

Internal Audit Department

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

FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT INTERNAL CONTROL AUDIT: HEALTH CARE AGENCY DISBURSEMENT APPROVAL PROCESS

AS OF JANUARY 31, 2012

Our First Follow-Up Audit found that the Health Care Agency and HCA Accounting Services fully implemented all six (6) recommendations from our original audit report dated May 17, 2011. During the original audit period, HCA disbursed over \$659 million in expenditures for services and supplies; salaries and employee benefits; equipment; structures and improvements; and other charges and financing uses. HCA Accounting Services and Auditor-Controller Claims & Disbursing process all disbursements for HCA.

AUDIT NO: 1130-D
(Original Audit No. 1025)

REPORT DATE: MARCH 15, 2012

Director: [Dr. Peter Hughes, Ph.D., CPA](#)
Deputy Director: [Eli Littner, CPA, CIA](#)
Senior Audit Manager: [Michael Goodwin, CPA, CIA](#)
Senior Internal Auditor: [Lisette Free, CPA, CFE](#)

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



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF**
Director Certified Compliance & Ethics Professional (CCEP)
 Certified Information Technology Professional (CITP)
 Certified Internal Auditor (CIA)
 Certified Fraud Examiner (CFE)
 Certified in Financial Forensics (CFF)
 E-mail: peter.hughes@iad.ocgov.com

Eli Littner **CPA, CIA, CFE, CFS, CISA**
 Deputy Director Certified Fraud Specialist (CFS)
 Certified Information Systems Auditor (CISA)

Michael Goodwin **CPA, CIA**
 Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**
 Senior Audit Manager

Autumn McKinney **CPA, CIA, CISA, CGFM**
 Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
 Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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



Transmittal Letter



Audit No. 1130-D March 15, 2012

TO: Mark Refowitz, Interim Director
Health Care Agency

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

SUBJECT: **First and Final Close-Out** Follow-Up
Audit: Health Care Agency
Disbursement Approval Process, Original
Audit No. 1025, Issued May 17, 2011

We have completed a First Follow-Up Audit of internal controls over the Health Care Agency Disbursement Approval Process. Our audit was limited to reviewing, as of January 31, 2012, actions taken to implement the **six (6) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 11-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because our First Follow-Up Audit found that the Health Care Agency and HCA Accounting Services implemented all six recommendations, **this report represents the final close-out of the original audit.**

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 5.

Table of Contents



***First and Final Close-Out Follow-Up Audit:
Internal Control Audit - Health Care Agency
Disbursement Approval Process
Audit No. 1130-D***

As of January 31, 2012

Transmittal Letter	i
OC Internal Auditor's Report	1

OC Internal Auditor's Report



Audit No. 1130-D

March 15, 2012

TO: Mark Refowitz, Interim Director
Health Care Agency

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

A handwritten signature in blue ink that reads "Peter Hughes".

SUBJECT: **First and Final Close-Out** Follow-Up Audit:
Health Care Agency Disbursement Approval Process
Original Audit No. 1025, Issued May 17, 2011

Scope of Review

We have completed a First Follow-Up Audit of the Internal Control Audit of the Health Care Agency Disbursement Approval Process. Our audit was limited to reviewing, as of January 31, 2012, actions taken to implement the **six (6) recommendations** from our original audit.

Background

We conducted an audit of internal controls over the Health Care Agency Disbursement Approval Process. This audit evaluated controls in HCA Accounting Services for processing disbursements (excluding salaries and benefits) to ensure payments are valid, supported, comply with County, HCA and HCA Accounting Services' policies and procedures, and that processes are aligned with the disbursement approval process in Auditor-Controller Claims & Disbursing. We also evaluated controls to ensure compliance with Internal Revenue Service (IRS) 1099 reporting requirements. During the audit period, HCA disbursed over **\$659 million in expenditures** for services and supplies; salaries and employee benefits; equipment; structures and improvements; and other charges and financing uses.

Results

Our First Follow-Up Audit indicated that the Health Care Agency and HCA Accounting Services **fully implemented all six (6) recommendations. As such, this report represents the final close-out of the original audit.** Based on our First Follow-Up Audit, the following is the implementation status of the six (6) original recommendations:

1. **Segregation of Disbursement Processing and Approval Duties** (Control Finding)

HCA Accounting Services amend the Access Request Forms for HCA Accounting Services management to ensure segregation of duties over the disbursement process are in place. In addition, HCA Accounting Services should verify the payment approval signatures with HCA's Access Request Forms prior to processing payments.

Current Status: Implemented. HCA Accounting Services took corrective action in January 2011 by changing invoice processing whereby all invoices are now approved by an authorized employee in HCA and verified to the Access Request Form. All Access Request Forms for HCA Accounting staff in the Disbursements section were modified in April 2011 to remove the ability of HCA Accounting Services management to manually approve any identified Accounts Payable or Check Writing document. We tested a sample of 15 disbursements to ensure the payment approval signatures are authorized as stated in HCA's Access Request Forms with no exceptions noted.



Because the HCA Accounting Managers' duties of processing and approving disbursements have been segregated, and we found no exceptions in our testing for authorized payment signatures, we consider this recommendation implemented.

2. **Adherence to Disbursement Approval Procedures** (Control Finding)

HCA and HCA Accounting Services strengthen its disbursement approval process to ensure:

- Contractor's required supporting documentation (i.e. Expenditure and Revenue Reports) are obtained and reviewed, when required, to ensure the correct payment amount is paid;
- Contractual monthly maximums are not exceeded unless a contract allows for the Contract Administrator to approve in writing the amount over the monthly maximum, and signed approval is obtained and documented in the contract folder; and
- Signatures that are not easily recognizable have documentation of the verification of the authorized signature.

Current Status: Implemented. HCA Accounting Services and HCA Contract Development Management met and discussed the various types of invoices and supporting documentation needed, and agreed upon which situations would require additional documentation for invoices requesting payment. For example, a contractor Expenditure & Revenue report or similar documentation will be required when an amount other than the monthly provisional amount allowed in the contract is approved for payment.

There were also discussions about requiring contractor supporting documentation when provisional monthly payments exceed contractual monthly payments. We observed that HCA Accounting updated its written procedures for invoice processing to address supporting documentation requirements with the different types of contracts in HCA.

Concerning payment authorization signatures that are not easily recognizable, HCA Accounts Payable staff manually verifies the approval signature to the signer's active CAPS+ Access Request Form to ensure it matches and the person is properly authorized. All invoices not approved by an authorized signer are returned for proper approval. If the signature is not legible or if the name is not included on the invoice, staff manually prints the name of the authorized signer below the signature.

We selected a sample of 15 disbursements to test the adequacy of supporting documentation and authorized signatures on payment request forms and noted no exceptions. Because HCA and HCA Accounting took satisfactory corrective action in this area, we consider this recommendation implemented.

3. **Enhancing Disbursement Approval Policies and Procedures** (Control Finding)

HCA Accounting Services develop written policies and procedures that define requirements of the supervisory/management review and approval process for the three dollar thresholds (\$100K, \$500K, and \$1M). In addition, HCA Accounting Services should enhance its procedures to ensure the supervisory/management review of disbursements exceeding \$100,000 and miscellaneous vendor payments is performed and documented.



Current Status: Implemented. HCA Accounting Services worked collaboratively with Auditor-Controller Claims & Disbursing to update their policies and procedures for processing non-DPA invoices to include supervisory and managerial reviews for invoices over the thresholds of \$100K, \$500K, and \$1M. We observed that HCA Accounting Services' procedures were amended to document the payment approval thresholds and requirements similar to those applied in Auditor-Controller Claims & Disbursing regarding payment voucher approval thresholds and miscellaneous vendor payment approvals.

To accomplish this, HCA payment requests over \$100K are coded with handling code '98.' In addition, to ensure that all payments over \$100K and miscellaneous payments (regardless of amount) obtain a secondary review, HCA reviews a CAPS+ generated report (*Scheduled Payment Turnaround Report*) to verify all payments requiring a secondary supervisory or management review was performed.

We tested three (3) days (October 25, 2011, December 13, 2011 and January 18, 2012) to ensure the *Scheduled Payment Turnaround Report* was printed and a peer review of payments over \$100K and any miscellaneous vendor payments (regardless of amount) was performed. No exceptions were noted in our testing. Because HCA Accounting Services took satisfactory corrective action concerning thresholds for supervisory reviews that are aligned with practices in Auditor-Controller Claims & Disbursing, we consider this recommendation implemented.

4. **Audit Trail for Changes Made During Payment Processing (Control Finding)**

Auditor-Controller evaluate the feasibility of establishing a workflow process in CAPS+ for the payment review and approval process. If this is not feasible, then HCA Accounting Services Accounting Technicians should 'submit' all payment documents as the creator, regardless of amount, to ensure an audit trail is maintained within CAPS+ for revisions made during the supervisory/management review.

Current Status: Implemented. Establishing a workflow for the Accounts Payable process was discussed by Auditor-Controller Claims & Disbursing and the CAPS+ team. It was determined that this would be a significant change to the CAPS+ system and funds simply are not available to move forward with this project. Due to the current available resources and the development of the County's eProcurement project, it is not feasible at this time to workflow all payment documents in CAPS+.

Internally, HCA Accounting Technicians who key in the payments have modified their procedures to include submitting payments regardless of the amount prior to review. Written procedures have also been updated and include the reviews for payments meeting certain thresholds. This process is completed after the payment is submitted but before the supporting documentation is sent to Auditor-Controller Claims & Disbursing to match with the check. Any changes needed prior to check issuance, which can only be completed when matched to the supporting documentation, is done through a modification, which is tracked in CAPS+ with a system audit trail.

We tested a sample of 15 disbursements to ensure payments were "submitted" in CAPS+ by the creator of the payment document to ensure an audit trail is maintained and no exceptions were noted. Because of the actions taken, we consider this recommendation implemented.



5. Duplication of Work in HCA Accounting and A-C Claims & Disbursing

(Control Finding) Auditor-Controller Claims & Disbursing evaluate the feasibility of delegating disbursement approval responsibility for DPA agreements and purchase orders to HCA Accounting Services (and to other Satellite Accounting Offices) given the availability of such information in CAPS+.

Current Status: Implemented. This issue was discussed over several meetings with the Senior Manager of Auditor-Controller Claims & Disbursing and HCA Accounting Services. The review processes of both HCA Accounting and A-C Claims & Disbursing were reviewed in detail and it was determined that the decentralization of processing claims was not feasible at this time. The additional workload cannot be absorbed by HCA Accounting Services and the staff would need considerable training to input into CAPS+ and be well versed in the additional issues of sales tax, garnishments, etc. In addition, the eProcurement project will require additional resources once development and implementation begins. Because Auditor-Controller Claims & Disbursing evaluated the feasibility of delegating disbursement approval responsibility to the Satellite Accounting Offices, we consider this recommendation implemented.

6. Internal Revenue Service 1099 Reporting Process **(Control Finding)**

HCA Accounting Services ensure disbursements subject to Internal Revenue Service 1099 reporting are accurately identified.

Current Status: Implemented. HCA Accounting updated its policies and procedures to ensure the verification of 1099 sub-objects was included. We reviewed HCA Accounting Services' procedures and found they adequately list the required steps to identify and review for 1099 reportable payments. In addition, HCA Accounting Services worked closely with Claims & Disbursing to develop a post audit strategy to ensure 1099 reporting is accurate. No less than semi-annually, a review will be done by HCA Accounting Services on their payments posted in CAPS+ to ensure proper 1099 coding.

In addition to the above changes, the contract payment log was modified to include a field for staff to identify the contractor's business type (corporation, partnership, non-profit, etc.), contractor services provided, and a notation indicating whether the vendor is reportable or non-reportable. Depending on the business type and services provided, the log will automatically insert by formula the appropriate sub-object (i.e., NMED or MEDL). No exceptions were noted in a sample of 15 disbursements that we tested.

Because satisfactory corrective action was taken over HCA's 1099 reporting process, we consider this recommendation implemented.

We appreciate the assistance extended by the Health Care Agency and HCA Accounting Services during our 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:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Bob Wilson, Assistant Agency Director, HCA
Jeff Nagel, Deputy Agency Director, HCA Financial and Administrative Services
Shaun Skelly, Chief Deputy Auditor-Controller
Jan Grimes, Director, A-C Central Accounting Operations
Victoria Ross, Senior Manager, A-C Claims & Disbursing
Kimberly Engelby, Manager, HCA Accounting Services
Brent Scarborough, Manager, Disbursements, HCA Accounting Services
Chi Vu, Manager, Accounts Payable and Payroll, HCA Accounting Services
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors