

Internal Audit Department

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

Internal Control & Compliance Audit:

SOCIAL SERVICES AGENCY SPECIAL REVENUE AND FIDUCIARY (AGENCY) FUNDS

For the Period
January 1, 2013 through December 31, 2013

The purpose of a special revenue fund is to establish accountability over the County's restricted monies to help ensure the monies are expended only for statutory purposes. The purpose of a fiduciary (agency) fund is to temporarily hold monies that belong to persons or entities other than the County.

As of December 31, 2013, Social Service Agency administered five (5) special revenue funds with fund balances totaling \$69.9 million, and four (4) fiduciary (agency) funds with fund balances totaling \$34.3 million.

We audited selected internal controls over special revenue and fiduciary (agency) funds at the Social Services Agency (SSA) to ensure revenues and expenditures for special revenue funds and reconciliations for special revenue and fiduciary funds are compliant with County and SSA internal policies, procedures and with the established fund objectives.

We found SSA has internal controls and processes to ensure compliance with the established fund objectives over special revenue and fiduciary fund revenues, expenditures and reconciliations. We identified **three (3) Control Findings** to enhance SSA's internal controls and processes over special revenue and fiduciary (agency) funds.

AUDIT NO. 1336
REPORT DATE: MAY 21, 2015

Director: **Dr. Peter Hughes, MBA, CPA, CIA**
Assistant Director/Senior Audit Manager: **Michael Goodwin, CPA, CIA**
Audit Manager: **Kenneth Wong, CPA, CIA**

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013
 Member of AICPA American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1336 May 21, 2015

TO: Michael Ryan, Director
Social Services Agency

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

SUBJECT: Internal Control & Compliance Audit:
Social Services Agency Special Revenue and
Fiduciary (Agency) Funds

We have completed an Internal Control & Compliance Audit of Social Services Agency Special Revenue and Fiduciary (Agency) Funds for the period January 1, 2013 through December 31, 2013. We performed this audit in accordance with our *FY 2014-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

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. 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 form 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 your staff so that they 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.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 4.

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Social Services Agency
Special Revenue and Fiduciary (Agency) Funds
Audit No. 1336*

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Audit No. 1336

May 21, 2015

TO: Michael Ryan, Director
Social Services Agency

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

SUBJECT: Internal Control & Compliance Audit: Social Services Agency
Special Revenue and Fiduciary (Agency) Funds

Audit Highlight

The purpose of a special revenue fund is to establish accountability over restricted monies to help ensure the monies are expended only for statutory purposes.

The purpose of fiduciary (agency) funds is to temporarily hold monies belonging to a person or entity other than the County. Both types of funds hold restricted monies for designated uses.

We found internal controls over the Social Services Agency's special revenue funds are in place to ensure that the revenue and expenditures are compliant with County and department procedures and are used for the establish purposes. We found that the fiduciary funds are adequately monitored and reconciled to County records.

We identified **three (3) Control Findings** to enhance the Social Services Agency's internal controls and compliance for special revenue and fiduciary funds.

OBJECTIVES

In accordance with our *FY 2014-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an Internal Control & Compliance Audit of Social Services Agency (SSA) Special Revenue and Fiduciary (Agency) Funds. This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. The objectives of this audit were to:

1. Evaluate SSA's administration of special revenue and fiduciary (agency) funds to ensure the restricted funds are used for authorized purposes.
2. Evaluate internal controls and processes involving fund revenues (inflows) and expenditures (outflows) to ensure special revenue fund transactions are accurate, valid, adequately supported, processed timely, and are properly recorded in compliance with County and SSA policy.
3. Evaluate internal controls over special revenue and fiduciary (agency) fund reconciliations to determine they are accurate, complete and timely in compliance with County and SSA policy.
4. Determine if SSA's administration of special revenue and fiduciary (agency) funds is efficient and effective (e.g., no backlogs, duplication of work, manual processes that could benefit from automation).

RESULTS

Objective #1: SSA has controls to ensure special revenue and fiduciary (agency) funds are used for authorized purposes. We identified **one (1) Control Finding** concerning the clarification of the use of special revenue funds in documentation that was created and amended since the fund was originally established.

Objective #2: SSA has controls and processes to ensure special revenue fund transactions are accurate, valid, adequately supported, processed timely, and properly recorded. We identified **one (1) Control Finding** concerning the need to establish written policies and procedures for processing special revenue and fiduciary fund transactions.

Objective #3: SSA has controls and processes to ensure that fund reconciliations are prepared accurately and completely. We identified **one (1) Control Finding** concerning the preparation, review and identification of long-outstanding reconciling items.

Objective #4: We did not note any backlogs or duplication of work in SSA's administration of its special revenue and fiduciary funds. No findings were identified under this objective.

OC Internal Auditor's Report



The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Summary Table of Findings and Recommendations

Finding No.	Finding Classification (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
1.	Control Finding	Fund 14T – Facilities Development and Maintenance: Documentation supporting the change in fund uses did not amend the reason on the expanded uses beyond shelter care facilities; only the fund name was changed. (pg.5)	Evaluate the purpose and uses of Fund 14T so it is aligned with the agency's objectives, and work with the Auditor-Controller to amend the COFA documentation accordingly.	Yes
2.	Control Finding	SSA and SSA Accounting do not have written policies and procedures for processing special revenue and fiduciary (agency) funds. (pg.7)	Establish written policies and procedures for accounting and administrative processes over special revenue and fiduciary (agency) funds.	Yes
3.	Control Finding	Fund reconciliations were not always prepared timely, did not always have the preparer and reviewer documented, and a long-outstanding reconciling item was noted. (pg. 9)	Ensure that reconciliations are prepared timely, signed and dated by the preparer and reviewer, and that reconciling items are promptly resolved.	Yes

BACKGROUND

The mission of Social Services Agency (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 is comprised of the following divisions:

- Family Self-Sufficiency Division** administers Federal, State, and County mandated programs to enable disadvantaged individuals and families to become self-sufficient through employment.
- Adult Services and Assistance Programs Division** protects the aged and disabled from abuse and exploitation so that they may live in a safer environment. SSA also administers Federal, State, and County mandated assistance programs including Medi-Cal, CalFresh (Food Stamps), and General Relief.
- Children & Family Services Division** protects children through the prevention or remedy of conditions which may result in abuse, and promotes maintaining families so that children can remain in or return safely to their homes.
- Administrative Services Division** supports the goals of SSA through financial and facility management, accounting, technology, training, research, contract services, procurement, strategic planning, legislative analysis, and program integrity functions.

SSA's Special Revenue and Fiduciary (Agency) Funds

SSA administers various special revenue and fiduciary funds to accomplish its mission, goals and objectives. **Special revenue funds** are County funds with restricted uses that can be used by a department/agency as defined when the fund is established. **Fiduciary funds** (also referred to as trust and/or agency) are funds that temporarily hold monies on behalf of another person or entity. Fiduciary funds have a designated purpose and use specific to an outside person or entity, and cannot be used by a department/agency to internally fund its operations. As of December 31, 2013, SSA administered the following special revenue funds and agency funds:

OC Internal Auditor's Report



Fund	Fund Type	Name/Date Established	Purpose	FY 12/13 Revenues/Expenditures Receipts/Disbursements	Fund Balance at 12/31/13
102	Special Revenue	Santa Ana Regional Center Lease Conveyance – June 2005	Management of revenues for a lease conveyance. To cover negative cash flow in later years of lease	Revenues: (\$439,981) Expenditures: \$7,243	\$ 9,226,826
12S	Special Revenue	SSA Donations/Fees – Feb. 2006	Holds donations and fees received by SSA	Revenues: (\$838,668) Expenditures: \$620,596	\$2,155,481
12W	Special Revenue	SSA Wraparound – June 2006	Holds State funds for community-based wrap-around services	Revenues: (\$21,054,138) Expenditures: \$14,798,154	\$29,209,146
14T	Special Revenue	Facilities Development and Maintenance – March 1999	Funds to develop and maintain shelter care facilities	Revenues: (\$21,870,459) Expenditures: \$5,882	\$29,062,656
590	Special Revenue	IHSS Public Authority – July 2002	Holds State funds for in-house supportive services	Revenues: (\$878,785) Expenditures: \$883,358	\$243,029
155*	Fiduciary (Agency)	Welfare Aid and Administration – sometime in 1950s	Holds advances from Federal/State to cover SSA operating costs	Receipts: (\$542,827,334) Disbursements: \$553,586,896	\$32,779,872
359*	Fiduciary (Agency)	Welfare Child Support – sometime in 1950s	Hold monies to be disbursed for child support, foster care	Receipts: (\$1,353,373) Disbursements: \$1,267,349	\$1,422,350
2AB**	Fiduciary (Agency)	Operation Santa Claus – November 1993	For donations to assist children	Receipts: (\$33,656) Disbursements: \$34,146	\$12,967
2AC**	Fiduciary (Agency)	Senior Santas – November 1993	For donations to assist disabled adults	Receipts: (\$25,491) Disbursements: \$20,071	\$77,031
Totals				Revenues - (\$589,321,885) Expenditures - \$571,223,695	Fund Balance - \$104,189,358

• Our audit did not include testing of receipts and disbursements in Agency Funds 155 and 359 because these involve payments of financial assistance; instead, we audited the fund reconciliations. ** Due to the low dollar amounts, we did not audit Funds 2AB or 2AC.

SCOPE AND METHODOLOGY

Our audit covered the period January 1, 2013 through December 31, 2013, and included SSA's special revenue and fiduciary (agency) funds. Our scope and methodology included:

1. Evaluating processes and internal controls over SSA's administration of its special revenue and fiduciary (agency) funds to ensure compliance with County and SSA policies and procedures.
2. Obtaining an understanding of the nature, purpose and fund requirements concerning sources and uses of special revenue and fiduciary funds. We accomplished this by obtaining documentation from the Auditor-Controller for the establishment of the funds, known as COFAs.
3. Testing a sample of fund revenues and expenditures in special revenue funds to determine if the transactions are accurate, valid, adequately supported, properly recorded and processed timely in compliance with County and department policies and procedures and management directives.
4. Testing special revenue and fiduciary fund reconciliations to determine if they are performed accurately, completely and timely in accordance with County and SSA policies and procedures.

SCOPE EXCLUSIONS

For SSA's fiduciary (agency) funds, we only audited the reconciliation processes for Funds 155 and 359, and not fund receipts and disbursements. We also excluded fiduciary (agency) funds 2AB and 2AC due to the low dollar amounts. Our audit did not include a review of the information technology controls for any SSA systems used in the administration of special revenue or fiduciary (agency) funds. We also did not evaluate any information technology or system controls involving CAPS+ (except for certain user roles in CAPS+ for segregation of duties).



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 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 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 SSA's operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by the Social Services Agency during our audit. If we can be of further assistance, please contact me directly at 834-5475 or Michael Goodwin, Assistant Director/Senior Audit Manager at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Frank Kim, County Executive Officer
- Mark Denny, Chief Operating Officer
- Jessica O'Hare, Assistant to the Chief Operating Officer
- Carol Wiseman, Chief Deputy Director, SSA
- Becky Juliano, Deputy Director, Administrative Services Division, SSA
- Silvia Fuller, Manager, Financial Services, SSA
- Tonya Riley, Chief Deputy Auditor-Controller, Satellite Accounting Operations
- Moses Hernandez, Section Manager, Accounting Services, SSA
- Foreperson, Grand Jury
- Robin Stieler, Interim Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



Objective #1: Evaluate SSA's administration of special revenue and fiduciary funds to ensure the restricted funds are used for authorized purposes.

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following audit steps:

- ✓ Reviewed the adequacy of pertinent County Accounting Procedures and SSA internal written policies and procedures for special revenue and fiduciary funds.
- ✓ Obtained documentation showing the establishment of special revenue and fiduciary funds from the Auditor-Controller. These documents are referred to as COFAs.
- ✓ Held meetings with SSA management, program, budget and accounting personnel and reviewed documentation provided by staff responsible for administration of the funds.
- ✓ For the special revenue funds, we performed testing of **twenty (20) fund revenues/receipts totaling \$8.7 million** and **forty (40) disbursements totaling \$2.9 million** to determine if they were in compliance with the established purpose and use of the restricted funds. In our testing, we also assessed for proper job coding and accounting, segregation of duties, management reviews and approvals, timeliness, and for adequate supporting documentation and audit trails.

CONCLUSION

Our audit found SSA has controls and processes to ensure that restricted funds are expended only for authorized purposes. Our audit did not disclose any instances where funds were spent in non-compliance with the established use of the funds. We identified **one (1) Control Finding** regarding amending fund documentation (COFA) to support the established use of Fund 14T expenditures for SSA facilities maintenance and development. The finding and recommendation is discussed below:

Finding No. 1 – Change in Authorized Fund Purpose Not Fully Documented (Control Finding)

Summary

Fund 14T, originally named “*Shelter Care Facilities Development and Maintenance*” was established to budget and account for development and maintenance costs for shelter care facility projects approved in the County’s Long Range Strategic Plan. In April 2001, at the request of SSA, Fund 14T was renamed to “*Facilities Development and Maintenance Fund*” to broaden the uses of the funds for all SSA facilities. We noted the COFA documentation supporting the change in fund uses did not amend the fund purpose on the expanded uses beyond the shelter care facilities; only the name of the fund was changed.

Details

SSA’s Fund 14T is a special revenue fund established to budget and account for shelter care facility projects with a purpose or use for development and maintenance costs. In March 1999, Fund 14T was originally named “*Shelter Care Facilities Development and Maintenance*” and the reason for establishing the fund was “To budget and account for Shelter Care facilities projects approved in the County’s Long Range Strategic Plan.” SSA requested that the name of Fund 14T change to “*Facilities Development and Maintenance Fund*” in April 2001. The Auditor-Controller processed the name change for the fund; however, neither SSA nor the Auditor-Controller amended the expanded uses of the special revenue funds corresponding to the name change.

Detailed Results, Findings, Recommendations and Management Responses



Based on our interviews with SSA staff, the shelter care facilities that provide supervision, food and lodging are the Orangewood Children & Family Center and Tustin Family Campus. SSA provided an expenditure plan for Fund 14T and our analysis found the future expenditures were primarily for SSA facilities other than the two shelter care facilities. Below is a table showing SSA's planned expenditures from Fund 14T:

Item	Planned Use of Funds	Uses for Shelter Care Facilities	Uses for Other SSA Facilities
1.	"Investment Fee – Charges from Treasury Tax Collector" are administrative charges for investment services.	\$25,771	
2.	"TFC Expenses" is facility costs for the Tustin Family Campus. A portion of the facility is used as a residential facility for shelter care.	\$359,520	
3.	"888 Main St. Moving Expense" is facility costs for an office used primarily for SSA Administration with no shelter care offered.		\$1,899,565
4.	"CHIP Moving/Relocation Expense" is facility costs for an office in Cypress used for program delivery with no shelter care offered.		\$2,500,000
5.	"Eckhoff HVAC and Roof Improvements" is facility costs for North Eckhoff used for program delivery with no shelter care offered.		\$5,000,000
6.	"Eckhoff Parking Lot Repair" is facility costs for locations on North Eckhoff used for program delivery with no shelter care offered.		\$700,000
7.	"Carpet Replacement/Paint Interior (Brookhurst)" is facility costs for a location used for program delivery with no shelter care offered.		\$362,000
8.	"Reseal and Painter Exterior (800 & 840 Eckhoff)" is facility costs for locations used for program delivery with no shelter care offered.		\$165,000
9.	"Carpet Replacement/Paint Interior (CRO)" is facility costs for the Central Regional Office used for program delivery with no shelter care offered.		\$295,000
10.	"Elevator Modernization (Eckhoff)" is facility costs for North Eckhoff used for program delivery with no shelter care offered.		\$220,000
11.	"Overhead Paging System (Eckhoff)" is facility costs for North Eckhoff used for program delivery with no shelter care offered.		\$350,000
	Total	\$385,291 3.24%	\$11,491,565 96.76%

Criteria

As noted from the above table, SSA is planning on using 14T funds for uses other than its shelter care facilities. County of Orange Accounting Procedure F-3, *Requesting Establishment/Deletion of Funds/Agencies*, Section 2.3 states that the request letter for a new fund must contain "the policy/administrative reason or other authority for establishing the fund..." We noted that the Auditor-Controller's accounting procedure is silent on the requirements for revising or amending an existing fund.

Recommendation No. 1

SSA and SSA Accounting evaluate the established purpose and uses of Fund 14T so it is aligned with the agency's objectives, and work with the Auditor-Controller to amend the COFA documentation accordingly.

Social Services Agency Management Response:

Concur. SSA Financial Services has completed Form 5201 (Request for Establishment, Deletion, Modification of Fund) requesting modification to the purpose and use of Fund 14T to align with SSA objectives. SSA Financial Services has submitted the Chart of Financial Accounts (COFA) Form 5201 documentation to Auditor-Controller for approval.

Social Services Agency Accounting Management Response:

Concur. SSA Accounting worked with SSA Financial Services in amending Form 5201 (Request for Establishment, Deletion, Modification of Fund).



Objective #2: Evaluate internal controls and processes involving fund revenues (inflows) and expenditures (outflows) to ensure special revenue fund transactions are accurate, valid, adequately supported, processed timely, and are properly recorded in compliance with County and SSA policy.

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the processes and controls for fund receipts and disbursements with SSA program, budget, accounting staff and management responsible for processing the special revenue fund transactions and records for SSA.
- ✓ Evaluated internal controls by testing a sample of **20 cash inflows totaling \$8.7 million**. Cash inflows were judgmentally selected from special revenue funds.
- ✓ Evaluated internal controls by testing a sample of **40 cash outflows totaling \$2.9 million**. Cash outflows were judgmentally selected from special revenue funds.
- ✓ In our test of transactions, we assessed for proper job coding and accounting, segregation of duties, management reviews and approvals, timeliness, and for adequate supporting documentation and audit trails.

CONCLUSION

Our audit found SSA has controls and processes to ensure special revenue fund transactions are accurate, valid, adequately supported, processed timely, and are properly recorded. Our audit did not disclose any instances where funds were spent in non-compliance with the established use of the funds. We identified **one (1) Control Finding** concerning the need to establish written policies and procedures for processing special revenue and fiduciary fund transactions. The finding and recommendation is discussed below:

Finding No. 2 – Policies and Procedures for Special Revenue and Fiduciary Funds (Control Finding)

Summary

SSA and SSA Accounting have written policies and procedures for performing fund reconciliations; however, there were no written policies and procedures specifically for administering and processing transactions for special revenue and fiduciary funds, including procedures for processing fund receipts and disbursements.

Details

The Auditor-Controller's office has documented Countywide accounting procedures for: (1) *F-3 - Requesting Establishment/Deletion of Funds/Agencies*; and (2) *F-4 - Fiduciary Funds*. Our audit found that SSA and SSA Accounting have written policies and procedures describing roles and responsibilities for performing fund reconciliations between subsidiary records and the General Ledger. However, there were no written policies and procedures for SSA's special revenue and fiduciary funds that supplement the Countywide accounting procedures that include an overview, background, requirements, reports and contacts for each special revenue and fiduciary fund.

Based on audits conducted in other Auditor-Controller Units, we have seen such policies and procedures prepared for each special revenue and fiduciary fund that describes key elements, background information and steps to process fund receipts and disbursements. SSA and SSA Accounting should evaluate its special revenue and fiduciary funds and determine where it is most critical to have documented fund policies and procedures.



Criteria

County of Orange Accounting Procedure S-2, *Internal Control Systems*, provides that the departments/agencies are responsible for written policies and procedures. It states: *“Establish written policies and procedures that supplement the policies and procedures in the Auditor-Controller’s County Accounting Procedures Manual, to assure intended functioning of internal control systems. These policies and procedures should set forth in writing the specific procedures to be followed, and should be communicated and made available to all employees.”*

Having documented policies and procedures is important because staffing changes (transfers, promotions, rotations) occur regularly in SSA Accounting. Properly documented and effectively communicated policies and procedures will significantly enhance the accounting and administrative duties for special revenue and fiduciary (agency) funds. The development and use of policy and procedural manuals minimizes variation and promotes quality through consistent implementation of a process, reduced work effort, along with improved comparability and credibility, even if there are temporary or permanent personnel changes.

Recommendation No. 2

SSA and SSA Accounting evaluate its special revenue and fiduciary funds; determine which funds require written policies and procedures for processing fund transactions; and establish written policies and procedures accordingly in a format consistent with other Auditor-Controller fund policies and procedures. The documented policies and procedures should be reviewed and approved by management and communicated to staff.

Social Services Agency Management Response:

Concur. SSA Management agrees that written procedures are important for the consistent application of processes and procedures. SSA Financial Services and Financial Systems units will work closely with SSA Accounting to develop written procedures for the administration of Funds 102, 12S, 12W, 155, 359, 2AB, and 2AC.

Fund 590 – SSA Financial Services provides administrative services as per Interagency Agreement between County of Orange and Orange County In-Home Supportive Services Public Authority. Administrative services include developing, tracking and monitoring the IHSS PA budget and cash flow. SSA Financial Services works closely with Auditor-Controller to advance funding to IHSS PA when needed for continued operations.

Fund 14T – SSA Financial Services follows County budgeting procedures that include transfers to SSA’s 063 Operating budget through the regular annual and/or quarterly budget process. SSA Financial Services works closely with SSA Accounting in completing all required transfer transactions.

Social Services Agency Accounting Management Response:

Concur. SSA Accounting agrees that written procedures are important for the consistent application of processes and procedures.

Fund 102 – SSA Accounting will prepare written procedures for the reconciliation of this fund and transactions that SSA Accounting processes for this fund. Target date: 10/31/15.

Fund 12S – SSA and SSA Accounting will update written procedures for transactions that SSA Accounting processes for this fund. Target date: 10/31/15.

Fund 12W – SSA Accounting has written procedures on preparing the monthly journal entry. SSA Accounting will continue to expand and elaborate on the procedures for fund receipts and disbursements. Target date: 10/31/15.

Fund 590 – SSA Accounting has written procedures on preparing quarterly claiming and processing reimbursements. SSA Accounting will continue to expand and elaborate on the procedures for fund receipts and disbursements. Target date: 10/31/15.

Detailed Results, Findings, Recommendations and Management Responses



Fund 155 – SSA Accounting has written procedures on preparing monthly reconciliations. SSA Accounting will continue to expand and elaborate on the procedures for transactions that SSA Accounting processes for this fund. Target completion date: 10/31/15.

Fund 359 – SSA Accounting has written procedures on preparing monthly reconciliations, uploading direct deposits data from Wells Fargo, preparing SSA Representative Payee reports for Social Security Administration and processing Social Security deposits into the fund. SSA Accounting will continue to expand and elaborate on the procedures for transactions that SSA Accounting processes for this fund. Target completion date: 10/31/15.

Fund 2AB – SSA and SSA Accounting will update written procedures on preparing monthly reconciliations and supporting documentation. Target completion date: 10/31/15.

Fund 2AC - SSA and SSA Accounting will update written procedures on preparing monthly reconciliations and supporting documentation. Target completion date: 10/31/15.

Objective #3: Evaluate internal controls over special revenue and fiduciary (agency) fund reconciliations to determine they are accurate, complete and timely in compliance with County and SSA policy.

AUDIT STEPS AND RESULTS

To accomplish this objective, we performed the following audit steps:

- ✓ Reviewed pertinent County Accounting Procedures and documentation establishing and amending special revenue and fiduciary (agency) funds.
- ✓ Held meetings and conducted walkthroughs of the reconciliation processes for special revenue and fiduciary (agency) funds with SSA program and accounting staff.
- ✓ Evaluated internal controls by **testing a sample of 16 reconciliations** for May and November 2013 from each special revenue fund and Fiduciary (agency) funds 155 and 359.
- ✓ Our testing evaluated if general ledger balances were compared to subsidiary records; documented signatures by the preparers and reviewers; timeliness and completeness of the reconciliations; existence of long-outstanding reconciling items; proper segregation of duties, and for management reviews and approvals of the fund reconciliations.

CONCLUSION

SSA has controls and processes to ensure that fund reconciliations are prepared accurately and completely. We identified **one (1) Control Finding** concerning the accountability and timing of fund reconciliations. The finding and recommendation is discussed below:

Finding No. 3 – Fund Reconciliations (Control Finding)

Summary

Some fund reconciliations were not prepared timely, lacked either the preparers or reviewer's signature to establish accountability, and one fund reconciliation had a long-outstanding reconciling item from FY 08-09 that had not yet been resolved.

Details

During our review of selected special revenue and fiduciary fund reconciliations between January and December 2013, we noted the following:

1. Fund 14T – Shelter Care Facilities Development & Maintenance and Fund 590 - In-Home Supportive Services Public Authority. SSA Financial Services prepares a monthly expense and revenue analyses that serves as the reconciliation. We tested the analyses for May and November 2013. The analyses prepared for the two funds did not include the preparer's name and reviewer's name, date prepared, and date reviewed to evidence accountability.



2. Fund 155 – Welfare Aid and Administration. We tested reconciliations for May and November 2013. SSA Accounting prepared the reconciliations monthly; however, the reconciliations included a long-outstanding reconciling item totaling **\$3,075** from FY 08-09 that had not been identified and resolved.
3. Fund 155 – Welfare Aid and Administration. We tested the reconciliation for December 2013 and found that SSA Accounting prepared a monthly reconciliation that identified the preparer, but did not show evidence of a supervisory review.
4. Timing of Reconciliations: SSA Accounting did not always prepare fund reconciliations by the end of the subsequent month as required by County Accounting Procedure F-4. A review of sixteen (16) fund reconciliations disclosed that 12 (75%) were prepared between 32 and 88 calendar days after the accounting period. Four (4) monthly expense and revenue analyses prepared by SSA Financial Services did not document the date prepared and reviewed; therefore, we were unable to establish the timeliness of the analysis. SSA Accounting cited that the above issues were attributed to staffing changes, turnover, and timing issues related to interfund transfers and the timing of filing of monthly and quarterly administrative and financial assistance claims with the State.

Criteria

County of Orange Accounting Procedure F-4, *Fiduciary Funds*, Section 2.6.5 states: *“Departments and agencies are responsible for reconciling, at least monthly, each fiduciary fund balance per the department’s or agency’s subsidiary ledger records or other detailed records to the Auditor-Controller’s General Ledger balance shown for the fiduciary fund. This reconciliation should be performed by a person having no other fiduciary fund responsibilities. The 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.”*

Recommendation No. 3

SSA and SSA Accounting ensure that the reconciliations are prepared timely, signed and dated by the preparer and reviewer, and that reconciling items are identified and promptly resolved.

Social Services Agency Management Response:

Concur. SSA Financial Services will develop a procedure for staff to follow requiring all reconciliations include the preparer’s name, reviewer’s name and the dates of each action.

Concur. SSA concurs with the Auditor-Controller’s resolution of this item.

Concur. SSA Agency management agrees that reconciliations are a critical function.

Social Services Agency Accounting Management Response:

Social Services Agency Accounting has no role in preparing the monthly expense and revenue analysis for Fund 14T or Fund 590.

Concur. On February 28, 2014, the SSA Accounting Manager, after receiving concurrence from Central Auditor-Controller, issued an email to the Claims Manager, directing the write off of the \$3,075 in reconciling items between the Internal Subsidiary ledger and the General Ledger due to immateriality. The variances had been thoroughly researched by staff and were not identifiable. The write off was included in the April 2014 Reconciliation.

Concur. It is the practice of SSA Accounting staff to include the preparer and the reviewer’s initials and date on reconciliations. The December 2013 reconciliation was subsequently reviewed and initialed by the claims manager. Due to conflicting priorities, the managerial review may not always be completed on a timely basis. However, management understands the importance of reconciliations and will make every effort to review reconciliations on a timely basis.

Detailed Results, Findings, Recommendations and Management Responses



Objective #4: Determine if SSA's administration of special revenue and fiduciary (agency) funds is efficient and effective (e.g., no backlogs, duplication of work, manual processes that could benefit from automation).

CONCLUSION

Based on our audit, we did not note any instances of backlogs or duplicated work in SSA's administration over special revenue and fiduciary funds.

No findings or recommendations came to our attention under this objective.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations 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 Results, Findings, Recommendations and Management Responses



ATTACHMENT B: Social Services Agency and Auditor-Controller Management Responses



**County of Orange
SOCIAL SERVICES AGENCY**

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DIVISION DIRECTOR
ADMINISTRATIVE SERVICES

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DIVISION DIRECTOR
ADULT SERVICES &
ASSISTANCE PROGRAMS

GARY TAYLOR
DIVISION DIRECTOR
CHILDREN & FAMILY SERVICES

NATHAN NISHIMOTO
DIVISION DIRECTOR
FAMILY SELF-SUFFICIENCY

May 5, 2015

MEMO TO: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Control & Compliance Audit
Audit No. 1336 Social Services Agency Special Revenue and Fiduciary (Agency)
Funds.

Finding #1 – Change in Authorized Fund Purpose Not Fully Documented - Control Finding
(Pg 5- 6):

Finding:

SSA and SSA Accounting evaluate the established purpose and uses for Fund 14T so it is aligned with the agency's objectives, and work with the Auditor-Controller to amend the COFA documentation accordingly.

Social Services Agency Management Response:

Concur. SSA Financial Services has completed Form 5201 (Request for Establishment, Deletion, Modification of Fund) requesting modification to the purpose and use of Fund 14T to align with SSA objectives. SSA Financial Services has submitted the Chart of Financial Accounts (COFA) Form 5201 documentation to Auditor-Controller for approval.

Social Services Agency Accounting Management Response:

Concur. SSA Accounting worked with SSA Financial Services in amending Form 5201 (Request for Establishment, Deletion, and Modification of Fund)

Finding #2 – Policies and Procedures for Special Revenue and Fiduciary Funds - Control Finding
(Pg 7- 8):

Finding:

SSA and SSA Accounting evaluate its special revenue and fiduciary funds: determine which funds require written policies and procedures for processing fund transactions; and establish written policies and procedures accordingly in a format consistent with other



ATTACHMENT B: Social Services Agency and Auditor-Controller Management Responses (continued)

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Auditor-Controller fund policies and procedures. The documented policies and procedures should be reviewed and approved by management and communicated to staff.

Fund	Name
102	Santa Ana Regional Center Lease Conveyance
12S	SSA Donations/Fees
12W	SSA Wraparound
14T	Facilities Development & Maintenance
590	IHSS Public Authority (PA)
155	Welfare Aid and Administration
359	Welfare Child Support
2AB	Operation Santa Claus
2AC	Senior Santa

Social Services Agency Management Response:

Concur. SSA Management agrees that written procedures are important for the consistent application of processes and procedures. SSA Financial Services and Financial Systems units will work closely with SSA Accounting to develop written procedures for the administration of Funds 102, 12S, 12W, 155, 359, 2AB, and 2AC.

Fund 590 – SSA Financial Services provides administrative services as per Interagency Agreement between County of Orange and Orange County In-Home Supportive Services Public Authority. Administrative services include developing, tracking and monitoring the IHSS PA budget and cash flow. SSA Financial Services works closely with Auditor-Control to advance funding to IHSS PA when needed for continued operations.

Fund 14T – SSA Financial Services follows County budgeting procedures that include transfers to SSA’s 063 Operating budget through the regular annual and/or quarterly budget process. SSA Financial Services works closely with SSA Accounting in completing all required transfer transactions.

Social Services Agency Accounting Management Response:

Concur. SSA Accounting agrees that written procedures are important for the consistent application of processes and procedures.

Fund 102 – SSA Accounting will prepare written procedures for the reconciliation of this fund and transactions that SSA Accounting processes for this fund. Target date: 10/31/15

Fund 12S – SSA and SSA Accounting will update written procedures for transactions that SSA Accounting processes for this fund. Target date: 10/31/15.

Fund 12W - SSA Accounting has written procedures on preparing the monthly journal entry. SSA Accounting will continue to expand and elaborate on the procedures for fund receipts and disbursements. Target date 10/31/15.

Fund 590 – SSA Accounting has written procedures on preparing quarterly claiming and processing reimbursements. SSA Accounting will continue to expand and elaborate on the procedures for fund receipts and disbursements. Target date: 10/31/15.

Fund 155 - SSA Accounting has written procedures on preparing monthly reconciliations. SSA Accounting will continue to expand and elaborate on the procedures for transactions that SSA Accounting processes for this fund. Target completion date: 10/31/15.

Fund 359 - SSA Accounting has written procedures on preparing monthly reconciliations, uploading direct deposits data from Wells Fargo, preparing SSA Representative Payee



ATTACHMENT B: Social Services Agency and Auditor-Controller Management Responses (continued)

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reports for Social Security Administration and processing Social Security deposits into the fund. SSA Accounting will continue to expand and elaborate on the procedures for transactions that SSA Accounting processes for this fund. Target completion date: 10/31/15.

Fund 2AB – SSA and SSA Accounting will update written procedures on preparing monthly reconciliations and supporting documentation. Target completion date: 10/31/15.

Fund 2AC – SSA and SSA Accounting will update written procedures on preparing monthly reconciliations and supporting documentation. Target completion date: 10/31/15.

Finding #3 – Fund Reconciliations -Control Finding (Pg 9-10):

Findings:

1. Fund 14T – Shelter Care Facilities Development & Maintenance and Fund 590 – In Home Supportive Services Public Authority.

SSA Financial Services prepares a monthly expense and revenue analysis that serves as the reconciliation. We tested the analysis for May and November 2013. The analysis prepared for the two funds did not include the preparer's name and reviewer's name, date prepared, and date reviewed to evidence accountability.

Social Services Agency Management Response:

Concur. SSA Financial Services will develop a procedure for staff to follow requiring all reconciliations include the preparer's name, reviewer's name and the dates of each action.

Social Services Agency Accounting Management Response:

Social Services Agency Accounting has no role in the preparing the monthly expense and revenue analysis for Fund 14T or Fund 590.

2. Fund 155 – Welfare Aid and Administration.

We tested reconciliations for May and November 2013. SSA Accounting prepared the reconciliations monthly; however, the reconciliations included a long-outstanding reconciling item totaling \$3,075 from FY 08/09 that had not been identified and resolved.

Social Services Agency Management Response:

Concur. SSA concurs with the Auditor-Controller's resolution of this item.

Social Services Agency Accounting Management Response:

Concur. On February 28, 2014, the SSA Accounting Manager, after receiving concurrence from Central Auditor-Controller, issued an email the Claims Manager, directing the write off of the \$3,075 in reconciling items between the Internal Subsidiary Ledger and the General Ledger due to immateriality. The variances had been thoroughly researched by staff and were not identifiable. The write off was included in the April 2014 Reconciliation.



ATTACHMENT B: Social Services Agency and Auditor-Controller Management Responses (continued)

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3. Fund 155 – Welfare Aid and Administration.

We tested the reconciliation for December 2013 and found that SSA Accounting prepared a monthly reconciliation that identified the preparer, but did not show evidence of a supervisory review.

Social Services Agency Management Response:

Concur. SSA Agency Management agrees that reconciliations are a critical function.

Social Services Agency Accounting Management Response:

Concur. It is the practice of SSA Accounting staff to include the preparer and the reviewer's initials and date on reconciliations. The December 2013 reconciliation was subsequently reviewed and initialed by the claims manager. Due to conflicting priorities, the managerial review may not always be completed on a timely basis. However, management understands the importance of reconciliations and will make every effort to review reconciliations on a timely basis.

Should you have any questions, please let us know. Thank you.

Sincerely,

A handwritten signature in blue ink, appearing to read "M. Ryan".

Michael F. Ryan
Director

Cc: Eric Woolery, Auditor-Controller
Tonya Riley, Chief Deputy Auditor, Satellite Accounting Operations
Carol Wiseman, Chief Deputy Director, Social Services Agency
Moses Hernandez, Accounting Manager, Social Services Agency
Becky Juliano, Deputy Director, Financial & Administrative Services, SSA
Silvia Fuller, Manager, Financial Services, SSA