



# Internal Audit Division

## Auditor-Controller-Treasurer-Tax Collector

# Subrecipient Monitoring and Contract Payment Process Audit

## Human Services Department

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## Executive Summary

As part of the 2025-2026 Annual Audit Plan, the Internal Audit Division (IA) of the Auditor-Controller-Treasurer-Tax Collector (ACTTC), performed an internal control audit of the Human Services Department's (HSD) subrecipient monitoring and contract payment processes.

The objectives of this audit were to:

- 1) Evaluate the design of controls over monitoring federal grant subrecipients.
- 2) Evaluate the design of controls over invoice review and contract payment processes.

A summary of the findings and related recommendations is provided below. Detailed information is included in the *Findings, Recommendations & Management Responses* section beginning on page 5. One recommendation is considered high priority 1, which should be implemented within one to three months of this report's issuance, and two recommendations are considered low priority 3, which should be implemented within six to twelve months of this report's issuance. IA also identified one additional recommendation categorized as an opportunity for improvement. For information on Priority Ratings and Definitions please refer to page 7.

1. Internal controls over invoice review and payment processes for fixed-cost contracts appear to be adequately designed. However, controls over cost-reimbursement contracts require improvement. Contractors and subrecipients with cost-reimbursement contracts are generally not required to submit detailed supporting documentation with invoices. Supporting documentation should be required, and County staff should review the documentation for accuracy and to verify that goods and services were received prior to payment.
2. Internal controls over subrecipient monitoring are well designed; however, controls related to identifying and classifying subrecipients should be strengthened.
3. Internal control procedures should be developed to ensure that subrecipient federal expenditures are correctly identified and reported to the ACTTC for inclusion in the Schedule of Expenditures of Federal Awards (SEFA).

We would like to thank HSD management and staff for their cooperation, time, and assistance throughout the engagement.

## Introduction

Internal Audit completed a design of internal controls audit of HSD's subrecipient monitoring and invoice processing. We conducted our audit in accordance with the Institute of Internal Auditors' Global Internal Audit Standards (Standards). These Standards require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our audit objectives. We believe that the evidence obtained provides a reasonable basis for the results contained in our report.

The purpose of this report is to furnish management with independent and objective analysis, recommendations and other information concerning the activities reviewed. The audit report is a tool to help management identify and implement improvements.

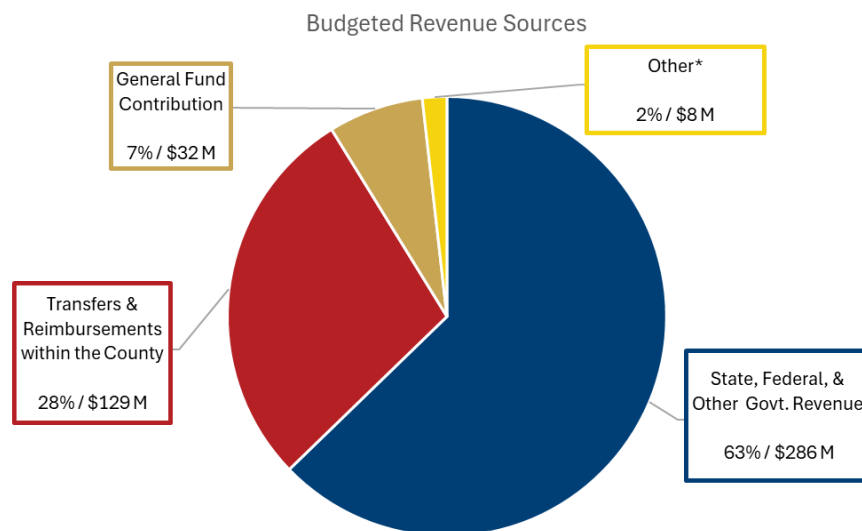
## Background

HSD provides safety net services to the community to support the health, safety and well-being of over 100,000 individuals and families. HSD employs over 950 staff and in fiscal year 2025-2026 the annual budget exceeded \$455 million.

Direct services are delivered through five core program divisions:

- 1) **Adult & Aging- Support** – Supports seniors, veterans, caregivers, individuals with disabilities, in-home care, meals and protective services.
- 2) **Employment & Training** – Offers job-seeking support, including youth employment, employer connections, training resources and homelessness services.
- 3) **Economic Assistance** – Administers CalFresh, Medi-Cal, CalWorks, General Assistance, cash aid, and immigrant cash assistance.
- 4) **Family, Youth and Children** – Focuses on child-protective services, foster care and adoption programs.
- 5) **Administrative Services** – Includes HR, finance, communications, contracts, IT, planning, fraud investigations, public relations, disaster response, and staff development.

The budgeted revenue sources for Human Services for fiscal year 2025-26 are as follows:



\*Other; Fees and Charges for Services, Prior Year State Revenue and Interest Earnings, and Use of Fund Balance

## Scope

The audit was performed in fiscal year 2025-2026, and fieldwork was conducted in September and October 2025. The scope was limited to evaluating the design of internal controls related to federal grant subrecipient monitoring and contract payment processes.

## Methodology

In fiscal year 2023-2024, the County's federal grant expenditures totaled approximately \$184 million. HSD accounted for approximately 61% (\$113 million), Sonoma Public Infrastructure (SPI) accounted for approximately 15% (\$28 million) and the Department of Health Services (DHS) accounted for approximately 10% (\$19 million) of total federal expenditures.

IA selected HSD, SPI and DHS for audit because they represented the departments with the highest federal grant expenditures. This audit focused on HSD's internal controls over federal grant subrecipient monitoring requirements, invoice review and contract payment processes. Future audits will focus on SPI and DHS.

The audit included, but was not limited to the following steps:

- 1) Conducted interviews and walkthroughs with HSD staff to obtain an understanding of processes for identifying and monitoring federal grant subrecipients, as well as invoice review and contract payment processes.
- 2) Reviewed HSD policies and procedures related to subrecipient identification and monitoring, invoice review and contract payment processes.
- 3) Obtained and reviewed example documents, contracts and databases used to identify and monitor federal grant subrecipients, and to support contract payment processes.

## Results

### Objective 1:

HSD has well-designed internal controls for subrecipient monitoring, including monitoring schedules, comprehensive policies and procedures, fiscal monitoring templates, risk assessment forms, and internal controls questionnaires.

However, internal control weaknesses exist in identifying and reporting subrecipient federal expenditures. Two contracts totaling \$460,225 were incorrectly categorized and reported as subrecipient expenditures to the ACTTC for inclusion in the County's SEFA for the fiscal year ended June 30, 2024.

*Additional details are provided in the Findings, Recommendations, and Management Response section beginning on page 5.*

### Objective 2:

Internal controls over invoice review and contract payment processes for fixed-cost contracts appear to be adequately designed. HSD has well documented expense payment procedures and adequate separation of duties. However, a significant weakness exists in the design of internal controls related to invoice review and contract payment processes for cost-reimbursement contracts.

The policies and procedures reviewed do not require contractors and subrecipients to submit supporting documentation with claims or invoices for cost-reimbursement contracts. HSD staff does not review detailed supporting documentation for these payments. Internal controls for cost-reimbursement contracts are therefore not adequately designed to reduce the risk of paying incorrect or inaccurate claims.

Because detailed supporting documentation such as payroll registers, timecards and other evidence of services and supplies received is not required to be submitted or reviewed, County staff cannot verify that the County received the services for which it is being billed.

*Additional details are provided in the Findings, Recommendations and Management Response section beginning on page 5.*

## Findings, Recommendations & Management Responses

No.	Criteria	Findings & Recommendations	Management Responses
1	<p>Cost-reimbursement contracts should include provisions requiring contractors or subrecipients to submit detailed supporting documentation with invoices. Supporting documentation should include labor cost details (timesheets signed/approved by the employee and supervisor), payroll registers or reports, fringe benefit calculations, receipts for travel expenses, receipts or invoices for supplies and materials. Each grant should also have designated, trained staff responsible for reviewing invoices and supporting documentation for completeness and accuracy.</p>	<p><b>Finding:</b> HSD policies and procedures do not require staff to review supporting documentation prior to paying invoices for cost-reimbursement contracts. For these contracts (other than ARPA-funded agreements), HSD does not require contractors to submit detailed supporting documentation, such as time tracking records, labor rates, receipts or invoices for materials, along with their claims. As a result, critical information needed to verify the accuracy and legitimacy of the amounts billed is not reviewed before payment.</p> <p><b>Recommendation: High / Priority 1</b> HSD should update its policies and procedures to require vendors to submit, and staff to review, detailed supporting documentation for all cost-reimbursement contract invoices. Examples include general ledgers, approved timecards, payroll registers and receipts. Supporting documentation should be reviewed prior to processing payments.</p>	<p>Policies and procedures will be established requiring supporting documentation for all cost-reimbursement contract invoices. Documentation will be reviewed by staff and required before payment. The policy will go into effect January 1, 2027, and will be implemented immediately thereafter with new contracts and on a rolling basis as contracts renew.</p>
2	<p><b>CFR §200.331</b> requires pass-through entities to make case-by-case determinations to classify entities receiving federal funds as either subrecipients or contractors. The pass-through entity must use judgment in determining whether each agreement represents a subaward or a procurement contract.</p>	<p><b>Findings:</b> HSD staff use the Contractor/Sub-Recipient Determination Form to classify vendors; however, the form is not reviewed by a supervisor for accuracy. Without supervisory review, classification decisions may be inconsistent or incorrect, which can affect federal reporting and monitoring requirements.</p> <p><b>Recommendation: Low / Priority 3</b> The Contractor/Sub-Recipient Determination Form completed by HSD staff should be reviewed and approved by a manager or supervisor.</p>	<p>The process will be updated to require manager/supervisor review and approval of the Contractor/Sub-Recipient Determination Form.</p>

No.	Criteria	Findings & Recommendations	Management Responses
3	<p><b>CFR § 200.510(b)</b> requires that the SEFA include the total federal awards expended, the name of the federal program, and the amount provided to subrecipients. This information ensures auditors and federal agencies can assess whether the County is properly monitoring subrecipients and complying with federal requirements.</p>	<p><b>Finding:</b> Expenses under two federal programs were incorrectly identified as passed through to subrecipients because there is no process in place to verify that subrecipient expenditures reported to the ACTTC are supported by a completed Contractor/Sub-Recipient Determination Form. As a result, \$460,225 was incorrectly reported as subrecipient expenditures in the County's SEFA for the fiscal year ended June 30, 2024.</p> <p><b>Recommendation: Low / Priority 3</b> HSD should implement a process to verify that subrecipient expenditures reported to the ACTTC for the SEFA are supported by a completed and approved Contractor/Sub-Recipient Determination Form.</p>	<p>HSD has implemented a process to verify that sub-recipient expenditures reported to the ACTTC for the SEFA are supported by approved Contractor/Sub-Recipient Determination Forms.</p>
4	<p><b>CFR § 200.303</b> requires recipients and subrecipients to establish, document, and maintain effective internal controls over federal awards. Policies and procedures must be maintained across programs and divisions and must support effective subrecipient monitoring and claims payment processes. These controls must provide reasonable assurance that the organization is managing federal awards in compliance with applicable statutes, regulations, and the terms and conditions of the award.</p>	<p><b>Finding:</b> Some HSD fiscal procedures are written specifically as Adult and Aging Program procedures, even though they are fiscal/accounting procedures that apply to the entire Department. This creates inconsistency across programs and increases the risk that staff may not follow uniform procedures for fiscal and accounting processes.</p> <p><b>Recommendation: Opportunity for improvement / Priority 4</b> HSD should review fiscal and accounting policies and procedures across all divisions and programs for consistency and consider establishing clearly labeled department-wide policies where applicable.</p>	<p>HSD will review all policies and procedures and will apply them department-wide as applicable.</p>

## Priority Ratings and Definitions

Priority Ratings	Definition of Priority Ratings and Suggested Implementation Timeframe
<b>High / Priority 1</b>	<p>Priority 1 recommendations are assigned to the highest assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, and there is a high likelihood of significant financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority 1 recommendations also include significant issues related to non-compliance with laws, regulations or policies and procedures.</p> <p>Management should urgently implement these recommendations within 1 to 3 months after issuance of the final audit report to avoid risk exposure.</p>
<b>Medium / Priority 2</b>	<p>Priority 2 recommendations are assigned to the moderately assessed level of risk. For these recommendations, internal controls are considered poor or insufficient, and there is a moderate likelihood of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority 2 recommendations also include moderately severe issues related to non-compliance with laws, regulations or policies and procedures.</p> <p>Management should promptly implement these recommendations within 3 to 6 months after issuance of the final audit report to improve internal control processes.</p>
<b>Low / Priority 3</b>	<p>Priority 3 recommendations are assigned to the lowest assessed level of risk. For these recommendations, there are opportunities to improve the design and or operation of internal controls and there is a potential of financial loss, waste, misappropriation of assets, or errors for the area(s) evaluated. Priority 3 recommendations may include minor issues related to non-compliance with laws, regulations or policies and procedures. These recommendations are desired actions to enhance current practices.</p> <p>Management should consider implementing these recommendations within 6 to 12 months after issuance of the final audit report to provide additional confidence in the internal control system.</p>
<b>Opportunity for improvement/ Priority 4</b>	<p>Priority 4 recommendations are assigned to matters which do not involve internal controls, they typically involve opportunities for improvement or efficiency/effectiveness issues that require management's consideration to implement or enhance processes.</p>