

Internal Audit Department

O R A N G E C O U N T Y
 6th Largest County in the USA

FINAL CLOSE-OUT

SECOND FOLLOW-UP AUDIT

INTERNAL CONTROL AUDIT: PROBATION DEPARTMENT TITLE IV-E FOSTER CARE PROGRAM CLAIMS PROCESS

ORIGINAL AUDIT No. 2822

AS OF NOVEMBER 22, 2010

Our Second Follow-Up Audit found the Probation Department fully implemented two (2) recommendations, partially implemented one (1) recommendation, has one (1) recommendation in-process, and did not implement one (1) recommendation from our original audit containing five (5) recommendations. One (1) of the recommendations was implemented in our First Follow-Up Audit reported dated April 20, 2010. Total costs for foster care administrative activities during the original audit period from October 1, 2007 through September 30, 2008 were approximately \$16 million, and claimed matching reimbursements totaled \$5.7 million during the same period.

AUDIT No: 1034-A
 REPORT DATE: NOVEMBER 30, 2010

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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Transmittal Letter



Audit No. 1034-A November 30, 2010

TO: Steven Sentman, Chief Probation Officer
Probation Department

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **Second and Final Close-Out** Follow-Up
Internal Control Audit: Probation
Department Title IV-E Foster Care
Program Claims Process,
Original Audit No. 2822,
Issued September 16, 2009

We have completed a Second Follow-Up Audit of internal controls for the Probation Department Title IV-E Foster Care Program Claims Process. Our audit was limited to reviewing, as of November 22, 2010, actions taken to implement the five **(5) recommendations** from our original audit. We conducted this Second Follow-Up Audit in accordance with the *FY 10-11 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found that Probation **fully implemented two (2) recommendations, partially implemented one (1) recommendation, has one (1) recommendation in-process, and one (1) recommendation was not yet implemented.**

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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Internal Control Audit: Probation Department
Title IV-E Foster Care Program Claims Process
Audit No. 1034-A*

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OC Internal Auditor's Report



Audit No. 1034-A

November 30, 2010

TO: Steven Sentman, Chief Probation Officer
Probation Department

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **Second and Final Close-Out** Follow-Up Audit of Internal Control Audit:
Probation Department Title IV-E Foster Care Program Claims Process,
Original Audit No. 2822, Issued September 16, 2009

Scope of Review

We have completed a Second Follow-Up Audit of the Internal Control Audit for the Probation Department Title IV-E Foster Care Program Claims Process. Our audit was limited to reviewing, as of November 22, 2010, actions taken to implement the **four (4) recommendations** remaining from our First Follow-Up audit report dated April 20, 2010 (Audit No. 2927-B).

Background

We conducted an audit of internal controls over the Probation Department's Title IV-E Foster Care Program Claims Process, which included an evaluation of compliance of eligibility determination and preparation of claims with Federal and State regulations; accuracy, completeness and timeliness of processed claims; and business process efficiency and effectiveness. During the original audit period, the Probation Department's total Title IV-E costs were approximately \$16 million and claimed matching reimbursements totaled \$5.7 million. The recommendations pertained to completion of time study forms and documentation of corrections, operational policies and procedures for claims, accounting controls for funds, spreadsheet data storage controls, and update of the interagency operation agreement.

Results

Our Second Follow-Up Audit indicated the Probation Department **fully implemented two (2) recommendations, partially implemented (1) recommendation, has one (1) recommendation in-process of implementation; and one (1) recommendation is not yet implemented.** We believe the remaining three (3) recommendations are still appropriate and further efforts should be made to fully implement them. Based on the two Follow-Up Audits we conducted, the following is the implementation status of the five (5) original recommendations:

1. Completion of Time Study Forms and Documentation of Corrections (Control Finding)

Probation Department establish documented procedures to ensure Title IV-E time study forms and corrections are prepared, documented, and submitted by relevant personnel.



Current Status: **Implemented (Second Follow-Up Audit).** The Probation Department established written policies and procedures for the preparation and review of Title IV-E time study forms and provided them to relevant personnel. In addition, training was provided to the supervisors responsible for reviewing and approving Title IV-E time study forms. Because of corrective actions taken, we consider this recommendation implemented.

2. **Operational Policies and Procedures for Title IV-E Claims** (Control Finding)

Probation Department establish written policies and procedures for Fiscal Services' preparation of the quarterly Title IV-E claim data.

Current Status: **Not Yet Implemented.** The Probation Department has not yet documented operational policies and procedures for Title IV-E claim data due to resource constraints. Therefore, we consider this recommendation not yet implemented.

Probation Department Planned Action:

The Probation Department will establish written policies and procedures in preparing quarterly Title IV-E claim data. Documented policies and procedures will be reviewed and approved by management and a current version will be readily accessible for reference by personnel responsible for the Title IV-E quarterly claim process. Estimated completion is expected by April 30, 2011.

3. **Accounting Controls for Title IV-E Funds** (Control Finding)

Probation Department ensure fiduciary fund accounts are reconciled in accordance with County Accounting Manual Section F-4 requirements.

Implemented (First Follow-Up Audit). The fiduciary fund account for monies received as cash advances for Title IV-E claims was formerly reconciled by the same staff member who also initiated and prepared journal vouchers affecting the account. We noted that the Probation Department reassigned the responsibility for preparing the reconciliation and effectively segregated the fiduciary duties. In addition, we reviewed the fund account reconciliations for Title IV-E monies between September 2009 and January 2010 and found that all reconciliations were prepared on a monthly basis and approved by a supervisor. No exceptions were noted. Because of corrective actions taken, we consider this recommendation implemented.

4. **Title IV-E Spreadsheet Data Storage Controls** (Control Finding)

Probation Department implement data storage controls to ensure the long-term usefulness of spreadsheets supporting Title IV-E claims.

Current Status: **Partially Implemented.** The Probation Department evaluated a plan to store electronic files in e-mail folders on a server to ensure the long-term usefulness of Title IV-E claim spreadsheets and other supporting documentation ("Title IV-E electronic data"). The Probation Department determined that storing Title IV-E electronic data in e-mail folders was not the most cost effective method and plans to store the Title IV-E electronic data in a shared suite within the Integrated Case Management System.



We noted that the Probation Department designed a directory structure for storing Title IV-E electronic data in a shared suite within the Integrated Case Management System. However, the Title IV-E electronic data has not been moved to the shared suite. Therefore, we consider this recommendation partially implemented.

Probation Department Planned Action:

The Probation Department has begun storing electronic files on the newly established suite residing on a server to ensure the long-term usefulness of spreadsheets and other documentation supporting Title IV-E claims. Estimated completion is expected by March 31, 2011.

5. Interagency Operations Agreement Needs Updating (Control Finding)

Probation Department update its Interagency Operating Agreement with the Social Services Agency to reflect current Title IV-E claiming practices, including but not limited to, the timeframe for filing cost claim data and for the deposit and transfer of Title IV-E cash advances.

Current Status: **In-Process.** The Probation Department and Social Services Agency negotiated a extended draft Interagency Operating Agreement for Title IV-E claiming practices. The draft agreement disclosed that mutual agreement was achieved on the submission of revised expense claim data. However, terms and conditions are still under negotiation for the: (a) timing of the Probation Department's submission of initial Title IV-E expense claim data to the Social Services Agency; and (b) allocation and transfer process for remitting funds received as reimbursements. Because the Interagency Operating Agreement for Title IV-E practices is still in a draft form and negotiations are underway, we consider this recommendation in-process.

Probation Department Planned Action:

The Probation Department will finalize the extension of its Interagency Operating Agreement with the Social Services Agency. Estimated completion is expected by April 30, 2011.

We appreciate the assistance extended by the Probation Department during our Second Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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