

Internal Audit Department

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

Internal Control Audit: SOCIAL SERVICES AGENCY REVOLVING FUND PROCESS

For the Period December 1, 2010
Through November 30, 2011

Social Services Agency maintains two revolving funds in the amount of \$247,750. The funds are allocated between three accounts: Welfare and Assistance (\$127,750), Supplies and Services (\$100,000), and Family Discretionary Fund (\$20,000). During the audit period, Social Services Agency expended approximately \$1.3 million.

We audited the Social Services Agency Revolving Fund Process and determined that internal controls are in place to ensure that the revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized and recorded completely, accurately, and timely.

However, we did identify **four (4) Control Findings** regarding the Mileage and Other Expenses Claim for cash advance not being submitted timely, the Cash Advance Request not being completed properly, the Revolving Cash Fund/Cash Advance Reimbursement form not being completed properly, and daily fund reconciliations not being initialed and dated by the preparer and by the supervisor to document review.

AUDIT NO: 1128

REPORT DATE: JUNE 26, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Alan Marcum, CPA, CIA
Senior Auditor: Abdul Khan, CPA, CIA

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



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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Certified Internal Auditor (CIA)

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No.1128 June 26, 2012

TO: Dr. Michael Riley, Director
Social Services Agency

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

SUBJECT: Internal Control Audit: Social Services
Agency Revolving Fund Process

We have completed an Internal Control Audit of the Social Services Agency Revolving Fund Process for the period December 1, 2010 through November 30, 2011. We performed this audit in accordance with our *FY 2011-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **first Follow-Up Audit** will begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

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.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 4.

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Audit No. 1128

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OC Internal Auditor's Report



Audit No. 1128

June 26, 2012

TO: Dr. Michael Riley, Director
Social Services Agency

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

SUBJECT: Internal Control Audit: Social Services Agency
Revolving Fund Process

Audit Highlight

We audited the Social Services Agency Revolving Fund Process and found that internal controls are in place to ensure that revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized and recorded completely, accurately, and timely.

However, we did identify **four (4) Control Findings** regarding the Mileage and Other Expenses Claim not being submitted timely, the Cash Advance Request not being completed properly, the Revolving Cash Fund/Cash Advance Reimbursement form not being completed properly, and fund reconciliation not being initialed and dated by the preparer and by the supervisor to document review.

OBJECTIVES

In accordance with our *FY 2011-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an Internal Control Audit of the Social Services Agency (SSA) revolving fund process. Our audit included an evaluation of the adequacy and integrity of internal controls, testing compliance with SSA and County policies, and evaluating process efficiency and effectiveness. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. The objectives of this audit were to ensure that:

1. Revolving funds are adequately safeguarded.
2. Revolving fund transactions are processed in accordance with applicable County Accounting Manual (CAM) procedures.
3. Revolving fund transactions are properly authorized and recorded completely, accurately, and timely.

RESULTS

Objective #1: Revolving funds are adequately safeguarded.

We found that controls and processes are in place to ensure that revolving funds are adequately safeguarded.

Objective #2: Revolving fund transactions are processed in accordance with applicable County Accounting Manual (CAM) procedures.

We found that controls and processes are in place to ensure that revolving fund transactions are processed in accordance with applicable CAM procedures. However, we noted **four (4) Control Findings** regarding the Mileage and Other Expenses Claim for cash advance not being submitted timely, the Cash Advance Request not being completed properly, the Revolving Cash Fund/Cash Advance Reimbursement form not being completed properly, and daily fund reconciliations are not being initialed and dated by the preparer and by the supervisor to document review.

OC Internal Auditor's Report



Objective #3: Revolving fund transactions are properly authorized and recorded completely, accurately, and timely.

We found that controls and processes are in place to ensure that revolving fund transactions are properly authorized and recorded completely, accurately and timely.

The following *Summary of Findings and Recommendations* shows our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification - See Attachment A	Finding Description	Recommendation	Agreement by Management?	Page No. in Audit Report
1.	Control Finding	Expense Claims Not Submitted Within Five (5) Working Days – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Section 2.2.1	Social Services Agency ensure employees are submitting a <i>Mileage and Other Expenses Claim</i> form within five (5) working days as required by CAM C-1 Section 2.2.1.	Concur	5
2.	Control Finding	Revolving Fund Custodian Was Not Completing the <i>Cash Advance Request</i> Form – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Section 2.4.	Social Services Agency ensure the revolving fund custodian immediately documents the receipt of <i>Mileage and Other Expenses Claim</i> forms and the receipt and amount of repayment of unused cash advances on the <i>Cash Advance Request</i> form as required by CAM C-1 Section 2.4.	Concur	5,6
3.	Control Finding	Revolving Fund Custodian Was Not Completing the <i>Revolving Cash Fund/Cash Advance Reimbursement Claim</i> Form – Noncompliance with CAM C-7 <i>Revolving Cash Fund</i> Section 2.3.1.	Social Services Agency ensure that fund reconciliation section on the <i>Revolving Cash Fund/Cash Advance Reimbursement Claim</i> form is completed properly.	Concur	6
4.	Control Finding	Daily Fund Reconciliations Are Not Initialed and Dated by the Preparer and by the Supervisor to Document Review	Social Services Agency ensure the reconciliations are initialed and dated by the preparer to document timeliness and responsibility. Also, the reconciliations are reviewed, initialed, and dated by a supervisor.	Concur	6,7



BACKGROUND

The Orange County Social Services Agency (SSA) operates under the policy direction of the Orange County Board of Supervisors, the California Department of Social Services, and the California Department of Health Services. SSA administers Federal, State, and County social service programs that protect children and adults from abuse or neglect; enable the frail and disabled to remain in their homes rather than being institutionalized; move eligible families from dependency to self-sufficiency; and provide benefits for eligible CalWORKS, Food Stamps, Refugee Cash Assistance, General Relief, and Medi-Cal recipients.

SSA consists of four divisions: Adult Services and Assistance Programs (ASAP); Children and Family Services (CFS), Family Self Sufficiency (FSS); and Administrative Services.

SSA administers a total budget of \$747 million in appropriations and \$684 million in revenues, with a Net County Cost of \$63 million. There are over 4,300 SSA employees.

SSA has two (2) revolving funds totaling **\$247,750** for general operations. The funds are allocated between three accounts: Welfare and Assistance (\$127,750), Supplies and Services, which includes travel cash advances (\$100,000), and Family Discretionary Fund (\$20,000). Welfare and Assistance and Supplies and Services accounts have both cash on hand and checking accounts, whereas Family Discretionary Fund only has a checking account. SSA Accounting Services is responsible for administering, monitoring, and replenishing the revolving funds.

During the audit period, SSA incurred \$1,038,561 in Welfare and Assistance expenditures, \$171,701 in Supplies and Services expenditures, and \$105,316 in Family Discretionary Fund expenditures for a total of **\$1,315,578**.

SCOPE AND METHODOLOGY

Our audit scope was limited to internal controls and processes over revolving funds for the period from December 1, 2010 through November 30, 2011. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation.

Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual section S-2 Internal Control Systems, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated (by Management) and weaknesses, when detected, must be promptly corrected. The criterion for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for the Social Services Agency's continuing emphasis on control activities and self-assessment of control risks.



Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risks that procedures may become inadequate or the degree of compliance with the procedures may deteriorate because of changes in conditions. Accordingly, our audit would not necessarily disclose all weaknesses in Social Services Agency's operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by Social Services Agency during our audit. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899; or Alan Marcum, Senior Audit Manager at 834-4119.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Carol Wiseman, Director, SSA Administrative Services
- Espi Garcia, Administrative Manager III, SSA Accounting
- Foreperson, Grand Jury
- Susan Novak, Clerk of the Board of Supervisors

Detailed Results, Findings, Recommendations and Management Responses



Finding No. 1 – Expense Claims Not Submitted Within Five (5) Working Days – Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.2.1 (Control Finding)

CRITERIA:

CAM C-1 Section 2.2.1 – *Mileage and Other Expenses Claim Form* states the requestor shall file a *Mileage and Other Expenses Claim* form with the custodian of the revolving fund, itemizing the actual and necessary expenses. The claim shall be submitted within five (5) working days after the completion of the event for which the advance is made.

EXCEPTIONS NOTED:

The *Mileage and Other Expenses Claim* form was not submitted within five (5) working days after the completion of the event for which the cash advance was made for 2 out of 4 (50%) samples tested.

Recommendation No. 1

We recommend that the Social Services Agency ensure employees are submitting a *Mileage & Other Expenses Claim* form within five (5) working days as required by CAM C-1 Section 2.2.1.

Social Services Agency Management Response:

Concur. SSA has an established procedure for monitoring and pursuing outstanding travel advances. Our policy is to send out the initial follow up if the Claim form is not received within five working days after the completion of the event for which the advance is made. This initial email is sent to the employee, their supervisor, and a Deputy Director. A second email is sent ten working days after the first and is escalated to the Division Director. SSA Accounting will continue to monitor all cash advances and will work within SSA's policies and procedures to ensure all Claim forms and supporting documentation are received.

Finding No. 2 – Revolving Fund Custodian Was Not Completing the Cash Advance Request Form - Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.4 (Control Finding)

CRITERIA:

CAM C-1 Section 2.4 – *Recording the Receipt of Claim and Unused Portion of Cash Advance by the Custodian* requires that immediately upon receipt of the *Mileage and Other Expenses Claim* form, the revolving fund custodian shall sign and date the *Cash Advance Request* form. Immediately upon receipt of any unused portion of the cash advance, the custodian shall sign and date the *Cash Advance Request* form and post the amount of the repayment to the box marked "Amount of Repayment."

EXCEPTIONS NOTED:

We found that upon receipt of *Mileage and Other Expenses Claim* form, the revolving fund custodian did not sign and date the *Cash Advance Request* and post the amount of claim for 4 out of 4 (100%) samples tested. Additionally, upon receipt of unused portion of the cash advance, the revolving fund custodian did not sign and date the *Cash Advance Request* and post the amount received for 2 out of 4 (50%) samples tested.

Detailed Results, Findings, Recommendations and Management Responses



Recommendation No. 2

We recommend that Social Services Agency ensure the revolving fund custodian immediately documents the receipt of *Mileage and Other Expenses Claim* forms and the receipt and amount of repayment of unused cash advances on the *Cash Advance Request* form as required by CAM C-1 Section 2.4.

Social Services Agency Management Response:

Concur. Effective February 9, 2012, the revolving fund custodian now signs and dates the Cash Advance Request form and posts the amount of the claim upon receipt of Mileage and Other Expenses Claim from SSA employees. The custodian also posts the amount, signs and dates the Cash Advance Request form upon receipt of unused portion of the cash advance returned with the expense claims.

Finding 3 – Revolving Fund Custodian Was Not Completing the Revolving Cash Fund/Cash Advance Reimbursement Form - Noncompliance with CAM C-7 Revolving Cash Fund Section 2.3.1 (Control Finding)

CRITERIA:

CAM C-7 Section 2.3.1 – *Revolving Cash Reimbursements* requires when a department/agency wishes to have its fund reimbursed for expenses other than cash advance travel expenditures, a *Revolving Cash Fund/Cash Advance Reimbursement Claim* envelope is completed, and *Revolving Cash Fund Vouchers*, with all supporting documents attached, are enclosed. An authorized signer review's the envelope's content for propriety, signs and seals the envelope, and submits to the Auditor-Controller Claims and Disbursing Section.

EXCEPTIONS NOTED:

We found that the *Revolving Cash Fund/Cash Advance Reimbursement* envelope (form), fund reconciliation section was not completed for 4 out of 4 (100%) samples tested.

Recommendation No. 3

We recommend Social Services Agency ensure that the fund reconciliation section on the *Revolving Cash Fund/Cash Advance Reimbursement Claim* form is completed properly.

Social Services Agency Management Response:

Concur. Although we began completing the fund reconciliation section of the form in February 2012, we would like to point out that according to Auditor-Controller Claims and Disbursing, completing this section is optional and is only a tool for departments to use to reconcile their account. Completing this section of the form was not required during the audit period nor is it required today.

Finding 4 – Daily Fund Reconciliations Prepared On Revolving Fund Worksheet Are Not Initialed and Dated by the Preparer and by the Supervisor to Document Review (Control Finding)

CRITERIA:

According to best business practices, reconciliations should be initialed and dated by the preparer to document timeliness and responsibility. Also, the reconciliations should be reviewed, initialed, and dated by a supervisor.

Detailed Results, Findings, Recommendations and Management Responses



EXCEPTIONS NOTED:

We found that the preparer was not initialing and dating the fund reconciliations and the supervisory review of fund reconciliations of Supplies and Services account was not documented for 2 out of 6 (33%) samples tested.

Recommendation No. 4

We recommend Social Services Agency ensures the reconciliations are initialed and dated by the preparer to document timeliness and responsibility. Also, the reconciliations are reviewed, initialed, and dated by a supervisor.

Social Services Agency Management Response:

Concur. Beginning March 27, 2012, SSA Accounting staff started to initial and date the Revolving Fund Worksheets when performing the daily fund reconciliations. The General Accounting supervisor also initials and dates the worksheets after reviewing the reconciliations.

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s) and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.

▶ **Control Findings:**

Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT B: Social Services Agency Management Responses



County of Orange SOCIAL SERVICES AGENCY

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(714) 541-7700

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CAROL WISEMAN
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GARY TAYLOR
DIVISION DIRECTOR
CHILDREN & FAMILY SERVICES

MARITZA RODRIGUEZ FARR
DIVISION DIRECTOR
FAMILY SELF-SUFFICIENCY

Date: June 19, 2012

To: Dr. Peter Hughes, Ph.D., CPA,
Internal Audit Department Director

From: Michael L. Riley, Ph.D.
Social Services Agency Director

Subject: Response to Internal Control Audit: Social Services Agency
Revolving Funds Process - Draft Audit Report No. 1128

RECEIVED
INTERNAL AUDIT DEPARTMENT
2012 JUN 22 PM 1:30

Please see our management responses to the draft audit report recommendations below:

Finding No. 1 – Expense Claims Not Submitted Within Five (5) Working Days – Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.2.1 (Control Finding)

Recommendation No. 1

We recommend that the Social Services Agency ensure employees are submitting a *Mileage & Other Expenses Claim* form within five (5) working days as required by CAM C-1 Section 2.2.1.

Social Services Agency Management Response:

Concur. SSA has an established procedure for monitoring and pursuing outstanding travel advances. Our policy is to send out the initial follow up if the Claim form is not received within five working days after the completion of the event for which the advance is made. This initial email is sent to the employee, their supervisor, and a Deputy Director. A second email is sent ten working days after the first and is escalated to the Division Director. SSA Accounting will continue to monitor all cash advances and will work within SSA's policies and procedures to ensure all Claim forms and supporting documentation are received.

Finding No. 2 – Revolving Fund Custodian Was Not Completing the Cash Advance Request Form - Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.4 (Control Finding)

Recommendation No. 2

We recommend that Social Services Agency ensure the revolving fund custodian immediately documents the receipt of *Mileage and Other Expenses Claim* forms and the receipt and amount of repayment of unused cash advances on the *Cash Advance Request* form as required by CAM C-1 Section 2.4.

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT B: Social Services Agency Management Responses (continued)

Internal Audit Response
June 19, 2012
Page 3

Social Services Agency Management Response:

Concur. Effective February 9, 2012, the revolving fund custodian now signs and dates the *Cash Advance Request* form and posts the amount of the claim upon receipt of Mileage and Other Expenses Claim from SSA employees. The custodian also posts the amount, signs and dates the *Cash Advance Request* form upon receipt of unused portion of the cash advance returned with the expense claims.

Finding No. 3 – Revolving Fund Custodian Was Not Completing the *Revolving Cash Fund/Cash Advance Reimbursement* Form - Noncompliance with CAM C-7 *Revolving Cash Fund* Section 2.3.1 (Control Finding)

Recommendation No. 3

We recommend Social Services Agency ensure that the fund reconciliation section on the *Revolving Cash Fund/Cash Advance Reimbursement Claim* form is completed properly.

Social Services Agency Management Response:

Concur. Although we began completing the fund reconciliation section of the form in February 2012, we would like to point out that according to Auditor-Controller Claims and Disbursing, completing this section is optional and is only a tool for departments to use to reconcile their account. Completing this section of the form was not required during the audit period nor is it required today.

Finding No. 4 – Daily Fund Reconciliations Prepared On Revolving Fund Worksheet Are Not Initialed and Dated by the Preparer and by the Supervisor to Document Review (Control Finding)

Recommendation No. 4

We recommend Social Services Agency ensures the reconciliations are initialed and dated by the preparer to document timeliness and responsibility. Also, the reconciliations are reviewed, initialed, and dated by a supervisor.

Social Services Agency Management Response:

Concur. Beginning March 27, 2012, SSA Accounting staff started to initial and date the Revolving Fund Worksheets when performing the daily fund reconciliations. The General Accounting supervisor also initials and dates the worksheets after reviewing the reconciliations.

Michael L. Riley, PhD.
Social Services Agency Director