

Internal Audit Department

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

FINAL CLOSE-OUT SECOND FOLLOW-UP INTERNAL CONTROL AUDIT:

SOCIAL SERVICES AGENCY CONTRACT PAYMENTS AND FISCAL MONITORING

AS OF MARCH 5, 2014

Our Second Follow-Up Audit found that Social Services Agency (SSA) implemented the one (1) recommendation remaining from our original audit containing three (3) recommendations. Previously, two (2) recommendations were implemented and one (1) was in-process in our First Follow-Up audit report dated August 27, 2013.

During the original audit period, SSA/Contract and Grant Services administered 341 human services contracts worth \$85 million; approved over \$39 million in contract payments and administered external, independent financial and compliance audits of SSA contractors and service providers.

AUDIT NO: 1224-F2
(REFERENCE 1340)
ORIGINAL AUDIT NO. 1224

REPORT DATE: MARCH 26, 2014

Director: [Dr. Peter Hughes, MBA, CPA, CIA](#)
Senior Audit Manager: [Michael Goodwin, CPA, CIA](#)
Senior Internal Auditor: [Susan Nestor, CPA, CIA](#)

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



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

 Internal Audit Department
ORANGE COUNTY BOARD OF SUPERVISORS'

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**

Director

Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

Certified Fraud Examiner (CFE)

Certified in Financial Forensics (CFF)

Chartered Global Management Accountant (CGMA)

E-mail: peter.hughes@iad.ocgov.com

Michael Goodwin **CPA, CIA**
Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**
Senior Audit Manager

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Audit No. 1224-F2 March 26, 2014

TO: Michael Ryan, Director
Social Services Agency

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

SUBJECT: **Second and Final Close-Out** Follow-Up Audit:
Social Services Agency Contract Payments
and Fiscal Monitoring, Original Audit No.1224
Issued January 9, 2013

We have completed a Second and Final Close-Out Follow-Up Audit of Social Services Agency Contract Payments and Fiscal Monitoring. Our audit was limited to reviewing, as of March 5, 2014, actions taken to implement the **one (1) recommendation** remaining from our First Follow-Up Audit report dated August 27, 2013. We conducted this Second Follow-Up Audit in accordance with the *FY 13-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found Social Services Agency **implemented the remaining one (1) recommendation. As such this report represents the final close-out of the original audit**

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.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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Social Services Agency Contract Payments and Fiscal Monitoring
Audit No. 1224-F2***

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OC Internal Auditor's Report



Audit No. 1224-F2

March 26, 2014

TO: Michael Ryan, Director
Social Services Agency

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

SUBJECT: **Second and Final Close-Out Follow-Up Audit:** Social Services Agency Contract Payments and Fiscal Monitoring, Original Audit No. 1224, Issued January 9, 2013

Scope of Review

We have completed a Second and Final Close-Out Follow-Up Audit of Social Services Agency (SSA) Contract Payments and Fiscal Monitoring. Our audit was limited to reviewing actions taken, as of March 5, 2014, to implement the **one (1) recommendation** remaining from our First Follow-Up Audit report dated August 27, 2013.

Background

SSA/Contract and Grant Services administered **341 human services contracts totaling \$85 million**, and processed **\$39 million in contract payments** during FY 2011-12. These human services contracts are for Adult Services and Assistance Programs, Children and Family Services, and Family Self-Sufficiency Services. Contract and Grant Services is responsible for developing, soliciting, negotiating, and reviewing contract payments for SSA human services contracts. SSA/Contract and Grant Services also administers the solicitation and coordination of external audit firms to conduct fiscal monitoring of SSA contractors. Annual external independent audits are conducted on the contract providers to ensure contract and fiscal compliance. During FY 2011-12, **39 contract and fiscal compliance audits** were completed.

The original audit identified **one (1) Significant Control Weakness** to address the two-year time lag in conducting fiscal monitoring audits, and **two (2) Control Findings** to enhance processes and controls by establishing written policies and procedures over contract payments and fiscal monitoring, and documenting exceptions to the payment processing timeframe policy.

Results

Our Second Follow-Up Audit found SSA took corrective action to implement the one (1) recommendation remaining. **This report represents the final close-out of the original audit.** Based on our Follow-Up Audits, the following is the implementation status of the three (3) original recommendations. The item number from the original audit is shown before each heading.

1. **Establishment of Written Policies and Procedures (Control Finding)**

SSA/Contract and Grant Services establish and communicate policies and procedures that define roles and responsibilities for processing contract payments by Contract Administrators and Senior Contract Administrators, and for the administration of the fiscal monitoring process with external audit firms.

Current Status: Implemented. (First Follow-Up Audit) SSA/Contract and Grant Services established two new written policies and procedures based on the audit recommendation:



- 1) *Contract Invoice Payment Review and Approval*
- 2) *Contract Fiscal Monitoring: Internal Review of Use of External Audit Firms*

We reviewed the newly developed policy and procedures to verify that Contract Administrators and Senior Contract Administrators' roles and responsibilities were adequately described for processing contract payments. We also reviewed the new policy for the administration of fiscal monitoring of contractors using external audit firms. This policy discusses completion of financial audits of contractors in accordance with appropriate State and Federal standards, the competitive bid process for procuring audits, and SSA's internal process for auditing contractors during the contract term.

We found that the newly established policies and procedures are comprehensive and detailed in defining roles, responsibilities and processes for contract invoice payment reviews and fiscal monitoring, and also provided templates and examples for staff to reference. We commend SSA Contract and Grant Services on the adequacy and thoroughness of the newly established policies and procedures. We also obtained the *Minutes of Contract Services Team Meeting - June 4, 2013* to verify the two new policies and procedures were communicated with staff.

Because SSA/Contract and Grant Services established and communicated policies and procedures that define roles and responsibilities for processing contract payments by Contract Administrators and Senior Contract Administrators, and for the administration of the fiscal monitoring process with external audit firms, we consider this recommendation implemented.

2. **Documenting Exceptions to Payment Processing Timeframes** (Control Finding)

SSA/Contract and Grant Services ensure there is documentation maintained in the contract files explaining the delay in processing contract payments beyond expected payment processing timeframes.

Current Status: **Implemented. (First Follow Up Audit)** SSA/Contract and Grant Services evaluated the feasibility of the current requirement for a five (5) business day turnaround for internal processing of invoices, and determined that ten (10) business days is a more realistic goal for processing invoices. The policies and procedures developed in response to Finding No. 1 state the invoice payment processing timeframe is now 10 days, and that documentation is required when it takes longer than 10 days to process invoice payments.

A staff meeting was held on January 17, 2013, and included a discussion about the Internal Audit's findings. Staff was informed at that time to begin documenting any delays in processing contract payments beyond the current expected payment processing timeframe. We obtained examples where processing invoices exceeded the 10-day timeframe, and found that emails and notes were included in the contract files explaining the delays.

Because SSA/Contract and Grant Services evaluated the invoice processing timeframes, revised their policy to reflect the 10-day timeframe and require documentation when the timeframe is exceeded, and communicated the information to staff, we consider this recommendation implemented.



3. **Timing of Fiscal Monitoring Audits (Significant Control Weakness)**

SSA/Contract and Grant Services take measures to address the two-year lag in conducting external audits, and evaluate the feasibility of conducting on-going fiscal monitoring during the contract period in addition to the fiscal monitoring performed by external auditors after the contract period ends.

Current Status: Implemented. (Second Follow-Up Audit) In December 2013, the Board of Supervisors approved an agreement between SSA/Contract and Grant Services and four (4) vendors for performing audit services on human service agreements. This "Cooperative Agreement" was based on an agreement executed with the Health Care Agency for their need to conduct similar fiscal monitoring services of contractors.

To address the backlog in conducting external audits, SSA/Contract and Grant Services contracted with one of the four approved vendors (KNL Support Services) to conduct the fiscal monitoring audits for FYs 10/11, 11/12, and 12/13, which are currently being performed. For the current FY 13/14 audits, SSA plans to contract with one of the four vendors to audit contractors during the contract period, which was based on our recommendation. In April 2014, a bid request will be sent to the four vendors to begin the current year contracts. Subsequent to our original audit, an Administrative Manager I was hired to coordinate the external audits and to ensure the appropriate contracts are audited.

Because SSA/Contract and Grant Services took measures to address the time lag in conducting fiscal monitoring audits, and is currently conducting fiscal monitoring audits, we consider this recommendation implemented.

We appreciate the assistance extended to us by Social Services Agency/Contract and Grant Services personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Mark Denny, Chief Operating Officer
Carol Wiseman, Director, SSA Administrative Services
Jan Taraszkiwicz, Deputy Director, SSA Operations Management and Support Services
Steve Sakamoto, Manager, SSA Contract and Grant Services
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