

Internal Audit Department

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

FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

SOCIAL SERVICES AGENCY CONTRACT PAYMENTS AND FISCAL MONITORING

AS OF JUNE 30, 2013

Our First Follow-Up Audit found Social Services Agency fully implemented two (2) recommendations and one (1) recommendation is in process from our original audit report dated June 26, 2012.

During Fiscal Year 11-12, 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.

AUDIT No: 1339-A
(ORIGINAL AUDIT No. 1224)

REPORT DATE: AUGUST 27, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Senior Internal 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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Transmittal Letter



Audit No. 1227-D August 27, 2013

TO: Dr. Michael Riley, Director
Social Services Agency

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

SUBJECT: First Follow-Up Internal Control Audit:
Social Services Agency
Contract Payments and Fiscal Monitoring
Original Audit No. 1224
Issued January 9, 2013

We have completed a First Follow-Up Audit of Social Services Agency Contract Payments and Fiscal Monitoring. Our audit was limited to reviewing, as of June 30, 2013, actions taken to implement the **three (3) recommendations** from our original audit report dated January 9, 2013. We conducted this First Follow-Up Audit in accordance with the *FY 13-14 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. Our First Follow-Up Audit found Social Services Agency **fully implemented two (2) recommendations** and **one (1) recommendation is in process** from our original audit report. A Second Follow-Up Audit will be conducted approximately six months from the date of this report on the one remaining recommendation.

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 4.

Table of Contents



*First Follow-Up Internal Control Audit:
Social Services Agency
Contract Payments and Fiscal Monitoring
Audit No. 1339-A*

As of June 30, 2013

Transmittal Letter	i
OC Internal Auditor's Report	1

OC Internal Auditor's Report



Audit No. 1339-A

August 27, 2013

TO: Dr. Michael Riley, Director
Social Services Agency

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

SUBJECT: First Follow-Up Internal Control Audit: Social Services Agency
Contract Payments and Fiscal Monitoring, Original Audit No. 1224
Issued January 9, 2013

Scope of Review

We have completed a First Follow-Up Audit of Social Services Agency Contract Payments and Fiscal Monitoring. Our audit was limited to reviewing actions taken, as of June 30, 2013, to implement the **three (3) recommendations** from our original audit report.

Background

Social Services Agency/Contract and Grant Services administered **341 human services contracts totaling \$85 million**, and processed **\$39 million in contract payments** during FY 2011-12. These human services contracts are for Adult Services and Assistance Programs, Children and Family Services, and Family Self-Sufficiency Services, many of which contain multiple funding sources and distinctly different programs. SSA/Contract and Grant Services is responsible for developing, soliciting, negotiating, and reviewing contract payments for human services contracts for the agency. SSA/Contract and Grant Services also administers the solicitation and coordination of external audit firms to conduct fiscal monitoring of SSA contractors. Annual external independent audits are conducted on the contract providers to ensure contract and fiscal compliance. During FY 2011-12, **39 contract and fiscal compliance audits** were completed.

The original audit identified **one (1) Significant Control Weakness** to address the two-year time lag in conducting fiscal monitoring audits of SSA contractors, and **two (2) Control Findings** to enhance processes and controls by establishing written policies and procedures over contract payments and fiscal monitoring, and documenting exceptions to the payment processing timeframe policy.

Results

Our First Follow-Up Audit indicated Social Services Agency fully **implemented two (2) recommendations** and **one (1) recommendation is in process** of implementation. Based on our First Follow-Up Audit, the following is the implementation status of the three (3) original recommendations:



1. Establishment of Written Policies and Procedures (Control Finding)

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.

Current Status: **Implemented.** Social Services Agency/Contract and Grant Services established two new written policies and procedures based on the audit recommendation:

- 1) *Contract Invoice Payment Review and Approval*
- 2) *Contract Fiscal Monitoring: Internal Review of use of External Audit Firms*

We reviewed the newly developed policy and procedures to verify that Contract Administrators and Senior Contract Administrators' roles and responsibilities were adequately described for processing contract payments. We also reviewed the new policy for the administration of fiscal monitoring of contractors using external audit firms. This policy discusses completion of financial audits of contractors in accordance with appropriate State and Federal standards, the competitive bid process for procuring audits, and SSA's internal process for auditing contractors during the contract term.

We found that the newly established policies and procedures are comprehensive and detailed in defining roles, responsibilities and processes for contract invoice payment reviews and fiscal monitoring, and also provided templates and examples for staff to reference. We commend SSA Contract and Grant Services on the adequacy and thoroughness of the newly established policies and procedures. We also obtained the *Minutes of Contract Services Team Meeting - June 4, 2013* to verify the two new policies and procedures were communicated with staff.

Because SSA/Contract and Grant Services established and communicated 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, we consider this recommendation implemented.

2. Documenting Exceptions to Payment Processing Timeframes (Control Finding)

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.

Current Status: **Implemented.** SSA/Contract and Grant Services evaluated the feasibility of the current requirement for a five (5) business day turnaround for internal processing of invoices, and determined that ten (10) business days is a more realistic goal for processing invoices. The policies and procedures developed in response to Finding No. 1 state the invoice payment processing timeframe is now 10 days, and that documentation is required when it takes longer than 10 days to process invoice payments.

A staff meeting was held on January 17, 2013, and included a discussion about the Internal Audit's findings. Staff was informed at that time to begin documenting any delays in processing contract payments beyond the current expected payment processing timeframe. We obtained examples where processing invoices exceeded the 10-day timeframe, and found that emails and notes were included in the contract files explaining the delays.



Because SSA/Contract and Grant Services evaluated the invoice processing timeframes, revised their policy to reflect the 10-day timeframe and require documentation when the timeframe is exceeded, and communicated the information to staff, we consider this recommendation implemented.

3. **Timing of Fiscal Monitoring Audits (Significant Control Weakness)**

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.

Current Status: **In Process.** SSA/Contract and Grant Services took the following measures to address the two-year lag in conducting external audits and to evaluate the feasibility and resource impact of conducting on-going fiscal monitoring of contractor's expenditures during the contract period:

- Began the process for adding two positions, a Staff Specialist and an Administrative Manager I, to assist with audit and fiscal related items, such as financial monitoring of contracts during the contract term and administration of contracts with external audit firms. The Administrative Manager I position has been filled, and the Staff Specialist position is still under recruitment.
- Held a meeting held with Vavrinek, Trine, Day & Co., LLP (VTD), an external audit firm for the County, to discuss California Department of Social Services (CDSS) regulations regarding fiscal monitoring requirements for contractors. VTD concurred the use of external audit firms would meet the CDSS regulations for use of Federal and State funds.
- Completed surveys of Los Angeles, Riverside, San Bernardino and San Diego counties regarding their fiscal monitoring process for contractors. Discovered that each have different methods and criteria for auditing; however most utilize both internal and external auditing methods.

We inquired about the current status of on-going fiscal monitoring and external audits and based on responses received, SSA/Contract and Grant Services has not conducted any fiscal monitoring audits in FY 2012-13. The last external audits completed were for FY 2010-11. The two-year lag between contract period and external audits still exists.

Because SSA/Contract and Grant Services is continuing analysis and implementation of incremental steps to address the two-year lag with external audits, such as adding staffing mentioned above, and developing plans for external auditors and SSA internal staff to conduct financial audits and reviews during and after the contract term, we consider this recommendation in process.

OC Internal Auditor's Report



SSA Planned Action:

- Start date for AM I is 08/23/13 (still in process to add Staff Specialist).
- AM I will plan measures to address the two-year lag in external audits.
- SSA/Contract and Grant Services will continue to review/monitor invoices, expenditures, job cost, etc. to ensure that specifics of the contract are being met and that funding for the contract meets program guidelines/mandates. AM I will evaluate feasibility of external audits of fiscal monitoring during contract term.

We appreciate the assistance extended to us by Social Services Agency/Contract and Grant Services personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
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Mike Ryan, Chief Deputy Director, SSA
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Jan Taraszkiewicz, Deputy Director, SSA Operations Management and Support Services
Steve Sakamoto, Manager, SSA Contract and Grant Services
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Macias Gini & O'Connell, County External Auditor