



INTERNAL AUDIT DEPARTMENT



**Internal Control Audit:
Social Services Agency
Fiduciary & Special Revenue Funds**

For the Year Ended June 30, 2020

**Audit No. 1823
Report Date: August 9, 2021**

Number of Recommendations

0 Critical Control Weaknesses

1 Significant Control Weaknesses

3 Control Findings

OC Board of Supervisors

CHAIRMAN ANDREW DO
1st DISTRICT

VICE CHAIRMAN DOUG CHAFFEE
4th DISTRICT

SUPERVISOR KATRINA FOLEY
2nd DISTRICT

SUPERVISOR DONALD P. WAGNER
3rd DISTRICT

SUPERVISOR LISA A. BARTLETT
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Social Services Agency Fiduciary & Special Revenue Funds

August 9, 2021

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of Social Services Agency's (SSA) fiduciary and special revenue funds process for the year ended June 30, 2020.
RESULTS	<ul style="list-style-type: none"> We concluded SSA's internal control over the fiduciary and special revenue funds process was generally effective to ensure sources and uses of funds are proper and in compliance with County and department policy, procedures, and laws. We concluded the fiduciary and special revenue funds process is generally efficient.
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Identity theft, loss of the public's trust, legal liability, and remediation costs. Misappropriation and/or improper/inconsistent processing of County funds. Underpayment to the County resulting in loss of revenue. Funds being held or improperly accounted for.
NUMBER OF RECOMMENDATIONS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> Redacting personally identifiable information (PII) from support documentation. Determining whether certain account balances should be held, disbursed, or closed and establishing written policy and procedures for those accounts. Verifying revenues received to ensure payments are in accordance with contract terms. Transferring funds as appropriate.
0	CRITICAL CONTROL WEAKNESSES
1	SIGNIFICANT CONTROL WEAKNESSES
3	CONTROL FINDINGS

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

Audit No. 1823

August 9, 2021

To: Debra J. Baetz
Social Services Agency Director

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Internal Control Audit: Social Services Agency Fiduciary & Special Revenue Funds

We have completed an internal control audit of Social Services Agency's (SSA) fiduciary and special revenue funds process for the year ended June 30, 2020. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

SSA concurred with all our recommendations and the Internal Audit Department considers SSA's management response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by SSA's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- County Executive Office Distribution
- Social Services Agency Distribution
- Auditor-Controller Satellite Accounting Operations Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

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RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS	<p>Business process and internal control strengths noted during our audit include:</p> <ul style="list-style-type: none"> ✓ SSA's Accounting Services unit has established detailed desk procedures for certain fund duties that include examples, screen images, and contact information for responsible staff. ✓ Certain files containing personally identifiable information (PII) are stored on a designated secure drive accessible only by authorized personnel. Hard copies are stored in a locked cabinet. ✓ Adequate supporting documentation for fund receipts and disbursements is maintained. ✓ SSA maintains and reconciles subsidiary records to the general ledger.
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FINDING NO. 1	<p>Personally Identifiable Information</p> <p>Certain PII was found in disbursement supporting documentation for Fund 590.</p> <p>We found PII, such as full names combined with last four digits of social security numbers, on invoices for one of seven of the funds reviewed. These invoices are uploaded as support documentation into the County database system. While access to the database system is restricted to only authorized County users with a direct business need, the PII is not required to process payments and should be redacted prior to upload.</p>
CATEGORY	<p>Significant Control Weakness</p>
RISK	<p>Inadequate security over PII could result in identity theft. If this PII was accessed via unauthorized means, the impact to the County could include loss of the public's trust, legal liability, and remediation costs.</p>
RECOMMENDATION	<p>SSA management ensure PII is redacted from support documentation.</p>
MANAGEMENT RESPONSE	<p>Concur with finding. By January 17, 2022, SSA Accounting will work to ensure PII is redacted from the supporting documentation or ensure that these PRCs are scanned as confidential.</p>



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FINDING NO. 2	<p>Account Disposition and Procedures</p> <p>Certain accounts have had no disbursement activity in several years.</p> <p>Two accounts under Fund 359, Department Balance Sheet Accounts (DBSAs) 00CS and 0005, have not had any disbursement activity since at least 2009. The combined balance of the two accounts as of June 30, 2020 was approximately \$864,700. DBSA 00CS, which accounts for 96% of the balance, has continually received deposits since its establishment. Upon inquiry, SSA could not determine whether there was any obligation to disburse funds. In addition, SSA has not established any written internal policy and procedures for either account to delineate its purpose, staffing responsibilities, accounting information, or reconciliation process.</p>
CATEGORY	Control Finding
RISK	Increased risk of misappropriation and/or improper/inconsistent processing of County funds.
RECOMMENDATION	<p>SSA management:</p> <ul style="list-style-type: none"> A. Determine whether account balances should be held, disbursed, or closed for Fund 359 – DBSAs 00CS and 0005. B. Establish written policy and procedures that delineate the purpose, staffing responsibilities, accounting information, and reconciliation process for the two accounts.
MANAGEMENT RESPONSE	<p>Concur with finding. By June 30, 2022, SSA will review the DBSAs 00CS and 0005 in Fund 359 and determine the appropriate disposition. SSA will also establish written policy and procedures for the two accounts by June 30, 2022.</p>

FINDING NO. 3	<p>Contract Payment Review</p> <p>Certain rental revenues received for Fund 14T were not verified to ensure payment amounts were in accordance with contract terms.</p> <p>Specifically, during the audit period, T-TC received monthly rental revenue totaling \$300,000 (on behalf of SSA) for the contracted use of certain facilities. SSA did not verify that payments met contract requirements.</p>
CATEGORY	Control Finding
RISK	Increased risk of underpayment to the County, which could result in loss of revenue.



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RECOMMENDATION	SSA management ensure revenues received are verified to confirm payments are in accordance with contract terms.
MANAGEMENT RESPONSE	Concur with finding. SSA is in the process of developing a process to ensure revenues received are verified to confirm payments are in accordance with contract terms. This process will be in place by January 17, 2022.

FINDING NO. 4	<p>Fund Transfers</p> <p>Transfers have not been completed for two fund accounts.</p> <p>Fund transfers for two accounts, DBSAs 0521 and 0621, under Fund 155 have not been completed for the period reviewed. These journal vouchers are normally processed on a quarterly basis to transfer monies from the County General Fund to Fund 155. SSA informed us that the transfers were not completed due to staff shortages.</p>
CATEGORY	Control Finding
RISK	Not transferring monies as necessary holds up funds that could be used elsewhere and can result in funds being improperly accounted for.
RECOMMENDATION	SSA management apply resources as necessary to ensure funds are transferred quarterly as appropriate.
MANAGEMENT RESPONSE	Concur with finding. By January 17, 2022, SSA will develop a process to ensure funds are transferred quarterly.

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Scott Kim, CPA, CISA, CFE Gianne Morgan, CIA Virginia Nguyen, CPA Mari Elias, DPA	Assistant Director Senior Audit Manager IT Audit Manager Audit Manager Senior Auditor Administrative Services Manager
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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none">1. Evaluate the effectiveness of internal control over the fiduciary and special revenue funds process to ensure sources and uses of funds are proper and in compliance with County and departmental policy, procedures, and laws.2. Review the fiduciary and special revenue fund process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over Social Services Agency's (SSA) fiduciary and special revenue funds process for the year ended June 30, 2020. Our methodology included inquiry, observation, and examination of documentation.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of information technology controls over systems used in the administration of fiduciary and special revenue funds. In addition, our review did not include Funds 2AB and 2AC.</p>
PRIOR AUDIT COVERAGE	<p>An audit with similar scope, Internal Control Audit: Social Services Agency Special Revenue and Fiduciary (Agency) Funds, Audit No. 1336, was issued on May 21, 2015.</p>
BACKGROUND	<p>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.</p> <p>SSA's Administrative Services Division oversees the fiduciary and special revenue funds process. The funds are largely administered by the Accounting Services unit staffed by the Auditor-Controller, with some functions for certain funds being performed by other units, such as Financial Services and Financial Systems Coordination.</p> <p>As of June 30, 2020, SSA administers nine special revenue and fiduciary funds with a total approximate cash balance of \$74 million. Information for each fund is listed in Appendix B.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2020-21 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>
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 internal controls 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 department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	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 department's operating procedures, accounting practices, and compliance with County policy.



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APPENDIX B: ADDITIONAL INFORMATION

Table 1. SSA Fund Information

Fund	Fund Type*	Name	Date Established	FY 2019-20 Revenues / Receipts	FY 2019-20 Expenditures / Disbursements	Cash Balance at 6/30/2020
102	S	Santa Ana Regional Center Lease Conveyance	June 2005	121,264	1,699,521	5,545,007
590	S	IHSS Public Authority	July 2002	2,204,359	1,824,299	259,849
12S	S	SSA Donations and Fees	February 2006	1,129,296	977,806	2,962,897
12W	S	SSA Wraparound	June 2006	17,870,187	14,544,119	40,402,325
14T	S	Operations Facilities Development and Maintenance	March 1999	918,001	1,624,929	23,219,923
155	F	Welfare Aid and Administration	July 1959	686,234,423	698,534,068	100,000
359	F	Welfare Child Support (SSA)	1950s	1,797,646	1,689,535	1,565,154
2AB	F	Operation Santa Claus	November 1993	13,160	6,680	29,432
2AC	F	Senior Santas	November 1993	15,906	308	90,975
Totals				710,304,242	720,901,265	74,175,562

SOURCE: OC Data Warehouse

*S = Special Revenue; F = Fiduciary (Agency)



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APPENDIX C: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<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>





M E M O

July 22, 2021

TO: Aggie Alonso, CPA, CIA, CRMA, Internal Audit Department Director

FROM: Debra J. Baetz, Social Services Agency Director

SUBJECT: Response to Draft Report-Audit No. 1823, Internal Control Audit: Social Services Agency Fiduciary & Special Revenue Funds

The OC Social Services Agency has received and reviewed in draft form, the Internal Audit Department's audit of internal controls of the Social Services Agency's Fiduciary & Special Revenue Funds for the year ended June 30, 2020.

OC Social Services Agency hereby provides the following responses to the Internal Audit Department's Recommendations:

Finding No. 1 - Personally Identifiable Information

RECOMMENDATION: SSA management ensure PII is redacted from support documentation.

SSA Management's Response: Concur with finding. By January 17, 2022, SSA Accounting will work to ensure PII is redacted from the supporting documentation or ensure that these PRCs are scanned as confidential.

Finding No. 2 - Account Disposition and Procedures

RECOMMENDATION: SSA management:

- A. Determine whether account balances should be held, disbursed, or closed for Fund 359 – DBSAs 00CS and 0005.
- B. Establish written policy and procedures that delineate the purpose, staffing responsibilities, accounting information, and reconciliation process for the two accounts.

SSA Management's Response: Concur with finding. By June 30, 2022, SSA will review the DBSAs 00CS and 0005 in Fund 359 and determine the appropriate disposition. SSA will also establish written policy and procedures for the two accounts by June 30, 2022.

Finding No. 3 - Contract Payment Review

RECOMMENDATION: SSA management ensure revenues received are verified to confirm payments are in accordance with contract terms.

SSA Management's Response: Concur with finding. SSA is in the process of developing a process to ensure revenues received are verified to confirm payments are in accordance with contract terms. This process will be in place by January 17, 2022.

Finding No. 4 - Fund Transfers

RECOMMENDATION: SSA management apply resources as necessary to ensure funds are transferred quarterly as appropriate.

SSA Management's Response: Concur with finding. By January 17, 2022, SSA will develop a process to ensure funds are transferred quarterly.