



INTERNAL AUDIT DEPARTMENT



**Internal Control Audit:
Health Care Agency/Public Guardian
Fiduciary Fund 165**

For the Year Ended October 31, 2019

**Audit No. 1914
Report Date: September 27, 2021**

Number of Recommendations

0

**Critical Control
Weaknesses**

2

**Significant Control
Weakness**

2

Control Findings

OC Board of Supervisors

CHAIRMAN ANDREW DO
1st DISTRICT

VICE CHAIRMAN DOUG CHAFFEE
4th DISTRICT

SUPERVISOR KATRINA FOLEY
2nd DISTRICT

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3rd DISTRICT

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5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Health Care Agency/Public Guardian Fiduciary Fund 165
September 27, 2021

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of Health Care Agency/Public Guardian's (HCA/PG) fiduciary fund process for Fund 165 for the year ended October 31, 2019.
RESULTS	<ul style="list-style-type: none">HCA/PG's internal control over the fiduciary fund process for Fund 165 was generally effective to ensure sources and uses of funds were proper and compliant with County and department policy, procedures, and laws.HCA/PG's fiduciary funds process for Fund 165 was generally efficient.
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none">Potential misconfiguration of user access rights to a critical system.Loss or misappropriation of client assets.Users may be able to approve their own requests.Errors, discrepancies, or irregularities may not be detected in a timely manner.
NUMBER OF RECOMMENDATIONS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none">Increase collaboration efforts with the PG system vendor and review vendor-prepared security reporting.Update inventory records to accurately reflect the status of assets.Develop a risk assessment and procedures for creating multiple user accounts (roles) for certain employees.Resolve long-outstanding reconciling items and related system issues.
0 CRITICAL CONTROL WEAKNESSES	
2 SIGNIFICANT CONTROL WEAKNESSES	
2 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. 1914

September 27, 2021

To: Clayton Chau, MD, PhD
Health Care Agency Director

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

A handwritten signature in black ink, appearing to be "Aggie Alonso", is written over the "From:" line and extends into the "Subject:" line.

Subject: Internal Control Audit: Health Care Agency/Public Guardian Fiduciary Fund 165

We have completed an internal control audit of Health Care Agency/Public Guardian's (HCA/PG) fiduciary fund process for Fund 165 for the year ended October 31, 2019. 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.

HCA/PG concurred with all our recommendations, and the Internal Audit Department considers HCA/PG'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 HCA/PG'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
- CEO Distribution
- HCA Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

INTERNAL AUDIT DEPARTMENT

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

Business process and internal control strengths noted during our audit include:

- ✓ The new PG system includes an asset module that tracks the chain of custody for assets.
- ✓ ACH payments have a designated (suspense) account where money is held for further research to identify the applicable client.
- ✓ A current listing of authorized signatures for trust fund transactions is maintained.
- ✓ The accounting unit imports a CAPS+ file into the accounting and case management system (PG system) to update status of payments.

FINDING NO. 1

PG System Change Control

Public Guardian (PG) system administration documentation did not agree to the actual system configuration.

The PG system software vendor provides HCA/PG a user access rights security matrix detailing permissions granted to user roles that are assigned to users. Based on the matrix, only clerical staff should have been able to create receipt (intake) entries in the PG system. However, the accountant role also had the ability to create receipt (intake) entries.

While the PG system is hosted and managed by the software vendor, the department relies on the vendor to make accurate changes to the matrix, as well as maintain adequate security controls over the system, to mitigate the risk of unauthorized changes (e.g., source code or configuration).

Subsequent to our audit, HCA/PG removed the ability to create receipt (intake) entries in PG system for the accountant role.

CATEGORY

Significant Control Weakness

RISK

Potential misconfiguration of user access rights to department critical systems could result in inappropriate system access irregularities.



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RECOMMENDATION	<p>HCA/PG:</p> <p>A. Increase collaboration efforts with the software vendor to ensure the system is properly functioning to meet department business needs and internal control objectives.</p> <p>B. Perform a periodic review of the PG system user access rights security matrix to ensure accuracy and completeness.</p>
MANAGEMENT RESPONSE	<p>Concur. PG concurs with Internal Audit's findings regarding the user access rights and the recommendation has been implemented. As noted in the Audit, PG immediately requested that the vendor remove the ability to create receipt (intake) entries in PG system for the accountant role and it has been rectified. PG has established a committee responsible for the oversight of the Conservatorship Information Management System (CIMS), the database utilized by PG for case management activities, which has reviewed the security matrix provided by the vendor and has ensured that there are no other discrepancies in the user matrix. PG's CIMS committee will review the security matrix on an annual basis to ensure proper configuration by the vendor.</p>

FINDING NO. 2	<p>Inventory Listing</p> <p>The PG has custody of client assets and maintains a listing that is reported via court accounting. The inventory listing of client assets is not up to date.</p> <p>Prior to the current PG system, PG used a different system, which did not have an asset module. Assets were only recorded into the prior system when there was a need for a court accounting. The new PG system was built with an asset module that tracks the chain of custody for the asset. Since the transition to the current PG system, PG manually added assets to the PG system, while prioritizing those with an upcoming court accounting. However, PG has not processed all assets through the PG system chain of custody to reflect the assets' current status due to staff shortages.</p>
CATEGORY	Significant Control Weakness
RISK	Loss or misappropriation of client assets. In addition, the County may be held accountable for assets not properly released to the client or other responsible party.
RECOMMENDATION	HCA/PG prepare a plan to process all outstanding assets including resource needs and timeframe.



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MANAGEMENT RESPONSE

Concur. PG concurs with Internal Audit's findings regarding the PG's inventory listing of client assets and the recommendation has been implemented. This issue has been an ongoing effort by the PG's office for the past two years due to a staffing shortage and the lack of an inventory module in the legacy software that was being utilized prior to CIMS. PG had to manually process these assets into the new CIMS database, which has been a time-consuming effort without additional staffing resources. Despite the lack of personnel and resources, PG has completed a review of all assets and has implemented updates on 99% of all assets and will continue to process all outstanding assets within the next 6 months to reflect their current status. Concurrently, assets will be reviewed both in real time during the initial inventory entry into CIMS and during monthly audits run by the Asset Manager to ensure all assets reflect their current status.

FINDING NO. 3

PG System User Roles

Certain employees have more than one user role in the PG system, which resulted in an inadequate segregation of duties. We noted seven (10%) of 69 PG system user accounts were for employees who had more than one user role. PG created these duplicate accounts for business needs due to a staffing shortage. Specifically:

- Three employees had dual user roles as a supervising deputy and chief deputy.
- Two employees had dual user roles as a vault custodian and deputy.
- One employee had dual user roles as a clerical user level and vault custodian.
- One employee had dual user roles as a deputy and senior deputy.

The PG system has different user levels. Based on the user levels (roles), users are granted different access to create, read, update, and/or delete records. Each role is set up with a different set of credentials (username/password).

Any given user should only have one role, as having two roles circumvents internal controls by allowing a user to have permissions that should be separated. While PG has a mitigating control where management reviews the activities of users with dual roles, management has not maintained documentation acknowledging the risks, and has not developed a formal process for review and approval of multiple user roles and the subsequent management review of dual role user activities in the PG system.

CATEGORY

Control Finding



INTERNAL AUDIT DEPARTMENT

RISK	Circumvents the built-in segregation of duties controls built into PG system for each role and users may be able to approve their own requests, e.g., one employee with two conflicting roles could request and approve a payment.
RECOMMENDATION	<p>HCA/PG:</p> <ul style="list-style-type: none"> A. Maintain documentation acknowledging the risks associated with allowing multiple user roles in the PG system. B. Develop a formal process for the review and approval of multiple user roles and subsequent management review of dual role user activities in the PG system. C. Periodically review user roles to ensure proper segregation of duties is maintained in the PG system.
MANAGEMENT RESPONSE	<p>Concur. PG concurs with Internal Audit's findings regarding the user roles within the PG system and the recommendation has been implemented. PG acknowledges the risks associated with multiple user roles and will regularly maintain documentation associated with acknowledgment of those risks. In addition, PG will work with the IT liaison to produce Policies and Procedures regarding the assigning of multiple user roles in CIMS. As stated in Finding no. 1, PG has convened a committee responsible for the oversight of CIMS and this committee will develop formal internal processes for the review and approval of multiple user roles and will work with the IT liaison to maintain security oversight of user roles to ensure proper risk management and proper segregation of duties. PG will audit the user roles semiannually to ensure there are not multiples user roles that are not accounted for.</p>

FINDING NO. 4	<p>Long Outstanding Items on Reconciliations</p> <p>We observed long-outstanding items during the reconciliation process. During our review of the Trust Fund Monthly Cash Reconciliation for October 2019, we noted the following:</p> <ul style="list-style-type: none"> • Two variances totaling \$1,107.39 were listed under the section of "System Reconciliation Items – Re: [PG system] Computer System Error Variances (Note 1)". These variances were discussed with the vendor during the initial go-live phase of the new PG system. At that time, they were considered low priority because the primary focus was the resolution of core business functionalities critical to the daily business functions of the office. • Two variances totaling \$102; one is from October 2018 and the other is from November 2018. The client involved had over five aliases and PG is working with the assigned program deputies to resolve the matter.
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CATEGORY	Control Finding
RISK	Errors or irregularities may not be detected in a timely manner as time passes and reconciling items remain unresolved.
RECOMMENDATION	<p>HCA/PG:</p> <p>A. Work with the vendor to resolve system error variances.</p> <p>B. Develop a plan to resolve the long-outstanding reconciling items on PG reconciliations including timeframe.</p>
MANAGEMENT RESPONSE	<p>Concur. PG concurs with Internal Audit's findings regarding long outstanding items on reconciliations and the recommendation has been implemented. PG has identified a solution and developed a plan to address the error variances in collaboration with Panoramic (the vendor for CIMS), the HCA Auditor-Controller, and HCA IT will resolve this issue in the next 6 months. As the issues were client-specific and were produced due to the system migration from the old PG case management system to CIMS, the variances were isolated individually and will be corrected manually by reconciling duplicate entries.</p>

AUDIT TEAM	<p>Scott Suzuki, CPA, CIA, CISA, CFE Assistant Director</p> <p>Michael Dean, CPA, CIA, CISA Senior Audit Manager</p> <p>Jimmy Nguyen, CISA, CFE, CEH IT Audit Manger II</p> <p>Zan Zaman, CPA, CIA, CISA Audit Manager</p> <p>Virginia Nguyen, CPA Senior Auditor</p> <p>Mari Elias, DPA Administrative Services Manager</p>
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INTERNAL AUDIT DEPARTMENT

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 fund 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 fund process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over Health Care Agency/Public Guardian's fiduciary funds process for Fund 165 for the year ended October 31, 2019. Our methodology included inquiry, observation, and examination of documentation.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of any other fiduciary funds.</p>
PRIOR AUDIT COVERAGE	<p>An audit with similar scope, Countywide Audit of Fiduciary Funds: Health Care Agency/Public Guardian, Audit No. 1519, was issued on May 6, 2016.</p>
BACKGROUND	<p>The Orange County Public Guardian's Office (PG) is a division of the Health Care Agency. PG provides investigative and fiduciary services to adults who are unable to provide their own basic personal needs. The Superior Court determines whether a conservatorship should be established. In addition, PG provides these services to individuals who require conservatorship due to severe medical emergency or victims of physical or financial abuse.</p> <p>Fund 165 is a private purpose trust fund established to maintain and manage funds for clients under court conservatorship and trusteeship.</p> <p>In September 2018, PG implemented a new accounting and case management system.</p> <p>As of October 31, 2019, the cash balance for PG was approximately \$17 million.</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).
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: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
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.	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.	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.



APPENDIX C: HCA/PG MANAGEMENT RESPONSE



Clayton Chau, MD PhD
DIRECTOR

Jenny Qian, M.A.
PUBLIC GUARDIAN

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September 21, 2021

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

FROM: Clayton Chau, MD, PhD
Health Care Agency Director

SUBJECT: HCA/PG Response to "Internal Control Audit: Health Care Agency/Public Guardian Fiduciary Fund 165"

This memo serves as a response to the "Internal Control Audit: Health Care Agency/Public Guardian Fiduciary Fund 165" findings for the year ended October 31, 2019. The response to each finding is noted below.

Finding no. 1: PG System Change Control.

Recommendation: HCA/PG:

1. Increase collaboration efforts with the software vendor to ensure the system is properly functioning to meet department business needs and internal control objectives.
2. Perform a periodic review of the PG system user access rights security matrix to ensure accuracy and completeness.

HCA/PG Management Response: PG concurs with Internal Audit's findings regarding the user access rights and the recommendation has been implemented. As noted in the Audit, PG immediately requested that the vendor remove the ability to create receipt (intake) entries in PG system for the accountant role and it has been rectified. PG has established a committee responsible for the oversight of the Conservatorship Information Management System (CIMS), the database utilized by PG for case management activities, which has reviewed the security matrix provided by the vendor and has ensured that there are no other discrepancies in the user matrix. PG's CIMS committee will review the security matrix on an annual basis to ensure proper configuration by the vendor.

Finding no. 2: Inventory Listing.



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Aggie Alonso

HCA/PG Response to “Internal Control Audit: Health Care Agency/Public Guardian Fiduciary Fund 165”

September 21, 2021

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Recommendation: HCA/PG: HCA/PG prepare a plan to process all outstanding assets including resource needs and timeframe.

HCA/PG Management Response: PG concurs with Internal Audit's findings regarding the PG's inventory listing of client assets and the recommendation has been implemented. This issue has been an ongoing effort by the PG's office for the past two years due to a staffing shortage and the lack of an inventory module in the legacy software that was being utilized prior to CIMS. PG had to manually process these assets into the new CIMS database, which has been a time-consuming effort without additional staffing resources. Despite the lack of personnel and resources, PG has completed a review of all assets and has implemented updates on 99% of all assets and will continue to process all outstanding assets within the next 6 months to reflect their current status. Concurrently, assets will be reviewed both in real time during the initial inventory entry into CIMS and during monthly audits run by the Asset Manager to ensure all assets reflect their current status.

Finding no. 3: PG System User Roles.

Recommendation: HCA/PG:

1. Maintain documentation acknowledging the risks associated with allowing multiple user roles in the PG system.
2. Develop a formal process for the review and approval of multiple user roles and subsequent management review of dual role user activities in the PG system.
3. Periodically review user roles to ensure proper segregation of duties is maintained in the PG system.

HCA/PG Management Response: PG concurs with Internal Audit's findings regarding the user roles within the PG system and the recommendation has been implemented. PG acknowledges the risks associated with multiple user roles and will regularly maintain documentation associated with acknowledgment of those risks. In addition, PG will work with the IT liaison to produce Policies and Procedures regarding the assigning of multiple user roles in CIMS. As stated in Finding no. 1, PG has convened a committee responsible for the oversight of CIMS and this committee will develop formal internal processes for the review and approval of multiple user roles and will work with the IT liaison to maintain security oversight of user roles to ensure proper risk management and proper segregation of duties. PG will audit the user roles semi-annually to ensure there are not multiples user roles that are not accounted for.

Finding no. 4: Long Outstanding Items on Reconciliations.

Recommendation: HCA/PG:

1. Work with the vendor to resolve system error variances.
2. Develop a plan to resolve the long-outstanding reconciling items on PG reconciliations including timeframe.

HCA/PG Management Response: PG concurs with Internal Audit's findings regarding long outstanding items on reconciliations and the recommendation has been implemented. PG has



INTERNAL AUDIT DEPARTMENT

Aggie Alonso

**HCA/PG Response to “Internal Control Audit: Health Care Agency/Public Guardian
Fiduciary Fund 165”**

September 21, 2021

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identified a solution and developed a plan to address the error variances in collaboration with Panoramic (the vendor for CIMS), the HCA Auditor-Controller, and HCA IT will resolve this issue in the next 6 months. As the issues were client-specific, and were produced due to the system migration from the old PG case management system to CIMS, the variances were isolated individually and will be corrected manually by reconciling duplicate entries.

