CPS-LAB Resp Network PHEP	166,825
CPS-LAB Resp Network HPP	34,298
Tuberculosis Prevention and Control - Federal	48,520
Tuberculosis Prevention and Control - State	83,173
Seafood & Aquatic Life Group	22,500
<b>Total</b>	<b>\$ 1,825,660</b>

### Audit Objectives and Conclusions

The allegation contends that program managers over the various clinics and grants are not provided the financial information needed to successfully manage their programs. The complainants also stated that there were unreported funds available to the Health District.

We developed these objectives to determine if the allegations could be corroborated.

The audit objectives are:

1. Are Health District clinic supervisors provided with financial information to manage their programs?
2. Is City grant program income properly accounted for and reported?
3. Are City grant program expenditures properly accounted for and reported?

Our audit conclusions:

1. We corroborated the allegation that Health District clinic supervisors are not provided with financial information to manage their programs.
2. We corroborated the allegation that there are unreported funds available to the Health District, and we find that City grant program income is not properly accounted for or reported.
3. We also find that City grant program expenditures are not properly accounted for or reported.

### **Compliance with Generally Accepted Government Auditing Standards**

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial (and non-financial) activity is accurately reported and reliable, and management and employees are in compliance with laws, regulations, and agreements with other entities.

This audit report provides independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

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 audit results 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.

Audit steps were developed to provide sufficient evidence to answer the objectives of this audit. Test methodology can be found in **Appendix A - Audit Scope and Methodology**.

### **Staff Acknowledgement**

Kimberly Houston, Senior Auditor  
Jacey Reeves, Auditor  
Sarah Arroyo, Senior Management Assistant

## Audit Results and Recommendations

### A. Grants Not Included in Annual Budget Process

The Health District does not prepare structurally balanced budgets during the City's annual budget process for its grants. Further, the Health District does not input grant budgets into the budget module of the financial system, but relies on Financial Services Department (Finance).

Instead, the Health District submits its grant award appropriation requests to City Council at a later date (up to 218 days after the award letter is provided). To compound matters, Finance and the Office of Budget and Strategic Management (Budget) both approve the incomplete budgets submitted to City Council for appropriation through the City Council Legistar system.

For example, the Health District was notified by DSHS of grant funding for the 2014 WIC grant on three occasions (August 2013, February 2014, and June 2014) for a total award amount of \$1,059,339. However, the Health District did not enter grant award amounts as revenue in the budget module (see Exhibit 1). Only \$455,258 was entered as expenditures (see Exhibit 2). A structurally balanced (complete) budget would include all funding sources (i.e. the agency award amount, the City's required match, program income) and expenditures.

#### Exhibit 1

City of Corpus Christi, Texas  
Annual Revenue Estimate Compared to Actual Collected  
For the 2 month(s) ended September 30, 2014

Fund: 1066-Health Grants

Acct No.	Account Description	2014 Original Estimate	2014 2 Month Extension	Annual Estimate	Total 14 Month Revenues	Variance
303905	WIC	\$ -	\$ -	\$ -	\$ 800,458.99	\$ 800,458.99

Source: PeopleSoft Financials

#### Exhibit 2

CITY OF CORPUS CHRISTI, TEXAS  
SUMMARY OF APPROPRIATIONS AND EXPENDITURES  
AS OF SEPTEMBER 30, 2014

FUND: 1066-Health Grants

Project	Description	Original Budget	Amended Budget	Expenditures (Includes Beginning Balance)	Encumbrances	Unencumbered Balance
831314	WIC 13-14	\$ -	\$ 455,258.00	\$ 839,431.96	\$ 15,923.10	\$ (400,097.06)

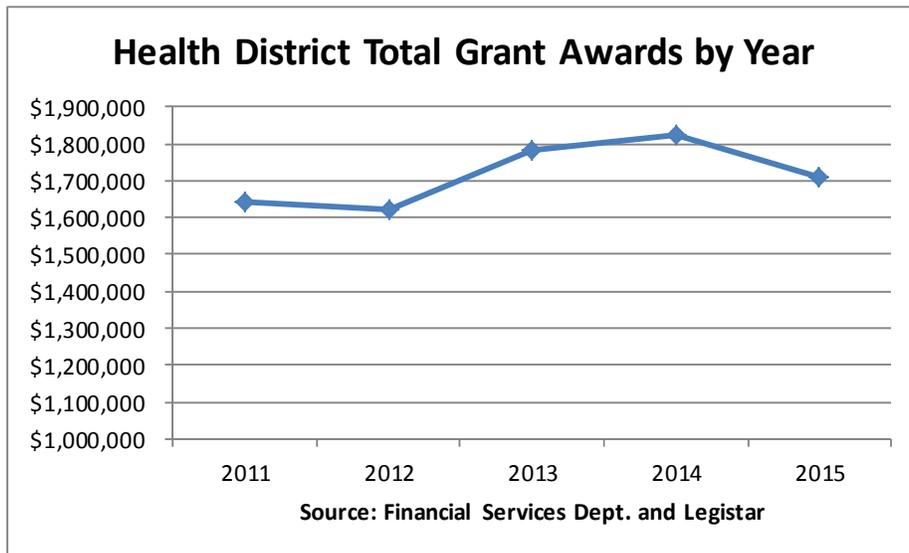
Source: PeopleSoft Financials

As a citywide practice, grant budgets are not prepared during the annual budget process because the Budget and Strategic Management Office (Budget) has no written

budgeting policy and procedures, and no one holds the departments accountable to the requirements of the City Charter.

Even though grant awards are not always known prior to the 60-day deadline, the amounts are generally consistent and easily estimated. The graph below shows Health District City grant award amounts since 2011.

**Exhibit 3**



Per the Government Finance Officers Association (GFOA), a government should integrate grants in the annual budget process. The City Charter echoes this guideline. Article IV, Section 2, states “at least sixty days prior to the beginning of the fiscal year, the city manager shall submit to council a budget proposal estimating city revenues and expenses for the next year. The proposed budget shall provide a complete financial plan of all city funds and activities for the ensuing fiscal year.”

As a result of not having approved, complete budgets prior to the start of the new fiscal year, grant expenses are posted into prior year grant projects. A current example is seen in grant employee salaries. In December 2014, salaries for 30 City employees performing work in the 2015 grant period were charged to 2014 grant projects which ended August 2014.

After the new grant projects are set up, Finance researches each expired grant and prepares a journal entry to reclassify expenditures out of the expired grant projects and into the new. This additional work is time-consuming.

In addition to causing extra work, posting salaries to expired grants misrepresents the financial status of the current grant. Anyone relying on financial reports in January 2015 would have inaccurate data because four months of salary expense was not reflected.

Regarding salary expense, Heath District Administration did not submit employee change forms (Form 12) to Human Resources to reclassify the salary expense into the current grant project year until January 12, 2015.

**Recommendation:**

Heath District Administration should comply with the City Charter budget directive by:

- 1) Preparing a structurally balanced budget for each grant that contains the agency award amount, the City’s required match, program income, and expenditures during the annual budget process.
- 2) Inputting budget data into the budget module.
- 3) Preparing employee change forms (Form 12) for all grant employees during the annual budget process.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<ol style="list-style-type: none"> <li>1. Agree</li> <li>2. Agree</li> <li>3. Agree</li> </ol>	<ol style="list-style-type: none"> <li>1. Andrea Hanner, Lala Yerger, Ashley Dillan, Amy Barresi, Cheryl Dietz, Donna Rosson, Noelia Rodriguez, Linda Simmons, Christina Zamarripia, HD program managers with grants</li> <li>2. HD Program Managers, Andrea Hanner, Lala Yerger, Ashley Dillan, Amy Barresi, Cheryl Dietz, Donna Rosson, Noelia Rodriguez, Linda Simmons, Christina Zamarripia</li> <li>3. HD Management Assistant, Dina Chavez</li> </ol>	<ol style="list-style-type: none"> <li>1. September 30,2015</li> <li>2. Once set by City</li> <li>3. Complete</li> </ol>
<p><i>Action Plan:</i></p> <ol style="list-style-type: none"> <li>1. Due to a separation of HD accounting responsibilities, the City Finance Department had responsibility for inputting HD grants, but the standard practice was that revenues were not required to be inputted for grant projects. Moving forward after May 20<sup>th</sup>, the Health District Managers will be trained by the HD accountant and Finance staff and will assume the responsibility of inputting a structurally balanced budget for their respective divisions on grants received, which would include revenues and expenditures.</li> <li>2. While we agree and actually have requested this for quite some time; the City currently does not have a system in place, for any City department to input grants into the budget module during the annual budget process. As soon as the City process is set up, we will input all HD grant budget information as required. In the interim, the HD program managers will input the grant budgets directly into the financial software module, as the HD accountant had done this last year.</li> <li>3. HD management assistant prepares form 12s for all HD grant employees annually once City Finance sets up the new grant project numbers. The form 12 cannot be done properly until such time. HD will work with closely with Finance to set up new grant project numbers annually to allow form 12s to be submitted on a timely basis. Once the City has a process set up to input grants during the annual budget process, this should no longer be problematic.</li> </ol>		

City Executive Management should:

- 4) Require the Budget Office to develop written policy and procedures for annual budgeting that would bring all City departments with grant funding into compliance with City Charter, Article IV, Section 2 and GFOA guidelines.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
4) Agree	Wes Pierson, Assistant City Manager for General Government Support Eddie Houlihan, Assistant Director of Budget Annette Rodriguez, Health Director	November 1, 2015

*Action Plan:*

The Health Director will cooperate fully with the Budget Office and ACM to make the needed changes for all Health grants.

The Assistant Director of Budget, under direction of the ACM for General Government Support, will develop and implement written policies and procedures. These will require all Departments with grant funding to comply with City Charter Article IV, Section 2 and GFOA guidelines:

City Charter Article IV, Administration, Section 2. Fiscal Year; Budget Submission, Contents, and Adoption; Appropriation.

- (a) The city's fiscal year shall be set by ordinance, but shall not be changed more often than every four years except by two-thirds vote of the council.
- (b) At least sixty days prior to the beginning of the fiscal year, the city manager shall submit to the council a budget proposal estimating city revenues and expenses for the next year.
- (c) Expenditures in the proposed budget will not exceed estimated revenues and funds available from all sources.
- (d) The proposed budget shall provide a complete financial plan of all city funds and activities for the ensuing fiscal year and shall be in such form as the manager deems desirable or the council may require.
- (e) The city council shall adopt a balanced budget prior to the beginning of the fiscal year. If it fails to adopt the budget by this date, the amounts appropriated for current operation for the current fiscal year shall be deemed adopted for the ensuing fiscal year on a month to month basis, with all items in it prorated accordingly, until such time as the council adopts a budget for the ensuing fiscal year.
- (f) The city council shall appropriate monies as provided in the budget.

GFOA Guidelines - "Establishing an Effective Grants Policy" and "Administering Grants Effectively" – See attachments.

- 5) Require a more robust review on the part of the Budget Office and Finance related to grant appropriations in Legistar. Items without a structurally balanced budget should not be submitted to City Council for approval.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
5) Agree	Constance Sanchez, Financial Services Director Eddie Houlihan, Assistant Director of Budget Wes Pierson, Assistant City Manager	June 1, 2015
<p><i>Action Plan:</i></p> <p>The Director of Financial Services and Assistant Director of Budget, under direction of the ACM for General Government Support, will review all departments' agenda submittals for grant requests, funding allocations and appropriations. Prior to the completion of written policies and guidelines under Recommendation #4, Financial Services and Budget will ensure that agenda items that do not have a structurally balanced budget are not approved for placement on the Council agenda for action.</p> <p>Once written policies, procedures and guidelines are completed as noted in #4 above, Financial Services and Budget will ensure departments comply with them on an ongoing basis.</p>		

Finance should:

- 6) Close and inactivate grant projects in the accounting system within 30 days of the grant ending date (depending on specific grant provisions) to prevent current expenses from posting into old grant projects.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	Will be implemented immediately and will vary for each grant depending on the specific grant provisions.
<p><i>Action Plan:</i></p> <p>The Finance grant accountant will close out and inactivate each grant project in the accounting system (INFOR) within 30 days of the grant ending date (depending on specific grant provisions).</p>		

### **B. County Grant Appropriated in City Budget**

The Health District has appropriated and accounted for a County grant (STD/HIV) since 2009 in the City's grant fund (1066).

For the seven year period of FY 2009 to FY 2015, the Health District has submitted appropriations to City Council for the County's STD/HIV grant.

Health District accountants periodically create an invoice from the County to the City to disperse the net program income (revenue less expenses) due to the County. Finance's Accounts Payable division submits the payment of the program income to the County.

Per Health District Accounting staff, the STD/HIV grant was previously awarded to the City. Measures were not taken to fully transfer the grant's financial activity from the City to the County.

**Recommendation:**

Health District should:

- 1) Make necessary arrangements with the County to appropriate estimated revenue and expense for the STD/HIV for the remainder of FY 2015 within the confines of the interlocal agreement between the City and the County.
- 2) At the appropriate time, instruct staff to remit revenue to the County for STD/HIV grant program income.
- 3) Work with Finance to determine the amount of surplus revenue, if any, payable to the County.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. Health Director, Annette Rodriguez	1. Complete
2. Agree	2. Health Director, Annette Rodriguez	2. Complete when approved
3. Agree	3. HD Accountant, Blandina Costley	3. Complete
<i>Action Plan:</i>		
<ol style="list-style-type: none"> <li>1. Health Director spoke with County Auditor's Office, and they know when to appropriate revenue and expenditures for County STD/HIV grant.</li> <li>2. HD staff was instructed to stop remitting County revenue to City's coffers a few years prior; they are well aware and are working on completing the process. Currently the only County revenue going to the City coffers is revenue from one City credit card terminal. The County Auditor is aware of the need for a "county" credit card terminal but has not approved the purchase at this time; therefore the process cannot be completed until such time. The other option would be to not accept credit card payments which could be a deterrent to our patients.</li> <li>3. HD accountants worked with the City's Finance Department, County Auditors, and division managers to determine the amount, if any, of surplus revenue owed to the County. No surplus was noted - just the normal monthly reimbursement amount which was submitted for payment to the County. Monthly reimbursement has been implemented.</li> </ol>		

Finance should:

- 4) Close and inactivate grant fund project numbers in the financial system related to the County's STD/HIV grant and no longer pay expenses for this grant (within the confines of the interlocal agreement).

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Rocky Barrera, Grants Senior Accountant	June 30, 2015
<p><i>Action Plan:</i>                      The Finance grant accountant will close and inactivate all grant project numbers in INFOR related to the County's STD/HIV grant. However to be in compliance with the Memorandum of Understanding (MOU) between the City of Corpus Christi and Nueces County regarding the City paying all expenses related to the Health District on behalf of Nueces County and then billing Nueces County, the City will continue to pay for expenses for the STD/HIV grant but will charge those expenses to the fund established as a result of the MOU (Fund 9100) and will no longer charge those expenses to the grant fund.</p>		

**C. Incomplete Grant Record Keeping**

Grant records are incomplete, and they are not stored in one centralized location. The Health District did not have fully executed contracts for any of the nine DSHS grants, and the Health District’s records retention schedule does not include grant contract documents.

For this audit we had to obtain grant documents from the DSHS, City Secretary, Legistar, Finance, Health Administration, and Health District grant program managers.

Per the *Contractor’s Financial Procedures Manual*, [the Health District] must retain records in accordance with the State of Texas Records Retention Schedule.<sup>1</sup> Contracts must be maintained for four years after contract expiration.

When grant records are not sufficiently maintained, the department may not be fully aware of, or in compliance with grant stipulations. For example, Health District accounting staff was not aware of a \$17,199 award increase for 2013-2014 federal tuberculosis (TB) grant.

**Recommendation:**

Health District Administration should:

- 1) Maintain all grant documentation in a centralized location by creating a checklist of required documents for each grant project to include the disposition date.
- 2) Update its portion of the City’s Local Government Records Control Schedule to include grant contracts.

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<sup>1</sup> DSHS State of Texas Records Retention Schedule is located at <http://www.dshs.state.tx.us/records/schedules.shtm>

Agree/Disagree	Responsible Party, Title	Completion Date
<ol style="list-style-type: none"> <li>1. Agree</li> <li>2. Disagree</li> </ol>	<ol style="list-style-type: none"> <li>1. HD Accountant, Blandina Costley</li> </ol>	<ol style="list-style-type: none"> <li>1. Complete</li> </ol>
<p><i>Action Plan:</i></p> <ol style="list-style-type: none"> <li>1. All City HD grant documentation is kept in a centralized location, which includes grant contract, amendments, budgets, etc. A checklist was recently developed and has been put in place effective May 1, 2015.</li> <li>2. Since the Health District is not a standalone entity and is a part of the City and of the County, the HD does not keep the "original" contracts (grants) that have been approved and executed by City Council or Commissioners Court. These "originals" are kept at the City Secretary's Office for the City grants. HD has copies of the grants, but these are simply for convenience and as such are not required to be in neither the Texas Library State Record Retention system, nor the City's Local Government Record Control Schedule. The City and County maintain the originals once approved through the governing bodies according to their Local Government Record Control Schedules.</li> </ol>		

**City Auditor's Evaluation of Health District Response:**

*The issue is that the Health District's records retention schedule does not include "grant contract documents" as required by the State of Texas, DSHS, and various grant provisions.*

*Our recommendation is for the Health District to update its portion of the City's Local Government Records Control Schedule to include grant contract documents.*

*We strongly urge the Health Director to reconsider her response.*

**D. Non-Compliance with Contractor's Financial Procedures Manual**

The Health District has developed one of twelve accounting policies required by DSHS.

Per the *Contractor's Financial Procedures Manual* grant recipients must maintain policies that address various accounting topics. Further, staff responsible for the financial administration of DSHS contracts must be familiar with the manual. Similarly, GFOA recommends a written grants policy for effective grants management.

The Health District states that they rely on Finance's policies and procedures; however, Finance has not developed all of the required policies. The following table identifies the required DSHS accounting procedures and the existing procedures for the Health District and Finance. None of the existing policies contain procedures specific to grants.

Most of the issues in this audit report can be attributed to a lack of familiarity with the *Contractor's Financial Procedures Manual* and the lack of written policy and procedures for grant administration.

**Exhibit 4**

Financial Policy and Procedures		
Category Required by DSHS	Health District	Finance
Revenues/accounts receivable	No	F3.0
Billing/payment requests	No	No
Cost allocation	No	No
Payroll	No	No
Expenditures/accounts payable	No	F3.0
Procurement of goods and services	Yes	P3, 6, 7, 9,11,12
Local match*	No	No
Program income	No	No
Fixed assets inventory records	No	F15.0
Petty cash	No	F4.0
Travel	No	F13.0
Subcontractor fiscal compliance monitoring*	No	No
*If applicable		

**Recommendation:**

Health District Administration should:

- 1) Develop and implement procedures for grant administration as required by the *Contractor's Financial Procedures Manual*.
- 2) Provide adequate training for its accounting staff to familiarize them with the department's new procedures and the *Contractor's Financial Procedures Manual*.

Agree/Disagree	Responsible Party, Title	Completion Date
1. Agree	1. HD Accountant, Blandina Costley	1. Complete
2. Agree	2. HD Director, Annette Rodriguez	2. Sept. 30 2015
<b>Action Plan:</b>		
<ol style="list-style-type: none"> <li>1. The Health District in accordance with DSHS's, Contractual Financial Procedures Manual (CFPM) has developed internal grant administrative financial procedures as of March, 2015.</li> <li>2. City Finance Department Senior Accountant has agreed to train HD accountant and program managers on his duties as it relates to the health grants as per DSHS's CFPM. This will allow HD accountant to be cross-trained in case the Sr. Accountant is out so duties can be assumed as needed to maintain grant budgets. Various financial training has been conducted with HD accountants and program managers. CFPM has been loaded on the HD's shared drive to facilitate access. HD program managers &amp; accountants will be sent to DSHS training as training becomes available and as funding allows to familiarize the program managers with DSHS's CFPM.</li> </ol>		

Finance should:

- 3) Develop and implement a grants policy for department use.
- 4) Provide adequate training for its grant accounting staff to familiarize them with the department's new grants policy and the *Contractor's Financial Procedures Manual*.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	September 30, 2015
<p><i>Action Plan:</i> Finance will develop a grants policy for grants Finance accounting staff to use by incorporating procedures from the <i>Contractor's Financial Procedures Manual</i> and from procedure manuals from other cities. The grants policy and procedures manual will include procedures relating to the establishment of criteria for what activities will be recorded in grant funds; procedures relating to billing and payment requests for grant expenditures; cost allocation; payroll for grant expenditures; local match (if applicable); program income; and subcontractor fiscal compliance monitoring (if applicable). Once the procedures are developed and documented, then they will be shared and reviewed with all grant accounting staff.</p>		

**E. Grant Funding Not Maximized Through Indirect Costs**

Health District does not include indirect costs when reporting grant expenditures to DSHS for seven of the eight grants that allow for indirect costs.

By reporting indirect costs of grant projects, the Health District would be able to maximize grant funding.

Per the *Contractor's Financial Procedures Manual*, indirect costs are those that have been incurred for a common or joint purpose and are not readily chargeable to a specific cost objective. They are often aggregated into intermediate groupings, usually called cost pools (ex. MIS services, building maintenance), and are periodically allocated to final cost objectives.

As a result of not reporting indirect cost, the City could be underutilizing grant funding and paying more than its share of the grant expenses.

**Recommendation:**

Health District should report indirect costs to the grants that allow it.

Agree/Disagree	Responsible Party, Title	Completion Date
1. Agree	1. HD Managers, Accountants & Director, Andrea Hanner, Lala Yerger, Ashley Dillan, Amy Barresi, Cheryl Dietz, Donna Rosson, Noelia Rodriguez, Linda Simmons, Christina Zamarripia, Blandina Costley, Juanita Cabrera & Annette Rodriguez	Ongoing
<p><i>Action Plan:</i></p> <p>1. The HD managers, accountants and director will review grants during the renewal process and analyze which grants allow for and are capable of supporting indirect cost. Some HD grants currently do support and take out for indirect costs.</p>		

**F. Periodic Financial Reports Not Provided to Grant Managers**

Grant and program managers at the Health District are not provided accurate financial reports by Health District accountants on a periodic basis. Further, they are not informed of financial reports available from Finance.

Financial information for the Health District is maintained on the City’s financial system of record. Prior to October 2014, Finance provided expenditure reports for each fund/organization in the City’s shared drive. These reports contained a comparison of budget-to-actual expenditures from the legacy financial system of record, PeopleSoft; however, grant managers were not made aware of the accessibility of these reports. (See Exhibit 1 and 2 in Section A.)

With the implementation of the Infor financial system, these reports are no longer maintained on the shared drive, but can be directly accessed through the Infor system. Three of twelve managers were granted access and provided training in the new financial system.

Per the *Contractor’s Financial Procedures Manual*, the Health District and the City bear full responsibility for the integrity of the fiscal and programmatic management of the organization. Further, it states that information (reports, memos, and data) should be used as feedback for management functions, such as planning, organizing and directing so that necessary adjustments can be made.

Per Health District Administration, it has caused problems in the past when grant and program managers were provided financial information because they became territorial over their funding. Further, Health District Administration states that the grant and program managers should track their own revenue and expenditures due to delays on the part of Finance in posting financial data. (See related Issue M. Untimely Journal Entries.)

Without periodic financial reports, grant and program managers cannot make informed decisions related to revenue and expenditures. This increases the risk of overspending grant award amounts which could require a transfer from the City's general fund (1020) to cover the deficit. For example, on March 11, 2015, the Health District was notified that its 2014 Immunizations grant was overspent by \$39,524.

Alternatively, underspending the grant amounts leaves money on the table when it could have been used to provide more health services to the public. If grant funds are not used by the Health District, granting agencies could redirect future funding to other entities where more need exists.

**Recommendation:**

Health District Administration should:

- 1) Ensure financial transparency by providing access to periodic financial reports to grant and program managers.
- 2) Provide training for interpreting the financial reports, detecting transaction error, and determining if current transactions have been posted.
- 3) Require periodic monitoring of financial reports.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. HD Director, Annette Rodriguez	1. Complete
2. Agree	2. HD Accountant, Blandina Costley	2. Complete
3. Agree	3. HD Accountant & City Finance, Blandina Costley & Rocky Barrera	3. Complete

*Action Plan:*

1. All HD managers have been provided access to financial data/reports. In an effort for fairness and consistency, in the past County managers were not allowed access to "city" financials, therefore program managers, in general, were not required to manage their own financials. The city has since agreed to allow all HD managers (including county managers) access to "city" financial information so all managers are now responsible for the financial aspect of their programs. Granting managers access to financial information has been cyclical at the HD. Some managers, when given access, feel ownership of these funds and do not want to pay for required operational expenses, i.e. cost of bank deposit services, security, etc. We are working with managers to resolve these concerns.
2. Training has been provided to all managers; some have had to have two or three additional individual training sessions and the HD accountant has provided that training. Documentation of the training is available.
3. The HD Accountant(s) periodically monitors financial reports for all HD accountants. The City's Grants Senior Accountant also monitors these financial reports at least monthly as he submits B-13's for grant reimbursement to DSHS. The Senior Accountant shares this information with the respective HD program managers.

### G. Unreported Program Income

The Health District did not report program income of \$47,776 for the 2014 state TB grant to DSHS.

The *Contractor's Financial Procedures Manual* states that revenue earned as a result of a grant program must be allocated between DSHS and the City. DSHS' share of the revenue must be reported and reinvested into the grant program.

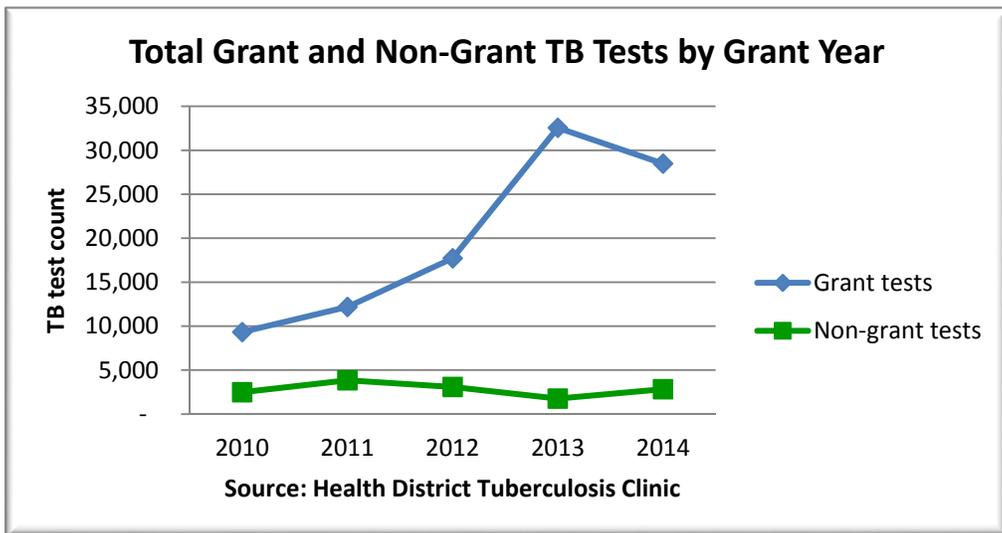
The Health District does not report program income for two reasons. First, revenue from TB grant patients (those exposed to TB) is not reported as program income because DSHS granted an exception to the Health District to exclude this revenue from grant reporting in 2008.

Secondly, the Health District believes that revenue earned from conducting TB tests on other (non-exposed) patients is not related to the TB grant. They do not consider this revenue to be program income. Also, the expenses for these test kits are not paid through the grant. DSHS grant provisions state "all revenues directly generated by this [grant] or earned as a result of this [grant] are considered program income."

We contacted DSHS to verify if the exception was still valid. DSHS stated that if circumstances have changed since the exception was granted, "the new circumstances should be considered in the context of the language in the Special Provisions."

A five-year trend analysis of the number of TB tests conducted shows a dramatic increase in the number of tests provided for TB grant patients since 2010. The graph in Exhibit 3 depicts the number of tests provided for grant and non-grant patients. Grant testing increased by 306%, from 9,321 to 28,486, as seen in Exhibit 5. The ratio of TB grant patients to other patients increased from 4:1 in 2010 to 10:1 in 2014.

Exhibit 5



When looking at the number of TB tests performed, it appears that the circumstances have changed since the exception was granted in 2008. Further, it is unlikely that the Health District would continue testing of other patients if the City's TB grant funding was discontinued.

When program income is not reported as required, reimbursement requests to DSHS would be overstated. The City would be liable to DSHS for any overpayment.

**Recommendation:**

Health District Administration should:

- 1) Consult with DSHS to evaluate the current circumstances of the TB grant program to determine if revenue from TB grant patients is reportable in grant year 2014-2015.
- 2) Consult with DSHS to determine if revenue from other (non-exposed) TB patients is reportable as program income and maintain documentation of their decision.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. HD Director, Annette Rodriguez	1. Complete
2. Agree	2. TB Manager, Lesley Salge	2. Complete
<i>Action Plan:</i>		
1. HD Director consulted with DSHS to evaluate the current circumstances of the TB grant program. DSHS agreed that the HD continues to be in compliance with reconciling HD TB grant(s) issued by DSHS.		
2. TB Manager consulted with DSHS to determine if revenue from other TB patients is reportable as program income and DSHS confirmed that HD is in compliance with how HD is currently conducting business and DSHS agreed that HD does not need to alter our current processes. Documentation available.		

**H. Project Codes Not Used for Grant Transactions**

Finance and Health District staff do not consistently use project codes for grant transactions. Project codes are used in the accounting string to identify separate cost centers. Without a project code, revenue and expenses are not segregated into distinct cost centers, but fall into one large grant fund.

The state TB program has two project codes: one for grant transactions and one for non-grant transactions. When accounting for daily cash transactions, TB staff does not include a project number on the daily cash balancing sheet to distinguish between the two cost centers. Subsequently, grant transactions are mingled with non-grant transactions.

The *Contractor's Financial Procedure's Manual* requires "a unique revenue account(s) that captures all income generated from activities performed under a DSHS [grant]."

**Recommendation:**

Health District Administration should:

- 1) Include project codes on all grant transactions including the daily cash balancing sheet and journal entries.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. TB Program Manager, Lesley Salge	1. Complete
<i>Action Plan:</i>		
1. Effective February, 2015 the TB Manager discontinued collecting the \$5.00 fee for copies of patients TB results. This practice had been recently implemented by the TB manager. Therefore project codes are not currently needed for this program but would be utilized in the future, as established by the City's Finance Department, if the practice is re-instated. The other HD programs do utilize project codes to identify funds, as needed, for their area.		

**City Auditor's Evaluation of Health District Management Response:**

*Unique project codes are created for each grant in the City, and they are required in the accounting string of every financial transaction (revenue or expenditure). We strongly urge the Health Director to comply with this requirement for every grant under her control.*

Finance should:

- 2) Include project codes on all grant transactions in the grant fund.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Rocky Barrera, Grants Senior Accountant	May 29, 2015
<i>Action Plan:</i>		
Finance's grant accountant will ensure that all grant transactions in the grant fund will include the applicable project code.		

**I. Grant Fund Contains Non-Grant Projects**

The Health District grant fund (1066) is a special revenue fund used to account for grant projects; however, it also includes non-grant projects.

In the grant listing provided by Health District staff, we noted four of the 16 projects are not grants, and they are not related to a City grant activity. Rows 12-15 in Exhibit 6 show the four projects. The surplus of revenue over expenditures remains in the grant fund, and the balance is not subject to City Council appropriations.

The revenue for these non-grant projects are similar to other Health Services revenue such as food service permits and vital statistic fees which are reported in the general fund. At the fiscal year-end, surplus revenue from food services permits and vital statistic fees flows into the general fund balance which then is subjected to City Council appropriations.

GFOA recommends establishing, documenting, and periodically reviewing criteria on how funds should be treated in the financial system. The GFOA's Blue Book<sup>2</sup> categorizes special revenue funds as a type of governmental fund that is "used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects."

Finance does not have documented criteria that would have precluded these activities from being reported in the grant fund.

**Exhibit 6**

<b>Health District Grant Fund (1066) Project Listing</b>				
<b>Item No.</b>	<b>Fund No.</b>	<b>Project No.</b>	<b>Project Description</b>	<b>Grant ID No.</b>
1	1066	831314	Women, Infant, Children Program	2014-045103
2	1066	830114	Immunization Local	2014-000014-00
3	1066	831114	Regional and Local Service Section	2014-000023-00
4	1066	830935S	Infectious Disease Control	2014-001102-00
5	1066	831515	CPS-Lab Resp Network PHEP	2014-001139-00
6	1066	831555	CPS-Lab Rest Network HPP	2014-001141-00
7	1066	830514	Tuberculosis/PC (federal)	2014-001384-00
8	1066	830414S	Tuberculosis/PC (state)	2014-001398-00
9	1066	830094S	Seafood and Aquatic Life	2014-043952
10	1066	830214L	Immunization Fees Program Income	Related to No. 2
11	1066	830559L*	TB Program Income Local	Related to No. 8
12	1066	830201L	Traveling Vaccine Program Income	n/a
13	1066	830202L	Medicaid-Clinical Program Income	n/a
14	1066	831418L	Medicaid Billing Program Income	n/a
15	1066	831419L	Lab Water Testing Program Income	n/a
16	1066	830842L**	STD Program Income	Related to County grant
* See Issue G. Unreported Program Income				
** See Issue B. County Grant Appropriated in City Budget				
<b>Source: Health District Accounting</b>				

<sup>2</sup> *Governmental Accounting, Auditing and Financial Reporting (GAAFR)* published by GFOA is commonly known as the Blue Book.

By classifying these four projects in the grant fund, any surplus at fiscal year-end does not flow into the general fund, but remains in the grant fund (1066).

**Recommendation:**

Finance should:

- 1) Establish criteria for what activities will be recorded in grant funds when it develops its grant policy (see Issue D. Non-Compliance with Contractor’s Procedures Manual).
- 2) Review grant fund activity to ensure that only grant activities are being reported in the grant fund and transfer non-grant funds to the general fund as needed.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	June 30, 2015
<p><i>Action Plan:</i>                      The criteria for what activities will be recorded in grant funds will be included in the grant policy and procedures noted in D3 above. Additionally, all grant fund activity will be reviewed to ensure that only grant activities are being posted in the grant fund. Any non-grant activity will be transferred to the General Fund. Adjustments have already been made for the health grants as a result of the fiscal year (FY) 2014 financial audit. Activity for all other grants will be reviewed and corrected (if needed) in FY 2015.</p>		

**J. Accumulated Funding in Deferred Revenue Account**

Residual amounts for revenue and grant accounts in the Health District grant fund do not flow into the unrestricted grant fund balance at fiscal year-end. Instead, Finance records a journal entry that identifies the funding as “deferred revenue.” The funds are parked into the deferred revenue account for future use. Health District employees refer to this funding source as the “rollover account.” (See Issue I. Grant Fund Contains Non-Grant Projects.)

Finance accounts for the financial transactions of this “deferred revenue” in a series of Excel spreadsheets. Each revenue account and grant project has its own spreadsheet with tabs for each of the prior years that still have residual funding.

During the new fiscal year, expenditures are deducted from the oldest grant year with available funds. Finance instructs Health District accountants as to which one of the expired project codes to use for the current expenses posted into the financial system. Each grant reimbursement is also recorded in the spreadsheet.

At the end of the current year, the spreadsheets are totaled, and a new “deferred revenue” journal entry is made in the financial system to reflect the current, cumulative year-end balance. This creates a negative (debit) balance in the revenue accounts. See Appendix B.

Finance could not provide an explanation for this accounting treatment.

As a result, the funding is not subject to the budgetary controls established by the City because the funds are not disclosed to City Council for appropriation.

Per Finance and the City's external auditor, the accumulated balance in the deferred revenue account is approximately \$700,000. An adjustment of approximately \$400,000 will be made to the 2014 CAFR to transfer the balance to the general fund (1020) because the revenue accounts are actually general fund transactions not related to grants. Finance believes that a portion of the \$700,000 could belong to the County (see issue B. County Grant Appropriated in City Budget) The adjustment in the Health District grant fund (1066) will be disclosed in the management letter that accompanies the 2014 CAFR.

It should be noted that this issue is not limited to the Health District grant fund (1066), but potentially affects 18 other grant funds in the City.

**Recommendation:**

Finance should:

- 1) Identify the accumulated funding in the grant fund (1066) with unrestricted use, and transfer these funds to the general fund (1020).
- 2) Discontinue the use of spreadsheets to track the accumulated funding after the funds have been transferred.
- 3) Close and inactivate all expired grant projects in the financial system to prevent the posting of current expenses into prior grant projects.
- 4) Work with the external auditor to disclose the adjustment in the 2014 CAFR.
- 5) Investigate all other grant funds to determine if they have residual funds in deferred revenue accounts that belong to the general fund (1020).

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	June 30, 2015

*Action Plan:*  
As part of the FY 2014 Comprehensive Annual Financial Report (CAFR), unrestricted health funds have been transferred to the General Fund and have been properly disclosed in the CAFR. All external spreadsheets to account for the deferred revenue balances will no longer be used. All activity relating to grants will flow through the financial software system (INFOR). We are currently reviewing all other department grant funds to determine if there are any residual funds in the deferred revenue accounts that need to be transferred to the General Fund. This review will be completed by June 30, 2015, and any adjustments will be reflected in the FY15 CAFR. Also as previously noted in A6, all expired grant projects will be closed and inactivated in INFOR to prevent posting of current expenses into prior grant projects.

**K. Accrued Revenue is Not Recognized**

Finance is not following GAAP when accounting for outstanding grant reimbursement amounts due from the State in the period (month) it is earned.

For instance, the actual amount of funding due from DSHS (the State) for the TB state grant was \$16,259 for the month of August 2014. However, no journal entry was made to accrue this revenue.

When grant reimbursement requests are submitted to the State, a journal entry should be made to recognize the earned revenue and outstanding balance due. Proper accounting for revenue, once it has been earned, is to recognize the earned revenue and record a receivable (due from the State) as shown below.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Due from State of Texas (116XX) Revenue (3XXXX)	\$16,259	\$16,259

Once proceeds are received from the State, the payment receipt should be recorded in the cash account and the receivable (due from the State) should be reduced.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash (10XXX) Due from State of Texas (116XX)	\$16,259	\$16,259

Performing these entries will aid in monthly bank reconciliations and fiscal year-end closing.

GAAP directs that governmental funds recognize revenue “in the accounting period in which they become susceptible to accrual-that is, when they become both measureable and available to finance expenditures of the fiscal period.”<sup>3</sup>

**Recommendation:**

Finance should:

- 1) Recognize accrued revenue by recording journal entries based on the actual amount of reimbursement due from the State at the end of the each period.
- 2) When reimbursement is received from the State, record the cash received and reduce the receivable.
- 3) Inform affected personnel of the changes in procedure.

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<sup>3</sup> Governmental Accounting Standards Board, Statement No. 22

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	For new grants, we will immediately implement. For existing grants, all corrections will be made by September 30, 2015.
<p><i>Action Plan:</i> This recommendation will be implemented immediately, and any corrections for existing grants will be made by the end of the current fiscal year. Previous supervisors in the Grants Division of Finance appear to have not understood how to properly account for grants as per Generally Accepted Accounting Principles (GAAP). We now have new staff in the Grants Division and will train them to ensure they have a proper understanding of how to account for grants.</p>		

**L. Insufficient Grant Local Match Funded by Program Income**

Finance did not accurately calculate the City’s local match for the TB grants, and its methodology to fund the local match violates grant provisions. Further, it is unclear why the Health District accountants do not perform this function.

Finance calculated the City’s local match for the 2014 state TB grant to be \$7,186; however, we calculated the match for state TB to be \$13,685 based on current expenditures. If the Health District expended the full amount of the state TB grant, the cash match would be \$16,635. (The actual match amount will vary based on the final amount of expenses reported to DSHS.)

Instead of using general funds to pay the required match for the 2014 TB grants, Finance transferred funds out of the TB program income account for both the state TB grant and the federal TB grant. This results in underreported program income.

Per the *Contractor’s Financial Procedure’s Manual* program income cannot be reported as the local match, and it cannot be transferred from one grant program to another.

It is unclear how Finance calculated the local match amount or why they used program income to fund the match; however, we believe it can be attributed to lack of written procedures, lack of training, and unfamiliarity with the *Contractor’s Financial Procedure’s Manual*. Another contributing factor is the lack of a structurally complete budget. (See Issue A. Grants Not Included in Annual Budget Process and C. Incomplete Grant Record Keeping.)

The process used by Finance violates DSHS rules, and it potentially results in the City being liable for the understated program income reported to DSHS and the remainder of the local match.

**Recommendation:**

Health District should:

- 1) Develop its accounting staff to be able to perform the financial aspect of grants management such as calculating and reporting the cash match.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. HD Director, Annette Rodriguez	1. Ongoing
<i>Action Plan:</i>		
1. HD program managers and accountants will be sent to DSHS training as it becomes available and as funding allows to familiarize both HD program managers and accountants with DSHS's CFPM.		

**City Auditor's Evaluation of Health District Response:**

*We appreciate management's agreement with the issue. Since monthly reporting is required, we believe (in-house) training should be provided as soon as possible to ensure the Health District accounting staff has the necessary knowledge to accurately prepare the reports.*

Finance should:

- 2) Correct the cash match for the FY 2014 state and federal TB grants.
- 3) Develop its accounting staff to be able to calculate a grant's local match, and to prepare the required grant reports in the event that it is required to continue these functions on behalf of the Health District.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	May 29, 2015
<i>Action Plan:</i>		
The cash match for the FY 2014 state and federal TB grants will be corrected as part of the FY 2014 CAFR. Procedures for calculating a grant's local match will be included in the grant procedures noted in D3 above, and all grant accounting staff will be trained so that everyone is aware of the proper methodology in calculating a grant's local match and preparing the required grant reports.		

**M. Untimely Journal Entries**

Finance does not post grant journal entries in a timely manner. We noted revenue posted up to 28 days after the business date and adjusting journal entries for expenditures made up to 299 days after the original transaction occurred. Further, Finance has not defined parameters for what it would consider "timely."

It is not known why Finance does not post transactions in a timely manner. This has been an ongoing issue, and it affects all City departments.

Timeliness is a basic accounting principle. Financial transactions need to be presented in time for users to fulfill their decision making needs. Untimely journal entries add to the difficulty of complying with grant monitoring guidelines (staying within budget) mentioned in Section D. Periodic Financial Reports Not Provided to Grant Managers. Further, it delays the bank reconciliation process.

**Recommendation:**

Finance should:

- 1) Define parameters for “timely” posting of journal entries.
- 2) Determine the reason for untimely journal entries and correct the issue. For example, if undeveloped staff is the reason, provide training; if staff is not as productive as possible, management should increase supervision and develop performance measures to track employee productivity; if resources are inadequate, consider reorganizing staff.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Alma Casas, Assistant Director of Financial Services	June 30, 2015

*Action Plan:*

- 1) In order to define parameters for “timely” posting of journal entries, we will discuss what defines a "timely" posting of journal entries with the external auditor and will confer with the Government Finance Officers Association (GFOA) to determine what best practices are.
- 2) In order to determine the reason for the untimely journal entries noted in this audit report, we will meet with the City Auditor's staff to get the details for the transactions noted in this finding to determine the specific reason for the untimely posting of journal entries in this particular case so that the issue can be identified and corrected.

**City Auditor’s Evaluation of Financial Services Response:**

*We urge the Financial Services Department to look beyond the two examples provided in this audit report to determine the underlying cause(s) for untimely posting of journal entries.*

**N. Misclassified Revenue in the Comprehensive Annual Financial Report (CAFR)**

Ten of 25 Health District general fund revenue categories were misclassified in the FY 2013 CAFR.<sup>4</sup> For instance, vital statistic fees of \$400,937 were misclassified as immunizations fees.

Per Finance, the manual cut and paste process from an MIS report to the CAFR worksheet was offset by one line, and the error was never detected. Per the external auditors, they do not review the CAFR line by line; they review the aggregated totals.

As a result, users of the CAFR were misinformed as to the sources of Health District revenue.

**Recommendation:**

Finance should:

- 1) Establish a more robust review of CAFR worksheets.
- 2) Work with external auditors to create an adjustment in the FY 2014 CAFR for each of the misclassified accounts, if needed.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Martha Messer, Chief Accountant	May 29, 2015

*Action Plan:*

1) Since the preparation of the Statement of Revenue and Expenditures for the General Fund for the financial audits noted in this report has been a semi-automated process whereby a query in PeopleSoft (the City's previous financial software system) was run utilizing the revenue and expenditure accounts in existence when the query was initially created but has thrown off the reporting for various lines in the Statement of Revenue and Expenditures when additional accounts were added or removed to the City's chart of accounts throughout the years, for the FY 2014 CAFR (and going forward if this query will be utilized with INFOR), accounting staff has compared the Statement of Revenue and Expenditures to the trial balance twice independently to ensure all information is being accurately reported.

2) The Chief Accountant has worked with the external auditors to determine that the "bottom line" total of the General Fund revenue and expenditures in the FY 2013 CAFR were reported correctly. Some of the individual line items, however, were off by a row or two, but since total expenditures in the General Fund were not misclassified, it has been determined that no adjustment is needed for the FY 2014 CAFR.

<sup>4</sup> City of Corpus Christi, 2013 CAFR, General Fund Schedule of Revenues and Other Financing Sources, pg. 96.

**O. Inaccurate and Incomplete Single Audit Reporting**

Finance did not report three Health District grants totaling \$79,298 in the 2013 Single Audit section of the CAFR. The missing grants are:

- 2013 Seafood and Aquatic Life (award amount \$22,500)
- 2012 Seafood and Aquatic Life (award amount \$22,500)
- 2012 CPS/LRN-Hospital Preparedness Program Preparedness <sup>5</sup> (award amount \$34,298)

Further, Finance misclassified current year grant expenditures into grant projects that expired as far back 2009. For example, the FY 2013 expenditures for the Seafood and Aquatic Life grant totaling \$6,596 were misclassified as follows:

- 2009 Seafood and Aquatic Life      \$ 124
- 2010 Seafood and Aquatic Life      \$1,637
- 2011 Seafood and Aquatic Life      \$4,835

The Single Audit data is based on a series of Excel spreadsheets used to manually track Health District grant and “rollover” revenue account balances outside the City’s financial system of record. The spreadsheets contain residual funding from prior grant years, and Finance will “spend down” the residual funds from prior years before using current grant funds. These spreadsheets are prone to errors and lack an audit trail. (See Issue J. Accumulated Funding in Deferred Revenue Account.)

As a result, users of the Single Audit are misinformed as to the number of grants received by the City, the total award amount, and how the City is utilizing its grant funding.

**Recommendation:**

Finance should work with the external auditors to:

- 1) Ensure grants tie to the financial system and are properly reported in the Single Audit.
- 2) Determine if restatement or adjustment is needed for the prior Single Audit.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree with recommendations; Disagree with first statement in Section O of the audit report.	Adriana Berlanga, Interim Grants Supervisory Accountant	May 29, 2015

<sup>5</sup> Preparedness and Community Preparedness Section/Laboratory Response Network-Hospital Preparedness Program.

**Action Plan:**

The first statement under Section O in the audit report is incorrect. The amounts presented in the internal audit report are budgeted numbers not actual expenditures, and only actual expenditures are required to be listed in the Single Audit. Therefore, the statement that “Finance did not report three Health District grants totaling \$79,298 in the 2013 Single Audit section of the CAFR” is incorrect. The detailed information provided in our CAFR is not required to be reported but is additional information that we choose to include, but in total all Health District grants were properly reported in the 2013 Single Audit.

1) In order to ensure that grants tie to the financial system, manual spreadsheets will no longer be utilized since all “rollover” revenue (i.e., deferred revenue) will either be properly recognized as revenue or transferred to the General Fund in FY 2014. Additionally, all closed grants will be inactivated in the financial software system.

2) Finance staff has reviewed the Single Audit with the external auditors and has determined that all necessary federal and state dollars were properly reported in total in prior CAFR's, and no restatements or adjustments for prior Single Audits are required.

**City Auditor’s Evaluation of Financial Services Response:**

*We appreciate management’s agreement with the issues; however we must point out the misinformation in its response.*

*Our first statement in Issue O is accurate. “Finance did not report three Health District Grants totaling \$79,298 in the 2013 Single Audit section of the CAFR.”*

*An excerpt of the 2013 Single Audit is presented below. It includes the 2009, 2010 and 2011 Seafood and Aquatic Life grants (awards and expenditures), but does not include the 2012 or 2013 Seafood and Aquatic Life grants in the listing.*

Federal Grantor/Pass-Through Grantor State Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Disbursements/ Expenditures
<b>Texas Department of State Health Services</b>				
<u>Direct Programs</u>				
Seafood & Aquatic Life		2009-028480	17,000	124
Seafood & Aquatic Life		2010-031609-001	18,000	1,637
Seafood & Aquatic Life		2011-035419	22,500	4,835
TB/PC		2012-039062	80,323	5,614
TB/PC		2013-041112-001	73,276	56,914
Infectious Disease Control		2013-041112-004	5,000	5,000
Governor's Advisory Council on Physical Fitness		2011-036280	85,000	(800)
<b>Total Direct Programs</b>			<b>301,099</b>	<b>73,324</b>
<b>Total Texas Department of State Health Services</b>			<b>301,099</b>	<b>73,324</b>

## Appendix A – Audit Scope and Methodology

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The audit scope includes August 1, 2012 through December 31, 2014. For trend analysis, we used information back to FY 2005. We conducted this audit from October 2014 through March 2015.

Our methodology included a review of nine DSHS grant contracts where the City is the contractor. We did not audit grants where the County is the contractor and we did not review grant performance measures.

We conducted interviews with staff and management at the Health District, Finance, and Budget Office to gain an understanding of City grant processes. We contacted the Texas Department of State Human Services (DSHS) for additional clarification as needed. We also contacted grant accountants at the City of San Antonio to discuss best practices.

We reviewed the financial reports provided to grant and program managers for the period 1/1/2014 to 10/30/2014. We interviewed Health District Administration, Health District accounting staff, and grant and program managers to determine the type and frequency of financial information provided.

We relied on data from the City's legacy financial system, PeopleSoft. We did not perform general or application control tests on the PeopleSoft system; instead, we performed direct tests on the financial data. We do not believe our lack of testing system controls affected the outcomes of this report. We viewed the spreadsheet reporting maintained by Finance to trace grant activity, but we did not rely on the data.

We tested 16 projects in the grant fund (1066) to determine if the projects were grant related or not. Using the Legistar system, we tested for City Council appropriation of nine grant awards, the City's cash match, and the grant budget for FY 2013. We obtained budget information from PeopleSoft to determine if each grant budget was structurally complete. Based on the results of this testwork, we expanded the scope to include each of the 19 grant funds for all City departments.

We judgmentally selected the state TB grant for testwork because it was the first grant package given to us. We recalculated the annual report of income and expenses for the 2014 grant year (9/1/13 to 8/31/14) prepared by Finance to determine if program income and expenditures were properly reported in accordance with the DSHS *Contractor's Financial Procedures Manual*. We also tested if the City's cash match had been met.

We performed a trend analysis of all Health District grant revenue from 2005 to 2014. We also analyzed TB grant activity from 2010 to 2014.

We reviewed financial transaction detail for 31 revenue accounts in the grant fund (1066) to determine why some grant revenue was reported as a negative (debit amount) in FY 2013.

We vouched Health District revenue accounts reported in the FY 2013 CAFR to PeopleSoft to check for accuracy. We traced Health District grant fund (1066) from PeopleSoft to the FY 2013 CAFR to determine completeness and proper classification. We used the FY 2013 CAFR because the FY 2014 CAFR had not yet been completed.

We considered prior year audits performed on the City's financial statements and related management letters.

We tested the expenditures of Health District grants reported in the FY 2013 Single Audit to determine why prior grant awards were included, and to determine if all current Health District grants were reported.

In conducting our audit, we relied on the following authoritative guidelines to serve as criteria for the audit:

- Federal and state grant contracts
- Texas Department of State Health Services (DSHS) *Contractor's Financial Procedures Manual and General Provisions*
- Professional services contracts
- City Charter, policy and procedures

We believe this testwork provides sufficient and appropriate evidence for our audit conclusions and findings.

## Appendix B – Health District Grant Fund (1066) Revenue

The report below shows revenue accounts in the Health District grant fund (1066) for the 12-month period ended July 31, 2013. As a result of inappropriate deferred revenue journal entries, the account balances in the financial system do not accurately reflect revenue collected throughout the fiscal year. This is immediately apparent in the revenue accounts with negative (debit) balances shown in lines 1-7; however, it also occurs in the other accounts.

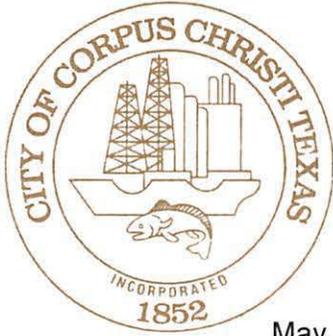
**City of Corpus Christi, Texas**  
**Annual Revenue Estimate Compared to Actual Collected**  
**For the 12 month(s) ended July 31, 2013**

**Fund: 1066-Health Grants**

Item No.	Acct No.	Account Description	Annual Estimate	YTD Actuals	Variance
1	304575	BRLHO/LAB	0.00	(156,792.20)	(156,792.20)
2	309470	Laboratory fees	0.00	(149,974.91)	(149,974.91)
3	304581	BRLHO/Innov	0.00	(72,487.24)	(72,487.24)
4	304525	Immunization/AP-LHS 02-03	0.00	(25,056.12)	(25,056.12)
5	307016	BCCCP	0.00	(11,570.88)	(11,570.88)
6	304605	TB/PC State	0.00	(6,459.26)	(6,459.26)
7	304535	TB/PC	0.00	(914.59)	(914.59)
8	307022	RHAB-Birth Awareness	0.00	2,000.00	2,000.00
9	304674	Infectious Disease Control	0.00	4,363.69	4,363.69
10	307028	Petsmart Charities-Trap/Releas	0.00	7,478.50	7,478.50
11	308133	CPS LRN-PHEP Non Cash Contrib	0.00	15,142.96	15,142.96
12	306715	Immunization Fees	0.00	20,310.51	20,310.51
13	306853	CPS-Laboratory Response Networ	0.00	22,542.56	22,542.56
14	306804	BRLHO/ENVMT	0.00	37,731.81	37,731.81
15	307015	TDH Diabetes Program	0.00	66,090.54	66,090.54
16	306774	FP/GNP Fees	0.00	72,614.42	72,614.42
17	307018	Spay/Neuter Clinic	0.00	74,549.75	74,549.75
18	307021	RHAB-City/County 08-09	0.00	75,959.95	75,959.95
19	306850	Seafood Safety	0.00	82,821.28	82,821.28
20	306984	TB/PC Fees	0.00	89,057.07	89,057.07
21	306744	STD Fees	0.00	115,727.98	115,727.98
22	304681	AC Family Health-Fam Planning	0.00	118,561.00	118,561.00
23	304635	Family Planning XX	0.00	131,251.89	131,251.89
24	306865	Lab Chrges	0.00	144,009.33	144,009.33
25	306864	Lab Charges	0.00	149,215.84	149,215.84
26	306714	Immunization Fees	0.00	167,875.24	167,875.24
27	306954	Laboratory Medicaid	0.00	176,651.25	176,651.25
28	307013	Medicaid	0.00	244,295.51	244,295.51
29	306851	Lab Bio Terrorism	0.00	252,190.03	252,190.03
30	307014	Vaccine	0.00	400,021.67	400,021.67
31	303905	WIC	0.00	715,864.71	715,864.71
			0.00	2,763,072.29	2,763,072.29

Source: PeopleSoft financials

# Appendix C - Management Response, City Manager



May 19, 2015

Arlena Sones, CPA, CIA, CGAP  
 City Auditor  
 Corpus Christi, Texas

Ronald L. Olson  
 CITY MANAGER

Re: AU14-009 Corpus Christi-Nueces County Public Health District Audit

PO Box 9277  
 Corpus Christi  
 Texas 78469-9277  
 Phone 361-826-3220  
 Fax 361-826-3839  
 RonO@ectexas.com  
 www.ectexas.com

We have carefully reviewed the issues presented in the audit report referenced above, and our plans to correct the issues are described on the following pages.

## A. Grants Not Included in Annual Budget Process

### Recommendation:

City Executive Management should:

- 4) Require the Budget Office to develop written policy and procedures for annual budgeting that would bring all City departments with grant funding into compliance with City Charter, Article IV, Section 2 and GFOA guidelines.

Agree/Disagree	Responsible Party, Title	Completion Date
4) Agree	Wes Pierson, Assistant City Manager for General Government Support Eddie Houlihan, Assistant Director of Budget Annette Rodriguez, Health Director	November 1, 2015

*Action Plan:*

The Health Director will cooperate fully with the Budget Office and ACM to make the needed changes for all Health grants.

The Assistant Director of Budget, under direction of the ACM for General Government Support, will develop and implement written policies and procedures. These will require all Departments with grant funding to comply with City Charter Article IV, Section 2 and GFOA guidelines:

City Charter Article IV, Administration, Section 2. Fiscal Year; Budget Submission, Contents, and Adoption; Appropriation.

- (a) The city's fiscal year shall be set by ordinance, but shall not be changed more often than every four years except by two-thirds vote of the council.
- (b) At least sixty days prior to the beginning of the fiscal year, the city manager shall submit to the council a budget proposal estimating city revenues and expenses for the next year.
- (c) Expenditures in the proposed budget will not exceed estimated revenues and

# Appendix C - Management Response, City Manager

funds available from all sources.

(d) The proposed budget shall provide a complete financial plan of all city funds and activities for the ensuing fiscal year and shall be in such form as the manager deems desirable or the council may require.

(e) The city council shall adopt a balanced budget prior to the beginning of the fiscal year. If it fails to adopt the budget by this date, the amounts appropriated for current operation for the current fiscal year shall be deemed adopted for the ensuing fiscal year on a month to month basis, with all items in it prorated accordingly, until such time as the council adopts a budget for the ensuing fiscal year.

(f) The city council shall appropriate monies as provided in the budget.

GFOA Guidelines - "Establishing an Effective Grants Policy" and "Administering Grants Effectively" – See attachments.

- 5) Require a more robust review on the part of the Budget Office and Finance related to grant appropriations in Legistar. Items without a structurally balanced budget should not be submitted to City Council for approval.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
5) Agree	Constance Sanchez, Financial Services Director Eddie Houlihan, Assistant Director of Budget Wes Pierson, Assistant City Manager	June 1, 2015

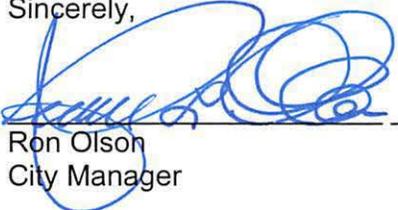
*Action Plan:*

The Director of Financial Services and Assistant Director of Budget, under direction of the ACM for General Government Support, will review all departments' agenda submittals for grant requests, funding allocations and appropriations. Prior to the completion of written policies and guidelines under Recommendation #4, Financial Services and Budget will ensure that agenda items that do not have a structurally balanced budget are not approved for placement on the Council agenda for action.

Once written policies, procedures and guidelines are completed as noted in #4 above, Financial Services and Budget will ensure departments comply with them on an ongoing basis.

We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion.

Sincerely,



Ron Olson  
City Manager

21 May 2015  
Date

Attachment – GFOA Grants Guidelines

## GFOA Grants Guidelines – From GFOA Website

<http://www.gfoa.org>

### **Establishing an Effective Grants Policy**

Type: Best Practice

Approved by GFOA's Executive Board: February 2013

Background:

Grants are an attractive form of funding for governments and frequently come with special requirements that the recipient must follow. Such requirements can apply to the general operations of the grant, specific compliance rules, monitoring of other parties that may receive resources from the grants, specific time frame, and specialized reporting requirements. There are typically negative consequences for failing to meet grant requirements and in addition, grants may, either as a condition of the grant itself or politically, commit a government to financially maintaining a program or asset after the expiration of the grant. An effective grants policy provides guidance to staff as it relates to associated processes and procedures in order to maximize the benefits and minimize the risks.

Recommendation:

GFOA recommends that governments develop a formal grants policy. Further, GFOA recommends that such a policy address steps to take prior to applying for or accepting grants, and that the policy at minimum contain the following components:

1. *Grants identification and application.* A grants policy should require that the department or agency seeking a grant provide advance notice to appropriate authority, such as finance, so that the effects on the government, for example, budget, cash flow, procurement requirements, financial reporting, or compliance requirements can be reviewed and understood beforehand.
2. *Strategic alignment.* A grants policy should include a requirement for assessing the extent to which a grant is consistent with the government's mission, strategic priorities, and/or adopted plans as opposed to simply constituting additional funding for a department or agency of the government. Accepting a grant that is not consistent with the overall strategic direction of a government creates the risk that the government will spend its own funds to support a grant inconsistent with overall strategic direction or commit the government to own-source spending beyond the grant period (see cost/benefit analysis, below). Such a requirement could be for a formal strategic analysis, including the creation of outcome measures, or simply a statement of the way in which the grant would further the organization's mission or strategies followed by a review by a central agency such as a finance or budget office, strategic planning office, or legislative staff.
3. *Funding analysis.* Along with a review of strategic alignment, a grants policy should require a multi-year cost/benefit analysis prior to application or acceptance. The analysis should include matching funds (and whether or not

they will need to be set aside) and any other direct costs associated with a grant, the extent to which overhead costs will be covered, in-kind contributions, audit and close-out costs, and potential costs that might need to be incurred by the government beyond the grant period. The analysis should also explore whether or not a grant requires that general revenues or a line of credit or grant anticipation notes be used to cover the gap between cash being expended and reimbursement is received by the government.

4. *Evaluation prior to renewal or grant continuation.* A grants policy should include an overall approach to grant renewals. Additionally, a grants policy should require an evaluation of the impacts of the grant-funded program or asset prior to deciding whether to continue a grant at the end of the initial grant period. Creating outcome measures before receiving a grant will help the government to determine the extent to which the grant program or asset has produced desired benefits. Such an analysis should also include a review of actual costs and the potential benefits of using general revenues associated with the grant for other purposes.
5. *Administrative and operational support.* A grants policy should also include a requirement that the government obtain a detailed understanding of grant terms and conditions and specify how the grant will be monitored. Examples of what should be required include establishment of procedures related to:
  - a. The development of a project plan that would include how new programs or activities funded by the grant would be implemented and who would be responsible for implementation.
  - b. The provision of training for those responsible for the grant, so they can effectively carry out their roles.
  - c. Terms and conditions for grant-funded personnel, such as severance and unemployment costs related to employees who are terminated upon expiration of the grant or operating and maintenance costs for assets that are acquired.
  - d. The system/process that will be used to charge expenses against the grant and to obtain reimbursement. This might require both technical procedures to account for time and materials and reporting, as well as training for employees so that they fully appreciate the importance of charging time and materials correctly.
  - e. Identify the individual/department responsible for carrying out the grant and making sure that proper resources are available to support that grant.

### **Administering Grants Effectively**

Type: Best Practice

Approved by GFOA's Executive Board: May 2013

## Appendix C - Management Response, City Manager

### Background:

State and local governments often receive significant grants from other governments and organizations to support their programs and activities. Often, grants come with specialized requirements that can apply to the general operations of the grant, specific compliance rules, monitoring of other parties that may receive resources from the grants, and specialized reporting requirements. There are typically negative consequences for failing to meet these requirements. Further, grants may, either as a condition of the grant itself or politically, commit a government to financially maintain a program or asset after the expiration of the grant. Accordingly, a government should develop a grants policy that requires certain steps to be taken before applying for or accepting grants to maximize the benefits of grants while minimizing their risks.<sup>1</sup>

While it is important to have a grants policy, a government must also ensure that it does the appropriate administration of grants after their acceptance. Inappropriate administration can result in the failure to meet all requirements for grants that a government receives. In such cases the result can be a need to return some or all of the resources to the provider. Normally, a failure to meet all grant requirements is not intentional. Instead, the problem is often caused because all appropriate parties within the government are not aware of all the requirements or are not aware of the requirements at the appropriate time.

### Recommendation:

The Government Finance Officers Association (GFOA) recommends that governments establish processes to promote awareness throughout the government that grants normally come with significant requirements. Such processes should ensure that this awareness exists throughout the life of the grant and should address the following areas and include the following elements:

1. To ensure the efficient administration and operation of grant programs the government should
  - a. maintain a process to monitor for changes in grant terms and conditions that occur after the acceptance of a grant;
  - b. establish a project plan with timelines and parties responsible for implementing the steps of the plan;
  - c. provide initial training for new and unfamiliar programs and continuing training, in general, for the government (both for oversight agencies, such as finance, and department/program staff that directly administer the grants) and others involved with the grant program (e.g., subrecipients); and
  - d. maintain a process to address specific personnel issues related to grants (e.g., whether salaries and/or benefits are eligible expenditures and if so, what are the related time-keeping requirements);
2. To ensure the efficient financial management of grants a government should:

## Appendix C - Management Response, City Manager

- a. develop appropriate cash management procedures for drawdown and receipt of funds as well as disbursement of funds;
  - b. develop procedures to reconcile internal records with federal and state reports;
  - c. maintain a process to ensure that costs charged to grants are allowable, necessary and reasonable, and properly allocable and that these determinations are consistently applied;
  - d. determine whether indirect costs will be allocated to grant programs and if so maintain an appropriate process to make the allocation;
  - e. maintain a process to track information about local matching funds including identification of the continuing source of such funds;
  - f. integrate grants in the annual budget process;
  - g. integrate grants in the government's cash flows planning; and
  - h. develop a contingency plan for funding services that will be continued even if the grant funds terminate.
3. Governments should maintain proper systems to support grants that:
- a. ensure that systems will provide information to all involved parties to allow them to comply with both GAAP and grant requirements;
  - b. identify and segregate costs as necessary for the grant (e.g., separate allowable and unallowable costs, separate direct costs from indirect costs, and separate administrative costs);
  - c. develop systems and methods to account for and track capital items;
  - d. include the capability to track information for non-cash grants; and
  - e. develop a methodology to store and provide information electronically so that it is available to multiple users.
4. Maintain proper internal controls that:
- a. document grant procedures;
  - b. maintain internal controls over accounting, financial reporting, and program administration;
  - c. maintain internal controls to identify and adhere to Federal and State compliance requirements, such as those relating to contracting;
  - d. consider the level of program risk (e.g., high, medium, low) when establishing internal controls; and
  - e. establish internal control procedures to ensure the reliability of information obtained from third parties (e.g., jobs, Buy America).
5. Maintain processes for sub-recipient monitoring that:
- a. provide for programmatic monitoring including requirements for subrecipients to submit progress reports;
  - b. provide for administrative monitoring including timely reporting and adherence to compliance requirements;
  - c. provide for financial monitoring including understanding of and adherence to cost principles;

## Appendix C - Management Response, City Manager

- d. establish periodic monitoring meetings;
  - e. provide for the receipt, review, and appropriate follow-up of single audit reports, when applicable; and
  - f. develop contacts with the state for fun
6. Establish continuous communication that:
- a. develops a communication process with the sponsor/provider;
  - b. develops a communication process with those that have oversight responsibility including, when applicable, the Federal Cognizant Agency;
  - c. develops a communication process with external auditors;
  - d. develops a communication process with auditors engaged for single audit purposes; and
  - e. develops an interdisciplinary implementation task force within the government that meets regularly to discuss changes and how they should be implemented.
7. Processes to meet various specialized reporting requirements that:
- a. maintain a comprehensive list of reporting requirements and a reminder system for meeting the reporting deadlines;
  - b. develops the methodology for the preparation of specialized reports;
  - c. develops an approval process for certifying specialized reporting; and
  - d. develops a process to aggregate all of the information needed for the schedule of expenditures of federal awards.
8. Ensure the completion of auditing requirements for grants that:
- a. develops an understanding of audit requirements unique to the grant including those in Generally Accepted Government Auditing Standards (GAGAS), Generally Accepted Auditing Standards (GAAS), and applicable Office of Management and Budget (OMB) circulars;
  - b. develops an understanding of audit requirements that may be necessary for grant close-out; and
  - c. ensures the completion of audit procedures relating to the information to be included in GAAP-basis financial statements.

# Appendix D - Management Response, Health District

May 21, 2015

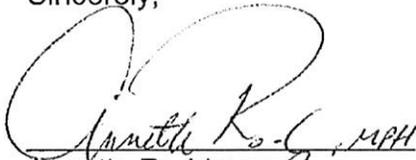
Arlena Sones, CPA, CIA, CGAP  
City Auditor  
Corpus Christi, Texas

Re: AU14-011 Corpus Christi-Nueces County Public Health District Audit/Financial Services Department Grant Accounting Audit

We have carefully reviewed the issues presented in the audit report referenced above, and our plans to correct the issues, as well as corrective action that has already been implemented are described on the following pages.

We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion. This audit was helpful in identifying areas that could be improved on at the Health District as well as throughout the entire City.

Sincerely,

  
Annette Rodriguez, MPH  
Director

5.21.15  
Date

  
Ronald L. Olson  
City Manager

21 May 2015  
Date

# Appendix D - Management Response, Health District

## A. Grants Not Included in Annual Budget Process

### Recommendation:

Health District Administration should comply with the City Charter budget directive by:

- 1) Preparing a structurally balanced budget for each grant that contains the agency award amount, the City's required match, program income, and expenditures during the annual budget process.
- 2) Inputting budget data into the budget module.
- 3) Preparing Form 12s for all grant employees during the annual budget process.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<ol style="list-style-type: none"> <li>1. Agree</li> <li>2. Agree</li> <li>3. Agree</li> </ol>	<ol style="list-style-type: none"> <li>1. Andrea Hanner, Lala Yerger, Ashley Dillan, Amy Barresi, Cheryl Dietz, Donna Rosson, Noelia Rodriguez, Linda Simmons, Christina Zamarripia, HD program managers with grants</li> <li>2. HD Program Managers, Andrea Hanner, Lala Yerger, Ashley Dillan, Amy Barresi, Cheryl Dietz, Donna Rosson, Noelia Rodriguez, Linda Simmons, Christina Zamarripia</li> <li>3. HD Management Assistant, Dina Chavez</li> </ol>	<ol style="list-style-type: none"> <li>1. September 30, 2015</li> <li>2. Once set by City</li> <li>3. Complete</li> </ol>

### Action Plan:

1. Due to a separation of HD accounting responsibilities, the City Finance Department had responsibility for inputting HD grants, but the standard practice was that revenues were not required to be inputted for grant projects. Moving forward after May 20<sup>th</sup>, the Health District Managers will be trained by the HD accountant and Finance staff and will assume the responsibility of inputting a structurally balanced budget for their respective divisions on grants received, which would include revenues and expenditures.
2. While we agree and actually have requested this for quite some time; the City currently does not have a system in place, for any City department to input grants into the budget module during the annual budget process. As soon as the City process is set up, we will input all HD grant budget information as required. In the interim, the HD program managers will input the grant budgets directly into the financial software module, as the HD accountant had done this last year.
3. HD management assistant prepares form 12s for all HD grant employees annually once City Finance sets up the new grant project numbers. The form 12 cannot be done properly until such time. HD will work closely with Finance to set up new grant project numbers annually to allow form 12s to be submitted on a timely basis. Once the City has a process set up to input grants during the annual budget process, this should no longer be problematic.

# Appendix D - Management Response, Health District

City Executive Management should:

- 4) Require the Budget Office to develop written policy and procedures for annual budgeting that would bring all City departments with grant funding into compliance with City Charter, Article IV, Section 2 and GFOA guidelines.
- 5) Require a more robust review on the part of the Budget Office and Finance related to grant appropriations in Legistar. Items without a structurally balanced budget should not be submitted to City Council for approval.

## B. County Grant Appropriated in City Budget

**Recommendation:**

Health District should:

- 1) Make necessary arrangements for the County to appropriate estimated revenue and expenses for the STD/HIV grant for the remainder of the 2015 fiscal year.
- 2) Instruct staff to immediately stop remitting revenue to the City's coffers for the County's STD/HIV grant.
- 3) Work with the Finance Department to determine the amount of surplus revenue, if any that should be paid to the County.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. Health Director, Annette Rodriguez	1. Complete
2. Agree	2. Health Director, Annette Rodriguez	2. Complete when approved
3. Agree	3. HD Accountant, Blandina Costley	3. Complete
<b>Action Plan:</b>		
<ol style="list-style-type: none"> <li>1. Health Director spoke with County Auditor's Office, and they know when to appropriate revenue and expenditures for County STD/HIV grant.</li> <li>2. HD staff was instructed to stop remitting County revenue to City's coffers a few years prior; they are well aware and are working on completing the process. Currently the only County revenue going to the City coffers is revenue from one City credit card terminal. The County Auditor is aware of the need for a "county" credit card terminal but has not approved the purchase at this time; therefore the process cannot be completed until such time. The other option would be to not accept credit card payments which could be a deterrent to our patients.</li> <li>3. HD accountants worked with the City's Finance Department, County Auditors, and division managers to determine the amount, if any, of surplus revenue owed to the County. No surplus was noted - just the normal monthly reimbursement amount which was submitted for payment to the County. Monthly reimbursement has been implemented.</li> </ol>		

## C. Incomplete Grant Record Keeping

**Recommendation:**

## Appendix D - Management Response, Health District

Health District Administration should:

- 1) Maintain all grant documentation in a centralized location by creating a checklist of required documents for each grant project to include the disposition date.
- 2) Update its portion of the City's Local Government Records Control Schedule to include grant contracts.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree 2. Disagree	1. HD Accountant, Blandina Costley	1. Complete
<b>Action Plan:</b>		
<ol style="list-style-type: none"> <li>1. All City HD grant documentation is kept in a centralized location, which includes grant contract, amendments, budgets, etc. A checklist was recently developed and has been put in place effective May 1, 2015.</li> <li>2. Since the Health District is not a standalone entity and is a part of the City and of the County, the HD does not keep the "original" contracts (grants) that have been approved and executed by City Council or Commissioners Court. These "originals" are kept at the City Secretary's Office for the City grants. HD has copies of the grants, but these are simply for convenience and as such are not required to be in neither the Texas Library State Record Retention system, nor the City's Local Government Record Control Schedule. The City and County maintain the originals once approved through the governing bodies according to their Local Government Record Control Schedules.</li> </ol>		

### D. Non-Compliance with Contractor's Financial Procedures Manual

**Recommendation:**

Health District Administration should:

- 1) Develop and implement procedures for grant administration as required by the *Contractor's Financial Procedures Manual*.
- 2) Provide adequate training for its accounting staff to familiarize them with the department's new procedures and the *Contractor's Financial Procedures Manual*.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree 2. Agree	1. HD Accountant, Blandina Costley 2. HD Director, Annette Rodriguez	1. Complete 2. Sept. 30 2015
<b>Action Plan:</b>		
<ol style="list-style-type: none"> <li>1. The Health District in accordance with DSHS's, Contractual Financial Procedures Manual (CFPM) has developed internal grant administrative financial procedures as of March, 2015.</li> <li>2. City Finance Department Senior Accountant has agreed to train HD accountant and program managers on his duties as it relates to the health grants as per DSHS's CFPM. This will allow HD accountant to be cross-trained in case the Sr. Accountant</li> </ol>		

## Appendix D - Management Response, Health District

is out so duties can be assumed as needed to maintain grant budgets. Various financial training has been conducted with HD accountants and program managers. CFPM has been loaded on the HD's shared drive to facilitate access. HD program managers & accountants will be sent to DSHS training as training becomes available and as funding allows to familiarize the program managers with DSHS's CFPM.

### E. Grant Funding Not Maximized Through Indirect Costs

**Recommendation:**

Health District should report indirect costs to the grants that allow it.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. HD Managers, Accountants & Director, Andrea Hanner, Lala Yerger, Ashley Dillan, Amy Barresi, Cheryl Dietz, Donna Rosson, Noelia Rodriguez, Linda Simmons, Christina Zamarripia, Blandina Costley, Juanita Cabrera & Annette Rodriguez	Ongoing
<i>Action Plan:</i>		
1. The HD managers, accountants and director will review grants during the renewal process and analyze which grants allow for and are capable of supporting indirect cost. Some HD grants currently do support and take out for indirect costs.		

### F. Periodic Financial Reports Not Provided to Grant Managers

**Recommendation:**

Health District Administration should:

- 1) Ensure financial transparency by providing access to periodic financial reports to grant and program managers.
- 2) Provide training for interpreting the financial reports, detecting transaction error, and determining if current transactions have been posted.
- 3) Require periodic monitoring of financial reports.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. HD Director, Annette Rodriguez	1. Complete
2. Agree	2. HD Accountant, Blandina Costley	2. Complete
3. Agree	3. HD Accountant & City Finance, Blandina Costley & Rocky Barrera	3. Complete

# Appendix D - Management Response, Health District

**Action Plan:**

1. All HD managers have been provided access to financial data/reports. In an effort for fairness and consistency, in the past County managers were not allowed access to "city" financials, therefore program managers, in general, were not required to manage their own financials. The city has since agreed to allow all HD managers (including county managers) access to "city" financial information so all managers are now responsible for the financial aspect of their programs. Granting managers access to financial information has been cyclical at the HD. Some managers, when given access, feel ownership of these funds and do not want to pay for required operational expenses, i.e. cost of bank deposit services, security, etc. We are working with managers to resolve these concerns.
2. Training has been provided to all managers; some have had to have two or three additional individual training sessions and the HD accountant has provided that training. Documentation of the training is available.
3. The HD Accountant(s) periodically monitors financial reports for all HD accountants. The City's Grants Senior Accountant also monitors these financial reports at least monthly as he submits B-13's for grant reimbursement to DSHS. The Senior Accountant shares this information with the respective HD program managers.

## G. Unreported Program Income

**Recommendation:**

Health District Administration should:

- 1) Consult with DSHS to evaluate the current circumstances of the TB grant program to determine if revenue from TB grant patients is reportable in grant year 2014-2015.
- 2) Consult with DSHS to determine if revenue from other (non-exposed) TB patients is reportable as program income and maintain documentation of their decision.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. HD Director, Annette Rodriguez	1. Complete
2. Agree	2. TB Manager, Lesley Salge	2. Complete

**Action Plan:**

1. HD Director consulted with DSHS to evaluate the current circumstances of the TB grant program. DSHS agreed that the HD continues to be in compliance with reconciling HD TB grant(s) issued by DSHS.
2. TB Manager consulted with DSHS to determine if revenue from other TB patients is reportable as program income and DSHS confirmed that HD is in compliance with how HD is currently conducting business and DSHS agreed that HD does not need to alter our current processes. Documentation available.

## H. Project Codes Not Used for Grant Transactions

# Appendix D - Management Response, Health District

**Recommendation:**

Health District Administration should:

- 1) Include project codes on all grant transactions including the daily cash balancing sheet and journal entries.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. TB Program Manager, Lesley Salge	1. Complete
<p><i>Action Plan:</i></p> <ol style="list-style-type: none"> <li>1. Effective February, 2015 the TB Manager discontinued collecting the \$5.00 fee for copies of patients TB results. This practice had been recently implemented by the TB manager. Therefore project codes are not currently needed for this program but would be utilized in the future, as established by the City's Finance Department, if the practice is re-instated. The other HD programs do utilize project codes to identify funds, as needed, for their area.</li> </ol>		

**I. Grant Fund Contains Non-Grant Projects**

**Recommendation:** None

**J. Accounting Outside the Financial System**

**Recommendation:** None

**K. Accrued Revenue is Not Recognized**

**Recommendation:** None

**L. Insufficient Grant Cash Match Funded by Program Income**

**Recommendation:**

Health District should:

- 1) Develop its accounting staff to be able to perform the financial aspect of grants management such as calculating and reporting the cash match.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
1. Agree	1. HD Director, Annette Rodriguez	1. Ongoing
<p><i>Action Plan:</i></p> <ol style="list-style-type: none"> <li>1. HD program managers and accountants will be sent to DSHS training as it becomes available and as funding allows to familiarize both HD program managers and accountants with DSHS's CFPM.</li> </ol>		

## Appendix D - Management Response, Health District

### **M. Untimely Journal Entries**

**Recommendation:** None

### **N. Misclassified Revenue in the Comprehensive Annual Financial Report (CAFR)**

**Recommendation:** None

### **O. Inaccurate and Incomplete Single Audit Reporting**

**Recommendation:** None

Appendix E - Management Response, Financial Services



City of  
Corpus  
Christi

May 14, 2015

Arlena Sones, CPA, CIA, CGAP  
City Auditor  
Corpus Christi, Texas

Re: AU14-011 Corpus Christi-Nueces County Public Health District Audit/  
Financial Services Department Grant Accounting Audit

**FINANCIAL SERVICES**

PO Box 9257  
Corpus Christi  
Texas 78469-9257  
Phone 361-826-3600  
Fax 361-826-3601  
www.cctexas.com

We have carefully reviewed the issues presented in the audit report referenced above, and our plans to correct the issues are described on the following pages.

We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion.

Sincerely,

Constance P. Sanchez 5-14-2015  
Constance P. Sanchez Date  
Director

Wes Pierson 5/14/15  
Wes Pierson Date  
Assistant City Manager

Ron Olson 18 May 2015  
Ron Olson Date  
City Manager

# Appendix E - Management Response, Financial Services

## A. Grants Not Included in Annual Budget Process

### Recommendation:

Finance should:

- 6) Close and inactivate grant projects in the accounting system within 30 days of the grant ending date (depending on specific grant provisions) to prevent current expenses from posting into old grant projects.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	Will be implemented immediately and will vary for each grant depending on the specific grant provisions.
<p><i>Action Plan:</i>                      The Finance grant accountant will close out and inactivate each grant project in the accounting system (INFOR) within 30 days of the grant ending date (depending on specific grant provisions) .</p>		

## B. County Grant Appropriated in City Budget

### Recommendation:

Finance should:

- 4) Close and inactivate grant fund project numbers in the financial system related to the County's STD/HIV grant and no longer pay expenses for the STD/HIV grant (within the confines of the interlocal agreement).

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Rocky Barrera, Grants Senior Accountant	June 30, 2015
<p><i>Action Plan:</i>                      The Finance grant accountant will close and inactivate all grant project numbers in INFOR related to the County's STD/HIV grant. However to be in compliance with the Memorandum of Understanding (MOU) between the City of Corpus Christi and Nueces County regarding the City paying all expenses related to the Health District on behalf of Nueces County and then billing Nueces County, the City will continue to pay for expenses for the STD/HIV grant but will charge those expenses to the fund established as a result of the MOU (Fund 9100) and will no longer charge those expenses to the grant fund.</p>		

## C. Incomplete Grant Record Keeping

**Recommendation: None**

# Appendix E - Management Response, Financial Services

## D. Non-Compliance with Contractor's Financial Procedures Manual

### Recommendation:

Finance should:

- 3) Develop and implement a grants policy for department use.
- 4) Provide adequate training for its grant accounting staff to familiarize them with the department's new procedures and the *Contractor's Financial Procedures Manual*.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	September 30, 2015
<i>Action Plan:</i> Finance will develop a grants policy for grants Finance accounting staff to use by incorporating procedures from the <i>Contractor's Financial Procedures Manual</i> and from procedure manuals from other cities. The grants policy and procedures manual will include procedures relating to the establishment of criteria for what activities will be recorded in grant funds; procedures relating to billing and payment requests for grant expenditures; cost allocation; payroll for grant expenditures; local match (if applicable); program income; and subcontractor fiscal compliance monitoring (if applicable). Once the procedures are developed and documented, then they will be shared and reviewed with all grant accounting staff.		

## E. Grant Funding Not Maximized Through Indirect Costs

Recommendation: None

## F. Periodic Financial Reports Not Provided to Grant Managers

Recommendation: None

## G. Unreported Program Income

Recommendation: None

## H. Project Codes Not Used for Grant Transactions

### Recommendation:

Finance should:

- 2) Include project codes on all grant transactions in the grant fund.

## Appendix E - Management Response, Financial Services

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Rocky Barrera, Grants Senior Accountant	May 29, 2015
<b>Action Plan:</b> Finance's grant accountant will ensure that all grant transactions in the grant fund will include the applicable project code.		

### I. Grant Fund Contains Non-Grant Projects

#### **Recommendation:**

Finance should:

- 1) Establish criteria for what activities will be recorded in grant funds when it develops its grant policy (see Issue D. Non-Compliance with Contractor's Procedures Manual).
- 2) Review grant fund activity to ensure that only grant activities are being reported in the grant fund and transfer non-grant funds to the general fund as needed.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	June 30, 2015
<b>Action Plan:</b> The criteria for what activities will be recorded in grant funds will be included in the grant policy and procedures noted in D3 above. Additionally, all grant fund activity will be reviewed to ensure that only grant activities are being posted in the grant fund. Any non-grant activity will be transferred to the General Fund. Adjustments have already been made for the health grants as a result of the fiscal year (FY) 2014 financial audit. Activity for all other grants will be reviewed and corrected (if needed) in FY 2015.		

### J. Accumulated Funding in Deferred Revenue Account

#### **Recommendation:**

Finance should:

- 1) Identify the accumulated funding in the grant fund (1066) with unrestricted use, and transfer these funds to the general fund (1020).
- 2) Discontinue the use of spreadsheets to track the accumulated funding after the funds have been transferred.
- 3) Close and inactivate all expired grant projects in the financial system to prevent the posting of current expenses into prior grant projects.
- 4) Work with the external auditor to disclose the adjustment in the 2014 CAFR.
- 5) Investigate all other grant funds to determine if they have residuals funds in deferred revenue accounts that belong to the general fund (1020).

## Appendix E - Management Response, Financial Services

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	June 30, 2015
<p><b>Action Plan:</b>            As part of the FY 2014 Comprehensive Annual Financial Report (CAFR), unrestricted health funds have been transferred to the General Fund and have been properly disclosed in the CAFR. All external spreadsheets to account for the deferred revenue balances will no longer be used. All activity relating to grants will flow through the financial software system (INFOR). We are currently reviewing all other department grant funds to determine if there are any residual funds in the deferred revenue accounts that need to be transferred to the General Fund. This review will be completed by June 30, 2015, and any adjustments will be reflected in the FY15 CAFR. Also as previously noted in A6, all expired grant projects will be closed and inactivated in INFOR to prevent posting of current expenses into prior grant projects.</p>		

### K. Accrued Revenue is Not Recognized

**Recommendation:**

Finance should:

- 1) Recognize accrued revenue by recording journal entries based on the actual amount of reimbursement due from the State at the end of the each period.
- 2) When reimbursement is received from the State, record the cash received and reduce the receivable.
- 3) Inform affected personnel of the changes in procedure.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	For new grants, we will immediately implement. For existing grants, all corrections will be made by September 30, 2015.
<p><b>Action Plan:</b>            This recommendation will be implemented immediately, and any corrections for existing grants will be made by the end of the current fiscal year. Previous supervisors in the Grants Division of Finance appear to have not understood how to properly account for grants as per Generally Accepted Accounting Principles (GAAP). We now have new staff in the Grants Division and will train them to ensure they have a proper understanding of how to account for grants.</p>		

### L. Insufficient Grant Local Match Funded by Program Income

## Appendix E - Management Response, Financial Services

### Recommendation:

Finance should:

- 2) Correct the cash match for the FY 2014 state and federal TB grants.
- 3) Develop its accounting staff to be able to calculate a grant's local match, and to prepare the required grant reports in the event that it is required to continue these functions on behalf of the Health District.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Adriana Berlanga, Interim Grants Supervisory Accountant	May 29, 2015
<p><b>Action Plan:</b>                      The cash match for the FY 2014 state and federal TB grants will be corrected as part of the FY 2014 CAFR. Procedures for calculating a grant's local match will be included in the grant procedures noted in D3 above, and all grant accounting staff will be trained so that everyone is aware of the proper methodology in calculating a grant's local match and preparing the required grant reports.</p>		

### M. Untimely Journal Entries

#### Recommendation:

Finance should:

- 1) Define parameters for "timely" posting of journal entries.
- 2) Determine the reason for untimely journal entries and correct the issue. For example, if undeveloped staff is the reason, provide training; if staff is not as productive as possible, management should increase supervision and develop performance measures to track employee productivity; if resources are inadequate, consider reorganization of staffing.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Alma Casas, Assistant Director of Financial Services	June 30, 2015
<p><b>Action Plan:</b>                      1) In order to define parameters for "timely" posting of journal entries, we will discuss what defines a "timely" posting of journal entries with the external auditor and will confer with the Government Finance Officers Association (GFOA) to determine what best practices are.                      2) In order to determine the reason for the untimely journal entries noted in this audit report, we will meet with the City Auditor's staff to get the details for the transactions noted in this finding to determine the specific reason for the untimely posting of journal entries in this particular case so that the issue can be identified and corrected.</p>		

**N. Misclassified Revenue in the Comprehensive Annual Financial Report (CAFR)**

**Recommendation:**

Finance should:

- 1) Establish a more robust review of CAFR worksheets.
- 2) Work with external auditors to create an adjustment in the FY 2014 CAFR for each of the misclassified accounts, if needed.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Martha Messer, Chief Accountant	May 29, 2015
<p><b>Action Plan:</b></p> <p>1) Since the preparation of the Statement of Revenue and Expenditures for the General Fund for the financial audits noted in this report has been a semi-automated process whereby a query in PeopleSoft (the City's previous financial software system) was run utilizing the revenue and expenditure accounts in existence when the query was initially created but has thrown off the reporting for various lines in the Statement of Revenue and Expenditures when additional accounts were added or removed to the City's chart of accounts throughout the years, for the FY 2014 CAFR (and going forward if this query will be utilized with INFOR), accounting staff has compared the Statement of Revenue and Expenditures to the trial balance twice independently to ensure all information is being accurately reported.</p> <p>2) The Chief Accountant has worked with the external auditors to determine that the "bottom line" total of the General Fund revenue and expenditures in the FY 2013 CAFR were reported correctly. Some of the individual line items, however, were off by a row or two, but since total expenditures in the General Fund were not misclassified, it has been determined that no adjustment is needed for the FY 2014 CAFR.</p>		

**O. Inaccurate and Incomplete Single Audit Reporting**

**Recommendation:**

Finance should work with the external auditors to:

- 1) Ensure grants tie to the financial system and are properly reported in the Single Audit.
- 2) Determine if restatement or adjustment is needed for prior Single Audits.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree with recommendations; Disagree with first statement in Section O of the audit report.	Adriana Berlanga, Interim Grants Supervisory Accountant	May 29, 2015

## Appendix E - Management Response, Financial Services

***Action Plan:***

The first statement under Section O in the audit report is incorrect. The amounts presented in the internal audit report are budgeted numbers not actual expenditures, and only actual expenditures are required to be listed in the Single Audit. Therefore, the statement that "Finance did not report three Health District grants totaling \$79,298 in the 2013 Single Audit section of the CAFR" is incorrect. The detailed information provided in our CAFR is not required to be reported but is additional information that we choose to include, but in total all Health District grants were properly reported in the 2013 Single Audit.

1) In order to ensure that grants tie to the financial system, manual spreadsheets will no longer be utilized since all "rollover" revenue (i.e., deferred revenue) will either be properly recognized as revenue or transferred to the General Fund in FY 2014. Additionally, all closed grants will be inactivated in the financial software system.

2) Finance staff has reviewed the Single Audit with the external auditors and has determined that all necessary federal and state dollars were properly reported in total in prior CAFR's, and no restatements or adjustments for prior Single Audits are required.