



Orange County Auditor-Controller Internal Audit



Internal Control Audit:
Social Services Agency ResCare Workforce Services
Contract Oversight and CalWORKs Disbursements

For the Fiscal Year
Ended June 30, 2017

Audit Number 1625
Report Date: April 30, 2018



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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Orange County Auditor-Controller

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1625

April 30, 2018

TO: Michael Ryan, Director
Social Services Agency

SUBJECT: Internal Control Audit:
Social Services Agency ResCare Workforce Services Contract Oversight
and CalWORKs Disbursements

We have completed our Internal Control Audit of Social Services Agency (SSA) ResCare Workforce Services Contract Oversight and CalWORKs Disbursements for the fiscal year ended June 30, 2017. Our final report is attached for your review.

An **Audit Status Report** is submitted quarterly to the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS) detailing 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 that your department 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 that reads "Eric H. Woolery".

Eric H. Woolery, CPA
Auditor-Controller

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Frank Kim, County Executive Officer
- Carol Wiseman, Chief Deputy Director, SSA
- Debra Baetz, Director of Family Self-Sufficiency, SSA
- Lorraine Daniel, Deputy Director of CalWORKs/WTW Regional Services, SSA
- Abraham Gomez, Deputy Director of CalWORKs/WTW Program Compliance, SSA
- Tiberina Ugarcovici, Administrative Manager II, SSA CalWORKs/WTW Program Compliance
- Kristina Traw, Administrative Manager I, SSA CalWORKs/WTW Program Compliance

Michael Ryan, Director
Social Services Agency
April 30, 2018

Other recipients of this report (cont.):

Liz Rivera, Administrative Manager II, SSA CalWORKs/WTW Operations
An Tran, Director of Administrative Services, SSA
Jaya Limaye, Administrative Manager II, SSA Financial & Administrative Services
Salvador Lopez, Director of Satellite Accounting Operations, Auditor-Controller
Greg White, 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
ResCare Workforce Services Contract Oversight
and CalWORKs Disbursements
Audit No. 1625*

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Internal Auditor's Report

Audit No. 1625

April 30, 2018

TO: Michael Ryan, Director
Social Services Agency

FROM: Eric H. Woolery, CPA
Auditor-Controller

SUBJECT: Internal Control Audit:
Social Services Agency ResCare Workforce Services Contract Oversight
and CalWORKs Disbursements

OBJECTIVES

We have completed our Internal Control Audit of Social Services Agency (SSA) ResCare Workforce Services Contract Oversight and CalWORKs Disbursements for the fiscal year (FY) ended June 30, 2017. We performed this audit in accordance with the FY 2017-18 Audit Plan and Risk Assessment developed by the Auditor-Controller Internal Audit Division and approved by the Audit Oversight Committee (AOC) and Board of Supervisors (BOS). Our audit was conducted in conformance with the International Standards of the Professional Practice of Internal Auditing prescribed by the International Audit Standards Board. Our audit objectives were to:

1. Evaluate the effectiveness of internal control for contract administration to ensure the contracts are administered in compliance with the County Contract Policy Manual and SSA policy and procedures.
2. Evaluate the effectiveness of internal control for CalWORKs disbursements to ensure disbursements are authorized, valid, timely, and comply with County and SSA policy and procedures.
3. Evaluate the fiscal monitoring process performed by the external audit firm for compliance audits of program expenditures to ensure proper use of County funds.

RESULTS

Objective No. 1

We found that internal controls are generally effective to ensure that the contracts are administered in compliance with the County Contract Policy Manual and SSA policy and procedures.

Objective No. 2

We found that internal control is generally effective to ensure that the CalWORKs disbursements are authorized, valid, timely, and comply with County and SSA policy and procedures; however, we noted the following:

One (1) Control Finding

Ensure Supportive Services Reimbursement Accuracy

Objective No. 3

We found that the fiscal monitoring process performed by the external audit firm for compliance of program expenditures ensured the proper use of County funds.



Internal Auditor's Report

BACKGROUND

The mission of SSA 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 has four divisions and approximately 4,000 employees.

The Family Self-Sufficiency Division administers the Federal, State and County mandated Refugee Cash Assistance, Foster Care Eligibility, and the California Work Opportunity and Responsibility to Kids (CalWORKs) program to enable disadvantaged individuals and families to become self-sufficient through employment. The CalWORKs program provides cash aid (to meet basic needs, such as housing, food, utilities, clothing, and medical care), and employment and supportive services to eligible needy California families. To enable CalWORKs clients to search for employment opportunities and become self-sufficient, CalWORKs recipients are required to participate in Welfare-To-Work (WTW) activities. WTW activities include employment, paid work experience, work-study, adult basic education, job search and/or job readiness activities, vocational education programs, mental health, substance abuse treatment and domestic abuse services, child abuse and neglect prevention services, and childcare, transportation, and other ancillary allowances to facilitate program compliance.

Arbor E&T, LLC dba ResCare Workforce Services (ResCare) provides WTW employment services that support participants in the CalWORKs program to obtain and/or maintain stable employment and assist in achieving the goal of self-sufficiency. Employment services include job services, subsidized employment, and employment support services. SSA has an agreement with ResCare with a cumulative maximum obligation of approximately \$56 million for the period July 1, 2016 through June 30, 2021. For our audit period, ResCare received approximately \$9 million.

Prior Audit Coverage

An Internal Control Audit of SSA Contract Payments and Fiscal Monitoring, Audit No. 1224, for the period July 1, 2011 through June 30, 2012, was issued on January 9, 2013. A First Follow-Up Audit, Audit No. 1339-A, was issued on August 27, 2013. A Final Close-Out and Second Follow-Up Audit, Audit No. 1340, was issued on March 26, 2014.

SCOPE AND METHODOLOGY

Our audit scope was limited to internal control and business processes associated with the administration of the ResCare Workforce Services contract, the SSA Family Self-Sufficiency CalWORKs disbursements, and the ResCare fiscal monitoring processes performed by the external auditing firm and administered by SSA for the fiscal year ended June 30, 2017. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation.

Scope Exclusions

Our audit scope did not include auditing any activities in Auditor-Controller (A-C) Claims and Disbursing, which is responsible for the ResCare Workforce Services monthly invoice payments. We also did not review the State CalWORKs computer system. In addition, we did not review Family Self-Sufficiency disbursements for the other programs and did not review any CalWORKs contractors other than ResCare.



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 AOC and the 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 will 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 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 are the Committee of Sponsoring Organizations (COSO) of the Treadway Commission 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.

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



Internal Auditor's Report

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of Social Services Agency during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-2456, or Scott Suzuki, Director of Internal Audit, at (714) 834-5509.



Detailed Findings, Recommendations, and Management Responses

Business Process and Internal Control Strengths

We found the contract administration and monitoring processes were completed accurately, timely, and in accordance with department policies and procedures. Process and internal control strengths noted during our audit include:

- ✓ Duties of contract administration monitoring are adequately segregated.
- ✓ Reviews, approvals, and authorizations are appropriately performed.
- ✓ Documented audit trails are in place.
- ✓ Policies and procedures are in place to ensure contract administration review is uniformly performed.
- ✓ Contracts are monitored annually.

We found the CalWORKs disbursement processes were completed timely and in accordance with department policies and procedures. Process and internal control strengths noted during our audit include:

- ✓ CalWORKs disbursements process is adequately segregated.
- ✓ Access to assets are limited to appropriate personnel.
- ✓ Reviews, approvals, and authorizations are appropriately performed.
- ✓ Documented audit trails are in place.
- ✓ Policies and procedures are in place to ensure proper input, review, approval, and authorization.
- ✓ Reconciliations of the disbursements are performed on a daily basis.

The following area is where we believe CalWORKs disbursement processes and controls should be enhanced:

Finding No. 1 – Ensure Supportive Services Reimbursement Accuracy (Control Finding)

Supporting documentation for a mileage reimbursement request did not match the amount of the supportive service paid to the participant. A participant submitted a mileage reimbursement request and submitted supporting documentation that indicated an amount of \$136; however, the amount paid to the participant was \$374. This resulted in an overpayment of the transportation supportive service of \$238.



Detailed Findings, Recommendations, and Management Responses

Two participants from the same family had the same case number. One participant submitted a mileage claim for \$374 and the other family member submitted a claim for \$136; however, they were each reimbursed \$374. According to the Welfare and Institution Code, Section 11450.16, families should be grouped into Assistance Units (AU). Additionally, this provision directs Counties to include eligible parents in one AU. SSA is directed to issue eligible parents the same case number in order to keep them in the same AU, which increases the risk of this type of error.

SSA should be diligent in reviewing the services amounts before issuing supportive services payments to participants. The Supportive Services – Transportation Request Processing Guide states, "Verify the activity in CalWIN matches the activity identified in Client Engagement System (CES)." There should be extra emphasis placed on the verification process when two participants have the same case number. Additionally, since the amount was below the approval authorization threshold of \$500, this supportive service had additional risk of error because it was not required to be reviewed and approved by a supervisor.

Recommendation No. 1:

We recommend SSA follow its stated policies and procedures to ensure that Supportive Services payments issued to participants are accurate.

Social Services Agency Management Response:

Concur. SSA acknowledges and accepts the audit recommendation for the Agency to follow stated Supportive Services policies and procedures to ensure that accurate supportive services payments are issued appropriately to eligible participants. SSA will take steps to provide training to staff via program meetings to ensure that staff understand the importance of diligently reviewing the payment amounts and payees before issuing supportive services payments to participants. The steps include, among others, reconciling reimbursement requests against supporting documentation, and verification to ensure that the correct eligible parent is issued the appropriate amount.



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	Significant Control Weaknesses	Control Findings
<p>These are audit findings or a combination of audit 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 its attention immediately.</p>	<p>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.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Social Services Agency Management Response



County of Orange SOCIAL SERVICES AGENCY

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CHILDREN & FAMILY SERVICES

DEBRA BAETZ
DIVISION DIRECTOR
FAMILY SELF-SUFFICIENCY &
ADULT SERVICES

ANNE H. LIGHT, M.D.
MEDICAL DIRECTOR

April 5, 2018

TO: Scott Suzuki, CPA
Director of Internal Audit

SUBJECT: Internal Control Audit – Social Services Agency ResCare Workforce Services
Contract Oversight and CalWORKs Disbursements – Audit No. 1625

The Auditor-Controller Internal Audit Division completed an Internal Control Audit of Social Services Agency (SSA) ResCare Workforce Services Contract Oversight and CalWORKS Disbursements for the fiscal year ended June 30, 2017. Below is Social Services Agency's response to the audit finding and recommendation, which has been reviewed and approved by the County Executive Office.

Finding No. 1– Ensure Supportive Services Reimbursement Accuracy (Control Finding)

Recommendation No. 1:

We recommend SSA follow its stated policies and procedures to ensure that Supportive Services payments issued to participants are accurate.

Social Services Agency Management Response:

Concur - SSA acknowledges and accepts the audit recommendation for the Agency to follow stated Supportive Services policies and procedures to ensure that accurate supportive services payments are issued appropriately to eligible participants. SSA will take steps to provide training to staff via program meetings to ensure that staff understand the importance of diligently reviewing the payment amounts and payees before issuing supportive services payments to participants. These steps include, among others, reconciling reimbursement requests against supporting documentation, and verification to ensure that the correct eligible parent is issued the appropriate amount.

If you have any questions related to this response, please contact An Tran at (714) 541-7712.



Michael F. Ryan
Director