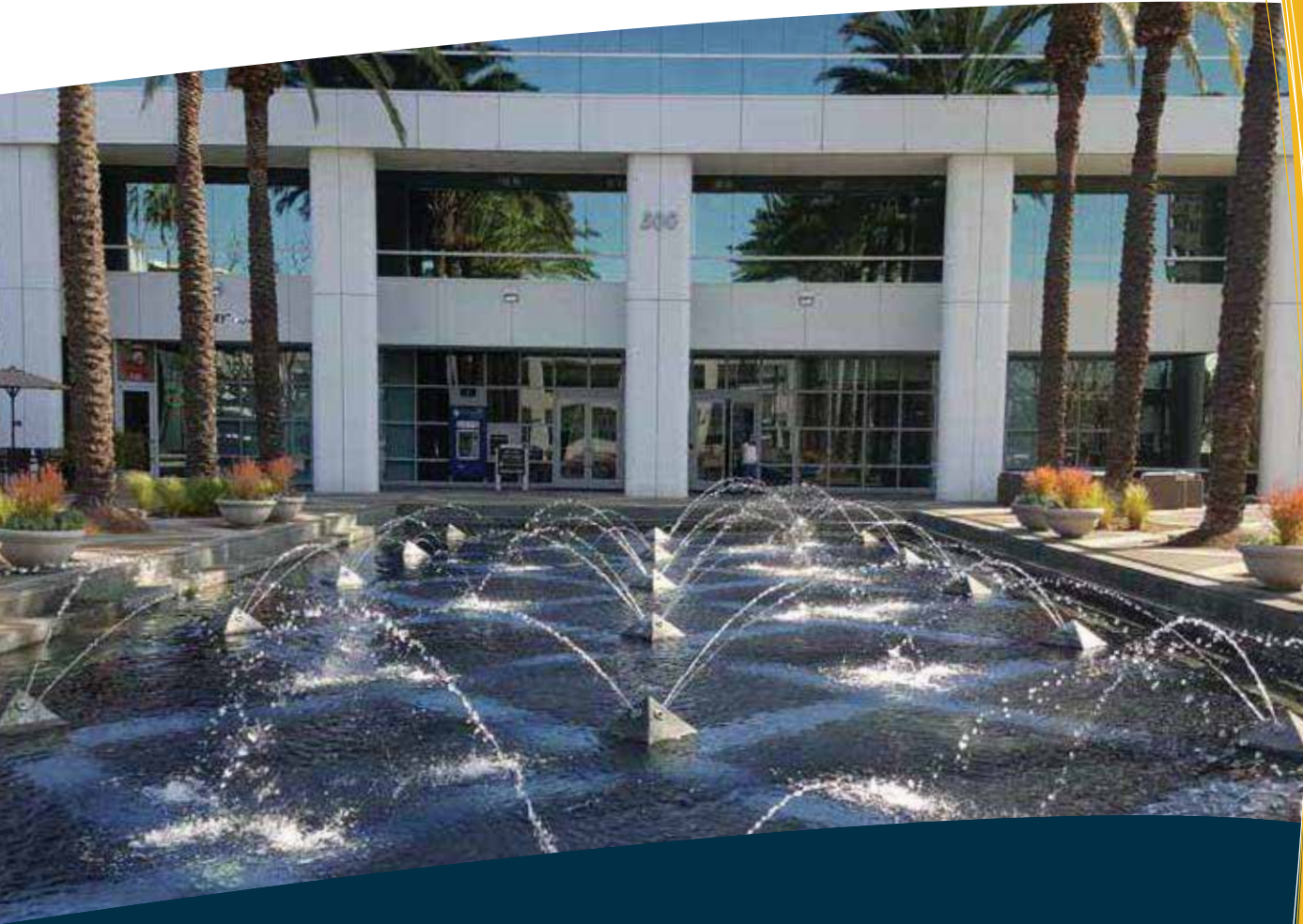




Orange County Auditor-Controller Internal Audit



Audit of Unearned Revenue:
Social Services Agency

For the Year Ended
June 30, 2016

Audit Number 1619-C
Report Date: March 30, 2017



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

Eric H. Woolery, CPA
Orange County Auditor-Controller

Toni Smart, CPA	Director, Internal Audit
Scott Suzuki, CPA, CIA, CISA	Assistant Director
Lisette Free, CPA, CFE, CGMA	Audit Manager II

12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Auditor-Controller Web Site
www.ac.ocgov.com



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1619-C

March 30, 2017

TO: Michael F. Ryan, Director
Social Services Agency

SUBJECT: Audit of Unearned Revenue:
Social Services Agency

We have completed our audit of internal controls over the recording of unearned revenue by the Social Services Agency (SSA) for the year ended June 30, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a quarterly report to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior quarter 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
- Carol Wiseman, Chief Deputy Director, SSA
- An Tran, Director of Administrative Services, SSA
- Steve Sakamoto, Deputy Director of Financial and Administrative Services, SSA
- Tricia Smith, Quality Support Team Manager, SSA
- Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
- Moses Hernandez, Accounting Manager III, Auditor-Controller/SSA Accounting Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Social Services Agency
Audit No. 1619-C*

For the Year Ended June 30, 2016

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Internal Auditor's Report

Audit No. 1619-C

March 30, 2017

TO: Michael F. Ryan, Director
Social Services Agency

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

SUBJECT: Audit of Unearned Revenue:
Social Services Agency

OBJECTIVES

We have completed our audit of internal controls over the recording of unearned revenue by Social Services (SSA) for the year ended June 30, 2016. The purpose of this audit is to support an initiative to partner with the County's external auditors to leverage audit resources. Our audit objectives were to:

1. Evaluate if internal controls over recording of unearned revenue in the County's financial system are adequate to ensure transactions are complete, accurate, valid, and processed timely.
2. Assist the external auditor function with its evaluation of unearned revenue.
3. Determine if the County's procedures for recording unearned revenue are efficient and effective, (e.g., no backlogs, duplication of work, or manual processes that could benefit from automation).

RESULTS

Objective #1: Our audit found internal controls over recording of unearned revenue in the County's financial system are adequate to ensure transactions are complete, accurate, valid, and processed timely.

Objective #2: Our audit assisted the external auditor function with its evaluation of unearned revenue.

Objective #3: Our audit did not disclose any instances concerning backlogs, duplication of work, or manual processes needing automation.

BACKGROUND

SSA's mission 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."



Internal Auditor's Report

The County of Orange Social Services Agency (SSA) employs over 4,000 staff. SSA administers federal, state, and County social services programs that protect children and adults from abuse or neglect; enable the frail and disabled to remain in their homes rather than being institutionalized; move eligible families from dependency to self-sufficiency; and provides benefits for eligible CalWORKs, CalFresh, Refugee, General Relief, and Medi-Cal recipients.

The Agency is comprised of the following four divisions: Adult Services and Assistance Programs (ASAP); Children and Family Services (CFS); Family Self-Sufficiency (FSS); and Administrative Services. In addition, vital links to the community and public partners have been established to assist with the provision of services.

SSA assists one-in-four Orange County residents, from newborns to the elderly. The services SSA provides impact the health, safety, and well-being of children, adults with disabilities, seniors, and families. SSA works with children, adults, and families to support their efforts for achieving self-sufficiency.

Unearned Revenue

A basis of accounting for governmental funds exists where revenue is recognized when amounts are measurable and available. Known as the modified accrual basis of accounting, receiving alone is not sufficient to recognize revenue (cash basis accounting) and revenue recognition can occur before amounts are actually received (accrual basis of accounting). Revenues received in advance of meeting all the earning requirements are a liability and require an entry to balance sheet account Unearned Revenue. It is a liability of resources obtained prior to revenue recognition. As of June 30, 2016, unearned revenue was **\$12,623,063**.

Table 1 – Unearned Revenue Account Codes

Account Code	Account Name
9540	Unearned Revenue Received
9543	Law Enforcement Services
9544	Support Services
9550	Billed Unearned Revenue

SCOPE AND METHODOLOGY

Our audit examined SSA's processing of unearned revenue and related internal controls for the year ended June 30, 2016. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of internal controls and compliance with established County and departmental procedures.

Scope Exclusions. Our audit did not include an audit of application controls over CAPS+ Financial and Purchasing 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 generally 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 generally 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.

As there were no findings in this report, completion of a **Follow-Up Audit Report Form** is not necessary as no Follow-Up Audit will be conducted.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL

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 of the Treadway Commission (COSO) Internal Control - Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for SSA's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in SSA's operating procedures, accounting practices, and compliance with County policy.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of the Social Services Agency 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.