



Orange County Auditor-Controller Internal Audit



Internal Control Audit:
Health Care Agency/Public Guardian
Selected Processes & Controls

As of December 31, 2015

Audit Number 1524
Report Date: October 28, 2016



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

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Transmittal Letter

Audit No. 1524

October 28, 2016

TO: Mark Refowitz, Director
Health Care Agency/Public Guardian

SUBJECT: Internal Control Audit:
Health Care Agency/Public Guardian –
Selected Processes & Controls

We have completed our audit of internal controls over selected processes and controls in the Health Care Agency/Public Guardian as of December 31, 2015. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

A handwritten signature in blue ink, appearing to read "Toni Smart".

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Eric Woolery, Auditor-Controller
- Frank Kim, County Executive Officer
- Jeff Nagel, Ph.D., Chief of HCA/Behavioral Health/Public Guardian
- Nedenia Lane, Public Guardian
- Tim Beason, Chief Deputy Public Guardian
- Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
- Salvador Lopez, Accounting Manager III, HCA/PG Accounting
- Frank Tuanai, Accounting Manager II, HCA/PG Accounting
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Health Care Agency/Public Guardian
Audit No. 1524*

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Internal Auditor's Report

Audit No. 1524

October 28, 2016

TO: Mark Refowitz, Director
Health Care Agency/Public Guardian

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: Internal Control Audit: Health Care Agency/Public Guardian –
Selected Processes & Controls

OBJECTIVES

We have completed our audit of internal controls over selected processes and controls in the Health Care Agency/Public Guardian (HCA/PG) as of December 31, 2015. Our audit objectives were to:

1. Follow-up to determine the status of audit issues noted in the former Internal Audit Department's Audit Withdrawal Letter dated February 19, 2014 (Audit No. 1325).
2. Conduct interviews with key personnel to determine any issues or concerns related to the transition of the Public Guardian function to the Health Care Agency.
3. Review Fiscal Year (FY) 2014-15 Performance Measures as noted in HCA/PG's FY 2015-16 Recommended Final Budget to ensure those measures are adequately supported.

RESULTS

Objective #1: Our audit found that seven (7) of the 10 audit issues noted in the former Internal Audit Department's Audit Withdrawal Letter dated February 19, 2014 (Audit No. 1325) were resolved. Three (3) issues have not yet been resolved. We identified **one (1) Critical Control Weakness** regarding the need to prioritize the replacement of HCA/PG's antiquated case management system referred to as ePAGES. We identified **one (1) Significant Control Weakness** regarding the need to complete timely trust fund reconciliations. We also identified **three (3) Control Findings** regarding the need to clarify inventory procedures and shared responsibilities between HCA/PG and the District Attorney/Public Administrator (DA/PA), the need to conduct regular inventories of personal property, and the need to conduct regular inventories of serially-numbered forms.

Objective #2: Based on our interviews of key personnel to determine any issues or concerns related to the transition of the Public Guardian function to the Health Care Agency, several positive comments were made regarding the transition. Interviewees also made several suggestions to enhance the efficiency and effectiveness of HCA/PG functions. By partnering with HCA/PG, we identified **two (2) Efficiency/Effectiveness Findings** that HCA/PG should implement to further enhance process efficiency and effectiveness. Note: these findings and recommendations do not represent areas of non-compliance with County or HCA/PG policy.

Objective #3: Our audit found two of the 2014-15 Performance Measures as noted in the Public Administrator's 2015-16 Recommended Final Budget were supported, while one was not supported. We identified **one (1) Control Finding** regarding maintaining records of deputy certification.



Internal Auditor's Report

BACKGROUND

On February 4, 2014, the Board of Supervisors approved consolidation of the Office of Public Guardian with the Health Care Agency. Prior to the consolidation, the Office of Public Guardian was combined with the Public Administrator under the Public Administrator/Public Guardian Department. During that time, the former Internal Audit Department was conducting an Internal Control Audit and issued an audit withdrawal letter dated February 19, 2014 containing 10 audit issues. At that time, the Internal Audit Department had not fully audited the issues and was not aware of the plans to mitigate or address them. This audit addresses the status of those issues.

The Orange County Public Guardian is committed, when no viable alternatives exist, to compassionately and effectively protect, assist, and manage the affairs of residents unable to care for themselves due to a medical condition or who may be a danger to themselves or others, due to mental illness.

The Public Guardian has five divisions: (1) LPS (Lanterman-Petris Short Act), (2) Probate, (3) Estate Services, (4) Personal Property, and (5) Real Property Services. Some key functions performed by the Public Guardian include:

- **Inventory and Appraisal.** Assets of a conservatee which are in possession or control of the Deputy Public Guardian are inventoried and appraised accurately and timely pursuant to the Probate Code. A document is filed with the Court within 90 days of appointment as conservator or temporary conservator of an estate. An inventory is completed by the deputy in the field then keyed into the case management system, ePAGES.
- **Court Accountings.** Court accountings are required to be filed with the Court. A current court accounting is filed at least annually after the Public Guardian has been appointed conservator of an estate. The court accountings filed include an overview of the decedent's case, Department of Health Services notice, tax clearance letters, real property sales, revolving fund outstanding balances, and outstanding payment requests.
- **Warehousing and Property.** The responsibilities of the Public Guardian include locating, taking control, and protecting the assets of decedents. Assets are primarily stored in a warehouse and vault. The personal and real property belonging to the estates of decedents may be sold at periodic public auctions.

SCOPE AND METHODOLOGY

Our audit was as of December 31, 2015 and included:

1. Follow-up to determine the status of audit issues noted in the former Internal Audit Department's Audit Withdrawal Letter dated February 19, 2014 (Audit No. 1325).
2. Interviews with key personnel to determine any issues or concerns related to the transition of the Public Guardian function to the Health Care Agency.
3. Review 2014-15 Performance Measures as noted in the Public Guardian's 2015-16 Recommended Final Budget to ensure those measures are adequately supported.

Scope Exclusions. Our audit did not include a review of controls over cash receipt or cash disbursement transactions. Our audit did not include a detailed audit of application controls over HCA/PG's case management system.



Internal Auditor's Report

FOLLOW-UP PROCESS

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. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC 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 form to facilitate our review.

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 the HCA/PG'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 the HCA/PG's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of the Health Care Agency/Public Guardian during our audit. If you have any questions regarding our audit, please contact me directly at 714-834-5442, or Scott Suzuki, Assistant Director at 714-834-5509.



Detailed Findings, Recommendations, and Management Responses

Objective #1: Follow-up to determine the status of audit issues noted in the former Internal Audit Department's Audit Withdrawal Letter dated February 19, 2014 (Audit No. 1325).

RESULTS

Our audit found that HCA/PG resolved seven (7) of the 10 issues listed in the audit withdrawal letter. Based on our audit, the following is the current status of the 10 original audit issues.

IAD Withdrawal Letter Issue	Current Status
<p>1. <u>Information Technology</u> – PA/PG (Public Administrator/Public Guardian) uses ePAGES (Enhanced Public Administrator Guardian Electronic Systems) as its case management and accounting application. While this system helps PA/PG fulfill its responsibilities, it has significant limitations requiring additional workarounds, and does not contain an asset management module to provide data used for Court Accountings and physical inventory records.</p>	<p>Not resolved. See Finding Nos. 1 and 2 below. (Critical Control Weakness & Significant Control Weakness)</p>
<p>2. <u>Court Accountings</u> – PA/PG is required by the court to maintain records and fiduciary accounting of all income, expenses, assets, and disposition of assets through Court Accountings. We were informed of a significant backlog (about 176) in Court Accounting resulting from process inefficiencies in preparing, monitoring, and reviewing Court Accountings.</p>	<p>Resolved. We reviewed documentation and noted the original backlog of 176 cases has been reduced to four (4). We reviewed documents showing all Court Accountings requested in 2015 and noted there were no outstanding requests. Since significant progress has been made in reducing the original backlog and since there are no current cases that are backlogged, we consider this issue resolved.</p>
<p>3. <u>Warehouse Relocation</u> – On January 21, 2014, the CEO notified PA/PG that their existing warehouse space was to be vacated by March 1, 2014 for use by the Registrar of Voters. Because the warehouse contains assets and property of estates and conservatees that are under the fiduciary responsibility of PA/PG, a plan should be developed to <i>protect</i> and <i>safeguard</i> these assets and property during and after the relocation.</p>	<p>Resolved. In March 2014, the warehouse for both DA/PA and HCA/PG was relocated to a temporary facility managed by HCA. In October 2015, the warehouse for both DA/PA and HCA/PG was relocated to a facility managed and leased by HCA at 1301 Warner Avenue in Santa Ana. DA/PA and HCA/PG inventories are physically separated from the HCA portion of the warehouse. DA/PA staff operate the warehouse. HCA/PG bills DA/PA for warehouse space and DA/PA bills HCA/PG for staffing costs. Since the warehouse has been successfully relocated and assets safeguarded, we consider this issue resolved.</p>



Detailed Findings, Recommendations, and Management Responses

IAD Withdrawal Letter Issue	Current Status
<p>4. <u>Handling of Firearms</u> – PA/PG handles and stores firearms belonging to estates. We were informed that the PA/PG inventory clerk was responsible for receiving, disengaging, and storing the firearms. The inventory clerk had minimal training on handling firearms. We also noted firearms are maintained in a vault; however, multiple staff have access to the vault. Policy and procedures need to be revised to require only individuals with proper firearm training to handle and inspect firearms prior to storage, and to ensure the firearms are safeguarded.</p>	<p>Resolved. This issue was resolved shortly after the audit withdrawal letter was issued. Based on a memo from the former Internal Audit Department to Members of the Audit Oversight Committee dated March 5, 2014, “all firearms have been satisfactorily inventoried and secured at the Office of the District Attorney.”</p> <p>DA/PA has created a procedure entitled “Managing and Inventory of Firearms” describing the steps to take to manage and inventory the firearms. The procedure requires only individuals with proper firearm training to handle and inspect firearms prior to storage. We observed the firearms contained in the DA’s vault. Based on DA/PA’s records, there were 79 firearms related to DA/PA and HCA/PG cases in DA’s possession. Since the DA/PA maintains all firearms for DA/PA and HCA/PG, a policy and procedure has been created regarding managing and inventorying firearms, and the firearms are safeguarded, we consider this issue resolved.</p>
<p>5. <u>Policies and Procedures</u> – PA/PG’s policy and procedure manual is outdated, and efforts are underway to update the written documentation. The department has drafted revisions to sections of the manual, but these revisions have yet not been approved by management and made available to all employees.</p>	<p>Resolved. HCA/PG has recently created or revised key policies and procedures including procedures for Inventory & Appraisal, Court Accountings, Real Property, Personal Property, and Firearm Handling. Since policies and procedures have been created or revised, we consider this issue resolved.</p>
<p>6. <u>Physical Inventory Count</u> – PA/PG’s most recent count of personal property stored in the warehouse occurred in November 2011. The estate inventory clerk with custody and access to estate properly led the physical inventory counts and controlled the perpetual inventory records. Physical inventory counts could not be reconciled to the estate records in e-PAGES due to the absence of an asset management module, and the results of the physical inventory counts were not reviewed and approved by management.</p>	<p>Not resolved. See Finding Nos. 3 and 4 below. (Control Findings)</p>



Detailed Findings, Recommendations, and Management Responses

IAD Withdrawal Letter Issue	Current Status
<p>7. <u>Safe and Vault</u> – PA/PG stores money, valuables, records, and documents belonging to estates in a safe and vault. We were informed that PA/PG does not keep a record to show the date the combination last was changed and names of persons knowing the present combination. We noted the combination was not changed after individuals having knowledge of the combination separated from the department.</p>	<p>Resolved. HCA/PG created a policy and procedure for “Vault and Day Safe Security Control.” The procedure states that when an employee “no longer assumes the responsibilities for which access was granted, or is no longer employed with the Public Guardian, the following actions must be taken within 10 days of their disassociation with the function or separation date: (1) recalibrate the day safe and vault combination access codes and (2) delete alarm code assigned to the separated employee.”</p> <p>HCA/PG maintains a log that lists the dates and reasons for combination changes. The log indicated the vault door combination and day safe combination were changed in March 2014 and January 2016 when staff retired or transferred. The log indicates the vault alarm access changed in December 2015 when Public Administrator staff physically moved to the District Attorney’s Office.</p> <p>Since a procedure was created regarding combination changes when an employee is no longer with HCA/PG, and a log was created that lists the combination changes, we consider this issue resolved.</p>
<p>8. <u>Serially Numbered Forms</u> – PA/PG issues handwritten cash receipts and property Inventory & Appraisal forms on serially numbered documents. These are considered critical business forms because there is potential monetary value associated with them due to their nature. As such, physical controls are required over these documents to prevent unauthorized acquisition, use, or disposition. We were informed that the blank serially numbered documents have not been subject to an independent physical inventory and reconciliation with the respective inventory records.</p>	<p>Not resolved. See Finding No. 5 below. (Control Finding)</p>



Detailed Findings, Recommendations, and Management Responses

IAD Withdrawal Letter Issue	Current Status
<p>9. <u>Signature Authorization for Payments</u> – Department procedures require PA/PG Accounting to maintain a signature authorization list of all Deputies authorized to approve invoices and payment requests on behalf of their clients. Accounting is to use the list to verify the propriety of the signatures as needed. We noted that the signature authorization list is maintained in Administration and is not maintained in Accounting.</p>	<p>Resolved. The authorized signature list is maintained in a shared drive available to all Accounting staff. Accounting staff review the list prior to processing payments (compare signature on authorized list to signature on payment request). Because the signature list is available to and used by Accounting staff prior to processing payments, we consider this issue resolved.</p>
<p>10. <u>Outstanding Payment Requests</u> – PA/PG Deputies make payment requests on behalf of their clients through e-PAGES and forward the supporting documentation to Accounting for processing. The payment requests are entered into ePAGES and are closed by Accounting after a payment is processed. As of January 30, 2014, ePAGES shows approximately 650 outstanding payment requests totaling about \$490,000. We were told most of these have been paid, and we found there is no process in place to periodically review outstanding payment requests to close them out.</p>	<p>Resolved. HCA/PG recently created a policy and procedure regarding “Closing of Unapproved Payment Requests” which states that “any unapproved payment transactions in the electronic database system that have not been processed in at least sixty (60) days will be scheduled for closing by the Information System Administrator.” We reviewed a report from ePAGES showing outstanding unapproved payment requests as of March 2016. There were no outstanding unapproved payment requests over 60 days old. Therefore, we consider this issue resolve.</p>

Finding No. 1 – Obsolete Case Management System (ePAGES) (Critical Control Weakness)

HCA/PG uses ePAGES (Enhanced Public Administrator Guardian Electronic System) as its case management and accounting application. Cash receipts and disbursements are input and processed through ePAGES. ePAGES is a stand-alone application with no interfaces to other systems; however, cash receipt and disbursement information from ePAGES is regularly uploaded into the Auditor-Controller’s General Ledger. ePAGES resides on HCA/PG’s local area network and is maintained by HCA/PG Information Technology (IT) Section.

HCA/PG continues to use the antiquated case management system, ePAGES, and the following items were noted:

- HCA/PG is not able to quantify the dollar amount of Court Accountings processed during the year because ePAGES does not contain an asset management module. Current and final Court Accountings are required to be filed with the court and include a case overview, Department of Health notice, tax clearance letters, real property sales, revolving fund outstanding balances, and outstanding payment requests.
- HCA/PG is not able to reconcile its physical inventory records because of the lack of an asset management module (assets of conservatees are not recorded in ePAGES). They would have to reconcile to each individual Property Inventory Sheet, which is not feasible. As a result, assets are tracked manually on Excel spreadsheets.



Detailed Findings, Recommendations, and Management Responses

- ePAGES is increasingly unreliable with weekly outages. System failure problems occur sometimes more than once a week.
- There is no automated workflow process in ePAGES. Currently, documents are printed and manually routed for approval.
- Systemic issues in ePAGES are causing variances that affect HCA/PG's ability to complete trust fund reconciliations (see **Finding No. 2** below).
- ePAGES does not have the capability to report historical data regarding open and closed cases.

As part of our audit, we considered application findings identified during a 2005 audit of the former Public Administrator/Public Guardian Department (Audit No. 2528) regarding ePAGES that were going to be addressed in a future system upgrade or replacement; however, the upgrade or replacement has not yet occurred. The following is a listing of the issues identified in that audit which remain unresolved:

Data Processing Issues

- A lack of input controls has reportedly caused data integrity issues in case management (when an employee enters case information, there is no systematic controls to validate the integrity, completeness, and accuracy of the data).
- The vendor no longer supports ePAGES and it cannot be upgraded as PA/PG does not possess the application's source code.
- IT support documentation for the application is not available.
- The system has an unacceptable rate of downtime.
- ePAGES does not perform property inventory tracking, a function that is critical to PA/PG.

Audit Trails

- ePAGES does not have audit trails that record user activity in an unalterable form. There are no security logs that record invalid log-on attempts and other security breaches.

Logical Security

ePAGES does not have commonly found security features that:

- Lock a user account out after a preset number of incorrect passwords have been entered.
- Automatically log-off the application after a period of user inactivity.
- Ensure passwords are controlled by the users (passwords are controlled by the IT Manager).
- Limit password reuse and requires periodic password changes.
- Encrypt the password database.

Furthermore, ePAGES was evaluated during a 2016 Grand Jury audit of the Public Administrator/Public Guardian functions ("Changing of the Guardian: Life After Reorganization of the Public Administrator and Public Guardian Offices"), the following findings were noted regarding ePAGES:

- The E-CMDS case management system (ePAGES) is antiquated, unreliable, does not have the ability to quickly and accurately cull reliable data, and does not meet the current business needs of the Public Administrator/Public Guardian deputies. Although there have been several attempts to replace the current E-CMDS, each has failed to produce tangible results.
- The Public Administrator's Office is considering pursuing the purchase of a case management system that will be completely separate from whatever case management system the Public Guardian pursues, which has the potential to result in fragmented communication and duplicative processes when cases are handed over from the Public Guardian to the Public Administrator.



Detailed Findings, Recommendations, and Management Responses

Status of Replacement

The former PA/PG attempted a system replacement implementation in 2011. In November 2011, the implementation was canceled because of concerns with the contractor's ability to complete the project in a timely and satisfactory manner.

Currently, HCA/PG is working together with the DA/PA to upgrade ePAGES. In May 2016, management from both departments attended a presentation by the vendor that created ePAGES. The ePAGES vendor indicated an upgraded version of ePAGES would not allow for an asset management module. As a result, HCA/PG and DA/PA are working with HCA/IT to utilize an existing asset management application currently in use by HCA/PG that can be linked to the upgraded ePAGES system for inventory tracking purposes. HCA/IT will ensure prospective vendors adhere to HCA's IT security requirements and guidelines.

Recommendation No. 1:

We recommend HCA/PG prioritize the replacement or upgrade of ePAGES. The replacement system must address compliance requirements to avoid potential court penalties and to enhance HCA/PG operational efficiencies. Application controls must be adequate to ensure the completeness and accuracy of system information. We also recommend HCA/PG continue to work with HCA/IT to utilize HCA's asset management application for inventory tracking purposes.

Health Care Agency/Public Guardian Management Response:

Concur. Public Administrator and Public Guardian staff continue to meet monthly to develop an alternative that will allow vendors to bid to replace or upgrade ePAGES. A new system is needed. Meetings regarding this project have included County Executive Office Information Technology (IT), Health Care Agency (HCA) IT, Public Guardian and Public Administrator staff and management, as well as District Attorney and HCA and internal audit representatives. We are currently negotiating pricing for an upgrade. Once that is settled, HCA intends to upgrade. HCA's Chief Information Officer is the point person on the negotiations.

Finding No. 2 – Trust Fund Reconciliations (Significant Control Weakness)

We were informed by HCA/PG management that monthly reconciliations for Fund 165 Public Guardian have not been completed since September 2015. This is due in part to the complexity of the reconciliation, the preparer of the reconciliation is no longer working with the Public Guardian, and variances that are caused by a systemic process that failed to execute properly in ePAGES (see **Finding No. 1** above). The fund has millions of dollars in activity and monthly reconciliations are required to maintain proper internal control.

County Accounting Manual (CAM) Procedure F-4, *Fiduciary Funds*, Section 2.6.5 states that reconciliations must identify the differences between the department's or agency's detailed or subsidiary records and the General Ledger balance of the fund, the reasons for those differences and the planned disposition of any reconciling items. Monthly reconciliations help ensure any errors or irregularities will be detected timely.

Recommendation No. 2:

We recommend HCA/PG resume performing trust fund reconciliations of Fund 165.

Health Care Agency/Public Guardian Management Response:

Concur. HCA Accounting has performed the necessary trust fund reconciliations of Fund 165 and is now current. HCA Accounting will continue to perform this reconciliation on a consistent basis.



Detailed Findings, Recommendations, and Management Responses

Finding No. 3 – Physical Inventories of Personal Property (Control Finding)

The responsibilities of the HCA/PG include locating, taking control, and protecting the assets of conservatees. Assets are primarily stored in an offsite warehouse and vaults at the HCA/PG office. We found the following regarding inventories of personal property:

1. **DA/PA – warehouse assets.** An inventory was conducted in February 2015. This was the first inventory of the warehouse containing DA/PA assets since the 2014 merger. Warehouse merchandise has not been inventoried since. HCA/PG assets were not inventoried at this time as staff was unclear as to whether HCA/PG assets needed to be included in the inventory (See [Finding No. 4](#) below).
2. **HCA/PG – warehouse assets.** An inventory was conducted in February 2016. This was the first inventory of the warehouse containing HCA/PG assets since the 2014 merger.
3. **Vault.** An inventory was conducted in December 2015. This was the first inventory of the vault since the 2014 merger.

Prior to the merger in 2014, the most recent inventory for both PA and PG was conducted in 2011.

In addition, the physical inventory counts were not reconciled to the estate records in ePAGES because ePAGES does not have an asset management module (see [Finding No. 1](#)). Performing periodic inventories on selected valuable items reduces the risk of theft or loss of property and assets.

Recommendation No. 3:

We recommend HCA/PG determine an appropriate frequency of physical inventory counts and perform and document physical periodic inventories of property that is valuable and/or susceptible to theft.

Health Care Agency/Public Guardian Management Response:

Concur. HCA Public Guardian completed a physical inventory of warehouse contents in February 2016 and vault contents in January 2016. We will continue to conduct annual inventories of both warehouse and vault contents, reconciling findings with estate records to reduce potential loss of assets.

Finding No. 4 – Memorandum of Understanding for Joint Processes with DA/PA (Control Finding)

HCA/PG works in partnership with DA/PA in two key areas:

- Real property services – HCA/PG and DA/PA share a real estate broker that is responsible for sales of real property owned by HCA/PG conservatees and DA/PA decedents:
- Personal property services – HCA/PG and DA/PA clients' personal property is maintained in a warehouse facility managed by HCA/PG and staffed by DA/PA staff.

HCA/PG has recently revised its procedures for real property and personal property services; however, the procedures do not describe shared responsibilities between HCA/PG and DA/PA in areas such as responsibilities for conducting physical inventory counts, interdepartmental billing for warehouse rent, or staff costs for both real property and personal property services.

Recommendation No. 4:

We recommend HCA/PG work with DA/PA to develop an MOU describing the shared responsibilities in the areas of real and personal property services.



Detailed Findings, Recommendations, and Management Responses

Health Care Agency/Public Guardian Management Response:

Concur. HCA Public Guardian will work with DA/PA on a Memorandum of Understanding for Joint Processes.

Finding No. 5 – Inventories of Serially-Numbered Forms (Control Finding)

HCA/PG issues handwritten cash receipt forms and prepares property inventory forms on serially numbered documents. These are considered critical business forms because there is a potential monetary value associated with them due to their nature. As such, physical controls are required over these documents to prevent unauthorized acquisition, use, or disposition.

Blank handwritten cash receipt forms and property inventory forms have not been subjected to an independent physical inventory and reconciliation with the respective inventory records. Handwritten cash receipt forms and property inventory forms in use are tracked, but not the unused forms.

Periodic inventories should be documented and be conducted in a frequency determined by management. Records of the inventories should be retained for audit. The absence of periodic counts of critical business forms and comparison to control records increases the risk of theft, loss, or unauthorized use of serially numbered documents.

Recommendation No. 5:

We recommend HCA/PG perform documented, periodic physical inventories of unused handwritten cash receipt forms and property inventory forms.

Health Care Agency/Public Guardian Management Response:

Concur. HCA Public Guardian will institute a process to perform monthly inventories and document unused handwritten cash receipt forms and property inventory forms to reduce the risk of loss or unauthorized use of serially numbered documents.

Objective #2: Conduct interviews with key personnel to determine any issues or concerns related to the transition of the Public Guardian function to the Health Care Agency.

RESULTS

We interviewed HCA/PG staff from various levels regarding any issues or concerns related to the transition of the PG to the Health Care Agency. Based on the interviews, the following common responses were given to the question, “what is working well?”

- ✓ Merging with HCA has increased the resources available to HCA/PG.
- ✓ HCA/PG has several long-term knowledgeable staff that are dedicated to the HCA/PG mission.
- ✓ There is strong support from County Counsel.
- ✓ There has been an improvement in communication. HCA/Behavioral Health has implemented “employee advisory group” meetings to help increase communication and help HCA/Behavioral Health staff better understand the HCA/PG function, and vice versa.
- ✓ HCA/PG is considering performing a job classification study to ensure all HCA/PG staff are properly classified.



Detailed Findings, Recommendations, and Management Responses

Based on the interviews, we identified opportunities where HCA/PG can further enhance its efficiency and effectiveness in its operations. The following common responses were given to the questions “what are transitional issues that are pending?” and “is there anything in the Public Guardian process that can be improved?”

- ✓ ePAGES is old, unreliable, and requires replacement (see [Finding No. 1](#) above).
- ✓ Trust fund reconciliations have not been completed since September 2015 (see [Finding No. 2](#) above).
- ✓ Shared processes between HCA/PG and DA/PA need to be better defined (see [Finding No. 4](#) above)
- ✓ There is a need for more succession planning (See [Finding No. 8](#) below).
- ✓ It would be beneficial to increase staff participation in the California Association of Public Administrators, Public Guardians, and Public Conservators (See [Finding No. 9](#) below).

Through the interviews, we identified the following **two (2) Efficiency/Effectiveness Findings** that HCA/PG should implement to further enhance process efficiency and effectiveness. Note: these findings and recommendations do not represent areas of non-compliance with County and HCA/PG policy.

Finding No. 6 – Succession Planning (Efficiency/Effectiveness Finding)

Several HCA/PG staff informed us of the need for continued succession planning as there are some long-term staff that could be retiring in the near future. Long-term staff have extensive knowledge of HCA/PG operations, e.g., accounting staff are well versed in preparing tax returns, reconciling bank accounts & trust fund balances, and approving cash receipt transactions and disbursements. Potential retirements create the need for succession planning. Some HCA/PG staff have participated in cross-training to address this issue.

Strong succession planning will ensure when key members of staff retire over the next few years, they will be succeeded by qualified employees with the skills, knowledge and abilities needed to continue its mission.

Recommendation No. 6:

We recommend HCA/PG continue its succession planning and ensure that other individuals are trained to perform the duties of retiring staff.

Health Care Agency/Public Guardian Management Response:

Do Not Concur. While HCA Public Guardian provides cross training in all operational and administrative areas to ensure coverage and address succession planning needs, it remains unclear how this finding and recommendation fall within the scope of an internal control audit. Furthermore, additional attention to this matter indicated that the finding pertains to fiscal functions that were already addressed in FY 2015-16 when the preparation of tax returns and other fiscal duties were transitioned to the Auditor-Controller Accounting Unit.



Detailed Findings, Recommendations, and Management Responses

A-C/Internal Audit Rejoinder:

As we explained in our letter dated September 27, 2016 (See Attachment C), the Committee of Sponsoring Organizations (COSO) provides an internal control framework on risk management, internal control, and fraud deterrence. COSO Principle 4 states an organization should “demonstrate a commitment to attract, develop, and retain competent individuals in alignment with objectives.” Accordingly, our finding and recommendation fall within the scope of an internal control audit as one Point of Focus for Principle 4 is that the organization should “plan and prepare for succession.”

Nevertheless, HCA/PG has acknowledged that our recommendation has merit as it provides cross training to address succession planning needs. As such, although HCA/PG did not concur with our finding, we determined that the intent of our recommendation has been recognized and the current condition (asserted by HCA/PG related to our initial finding) adequately addresses our concern.

Finding No. 7 – California Association of PAs, PGs, and PCs (Efficiency/Effectiveness Finding)

The California Association of Public Administrators, Public Guardians, and Public Conservators is a non-profit association representing the Public Administrators, Guardians, and Conservators from each of California's 58 counties. The Association's mission is to foster communication between counties, provide education and certification to its members, and provide legislative advocacy on behalf of individuals served by these programs. Very few HCA/PG staff are currently involved in this association.

Involvement in this association will help HCA/PG to partner, share ideas, and best practices with other County PGs.

Recommendation No. 7:

We recommend HCA/PG consider increasing employee participation in the California Association of Public Administrators, Public Guardians, and Public Conservators.

Health Care Agency/Public Guardian Management Response:

Do Not Concur. HCA Public Guardian consistently provides support and guidance to staff ensuring maximum membership and participation. All PG deputy staff actively employed (100%) are current in association dues and membership.

A-C/Internal Audit Rejoinder:

During our audit, management and staff informed us there was a need to increase the level of participation in the association. While this condition may have changed since the audit period, and we commend HCA/PG for taking corrective action, our finding is based upon conditions at the time of the audit. HCA/PG has acknowledged that our recommendation has merit as it now ensures maximum membership and participation in the association. As such, although HCA/PG did not concur with our finding, we determined that the intent of our recommendation has been recognized and the current condition (asserted by HCA/PG related to our initial finding) adequately addresses our concern.



Detailed Findings, Recommendations, and Management Responses

Objective #3: Review 2014-15 Performance Measures as noted in the Public Guardian’s 2015-16 Recommended Final Budget to ensure those measures are adequately supported.

RESULTS

We reviewed documentation supporting HCA/PG’s reported results of its performance measures in its 2015-16 Recommended Final Budget. HCA/PG reported three (3) Key Outcome Indicators for **Administrative Deputy Caseloads (2 Key Outcome Indicators) and Deputy Certification Requirements (1 Key Outcome Indicator)**.

For the Key Outcome Indicators related to **Deputy Certification Requirements**, HCA/PG was not able to generate documents that supported the reported results. **One (1) Control Finding** was identified as a result.

Finding No. 8 – Deputy Certification Requirements (Control Finding)

HCA/PG reported its Key Outcome Indicator for **Deputy Certification Requirements** as follows:

Key Outcome Indicator	What?	Why?	Results/How Are We Doing?
Deputy Certification Requirements	Percentage of deputies in compliance with training certification requirements.	Deputy certification is required by the Jones Bill (AB 1363).	80%. Staff continues to work with the California PA/PG/PC Association to resolve certification credit issues for sanctioned trainings that were completed in 2014. PG implemented monthly in-house deputy trainings to establish and maintain at least 90% deputy certification.

According to HCA/PG management, “in 2015, California PA/PG/PC association records were unavailable to PG for reconciliation of deputy training credits. Therefore, 2014 reported percentages were derived from determining the number of deputies that were current with dues payment, their reported units and the number of new deputy staff in need of initial certification and units. At present, these records are unavailable to PG to replicate and provide as back-up documentation to 2014 results”.

HCA/PG did not maintain internal deputy certification records that could support the reported results for 2014. HCA/PG informed us they have begun internal tracking of deputy certification for years subsequent to 2014.

Related findings were also noted by the Grand Jury in its 2016 report “Changing of the Guardian: Life After Reorganization of the Public Administrator and Public Guardian Offices”:

- The Public Guardian’s Office does not have a reliable system for tracking Public Guardian deputy training and membership status to ensure guardians maintain certifications as stated in the Probate Code.



Detailed Findings, Recommendations, and Management Responses

- The Public Guardian's Office does not hold deputy staff accountable for adhering to Policy 1.01 – Public Guardian Certification and Continuing Education. This has resulted in the majority of deputies being out of compliance with certification, which could have negative consequences and/or impact their ability to best serve their clients.
- The Public Guardian's Office has not provided clear guidance or assistance to ensure deputies understand the financial reimbursement process, resulting in deputies not pursuing recertification.

Recommendation No. 8:

We recommend HCA/PG develop a reliable system for tracking Public Guardian deputy training and certification requirements.

Health Care Agency/Public Guardian Management Response:

Do Not Concur. HCA Public Guardian has a very detailed system of tracking deputies' training and membership. In fact, our tracking mechanisms are more accurate than that of the PA/PG/PC association and are used to correct the association's records. We have dedicated staff resource to tracking certification credit requirements, credits earned, dues paid/outstanding and ensuring that association records reconcile with our records.

A-C/Internal Audit Rejoinder:

At the time of the audit, PG management informed us that they relied on records maintained by the California Association of Public Administrators, Public Guardians, and Public Conservators for tracking deputy training. Upon auditor request, the records for the 2014 results were not available and could not be re-created by PG because PG was not tracking deputy certification internally until 2015. While this condition may have changed since the audit period, and we commend HCA/PG for taking corrective action, our finding is based upon conditions at the time of the audit. HCA/PG has acknowledged that our recommendation has merit as it now has a tracking mechanism more accurate than the association. As such, although HCA/PG did not concur with our finding, we determined that the intent of our recommendation has been recognized and the current condition (asserted by HCA/PG related to our initial finding) adequately addresses our concern.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

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

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

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



▶ **Control Findings:**

These are 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 Findings, Recommendations, and Management Responses

ATTACHMENT B: Health Care Agency/Public Guardian Management Response (Initial)

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September 23, 2016

TO: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: Audit of Health Care Agency/Public Guardian – Selected Processes & Controls
Audit #1524

SEP 27 2016
AUDITOR-CONTROLLER

The Health Care Agency (HCA) has received the draft report of the Audit of Public Guardian – Selected Processes & Controls as of December 31, 2015. As requested, below states the eight (8) findings and recommendation from Internal Audit as well as the response from HCA’s management.

Finding 1 – Obsolete Case Management System (ePAGES) (Critical Control Weakness)
HCA/PG uses ePAGES (Enhanced Public Administrator Guardian Electronic System) as its case management and accounting application. Cash receipts and disbursements are input and processed through ePAGES. ePAGES is a stand-alone application with no interfaces to other systems; however, cash receipt and disbursement information from ePAGES is regularly uploaded into the Auditor-Controller’s General Ledger. ePAGES resides on HCA/PG’s local area network and is maintained by HCA/PG Information Technology (IT) Section. HCA/PG continues to use the antiquated case management system, ePAGES and the following items were noted:

- *HCA/PG is not able to quantify the dollar amount of Court Accountings processed during the year because ePAGES does not contain an asset management module. Current and final Court Accountings are required to be filed with the court and include a case overview, Department of Health notice, tax clearance letters, real property sales, revolving fund outstanding balances, and outstanding payment requests.*
- *HCA/PG is not able to reconcile its physical inventory records because of the lack of an asset management module (assets of conservatees are not recorded in ePAGES). They would have to reconcile to each individual Property Inventory Sheet, which is not feasible. As a result, assets are tracked manually on Excel spreadsheets.*
- *ePAGES is increasingly unreliable with weekly outages. System failure problems occur sometimes more than once a week.*
- *There is no automated workflow process in ePAGES. Currently, documents are printed and manually routed for approval.*



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- *Systemic issues in ePAGES are causing variances that affect HCA/PG's ability to complete trust fund reconciliations (see Finding No. 2 below).*
- *ePAGES does not have the capability to report historical data regarding open and closed cases.*

As part of our audit, we considered application findings identified during a 2005 audit of the former Public Administrator/Public Guardian Department (Audit No. 2528) regarding ePAGES that were going to be addressed in a future system upgrade or replacement; however, the upgrade or replacement has not yet occurred. The following is a listing of the issues identified in that audit which remain unresolved:

Data Processing Issues

- *A lack of input controls has reportedly caused data integrity issues in case management (when an employee enters case information, there is no systematic controls to validate the integrity, completeness, and accuracy of the data).*
- *The vendor no longer supports ePAGES and it cannot be upgraded as PA/PG does not possess the application's source code.*
- *IT support documentation for the application is not available.*
- *The system has an unacceptable rate of downtime.*
- *ePAGES does not perform property inventory tracking, a function that is critical to PA/PG.*

Audit Trails

- *ePAGES does not have audit trails that record user activity in an unalterable form. There are no security logs that record invalid log-on attempts and other security breaches.*

Logical Security

ePAGES does not have commonly found security features that:

- *Lock a user account out after a preset number of incorrect passwords have been entered.*
- *Automatically log-off the application after a period of user inactivity.*
- *Ensure passwords are controlled by the users (passwords are controlled by the IT Manager).*
- *Limit password reuse and requires periodic password changes.*
- *Encrypt the password database.*

Furthermore, ePAGES was evaluated during a 2016 Grand Jury audit of the Public Administrator/Public Guardian functions ("Changing of the Guardian: Life After Reorganization of the Public Administrator and Public Guardian Offices"), the following findings were noted regarding ePAGES:

- *The E-CMDS case management system (ePAGES) is antiquated, unreliable, does not have the ability to quickly and accurately cull reliable data, and does not meet the current business needs of the Public Administrator/Public Guardian deputies. Although*



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there have been several attempts to replace the current E-CMDS, each has failed to produce tangible results.

- *The Public Administrator's Office is considering pursuing the purchase of a case management system that will be completely separate from whatever case management system the Public Guardian pursues, which has the potential to result in fragmented communication and duplicative processes when cases are handed over from the Public Guardian to the Public Administrator.*

Status of Replacement

The former PA/PG attempted a system replacement implementation in 2011. In November 2011, the implementation was canceled because of concerns with the contractor's ability to complete the project in a timely and satisfactory manner.

Currently, HCA/PG is working together with the DA/PA to upgrade ePAGES. In May 2016, management from both departments attended a presentation by the vendor that created ePAGES in May 2016. The ePAGES vendor indicated an upgraded version of ePAGES would not allow for an asset management module. As a result, HCA/PG and DA/PA are working with HCA Information Technology to utilize an existing asset management application currently in use by HCA that can be linked to the upgraded ePAGES system for inventory tracking purposes. HCA Information Technology will ensure prospective vendors adhere to HCA's IT security requirements and guidelines.

Recommendation No. 1:

We recommend HCA/PG prioritize the replacement or upgrade of ePAGES. The replacement system must address compliance requirements to avoid potential court penalties and to enhance HCA/PG operational efficiencies. Application controls must be adequate to ensure the completeness and accuracy of system information. We also recommend HCA/PG continue to work with HCA Information Technology to utilize HCA's asset management application for inventory tracking purposes.

Health Care Agency's Management Response:

Concur. Public Administrator and Public Guardian staff continue to meet monthly to develop an alternative that will allow vendors to bid to replace or upgrade ePAGES. A new system is needed. Meetings regarding this project have included County Executive Office Information Technology (IT), Health Care Agency (HCA) IT, Public Guardian and Public Administrator staff and management, as well as District Attorney and HCA management and internal audit representatives. We are currently negotiating pricing for an upgrade. Once that is settled, HCA intends to upgrade. HCA's Chief Information Officer is the point person on the negotiations.

Finding 2 – Trust Fund Reconciliations (Significant Control Weakness)

We were informed by HCA/PG management that monthly reconciliations for Fund 165 Public Guardian have not been completed since September 2015. This is due in part to the complexity of the reconciliation, the preparer of the reconciliation is no longer working with the Public Guardian, and variances that are caused by a systemic process that failed to execute properly in



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ePAGES (see Finding No. 1 above). The fund has millions of dollars in activity and monthly reconciliations are required to maintain proper internal control.

County Accounting Manual (CAM) Procedure F-4, Fiduciary Funds, Section 2.6.5 states that reconciliations must identify the differences between the department's or agency's detailed or subsidiary records and the General Ledger balance of the fund, the reasons for those differences and the planned disposition of any reconciling items. Monthly reconciliations help ensure any errors or irregularities will be detected timely.

Recommendation No. 2:

We recommend HCA/PG resume performing trust fund reconciliations of Fund 165.

Health Care Agency's Management Response:

Concur. HCA Accounting has performed the necessary trust fund reconciliations of Fund 165 and is now current. HCA Accounting will continue to perform this reconciliation on a consistent basis.

Finding 3 – Physical Inventories of Personal Property (Control Finding)

The responsibilities of the HCA/PG include locating, taking control, and protecting the assets of conservatees. Assets are primarily stored in an offsite warehouse and vaults at the HCA/PG office. We found the following regarding inventories of personal property:

1. **DA/PA – warehouse assets.** *An inventory was conducted in February 2015. This was the first inventory of the warehouse containing DA/PA assets since the 2014 merger. Warehouse merchandise has not been inventoried since. HCA/PG assets were not inventoried at this time as staff was unclear as to whether HCA/PG assets needed to be included in the inventory (See Finding No. 4 below).*
2. **HCA/PG – warehouse assets.** *An inventory was conducted in February 2016. This was the first inventory of the warehouse containing HCA/PG assets since the 2014 merger.*
3. **Vault.** *An inventory was conducted in December 2015. This was the first inventory of the vault since the 2014 merger.*

Prior to the merger in 2014, the most recent inventory for both PA and PG was conducted in 2011. In addition, the physical inventory counts were not reconciled to the estate records in ePAGES because ePAGES does not have an asset management module (see Finding No. 1). Performing periodic inventories on selected valuable items reduces the risk of theft or loss of property and assets.

Recommendation No. 3:

We recommend HCA/PG determine an appropriate frequency of physical inventory counts and perform and document physical periodic inventories of property that is valuable and/or susceptible to theft.

Health Care Agency's Management Response:



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Concur. HCA Public Guardian completed a physical inventory of warehouse contents in February 2016 and vault inventory contents in January 2016. We will continue to conduct annual inventories of both warehouse and vault contents, reconciling findings with estate records to reduce potential loss of assets.

Finding 4 – Memorandum of Understanding for Joint Processes with DA/PA (Control Finding)

HCA/PG works in partnership with DA/PA in two key areas:

- *Real property services – HCA/PG and DA/PA share a real estate broker that is responsible for sales of real property owned by HCA/PG conservatees and DA/PA decedents:*
- *Personal property services – HCA/PG and DA/PA clients' personal property is maintained in a warehouse facility managed by HCA/PG and staffed by DA/PA staff.*

HCA/PG has recently revised its procedures for real property and personal property services; however, the procedures do not describe shared responsibilities between HCA/PG and DA/PA in areas such as responsibilities for conducting physical inventory counts, interdepartmental billing for warehouse rent, or staff costs for both real property and personal property services.

Recommendation No. 4:

We recommend HCA/PG work with DA/PA to develop an MOU describing the shared responsibilities in the areas of real and personal property services.

Health Care Agency's Management Response:

Concur. HCA Public Guardian will work with DA/PA on a Memorandum of Understanding for Joint Processes.

Finding 5 – Inventories of Serially-Numbered Forms (Control Finding)

HCA/PG issues handwritten cash receipt forms and prepares property inventory forms on serially numbered documents. These are considered critical business forms because there is a potential monetary value associated with them due to their nature. As such, physical controls are required over these documents to prevent unauthorized acquisition, use, or disposition.

Blank handwritten cash receipt forms and property inventory forms have not been subject to an independent physical inventory and reconciliation with the respective inventory records. Handwritten cash receipt forms and property inventory forms in use are tracked, but not the unused forms.

Periodic inventories should be documented and be conducted in a frequency determined by management. Records of the inventories should be retained for audit. The absence of periodic counts of critical business forms and comparison to control records increases the risk of theft, loss, or unauthorized use of serially number documents.

Recommendation No. 5:



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We recommend HCA/PG perform documented, periodic physical inventories of unused handwritten cash receipt forms and property inventory forms.

Health Care Agency's Management Response:

Concur. HCA Public Guardian will institute a process to perform monthly inventories and document unused handwritten cash receipt forms and property inventory forms to reduce the risk of loss or unauthorized use of serially numbered documents.

Finding 6 – Succession Planning (Efficiency/Effectiveness Finding)

Several HCA/PG staff informed us of the need for continued succession planning as there are some long-term staff that could be retiring in the near future. Long-term staff have extensive knowledge of HCA/PG operations, e.g., accounting staff are well versed in preparing tax returns, reconciling bank accounts, reconciling trust fund balances, and approving cash receipt transactions and disbursements. Potential retirements create the need for succession planning. Some HCA/PG staff have participated in cross-training to address this issue. Strong succession planning will ensure when key members of staff retire over the next few years, they will be succeeded by qualified employees with the skills, knowledge and abilities needed to continue its mission.

Recommendation No. 6:

We recommend HCA/PG continue its succession planning and ensure that other individuals are trained to perform the duties of retiring staff.

Health Care Agency's Management Response:

It is not clear from the report how this finding impacts HCA's internal controls nor whether it is within the scope of internal control audits to review HCA's succession process. Absent that clarity, HCA will not comment on the recommendation.

Finding 7 – California Association of PAs, PGs, and PCs (Efficiency/Effectiveness Finding)

The California Association of Public Administrators, Public Guardians, and Public Conservators is a nonprofit association representing the Public Administrators, Guardians, and Conservators from each of California's 58 counties. The Association's mission is to foster communication between counties, provide education and certification to its members, and provide legislative advocacy on behalf of individuals served by these programs. Very few HCA/PG staff are currently involved in this association. Involvement in this association will help HCA/PG to partner, share ideas, and best practices with other County PGs.

Recommendation No. 7:

We recommend HCA/PG consider increasing employee participation in the California Association of Public Administrators, Public Guardians, and Public Conservators.

Health Care Agency's Management Response:



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While 100% of PG deputy staff currently working are up to date in association dues and membership, it is not clear from the report how this finding impacts HCA's internal controls nor is it clear whether it is within the scope of internal control audits to review employee training and certification rates. Absent that clarity, HCA will not comment on the recommendation.

Finding 8 – Deputy Certification Requirements (Control Finding)

HCA/PG reported its Key Outcome Indicator for Deputy Certification Requirements as follows:

Key Outcome Indicator	What?	Why?	Results/How are we Doing?
Deputy Certification Requirements	Percentage of deputies in compliance with training certification requirements.	Deputy certification is required by the Jones Bill (AB1363).	80%. Staff continues to work with the California PA/PG/PC Association to resolve certification credit issues for sanctioned trainings that were completed in 2014. PG implemented monthly in-house deputy trainings to establish and maintain at least 90% deputy certification.

According to HCA/PG management, "in 2015, California PA/PG/PC association records were unavailable to PG for reconciliation of deputy training credits. Therefore, 2014 reported percentages were derived from determining the number of deputies that were current with dues payment, their reported units and the number of new deputy staff in need of initial certification and units. At present, these records are unavailable to PG to replicate and provide as back-up documentation to 2014 results".

HCA/PG did not maintain internal deputy certification records that could support the reported results for 2014. HCA/PG informed us they have begun internal tracking of deputy certification for years subsequent to 2014.

Related findings were also noted by the Grand Jury in its 2016 report "Changing of the Guardian: Life After Reorganization of the Public Administrator and Public Guardian Offices":

- The Public Guardian's Office does not have a reliable system for tracking Public Guardian deputy training and membership status to ensure guardians maintain certifications as stated in the Probate Code.
- The Public Guardian's Office does not hold deputy staff accountable for adhering to Policy 1.01 – Public Guardian Certification and Continuing Education. This has resulted in the majority of deputies being out of compliance with certification which could have negative consequences and/or impact their ability to best serve their clients.
- The Public Guardian's Office has not provided clear guidance or assistance to ensure deputies understand the financial reimbursement process, resulting in deputies not pursuing recertification.



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Toni Smart, CPA, Director
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Recommendation No. 8:

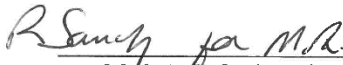
We recommend HCA/PG develop a reliable system for tracking Public Guardian deputy training and certification requirements.

Health Care Agency's Management Response:

While HCA Public Guardian has a very detailed system of tracking deputies' training and membership, it is not clear from the report how this finding impacts HCA's internal controls nor whether it is within the scope of internal control audits to review employee training and certification status. Absent that clarity, HCA will not comment on the recommendation.

The Health Care Agency appreciates the efforts made by Internal Audit to ensure funds are properly administered in compliance with County policy, procedures, and fund requirements and the courtesy extended to staff involved. Should you have any further questions, please contact Salvador Lopez, HCA Accounting manager at 714.834.5264.

Thank you.


Mark A. Refowitz, Director

MAR:sl

cc: Frank Kim, County Executive Officer
Mark Denny, Chief Operating Officer
Mary Hale, Deputy Agency Director, Behavioral Health
Jeff Nagel, Director of Operations, Behavioral Health
Nedenia Lane, Public Guardian
Anna Peters, Director of Administrative Services
Adil Siddiqui, Chief Information Officer, HCA
Salvador Lopez, HCA Accounting Manager
Frank Tuanai, HCA Accounting PG Fiscal Manager



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT C: Auditor-Controller Letter to HCA/PG



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER

September 27, 2016



TO: Mark A. Refowitz, Director
Health Care Agency/Public Guardian

FROM: Eric Woolery, CPA, Auditor-Controller *EW*

SUBJECT: Management Response to the Internal Control Audit: Health Care Agency/Public Guardian, Selected Processes & Controls, Audit No. 1524

We received your management response to our draft audit report on the Health Care Agency (HCA)/Public Guardian, Selected Processes & Controls, Audit No. 1524, see attachment. In your response you did not comment on three of our efficiency/effectiveness recommendations (Recommendation Nos. 6, 7, and 8) citing it is not clear how the findings impact internal controls at HCA and that absent that clarity, HCA will not comment on the recommendations. The purpose of this letter is to provide this clarity and explain the connection between our findings and internal controls and the audit's stated objectives.

Internal control, by definition in accounting and auditing, is a process for assuring achievement of an organization's objectives in **operational effectiveness and efficiency**, reliable financial reporting, and compliance with laws, regulations and policies. In a broader concept, internal control involves everything that controls risks to an organization.

The Committee of Sponsoring Organizations (COSO) provides an internal control framework on risk management, internal control, and fraud deterrence. There are 17 control principles with 77 points of focus (i.e., characteristics that may assist in designing or implementing internal control systems). See *The Updated COSO Internal Control Framework* attached that provides details regarding the framework. The Auditor-Controller's Internal Audit Division determines its audit scope and evaluates internal controls according to the COSO framework.

Furthermore, the Internal Audit Division's Charter approved by the Board of Supervisors, provides the objective and scope of the audit work performed. As stated in the approved Charter, the scope "may include appraising the economy and efficiency of management resources and reviewing operations and programs to determine whether results are consistent with established objectives and goals, and if operations or programs are being carried out as planned."

However, to help HCA in understanding the connection between efficiency and effectiveness and internal controls as it pertains to Recommendation Nos. 6, 7, and 8 in the audit report, the Internal Audit Division provides the following information.

For Finding No. 6, COSO Principle 4 involving the control environment states that an organization should "demonstrate a commitment to attract, develop, and retain competent individuals in alignment with objectives." The recommendation is relevant to internal control as one Point of Focus for this principle is that the organization should "plan and prepare for succession."

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Regarding Finding No. 7, COSO Principle 13 that addresses information and communication states that an organization should "obtain or generate and use relevant quality information to support the functioning of internal control." The recommendation to increase participation in the California Association of Public Administrators, Public Guardians, and Public Conservators is relevant to internal control as one Point of Focus for this principle is that an organization should "capture internal and external sources of data." By participating in this organization, information about best practices applicable to county Public Guardians would be obtained and evaluated for applicability at the County.

For Finding No. 8, COSO Principle 16 states that management should perform adequate monitoring activities, specifically that "the organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning" (e.g., key outcome indicators). The assumption is that this key outcome indicator was selected by the department as it is an objective representation of performance in one specific area important to the department, i.e., it should be monitored and reported accurately by management. In order to support this assertion, the department should retain documentation that substantiates results reported to the County.

Accordingly, we recommend that you consider revising your management response to Recommendation Nos. 6, 7, and 8 and provide the response to Toni Smart by **October 12, 2016**; however, if you determine that no change is necessary, we plan to issue a rejoinder to any management response that does not comment on our recommendation in order to explain the relevance to internal controls. In addition, the Audit Oversight Committee that oversees the audit process will request that HCA discuss their decision to not comment on our internal control recommendations pertaining to efficiency and effectiveness at its next scheduled meeting.

Please contact me if you have any further questions at 714.834.2457.

Attachments

cc: Frank Kim, County Executive Officer
Toni Smart, Director, A-C Internal Audit Division



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT D: Health Care Agency/Public Guardian Revised Management Response



OFFICE OF THE DIRECTOR

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October 13, 2016

TO: Eric Woolery, CPA, Auditor-Controller

SUBJECT: **Revised Management Response:** Audit of Health Care Agency/Public Guardian
– Selected Processes & Controls Audit #1524

The Health Care Agency (HCA) has received the letter dated September 27, 2016 written in response to the Health Care Agency's Management Response to the Internal Control Audit: Health Care Agency/Public Guardian, Selected Processes & Controls, Audit No. 1524. In the agency's response to Internal Audit dated September 12, 2016, we sought additional clarification on Recommendations Nos. 6, 7 and 8. Your response cites specific COSO Principles that support the inclusion of these findings and subsequent recommendations. In light of your clarification, the Health Care Agency has revised our Management Response as indicated below.

Finding 6 – Succession Planning (Efficiency/Effectiveness Finding)

Several HCA/PG staff informed us of the need for continued succession planning as there are some long-term staff that could be retiring in the near future. Long-term staff have extensive knowledge of HCA/PG operations, e.g., accounting staff are well versed in preparing tax returns, reconciling bank accounts, reconciling trust fund balances, and approving cash receipt transactions and disbursements. Potential retirements create the need for succession planning. Some HCA/PG staff have participated in cross-training to address this issue.

Strong succession planning will ensure when key members of staff retire over the next few years, they will be succeeded by qualified employees with the skills, knowledge and abilities needed to continue its mission.

Recommendation No. 6:

We recommend HCA/PG continue its succession planning and ensure that other individuals are trained to perform the duties of retiring staff.

Health Care Agency's Management Response:

It is not clear from the report how this finding impacts HCA's internal controls nor whether it is within the scope of internal control audits to review HCA's succession process. Absent that clarity, HCA will not comment on the recommendation.



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Health Care Agency’s Revised Management Response:

Do not concur. While HCA Public Guardian provides cross training in all operational and administrative areas to ensure coverage and address succession planning needs, it remains unclear how this finding and recommendation fall within the scope of an internal control audit. Furthermore, additional attention to this matter indicated that the finding pertains to fiscal functions that were already addressed in FY 2015-16 when the preparation of tax returns and other fiscal duties were transitioned to the Auditor-Controller Accounting Unit.

Finding 7 – California Association of PAs, PGs, and PCs (Efficiency/Effectiveness Finding)

The California Association of Public Administrators, Public Guardians, and Public Conservators is a nonprofit association representing the Public Administrators, Guardians, and Conservators from each of California's 58 counties. The Association's mission is to foster communication between counties, provide education and certification to its members, and provide legislative advocacy on behalf of individuals served by these programs. Very few HCA/PG staff are currently involved in this association. Involvement in this association will help HCA/PG to partner, share ideas, and best practices with other County PGs.

Recommendation No. 7:

We recommend HCA/PG consider increasing employee participation in the California Association of Public Administrators, Public Guardians, and Public Conservators.

Health Care Agency’s Management Response:

It is not clear from the report how this finding impacts HCA’s internal controls nor is it clear whether it is within the scope of internal control audits to review employee training and certification rates. Absent that clarity, HCA will not comment on the recommendation.

Health Care Agency’s Revised Management Response:

Do not concur. HCA Public Guardian consistently provides support and guidance to staff ensuring maximum membership and participation. All PG deputy staff actively employed (100%) are current in association dues and membership.

Finding 8 – Deputy Certification Requirements (Control Finding)

HCA/PG reported its Key Outcome Indicator for Deputy Certification Requirements as follows:

Key Outcome Indicator	What?	Why?	Results/How are we Doing?
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Deputy Certification Requirements	<i>Percentage of deputies in compliance with training certification requirements.</i>	<i>Deputy certification is required by the Jones Bill (AB1363).</i>	<i>80%. Staff continues to work with the California PA/PG/PC Association to resolve certification credit issues for sanctioned trainings that were completed in 2014. PG implemented monthly in-house deputy trainings to establish and maintain at least 90% deputy certification.</i>
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According to HCA/PG management, “in 2015, California PA/PG/PC association records were unavailable to PG for reconciliation of deputy training credits. Therefore, 2014 reported percentages were derived from determining the number of deputies that were current with dues payment, their reported units and the number of new deputy staff in need of initial certification and units. At present, these records are unavailable to PG to replicate and provide as back-up documentation to 2014 results”.

HCA/PG did not maintain internal deputy certification records that could support the reported results for 2014. HCA/PG informed us they have begun internal tracking of deputy certification for years subsequent to 2014.

Related findings were also noted by the Grand Jury in its 2016 report “Changing of the Guardian: Life After Reorganization of the Public Administrator and Public Guardian Offices”:

- *The Public Guardian’s Office does not have a reliable system for tracking Public Guardian deputy training and membership status to ensure guardians maintain certifications as stated in the Probate Code.*
- *The Public Guardian’s Office does not hold deputy staff accountable for adhering to Policy 1.01 – Public Guardian Certification and Continuing Education. This has resulted in the majority of deputies being out of compliance with certification which could have negative consequences and/or impact their ability to best serve their clients.*
- *The Public Guardian’s Office has not provided clear guidance or assistance to ensure deputies understand the financial reimbursement process, resulting in deputies not pursuing recertification.*

Recommendation No. 8:

We recommend HCA/PG develop a reliable system for tracking Public Guardian deputy training and certification requirements.

Health Care Agency’s Management Response:

It is not clear from the report how this finding impacts HCA’s internal controls nor whether it is within the scope of internal control audits to review employee training and certification status. Absent that clarity, HCA will not comment on the recommendation.



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Health Care Agency's Revised Management Response:

Do not concur. HCA Public Guardian has a very detailed system of tracking deputies' training and membership. In fact, our tracking mechanisms are more accurate than that of the PA/PG/PC association and are used to correct the association's records. We have dedicated staff resource to tracking certification credit requirements, credits earned, dues paid/outstanding and ensuring that association records reconcile with our records.

The Health Care Agency appreciates the efforts made by Internal Audit to ensure funds are properly administered in compliance with County policy, procedures, and fund requirements and the courtesy extended to staff involved. Should you have any further questions, please contact Salvador Lopez, HCA Accounting manager at 714.834.5264.

Thank you.


Mark A. Refowitz, Director

MAR:slh 16-079

cc: Frank Kim, County Executive Officer
Jessica Witt, Chief Operating Officer (acting)
Mary Hale, Deputy Agency Director, Behavioral Health
Jeff Nagel, Director of Operations, Behavioral Health
Nedenia Lane, Public Guardian
Anna Peters, Director of Administrative Services
Adil Siddiqui, Chief Information Officer, HCA
Salvador Lopez, HCA Accounting Manager
Frank Tuanai, HCA Accounting PG Fiscal Manager