



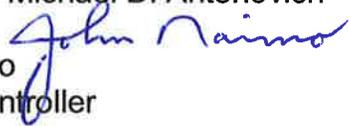
JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
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September 26, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

**SUBJECT: COMMUNITY AND SENIOR SERVICES – TRUST FUNDS,
COMMITMENTS, AND ACCOUNTS PAYABLE REVIEW**

As part of our ongoing responsibility to ensure County resources are safeguarded and used effectively and efficiently, we continue to periodically review County departments' fiscal operations. The reviews evaluate department compliance with the County Fiscal Manual (CFM) and other County policies and procedures.

We have completed a review of Community and Senior Services' (CSS or Department) trust funds, commitments, and accounts payable. Our review included interviewing the Department's management and staff, examining records, and evaluating oversight. CSS had 11 trust funds, totaling \$10.4 million, as of June 30, 2015. In addition, at the beginning of Fiscal Year (FY) 2014-15, CSS had \$13.1 million in commitments to pay for goods and services they ordered, but did not receive, in prior FYs. CSS also had \$2 million in accounts payable for amounts owed to vendors for goods and services received in the prior FY.

Summary of Findings

CSS generally uses trust funds for appropriate purposes. However, CSS management needs to strengthen trust fund controls and ensure that funds are recognized as revenue or disbursed timely. They also need to ensure commitments and accounts payable are established according to County guidelines, and canceled when no longer needed. Details of these and other findings and recommendations are included in Attachment I.

Review of Report

We discussed the results of our review with CSS management. They generally agreed with our findings and recommendations. CSS' attached response (Attachment II) indicates that they have already implemented many of the recommendations in our report.

We thank CSS management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:ZP

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Cynthia D. Banks, Director, Community and Senior Services
Audit Committee
Public Information Office

**COMMUNITY AND SENIOR SERVICES
TRUST FUNDS, COMMITMENTS, AND ACCOUNTS PAYABLE REVIEW**

Background and Scope

Community and Senior Services' (CSS or Department) Financial Management Division is responsible for the Department's trust funds, commitments, and accounts payable. CSS had 11 trust funds, totaling \$10.4 million, as of June 30, 2015. In addition, at the beginning of Fiscal Year (FY) 2014-15, CSS had \$13.1 million in commitments to pay for goods and services they ordered, but did not receive, in prior FYs. CSS also had \$2 million in accounts payable owed to vendors for goods and services they received in the prior FY.

We completed a review of the Department's trust funds, commitments, and accounts payable. Our review was primarily focused on evaluating CSS' compliance with the County Fiscal Manual (CFM) and other County policies and procedures. Our review included interviewing CSS management and staff, and an examination of CSS' fiscal and accounting records.

Trust Funds

County departments may use trust funds to account for money held as a custodian for third parties (e.g., refundable deposits, etc.), restricted donations, unearned revenue, and earned revenue until the appropriate allocations are identified. CSS primarily uses their 11 trust funds to account for State and federal program funding, donations, facility rental fees, and other revenue.

Trust Fund Oversight

CFM Section 2.3.0 requires departments to maintain detailed subsidiary ledgers and control accounts for each trust fund, and reconcile them monthly to the electronic Countywide Accounting and Purchasing System (eCAPS). We noted that CSS does not include subsidiary ledgers in their reconciliations for one (9%) trust fund. As a result, the reconciliations will not identify improper account postings, inaccurate account balances (e.g., understatements, etc.), and other errors timely. We also noted that reconciliations are not always reviewed and approved.

In addition, some trust fund duties need to be segregated among staff to reduce the risk of errors and abuse. We noted that one CSS employee is responsible for receiving trust fund collections (e.g., cash, etc.), maintaining trust fund subsidiary ledgers, and preparing monthly reconciliations. These incompatible responsibilities would allow the employee to misappropriate collections and change trust fund records to avoid being detected. CSS management needs to appropriately segregate conflicting trust fund duties among different employees.

CFM Section 2.1.3 requires that departments maintain documentation that identifies the purpose and authority of each trust fund to establish clear standards for trust fund use. We noted that CSS could not provide this documentation for two (18%) of their trust funds. CSS should develop the documentation to ensure staff are aware of authorized trust fund uses and record transactions in appropriate accounts.

Recommendations

Community and Senior Services management:

- 1. Reinstruct staff on trust fund reconciliation procedures, and ensure that reconciliations are appropriately reviewed and approved.**
- 2. Segregate conflicting trust fund duties among different employees according to County guidelines.**
- 3. Develop and maintain documentation identifying the purpose and authority of each trust fund to ensure Department staff are aware of authorized trust fund uses and record transactions in appropriate accounts.**

Revenue and Disbursements

CFM Section 9.1.6 requires that departments continuously monitor trust fund balances and ensure that funds are recognized as revenue or disbursed timely. Specifically, departments must recognize revenue when it is earned and the appropriate revenue source is identified. In addition, disbursements should be made when required.

We reviewed 24 trust fund transactions, totaling \$21.9 million, to determine whether CSS recognized revenue and issued disbursements timely. We noted that CSS completed three (13%) revenue transfers, totaling \$3.0 million, an average of 77 days late. We also noted that CSS issued five (21%) disbursements, totaling \$439,000, an average of 153 days late. The disbursements were generally related to unused funding returned to grantors.

Recommendation

- 4. Community and Senior Services management continuously monitor trust fund balances and ensure that money is transferred to revenue or disbursed in accordance with County guidelines.**

Donations

CFM Section 2.4.0 allows departments to temporarily account for donations in trust funds until they are used for their intended purposes. CSS had approximately \$249,000 in three donation trust funds as of June 2015. CSS receives donations on behalf of the

Human Relations Commission and for improvements to community centers. Departments must file quarterly reports of donations received with the Board of Supervisors' (Board) Executive Office in accordance with CFM Section 2.4.2, and develop spending plans to prevent the accumulation of funds. We reviewed CSS' oversight and use of donations held in trust funds and noted the following:

- **Altadena Community Center (ACC) Trust Fund:** The Department established the ACC Trust Fund to account for donations they receive for improvements to the community center (e.g., construction, furnishings, etc.). However, CSS is not using the trust fund for its intended purpose. We noted that CSS is depositing ACC facility rental (e.g., rooms, etc.) revenue into the trust fund, and classifying it as a restricted donation to only be used for the community center. We reviewed 38 trust fund deposits from April 2010 through May 2015, and noted that 37 (97%) deposits were from facility rentals, totaling \$38,700. The deposits should have been recorded as general fund revenue in the year received and used for departmental operations. Subsequent to our review, CSS transferred the rental revenue from the trust fund to the general fund.
- **Spending Plans:** CSS has not developed spending plans to use donations held in trust funds. As indicated above, CSS had \$249,000 in donations held in trust funds as of June 2015. However, we noted that most of the donations were held in trust for at least five FYs, and the Department had only spent approximately \$14,000 of donations over the preceding three FYs. CSS needs to develop spending plans to use donations in a timely and appropriate manner.
- **Donation Reporting:** The Department did not file any quarterly donation reports with the Board Executive Office prior to our review. We also noted that CSS staff are not completing the internal donation reporting forms required by departmental policy. The forms identify donors, contact information, donation value, donation purpose, and any use restrictions. As a result, we could not verify whether CSS recorded, classified, and used donations appropriately.

During our review, we discussed these issues with the Department and they have begun to implement corrective actions.

Recommendations

Community and Senior Services management:

5. **Review all donation trust fund balances, transfer any revenue identified to appropriate general fund revenue accounts, and continue monitoring donation trust funds to ensure they are used for their intended purposes.**
6. **Develop spending plans to use donations held in trust funds in a timely and appropriate manner.**

7. **File quarterly donation reports with the Board of Supervisors' Executive Office, and reinstruct staff to submit required internal donation reporting forms to Department management.**

Collections

During our review of CSS' trust funds, we identified some internal control weaknesses involving their collection operations (e.g., cash handling, etc.) at one senior center. For example, CSS does not deposit collections over \$500 daily, restrictively endorse checks, maintain sequential receipts, or provide staff with written policies and procedures governing collections. Department management should review CSS' collection operations and ensure they are consistent with the CFM and other County policies and procedures.

Recommendation

8. **Community and Senior Services management review the Department's collection operations and ensure they are consistent with the County Fiscal Manual and other County policies and procedures.**

Commitments and Accounts Payable

County departments establish encumbrances to reserve budgeted funds when they order goods and services. At the end of each FY, the encumbrances are carried forward to the next FY as commitments if goods and services were not received. If the goods and services were received, but payments were not made, departments must establish accounts payable at year-end to recognize expenditures.

Both commitments and accounts payable reduce the County's available fund balance. While accounts payable are automatically canceled at the end of the following year, commitments continue carrying forward to future years. Departments are supposed to review commitments and accounts payable to ensure they are accurate, and cancel any that are no longer needed (e.g., contract expired, etc.). Canceling commitments and accounts payable releases funding for future appropriation.

Commitments

CSS had 300 commitments, totaling approximately \$13.1 million, at the beginning of FY 2014-15. We noted that \$1.7 million (13%) of CSS' commitments were over one year old, and \$1.6 million (12%) were over two years old. Commitments outstanding for more than one year may no longer be needed because departments generally receive goods and services within a year of placing an order.

We reviewed 20 commitments and noted that CSS should have canceled eight (40%) commitments, totaling \$909,300, because they were no longer needed (e.g., received

services, contract expired, etc.). As a result of our review, CSS has canceled, or is in the process of canceling, most of the commitments.

Accounts Payable

We noted that CSS did not use \$463,000 (36%) of the \$1.3 million in accounts payable they had at the beginning of FY 2013-14. They also did not use \$858,000 (43%) of the \$2 million in accounts payable they had at the beginning of FY 2014-15. This indicates that CSS is overestimating payables or establishing payables that are not needed.

We also reviewed 20 payments CSS charged against current year encumbrances in FY 2014-15, and noted that seven payments (35%), totaling \$15,500, were for goods and services they ordered and received during the prior FY. CSS should have established the encumbrance and associated accounts payable in the prior FY. As a result, current year expenditures were overstated while prior year expenditures were understated.

Receiving

Departments are expected to record the receipt of goods and services in eCAPS timely to ensure purchases are correctly classified as commitments or accounts payable at year-end. As noted above, commitments are established when goods and services are not received by year-end, and accounts payable are created when goods and services are received, but payments are not made by year-end. We noted that CSS staff do not record the receipt of goods and services timely, which resulted in the Department overstating commitments and understating accounts payable.

Recommendations

Community and Senior Services management:

- 9. Reinstruct staff on County Fiscal Manual requirements for establishing encumbrances, commitments, and accounts payable.**
- 10. Review commitments and accounts payable to ensure they are needed, and cancel them if they are no longer required.**



lacounty.gov

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Enriching Lives Through Effective And Caring Service



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Cynthia D. Banks
Director

Otto Solórzano
Chief Deputy

September 1, 2016

To: John Naimo
Auditor-Controller

From: Cynthia D. Banks
Director

Cynthia D. Banks

Subject: **RESPONSE TO TRUST FUNDS, COMMITMENTS, AND ACCOUNTS
PAYABLE REVIEW**

We reviewed your audit report and its recommendations for Community and Senior Services (CSS). As indicated in the attached response, we concur with the findings and have provided brief descriptions and status of the corrective actions. In an effort to be proactive, CSS has largely implemented many of the corrective actions, and is targeting completion of remaining by the end of this fiscal year.

CSS strives to monitor and accurately report commitments, accounts payables, and trust funds, and to align practices with the County guidelines. We appreciate this opportunity to address these findings. We thank your staff for providing guidance and assistance, and we will continue to work with the Auditor-Controller, Internal Services Department, and other central departments to strengthen these areas.

CB:OS:JW:gn

Attachments

County of Los Angeles
Community and Senior Services
Responses to Trust Funds, Commitments, and Accounts Payable Review

Trust Funds

Recommendations

Community and Senior Services management:

1. **Reinstruct staff on trust fund reconciliation procedures, and ensure that reconciliations are appropriately reviewed and approved.**

CSS Response: Agreed and implemented.

We have implemented practices to ensure reconciliations are reviewed and approved timely.

2. **Segregate conflicting trust fund duties to different employees according to County guidelines.**

CSS Response: Agreed and implemented.

We have implemented practices to ensure segregation of duties.

3. **Develop and maintain documents identifying the purpose and authority of each trust fund to ensure Department staff are aware of authorized trust fund uses and record transactions in appropriate accounts.**

CSS Response: Agreed and implemented.

We maintained trust originating documentation that identifies the trust fund's intended purpose to ensure that clear standards are in place for trust fund usage.

Revenue and Disbursements

Recommendation

4. **Community and Senior Services management continuously monitor trust fund balances and ensure that money is transferred to revenue or disbursed in accordance with County guidelines.**

CSS Response: Agreed and implemented.

We will continue to monitor trust fund balances and ensure that money is transferred to revenue or disbursed in accordance with County guidelines.

County of Los Angeles
Community and Senior Services
Responses to Trust Funds, Commitments, and Accounts Payable Review

Donations

Recommendations

Community and Senior Services management:

- 5. Review all donation trust fund balances, transfer any revenue identified to appropriate general fund revenue accounts, and continue monitoring donation trust funds to ensure they are used for intended purposes.**

CSS Response: Agreed and implemented.

We reviewed and transferred revenue to general fund as appropriate and will continue monitoring donation trust funds to ensure they are used for intended purposes.

- 6. Develop spending plans to use donations held in trust funds in a timely and appropriate manner.**

CSS Response: Agreed and implemented.

We developed spending plans and will continue to monitor the trust funds to make sure the donations are spent in a timely and appropriate manner.

- 7. File quarterly donation reports with the Board of Supervisors' Executive Office, and reinstruct staff to submit required internal donation reporting forms to Department management.**

Response: Agreed and implemented.

We have taken corrective actions to submit the donation reports and will continue to submit on an ongoing basis.

Collections

Recommendation

- 8. Community and Senior Services management review the Department's collection operations and ensure they are consistent with the County Fiscal Manual and other County policies and procedures.**

Response: Agreed and implemented.

County of Los Angeles
Community and Senior Services
Responses to Trust Funds, Commitments, and Accounts Payable Review

We issued the Donation Policies and Procedures and conducted training on the proper collection of donations.

Commitments, Accounts Payable, and Receiving

Recommendations

Community and Senior Services management:

- 9. Reinstruct staff on County Fiscal Manual requirements for establishing encumbrances, commitments, and accounts payable.**

Response: Agreed and partially implemented.

CSS would like to affirm that encumbrances, commitments and accounts payable are established using County Fiscal Manual guidelines and with best available information. Accounts Payables are established when invoices may be pending. Commitments are established only when services may carry over into the following year, contract extensions may be granted, and funding sources allow such action. We discussed the requirements for establishment and enforcement. We have also reached out to ISD for clarification on policies and availability of training. We are also reviewing existing practices and assessing the possibility of additional resources to strengthen these functions.

- 10. Review commitments and accounts payable to ensure they are needed, and cancel them if they are no longer required.**

Response: Agree and partially implemented.

CSS would like to affirm that commitments and accounts payable are established only when necessary, and cancelled when no longer required. We cancelled the majority of the commitments and accounts payable that are no longer needed. We will work with ISD and A-C to seek training and discuss available options to manage commitments and encumbrances. We are also reviewing existing practices and assessing the possibility of additional resources to strengthen these functions.