



INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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INTERNAL CONTROL REVIEW OF SOCIAL SERVICES AGENCY REVOLVING FUNDS

**For the Period
November 1, 2005 through October 31, 2006**

AUDIT NUMBER: 2635

REPORT DATE: MAY 24, 2007

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CISA, CIA
Senior Audit Manager:	Michael Goodwin, CPA, CIA
Senior Auditor:	Susan Nestor, CPA, CIA

**Internal Control Review of
Social Services Agency Revolving Funds**

**For the Period
November 1, 2005 through October 31, 2006**

TABLE OF CONTENTS

Transmittal Letter	i
INTERNAL AUDITOR’S REPORT	1
EXECUTIVE SUMMARY	3
Objectives.....	3
Background	3
Scope	3
Results	4
DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES	5
Segregation of Duties	5
Travel Cash Advances.....	5
Mileage and Other Expenses Claim Form Submission.....	5
Cancellation of Supporting Documentation	6
ATTACHMENT A: Report Item Classifications.....	7
ATTACHMENT B: Social Services Agency and Auditor-Controller Management Responses	8



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Transmittal Letter

Audit No. 2635

May 24, 2007

TO: Ingrid Harita, Director
Social Services Agency

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

SUBJECT: Internal Control Review of Social Services Agency
Revolving Funds

We have completed a review of internal controls over revolving fund processes of the Social Services Agency for the period November 1, 2005 through October 31, 2006. The final **Internal Auditor's Report** is attached along with your responses to our recommendations.

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). As a matter of policy, our **first Follow-Up Audit** will now 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 now begin at 12 months from the release of the original report, by which time **all** audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

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

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with you so that SSA can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

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

Attachment

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Jess Carbajal, Director of Agency Administration, SSA
- Carol Wiseman, Deputy Director, Financial and Administration Services, SSA
- David E. Sundstrom, Auditor-Controller
- Shaun Skelly, Chief Assistant Auditor-Controller
- Bill Castro, Assistant Auditor-Controller, Satellite Accounting Operations
- Espi Garcia, Senior Manager, SSA Accounting Services
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2635

May 24, 2007

Ingrid Harita, Director
Social Services Agency
888 North Main Street
Santa Ana, CA 92701

Scope of Review

We have completed a review of internal controls over revolving fund processes of the Social Services Agency for the period November 1, 2005 through October 31, 2006. Our audit was performed in accordance with professional standards established by the Institute of Internal Auditors.

Results

Based upon our audit, **no material weaknesses or significant issues were identified.** We found that SSA and SSA Accounting had appropriate internal controls and processes in place over the administration of revolving funds. We did identify **3 Control Findings** with corresponding recommendations to enhance existing controls and processes as noted in the Detailed Observations, Recommendations and Management Responses section of this report. See *Attachment A* for description of Report Item Classifications.

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 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. Internal Audit's review enhances and complements, but does not substitute for SSA's and SSA Accounting's continuing emphasis on control activities and self-assessment of control risks.

While our report indicates the specific areas where our observations are directly applicable, **SSA and SSA Accounting should implement the recommendations in all revolving fund locations.** An expectation of the Board of Supervisors is that departments and agencies will view this report as a "lessons learned" opportunity to guide them in proactively self-assessing other similar operations or processes.

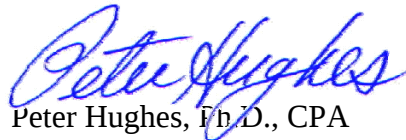
Inherent Limitations in Any System of Internal Control

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 review made for the purpose described above *would not necessarily disclose all weaknesses* in SSA's and SSA Accounting's operating procedures, accounting practices and compliance with County policy.

Acknowledgment

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of SSA and SSA Accounting. If we can be of further assistance, please contact me or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Senior Audit Manager, at (714) 834-6066.

Respectfully Submitted,



Peter Hughes, Ph.D., CPA
Director, Internal Audit

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Jess Carbajal, Director of Agency Administration, SSA
Carol Wiseman, Deputy Director, Financial and Administration Services, SSA
David E. Sundstrom, Auditor-Controller
Shaun Skelly, Chief Assistant Auditor-Controller
Bill Castro, Assistant Auditor-Controller, Satellite Accounting Operations
Espí Garcia, Senior Manager, SSA Accounting Services
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted an Internal Control Review of revolving fund processes at the Social Services Agency (SSA) that included in its scope a limited review of the accuracy of the financial and accounting records; the adequacy and integrity of internal controls; compliance with applicable rules, regulations and department policies; evidence of process efficiencies and effectiveness; and proper safeguarding of County assets.

The objectives of our audit were to determine whether internal controls at the departmental level and in the Auditor-Controller's central business systems are in place and operating to ensure:

1. Revolving funds are safeguarded and transactions are properly authorized and recorded completely, accurately and timely in accordance with management's authorization.
2. Revolving fund transactions are processed in accordance with applicable County Accounting Manual (CAM) procedures.
3. Auditor-Controller central business systems are effective through accurate recording, reporting, and system output for revolving fund transactions initiated by SSA as determined through our testing of transactions.
4. Business processes are efficient and effective as related to SSA revolving funds.

BACKGROUND

The mission of the Social Services Agency is to deliver quality services that are accessible and responsive to the community, encourage personal responsibility, strengthen individuals, preserve families, and protect vulnerable adults and children.

SSA maintains two revolving funds totaling **\$247,750** for general operations. The funds are allocated between three accounts: Welfare and Assistance (\$127,750), Supplies and Services, which includes travel cash advances (\$100,000), and Family Discretionary Fund (\$20,000). Each are comprised of checking accounts and cash. SSA Accounting Services is responsible for administering, monitoring and replenishing the revolving funds.

During the period under review, SSA **incurred approximately \$661,285 in Welfare and Assistance expenditures, \$474,190 in Services and Supplies expenditures and \$113,912 in Family Discretionary Fund expenditures.**

SCOPE

Our audit was limited to internal controls and processes over revolving funds for the period from November 1, 2005 through October 31, 2006. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation. For testing purposes, we selected four of the nine SSA locations to perform our site reviews of internal controls (**Anaheim Regional Center, Atrium Center, Fiscal Accounting, and Purchasing**). Our testing of transactions included revolving fund disbursements from all locations.



RESULTS

No material weaknesses or significant issues were noted. Based upon the objectives of our audit, we noted the following:

Objective: *Revolving funds are safeguarded and transactions are properly authorized and recorded completely, accurately and timely in accordance with management's authorization.*

Results: Controls and processes are in place to safeguard revolving funds, and transactions are properly authorized, recorded completely, accurately and timely in accordance with management's authorization. **We commend SSA and SSA Accounting on the controls and processes that have been established and maintained over the revolving funds.**

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

Results: Controls and processes are in place to ensure revolving fund transactions are processed in accordance with applicable County Accounting Manual (CAM) procedures. However, we note in our audit report where enhancements are needed in the areas of segregation of authorization and check signing duties, submission of mileage claims and cancelling supporting documentation for petty cash and travel cash advances. These are considered **Control Findings** and are discussed in the Detailed Observations, Recommendations, and Management Responses section of this report. See *Attachment A* for a description of Report Item Classifications.

Objective: *Auditor-Controller central business systems are effective through accurate recording, reporting, and system output for revolving fund transactions initiated by SSA as determined through our testing of transactions.*

Results: We performed testing of revolving fund transactions originating at SSA through the following Auditor-Controller (A-C) central business systems without noting any exceptions:

- ✓ Verified revolving fund transactions were accurately reflected in the A-C's ERMI system, an electronic report management and imaging system that stores and retrieves reports generated by CAPS.
- ✓ Traced and agreed authorized fund balances recorded in the County General Ledger.

Objective: *Business processes are efficient and effective as related to SSA revolving funds.*

Results: No inefficient or ineffective processes were noted or came to our attention during our fieldwork related to revolving funds.



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

SEGREGATION OF DUTIES

Adequate segregation of duties reduces the risk that one individual may conceal errors and irregularities and not be detected. County Accounting Manual (CAM), procedure C-7, section 2.2.1, states, “Purchases or cash advances from the revolving cash fund must be approved by an authorized person who does not also have revolving fund custodian, check signer, or reconciliation duties.”

Finding No. 1

We found that duties are not adequately segregated at the Anaheim Regional Center (ARC) district office (one of the six SSA district offices). Although no exceptions were found in our test work, we noted that supervisors have the ability to approve benefit payments in the CalWORKS Welfare Information Network and have check signing authority.

Recommendation No. 1

We recommend SSA ensure expenditure approval and check signing authority for revolving fund duties are adequately segregated at district offices.

Social Services Agency and Auditor-Controller Management Response:

Concur. SSA Accounting will work in coordination with SSA to ensure that staff with expenditure approval does not have check signing authority for the revolving fund.

TRAVEL CASH ADVANCES

CAM C-1, Cash Advances – Revolving Funds, governs the use of travel cash advances.

Mileage and Other Expenses Claim Form Submission

CAM C-1 requires the unused portion of travel cash advances to be returned, along with the Mileage and Other Expenses Claim form, within five (5) working days after the completion of the event for which the advance was made.

Finding No. 2

For 8 of 15 travel cash advances reviewed, the related mileage claim was not submitted within five (5) working days after the completion of the event for which the advance was made. The number of days in which the reimbursement claims were submitted ranged from 7 to 35 days after completion of the event.

Recommendation No. 2

We recommend SSA ensure that employees requesting travel cash advances submit the Mileage and Other Expenses Claim form within five working days after the completion of the event for which the advance is made.

Social Services Agency and Auditor-Controller Management Response:

Concur. At the direction of SSA Management, SSA Accounting has strengthened the process in place to monitor and pursue outstanding travel advances. We have now escalated the first notification to include the Program Manager, in addition to the employee and the employee’s supervisor. The second notification will also include the Division Director. These actions should prompt SSA staff to respond in a timelier manner.



Cancellation of Supporting Documentation

To prevent duplicate payments from occurring, the revolving fund custodian should cancel (mark "paid") documents supporting travel cash advance expenditures.

Finding No. 3

Documentation supporting travel cash advance expenditures was not cancelled (e.g., marked "paid") by the custodian for all 15 cash advances tested.

Recommendation No. 3

We recommend SSA ensure documents supporting travel advance cash expenditures are cancelled upon payment by the custodian.

Social Services Agency and Auditor-Controller Management Response:

Concur. Effective February 28, 2007, accounting staff responsible for processing cash advances were directed to cancel supporting documentation by marking it "paid." We have updated our procedures to reflect this additional requirement.



ATTACHMENT A: Report Item Classifications

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

- **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to immediately address “Material Weaknesses” brought to their attention.

- **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

- **Control Findings:**

Audit findings 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.





**County of Orange
SOCIAL SERVICES AGENCY**

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DIRECTOR

MICHAEL L. RILEY, Ph.D.
CHIEF DEPUTY DIRECTOR

JESS CARBAJAL
DIVISION DIRECTOR
ADMINISTRATIVE SERVICES

REBECCA GUIDER
DIVISION DIRECTOR
ADULT SERVICES &
ASSISTANCE PROGRAMS

MICHAEL L. RILEY, Ph.D.
DIVISION DIRECTOR
CHILDREN & FAMILY SERVICES

PHYLLIS WATANABE
DIVISION DIRECTOR
FAMILY SELF-SUFFICIENCY

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May 17, 2007

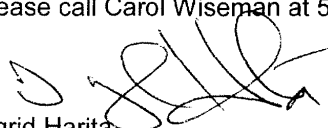
TO: Peter Hughes, Director
Internal Audit Department

SUBJECT: Response to Internal Control Review of Social Services Agency Revolving Funds

We reviewed the draft dated March 20, 2007 on Internal Control Review of Social Services Agency Revolving Funds covering the period of November 1, 2005 through October 31, 2006 prepared by Internal Audit Department.

We concur with the recommendations made in the draft audit report that relate to processes that are under the control of SSA. Our specific responses are attached.

Please call Carol Wiseman at 541-7776 if you have any questions regarding this letter.


Ingrid Harita
Director, Social Services Agency

Attachment





DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

**AUDITOR-CONTROLLER
COUNTY OF ORANGE**

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ASSISTANT AUDITOR-CONTROLLER
SATELLITE ACCOUNTING OPERATIONS

PHILLIP T. DAIGNEAU
ASSISTANT AUDITOR-CONTROLLER
INFORMATION TECHNOLOGY

May 16, 2007

TO: Ingrid Harita, Director
Social Services Agency

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We have reviewed the draft report dated March 20, 2007, on Internal Control Review of Social Services Agency Revolving Funds covering the period of November 1, 2005 through October 31, 2006 prepared by Internal Audit Department.

We concur with the recommendations made in the draft audit report that relate to processes that were under the control of SSA Accounting operations. Our responses are attached.

Please call Espi Garcia at 245-6161 if you have any questions regarding this letter.

David E. Sundstrom
Auditor Controller

EG:lr (Revolving Fund AC Response/agency)

Attachment

cc: Peter Hughes, Director, Internal Audit Department
Bill Castro, Assistant Auditor-Controller, Satellite Operations
Espi Garcia, Manager, SSA Accounting Manager
Jess Carbajal, Director, Administrative Services, SSA
Carol Wiseman, Deputy Director, Financial and Administrative Services, SSA

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**Audit No. 2635
Internal Control Review of
Social Services Agency Revolving Funds
Draft Responses**

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