



Orange County Auditor-Controller Internal Audit



Internal Control Audit:
Social Services Agency -
Revolving Cash Funds

For the Year Ended
July 31, 2016

Audit Number 1633
Report Date: May 30, 2017



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1633

May 30, 2017

TO: Michael Ryan, Director
Social Services Agency

SUBJECT: Internal Control Audit:
Social Services Agency – Revolving Cash Funds

We have completed our audit of internal controls over revolving cash funds in the Social Services Agency for the year ended July 31, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and 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.

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
- Grady Howe, Deputy Director of Information Technology 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
- Candice Morales, Senior Accounting Assistant, 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
Revolving Cash Funds
Audit No. 1633*

For the Year Ended July 31, 2016

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Internal Auditor's Report

Audit No. 1633

May 30, 2017

TO: Michael Ryan, Director
Social Services Agency

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

SUBJECT: Internal Control Audit:
Social Services Agency – Revolving Cash Funds

OBJECTIVES

We have completed our audit of internal controls over revolving cash funds in the Social Services Agency (SSA) for the year ended July 31, 2016. We performed this audit in accordance with the FY 2016-17 Audit Plan and Risk Assessment approved by the Audit Oversight Committee and Board of Supervisors. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. Our audit objectives were to ensure:

1. Operational objectives related to administration of the revolving cash funds are achieved including effectiveness, efficiency, and safeguarding of assets.
2. Revolving cash funds comply with County policy.
3. Control activities are in place to ensure revolving cash fund transactions are complete (recorded/reported), accurate, valid (authorized), and processed timely.
4. Appropriate mixture of control activity types is present (e.g., authorizations, verifications, physical controls, reconciliations, supervisory controls).
5. Duties for administration of the revolving cash fund are adequately segregated.

RESULTS

Objective #1: We found that controls and processes are in place to ensure that operations objectives related to administration of the revolving cash fund are achieved including effectiveness, efficiency, and safeguarding of assets.

Objective #2: We found that controls and processes are in place to ensure that revolving cash fund transactions are processed in accordance with applicable county policies; however, we identified **two (2) Control Findings** regarding Mileage and Other Expenses Claim forms for travel cash advances not being submitted timely, and insufficient supporting documentation for County business meeting meal expenses.

Objective #3: Control activities are in place to ensure revolving cash fund transactions are complete (recorded/reported), accurate, valid (authorized), and processed timely; however, we identified **two (2) Control Findings** regarding insufficient internal procedures for SSA's Special Purpose revolving cash fund and accountability for the preparation and review of fund reconciliations not being properly documented.



Internal Auditor's Report

Objective #4: Appropriate mixture of control activity types are present (e.g., authorizations, verifications, physical controls, reconciliations, supervisory controls); however, we identified **two (2) Control Findings** regarding a lack of Access Request Application (ARA) signature cards for individuals who can authorize vouchers and long outstanding items on bank reconciliations.

Objective #5: We found that controls and processes are in place to ensure that duties for the administration of the revolving cash fund are generally adequately segregated; however, we identified **one (1) Critical Control Weakness** regarding inadequate segregation of duties over the benefit issuance process in the CalWIN system.

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 two revolving cash funds totaling \$247,750. One regular revolving cash fund with an authorized amount of \$100,000 and one special purpose revolving cash fund with an authorized amount of \$147,750. The regular revolving cash fund is termed "Supplies and Services" by SSA. The special purpose revolving cash fund consists of two accounts: "Welfare and Assistance" (\$127,750), and "Family Discretionary Fund" (\$20,000). The special purpose revolving cash fund is the SSA Hardship Grants Revolving Fund authorized by Government Code Section 29334.

The "Welfare and Assistance" and "Supplies and Services" accounts have both cash on hand and checking accounts, whereas, the Family Discretionary Fund only has a checking account. SSA Accounting Services is responsible for administering, monitoring, and replenishing the revolving funds. The CalWORKS Welfare Information Network (CalWIN) is a consortium system (used by other counties in California) for supporting staff in their eligibility determination, benefit calculation, and case tracking for issuing revolving fund payments from the Welfare and Assistance account.

During the audit period, SSA incurred \$1,366,704 in Welfare and Assistance expenditures, \$164,068 in Supplies and Services expenditures, and \$100,380 in Family Discretionary Fund expenditures for a total of **\$1,631,152**.

SCOPE AND METHODOLOGY

Our audit scope was limited to internal controls and processes over revolving cash funds for the year ended July 31, 2016. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation.

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.



Internal Auditor's Report

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 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 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 the 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.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of SSA and Auditor-Controller/SSA Accounting during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Scott Suzuki, Assistant Director at (714) 834-5509.



Detailed Findings, Recommendations, and Management Responses

Finding No. 1 – Segregation of Duties – Profiles within CalWIN System (Critical Control Weakness)

For the Welfare and Assistance account, benefit payments are issued via the CalWIN system. It is a consortium system used by Orange County and other counties in California. The system is used for online initiation and approval of benefits, and for determining eligibility/benefit calculations.

Within the system, there are five key benefit issuance processes: (1) input of applicant data, (2) submission/running of inputted data for eligibility/benefit calculation, (3) initiation and authorization of benefit payments, (4) approval of authorization actions, and (5) issuance of approved benefits. We obtained user profiles for the CalWIN system and noted there were 13 “superusers” and 489 users with a “golden” profile. These profiles, 502 in total, have the ability to perform all five key benefit issuance functions. Key duties need to be segregated to ensure only appropriate benefit payments are issued.

By having the ability to perform all five key benefit issuance processes, there is a risk that an inappropriate or invalid account could be established and benefit payments could be calculated, authorized, and issued for that account and not be detected.

Subsequent to our fieldwork, SSA management informed us they planned to reduce the number of “superusers” from 13 to six and remove their ability to open a new case (input of applicant data). SSA management also stated they intend to remove the ability to open a new case from 446 “golden supervisor” profiles. SSA will implement a process to perform regularly scheduled reviews of the detailed activities performed by users with the remaining unmodified “golden” profiles. While this is a detective control, the risk remains that these users can perform all five key benefit issuance functions and any irregularities will not be detected until the regularly scheduled review is conducted.

Recommendation No. 1:

We recommend SSA prepare formal policy and procedures that document: (1) who should be in the limited group “superusers”, (2) the ability to open a new case is not available to the “golden supervisor” and “superusers” groups, and (3) the detective control of performing regularly scheduled reviews of the detailed activities performed by users with the remaining unmodified “golden” profiles.

Social Services Agency Management Response:

Concur. SSA will take steps to complete and implement a policy and procedures to include explanation on who should have the “superuser” profile in Systems Support Team (SST). Based on the current business need and security, the “superusers” profile has been limited to five supervisors and one Administrative Manager effective May 1, 2017. The policy and procedures will be completed within 90 days.

SSA will take steps to remove the ability to open a new case for employees assigned the “golden supervisor” profile effective June 1, 2017. However, with the “superuser” profile, the ability to open a new case will remain as this is a CalWIN consortium profile that cannot be altered.

SSA will take steps to complete and implement a policy and procedures to include details on regular review activities for the remaining “golden” profiles within 90 days.



Detailed Findings, Recommendations, and Management Responses

Finding No. 2 – Policies and Procedures for Special Purpose Revolving Cash Fund (Control Finding)

County Accounting Manual (CAM) C-7 “Revolving Cash Fund” governs the use of regular revolving funds. SSA also maintains a special purpose revolving cash fund referred to as “SSA Hardship Grants.” This consists of two accounts, the Welfare and Assistance and Family Preservation Discretionary accounts.

Because the Welfare and Assistance (W&A) and Family Preservation Discretionary (FPD) accounts are a component of the SSA Hardship Grants special purpose revolving cash fund, SSA follows department procedures different from CAM C-7 when making disbursements from these funds. SSA has established some informal procedures; however, they are limited, and some are outdated. Furthermore, the procedures do not provide details on CAM requirements not applicable to special purpose revolving cash funds, such as the allowability of expenditures over \$1,000, purchases of fixed assets or the purchase of consultant services, whether the use of petty cash vouchers is required, the amount of supporting documentation required to be submitted to the Auditor-Controller when requesting reimbursement, etc. Lastly, there is unclear documentation as to the difference between the special purpose revolving cash fund and the regular revolving cash fund.

Recommendation No. 2:

We recommend SSA develop policies and procedures for its special purpose revolving cash fund that reflect current procedures, provide details on CAM requirements not applicable to the fund, and include proper background information to provide an understanding of how this fund differs from the regular revolving cash fund.

Social Services Agency Management Response:

Concur. SSA Accounting will take steps to revise the current policies and procedures to include details on CAM requirements that are not applicable to the SSA revolving fund. Policies and procedures should be revised within 90 days and will include an explanation of how this fund differs from a regular revolving cash fund.

Finding No. 3 – Lack of Access Request Application (ARA) Signature Cards for Individuals Who Can Authorize Vouchers (Control Finding)

SSA has provided a list of names for individuals who can authorize vouchers; however, there are no Access Request Application (ARA) signature cards on file with the Auditor-Controller for these individuals, except those that are also on the Petty Cash Replenishment signature list. It is SSA’s procedure to allow for certain job titles to sign vouchers.

CAM C-7, Revolving Cash Fund, states that, “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.” The ARA removes or authorizes individuals to create, approve, view documents, and access transactions both within and outside the CAPS+ system, and grants access to view restricted human resources and/or payroll reports and images.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 3:

We recommend that SSA establish ARA signature cards for individuals who can authorize vouchers.

Social Services Agency Management Response:

Concur. SSA will ensure signature cards are obtained from all authorized signers and retained by the SSA Accounting unit.

Finding No. 4 – Insufficient Supporting Documentation for County Business Meeting Meals (Control Finding)

In two instances involving County business meeting meal expenses, there was no supporting documentation that included a description of the purpose of the meeting (e.g., agenda).

The County Business Travel and Meeting Policy states that “County business meetings meals require supporting documentation to be submitted including description of purpose of the meeting (e.g., agenda).”

In addition, the attachment to the County Business Travel and Meeting Policy states, “the County Business Meeting Policy Certification is required to be attached to the payment or reimbursement form, regardless of the manner of payment or claim reimbursement request.”

Recommendation No. 4:

We recommend that SSA complete and submit the County Business Meeting Policy Certification form along with appropriate supporting documentation as part of the reimbursement package for county business meeting meals.

Social Services Agency Management Response:

Concur. SSA Accounting will request the County Business Meeting Policy Certification form and appropriate supporting documentation to be attached for county business meeting meals. The SSA Administrative policy and procedures are currently being updated and should be completed within the next several months.

Finding No. 5 – Long Outstanding Reconciling Items on Bank Reconciliation (Control Finding)

In its bank reconciliation for June 2016 for the Supplies and Services account, we noted about 25 outstanding checks from as far back as May 2015 that were not listed as stale-dated items on the reconciliation. Although most of these checks were less than \$100, long outstanding checks can increase potential for errors, tie up funds, and make reconciliations more time-consuming.

CAM C-7 requires independent bank reconciliations to be performed for revolving cash funds. It states that “unusual reconciling items should be brought to the attention of management.” SSA’s practice is to monitor and stale date checks that are approximately eight months old.

Recommendation No. 5:

We recommend that SSA ensure reconciling items are researched and resolved timely.



Detailed Findings, Recommendations, and Management Responses

Social Services Agency Management Response:

Concur. We will ensure that any reconciling items are researched and resolved timely and documented in the bank reconciliation.

Finding No. 6 – Accountability for Preparation and Review of Fund Reconciliation Not Properly Documented (Control Finding)

In five out of six fund reconciliations tested, accountability for the preparation and review of the reconciliation was not properly documented.

CAM C-7 requires monthly fund reconciliations to be performed. Reconciliations should be initialed and dated by the preparer to document timeliness and responsibility. The reconciliations should also be reviewed, initialed, and dated by a supervisor to ensure accuracy.

Recommendation No. 6:

We recommend SSA ensure accountability is established for the preparation and review of fund reconciliations by ensuring they are initialed and dated by both the preparer and reviewer.

Social Services Agency Management Response:

Concur. We will revise current procedures to include the task of initialing and dating the reconciliation by the preparer and reviewer. The procedure will be revised within 60 days.

Finding No. 7 – Mileage and Other Expenses Claim Form for Travel Cash Advances Not Submitted Timely (Control Finding)

CAM C-7, which governs revolving cash funds, states that when a travel cash advance is received, upon return of the event for which the travel cash advance was made, “the requestor shall file a Mileage and Other Expenses Claim form with the custodian of the revolving fund, itemizing the actual and necessary expenses. The claim shall be submitted within five working days after the completion of the event for which the advance is made.”

We tested five travel cash advances incurred prior to the implementation of the County Business Travel and Meeting Policy, which revised the number of days required for Mileage and Other Expenses Claim form submission. We noted that for four of five travel cash advances tested, the related Mileage and Other Expenses Claim form was not submitted within five working days after the completion of the event for which the advance was made.

The County Business Travel and Meeting Policy, updated January 26, 2016, states that, “expense claims for travel must be properly approved and submitted to the Auditor-Controller within 60 days after the expenses were paid or incurred.”

We tested five travel cash advances incurred subsequent to the implementation of the County Business Travel and Meeting Policy and noted that for two of five travel cash advances tested, the related Mileage and Other Expenses Claim form was not submitted within 60 days after the expenses were paid or incurred.



Detailed Findings, Recommendations, and Management Responses

Recommendation No. 7:

We recommend SSA ensure that Mileage and Other Expenses Claim forms for travel cash advances are submitted to the Auditor-Controller within 60 days after the expenses were paid or incurred.

Social Services Agency Management Response:

Concur. We will send reminders to all employees who received travel advances that have not submitted their claim form within the travel policy guidelines. This practice has been recently implemented.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

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

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

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

- ▶ **Control Findings:**
These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Social Services Agency Management Responses



County of Orange SOCIAL SERVICES AGENCY

500 N. STATE COLLEGE BLVD.
ORANGE, CA 92868-1673
(714) 541-7700

MICHAEL F. RYAN
DIRECTOR

CAROL WISEMAN
CHIEF DEPUTY DIRECTOR

AN TRAN
DIVISION DIRECTOR
ADMINISTRATIVE SERVICES

WENDY AQUIN
DIVISION DIRECTOR
ADULT SERVICES &
ASSISTANCE PROGRAMS

ANNE BLOXOM
DIVISION DIRECTOR
CHILDREN & FAMILY SERVICES

NATHAN NISHIMOTO
DIVISION DIRECTOR
FAMILY SELF-SUFFICIENCY

ANNE H. LIGHT, M.D.
MEDICAL DIRECTOR

May 18, 2017

Auditor-Controller
Internal Audit Division (IAD)
Attn: Toni Smart, Director

Dear Ms. Smart:

We have reviewed the letter from your office dated March 22, 2017, regarding the Internal Control Audit of the Social Services Agency (SSA) Revolving Cash Funds (Audit No. 1633). Below are our responses to the identified findings:

Detailed Findings, Recommendations, and Management Responses:

Finding No. 1: Segregation of Duties – Profiles within CalWIN System (critical control weakness)

Recommendation: SSA prepare formal policy and procedures that document: (1) who should be in the limited group “superusers”, (2) the ability to open a new case is not available to the “golden supervisor” and “superusers” groups, (3) the detective control of performing regularly scheduled reviews of the detailed activities performed by users with the remaining unmodified “golden” profiles.

Social Services Agency Management Response: Concur. SSA will take steps to complete and implement a policy and procedures to include explanation on who should have the “superuser” profile in Systems Support Team (SST). Based on the current business need and security, the “superusers” profile has been limited to five supervisors and one Administrative Manager effective May 1, 2017. The policy and procedures will be completed within 90 days.

SSA will take steps to remove the ability to open a new case for employees assigned the “golden supervisor” profile effective June 1, 2017. However, with the “superuser” profile, the ability to open a new case will remain as this is a CalWIN consortium profile that cannot be altered.

SSA will take steps to complete and implement a policy and procedures to include details on regular review activities for the remaining “golden” profiles within 90 days.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Social Services Agency Management Responses (cont.)

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Finding No. 2: Policies and Procedures for Special Purpose Revolving Cash Fund (control finding)

Recommendation: SSA develop policies and procedures for its special purpose revolving cash fund that reflect current procedures, provide details on CAM requirements not applicable to the fund, and include proper background information to provide an understanding of how this fund differs from the regular revolving cash fund.

Social Services Agency Accounting Management Response: Concur. SSA Accounting will take steps to revise the current policies and procedures to include details on CAM requirements that are not applicable to the SSA revolving fund. Policies and procedures should be revised within 90 days and will include an explanation of how this fund differs from a regular revolving cash fund.

Finding No. 3: Lack of Access Request Application (ARA) Signature Cards for individuals who can authorize vouchers (control finding)

Recommendation: SSA establish ARA signature cards for individuals who can authorize vouchers.

Social Services Agency Accounting Management Response: Concur. SSA will ensure signature cards are obtained from all authorized signers and retained by the SSA Accounting unit.

Finding No. 4: Insufficient supporting documentation for County business meeting meals (control finding)

Recommendation: SSA complete and submit the County Business Meeting Policy Certification form along with appropriate supporting documentation as part of the reimbursement package for county business meeting meals.

Social Services Agency Accounting Management Response: Concur. SSA Accounting will request the County Business Meeting Policy Certification form and appropriate supporting documentation to be attached for county business meeting meals. The SSA Administrative policy and procedures are currently being updated and should be completed within the next several months.

Finding No. 5: Long outstanding reconciling items on bank reconciliation (control finding)

Recommendation: SSA ensure reconciling items are researched and resolved timely.

Social Services Agency Accounting Management Response: Concur. We will ensure that any reconciling items are researched and resolved timely and documented in the bank reconciliation.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Social Services Agency Management Responses (cont.)

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Finding No. 6: Accountability for preparation and review of fund reconciliation not properly documented (control finding)

Recommendation: SSA ensure accountability is established for the preparation and review of fund reconciliations by ensuring they are initialed and dated by both the preparer and reviewer.

Social Services Agency Accounting Management Response: Concur. We will revise current procedures to include the task of initialing and dating the reconciliation by the preparer and reviewer. The procedure will be revised within 60 days.

Finding No. 7: Mileage and other expenses claim form for travel cash advances not submitted timely (control finding)

Recommendation: SSA ensure that Mileage and Other Expenses Claim forms for travel cash advances are submitted to the Auditor-Controller within 60 days after the expenses were paid or incurred.

Social Services Agency Accounting Management Response: Concur. We will send reminders to all employees who received travel advances that have not submitted their claim forms within the travel policy guidelines. This practice has been recently implemented.

If you have any questions or require additional information, please contact An Tran at (714) 541-7712 or Moses Hernandez at (714) 245-6161.

Sincerely,

Michael F. Ryan
Director

cc: Tonya Riley, Auditor-Controller, Satellite Director
Carol Wiseman, Chief Deputy Director, SSA
An Tran, Division Director, Administrative Services, SSA