



Transmitted via e-mail

July 13, 2011

Ms. Kim Garcia, Assistant Director of Administration
Office of Traffic Safety
2208 Kausen Drive, Suite 300
Elk Grove, CA 95758

Dear Ms. Garcia:

Final Report—Department of Alcoholic Beverage Control, Office of Traffic Safety Grant Audit

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the Department of Alcoholic Beverage Control's (ABC) grant agreement AL0822 for the period October 1, 2007 through September 30, 2009.

The enclosed report is for your information and use. ABC's response to the report observations is incorporated into this final report. ABC and its subgrantee, Recording Artists, Actors and Athletes Against Drunk Driving (RADD), agreed with our observations and we appreciate their willingness to implement corrective actions. The observations in our report are intended to assist ABC and RADD management in improving their internal controls and grant compliance.

This report will be placed on our website. Additionally, pursuant to Executive Order S-20-09, please post this report in its entirety to the Reporting Government Transparency website at <http://www.reportingtransparency.ca.gov> within five working days of this transmittal.

We appreciate the assistance and cooperation of ABC and RADD. If you have any questions regarding this report, please contact James Kong, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Mark A. Talan, Regional Coordinator, Office of Traffic Safety
Ms. Deborah Hrepich, Associate Accounting Analyst, Office of Traffic Safety
Mr. Chris Albrecht, Deputy Division Chief, Department of Alcoholic Beverage Control
Mr. Patrick Deasy, District Administrator, Department of Alcoholic Beverage Control
Ms. Ging Tucker, Fiscal Officer, Department of Alcoholic Beverage Control
Ms. Erin Meluso, President, Recording Artists, Actors and Athletes Against Drunk Driving

AUDIT REPORT

Department of Alcoholic Beverage Control
Grant Agreement AL0822

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

The Office of Traffic Safety (OTS) is charged with the responsibility of obtaining and distributing federal funds in an effort to carry out the direction of the National Highway Traffic Safety Act. The federal funds are designed to mitigate traffic safety problems as defined by the Highway Safety Plan. Currently, there are eight program priority areas earmarked for grant funding: Alcohol and Other Drugs, Occupant Protection, Pedestrian and Bicycle Safety, Emergency Medical Services, Traffic Records, Roadway Safety, Motorcycle Safety, and Police Traffic Services. OTS allocates funds to local government agencies to implement these programs via grant awards.

The California Department of Alcoholic Beverage Control (ABC) received a grant from OTS to reduce alcohol-involved motor vehicle deaths and injuries and increase the use of sober designated drivers. To accomplish this objective, ABC subcontracted the grant award to the Recording Artists, Actors, and Athletes Against Drunk Driving (RADD), a non-profit organization where celebrities and media partner to create positive attitudes about road safety by advocating the use of designated drivers, seatbelts, and safe driving through control behind the wheel. ABC in partnership with RADD was to continue developing and implementing an innovative mass market media and presence campaign to promote the use of designated drivers for at-risk young adults between the ages of 21 and 34. (Source: RADD and grant agreement AL0822).

SCOPE

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations, conducted an audit of ABC's OTS grant listed below.

<u>Grant Agreement</u>	<u>Audit Period</u>	<u>Awarded</u>
AL0822	October 1, 2007 through September 30, 2009	\$ 272,991

The audit objective was to determine whether ABC's grant expenditures claimed were in compliance with applicable laws, regulations, and grant requirements. In order to design adequate procedures to evaluate fiscal compliance, we obtained an understanding of the relevant internal controls. We did not assess the efficiency or effectiveness of program operations.

As the grantee, ABC management is responsible for ensuring accurate financial reporting and compliance with applicable laws, regulations, and grant requirements as well as evaluating the efficiency and effectiveness of the program. As the subgrantee, RADD is responsible for fulfilling the grant objectives and is subject to all the terms and conditions of the grant agreement between OTS and ABC. OTS is responsible for the state-level administration of the grant funds.

METHODOLOGY

To determine whether grant expenditures were in compliance with applicable laws, regulations, and the grant requirements, we performed the following procedures:

- Interviewed key personnel.
- Obtained an understanding of the grant-related internal controls.
- Examined the grant files.
- Reviewed ABC's accounting records and copies of RADD's accounting records.
- Determined whether a sample of expenditures were:
 - Allowable
 - Grant related
 - Incurred within the grant period
 - Supported by accounting records
 - Properly recorded
 - Not double billed to other revenue sources
- Evaluated whether the goals and objectives required by the grant agreement were met.

The results of the audit are based on our review of documentation, other information made available to us, and interviews with the staff directly responsible for administering grant funds. The audit was conducted from July 2010 through May 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Except as noted below, ABC's expenditures were in compliance with applicable laws, regulations, and the grant requirements. The Schedule of Claimed and Questioned amounts is presented in Table 1. Additionally, three observations were identified as reported below.

Table 1: Schedule of Claimed and Questioned Amounts

Grant Agreement AL0822		
For the Period October 1, 2007 through September 30, 2009		
Category	Claimed	Questioned
Contractual Costs	\$ 228,295	\$ 0
Indirect Costs	6,846	0
Total Expenditures	\$ 235,141	\$ 0

During our audit, we noted the following observations concerning the Grantee and Subgrantee grant administration and internal controls.

Observation 1: Personnel Expenditures Exceeded Budgeted Costs

ABC (grantee) approved RADD's (subgrantee) personnel expenditures in excess of budgeted costs without the required cover letter to justify the budget revision. The subgrantee agreement, Schedule B, budgeted the personnel costs at \$84,125; however, the approved reimbursements totaled \$96,938, which exceeded the budget by \$12,813 or 15.2 percent. By not formally approving costs exceeding authorized budgets, there is a risk of the excess costs being disallowed.

OTS Grant Program Manual, Chapter 3, section 3.8, specifies that a Schedule B cost category increase in excess of 10 percent be approved following a written justification for the revision.

Recommendation:

The grantee should develop and implement policies and procedures to ensure the subgrantee submits a written request when claimed costs for a cost category are expected to exceed the budget by more than 10 percent.

Observation 2: Subgrantee Timesheet Documentation Requirements Were Not Met

The subgrantee timesheets reviewed did not contain the signature of the employee or the approver. Of the 14 timesheets reviewed, 13 were not signed by the employee or by a reviewer/approver. Additionally, the timesheets only contained the hours charged to the grant and did not include non-grant related activities. The personnel costs charged to the grant appeared reasonable given the grant objectives had been met. However, without the employee

and reviewer-approver signatures, the grantee is not able to verify the hours charged were confirmed by the employee and properly approved, increasing the likelihood of those costs being disallowed.

OTS Grant Program Manual, Chapter 4, section 4.4.1, requires a personal activity report be prepared monthly for all staff billed. At a minimum, the report must contain:

- An after-the-fact determination of actual activities worked.
- All activities the employee was compensated for whether grant related or not.
- Signatures of employee and an official with first-hand knowledge of activities.

Recommendation:

The grantee and subgrantee should insure all timesheets submitted for reimbursement are complete and signed by both the employee and an approver.

Observation 3: Subgrantee Grant Accounting is Not Adequate

The subgrantee does not adequately account for grant expenditures within its accounting system. Specifically, not all grant expenditures were posted to its ABC-OTS grant general ledger accounts. Of the \$182,179 direct charges claimed and reimbursed, only \$169,367 was posted to the grant general ledger accounts, and none of the \$46,116 indirect costs claimed was posted to the grant general ledger accounts. While all the claimed costs supported with subgrantee checks were posted to the subgrantee disbursement general ledger, to ensure adequate accountability over grant funds, the accounting system must be able to segregate grant revenues and expenditures to produce grant specific reports that reconcile to the claimed costs.

OTS Grant Program Manual, Chapter 4, section 4.3 specifies that an accounting system may be used as long as grant revenues and expenditures including labor are recorded in special grant accounts, and that records include total grant amount authorized, obligations, outlays or expenditures, unobligated balances, and income.

Recommendation:

The subgrantee should ensure all grant expenditures are properly recorded and classified in the related grant general ledger accounts.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

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June 29, 2011

David Botelho, CPA, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Ste., 801
Sacramento, CA 85814

Subject: Project No. AL0822
RADD

Dear Mr. Botelho,

Thank you for your audit findings regarding our 2007 RADD grant through the Office of Traffic Safety.

We recognize your observations concerning our agency and the sub-grantee regarding administration of this grant and internal controls.

We have taken all appropriate steps to ensure full compliance with the Department of Finance recommendations.

We have communicated these findings to our sub-grantee RADD and they have assured us that all errors and omissions credited to RADD in the audit report have been corrected. RADD continues to work with OTS to perfect their reporting tools and refine procedures to insure financial compliance as well as model grant management practice in all future grants.

Sincerely,

Original signed by:

Patrick Deasy
District Administrator

Cc: Chris Albrecht
Ging Tucker