



**INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE**

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CONSOLIDATED AUDIT REPORT OF THE PUBLIC ADMINISTRATOR/PUBLIC GUARDIAN

- 1. CASH RECEIPTS**
- 2. CASH DISBURSEMENTS**
- 3. TRUST FUNDS**
- 4. SPECIAL USE REVOLVING FUND**
- 5. WAREHOUSE AND PROPERTY CONTROLS**
- 6. BUDGET PROCESS**

(Board Directive No. 22, Dated May 3, 2005)

For the Period
July 1, 2004 through June 30, 2005

AUDIT NUMBER: 2528

REPORT DATE: January 19, 2006

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**Audit of Public Administrator/Public Guardian
Cash Receipts and Disbursements, Trust and Special Use Revolving Funds,
Warehouse and Property Controls, and the Budget Process
(Board Directive No. 22, Dated May 3, 2005)**

**For the Period
July 1, 2004 through June 30, 2005**

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Transmittal Letter

Audit No. 2528

January 19, 2006

TO: John S. Williams
Public Administrator/Public Guardian

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department 

SUBJECT: Audit of Public Administrator/Public Guardian
Cash Receipts and Disbursements, Trust and Special Use Revolving Funds,
Warehouse and Property Controls, and the Budget Process
(Board Directive No. 22, Dated May 3, 2005)

As directed by the Board of Supervisors on May 3, 2005, we have completed an audit of the Public Administrator/Public Guardian for business processes in the areas of cash receipts and disbursements, trust and special use revolving funds, warehouse and property controls, and the budget for the period July 1, 2004 through June 30, 2005. The final **Internal Auditor's Report** is attached along with your responses to our recommendations.

Please note, beginning in January 2005, we implemented a more 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). As a matter of policy, our first Follow-Up Audit will now begin no later than six months upon the official release of the 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 now begin at 12 months from the release of the original 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 Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

As the Director of Internal Audit, I now submit a monthly audit status report to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month, the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Therefore, 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 you so that you 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 to complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final audit report.

Attachment

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Bruce Peotter, Assistant PA/PG
- Connie Draxler, Chief Deputy PA/PG
- Sandra Banstorp, PA/PG Fiduciary Manager
- Teara Le Blanc, PA/PG Information Technology Manager
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2528

January 19, 2006

John S. Williams
Public Administrator/Public Guardian
1300 South Grand Avenue
Santa Ana, CA 92705

As directed by the Board of Supervisors at the Board meeting on May 3, 2005, we have completed an audit of the Public Administrator/Public Guardian (PA/PG) for business processes in the areas of cash receipts and disbursements, trust and special use revolving funds, warehouse and property controls, and the budget for the period July 1, 2004 through June 30, 2005. Our audit was performed in accordance with professional standards established by the Institute of Internal Auditors.

PA/PG management is responsible for establishing and maintaining a system of internal controls. The objectives of an internal control system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. County of Orange Accounting Manual No. S-2 – *Internal Control Systems* prescribes the policies and standards the departments/agencies should follow in establishing and maintaining internal control systems. Our review enhances and complements, but does not substitute for, PA/PG's continuing emphasis on control activities and self-assessment of control risks.

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 that the degree of compliance with the procedures may deteriorate. Accordingly, our audit performed for the limited purpose described above would not necessarily disclose all weaknesses in PA/PG's operating procedures, accounting practices, and compliance with County policy.

Based upon our audit, **no material weaknesses were identified**. However, we did identify **one Significant Issue** and **15 Control Findings** resulting in **16 recommendations** to improve controls and processes as noted in the Detailed Observations, Recommendations and Management Responses section of this report.

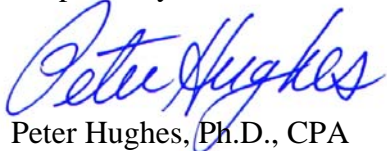
The Significant Issue relates to control deficiencies in PA/PG's case management and subsidiary accounting system (ePAGES) and the Control Findings relate to processes and controls over succession planning, cash receipts, trust funds, warehouse and property, and the budget.

While our report indicates the specific areas where our observations are directly applicable, **PA/PG should implement the recommendations in other business processes they find as applicable to them.** An expectation of the Board of Supervisors is that departments and agencies will view this report as a "lessons learned" opportunity to guide them in proactively self-assessing other similar operations or processes.

We appreciate the courtesy and cooperation extended to us by the personnel of PA/PG during our review. As we identified issues during the review, personnel were responsive in taking corrective actions.

If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,



Peter Hughes, Ph.D., CPA
Director, Internal Audit

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Bruce Peotter, Assistant PA/PG
- Connie Draxler, Chief Deputy PA/PG
- Sandra Banstorp, PA/PG Fiduciary Manager
- Teara Le Blanc, PA/PG Information Technology Manager
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

On May 3, 2005, the Board of Supervisors “*Directed that the Internal Auditor perform a management and procedural audit to insure appropriate practices are in place.*” Based on the Board Directive, Internal Audit Department conducted an audit of the Public Administrator/Public Guardian (PA/PG) for business processes in the areas of cash receipts and disbursements, trust and special use revolving funds, warehouse and property controls, and the annual budget. The objectives of our audit were to determine whether internal controls are in place and operating to ensure:

1. Cash receipts are properly collected, recorded, deposited, and adequately safeguarded to minimize occurrence of loss or theft.
2. Cash disbursements are processed completely, accurately, timely, and in accordance with management’s authorization.
3. Assets (personal property) held by PA/PG on behalf of its clients are safeguarded (e.g., access to assets and critical control forms and records are restricted) and that assets are properly handled and disposed of.
4. Trust Funds are adequately monitored, properly reconciled to the County General Ledger, and old and/or unidentified reconciling items are researched and resolved timely.
5. Special Use Revolving Fund transactions are properly reviewed, authorized, monitored, and are made in accordance with the established purpose of the fund.
6. Budget process and controls regarding the development, review, approval, and monitoring of the budget are adequately understood and communicated within the department along with the training processes for individuals responsible for budgets.

Additionally, we would identify ways to improve efficiency and effectiveness related to the above processes as they come to our attention during the audit.

BACKGROUND

On March 22, 2005, the Board of Supervisors (BOS) approved the separation of the PA/PG from the Health Care Agency and designated PA/PG as a separate department, effective July 1, 2005. The mission of the PA/PG is to provide services in accordance with California State law for clients and their families. The Public Administrator (PA) protects the assets and manages the affairs of deceased County residents who at the time of death left no known heirs, no will, no named executor or an executor who is ineligible. The PA searches for assets belonging to the decedent, arranges for the interment when there are no known relatives, makes a search for heirs, and acts as administrator of estates when named in a will or when heirs request such service.

The Public Guardian (PG) responds to referrals from Adult Protective Services, local law enforcement agencies and the Superior Court to investigate persons, usually elderly or gravely disabled due to mental illness, who are unable to properly provide for their personal needs of physical health, food, clothing or shelter, who are at risk of undue influence by others, or whose property is subject to loss, injury, waste or mismanagement. When appointed by the court, the PG assumes responsibility for the overall welfare of the conservatee including placement, treatment and management of the conservatee’s assets.



SCOPE

Our audit was limited to internal controls and processes over cash receipts and cash disbursements, trust funds, the Special Use Revolving Fund, warehouse and personal property controls, and the annual budget process for the period from July 1, 2004 to June 30, 2005. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation. We also obtained an understanding of PA/PG's accounting and case management system, ePAGES, through inquiry of the PA/PG Information Technology Manager.

EXCLUSIONS FROM SCOPE

Our audit did not include a review of general information technology controls or any application control testing over ePAGES. We also did not include a review of processes and controls over real property under PA/PG's management, and PA/PG's auctions of real and personal property.

CONCLUSIONS

No material weaknesses were identified. Based upon the objectives of our audit, we found the following:

1. PA/PG's accounting and case management system, ePAGES, is lacking key information system controls. Management, who is aware of this issue, informed us that there are data processing issues, a lack of audit trails and a lack of logical security controls built into the system, which primarily affects the case management side of operations. Although no errors or irregularities resulting from these issues were noted in the processes we audited, we consider this a **Significant Issue** (see Report Item entitled Information Technology Controls). In addition, PA/PG's continuity plan for restoring information technology operations is outdated, has not been tested and does not describe manual routines in the event of a disaster (see Report Item entitled Information Technology Continuity Plan).
2. PA/PG's Fiduciary Manager has been with the County and PA/PG for over 30 years, is responsible for a substantial amount of PA/PG accounting tasks, and plans to retire in the near future. PA/PG management needs to continue its succession planning for the Fiduciary Manager's position (see Report Item entitled Succession Planning).
3. Controls and processes are in place to ensure cash receipts are properly collected, recorded, deposited and are adequately safeguarded. We note in our report where enhancements can be made to further ensure the propriety of cash receipts (see Report Items entitled Segregation of Duties and Handwritten Cash Receipt Forms).
4. Controls and processes are in place to ensure cash disbursements are properly authorized, valid, processed timely, accurately recorded and in compliance with management directives. No findings were noted in this area.
5. Trust funds are adequately monitored and properly reconciled. We note in our report where enhancements can be made to the trust fund reconciliation process (see Report Item entitled Trust Fund Reconciliations).
6. Controls and processes are in place over the Special Use Revolving Fund to ensure transactions are proper and the fund is reconciled. No findings were noted in this area.



7. Controls are in place to safeguard assets held by PA/PG on behalf of its clients. We note in our report where enhancements can be made to further ensure property is safeguarded and properly accounted for (see Report Items entitled Property Inventory Forms, Property Search Witnesses, Pharmaceutical Materials, Physical Inventories of Property and Vehicle Storage).
8. Being a new and separate department has resulted in PA/PG having to establish a budget process for the preparation, monitoring, documentation, and communication of the annual department budget. (PA/PG's budget was formerly prepared under the Health Care Agency and the former Community Services Agency). PA/PG is working jointly with the HCA Budget Technical Unit in its first year of having its own budget. Our audit noted that PA/PG needs to update its fee studies to ensure they are current (see Report Item for Fee Studies).
9. We noted some areas where effectiveness and efficiency can be enhanced in the cash receipts and property processes. These are detailed in our report section entitled Effectiveness and Efficiency Issues.

Based on our audit of the above processes, we believe appropriate financial processes are in place in PA/PG, along with appropriate management oversight of the processes. The two key issues we identified in this audit are the lack of system controls over the current accounting and case management system, ePAGES, and succession planning for the Fiduciary Manager position. The remainder of our control findings and recommendations are to strengthen and enhance existing controls in the areas of cash receipts, warehouse and property controls, trust funds, and the annual budget process.



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

INFORMATION TECHNOLOGY

PA/PG uses ePAGES (Enhanced Public Administrator Guardian Electronic System) as its case management and accounting application. Cash receipts and disbursements are input and processed through ePAGES. ePAGES is a stand-alone application with no interfaces to other systems; however, cash receipt and disbursement information from ePAGES is regularly uploaded into the Auditor-Controller's General Ledger. ePAGES resides on PA/PG's local area network and is maintained by PA/PG's Information Technology (IT) Section.

We did not perform a review of general information system controls or application controls for ePAGES. However, during our audit, PA/PG's IT Manager informed us of various concerns regarding ePAGES as discussed below. Upon notification of these concerns, we expanded our testing of cash receipts, cash disbursements, trust fund reconciliations and property transactions to detect any instances of errors or irregularities resulting from system concerns. No exceptions were noted that resulted from the reported system concerns.

We also inquired of PA/PG's Fiduciary Manager about any "workarounds" that were necessary in ePAGES. We were informed the only workarounds related to ePAGES were done in case management (e.g., PA/PG IT Manager has to run a special query to get certain data to conform to State formatting requirements). The Fiduciary Manager indicated that there were no workarounds performed in Accounting and the processing of daily cash receipts and disbursements in ePAGES works properly. Our testing of cash receipts and disbursements revealed no exceptions to the Fiduciary Manager's assertion.

PA/PG management informed us that a feasibility study of the system is currently being performed by CEO/IT to determine user needs and options for a replacement system. We understand there are cost/benefit considerations to be made in correcting the below concerns in the current ePAGES application. If a replacement system is the preferable option, PA/PG should ensure the new system has the necessary data processing controls, audit trails, and logical security features identified below. Internal Audit can provide assistance in ensuring appropriate system controls are in place. If a replacement system cannot be implemented in the near future, PA/PG should rank and prioritize the critical access and security features in ePAGES that can be addressed, and take appropriate corrective actions.

Finding No. 1 – Information Technology Controls (Significant Issue)

The PA/PG IT Manager informed us of the following issues regarding ePAGES, which were not validated or tested by Internal Audit during the audit:

Data Processing Issues

- A lack of input controls has reportedly caused data integrity issues in case management.
- The vendor no longer supports ePAGES and it cannot be upgraded as PA/PG does not possess the application's source code.
- IT support documentation for the application is not available.
- The system has an unacceptable rate of downtime.
- ePAGES does not perform property inventory tracking, a function that is critical to PA/PG.

Audit Trails

ePAGES does not have audit trails that record user activity in an unalterable form. There are no security logs that record invalid log-on attempts and other security breaches.



Logical Security

ePAGES does not have commonly found security features that:

- Lock a user account out after a preset number of incorrect passwords have been entered.
- Automatically log-off the application after a period of user inactivity.
- Ensure passwords are controlled by the users (passwords are controlled by the IT Manager).
- Limit password reuse and requires periodic password changes.
- Encrypt the password database.

Recommendation No. 1

We recommend PA/PG management continue to evaluate the feasibility of a replacement system for ePAGES. If a system replacement is an option, PA/PG needs to ensure appropriate system controls for data processing, audit trails, and logical security are part of the replacement system. If not, PA/PG should assess each of the items identified above and initiate the appropriate course of action based upon its risk assessment and cost/benefit analysis.

PA/PG Management Response:

PA/PG concurs with this recommendation. The ePAGES replacement feasibility study will be completed January 2006. PA/PG is completing the County's FY 06-07 candidate system request process to obtain funding and approval for a replacement system. PA/PG shall insure that the replacement system shall adhere to the data processing, audit trail and logical security system control recommendations contained in this audit report.

Finding No. 2 - Information Technology Continuity Plan

PA/PG's IT continuity plan is outdated, is missing key elements and has not been tested. An IT continuity plan helps ensure IT services are available as required and ensures a minimal business impact in the event of a major disruption.

Recommendation No. 2

We recommend PA/PG update their IT continuity plan (that is in line with the overall business continuity plan) and consider including the following elements:

- Response and recovery procedures meant to bring IT operations back to the state they were in before the incident or disaster.
- Identification of critical applications, third party services, personnel and supplies, and data files needed for recovery.
- Utilization of back-up site and/or offsite storage of critical back-up media.
- Communication procedures with stakeholders, employees, key customers, critical suppliers and management.
- Critical information on continuity teams, affected staff, customers, suppliers, public authorities and media.
- Control procedures to ensure the continuity plan is up-to-date and reflects current business requirements.
- Guidelines on how to use the continuity plan (including periodic staff training).

The plan should be documented, agreed upon by both end-user functions and the IT function, communicated to affected parties and tested periodically.



PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG has recently provided information to the CEO IT Disaster Recovery Team and plans to participate in the County-Wide Information and Technology Disaster Recovery effort and solution. PA/PG currently performs sufficient daily backups of data, utilizes Iron Mountain for off-site storage preservation and has well-documented critical application Server specifications. PA/PG shall address the recommendations listed within this audit report in the planned update to its business continuity plan.

SUCCESSION PLANNING

Succession planning is any effort designed to ensure the continued effective performance of an organization, department, division or work group by making provision for the development, replacement and the strategic application of key people over time. A succession planning and management program is a deliberate and systematic effort by an organization to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement.

Finding No. 3 – Succession Planning

The PA/PG Fiduciary Manager is a critical position that oversees all accounting and property warehouse functions. The current Fiduciary Manager has been with the County and PA/PG over 30 years, has extensive knowledge of PA/PG accounting and warehouse operations, and is responsible for performing several extensive accounting related tasks for PA/PG, including:

- Preparing tax returns.
- Reconciling bank account balances.
- Reconciling trust fund balances.
- Approving and posting cash receipt transactions.
- Approving high-dollar amount disbursements.
- Developing accounting procedures.

We were informed the Fiduciary Manager plans to retire in approximately one year. There has been some training to perform the Fiduciary Manager's duties; however, the staff being trained is not at the same management level as the Fiduciary Manager.

Recommendation No. 3

We recommend PA/PG continue its succession planning for the Fiduciary Manager position and ensure that another individual is fully trained in performing the Fiduciary Manager's duties.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG is aware of the valuable role that the Fiduciary Manager performs and the importance of an effective succession plan. PA/PG shall continue its succession planning for this position.

PA/PG is also currently interviewing candidates for its vacant HR/Budget Manager position. The Fiduciary Manager and the HR/Budget Manager are Admin Manager II positions. PA/PG is considering candidates who are licensed CPAs or have strong accounting backgrounds and have prior management experience. PA/PG intends to have its HR/Budget Manager prepared to assume the Fiduciary Manager's duties on an interim or permanent basis upon the eventual retirement of the Fiduciary Manager.



The Fiduciary Manager also has expressed her plans to give sufficient notice to PA/PG so that proper steps are taken to ensure that all accounting functions can be properly performed once she chooses to retire. The Fiduciary Manager shall also continue to take extra steps to train her current accounting staff to perform her tasks if a replacement cannot be hired and trained before her retirement.

CASH RECEIPTS

PA/PG receives cash for anything an individual would normally receive as income, such as pensions, Veteran Administration benefits, Social Security benefits, wages, refunds, dividends, interest, and sales of personal and real property. Controls and processes should be in place to ensure cash receipts are properly collected, recorded, deposited and are adequately safeguarded.

A satisfactory system of internal control includes a plan of organization that provides segregation of duties appropriate for proper safeguarding of County assets. A satisfactory internal control system depends largely on the elimination of opportunities to perpetrate and then conceal errors or irregularities. This in turn depends on the assignment of work in such a fashion that no one individual controls all phases of an activity or transaction.

Finding No. 4 – Segregation of Duties

PA/PG bank reconciliation and cash processing control duties were not adequately segregated. The Fiduciary Manager was responsible for both reconciling bank accounts and posting transactions to the subsidiary ledger affected by cash transactions.

Recommendation No. 4

We recommend PA/PG review the bank reconciliation and subsidiary ledger posting process and take appropriate action to segregate those duties.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG has segregated the approval/posting process from the bank reconciliation process. The Fiduciary Manager continues to approve and post the transactions while one of the Accountant/Auditor IIs prepares the bank reconciliation for each account.

Handwritten Cash Receipt Forms. PA/PG Accounting issues handwritten cash receipt forms for cash received from property auctions. Handwritten cash receipt forms are considered critical business forms because of their susceptibility for misuse. Appropriate controls should be in place for safeguarding and accountability of the forms. As such, County Accounting Manual, Procedure C-5 *Handwritten Cash Receipts*, Section 2.2.2.E.3 states the custodian of the cash receipts forms is to “Have an inventory of the cash receipt forms performed periodically by an employee with no custodial or cashiering duties.”



Finding No. 5 – Inventories of Receipt Forms

Formal physical inventories of used and unused pre-numbered cash receipt forms are not performed. The Fiduciary Manager indicated that informal reviews of receipts were done, but were not documented.

Recommendation No. 5

We recommend PA/PG conduct and document periodic physical inventories of used and unused handwritten cash receipt forms.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG shall begin to document its informal reviews of used and unused cash receipts immediately. An employee who does not normally have access to the physical receipts in the vault shall be assigned to conduct this review.

WAREHOUSE AND PROPERTY CONTROLS

PA/PG responsibilities include locating, taking control of and protecting the assets of conservatees and deceased residents of Orange County who at the time of death left no known heirs, no will, or no eligible executor. PA/PG staff are responsible for entering the residences and taking inventory and possession of personal property assets. All property is inventoried in the presence of an impartial, voluntary witness and is logged on manual Property Inventory forms. Assets are stored in either an on-site warehouse, a vault (for cash, cash equivalents and small valuables), or a fenced parking lot for storage of vehicles, trailers, and boats. Property tags identify assets belonging to individual estates or conservatees.

Property Inventory Forms. PA/PG procedures require Property Inventory forms to be issued sequentially and that no property of value shall be omitted on the Property Inventory forms. Because these forms are critical to PA/PG operations, they should be safeguarded to prevent misuse and minimize the risk of theft or loss of conservatee and estate assets.

Finding No. 6 – Safeguarding and Inventories of Forms

Unused Property Inventory forms were kept in an unlocked drawer located in a vault where multiple staff members have authorized access. In addition, periodic inventories of the unused Property Inventory forms are not performed.

Recommendation No. 6

We recommend PA/PG ensure unused Property Inventory forms are properly secured, and that periodic inventories of unused Property Inventory forms be performed and documented.

PA/PG Management Response:

PA/PG concurs with the recommendation. PA/PG shall ensure that unused Property Inventory forms are properly secured, and periodic inventories of unused Property Inventory forms are performed and documented. An employee who does not normally have access to the physical Property Inventory forms in the vault shall review and document whether Property Inventory forms are properly secured. Only persons who have access to the vault, either alone or accompanied, shall have the authority to issue Property Inventory forms. Property Inventory forms are securely locked in the vault with access only by authorized personnel and, therefore, locking the cabinet containing the Property Inventory forms will not add to security.



Finding No. 7 – Issuance of Forms and Property Tags

Additional Property Inventory forms were issued to staff members who were unable to account for previously issued forms. Property estate tags were not always sequentially assigned with instances of omitted numbers and other numbers designated more than once.

Recommendation No. 7

We recommend PA/PG ensure all previously issued Property Inventory forms are accounted for before issuing additional forms. In addition, Property Inventory forms and property tags should be issued sequentially.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG has taken steps to correct this situation. The new procedure requires a review of previously issued Property Inventory forms before additional forms can be issued to staff members. New forms shall not be issued to a staff member until prior issued forms are all accounted for by accounting staff. As the issued forms are used and copied, the review staff member shall notify the assigned staff member if any forms are missing when filing the copies. This should assist the staff member locating any missing forms. Property tag numbers shall be issued sequentially. PA/PG shall continue to emphasize the proper form and property tag procedures in training and in review. PA/PG shall make the proper handling and completion of Property Inventory forms a part of all current and future performance plans of applicable staff members. Material problems with the proper handling and completion of Property Inventory forms shall result in improvement plans or other disciplinary actions.

Property Search Witnesses. PA/PG's procedures require that field inventories always be conducted in the presence of an impartial, voluntary witness. Procedures state that the witness receives no compensation or reward for this service. The witness is to receive a "Responsibility of Witness" form that outlines the witness' function during the inventory. Upon completion of the inventory, the witness must sign the Property Inventory form(s) and is to be provided a copy. Following PA/PG internal procedures for property search witnesses will help ensure property is not subject to theft or loss.

Finding No. 8 – Responsibility of Witness and Property Inventory Forms

A "Responsibility of Witness" form and a copy of the completed Property Inventory form were not always provided to the witness. In addition, required information showing the address and telephone number of the witness was not always documented on the Property Inventory forms.

Recommendation No. 8

We recommend PA/PG ensure each property witness receives both a "Responsibility of Witness" form and a copy of the completed Property Inventory form, which should include the proper witness information.

PA/PG Management Response:

PA/PG concurs with this recommendation. The Responsibility of Witness form shall be revised to indicate the date, the estate and shall be signed by the person conducting the inventory and the witness. This form shall be a NCR-type form so that one copy can be maintained in the file and the other copy given to the witness. PA/PG shall require all Property Inventory forms to be fully completed including all witness information. PA/PG shall make the proper completion and use of Property Inventory and Responsibility of Witness forms a part of all current and future



performance plans of applicable staff members. Material problems with the proper completion and use of Property Inventory and Responsibility of Witness forms shall result in improvement plans or other disciplinary actions.

Finding No. 9 – Presence of Witnesses on Property Search

Procedures require witnesses to be present any time PA/PG staff enter a residence, and should remain there until the completion of the property search or visit. We noted instances where witnesses were not always present for the entire property search.

Recommendation No. 9

We recommend PA/PG ensure each witness is present for the entire property search.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG supervisors shall make random, unannounced visits to inventory sites to determine if the witness is present during the entire search. PA/PG shall review its current policies and procedures to make sure they properly and clearly delineate the proper use of witnesses. PA/PG shall make the proper use of witnesses a part of all current and future performance plans of applicable staff members. Material problems with the proper use of witnesses shall result in improvement plans or other disciplinary actions.

Finding No. 10 – Use of Impartial, Voluntary Witnesses

We noted that individuals from temporary employment agencies and a locksmith were paid to witness property searches. However, the individuals assisted PA/PG personnel with inventory proceedings and lock repairs, respectively.

Recommendation No. 10

We recommend PA/PG evaluate whether witnesses should be compensated for their service, and modify or enforce its property search witness procedure regarding compensation of witnesses.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG shall evaluate whether or how a witness may be compensated for their service and firmly enforce the policies on the compensation and roles of witnesses that are implemented. PA/PG is investigating and evaluating the potential use of Sheriff “keepers” or non-PA/PG county employees as witnesses. The new policies and procedures will take into account many factors, including but not limited to, safety to estate property, the ability of estates to pay for witnesses, the independence of the witnesses, the three levels of property searches set forth below, the feasibility of using locksmiths or paid witnesses, the appropriate time and effort required to utilize “volunteer” witnesses, priority of appropriate witnesses, the effect of various factors on a witness’ impartiality, and the ability to audit compliance. PA/PG shall make the proper use of witnesses a part of all current and future performance plans of applicable staff members. Material problems with the proper use of witnesses shall result in improvement plans or other disciplinary actions.

There are generally three levels of property searches that require witnesses: (1) entry of the property for security (i.e. locking windows, etc.) which takes 20-30 minutes, (2) will search and securing of valuables and hazardous items which take from 20 minutes to two hours, and (3) detailed inventories which can take days or weeks to complete. A locksmith can be a valuable and



effective resource as a witness for levels (1) and (2), but under no circumstances should be used for level (3). Locksmiths are not directly paid to witness property searches, but are compensated for replacing locks on properties to properly secure those properties. The locksmith should not be used as a witness while performing his/her duties as a locksmith.

Pharmaceutical Materials. PA/PG confiscates any pharmaceutical materials found during property searches. California Health and Safety Code, Sections 118280, 118285, and 118310 set forth requirements for disposing of pharmaceutical materials. The sections require medical waste to be bagged and placed in a rigid storage container that must be leak resistant, have tight-fitting covers, and be kept clean and in good repair. Containers are required to be labeled as “biohazardous waste.” Needles and syringes must be placed into a sharps container. In addition, the California Integrated Waste Management Board advises that pharmaceuticals should not be placed down the drain or toilet.

Finding No. 11 – Storage of Pharmaceutical Materials

Pharmaceutical products and needles were stored in open containers and accumulated for the past four years. The secured room used for the storage of pharmaceutical products and needles did not have a warning sign for biohazardous waste storage.

Recommendation No. 11

We recommend PA/PG ensure pharmaceutical products and needles are stored and disposed of in accordance with the California Health and Safety Code, and that pharmaceutical containers are labeled as “biohazardous waste.”

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG shall ensure pharmaceutical products and needles are stored and disposed of in accordance with the California Health and Safety Code, and that pharmaceutical containers are labeled as “biohazardous waste.” PA/PG has contracted with a hazardous and biohazardous waste disposal company, Sanitec USA. They have picked up PA/PG’s accumulated materials of this type and have provided PA/PG with containers that meet the California Health and Safety Code.

Finding No. 12 – Identification of Pharmaceutical Materials

Procedures for completing the Property Inventory forms did not require the description of specific pharmaceutical products. All pharmaceutical products and needles were described as medication and quantities shown as “small” or “multiple containers.” In addition, written inventory procedures allow for flushing pharmaceutical substances down the on-site toilet.

Recommendation No. 12

We recommend PA/PG update its inventory procedures to require descriptions of specific pharmaceutical products on Property Inventory forms and to disallow flushing pharmaceutical substances down the on-site toilet.

PA/PG Management Response:

PA/PG partially concurs with this recommendation. PA/PG believes listing each pharmaceutical product on an inventory sheet is wasted time and unnecessary. Frequently there are hundreds of bottles with pills and, once, over one thousand bottles. PA/PG shall take the Sanitec USA



furnished containers referred to in Recommendation No. 11 above to each job site and have the witness present as this type of material is placed in its proper container. The Property Inventory description shall be changed from “small” or “multiple” to “contents of (number of) bottles placed in container for destruction.” PA/PG discontinued flushing pills down the toilet many years ago. The result of discontinuing this process was the accumulation noted in this audit report. PA/PG’s policy and procedures shall be changed to reflect current operating policies.

Finding No. 13 – Physical Inventories of Property

Property is stored at PA/PG in a large warehouse or a vault until transferred to the conservatee, next of kin or sold in a public auction. We noted that periodic inventories of items maintained in the warehouse, which are valuable and susceptible to theft, are not performed. Performing inventories on selected valuable items reduces the risk of theft or loss of property and assets.

Recommendation No. 13

We recommend PA/PG determine an appropriate frequency of physical inventory counts and perform and document periodic physical inventories of property that is valuable and susceptible to theft.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG shall develop a systematic method of documenting and conducting physical inventories of property that provides added safeguards of valuable property in the vault and the warehouse factoring in appropriate staffing and scheduling factors.

Finding No. 14 – Vehicle Storage

The restricted storage lot did not sufficiently ensure vehicle safety. During an inspection of the vehicle impound lot, it was noted that the windows for the majority of the vehicles were shattered in spite of the surrounding fence and locked entry. In one instance, CEO/Risk Management reimbursed PA/PG approximately \$3,700 for damages to one vehicle. The damaged vehicle was sold at auction resulting in a \$3,700 loss to the County.

Recommendation No. 14

We recommend PA/PG develop a plan to properly protect the vehicles belonging to the estates of conservatees and decedents.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG recently purchased several trailer-type containers in which to store vehicles. Each container stores two vehicles. The vehicles are placed in the storage lot in such a way as to provide protection to those vehicles unable to be stored within the container. Damage has significantly decreased by using the containers and PA/PG continues to take necessary steps to protect the value of the vehicles. PA/PG shall evaluate its options for more expeditiously liquidating vehicles to maximize the value of the vehicles to the estates of conservatees and decedents while minimizing the risk of loss through damage and devaluation.



TRUST FUNDS

PA/PG maintains two trust funds, Public Administrator No. 164 and Public Guardian No. 165 used to hold monies received from decedent estates and conservatees. Controls for trust funds should ensure funds are adequately monitored and properly reconciled, and old and/or unidentified reconciling items are researched and resolved timely.

Finding No. 15 – Trust Fund Reconciliations

PA/PG reconciles its trust funds monthly to the Auditor-Controller General Ledger balance. We did not note any exceptions as to the timeliness of the preparation of the reconciliations, nor did we note any long outstanding, unidentified differences in the reconciliations. Because the Fiduciary Manager prepared the reconciliations, the Acting Assistant PA/PG was responsible for reviewing the reconciliations. The reconciliation process should ensure that supporting documentation is maintained to facilitate an efficient and effective management review. Our review disclosed that:

- The central trust fund reconciliation files contained the subsidiary ledger with cash balances and schedule of unallocated interest income. However, supporting documentation was not accumulated in the central files showing the General Ledger balance, receipts, disbursements, and posted adjustments.
- The reconciliation review process included confirming amounts with the supporting documents in the central files. However, other reconciling amounts were not validated unless the reviewer requested the supporting data.

Recommendation No. 15

We recommend PA/PG ensure the trust fund reconciliation files contain adequate supporting documentation and all reconciling items are validated during the reconciliation process.

PA/PG Management Response:

PA/PG concurs with this recommendation. The files shall contain the adding machine tapes prepared to determine the amount of cash receipts and cash disbursements used in the reconciliation process. The reviewer, who is still the Assistant PA/PG, has been briefed on the process and has the ability to check each number used in the reconciliation process to the source documents.

BUDGET PROCESS

Prior to July 1, 2005, PA/PG was part of the Heath Care Agency (HCA) and its budget was a component of HCA's total budget. Effective July 1, 2005, PA/PG was established as a separate department. Because PA/PG had not yet prepared its own annual budget at the time of our fieldwork, our work consisted of obtaining an understanding of the budget transfer process from HCA to PA/PG to ensure adequate controls exist to ensure proper preparation, monitoring, documentation, and communication of the department budget. We noted the following item:

Finding No. 16 – Fee Studies

Fee studies, which are the basis of establishing reasonable costs and consequently reasonable reimbursement amounts or fees, should be current, accurate and complete. The last fee study performed by PA/PG was based on Fiscal Year 1998-1999 data and is not current.



Recommendation No. 16

We recommend PA/PG ensure its fee studies are current.

PA/PG Management Response:

PA/PG concurs with this recommendation. PA/PG shall request a new fee study by performed by the County Auditor-Controller in the near future.

CASH DISBURSEMENTS

PA/PG processes payments made on behalf of their clients and includes such items as mortgage, board and care, medical, hospital, cost of administration, filing fees, and maintenance of property. We found that controls and processes were in place to ensure cash disbursements are processed completely, accurately, timely and in accordance with management's authorization. **No findings were noted.**

SPECIAL USE REVOLVING FUND

PA/PG maintains a special use revolving fund of \$115,000. The purpose of the fund is to make advances to estates where funds are not immediately available to pay for estate expenses in order to preserve the estate's assets. The fund was set up per Board of Supervisors' Resolution 83-1477 and 92-410. We found that controls were in place to ensure the fund is adequately safeguarded, and that transactions are properly authorized and recorded completely, accurately and timely. **No findings were noted.**



ECONOMY AND EFFICIENCY ISSUES

One of our audit objectives is to identify areas where effectiveness and efficiencies can be enhanced. Our audit noted the following areas that have been discussed with management. These are presented for your consideration and response and are not considered as formal recommendations.

Manual Bank Reconciliations

PA/PG Accounting manually reconciles its bank accounts with its internal records. Automating the reconciliation process utilizing a spreadsheet or other similar tool will save time in the preparation of the reconciliations, and will reduce the likelihood of mathematical errors.

PA/PG Management Response:

Since PA/PG writes only about ten checks a month, PA/PG does not feel that the time spent to automate the bank reconciliations is time well spent. Some accounts have no activity during the month and the entire reconciliation process takes less than an hour for four accounts. Nevertheless, PA/PG shall evaluate utilizing an automated tool.

Manual Property Inventory Records

PA/PG maintains manual records accounting for the property of its clients. Utilizing automated inventory software will help ensure all property is properly accounted for.

PA/PG Management Response:

A tremendous amount of manual activity is carried out to care for client personal property and to file this information with the Court through the Inventory and Appraisal process. PA/PG agrees that the implementation of an automated inventory/warehouse/auction solution is long overdue and shall include a module to handle this activity in the requirement definition specification of PA/PG's ePAGES replacement project.



ATTACHMENT A: Report Item Classifications

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

- **Material Weaknesses:**

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

- **Significant Issues:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

- **Control Findings:**

Audit findings 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.



ATTACHMENT B: Public Administrator/Public Guardian Management Responses

*Note, the cover letter below was submitted along with electronic responses.



OFFICES OF
**PUBLIC ADMINISTRATOR
PUBLIC GUARDIAN**
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January 18, 2006

Dr. Peter Hughes
County Internal Auditor
400 Civic Center Dr West
Building 12, room 232
Santa Ana, CA 92701

RE: Public Administrator/Public Guardian Response to Audit Report #2528

Dear Dr. Hughes,

We have thoroughly reviewed and responded to your audit our business processes and the resulting recommendations to improve our internal control and operations.

Our detailed response to the above-mentioned Audit Report is attached. As our responses indicate, we mostly concur with the Audit Report recommendations and will make every effort to improve our internal control and operations consistent with those recommendations.

Please contact me at (714) 567-7505 for any additional questions concerning our response.

A handwritten signature in cursive script that reads "John S. Williams".

John S. Williams
Public Administrator/Public Guardian

Attachment

