District - Shawn Nelson Chairman

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SPECIAL REQUEST FOLLOW-UP AUDIT:

COUNTY OF ORANGE MANAGEMENT LETTERS & SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 2010

ORIGINAL AUDIT ISSUED BY COUNTY EXTERNAL AUDITOR

As of August 19, 2011

At the request of the Audit Oversight Committee, we conducted a follow-up of recommendations contained in the FY 2009-10 County Management Letters and the Single Audit Report issued by the County's external auditor, Vavrinek, Trine, Day & Co., LLP (VTD).

We found that County departments and agencies took satisfactory corrective action to fully implement thirteen (13) recommendations; two (2) recommendations have been partially implemented, and three (3) recommendations are currently in process.

AUDIT NO: 1116
REPORT DATE: NOVEMBER 9, 2011
(ORIGINAL AUDIT ISSUED BY COUNTY EXTERNAL AUDITOR)

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Deputy Director: Eli Littner, CPA, CIA

Senior Audit Manager: Alan Marcum, CPA, CIA Audit Manager: Lily Chin, CPA

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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

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management

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







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

Providing Facts and Perspectives Countywide

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA







Audit No. 1116 November 9, 2011

TO: Members, Board of Supervisors

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Special Request Follow-Up Audit: County

of Orange Management Letters & Single Audit Report for the Year Ended June 30,

2010

As requested by the Audit Oversight Committee on April 27, 2011, we have completed the special request follow-up audit of recommendations contained in the FY 2009-10 County of Orange (County) Management Letters and the Single Audit Report issued by the County's external auditor, Vavrinek, Trine, Day & Co., LLP (VTD).

The Management Letters contained two (2) current year observations related to internal controls over financial reporting and over compliance with federal programs. The Single Audit Report contained one (1) recommendation on internal control over financial reporting and fifteen (15) recommendations over compliance with certain major programs. Our audit was limited to reviewing, as of August 19, 2011, actions taken by County departments/agencies to implement eighteen (18) recommendations made in the County Management Letters and the Single Audit Report.

The results of our Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter.

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 8.

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County of Orange Management Letters and Single Audit Report For the Year Ended June 30, 2010 (Original Audit Issued by County External Auditor) Audit No. 1116

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Audit No. 1116 November 9, 2011

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TO: Members, Board of Supervisors

FROM: Dr. Peter Hughes, CPA, Director,

Internal Audit Department

SUBJECT: Special Request Follow-Up Audit: County of Orange Management Letters

and Single Audit Report for the Year Ended June 30, 2010

Scope of Review

As requested by the Audit Oversight Committee on April 27, 2011, we have completed a special request follow-up audit of the recommendations contained in the FY 2009-10 County Management Letters and the Single Audit Report made by the County External Auditor, Vavrinek, Trine, Day & Co., LLP (VTD). VTD Management Letters contained two (2) current year observations and recommendations on internal controls over financial reporting and over compliance with federal programs. The Single Audit Report contained one (1) control over financial recommendation on internal reporting and recommendations related to compliance applicable to certain major programs. Our audit was limited to reviewing, as of August 19, 2011, actions taken by County departments and agencies to implement eighteen (18) recommendations made in the County Management Letters and the Single Audit Report. Our methodology included inquiry, auditor observation and testing of relevant documents.

Background

Vavrinek, Trine, Day & Co., LLP (VTD) conducted an audit of County financial statements for the fiscal year ended June 30, 2010 and issued the Management Letters and the Single Audit Report. The Management Letters identified one (1) recommendation related to information technology user access termination in the CAPS+ Finance and Purchasing System and one (1) recommendation related to time study reconciliations for allocating payroll expenditures to Social Services Agency (SSA) quarterly County Expense Claims of program administrative cost. The Single Audit Report contained one (1) recommendation on revenue bond rate covenant calculation and fifteen (15) findings related to instances of noncompliance with certain major programs and recommendations strengthening procedures to ensure compliance. The findings did not result in questioned costs except for one finding which disclosed overstated expenditures by \$1,561 on a quarterly report.

Results

Our Follow-Up Audit indicated that County departments and agencies took satisfactory corrective action to fully implement thirteen (13) recommendations; two (2) recommendations have been partially implemented; and three (3) recommendations are currently in process. VTD's original findings are summarized below by County departments and agencies that took corrective action to implement the recommendations along with the status. For recommendations not fully implemented, County department and agency action plans are noted starting on page 5.



<u>Listed below by County departments and agencies are VTD's Finding Numbers, Summary of VTD's Findings, VTD's Finding Classification, VTD's Recommendations, and Implementation Status of the Recommendations:</u>

VTD Finding No.	Summary of VTD Finding	Finding Classification by VTD	VTD Recommendation	Repeat Finding from FY 08-09	Implementation Status
Management	Letters Observation Ov	er Financial Re	eporting:		
Auditor-Con	troller:	Γ	Γ	T	I
Current Year Observations 1 Information Technology User Access Termination	Employee separations in the personnel system were not compared to CAPS+ finance and purchasing system users in order to identify and remove application access for separated users.	Not Classified	County implement a compensating control/ procedure to ensure that changes in an employee's status (i.e. separations) for CAPS+ Finance and Purchasing System users are identified and updated within that system's security/application access tables.	No	In Process (Action Plan on page 6, Item 1)
	Letters Observation Re				
Auditor-Cont	troller/Social Services A	gency Account	ing:	ı	T
Current Year Observations 1 County Expense Claims – Time Study Reconciliations	VTD found that 5 of 100 selected employees' allocable and nonallocable hours per time study summary report did not agree to the time card. Time studies serve as the basis for the allocations of costs on the Social Services Agency quarterly County Expense Claims (CEC) for program administrative costs.	Not Classified	County strengthen procedures over the review of time studies.	Yes	Implemented
	Report Findings: troller/Health Care Agend	cy Accounting			
2010-05 Program: ARRA Edward Byrne Memorial Justice Assistance Grant	Procedures did not specifically ensure American Recovery and Reinvestment Act (ARRA) information was communicated to subrecipients at the time of award or when funds were disbursed.	Noncompliance Significant deficiency in Internal control over compliance	County enhance its procedures to ensure that the federal award number, CFDA number, and the amount of ARRA funds is consistently included in subrecipient communication at the time of award and when disbursements are made as required by OMB Circular A-133.	No	Partially Implemented (Action Plan on page 6, Item 2)

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VTD Finding No.	Summary of VTD Finding	Finding Classification by VTD	VTD Recommendation	Repeat Finding from FY 08-09	Implementatio Status
2010-12 Program: Public Health Emergency Preparedness	Documentation supporting check of vendor against the Excluded Parties List System (EPLS) could not be provided. County did not maintain procedures requiring verification of the suspended and debarred status of items under fixed asset account codes.	Noncompliance Significant deficiency in Internal control over compliance	Strengthening procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS for suspension or debarment.	No	Implemented
Single Audit	Report Findings - Audit	or-Controller/O	C Community Resour	ces Acco	ounting:
2010-13 Program: ARRA Senior Community Service Employment Program, ARRA WIA Cluster, ARRA Aging Cluster, ARRA CDBG Entitlement Grants Cluster	Procedures did not specifically ensure ARRA information was communicated to subrecipients at time of disbursements.	Noncompliance Significant deficiency in Internal control over compliance	County enhance its procedures to ensure that the Federal award number, CFDA number, and the amount of ARRA funds is consistently included in subrecipient communication at the time disbursements are made as required by OMB Circular A-133.	No	Implemented
2010-14 Program: ARRA CDBG Cluster	County did not review whether first-tier subrecipients registered with Central Contractor Registration (CCR). Procedures did not ensure CCR requirements are identified to subrecipients.	Noncompliance Significant deficiency in Internal control over compliance	County enhance its procedures to ensure that CCR requirements associated with the pass-through of ARRA funding are identified to the subrecipients.	No	Implemented
2010-15 Program: Senior Community Services Employment Program, ARRA Senior Community Services Employment	Onsite monitoring of subrecipients did not include review of timesheets.	Significant deficiency in Internal control over compliance	County enhance procedures over subrecipient monitoring to ensure that reported costs are properly supported.	No	Implemented

Employment Program

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VTD Finding No.	Summary of VTD Finding	Finding Classification by VTD	VTD Recommendation	Repeat Finding from FY 08-09	Implementation Status		
Single Audit Report Findings - OC Waste & Recycling:							
2010-01 Rate Covenant Calculation	Rate covenant calculation was not calculated based on Sublease agreement and no internal review before release to rating agency.	Significant deficiency in Internal control over financial reporting	OCWR adopt the revised calculation in their debt covenant monitoring policies and procedures, implement a formal policy, and/or review their current informal policies over the dissemination of financial information to outside entities to ensure there are proper safeguards in place to prevent inaccurate financial information from being made public.	No	In Process (Action Plan on page 6, Item 3)		
Single Audit	Report Findings - Proba	tion Departme	nt:				
2010-08 Program: ARRA Justice Assistance Grant	Reported program hours for personal services on the expenditure report were greater than actual hours certified on timecard, and hourly pay rate for one personnel was incorrectly applied, resulted in questioned cost of \$1,561.	Noncompliance	County strengthen procedures to ensure that hours on the certified timecard agree to the Report of Expenditures and Request for Funds.	No	Implemented (Excess reported cost corrected in subsequent report)		
Single Audit	Report Findings - Sherif	f-Coroner Depa	artment:	•			
2010-02 Program: Homeland Security Cluster	Documentation checking vendor to EPLS could not be provided. S-C did not keep a printout of the search results.	Noncompliance Significant deficiency in Internal control over compliance	County strengthen procedures to ensure that procurements and subawards of federally funded projects are verified against the EPLS for suspension or debarment.	No	Implemented		
2010-03 Program: Homeland Security Cluster	Agreement between County and subrecipients did not include CFDA title, number and federal agency name.	Noncompliance	County enhance its policies and procedures to ensure that information required by <i>OMB Circular A-133</i> is included in subrecipient agreements.	Yes (due to partial impleme ntation status)	Implemented		
2010-04 Program: Homeland Security Cluster	Certain expenditures were reported twice on Schedule of Expenditure of Federal Awards (SEFA) due to reconciliation to accounting records not being performed.	Noncompliance	County enhance its policies and procedures to ensure that information included in the SEFA is reconciled to the underlying accounting records.	No	Implemented		



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VTD Finding No.	Summary of VTD Finding	Finding Classification by VTD	VTD Recommendation	Repeat Finding from FY 08-09	Implementation Status
Single Audit	Report Findings - Social	Services Age	ncy/Program:		
2010-06 Program: TANF Cluster, ARRA TANF Cluster	Procedures did not consistently ensure Income Eligibility Verification System (IEVS) reports were obtained within 45 days, as found in 9 of 65 cases tested.	Noncompliance Significant deficiency in Internal control over compliance	County strengthen procedures to ensure that required forms and reports are obtained within a timely manner and maintained in case files.	Yes (due to partial impleme ntation)	In Process (Action Plan on page 7, Item 4)
2010-10 Program: ARRA Medicaid Cluster	Documentation were not consistently maintained to support eligibility determinations and redeterminations due to procedures not ensuring consistent documentation. 2 of 60 cases tested did not contain MC 13, and 2 cases did not include MC 210 RV.	Noncompliance Significant deficiency in Internal control over compliance	County strengthen its procedures to ensure that the required forms are consistently obtained and maintained in the case file.	Yes (due to partial impleme ntation)	Implemented
2010-11 Program: ARRA SNAP Cluster	Certain required forms were not located, not signed by participant, or not reviewed by service worker. Procedures did not ensure the required forms were consistently reviewed and maintained in case files.	Noncompliance Significant deficiency in Internal control over compliance	County strengthen procedures to ensure that required forms and reports are reviewed by the appropriate persons and maintained in case files.	Yes (due to non- impleme ntation)	Partially Implemented (Action Plan on page 7, Item 5)
2010-16 Program: Foster Care Title IV-E, ARRA Foster Care Title IV-E	The FC-2 form did not have eligibility worker's signature or supervisor's review was not evidenced. Procedures did not ensure consistent documentation.	Noncompliance	County enhance its procedures to ensure that the FC-2 is consistently signed by the eligibility worker documenting the review.	Yes (due to partial impleme ntation)	Implemented
Single Audit	Report Findings - Audito	or-Controller/S	ocial Services Agency	/ Accoun	ting:
2010-07 Program: ARRA Supplemental Nutrition Assistance Program (SNAP) Cluster	Required FNS-209 quarterly reports (due 30 days following quarter end) for 2 of 4 samples tested were submitted after due date. Procedures did not ensure timely submission.	Noncompliance	County strengthen procedures to ensure that required reports are submitted by the required due dates.	Yes (due to partial impleme ntation)	Implemented
2010-09 Program: ARRA Foster Care Title IV-E	Required Caseload Movement and Expenditures Report CA 237 FC monthly report (due 20 days of month end) for 2 of 4 samples tested were submitted after due date. Procedures did not ensure timely submission.	Noncompliance Significant deficiency in Internal control over compliance	County strengthen its procedures to ensure that required reports are submitted timely.	Yes (due to partial impleme ntation)	Implemented



Action Plan of County Department/Agency for Recommendations Not Fully Implemented:

1. Information Technology User Access Termination (Auditor-Controller)

Recommendation: VTD recommend that the County implement a compensating control/procedure to ensure that changes in an employee's status (i.e. separations) for CAPS+ Finance and Purchasing System users are identified and updated within that system's security/application access tables.

<u>Current Status</u>: **In Process.** The Auditor-Controller Information Technology has developed the new reports to track CAPS+ terminated users and the reports are in the approval phase before production. In the interim, a biweekly reconciliation between human resources data base and the financial system database is performed.

2. Finding No. 2010-05, Program: ARRA Edward Byrne Memorial Justice Assistance Grant (Auditor-Controller/Health Care Agency Accounting)

Recommendation: VTD recommend that County enhance its procedures to ensure that the federal award number, CFDA number, and the amount of ARRA funds is consistently included in subrecipient communication at the time of award and when disbursements are made as required by *OMB Circular A-133*.

<u>Current Status</u>: **Partially Implemented.** Health Care Agency (HCA)/Accounting Services has enhanced its invoice processing procedures requiring "ARRA Funded" be included in the payment description; however, it did not require the federal award number and the CFDA number be specifically included. Therefore, we consider the recommendation partially implemented.

Health Care Agency Action Plan: HCA will revise its procedures requiring the federal award number and the CFDA number be included in the payment description and will communicate to appropriate staff.

3. Finding No. 2010-01, Rate Covenant Calculation (OC Waste & Recycling)

Recommendation: VTD recommend that OC Waste & Recycling (OCWR) adopt the revised calculation in their debt covenant monitoring policies and procedures. VTD also recommend that OCWR implement a formal policy, and/or review their current informal policies over the dissemination of financial information to outside entities to ensure there are proper safeguards in place to prevent inaccurate financial information from being made public.

<u>Current Status</u>: **In Process.** OCWR has developed a procedure to include rate covenant calculation as prescribed in the Sublease agreement. The procedure designated Accounting with responsibility for the calculation and Budget-Finance with the review and approval for accuracy before its release to external auditor and/or public. As of late September, OCWR Accounting Services prepared the first calculation. Therefore, we consider the recommendation in process.



OC Waste & Recycling Action Plan: OCWR Accounting Services will update the calculation when the OCWR financial statements are finalized in December.

4. Finding No. 2010-06, Program: ARRA TANF Cluster (Social Services Agency/ Program)

Recommendation: VTD recommend that County strengthen procedures to ensure that required forms and reports are obtained within a timely manner and maintained in case files.

<u>Current Status</u>: **In Process.** SSA continues its efforts to ensure Income Eligibility Verification System (IEVS) reports are obtained timely by automating the IEVS report process, communicating to staff that IEVS reports processing is a priority, distributing IEVS handbook in September 2011, developing the IEVS Management Report as a supervisory tool for monitoring timely processing.

Our review of cases for one sample month found instances of IEVS reports obtained after the 45 day requirement. We were informed that due to a backlog, SSA has not been able to complete all IEVS reports within the required time frame. Therefore, we consider this recommendation in process.

Social Services Agency Action Plan: SSA plans to continue its efforts to ensure IEVS reports are obtained timely.

5. Finding No. 2010-11, Program: ARRA SNAP Cluster (Social Services Agency/ Program)

Recommendation: VTD recommend that County strengthen procedures to ensure that required forms and reports are reviewed by the appropriate persons and maintained in case files.

<u>Current Status</u>: **Partially Implemented.** We tested 10 cases and verified that forms and reports were signed by participants and signed by workers, with the exception of five (5) cases where the IEVS Report were missing an electronic signature to evidence the income verification was performed. Therefore, we consider this recommendation partially implemented.

Social Services Agency Action Plan: An SSA cross-divisional workgroup will finalize the processing workflows to ensure timely processing within federal and state guidelines. Each division will customize tracking protocols to ensure caseworkers review, take appropriate action, follow-up, and notate IEVS processing in the case files.

Supplementary Information

The Single Audit Report findings shown above related to instances of noncompliance with certain major programs. To obtain additional information on the impact that these findings may have on future program funding or other possible consequences, we asked the County departments and agencies responsible for corrective action to respond to the following questions. Their responses were not subjected to auditor's validation and were obtained for informational purposes only.



- 1. Did the finding (weakness) put continued funding at risk?
- 2. If the finding (weakness) is not corrected, would/could it trigger a disallowance or cancellation of funding? If so, what percentage or how much?
- 3. If the finding (weakness) is serious enough to risk funds, would the County have advanced notice and time to correct or would they "pull the plug" overnight?
- 4. Is the finding (weakness) just a clerical kind of administrative issue that will not put funds at risk?

Based on the responses received from the departments and agencies, the findings did not put continued funding at risk as the findings were corrected or in the process of being fully corrected. If the findings remain uncorrected, it may potentially trigger a disallowance of funding, but not a cancellation. The County is likely to receive a notice in advance and be given time to correct the finding before putting the funding at risk. The findings were not material and were the result of either noncompliance or a control weakness on ensuring compliance.

Acknowledgment

We appreciate the courtesy and cooperation extended to us by the personnel at Auditor-Controller, Health Care Agency, OC Community Resources, OC Waste & Recycling, Probation Department, Sheriff-Coroner Department and Social Services Agency. If you have any questions, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899, or Alan Marcum, Senior Audit Manager at (714) 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Alisa Drakodaidis, Deputy CEO, OC Infrastructure

David E. Sundstrom, Auditor-Controller

Shaun Skelly, Chief Deputy Auditor-Controller

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Darlene J. Bloom, Clerk of the Board of Supervisors