



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Human Services Department

*Grant Reimbursements are Timely;
Contract Administration Could be
Improved*

July ■ 2011

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The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

The mission of the Internal Audit Department is to provide objective information on the County's system of internal controls to the Board of Supervisors so they can make informed decisions and protect the interests of County citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

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"Do the Right Things Right!"



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July 21, 2011

Andrew Kunasek, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We completed our fiscal year (FY) 2011 review of the Human Services Department (HSD). This audit focused on selected areas within HSD and was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific areas reviewed were selected through a formal risk-assessment process.

We found that requests for reimbursement of eligible grant expenditures are made timely. However, we noted that action is needed to ensure that (1) required approvals are obtained prior to grant awards being received or expended, and (2) vendor debarment (eligibility) reviews are properly performed. Controls over information technology appear to be adequate.

Within this report, you will find an executive summary, specific information on the areas reviewed, and HSD's response to our recommendations. We reviewed this information with the Director and appreciate the excellent cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Richard Chard at 506-7539.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

Executive Summary

Grant Drawdowns (Page 7)

Overall, we determined that HSD's requests for reimbursement of eligible grant expenditures (aka cash drawdowns) were processed timely. However, we noted instances where improvements could be made. We identified \$306,000 in expenditures that were not submitted for reimbursement within one month. Grant expenditures are covered by the General Fund until reimbursement is received. Failure to request timely reimbursement can negatively impact the County's cash flow and interest income. HSD should ensure that reimbursement requests are submitted as frequently as permitted under the grant agreement, but no less frequently than monthly or when expenditures reach \$100,000, unless otherwise established by the grantors.

Contracts and Agreements (Page 10)

County policy requires that the Board of Supervisors formally accept all grant awards prior to funds being received or expended. We identified \$447,919 in transactions that were processed prior to Board approval. In addition, federal regulations require that contractor eligibility be verified prior to entering into a legal agreement with the recipient of grant funds. We identified four instances where this review was not performed until after the contract was approved. Although no ineligible contractors were noted, noncompliance could result in grantor sanctions and contract disputes. HSD should (1) ensure that the Board has formally accepted all grant awards before funding is received or expended, or obtain proper waivers, and (2) ensure contractor eligibility is verified prior to entering into any legal agreements or financial transactions.

Information Technology (Page 12)

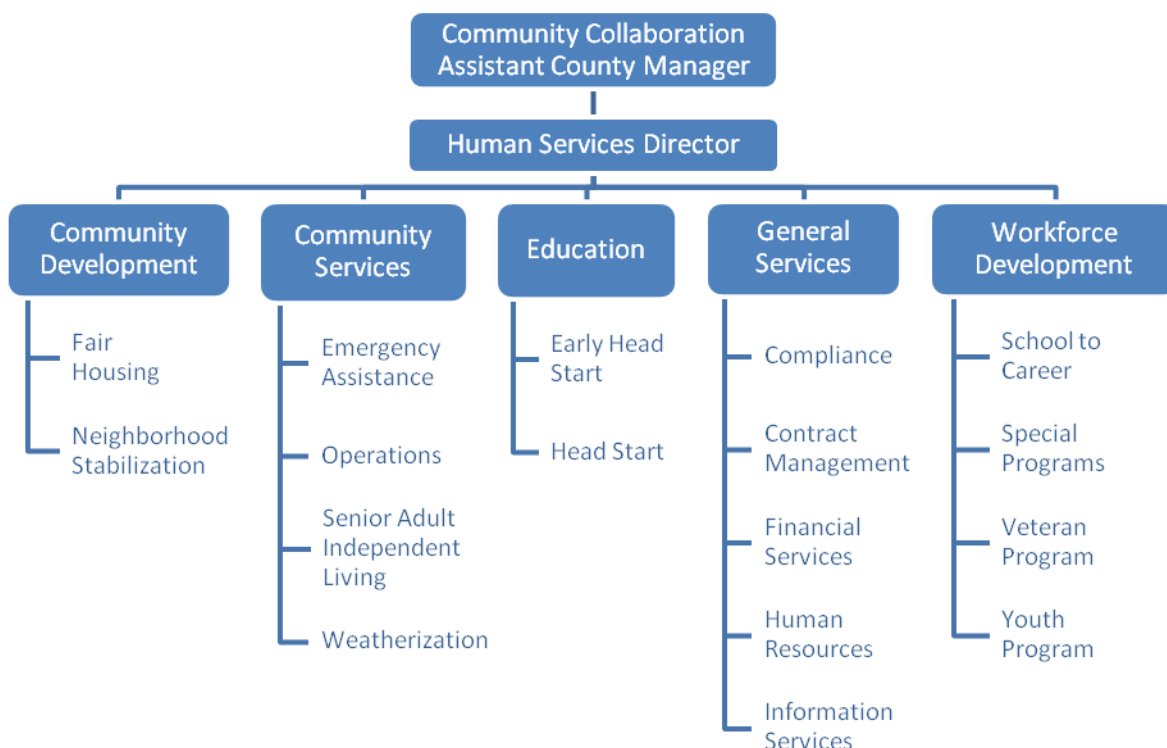
Through observation, limited testing, and interviews, we determined that HSD controls generally followed the authoritative COBIT IT control guidance in the following areas: information architecture, IT policies and procedures, IT investment management, IT personnel policies, IT quality management, IT risk assessment, IT project management, application and technology infrastructure acquisition and maintenance, user training, change management, service level management, disaster recovery planning, system configuration and backup management, and compliance with external requirements.

Introduction

Background

The Maricopa County Human Services Department (HSD) is responsible for providing education, employment, shelter, and basic needs services to individuals and families so they can achieve economic self-sufficiency, attain a sustainable living environment, and enjoy a high quality of life. The HSD service area is approximately 8,500 square miles with varied cities, towns, and unincorporated communities.

For FY 2011, HSD has 383 authorized positions. These positions are assigned to five program divisions, as shown below.



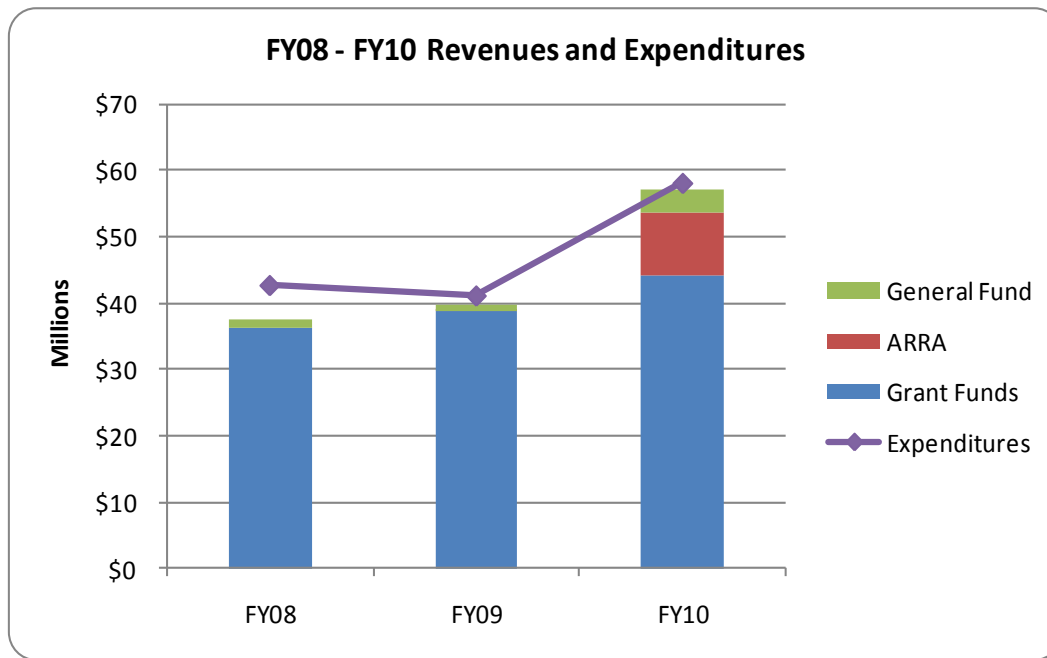
Arizona Revised Statute (A.R.S.) §46-241.01 states that the County shall administer short-term crisis services, and A.R.S. §11-1042 states the Board of Supervisors (Board) may appropriate monies and take all actions necessary to establish, operate, maintain, coordinate, and fund summer youth employment and training programs for at-risk youths. State statutes do not mandate that HSD provide Community Development, Head Start, Workforce Development, and Senior Adult Independent Living services.

Operating Budget

HSD is funded predominantly by grants from the federal government, the State of Arizona, and private sources. A grant is a contribution or gift of cash or other assets that must generally be

used for a specified purpose, activity, or facility. The requirements, terms, and conditions are specified in a legally binding grant agreement.

In FY 2010, HSD received \$53.5 million in federal and state grants, including \$9.4 million in American Recovery and Reinvestment Act (ARRA) economic stimulus grants.¹ The County’s General Fund provides matching funds when required by grant agreements. In FY 2010, the General Fund contribution was \$3.5 million. Recent revenue and expenditure trends appear below.



External Oversight by Grantor Organizations

Due to the high grant revenues received, HSD is reviewed on a regular basis by many external entities/grantor organizations, as shown below.

Agency	Area(s) Reviewed
U.S. Department of Housing and Urban Development (HUD)	<ul style="list-style-type: none"> Community Development Program Compliance
Arizona Department of Commerce	<ul style="list-style-type: none"> Weatherization
Arizona Department of Economic Security	<ul style="list-style-type: none"> Community Services Monitoring Review Workforce Development Program Compliance

¹ The American Recovery and Reinvestment Act (ARRA) is an economic stimulus package that was enacted by Congress in February 2009, in order to create jobs and promote investment and consumer spending.

U.S. Department of Health and Human Services - Office of Head Start	<ul style="list-style-type: none"> • Head Start and Early Head Start
U.S. Department of Labor	<ul style="list-style-type: none"> • Workforce Investment Act
Arizona Office of the Auditor General	<ul style="list-style-type: none"> • Workforce Investment Cluster (Adult Program, Dislocated Workers, and Youth Activities) • Head Start and Early Head Start • Community Development Block Grants • Weatherization

Scope and Methodology

Audit Objectives

The objectives of this audit were to determine if:

- HSD complies with County and federal grant requirements when contracting for supplies or services with vendors, subcontractors, nonprofits, or other governmental agencies.
- HSD performs timely cash drawdowns, complies with County and federal grant cash management policies, and minimizes risks to the County's General Fund.
- IT general controls are sufficient to protect HSD's information systems data integrity.

To achieve the audit objectives, we performed the following:

- Surveyed and reviewed recent oversight HSD had received from other auditors and program monitors. Adjusted scope to avoid duplicate work.
- Judgmentally selected 10 of 102 contract agenda items totaling \$16.3 million approved retroactively by the Board to determine if monies were expended prior to Board approval.
- Judgmentally selected 10 non-governmental contractors to determine if debarment reviews were properly performed.
- Judgmentally selected 1 non-governmental contract for \$600,174 to determine if select County and federal grant compliance requirements were included in the contract, and review for evidence of contract monitoring for FY 2010.
- Reviewed financial records for the eight months ending January 2011 to determine if grant drawdowns were processed at least monthly. This encompassed 385 drawdowns totaling \$41.9 million.
- Reviewed 4 grant drawdowns totaling \$404,284 to determine if all eligible expenditures were included and supporting documentation was adequate.
- Reviewed 34 IT general control areas including 10 Planning and Organization controls, 7 Acquisition and Implementation controls, 13 Delivery and Support controls, and 4 Monitoring and Evaluation controls using the COBIT framework.

Audit Timeframe

Our audit covered fiscal years 2010 and 2011.

Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require the following:

- An independent audit staff and audit organization
- An objective audit staff performing the work
- A competent staff, current with continuing education requirements
- A system of quality control procedures
- Sufficient and appropriate evidence based on audit objectives

Department Reported Accomplishments

Maricopa County Human Services Department provided the Internal Audit Department with the following information for inclusion in this report.

The department's typical annual budget is between \$40 and \$50 million, which comes almost entirely from federal, state, and local grants. Stimulus funds received under the American Recovery and Reinvestment Act (ARRA) and other federal economic recovery legislation added an additional \$43+ million to the HSD budget to be spent over a multi-year period that began in February 2009.

Through direct services and with the help of external partners, HSD provides a comprehensive array of services for the County's most vulnerable citizens in order to help them become self-sufficient. Service highlights of the past few years include:

- More than 5,700 households annually receive assistance with their utility bills to ensure basic services such as electricity and water are available to meet daily needs.
- More than 500 households annually receive rent and mortgage assistance to ensure they have basic shelter.
 - ARRA funds provided rent and utility assistance to an additional 300 households that were homeless or about to become homeless.
- An average of 250 housing units are weatherized each year in order to reduce energy costs for low-income households and to reduce energy consumption in the County.
 - ARRA funds will weatherize an additional 1,600 housing units; 750 were finished as of June 2011.
- More than 5,000 seniors are provided case management and related services each year allowing them to live independently in their homes.
- Over 2,600 children ages 0-5 are enrolled in the Head Start Zero-Five program to help ensure school readiness.
 - ARRA funds opened 8 new classrooms and home base groups to serve 232 more children.
- Community Development grants improve the health, safety, and economic well being of communities by building new infrastructure, rehabilitating existing housing stock, and supporting home ownership.
 - ARRA funds were used to build curbs, gutters, and sidewalks and pave alleyways.
 - Housing and Economic Recovery Act (HERA) funds were used to buy and rehab 61 vacant, foreclosed houses for resale to first-time low-income homebuyers or for rental housing for seniors and refugees.
 - HERA funds helped buy a foreclosed 300-unit property in downtown Phoenix that will be used for permanent supportive housing for formerly homeless and other special needs individuals.
- Maricopa Workforce Connections Career Centers have served an average of 157,500 visitors annually; over 5,400 youth have been served annually at the West Valley Youth Center.
 - ARRA funded training for an additional 2,082 adults and youth.
 - ARRA funds will train 991 individuals in green energy jobs; 734 were enrolled as of June 2011.
- More than 9,700 visits were logged at the 30+ Access Points established around the County between January and June 2011.

Issue 1 Grant Drawdowns

Summary

Overall, we determined that HSD’s requests for reimbursement of eligible grant expenditures (aka cash drawdowns) were processed timely. However, we noted instances where improvements could be made. We identified \$306,000 in expenditures that were not submitted for reimbursement within one month. Grant expenditures are covered by the General Fund until reimbursement is received. Failure to request timely reimbursement can negatively impact the County’s cash flow and interest income. HSD should ensure that reimbursement requests are submitted as frequently as permitted under the grant agreement, but no less frequently than monthly or when expenditures reach \$100,000, unless otherwise established by the grantors.

Criteria

The County *Policy for Administering Grants* (A2505) requires that departments submit reimbursement claims as frequently as permitted under the grant agreement, but no less frequently than monthly or when expenditures reach \$100,000, unless otherwise established by the grantors.

Background

The vast majority of HSD grants are reimbursement grants. Reimbursement grants require an organization to incur expenditures before receiving the grant funds. Requests for reimbursement are made through a process referred to as a “drawdown,” whereby HSD submits a claim to the grantor (generally monthly) for reimbursement of eligible expenditures. At HSD, the County’s General Fund covers the expenditures until reimbursement is received. In order to reduce negative interest charges and improve the County’s cash flow, it is important that these requests be submitted timely.

Condition

We reviewed financial records for the eight months ending January 2011 to determine if grant drawdowns were processed at least monthly. We reviewed 385 transactions totaling \$41.9 million and identified 6 drawdowns totaling \$305,687 that were not submitted for reimbursement within one month. The 6 exceptions represent 1.5% of transactions tested and less than 1% by dollar value of our sample population. Our findings are shown below.

Division	Transactions Sampled		Exceptions	
	#	\$	#	\$
Community Development	123	\$ 8,772,287	3	\$224,927
Community Services	124	9,919,657	0	0
Education	61	15,276,034	1	8,391

Workforce Development	77	7,947,435	2	72,369
Total	385	\$41,915,413	6	\$305,687

In addition, we judgmentally selected and tested 1 drawdown per division, resulting in a review of 4 drawdowns totaling \$404,284. We reviewed the financial records to determine if (1) all eligible expenditures were included, (2) supporting documentation was adequate, and (3) accounting functions were performed timely. We identified \$123,866 in expenditures that were not included in the drawdown, representing 23% of the total amount eligible for reimbursement. Exceptions are shown below.

Division	Grant	Draw Amounts	Exceptions
Community Development	Community Development Block Grant	\$100,000	Drawdown in October 2010 included expenditures for July – October and did not include \$36,474 in reimbursable payroll expenditures. This was attributed to journal vouchers not being processed timely.
Community Services	Senior Assisted Independent Living	\$162,801	No exceptions noted for drawdown in September 2010.
Education	Child & Adult Care Food Program	\$ 33,689	All eligible expenditures were included for the drawdown in November 2010; however, journal vouchers were not processed timely.
Workforce Development	Workforce Investment Act	\$107,794	Drawdown in October 2010 did not include \$87,392 in reimbursable expenditures. This was attributed to journal vouchers not being processed timely.

Effect

Failure to submit claims for reimbursement of eligible grant expenditures as frequently as permitted under the grant agreement can negatively impact the County's cash flow and interest income.

Cause

Journal vouchers are sometimes prepared quarterly vs. monthly. As a result, costs are not being properly allocated to grant funds in a timely manner.

Recommendations

HSD should:

- A.** Ensure that drawdowns are submitted as frequently as permitted under the grant agreement, but no less frequently than monthly or when the expenditures reach \$100,000, unless otherwise established by the grantors.
- B.** Ensure that journal voucher entries needed to properly reallocate costs are completed monthly prior to the reimbursement draw.

Issue 2 Contracts and Agreements

Summary

County policy requires that the Board of Supervisors (Board) formally accept all grant awards prior to funds being received or expended. We identified \$447,919 in transactions that were processed prior to Board approval. In addition, federal regulations require that contractor eligibility be verified prior to entering into a legal agreement with the recipient of grant funds. We identified four instances where this review was not performed until after the contract was approved. Although no ineligible contractors were noted, noncompliance could result in grantor sanctions and contract disputes. HSD should (1) ensure that the Board has formally accepted all grant awards before funding is received or expended, or obtain proper waivers, and (2) ensure contractor eligibility is verified prior to entering into any legal agreements or financial transactions.

Criteria

The County *Policy for Administering Grants* (A2505) states that the Board must formally accept all grant awards prior to any funds being expended. In addition, the County Grant Manual states that the Board must formally accept all grants before funding can be received and/or expended.

Federal Executive Order #12549 requires a government-wide system of debarment and suspension for grants and cooperative agreements. In addition, Federal Acquisition Regulation, Title 48, Part 9, Subpart 9.4, requires contracting officers to review the vendor for debarment, immediately prior to award, to ensure that no award is made to a debarred vendor.²

HSD's Suspension and Debarment Policy precludes HSD from entering into transactions with any entity that has been suspended, debarred or otherwise excluded from or is otherwise ineligible from doing business with the County, or from participation in federal assistance programs.

Condition

We reviewed 10 contracts totaling \$16.3 million to determine if Board approval was obtained prior to funds being received and/or expended. We identified nine transactions totaling \$447,919 that occurred prior to Board approval for two grants, as outlined below.

- One contract had 8 transactions, including \$90,634 in expenditures and \$4,699 in credits
- One contract had 1 transaction for \$352,586, representing the receipt of grant proceeds. Although there were no expenditures, County policy requires Board approval before grant funding can be received.

While the transactions occurred prior to Board approval, they were within the Board-approved budget. For instance, when HSD submits their budget requests each fiscal year, they include all funding sources anticipated, including grant revenues. After the Board approves the budget, HSD has budgetary approval to continue providing the grant-funded programs and services. It is not

² Debarment or suspension means a vendor is debarred and/or suspended from consideration for an award of a contract. Causes for a debarment or suspension may include a criminal conviction, civil conviction, or serious violations of contract provisions. (Source: Maricopa County Procurement Code, Section MCI-902)

uncommon for the written contract to be provided to HSD until after grant funds have been received and/or expended. A policy revision and/or waiver is needed to ensure that exceptions of this type are properly documented and approved.

Contractor Debarment/Eligibility Reviews

We reviewed 10 contractors to determine if the required reviews were performed to verify the contractors' eligibility to participate in federal assistance programs. No instances of ineligibility/debarment were noted; however, the reviews were not always timely. In four instances, the review was performed after the contract was approved.

We also reviewed one contract for \$600,174 to determine compliance with 27 specific requirements under the County Procurement Code, American Recovery & Reinvestment Act of 2009, and federal grant guidelines. The contract appeared to be properly monitored and generally included all the required elements reviewed. No material exceptions were noted.

Effect

HSD was not in compliance with County policy for administering grants. In addition, HSD did not comply with federal requirements and the HSD internal policy that vendor debarment/eligibility reviews be performed immediately prior to an award. Noncompliance in this area could result in grantor sanctions and contract disputes.

Cause

HSD processed transactions prior to Board approval in order to safeguard grant proceeds, which were received prior to the contract being formalized. Grant expenditures were incurred prior to approval for various reasons, including the fact that in some instances, the contract effective date reflects the grant cycle and the contract is negotiated after this date. In addition, HSD was 140 days late in reviewing one contractor for debarment due to a staff vacancy.

Recommendations

HSD should:

- A. Ensure that expenditures and revenues are not processed until the Board approves the contract. Where necessary, a policy waiver should be obtained. HSD should work with the Department of Finance to determine the appropriate resolution.
- B. Ensure that contractor debarment reviews are conducted prior to contract approval.

Issue 3 Information Technology

Summary

Through observation, limited testing, and interviews, we determined that HSD controls generally followed the authoritative COBIT IT control guidance in the following areas: information architecture, IT policies and procedures, IT investment management, IT personnel policies, IT quality management, IT risk assessment, IT project management, application and technology infrastructure acquisition and maintenance, user training, change management, service level management, disaster recovery planning, system configuration and backup management, and compliance with external requirements.

Criteria

COBIT, an international, generally accepted IT control framework, gives guidance about control requirements, technical issues, and business risks. Internal Audit uses COBIT as an authority for good IT control practices. The COBIT framework recommends the following key practices:

- Establish planning and organizational controls that ensure IT resources are effectively planned
- Establish processes for the acquisition and implementation of applications and technology infrastructure and management of system changes
- Monitor and evaluate IT resource compliance with laws, regulations, and contractual requirements

Condition

Through observation, limited testing, and interviews, we determined that the following key HSD IT controls generally followed the COBIT framework.

Human Service Information Technology Controls	
Planning and Organization	
Areas Reviewed	Results
Information Architecture	HSD IT policies and procedures governing IT architecture (network design, security settings, data center structure, etc.) appear adequate.
IT Policies and Procedures	HSD's IT policies, project charter, organization charts, and other supporting documentation appear adequate to meet HSD's needs.
IT Investment Management	IT investment acquisition and tracking policies appear sufficiently detailed to guide HSD's IT investment management process.
IT Personnel Policies	HR policies and background checks appear to align with HSD's needs.

IT Quality Management	HSD IT complies with MFR IT performance measure reporting standards.
IT Risk Assessment	HSD has a documented IT risk assessment process.
IT Project Management	HSD IT maintains a formalized project management process.
Acquisition and Implementation	
Infrastructure Acquisition and Maintenance	Application and technology acquisition and maintenance procedures are documented and appear adequate.
User Training	HSD IT provides ongoing and new employee training and user manuals.
Change Management	Change management procedures are documented, and appear to include appropriate levels of change management activities.
Delivery and Support	
Service Level Management	HSD IT appears to be adequately providing required service levels for critical services (bandwidth, server connections, disk usage, etc.). HSD IT maintains Service Level Agreements with outside providers.
Disaster Recovery Planning	HSD's disaster recovery plan appears to be sufficiently detailed.
System Configuration and Backup Management	HSD IT configuration and backup management procedures are documented and appear appropriate.
Monitoring and Evaluation	
Compliance with External Requirements	HSD's IT asset tracking database and asset inventory appear to comply with external grantor requirements.

Recommendation

None, for information only.

Department Response

**AUDIT RESPONSE
HUMAN SERVICES DEPARTMENT
JULY 18, 2011**

Issue #1: HSD's requests for reimbursement of eligible grant expenditures (aka cash drawdowns) were processed timely. However, improvements could be made. \$306,000 in expenditures was not submitted for reimbursement within one month.

Recommendation A: Ensure that drawdowns are submitted as frequently as permitted under the grant agreement, but no less frequently than monthly or when the expenditures reach \$100,000, unless otherwise established by the grantors.

Response: Concur. Human Services complies with County policy with regard to drawdowns to the fullest extent possible. Human Services has reviewed with internal audit staff the specific transactions noted in the audit. Reasons for the deviation from policy will be identified, and adjustments in processes will be made to the extent feasible to increase efforts to comply with County policy.

As stated in the audit report, 1.5% of transactions tested representing less than 1% of expenditures reimbursements tested were found to be in noncompliance with County policy. Given the volume of transactions and dollars handled by the Department, there are challenges in meeting the County policy.

Target Completion Date: June 30, 2012

Benefits/Costs: Timely drawdowns will increase the County's cash flow and decrease the potential for interest charges.

Recommendation B: Ensure that journal voucher entries needed to properly reallocate costs are completed monthly prior to the reimbursement draw.

Response: Concur. Human Services agrees that timely posting of journal vouchers is important to ensuring transactions are properly reported, and contribute to the Department's ability to draw down grant funds on a timely basis. The process for creating and posting journal vouchers will be reviewed and improved processes will be implemented to ensure that journal vouchers are posted as timely as possible.

Target Completion Date: December 31, 2011

Benefit/Costs: Timely posting of journal vouchers will increase the accuracy of financial transactions and enhance the Department's ability to complete drawdowns on a timely basis.

Issue #2: County policy requires that the Board of Supervisors formally accept all grant awards prior to funds being received or expended. \$447,919 in transactions was processed prior to Board approval. In addition, federal regulations require that contractor eligibility be verified prior to entering into a legal agreement with the recipient of grant funds. In four instances, this review was not performed until after the contract was approved.

Recommendation A: Ensure that expenditures and revenues are not processed until the Board approves the contract. Where necessary, a policy waiver should be obtained. HSD should work with the Department of Finance to determine the appropriate resolution.

Response: Concur. Human Services acknowledges that a few grant transactions were processed prior to receiving Board of Supervisors' approval of grant agreements with grantor agencies. Human Services agrees that an exception to County policy may be needed in those instances when it is in the best interests of County residents to enter into financial transactions under grant programs prior to execution of grant agreements, and will work with the Finance Department to determine whether such an exception is possible.

As stated in the audit report, less than 3% of the dollar value of contracts tested was found to be in noncompliance with County policy. The majority of federal grants received by Human Services have been in place for a long period of time. While grant amounts may fluctuate from year to year, the revenue sources for these grants have been relatively stable over a long period of time. A substantial portion of these grants are non-competitive and are allocated through a formula process at the federal and state level, and relationships with grantor agencies are strong.

On occasion, funding agencies are delayed in getting grant contracts to the County for execution in time for the beginning of the County's fiscal year. In order to ensure continuity of services to Maricopa County residents, Human Services works closely with the Finance Department on those grants where budget capacity exists and it is determined to be in the best interests of the residents to continue services without an executed agreement.

Target Completion Date: June 30, 2012

Benefit/Cost: Seeking an exception to County policy to allow long-standing grant programs to begin incurring expenditures prior to execution of grant agreements will ensure continuity of County services to vulnerable County residents.

Recommendation B: Ensure that contractor debarment reviews are conducted prior to contract approval.

Response: Concur. Human Services is committed to ensuring that contractors working on federally funded programs and activities are not on the federal debarred contractor list. Human Services has drafted and implemented a policy that requires verification of debarment status or certification by contractors that they are not debarred relative to all contractor agreements. This policy has been reviewed by the external County auditors and no exceptions to the policy were noted in the County's single audit for Fiscal Year 2009-2010. Human Services will continue to improve its practices regarding timely verification of debarment status.

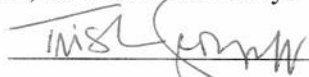
Target Completion Date: September 30, 2011

Benefit/Cost: Ensuring that the debarment status of contractors is checked on a timely basis significantly reduces the risk that federal funds will be paid to contractors who are debarred from participating in federally-funded contracts.

Issue #3: Through observation, limited testing, and interviews, we determined that HSD controls generally followed the authoritative COBIT IT control guidance

Recommendation: None, for information only.

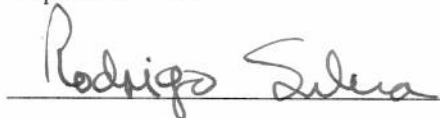
Approved By:



Department Head

7-18-2011

Date



Assistant County Manager

7-18-2011

Date



County Manager

7/19/11

Date