

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 CONTRACT PAYMENTS AND FISCAL MONITORING

For the Period July 1, 2011
through June 30, 2012

Key Control Audit

During Fiscal Year 2011-12, Social Services Agency Contract and Grant Services administered 341 human services contracts worth \$85 million; approved over \$39 million in contract payments; and administered external, independent financial and compliance audits of SSA contractors and service providers.

We audited Social Services Agency Contract and Grant Services (SSA/CGS) to evaluate the adequacy of internal controls for approving contract payments to ensure they are valid, supported, authorized, timely, and comply with contract terms and with County and SSA policies. We also evaluated the fiscal monitoring process administered in SSA/CGS and performed by external audit firms. In addition, we evaluated efficiency and effectiveness of SSA/CGS' contract payment and fiscal monitoring processes.

Our audit found internal controls are adequate to ensure contract payments are valid, supported, authorized, timely, and comply with contract terms and with County and SSA policies. We also found fiscal monitoring audits are performed to ensure the propriety of program expenditures; however, over a two-year lag time exists in conducting the fiscal monitoring audits. We identified **one (1) Significant Control Weakness** and **two (2) Control Findings** to improve controls over processing and approving contract payments, and enhancing the timeliness of fiscal monitoring audits to ensure the proper use of County funds.

AUDIT NO: 1224

REPORT DATE: JANUARY 9, 2013

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Senior Audit Manager: Michael Goodwin, CPA, CIA
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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



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

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1224 January 9, 2013

TO: Michael Riley, Ph.D., Director
Social Services Agency

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

SUBJECT: Internal Control Audit: Social Services
Agency Contract Payments and Fiscal
Monitoring

We have completed an Internal Control Audit of Social Services Agency Contract Payments and Fiscal Monitoring processes for the period July 1, 2011 through June 30, 2012. We performed this audit in accordance with our *FY 2012-13 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 agency 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 critical 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 6.

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Social Services Agency
Contract Payments and Fiscal Monitoring
Audit No. 1224*

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Audit No. 1224

January 9, 2013

TO: Michael Riley, Ph.D., Director
Social Services Agency

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

SUBJECT: Internal Control Audit: Social Services Agency
Contract Payments and Fiscal Monitoring

Audit Highlight

SSA's Contract and Grant Services (SSA/CGS) is responsible for developing, soliciting, negotiating, and administering human services contracts for SSA. During the audit period, SSA/CGS administered 341 contracts, many of which contain multiple funding sources and distinctly different programs. These human services contracts include adult services and assistance programs, children and family services, and family self-sufficiency services. Contract providers include hospitals, clinics, educational institutions, and both for-profit and non-profit community based programs.

SSA/CGS' objective is to provide for the fiscal and operational integrity of SSA by utilizing the competitive bidding process to obtain the most cost effective services; providing effective and efficient contract development and administration; and providing oversight of contract services to safeguard the County's financial resources.

We identified **one (1) Significant Control Weakness** and **two (2) Control Findings** to improve controls over processing and approving contractor payments, and enhancing the fiscal monitoring of contractors currently conducted by external audit firms.

OBJECTIVES

In accordance with our *FY 2012-13 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 Social Service Agency Contract and Grant Services' (SSA/CGS) Contract Payments and Fiscal Monitoring processes. Our audit included an evaluation of internal controls, testing compliance with SSA and County policies; and evaluating process efficiencies 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:

1. Evaluate internal controls over the contract payment process to ensure payments are authorized, valid, timely, supported and comply with County and SSA policy and procedures.
2. Evaluate the fiscal monitoring process administered in SSA/CGS and performed by external firms for financial and compliance audits of program expenditures to ensure proper use of County funds.
3. Determine if the contract payment approval and fiscal monitoring processes are efficient and effective (e.g., backlogs, duplication of work, or manual processes that could be automated).

RESULTS

Objective #1: Our audit found internal controls over the contract payment approval process are adequate and provide assurance that contract payments are authorized, valid, timely, and comply with contract terms and with County and SSA policies. We identified **two (2) Control Findings** to enhance controls by establishing written policy and procedures and documenting exceptions to invoice processing timeframes.

Objective #2: Our audit found fiscal monitoring audits are performed by external audit firms to help ensure contract compliance and propriety of program expenditures. However, these audits have a two-year lag time of completion, are conducted after the contract period ends, and do not provide timely monitoring. We identified **one (1) Significant Control Weakness** to address the lag time in conducting external audits and to evaluate conducting the audits during the contract period.

Objective #3: Our audit found the contract payment approval process is efficient and effective (e.g., duplication of work or manual processes that could benefit from automation).

OC Internal Auditor's Report



The following *Summary of Findings and Recommendations* shows our findings and recommendations for this audit. See further discussion in the *Detailed 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	Recommendation	Concurrence by Management?	Page No. in Audit Report
1.	Control Finding	SSA/Contract and Grant Services does not have written policies and procedures over the contract payment process, including a description of Contract Administrator and Senior Contract Administrator responsibilities. There are also no written policies and procedures over the administration of the fiscal monitoring process.	Establish and communicate policies and procedures that reflect current expectations of SSA/Contract and Grant Services, including defining the responsibilities of Contract Administrators and Senior Contract Administrators over approving contract payments, and for the administration of the fiscal monitoring process with external audit firms.	Yes	7
2.	Control Finding	Some invoices were not processed within SSA/Contract and Grant Services' goal of five business days, and there was no documentation in the contract files explaining the delays.	Ensure there is documentation maintained in the contract files explaining the delay in processing contractor invoices outside the expected timeframe.	Yes	8
3.	Significant Control Weakness	SSA/Contract and Grant Services has a two-year lag in completing fiscal monitoring external audits, and the external audits are conducted after the contract period ends.	Take measures to address the lag time in external audits and evaluate the feasibility of conducting fiscal monitoring audits during the contract period in addition to the fiscal monitoring performed after the contract period ends.	Yes	10



BACKGROUND

SSA's mission is dedicated "to deliver quality services that are accessible and responsive to the community, encourage personal responsibility, strengthen individuals, preserve families, and protect vulnerable adults and children." SSA is comprised of four major divisions: **Children and Family Services (CFS)**, **Adult Services and Assistance Programs (ASAP)**, **Family Self-Sufficiency (FSS)**, and **Administrative Services**. These divisions provide the core businesses of SSA, which include self-sufficiency, protective services, independent living, financial assistance, health care access, employment services, and family stability. To help achieve its objectives, SSA contracts with private sector, non-profit, and faith-based organizations that employ staff to provide various social services. These agreements are known as human services contracts.

Within SSA, Administrative Services provide human resources, career development, strategic planning, public relations, financial and administrative services, information technology, and operations management and support services to SSA's varied divisions and programs. Under Operations Management & Support Services, **Contract and Grant Services** is responsible for developing, soliciting, negotiating, and administering human services contracts for SSA. SSA/Contract and Grant Services also administers the solicitation and coordination of external audit firms to conduct fiscal monitoring of SSA contracts.

Human services contracts can be either **financial** or **non-financial**. Financial contracts are agreements with obligations to purchase services from contractors and County departments/agencies with expertise that matches client needs and program objectives. There are three types of financial contracts:

- **Fee for Service.** SSA pays the contractor for actual services provided at a pre-determined rate (generally by hourly increments/sessions/or client) up to the maximum contract obligation.
- **Cost Reimbursement.** SSA pays the contractor for actual and allowable business expenses as indicated in the program budget up to the maximum contract obligation.
- **Cost Applied.** SSA pays County departments/agencies for actual services provided at a pre-determined amount up to the maximum agreement obligation. Journal Vouchers (JVs) are used by County departments/agencies for interdepartmental billing purposes.

Non-financial contracts are Memorandums of Understanding (MOUs) or Memorandums of Procedures (MOPs) that have no financial obligations and serve to provide guidelines for establishing and maintaining the agreements with public and private organizations to meet the service needs of SSA clients. Examples of non-financial agreements include colleges and universities, hospitals, various state and local agencies, commissions, and bureaus. Because the County has no financial obligations with these agreements, we did not include them in the scope of this audit.

Contract Administration

The objective of SSA/CGS is to provide fiscal and operational integrity for SSA by utilizing the competitive bidding process to obtain the most effective services; providing effective and efficient contract development and administration; and providing oversight of contract services to safeguard the County's financial resources.

During the audit period, SSA/CGS administered **225 financial and 116 non-financial human services contracts with the funding amount totaling \$85 million**, many of which contain multiple funding sources and distinctly different programs. These human services contracts include Adult Services and Assistance programs, Children and Family services, and Family Self-Sufficiency services. Contract providers include hospitals, clinics, educational institutions, and both for-profit and non-profit community based programs. A summary of contracts administered by SSA/CGS for **Fiscal Year 2011-12** is shown below:



Contracts	No. of Financial Contracts	No. of Non-Financial Contracts	Budget
Adult Services and Assistance Program	8	11	\$ 709,291
Children and Family Services	44	60	8,827,214
Families and Communities Together	14	0	3,962,558
Wraparound Services	20	3	13,406,000
Family Self-Sufficiency	12	38	31,434,523
Refugee Services	1	0	500,405
Children's Residential Care Services - Group Home Providers	27	0	17,419,744
Children's Residential Services - Foster Family Agencies	58	0	8,579,745
Children's Residential Services - Emergency Shelter Home	35	0	68,693
Miscellaneous	6	4	50,000
Total	225	116	\$84,958,173

Contract Administrators in SSA/CGS have responsibility to coordinate Requests for Proposal (RFPs) for soliciting proposals for contracted services; negotiating contract terms and amounts; preparing contracts; monitoring and analyzing contractor expenditures, revenues, and performance; providing technical assistance to contractors in budgeting and fiscal management; coordinating compliance training for all contractors; reviewing invoices from contractors; and making recommendations to renew, terminate or amend contracts.

SSA/CGS Payment Approval Process

Contract Administrators analyze monthly invoices/payment requests submitted by contractors for current expenditures; make adjustments as required; and advise contract providers, program staff and Senior Contract Administrators in SSA/CGS of concerns and/or budget trends. Contract Administrators review contractor invoices for accuracy and completeness, and will examine documents and/or obtain information to verify completion of services in accordance with contract terms. The invoices are forwarded to the Senior Contract Administrator who reviews and authorizes the payments. The Senior Contract Administrator submits the approved invoices to Auditor-Controller Claims & Disbursing for further review and payment processing. **During FY 2011-12, SSA/CGS processed over \$39 million in contract payments.**

There are two types of invoice payments that SSA/CGS receives and approves:

- Fee-for-Service Invoices
Contractor is paid monthly, in arrears, based on services provided in accordance to a service rate per the contract. For example, a contractor is paid based upon the amount of services provided (e.g., counseling sessions) and authorized by SSA.
- Cost Reimbursement Invoices
Contractor is paid monthly, in arrears, based on actual allowable costs incurred and paid by contractor, based on an established contract budget.

Fiscal Monitoring

SSA/CGS contracts for annual external independent audits of its human services contract providers to ensure contract and fiscal compliance. SSA/CGS is responsible for procuring external audit services, developing a list of planned audits, tracking and monitoring the completion of external audits; and ensuring follow-up on audit recommendations.



Contractors are required to submit Final Cost Reports 60 days after contract expiration. Audit work starts after receipt of the Final Cost Report, which is used as a source to conduct the audit. It is the goal of SSA/CGS to conduct an independent audit of all cost reimbursement type financial contracts on an annual basis. Contracts contain language that authorizes the external audits. Information obtained from these audits is shared with Contract Administrators and program staff. During FY 2011-12, **39 external audits** for Fiscal Year 2009-10 were completed. SSA/CGS utilizes an external Audit Tracking Log to monitor the progress of the planned audits.

SCOPE AND METHODOLOGY

Our audit covered the period July 1, 2011 through June 30, 2012 and included the following:

1. Evaluated the adequacy and effectiveness internal controls over the contract payment process to ensure payments are authorized, valid, timely, and comply with County and SSA policy and procedures. We tested forty (40) invoices from different contract types.
2. Evaluated fiscal monitoring processes administered in SSA/CGS and performed by external firms for financial and compliance audits of program expenditures incurred by contractors using SSA funds. We evaluated the lists of planned audits, audit reports, follow-up and close-out of audits, and the tracking logs used by SSA/CGS to monitor the progress of external audits. We tested ten (10) completed fiscal monitoring audits.
3. Evaluated the efficiency and effectiveness of contract payments and fiscal monitoring processes, such as for instances of backlogs, duplication of work, manual processes that could benefit from automation.

SCOPE EXCLUSIONS

Our audit scope did not include cost-applied financial contracts between SSA and County departments/agencies and non-financial contracts due to the lack of financial obligations. We also did not include controls, policies and processes used for procuring, renewing, or amending contracts in SSA, or controls for issuing contract payments in Auditor-Controller/Claims and Disbursing.

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 criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for SSA'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 risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in SSA's operating procedures, accounting practices, and compliance with County policy.



Acknowledgment

We appreciate the courtesy extended to us by Social Services Agency Contract and Grant Services during our audit. If we can be of further assistance, please contact me directly or Michael Goodwin, Senior Audit Manager at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Robert J. Franz, Interim County Executive Officer
Alisa Drakodaidis, Deputy CEO, Government & Public Services
Mike Ryan, Chief Deputy Director, SSA
Carol Wiseman, Director, Administrative Services, SSA
Jan Taraszkievicz, Deputy Director, SSA Operations Management and Support Services
Jill Clements, Administrative Manager II, SSA Contract and Grant Services
Espí Garcia, Section Manager, SSA Accounting
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors



Objective #1: Evaluate internal controls over the contract payment process to ensure payments are authorized, valid, timely, supported and comply with County and SSA policy and procedures.

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the contract payment process and controls with Contract and Grant Services' staff and management responsible processing contract payments.
- ✓ Obtained an understanding of the number and types of contracts and contract payments for both financial and non-financial agreements administered in Contract and Grant Services for FY 11-12.
- ✓ Evaluated policies and procedures describing the SSA's contract payment process.
- ✓ Evaluated segregation of duties of staff and management who have authority to approve contract payments to ensure they do not have other incompatible duties.
- ✓ Tested a sample of **40 contractor invoices with payments totaling \$4,287,503**. Disbursements were judgmentally selected from various contractors that are processed by different Contract Administrators and Senior Contract Administrators.

CONCLUSION

We found controls and processes are adequate and provide assurance that contract payments are authorized, valid, supported, and comply with County and SSA Contract Services' policy and procedures. We identified **two (2) Control Findings** to enhance existing controls and processes in the areas of written policies and procedures and documenting exceptions in payment processing timeframes. Our findings and recommendations for this objective are noted below:

Finding No. 1 – Establishment of Written Policies and Procedures

Summary

SSA/Contract and Grant Services does not have written policies and procedures describing the contract payment review and approval responsibilities of Contract Administrators and Senior Contract Administrators. There are also no written procedures for the administration of the fiscal monitoring process with external audit firms. (**Control Finding**)

Details

Based on inquiry with SSA/Contract and Grant Services' management, there are no written policies and procedures in place to reflect current processes or that describe the Contract Administrators' and Senior Contract Administrators' responsibilities when reviewing and approving contractor invoices for payment. SSA/Contract and Grant Services also does not have written procedures for administration of the fiscal monitoring process.

Written policies and procedures provide guidance to new and current employees in performing key aspects of their jobs. Lack of documented policies and procedures increases the risk of inconsistency in Contract Administrators' reviews and potential misunderstanding of their duties and functions. Procedures should clearly describe the invoice review process by both Contract Administrators and Senior Contract Administrators.



SSA/Contract and Grant Services engages external independent audit firms to perform annual audits of contract providers to ensure contract and fiscal compliance. They are responsible for procuring external audit services, developing a list of planned audits, tracking and monitoring the completion of external audits; and ensuring follow-up on audit recommendations. Our audit disclosed that SSA/Contract and Grant Services does not have written procedures describing the fiscal monitoring process and responsibilities.

Per County of Orange Accounting Manual, S-2 *Internal Control Systems*, Section 3.4 - Documentation of System:

“All departments/agencies should have an established system of policies and procedures to be followed in the performance of duties and functions. Such a system shall include, but not be limited to, documentation of internal controls, accountability for resources and recording of financial transactions, and such documentation shall be communicated and made available to all employees and auditors.”

Recommendation No. 1

SSA/Contract and Grant Services establish and communicate policies and procedures that define roles and responsibilities for processing contract payments by Contract Administrators and Senior Contract Administrators, and for the administration of the fiscal monitoring process with external audit firms.

Social Services Agency Management Response:

SSA concurs with this recommendation. CGS will establish and communicate policies and procedures that define roles and responsibilities for processing contract payments by Contract Administrators and Senior Contract Administrators, and for the administration of fiscal monitoring process with external audit firms. Any applicable policy and procedure will be in place no later than June 1, 2013, and will be discussed with the staff and copies provided for each staff's reference.

Finding No. 2 – Documenting Exceptions to Payment Processing Timeframes

Summary

Our testing of forty (40) contract payments found that most invoices were processed in accordance with established procedures however, we noted seven (7) invoices were not processed within SSA/Contract and Grant Services' goal of five (5) business days. **(Control Finding)**

Details

SSA/Contract and Grant Services' unwritten policy is to process contract payment invoices within five (5) business days after receipt. This allows time for the Contract Administrators to verify the invoice with the terms of the contract and services provided to SSA clients and for the Senior Contract Administrators' review. Our testing of 40 invoices found most were processed within five business days; however, seven (7) payments were processed between **7 to 19 days** by SSA/Contract and Grant Services, and there was no documentation in the contract files on why payment processing was delayed. Documenting the reasons for extended payment processing timeframes in the contract files will establish accountability and an audit trail for contract payment processing.

Recommendation No. 2

SSA/Contract and Grant Services ensure there is documentation maintained in the contract files explaining the delay in processing contract payments beyond expected payment processing timeframes.



Social Services Agency Management Response:

SSA concurs with this recommendation. CGS will ensure there is documentation maintained in the contract files explaining the delay in processing contract payments beyond the current expected payment processing timeframe, beginning with invoices received during the month of February 2013 and going forward. SSA has evaluated the feasibility of a five business day turnaround for internal processing of invoices and determined ten business days is a more realistic goal for processing invoices. The policies and procedures developed in response to Finding No. 1 above will specify the expected payment processing timeframe.

Objective #2: Evaluate the fiscal monitoring process administered in SSA/Contract and Grant Services and performed by external firms for financial and compliance audits of program expenditures to ensure proper use of County funds.

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the fiscal monitoring process and controls with Contract and Grant Services' staff and management.
- ✓ Obtained an understanding of the process, timing and frequency of external audits conducted on SSA contractors and program expenditures for FY 11-12.
- ✓ Evaluated the scope of work and audit programs used by contracted external audit firms to conduct fiscal monitoring audits to ensure compliance with contract requirements and use of County funds.
- ✓ Evaluated the adequacy and effectiveness of the *Audit Tracking Log* maintained in SSA/Contract and Grant Services to monitor the progress of the external audits.
- ✓ Reviewed a sample of **ten (10) external independent audits** to verify they were completed in accordance with contract requirements; that monetary or non-compliance findings are appropriately followed-up with the contractor; and that the *Audit Tracking Log* was properly updated to reflect current status.

CONCLUSION

Our audit found fiscal monitoring audits are performed by external audit firms to help ensure contract compliance and propriety of program expenditures. However, there is a lag of two years between contract expiration dates and completed audits. For example, as of June 30, 2012, audits were completed for contracts ending June 30, 2010. In addition, contractors are audited after the contract period ends. As a result of the two-year lag in completing audits and that the audits are conducted after the contract period ends, the external audits do not provide timely monitoring. We identified **one (1) Significant Control Weakness** to address the two-year lag time in conducting external audits and to evaluate conducting fiscal monitoring during the contract period. Our finding and recommendation for this objective is noted below:



Finding No. 3 – Timing of Fiscal Monitoring Audits

Summary

Our audit found that external fiscal monitoring audits have a two-year lag time between the end of the contract period and when the audits are conducted. In FY 2011-12, external audits were conducted on human services contracts in effect during FY 2009-10. **(Significant Control Weakness)**

Details

SSA/Contract and Grant Services procures the services of an external audit firm to conduct independent audits of contract providers to ensure compliance with contract requirements and for fiscal monitoring of expenditures using County funds. The human services contracts contain language that authorizes conducting the external audits.

SSA/Contract and Grant Services utilizes an external audit firm to conduct fiscal monitoring audits of all cost reimbursement type of contracts. Contractors are required to submit a *Final Cost Report* 60 days after contract expiration. Audit fieldwork starts after receipt of the *Final Cost Report* and used as a source to conduct the audit. SSA/Contract and Grant Services' goal is to conduct an independent audit of the contractor on an annual basis. Information obtained from these audits is shared with Contract Administrators and Program Staff for purposes of amending or renewing contracts with the service providers.

Our review of the external audit reports and Audit Tracking Logs found that the external audits have identified a variety of findings. There are appropriate measures taken to communicate report findings and to follow-up on issues identified during the audits. However, we noted there is a two-year lag between when the audits were conducted and the end of the contract period. Some of these contracts were renewed, in which case there is recourse in the event any serious audit issues were identified. In FY 2011-12, there were 39 external audits planned to be conducted on FY 2009-10 period contracts. All external audits for that period were completed.

Auditing contract expenditures over two years after the contract period ends increases the risk that program funds could be misused and not be detected timely. It also does not provide timely monitoring of contract compliance and expenditures. SSA/Contract and Grant Services should take measures to address the two-year time lag and evaluate the feasibility of conducting on-going fiscal monitoring, specifically to ensure the proper use of County funds, during the contract period. The scope of the fiscal monitoring during the contract period can be limited to testing expenditures, and could be performed during site visits by Contract Administrators. External audits, which have a broader audit scope and objectives, could still be performed after the contract period ends.

Because there is limited documentation submitted by the contractors with their monthly invoices, and contract terms can range up to three years, we believe it is important to perform on-going fiscal monitoring during the contract period to detect any significant findings.

Recommendation No. 3

SSA/Contract and Grant Services take measures to address the two-year lag in conducting external audits, and evaluate the feasibility of conducting on-going fiscal monitoring during the contract period in addition to the fiscal monitoring performed by external audits after the contract period ends.

Social Services Agency Management Response:

SSA concurs with this recommendation. CGS will take measures to address the two-year lag in conducting external audits and evaluate the feasibility and resource impact of conducting on-going fiscal monitoring of contractor's expenditures during the contract period by June 30, 2013.



Objective #3: Determine if the contract payment approval and fiscal monitoring processes are efficient and effective (e.g., backlogs, duplication of work, or manual processes that could be automated).

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following:

- ✓ Inquiry with SSA/Contract and Grant Services staff and management regarding backlogs, duplication of work, and processes that could be automated.
- ✓ Auditor observation of inefficient or ineffective procedures and processes.
- ✓ Testing of contract payments and fiscal monitoring audits under the above audit objectives.

CONCLUSION

Our audit found contract payment approval process is efficient and effective (e.g., duplication of work or manual processes that could benefit from automation). However, we identified a two year lag in conducting fiscal monitoring external audits and made a resulting recommendation as noted under Audit Objective #2.

We have no findings and recommendations for this Audit Objective.



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:**
Audit findings or a combination of Significant Control Weaknesses that represent serious 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 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.



ATTACHMENT B: Social Services Agency Management Responses



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December 20, 2012

Dr. Peter Hughes, CPA, Director
Internal Audit Department
12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Subject: Response to Internal Control Audit No. 1224 of Social Services Agency
Contracts Payments and Fiscal Monitoring for the Period July 1, 2011 through
June 30, 2012

On November 13, 2012, the Director of Social Services Agency (SSA) received an email which contained the draft Internal Control Audit results of SSA Contract Payments and Fiscal Monitoring for the period July 1, 2011 through June 30, 2012. We appreciate your acknowledgement that the audit found internal controls to be adequate and provide assurance that contract payments are authorized, valid, supported, and comply with County and SSA Contract Services' policy and procedures. We welcome the opportunity to further enhance the internal controls in Contract and Grant Services. The following provides a response to your recommendations for addressing audit findings.

Finding No. 1 – Establishment of Written Policies and Procedures

Summary:

SSA/Contract and Grant Services (CGS) does not have written policies and procedures describing the contract payment review and approval responsibilities of Contract Administrators and Senior Contract Administrators. There are also no written procedures for the administration of the fiscal monitoring process with external audit firms. (Control Finding)

Recommendation No. 1:

SSA/CGS establish and communicate policies and procedures that define roles and responsibilities for processing contract payments by Contract Administrators and Senior Contract Administrators, and for the administration of the fiscal monitoring process with external audit firms.

Social Services Agency Management Response to Finding No. 1:

SSA concurs with this recommendation. CGS will establish and communicate policies and



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procedures that define roles and responsibilities for processing contract payments by Contract Administrators and Senior Contract Administrators, and for the administration of the fiscal monitoring process with external audit firms. Any applicable policy and procedure will be in place no later than June 1, 2013, and will be discussed with the staff and copies provided for each staff's reference.

Finding No. 2 – Documenting Exceptions to Payment Processing Timeframes

Summary:

Our testing of forty (40) contract payments found that most invoices were processed in accordance with established procedures however, we noted seven (7) invoices were not processed within SSA/CGS' goal of five business days. (Control Finding)

Recommendation No. 2:

SSA/CGS ensure there is documentation maintained in the contract files explaining the delay in processing contract payments beyond expected payment processing timeframe.

Social Services Agency Management Response to Finding No. 2:

SSA concurs with this recommendation. CGS will ensure there is documentation maintained in the contract files explaining the delay in processing contract payments beyond the current expected payment processing timeframe, beginning with invoices received during the month of February 2013 and going forward. SSA has evaluated the feasibility of a five business day turnaround for internal processing of invoices and determined ten business days is a more realistic goal for processing invoices. The policies and procedures developed in response to Finding No. 1 above will specify the expected payment processing timeframe.

Finding No. 3 – Timing of Fiscal Monitoring Audits

Summary:

Our audit found that external fiscal monitoring audits have a two-year lag time between the end of the contract period and when the audits are conducted. In FY 2011-12, external audits were conducted on human services contracts in effect during FY 2009-10. (Significant Control Weakness)

Recommendation No. 3:

SSA/CGS take measures to address the two-year lag in conducting external audits, and evaluate the feasibility of conducting on-going fiscal monitoring during the contract period in addition to the fiscal monitoring performed by external audits after the contract period ends.

Social Services Agency Management Response to Finding No. 3:

SSA concurs with this recommendation. CGS will take measures to address the two-year lag in conducting external audits and evaluate the feasibility and resource impact of



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conducting on-going fiscal monitoring of contractor's expenditures during the contract period by June 30, 2013.

If you have any questions concerning this response, please call me at (714) 541-7773 or Carol Wiseman, Administrative Services Division Director at (714) 541-7776.

Sincerely,

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

Cc: Bob Franz, Interim CEO
Mike Ryan, Chief Deputy Director, SSA
Carol Wiseman, Director, SSA Administrative Services
Jan Taraszkiwicz, Deputy Director, SSA Operations Management and Support Services
Jill Clements, Administrative Manager II, SSA Contract and Grant Services