COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

A Second Follow-up Audit to the *Internal Audit Report: Facilities and Fleet Internal Controls*

Assignment 10251-B
November 8, 2016

Conclusion

This is a second follow-up audit to the *Internal Audit Report: Facilities and Fleet Internal Controls*. It is anticipated that this report will be submitted to the Board of Supervisor's Finance and Government Operations Committee on December 8, 2016.

At the conclusion of the first follow-up audit, 26 recommendations were addressed and two recommendations remained outstanding. Both recommendations are now implemented resulting in improvements to ensure that leasees are not on the Internal Revenue Service "Non-filer Revocation List" and that insurance coverage is current. Appendix A provides additional description of each recommendation's status. With this result, the original audit and follow-up are now considered complete and require no further reports.

Objective and Scope

After completion of a first follow-up audit in April 2016, two recommendations remained outstanding. This audit is to evaluate the implementation status of these two outstanding recommendations originally made in the *Internal Audit Report Facilities and Fleet Internal Controls issued August 1, 2011.*

Methodology

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* The audit was conducted from August through October 2016. A follow-up audit evaluates the progress made on recommendations and includes identifying whether the implementation is properly substantiated. During a follow-up audit, the Internal Audit Division does not change the initial findings, recommendations, or priority levels. This report was reviewed by the department and their written response is attached.

Background

The Institute of Internal Auditors' professional standards and the Internal Audit Division's procedures, as approved by the Board of Supervisors, require follow up on recommendations. As such, follow-up audits are included in the FY17 work plan. This audit was performed to meet these standards.

We appreciate the assistance and diligence of Facilities and Fleet Departmental staff. Their cooperation and participation were instrumental in the successful conclusion of this project.

Signature on file

RH

Rebecca Haggerty
Internal Audit Manager
November 8, 2016

Attachments:
Appendix A, STATUS OF AUDIT RECOMMENDATIONS
Facility and Fleet Department Management Response
Internal Audit Report: Facilities and Fleet Internal Controls issued August 1, 2011

APPENDIX A
STATUS OF AUDIT RECOMMENDATIONS

Finding / Recommendation Number	Priority	Finding/Recommendation	Implementation Status	Comments
OO 6		**Lease files contain no evidence that a Community Based Organization's nonprofit status was verified at the time of the lease.**		
OO 6.2	3	The departments with CBO leases should check the Internal Revenue Service's Non-filer Revocation List annually and ensure that the CBOs still have tax exempt status.	Implemented	Annually the Facilities and Fleet Department is verifying the non-profit status with Internal Revenue Service's Non-filer Revocation List.
OO 10		**Lease insurance policies have expired on two of the facilities that the County leases to others.**		
OO 10.1	3	The Facilities and Fleet Department (FAF) should verify whether the insurance is current and obtain the renewal insurance policy before the revenue lease expires.	Implemented	The Facilities and Fleet Department is ensuring that leases have current insurance.

County of Santa Clara

Facilities and Fleet Department

County Center at Charcot
2310 North First Street, Suite 200
San Jose, California 95131-1011
(408) 993-4700

DATE: November 7, 2016

TO: Rebecca Haggerty, Internal Audit Manager

FROM: Jeffery D. Draper
Director, Facilities and Fleet Department

11/7/16

SUBJECT: Department Response – Internal Audit Report, Second Follow-Up Audit to the Internal Audit Report; Facilities and Fleet Internal Controls

The Facilities and Fleet Department received the Internal Audit Report, Second Follow Up Audit which consisted of two (2) findings and recommendations. The Department agrees with the audit recommendations, and both have been implemented.

The Facilities and Fleet Department appreciates the professionalism and efforts of the Internal Audit Division's staff throughout this process.

County of Santa Clara

Finance Agency
Controller-Treasurer Department
Internal Audit Division

County Government Center
70 W. Hedding Street, East Wing, 2nd Floor
San Jose, California 95110-1705
(408) 299-5200 FAX (408) 289-8629

Bill Perrone, CIA
Internal Audit Manager

August 1, 2011

Assignment 10251

To: Distribution List

Subject: Facilities and Fleet Custody Internal Controls Audit Report

We have completed the Facilities and Fleet (FAF) custody internal controls audit. The results of the custody audit are in two reports. The custody Financial Audit Report was previously issued on October 1, 2010, in which we provided an unqualified opinion on the $51.0M of assets. We conducted this internal controls audit from November 2010 through May 2011.

We would like to thank the FAF staff for their full cooperation throughout the audit.

Respectfully submitted,

Signature on file

Bill Perrone, CIA
Internal Audit Manager

Distribution List:

Jeffrey Draper, Director, Facilities and Fleet Department
Emily Harrison, Deputy County Executive
Irene Lui, Controller-Treasurer
Vinod Sharma, Director, Finance Agency
Jeffrey V. Smith, County Executive
Dave Snow, Manager, Deputy Director, Facilities and Fleet Department
Board of Supervisors
Civil Grand Jury

COUNTY OF SANTA CLARA

CONTROLLER-TREASURER DEPARTMENT – INTERNAL AUDIT DIVISION

INTERNAL AUDIT REPORT

Facilities and Fleet Internal Controls

Assignment 10251
August 1, 2011

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Executive Summary

Conclusion

In our opinion, internal controls are inadequate in the area of the Fund 50 Cash Reconciliation and the managing of Revenue Leases. The failure to timely reconcile the Fund 50 Cash Reconciliation and resolve the differences resulted in an $8.9 million shortage of funding for the projects in progress. For Revenue Leases, the area of concern is the lack of documentation to support the approximate $9.7M of annual rent that is below fair market value.

It is our opinion that internal controls are adequate in the Building Operations Division (BOD) and Capital Projects Division over the activities that were audited. For BOD's high concern of injury prevention, internal controls are adequate and there are no recommendations. While injuries do occur, the County's related costs are low compared to other similar California jurisdictions. Regarding the other high BOD concern, preventive maintenance coverage, there is one minor recommendation in the Other Observations table regarding the need to quantify how many of the 16,400 work orders are being completed on an annual bases. For Capital Projects Division, there were minor opportunities related to County procedures for obtaining liability insurance. These were communicated to the people who are drafting the new County contracting policy.

It should be noted that besides the four findings detailed below, there are other minor findings with recommendations categorized as a priority 3 in the Other Observations table. This is the lowest level of concern and requires departments to report back to Internal Audit until the situation has been satisfactorily remedied.

The Facilities and Fleet Department (FAF) is in agreement with the facts of the findings contained in this report.

Audit Objective and Scope

Based on the risk matrix discussed in the Audit Background section, the audit objective was to determine the adequacy of internal controls regarding the following:

- Fund 50 Cash Reconciliation.
- Building Operations Division (including injury prevention and preventive maintenance coverage).
- Revenue Leases.
- Capital Projects Division.

The audit scope for these areas was the current fiscal year except for Fund 50 Cash Reconciliation which as extended back to July 2007 because that is the last month that it was known to be reconciled. The scope included the review of the efficient and effective use of resources and the adequacy of policies and procedures.

Audit Background

Santa Clara County Charter Section 602(b) requires an audit upon the vacancy in any office charged with the responsibility for County assets. Mr. Larry Jinkins left in May of 2009 and Mr. Jeffrey Draper became director in July of 2009.

From September 2010 to October 2010, FAF and Internal Audit teamed together to build a risk matrix in order to identify the top items for Internal Audit to audit. On this risk matrix, the Fund 50 Cash Reconciliation was determined to be the highest risk item. Fund 50, "General Capital Improvement Fund", is the fund for tracking all capital projects. For the Building Operations Division, injury prevention and preventive maintenance coverage were classified as high concerns. During the field work, Capital Programs and Revenue Leases were added to the audit. Capital Programs was added because it is a major FAF activity. Revenue Leases was added because of the possible opportunity to improve revenues for the County.

We conducted our audit in accordance with the International Professional Practices Framework of Internal Auditing established by the Institute of Internal Auditors.

Signature on file

Bill Perrone, CIA
Internal Audit Manager

Findings and Recommendations

Finding 1	**The failure to timely resolve the reconciling items in the PS (Project System) Available Funds Balance vs. Fund 50 Cash Balance Reconciliation resulted in an $8.9M shortage of funding for the projects in progress.**
	1. July 2007 was the last time that the Fund 50 cash balance was reconciled to a minimum amount ($.04). From August 2007 to September 2010, the unreconciled difference ranged from a low of ($108,224) to a high of $17,076,514. During audit field work, we performed reconciliations for the department from August 2007 to March 8, 2011. We identified the following the items creating an $8.9 million shortage of funding: • In FY09, two journal vouchers (JVs) were recorded with each returning $6.7M to the general fund, but there was only one budget authorization (F85) returning $6.7M. • In FY09, a failure to timely reduce the project budget resulted in overspending by $.9M on the Morgan Hill Courthouse. • In FY10, the failure to provide $.8M of funding that was to come "from Fund 50 fund balance" as indicated in the Final Budget resulted in projects being overspent by the $.8M. • In FY09, the failure to do a transfer-in to Fund 50 caused FAF to have a shortage of funds for the New Fleet Facilities at Junction Project (CP06010) in the amount of $450,000. • In FY08, FAF did not prepare a journal entry to transfer the approved funding of $25,000 from the general fund to Fund 50 for the New Fleet Facilities at Junction Project (CP06010).
Recommendation 1.1	FAF must resolve the funding shortage by obtaining additional funding or reducing the budgets on other capital projects. [Priority 1]
Recommendation 1.2	FAF should clear the remaining 15 items appearing on the March 8, 2011 cash reconciliation totaling $219,271 by September 30, 2011. [Priority 1]
Recommendation 1.3	FAF should reconcile the Fund 50 cash balance to the Project System's (PS) available funds balance monthly and resolve all reconciling items within one month. In addition, there should be an escalation plan to report to one level higher in management each month the reconciliation is not timely performed or items are carried over from the prior month. [Priority 1]
Recommendation	By the end of a calendar month, FAF should provide a copy of the prior

1.4	month's PS Available Fund Balance vs. Fund 50 Cash Balance Reconciliation to the Controller's Office. [Priority 1]
Recommendation 1.5	Each month, the Controller's Office should review all FAF journal vouchers greater than $1M for appropriateness. [Priority 1]
Finding 2	**There is a lack of traceability from budget authorizations (F-85 and B01's) to journal vouchers in the County's accounting system which creates overages or shortages of cash in Fund 50.**
	FAF does not have a procedure to ensure that authorizing budget documents (F85's and B01's) that impact Fund 50 funding are traced to journal vouchers in the central accounting system and vice-versa. When a budget authorization is done impacting the funding in Fund 50 and the journal voucher is not recorded in the central accounting system or vice-versa, it creates the situation where Fund 50 does not have the cash to pay for what is spent on the projects or extra cash has not been returned to the general fund. Examples of this missing traceability include: • In FY09, the journal vouchers 100732297 and 100734525 were made to return $6.7M from Fund 50 to the general fund in accordance with F85-09-152. This amount was again transferred on journal voucher 100734465. There is no budget authorization to support the second $6.7M transfer from Fund 50 to the general fund. • In FY09, F85-051 budgeted an additional $450,000 for capital project expenditures. No journal voucher was made to move the money into Fund 50. • In FY08, B-01 was approved to transfer $25,000 from the general fund to Fund 0050. No journal voucher was prepared.
Recommendation 2.1	FAF should take corrective action within 30 days when the monthly PS Available Funds vs. Fund 50 Cash Reconciliation identifies an under or over funded situation. [Priority 1]
Recommendation 2.2	FAF should develop procedures that identify F-85's and B01's that require journal vouchers and ensure that the journals vouchers are properly done. [Priority 1]
Recommendation 2.3	For funding changes that require journal vouchers, FAF should first prepare and park a journal voucher in SAP. This will provide a journal number to place on the F85 or B-01. After the F85 or B-01 is approved, FAF will proceed to record the journal voucher and attach the approved F85 or B-01. [Priority 1]
Finding 3	**FAF-prepared spreadsheet data is different from the County's accounting system data.**

FAF has mainly relied on its own spreadsheets instead of the reports from the County's accounting system (SAP) to make important financial decisions. However, we found the data from the spreadsheets did not agree with SAP. For example:

- Total available bond balances on the spreadsheets did not tie to the available transfer-in budgets in SAP. See table below.

	Transfer In Budget Roll Over to Next Year (Spreadsheet)	Transfer In Budget Roll Over to Next Year (SAP)	Variance
FY07	119,490,264.56	119,515,264.86	(25,000.00)
FY08	102,369,136.84	95,691,313.62	6,677.823.22
FY09	27,377,156.71	33,477,714.98	(6,100,558.27)
FY10	7,894,982.10	10,727,982.10	(2,833,000.00)

- The available transfer-in budget did not fully rollover to the next year because FAF did not cross-check figures on the spreadsheets with SAP before rolling over the budget to the next year. This is a control weakness that did lead to an inaccurate transfer-in budget and would impact the funding to complete the capital projects, such as New Fleet Facilities at Junction Project (CP06010), Main Jail Level 4 Security Cell Conversion Project (CP06004), and the Morgan Hill Courthouse Project (C000050).

Recommendation 3.1

FAF should work with ASAP to eliminate stand-alone spreadsheets or at least try to down load information directly into the spreadsheets. [Priority 1]

Recommendation 3.2

Before the implementation of Recommendation 3.1, FAF should reconcile the total available bond balance on the spreadsheet with the available transfer-in budget in SAP at least monthly and ensure that transfer-in re-appropriation in current year is equal to prior's year ending available transfer-in budget in SAP. [Priority 1]

Finding 4

There are approximately $9.7M potential general fund lost revenues from BFMR (Below Fair Market Rent) and ground leases that were approved by the Board as far as back as 1971 and may not be in compliance with Government Code (GC) 26227 and Office of Management and Budget Circular A-87 (OMB A-87).

Exhibit A shows that the County currently provides BFMR to 13 nonprofit organizations, seven County Office of Education locations, the City of Campbell (City Park) and the Housing Authority (Arturo Ochoa Migrant Housing Center). The Board approvals of the leases ranged from 1971 to 2009. Although the files contained comments on why the County would provide the facilities at BFMR, there was no financial analysis to support the discount or document compliance with the GC 26227 and the OMB A-87.

	The amount of the County's subsidy of $9.7 million was calculated by using the fair market rent of County-owned/leased facilities and subtracting the amounts paid by nonprofits, the County Office of Education and the Housing Authority. It also shows that nine out of the 22 below fair market rents were ground leases. Ground leases are typically a long-term lease of unimproved land that requires the lessee to construct new improvements. The County receives either zero or $1 dollar per year from each of the nine ground leases. The Board annually approves the County budget. When long-term financial arrangements are not taken to the Board periodically, the current Board is not aware of how all County resources are being used. GC 26227 covers the situation of the Board making real property available to public agency, nonprofit corporation or nonprofit association. The code says that the property must not be for county purposes currently or during the time of possession. The Board must insure that the terms and conditions are in the best interests of the county and general public. OMB A-87 covers rental agreements among governmental agencies and is relevant because the County receives money from the federal government as do some of the lessees. Appendix B paragraph 37a of A-87 states that "Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available." Appendix B paragraphs 37 b and c discuss "less-than-arm's-length" leases and allowable costs. On July 28, 2009, the Controller issued a memo covering rents between County departments and the need to pass the "prudent person test". There was no documentation in the lease files to indicate that any of the A-87 issues were considered.
Recommendation 4.1	By FY12, FAF must work with the benefiting departments to obtain Board approval and document compliance with GC 26227 and A-87 for all currently existing BFMR's and ground leases. [Priority 1]
Recommendation 4.2	Going forward, FAF should require all current benefiting departments to annually provide support for BFMR's and ground leases for both the reduced rent and compliance with A-87 and GC 26227. [Priority 1]
Recommendation 4.3	FAF should require all future benefiting departments to provide support for both the reduced rent and compliance with A-87 and GC 26227 for any newly approved BFMR's and ground leases. [Priority 1]

OTHER OBSERVATIONS (All are Priority 3)

#	Function	Finding	Recommendation
1	Building Operations	It is unknown what the Building Operations Division's (BOD) maintenance decentralization structure will have on the completion of the preventive maintenance projects and its impact on future maintenance expenses for repairs that should have been avoided by preventive maintenance.	1. After each fiscal year end, the division management should review the decentralized structure's impact on the 16,400 preventive maintenance work orders completed as compared to prior years, report their findings to the Facilities Director, and make any necessary adjustments to its operations. [Priority 3] 2. The BOD should track and report the costs incurred for any repair that could have been avoided had the proper preventive maintenance been done [Priority 3]
2	Building Operations	The BOD's MAC Room is partially staffed by maintenance mechanics whose wages are higher than the building service monitors.	The Division should fill the vacant building service monitor's position with a building service monitor instead of using the higher paid maintenance mechanic position. This will allow at least one building service monitor to be on duty on nearly every shift. [Priority 3]
3	Building Operations	There were FY11 expenses charged to obsolete BOD cost centers.	1. The Fiscal Services Division should notify the particular County entities to update their templates. [Priority 3] 2. The Fiscal Services Division should make the corrective entries to redirect the charges to the appropriate cost centers. [Priority 3] 3. When inactivating or closing cost centers, the Fiscal Services Division should promptly notify the Controller-Treasurer's Department of the changes [Priority 3]
4	Building Operations	The Division's written policies and procedures are inaccessible, externally developed, partially outdated and not codified.	The Division should commence writing short (half-page) policies for key critical issues and when time permits, write procedures that support those policies. [Priority 3]

			It should be noted that orally communicated well established policies and procedures in small closely managed organizations are considered an acceptable management practice; the Building Operations Division may be such an organization. From discussions with the Division's supervisors, it appears the Division has such policies and procedures.
5	Building Operations	In order to identify the proper staffing levels, the Building Operations Division had to develop comparisons to other jurisdictions' maintenance and custodial staffing levels which may not be directly comparable.	The manager should continue his current task database project as it appears to be an effective tool to address staffing levels. [Priority 3]
6	Revenue Leases	Lease files contain no evidence that a CBO's nonprofit status was verified at the time of the lease.	1. FAF should put policies and procedures in place regarding verifying CBO status at the time the lease is created. [Priority 3] 2. The benefiting departments of CBO leases should check the "Non-filer Revocation List" annually and ensure that the CBOs still have tax-exempt status. [Priority 3]
7	Revenue Leases	No centralized master revenue lease spreadsheet is maintained.	FAF should maintain a centralized master file for the revenue leases and cost plan where lease information used by staff will be current and in agreement. [Priority 3]
8	Revenue Leases	The Assessor's Parcel Numbers (APNs) on the revenue lease spreadsheet differ from the Assessor's website.	FAF should use the Assessor's APNs or explain the reason for not using it. [Priority 3]
9	Revenue Leases	FAF is carrying the Sal Croce Youth Center on the revenue lease spreadsheet despite it having been sold in June 2003.	FAF should remove the Sal Croce Youth Center from the revenue leases spreadsheet. [Priority 3]
10	Revenue Leases	Lessee insurance policies have expired on two of the facilities that the County leases to	FAF should verify whether the insurance is current and obtain the renewal insurance policy before the revenue

		others.	lease expires. [Priority 3]
11	Revenue Leases	Possessory interest taxation clause is not on all of the lease agreements.	FAF should ensure that the possessory interest taxation clause is included in the lease contract in order to ensure that the lessee is liable for any possessory interest taxes. [Priority 3]

EXHIBIT A

Below Fair Market Rent vs. Fair Market Rent

Item	Lessee	Property Use	Annual Rent Received	*Annual Fair Market Rent	Ground Lease?	On CBO List?	Board Approval Date	Lease Expiration Date
				Nonprofits				
1	Abilities United	Children center/developmentally disabled	1	775,440	Yes	No	9/29/1980	4/11/2015
2	Abilities United	Adult center/developmentally disabled	1	324,000	Yes	No	9/29/1980	10/14/2024
3	Ali Baba Corporation	Adult residential facilities (ARF)	277,200	415,800	No	Yes	9/15/2009	9/30/2012
4	California Institute for Medical Research (CIMR)	Medical research laboratory	1	336,600	Yes	No	4/11/1988	12/31/2027
5	Catholic Charities	Classroom /Office	1,200	3,900	No	Yes	12/14/2004	Month to Month
6	Foster and Adoptive Parents (FAPA)	Office	-	57,120	No	No	6/7/2005	9/14/2011
7	Hope Rehabilitation Services	Center for the mentally disabled	1	268,528	No	Yes	4/27/1971	5/3/2021
8	Kidango (Excludes playground about 7,317 square feet)	Childcare and preschool services for SCVHHS, the County employees and low-income families	54,000	65,875	No	No	6/9/2009	7/31/2013
9	Mayview Community Health Center (Palo Alto)	Mayview community clinic	-	144,000	No	Yes	6/9/2009	6/30/2013
10	Mayview Community Health Center (Mountain View)	Mayview community clinic	-	67,968	No	Yes	6/9/2009	6/30/2013
11	Mid-peninsula Housing Coalition (VIVENTE 1)	An apartment for developmentally disabled people	1	1,760,180	Yes	No	1/14/1992	11/23/2037

Item	Lessee	Property Use	Annual Rent Received	*Annual Fair Market Rent	Ground Lease?	On CBO List?	Board Approval Date	Lease Expiration Date
12	Respite and Research for Alzheimer's Disease (RRAD)	Alzheimer's Day Care Center	-	79,200	Yes	No	4/26/1988	11/23/2037
13	San Jose State University Research Foundation	Aquatic instruction, recreation, education and rehabilitation services	**Based on revenue Maximum Rent $10,000	1,170,185	No	No	9/29/2009	9/28/2012
Subtotal: Nonprofits			**$332,405**	**$5,468,795**				
City of Campbell								
1	City of Campbell	City park	-	2,038,608	Yes	N/A	9/15/2009	9/1/2034
Housing Authority								
1	Housing Authority of Santa Clara County	Arturo Ochoa Migrant Housing Center	1	1,082,983	Yes	N/A	5/24/1994	5/23/2044
County Office of Education								
1	County Office of Education	Holden Ranch school	1	74,880	No	N/A	8/12/2008	8/10/2018
2	County Office of Education	James Ranch school	1	74,880	No	N/A	8/12/2008	8/10/2018
3	County Office of Education	Sam Della Maggiore Center	1	130,205	Yes	N/A	No transmittal. License agreement only	7/1/2023
4	County Office of Education	Muriel Wright Girls' Ranch classroom	1	86,400	No	N/A	8/12/2008	8/10/2018
5	County Office of Education	Children's shelter	1	56,520	No	N/A	8/12/2008	8/10/2018
6	County Office of Education	Chandler Tripp School	1	780,120	Yes	N/A	5/3/2005	7/1/2023
7	County Office of Education	Osborne School	1	195,696	No	N/A	8/12/2008	8/10/2018
Subtotal: County Office of Education			**$7**	**$1,398,701**				
Totals			**$332,413**	**$9,989,088**				
BMFR Difference is $9,656,088								

August 1, 2011 – FAF Response sent via e-mail from Dave Snow to Bill Perrone

Findings and Recommendations

Finding	Internal Audit Description of Finding	Facilities and Fleet Department Response
Finding 1	**The failure to timely resolve the reconciling items in the PS (Project System) Available Funds Balance vs. Fund 50 Cash Balance Reconciliation resulted in an $8.9M shortage of funding for the projects in progress.**	As noted within the June 3, 2011 Memorandum to the Board of Supervisors, in FY 2011 the FAF Department requested Internal Audit to examine Fund 50. In May 2011, Internal Audit verified FAF's preliminary finding indicating a cash shortfall within Fund 50.
	2. July 2007 was the last time that the Fund 50 cash balance was reconciled to a minimum amount ($.04). From August 2007 to September 2010, the unreconciled difference ranged from a low of ($108,224) to a high of $17,076,514. During audit field work, we performed reconciliations for the department from August 2007 to March 8, 2011. We identified the following the items creating an $8.9 million shortage of funding: • In FY09, two journal vouchers (JVs) were recorded with each returning $6.7M to the general fund, but there was only one budget authorization (F85) returning $6.7M. • In FY09, a failure to timely reduce the project budget resulted in overspending by $.9M on the Morgan Hill Courthouse. • In FY10, the failure to provide $.8M of funding that was to come "from Fund 50 fund balance" as indicated in the Final Budget resulted in projects being overspent by the $.8M. • In FY09, the failure to do a transfer-in to Fund 50 caused FAF to have a shortage of funds for the New Fleet Facilities at Junction Project (CP06010) in the amount of $450,000. • In FY08, FAF did not prepare a journal entry to transfer the approved funding of $25,000 from the general fund to Fund 50 for the New Fleet Facilities at Junction Project (CP06010).	In FY 2009, FAF was requested to provide an analysis of options and consequences relating to withdrawing funds assigned to Capital projects. Capital projects at this time were funded by General Fund and Redevelopment agency revenues. As a result of this analysis, FAF was directed to transfer withdrawn funds to Fund 59. Following this transaction, FAF was instructed to return cash to the General Fund as RDA revenue would not be forthcoming. The transfer was doubled due to errors in communication and uncertainty of County cash flow coupled with RDA revenue uncertainties. On the F85 in FY09, the $6.7M authorization was noted twice and the error was not discovered. FAF will work to draft F85s to represent standalone actions that relate to specific projects/funds. FAF agrees with IA's finding in that "Fund Balance" does not represent cash that can be utilized to fund projects. Only cash within Fund 50 cash balance can be utilized for projects with Board approval. Going forward, FAF will return balance to Fund 50 cash, and transfer to other projects as appropriate. FAF, as indicated in the June 3, 2011 Memorandum to the Board of Supervisors, agrees with the findings as five transactions that lead to the cash balance discrepancy.
Recommendation 1.1	FAF must resolve the funding shortage by obtaining additional funding or reducing the budgets on other capital projects. [Priority 1]	Agree. The Board of Supervisors approved Appropriation Modification #211, transferring funds to resolve the funding shortage (June 21, 2011, Item No. 22).
Recommendation 1.2	FAF should clear the remaining 15 items appearing on the March 8, 2011 cash reconciliation totaling $219,271 by September 30, 2011. [Priority 1]	Agree. FAF will review and clear these items. One finding is presented as a double refund from the State Administrative Office of the Courts and the Superior Court during the time

Finding	Internal Audit Description of Finding	Facilities and Fleet Department Response
		of the AOC transition from the County.
Recommendation 1.3	FAF should reconcile the Fund 50 cash balance to the Project System's (PS) available funds balance monthly and resolve all reconciling items within one month. In addition, there should be an escalation plan to report to one level higher in management each month the reconciliation is not timely performed or items are carried over from the prior month. [Priority 1]	Agree. FAF has implemented this practice and reconciling monthly. Cleanup transactions occur biannually at mid-year and year-end. Recently, FAF was presented a PG&E cash refund from the Morgan Hill Courthouse project. FAF elected to book the refund to the project which creates a credit to fund balance, and will transact to recognize revenue and transfer to Fund 50 Fund Balance at mid-year.
Recommendation 1.4	By the end of a calendar month, FAF should provide a copy of the prior month's PS Available Fund Balance vs. Fund 50 Cash Balance Reconciliation to the Controller's Office. [Priority 1]	Agree in concept. FAF will provide Quarterly reports in order to facilitate project-specific adjustments at the transactional level, providing a more accurate report.
Recommendation 1.5	Each month, the Controller's Office should review all FAF journal vouchers greater than $1M for appropriateness. [Priority 1]	Agree. Controller to communicate to whom the report will be sent.
Finding 2	**There is a lack of traceability from budget authorizations (F-85 and B01's) to journal vouchers in the County's accounting system which creates overages or shortages of cash in Fund 50.**	
	FAF does not have a procedure to ensure that authorizing budget documents (F85's and B01's) that impact Fund 50 funding are traced to journal vouchers in the central accounting system and vice-versa. When a budget authorization is done impacting the funding in Fund 50 and the journal voucher is not recorded in the central accounting system or vice-versa, it creates the situation where Fund 50 does not have the cash to pay for what is spent on the projects or extra cash has not been returned to the general fund. Examples of this missing traceability include: • In FY09, the journal vouchers 100732297 and 100734525 were made to return $6.7M from Fund 50 to the general fund in accordance with F85-09-152. This amount was again transferred on journal voucher 100734465. There is no budget authorization to support the second $6.7M transfer from Fund 50 to the general fund. • In FY09, F85-051 budgeted an additional $450,000 for capital project expenditures. No journal voucher was made to move the money into Fund 50. • In FY08, B-01 was approved to transfer $25,000 from the general fund to Fund 0050. No journal voucher was prepared.	FAF agrees that there is not a procedure to link budget authorization (spending authority) to journal vouchers (cash transfer). Going forward, FAF will implement the following practices: 1. Prepare individual F85s to separate project appropriation modifications; for example, recognizing revenue for one project will be a separate F85 from transferring funding from a different project to Fund Balance. 2. FAF fiscal staff will monitor Board approval for appropriation modifications. 3. FAF Capital Programs will work to close projects in a timely manner.

Finding	Internal Audit Description of Finding	Facilities and Fleet Department Response
Recommendation 2.1	FAF should take corrective action within 30 days when the monthly PS Available Funds vs. Fund 50 Cash Reconciliation identifies an under or over funded situation. [Priority 1]	Agree. The monthly report would identify any corrective action required.
Recommendation 2.2	FAF should develop procedures that identify F-85's and B01's that require journal vouchers and ensure that the journals vouchers are properly done. [Priority 1]	Agree. FAF will prepare internal guidelines.
Recommendation 2.3	For funding changes that require journal vouchers, FAF should first prepare and park a journal voucher in SAP. This will provide a journal number to place on the F85 or B-01. After the F85 or B-01 is approved, FAF will proceed to record the journal voucher and attach the approved F85 or B-01. [Priority 1]	Agree. FAF Fiscal staff will prepare Journal Vouchers in SAP, referenced on the appropriation modification.
Finding 3	**FAF-prepared spreadsheet data is different from the County's accounting system data.**	Agree. FAF depends on Maximo database for Building Operations work order management, and is considering Archibus (aligned with SCCVMC system). FAF utilizes Assetworks for Fleet ISF work order management. In addition, FAF has contracted with UDMS to automate utilities billing allocation. In many cases, there is not a current solution to facilitate allocation of certain charges, including Court Transfer payments. As a result, FAF staff has developed workaround solutions over the years. There are many challenges to integrate database systems into SAP, including available resources within the ASAP team and resources within FAF to fund consultant support. For example, in the Fleet ISF cost allocation that requires funds reservation GLs for vehicles and fuel, FAF requested a batch upload solution to eliminate manual entry of more than 900 transactions more than 14 months ago. FAF agrees that certain departmental database input must be integrated into SAP. FAF databases must integrate with SAP "Parent/Child" relationships to function appropriately. FAF will work with OBA and the Controller to develop a means to both communicate and recognize Cost Center migration.
	FAF has mainly relied on its own spreadsheets instead of the reports from the County's accounting system (SAP) to make important financial decisions. However, we found the data from the spreadsheets did not agree with SAP. For example: • Total available bond balances on the spreadsheets did not tie to the available transfer-in budgets in SAP. See table below.	FAF will work with Administration to review the discrepancies. For example, in SAP, Budget less the amount spent, less committed funds equals available balance. A negative balance with negative spending yields a positive credit. This is a system flaw that needs to be addressed to meet operational needs.

<table>
<tr><th>Finding</th><th>Internal Audit Description of Finding</th><th>Facilities and Fleet Department Response</th></tr>
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<tr><th></th><th>Transfer In Budget Roll Over to Next Year (Spreadsheet)</th><th>Transfer In Budget Roll Over to Next Year (SAP)</th><th>Variance</th></tr>
<tr><td>FY07</td><td>119,490,264.56</td><td>119,515,264.86</td><td>(25,000.00)</td></tr>
<tr><td>FY08</td><td>102,369,136.84</td><td>95,691,313.62</td><td>6,677.823.22</td></tr>
<tr><td>FY09</td><td>27,377,156.71</td><td>33,477,714.98</td><td>(6,100,558.27)</td></tr>
<tr><td>FY10</td><td>7,894,982.10</td><td>10,727,982.10</td><td>(2,833,000.00)</td></tr>
</table>
The available transfer-in budget did not fully rollover to the next year because FAF did not cross-check figures on the spreadsheets with SAP before rolling over the budget to the next year. This is a control weakness that did lead to an inaccurate transfer-in budget and would impact the funding to complete the capital projects, such as New Fleet Facilities at Junction Project (CP06010), Main Jail Level 4 Security Cell Conversion Project (CP06004), and the Morgan Hill Courthouse Project (C000050).
</td><td></td></tr>
<tr><td>Recommendation 3.1</td><td>FAF should work with ASAP to eliminate stand-alone spreadsheets or at least try to down load information directly into the spreadsheets. [Priority 1]</td><td>Agree. FAF and ASAP had a meeting to discuss this finding and will meet within the next six months to frame the database challenges, develop roadmap for solutions and prioritize solutions. Given existing projects and staffing resources it is likely this finding will require effort beyond six months, with follow up status reports each 90 days.</td></tr>
<tr><td>Recommendation 3.2</td><td>Before the implementation of Recommendation 3.1, FAF should reconcile the total available bond balance on the spreadsheet with the available transfer-in budget in SAP at least monthly and ensure that transfer-in re-appropriation in current year is equal to prior’s year ending available transfer-in budget in SAP. [Priority 1]</td><td>Agree. FAF currently prepares monthly allotment reports. The Bond program has been reduced to a zero balance per BOS Meeting 21-June, Item No. 22.</td></tr>
<tr><td>Finding 4</td><td>There are approximately $9.7M potential general fund lost revenues from BFMR (Below Fair Market Rent) and ground leases that were approved by the Board as far as back as 1971 and may not be in compliance with Government Code (GC) 26227 and Office of Management and Budget Circular A-87 (OMB A-87).</td><td>Agree. FAF does not have authority to approve BFMR leases. FAF recommends that the Administration review requests for BFMR by CBOs, and review existing leases with non-profits for possible return to the Board to meet regulatory requirements.</td></tr>
<tr><td></td><td>Exhibit A shows that the County currently provides BFMR to 13 nonprofit organizations, seven County Office of Education locations, the City of Campbell (City Park) and the Housing Authority (Arturo Ochoa Migrant Housing Center). The Board approvals of the leases ranged from 1971 to 2009. Although the files contained comments on why the County would provide the facilities at BFMR, there was no financial analysis to support the discount or</td><td></td></tr>
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Finding	Internal Audit Description of Finding	Facilities and Fleet Department Response
	document compliance with the OMB A-87. The amount of the County's subsidy of $9.7 million was calculated by using the fair market rent of County-owned/leased facilities and subtracting the amounts paid by nonprofits, the County Office of Education and the Housing Authority. It also shows that nine out of the 22 below fair market rents were ground leases. Ground leases are typically a long-term lease of unimproved land that requires the lessee to construct new improvements. The County receives either zero or $1 dollar per year from each of the nine ground leases. The Board annually approves the County budget. When long-term financial arrangements are not taken to the Board periodically, the current Board is not aware of how all County resources are being used. OMB A-87 covers rental agreements among governmental agencies and is relevant because the County receives money from the federal government as do some of the lessees. Appendix B paragraph 37a of A-87 states that "Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available." Appendix B paragraphs 37 b and c discuss "less-than-arm's-length" leases and allowable costs. On July 28, 2009, the Controller issued a memo covering rents between County departments and the need to pass the "prudent person test". There was no documentation in the lease files to indicate that any of the A-87 issues were considered.	
Recommendation 4.1	By FY12, FAF must work with the benefiting departments to obtain Board approval and document compliance with A-87 for all currently existing BFMR's and ground leases. [Priority 1]	Agree. FAF will work through the Administrative Space Committee to review benefitting departmental reports relating to these ground leases as compared to the value of services provided.
Recommendation 4.2	Going forward, FAF should require all current benefiting departments to annually provide support for BFMR's and ground leases for both the reduced rent and A-87 compliance. [Priority 1]	Agree. This recommendation will be added to the Space Request form.
Recommendation 4.3	FAF should require all future benefiting departments to provide support for both the reduced rent and A-87 compliance for any newly approved BFMR's and ground leases. [Priority 1]	Agree in concept. FAF does not have authority to require departments to support reduced rent, however, FAF will work with the Administrative Space Committee and the Office of the County Executive on newly approved BFMRs.

OTHER OBSERVATIONS (All are Priority 3)

#	Function	Finding	Recommendation	Building Operations Response
1	Building Operations	It is unknown what the Building Operations Division's (BOD) maintenance decentralization structure will have on the completion of the preventive maintenance projects and its impact on future maintenance expenses for repairs that should have been avoided by preventive maintenance.	3. After each fiscal year end, the division management should review the decentralized structure's impact on the 16,400 preventive maintenance work orders completed as compared to prior years, report their findings to the Facilities Director, and make any necessary adjustments to its operations. [Priority 3] 4. The BOD should track and report the costs incurred for any repair that could have been avoided had the proper preventive maintenance been done [Priority 3]	1. Agree. Building Operations reports will be reviewed with the Director annually. 2. Agree in concept. There is not a method to efficiently monitor and report avoidable costs; unscheduled repairs may or may not be preventable by regular maintenance.
2	Building Operations	The BOD's MAC Room is partially staffed by maintenance mechanics whose wages are higher than the building service monitors.	The Division should fill the vacant building service monitor's position with a building service monitor instead of using the higher paid maintenance mechanic position. This will allow at least one building service monitor to be on duty on nearly every shift. [Priority 3]	Agree. FAF has implemented the transition. Staffing reductions in FY 2012 necessitate mechanics to be distributed to the work centers for field work.
3	Building Operations	There were FY11 expenses charged to obsolete BOD cost centers.	4. The Fiscal Services Division should notify the particular County entities to update their templates. [Priority 3] 5. The Fiscal Services	1. Agree. FAF is in process to notify departments. 2. Agree. At year-end cleanup this was addressed. Going

			Division should make the corrective entries to redirect the charges to the appropriate cost centers. [Priority 3] 6. When inactivating or closing cost centers, the Fiscal Services Division should promptly notify the Controller-Treasurer's Department of the changes [Priority 3]	forward, FAF reorganized cost centers to a concise and efficient structure. 3. Agree. FAF has, and will continue to, notify Controller of changes.
4	Building Operations	The Division's written policies and procedures are inaccessible, externally developed, partially outdated and not codified.	The Division should commence writing short (half-page) policies for key critical issues and when time permits, write procedures that support those policies. [Priority 3] It should be noted that orally communicated well established policies and procedures in small closely managed organizations are considered an acceptable management practice; the Building Operations Division may be such an organization. From discussions with the Division's supervisors, it appears the Division has such policies and procedures.	Agree. Implemented; policies and procedures are available to staff at the front desk of Berger Building 3.
5	Building Operations	In order to identify the proper staffing levels, the Building Operations Division had to develop comparisons to other jurisdictions' maintenance and custodial staffing	The manager should continue his current task database project as it appears to be an effective tool to address staffing levels. [Priority 3]	Agree. FAF will continue to balance Whitestone recommendations with available fiscal resources.

		levels which may not be directly comparable.		
6	Revenue Leases	Lease files contain no evidence that a CBO's nonprofit status was verified at the time of the lease.	3. FAF should put policies and procedures in place regarding verifying CBO status at the time the lease is created. [Priority 3] 4. The benefiting departments of CBO leases should check the "Non-filer Revocation List" annually and ensure that the CBOs still have tax-exempt status. [Priority 3]	Agree in concept. Benefitting departments should be required to provide this information within the Space Request, reviewed by the Administrative Space Committee. Agree in concept. FAF will have the opportunity to review status only during lease amendment or for new requests.
7	Revenue Leases	No centralized master revenue lease spreadsheet is maintained.	FAF should maintain a centralized master file for the revenue leases and cost plan where lease information used by staff will be current and in agreement. [Priority 3]	Agree. FAF has available reports on lease data. FAF is working with VMC, Parks and Recreation and the Roads and Airports department to review consolidated database management for all County properties.
8	Revenue Leases	The Assessor's Parcel Numbers (APNs) on the revenue lease spreadsheet differ from the Assessor's website.	FAF should use the Assessor's APNs or explain the reason for not using it. [Priority 3]	Agree in concept. Administration will include APN's. Though not related to the facts of the finding, the Assessor has changed APN's in the past. Administration will review solutions to cross-reference APN's.
9	Revenue Leases	FAF is carrying the Sal Croce Youth Center on the revenue lease spreadsheet despite it having been sold in June 2003.	FAF should remove the Sal Croce Youth Center from the revenue leases spreadsheet. [Priority 3]	Agree. FAF will provide a current report.

10	Revenue Leases	Lessee insurance policies have expired on two of the facilities that the County leases to others.	FAF should verify whether the insurance is current and obtain the renewal insurance policy before the revenue lease expires. [Priority 3]	Agree. FAF will utilize the EBIX BPO system to review and monitor insurance policies.
11	Revenue Leases	Possessory interest taxation clause is not on all of the lease agreements.	FAF should ensure that the possessory interest taxation clause is included in the lease contract in order to ensure that the lessee is liable for any possessory interest taxes. [Priority 3]	Agree. FAF will continue to require new and revised lease agreements to reflect the commitment to pay tax.