



INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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INTERNAL CONTROL REVIEW OF SOCIAL SERVICES AGENCY ACCOUNTS RECEIVABLE AND COLLECTION PROCESSES

**FOR THE PERIOD
SEPTEMBER 1, 2004 THROUGH AUGUST 31, 2005**

AUDIT NUMBER: 2575

REPORT DATE: JUNE 29, 2006

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
Audit Manager:	Michael Goodwin CPA, CIA
Senior Auditor:	Kenneth Wong, CPA, CIA

**Internal Control Review of Social Services Agency
Accounts Receivable and Collection Processes**

**For the Period
September 1, 2004 through August 31, 2005**

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Office of the Director
DR. PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880

EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

ELI LITTNER
CPA, CIA, CFE, CFS, CISA
DEPUTY DIRECTOR

MICHAEL J. GOODWIN
CPA, CIA
AUDIT MANAGER

ALAN MARCUM
MBA, CPA, CIA, CFE
AUDIT MANAGER


AUTUMN MCKINNEY
CPA, CIA, CGFM
AUDIT MANAGER

Transmittal Letter

Audit No. 2575

June 29, 2006

TO: Ingrid Harita, Director
Social Services Agency

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

SUBJECT: Internal Control Review of Social Services Agency
Accounts Receivable and Collection Processes

We have completed an internal control review of the Social Services Agency accounts receivable and collection processes for the period September 1, 2004 through August 31, 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 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.

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 complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final report.

Attachment

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Bill Mahoney, Deputy CEO, Government/Public Services
- David E. Sundstrom, Auditor-Controller
- Jess Carbajal, Director of Agency Administration, SSA/Administration
- Carol Wiseman, Deputy Director, SSA/Financial and Administration Services
- JoAnn Martinez, Manager, SSA/Program Integrity
- Shaun Skelly, Chief Assistant Auditor-Controller
- Bill Castro, Assistant Auditor-Controller, Satellite Accounting Operations
- Espi Garcia, Senior Manager, SSA/Accounting
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



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DR. PETER HUGHES
Ph.D., MBA, CPA, CIA, CFE, CITP

MAILING ADDRESS:
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CALIFORNIA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880

EMAIL: peter.hughes@ocgov.com
WEBSITE: www.ocgov.com/audit/

INTERNAL AUDITOR'S REPORT

Audit No. 2575

June 29, 2006

TO: Ingrid Harita, Director
Social Services Agency

SUBJECT: Internal Control Review of Social Services Agency
Accounts Receivable and Collection Processes

We have completed an internal control review of the Social Services Agency (SSA) accounts receivable and collection processes for the period September 1, 2004 through August 31, 2005. Our audit was made in accordance with professional standards established by the Institute of Internal Auditors.

Management of SSA and SSA/Accounting Services (SSA Accounting) are 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, SSA's and SSA Accounting's continuing emphasis on control activities and self-assessment of control risks.

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 that the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the limited purpose described above, would not necessarily disclose all weaknesses in the SSA's and SSA Accounting's operating procedures, accounting practices, and compliance with County policy.

Based on our audit, **no material weaknesses were identified**. However, we did identify **four Significant Issues** and **three Control Findings** resulting in **seven recommendations** to improve controls and processes as noted in the Detailed Observations, Recommendations and Management Responses section of this section of this report.

The four Significant Issues relate to timeliness in SSA's and SSA Accounting's identification and establishment of accounts receivable, aging analysis reports and reconciliations not used to monitor recorded accounts receivable, and authorization for the discharge of accountability (account write-offs) not being designated at an appropriate level of management. The three Control Findings relate to the overall process for collection actions, recovery of benefits, and quality control reviews of collection actions.

While our report indicates the specific areas where our observations are directly applicable, **SSA and SSA Accounting should implement the recommendations in other business processes they find 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 SSA and SSA Accounting Services during our review. If we can be of further assistance, please contact me, 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
Bill Mahoney, Deputy CEO, Government/Public Services
David E. Sundstrom, Auditor-Controller
Jess Carbajal, Director of Agency Administration, SSA/Administration
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Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted an internal control review of accounts receivable and collection processes in the Social Services Agency (SSA). The objectives of our review were to determine whether internal controls are in place and operating to ensure:

1. Invoices and claims are recorded accurately, completely, and timely as accounts receivable in the accounting records.
2. Recorded accounts receivable are adequately monitored using reconciliations and aging reports.
3. Collection efforts on delinquent accounts are performed in accordance with established procedures and statutory requirements, including the process for writing-off uncollectible debts.

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

The mission of SSA is to deliver quality social services that are accessible and responsive to the community, encourage personal responsibility, preserve families, protect vulnerable adults and children, and recognize cultural diversity. Core business objectives of SSA include self-sufficiency, protective services, independent living, financial assistance, health care access, employment services, and family stability. The Auditor-Controller has outstationed accounting services in SSA (SSA Accounting), which includes collections and accounts receivable. To help achieve its business objectives, SSA provides the following public assistance benefits to eligible individuals and families:

1. General Relief – Cash assistance program funded by the County for clients who do not qualify for other cash assistance programs. General Relief benefits are considered to be a loan and are to be repaid to the County. The amount disbursed for General Relief benefits between September 2004 and August 2005 was approximately **\$700,000**.
2. CalWORKs* (California Work Opportunity and Responsibility to Kids) – Cash assistance program funded by the State to eligible families who meet specific eligibility requirements, such as citizenship, age, income, resources, assets, and other factors. The CalWORKs benefits disbursed between September 2004 and August 2005 was approximately **\$109 million**.
3. Food Stamps* – Electronic benefit card program funded by the State to safeguard the health and well-being of eligible low-income households by raising the levels of nutrition. The amount disbursed for food stamps between September 2004 and August 2005 was approximately **\$84 million**.
4. Foster Care* – Cash assistance program funded by Federal and State sources arranged by the County. Stipends are provided for temporary care of a child by a person other than their own parent reserved for appropriate food, clothing, shelter, medical treatment, and education. The amount disbursed for Foster Care benefits between September 2004 and August 2005 was approximately **\$92 million**.

* CalWORKs, Food Stamps and Foster Care are referred to as “Non-General Relief” public assistance.



Identification and Establishment of Accounts Receivable

Accounts receivable are established upon the expiration of General Relief benefits **or** upon verification of over-issued benefits (referred to as overissuances/overpayments) from closed cases of Non-General Relief programs. Once overpayments are identified and validated, amounts due to SSA are posted in the **Ventura Automated Collection System (VACS)**, which establishes the receivable and produces a collection notice for amounts due. VACS is also used to generate a series of collection letters, maintain collection officer activity, and prepare other management reports.

Non-General Relief overissuances/overpayments are first identified in the SSA Divisions that administer Non-General Relief public assistance (e.g. CalWORKs, Food Stamps, Foster Care). If applicable, grant adjustments are determined at this time by SSA staff (see explanation below). A claim is established against the household by sending a notice to clients, and collection activity starts immediately via grant adjustment. When eligibility for benefits stops and the cases are closed, cases are referred to SSA/Program Integrity for review and validation of balance owed. Once validated, SSA/Program Integrity establishes the receivable, which includes recording the receivable into VACS.

Repayments of **General Relief** cash benefits are initiated and validated by the General Relief program. SSA Accounting/Collections establishes the receivables into VACS and sends notices to the clients. General Relief is considered a loan, and the statute of limitations for repayment are waived by the recipient. Therefore, until paid in full, the repayment remains as a receivable in VACS in the event the client applies for future public assistance.

Grant Adjustments. Government Code allows County welfare departments to reduce cash overpayments and food stamp overissuances through a process known as grant/allotment adjustments. These adjustments reduce a household's benefits by a certain percentage or dollar amount depending on the type of program and type of claim. There are limitations in grant adjustment amounts to avoid any serious hardship to households. During the audit period, a total of **\$432,864** of CalWORKs overpayments and **\$340,872** of Food Stamp overissuances were recouped through grant adjustments. Grant adjustments for overpaid benefits in Foster Care, Group Homes and General Relief were also made, but amounts were only tracked in individual case records and total amounts of grant adjustments are not readily available.

SSA accounts receivable balances by type of benefit as of August 31, 2005 were as follows:

<u>Assistance Type</u>	<u>Amount</u>	<u>Percentage</u>
General Relief	\$13,674,643	71.96%*
CalWORKs	3,301,596	17.38%
Food Stamps	1,547,163	8.14%
Foster Care	337,538	1.78%
Other	<u>140,722</u>	<u>0.74%</u>
Total	\$19,001,662	100.00%

* General Relief provides assistance to indigent adults, and nearly 72% (as shown above) of the total accounts receivable are uncollectible or difficult to collect because of their indigent status.

Collection Officer Activities. SSA Accounting/Collections is responsible for the collection of loans and overissuances/overpayments. Procedures consist of locating clients, telephone calls, collection letters, and tax interception by the Franchise Tax Board. If collection procedures do not result in payment, SSA Accounting/Collections can write-off the uncollectible amounts. When this occurs, the receivable records for each client are retained in VACS but collection efforts are terminated. For the period between September 2004 and August 2005, collections totaled **\$2,031,805**.



SCOPE

Our audit was limited to internal controls and processes over accounts receivable and collections for the period from September 1, 2004 to August 31, 2005. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation.

EXCLUSIONS FROM SCOPE

Our audit did not include a review of general information technology controls or any application controls testing over SSA's case management or VACS systems. We also did not include a review of processes and controls over cash receipts and determination of eligibility for public assistance.

CONCLUSION

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

1. Controls and processes are in place to ensure invoices and claims are recorded accurately and completely as accounts receivable. However, we noted that significant time delays exist between completion and identification of assistance loans and over-issued benefits and the establishment of receivables in VACS. This report item is considered a **Significant Issue** (see Report Item entitled Timeliness in Identification and Establishment of Accounts Receivable).
2. Best business practices for **monitoring** accounts receivable include the preparation of aging reports and reconciliations. We note in our report that SSA Accounting did not prepare an aged accounts receivable report to analyze delinquency of accounts because of limitations in the VACS system. Also, reconciliations between source documents and the accounts receivable subsidiary ledger (VACS) were not performed. These two items are considered **Significant Issues** (see Report Items entitled Aged Accounts Receivable and Reconciliation of Accounts Receivable Transactions to VACS).
3. Controls and processes are in place to ensure collection efforts on delinquent accounts are performed in accordance with established SSA procedures and statutory requirements. However, we note in our report that the discharge of accountability (write-off of bad debts) for uncollected receivables was not authorized by a person at an appropriate level of management in accordance with County policy and procedure. This item is considered a **Significant Issue** (see Report Item entitled Discharge of Accountability).
4. Current processes and procedures for ensuring timely recovery of public assistance loans and overpaid benefits need to be re-evaluated by SSA. Based on SSA's business objectives and available resources, the collection process should be focused on maximizing collection efforts in areas where collectibility is most likely. This item is considered a **Control Finding** (see Report Item entitled Accounts Receivable and Collection Processes).
5. Collection procedures used to collect amounts owed to SSA include making telephone calls, preparing and sending a series of collection letters and filing tax offset claims. Our audit noted that enhancements can be made to further ensure collection of accounts receivable and to monitor collection activity. These two items are considered **Control Findings** (see Report Item entitled Collection Actions and Quality Control Reviews).



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Timeliness in Identification and Establishment of Accounts Receivable (Significant Issue)

Accounts receivable are identified and validated following the completion of General Relief loan disbursements or verification of over-issued Non-General Relief benefits. A claim for monies owed back to SSA is established when recorded into VACS. Once entered into VACS, an initial repayment notification (known as a *Billing Statement* for General Relief and *Notice of Action* for Non-General Relief) is generated and sent to the client.

Finding No. 1

The identification and establishment of accounts receivable were not always performed in a timely manner.

Our review of 10 **General Relief** loan balances recorded in VACS by SSA Accounting/Collections between June and August 2005 disclosed that 7 were processed **between 117 and 452 days** after the completion of public assistance cash loans. SSA Accounting/Collections receives notification of loan balances from the General Relief programs, and we could not readily determine responsibility for these time lags.

For **Non-General Relief** benefits, SSA/Program Integrity and other SSA programs (not SSA Accounting) are responsible for the review and establishment of accounts receivable and sending out notices to clients. A review of five cases disclosed two instances where initial collection notices were sent out **122 and 279 days** after identifying the over-issuance. During our fieldwork, we noted that three staff members at SSA/Program Integrity were responsible for the review of pending over-issuance cases, and that there was a backlog of between 1,340 and 1,486 overpayments/over-issuances awaiting verification for the months of June through August 2005.

Because the identification and establishment of a claim is the starting point of an accounts receivable and collection process, timeliness in establishing the receivable is crucial to help ensure clients are located and receive prompt notification. Shortening these time lags should increase the likelihood of collecting the repayments and making the collection process more effective.

Recommendation No. 1

We recommend SSA and SSA Accounting work jointly to identify any barriers and constraints that impact the timely identification, establishment and notification of accounts receivable. Once identified, SSA and SSA Accounting should take appropriate measures to decrease the time lags to an acceptable level (to be determined by SSA) by establishing appropriate guidelines and procedures, and by monitoring the effectiveness of the established procedures.

Auditor-Controller Management Response:

Concur. During the audit SSA Accounting identified one area where improvement was needed. Referrals for Collection Notices are delivered by SSA staff directly to SSA Accounting Collections Support Unit for processing. After processing by the Collections Support Unit, they remained in a basket for several days waiting for SSA Accounting/General Accounting to pick them up. These Notices are now being delivered daily to SSA Accounting/General Accounting for the next step in processing, which is preparation of a Statement of Aid. This change in policy should improve Accounting's processing time by 3 to 5 days. This change was initiated during the audit.



We will also meet with SSA to help identify any barriers or constraints that impact the timely identification, establishment and notification of accounts receivable. We will then work to improve any of our processes identified as needing improvement.

SSA Management Response:

Concur. Effective February 2006, SSA has implemented a new automated eligibility determination system in which SSA and SSA Accounting can work jointly to identify any barriers and constraints that impact the timely identification, establishment and notification of Accounts Receivable. Prior to CalWIN implementation, setting up accounts receivable in Ventura Automated Collection (VACS) system was a manual process. CalWIN has automated the VACS and the CalWIN nightly interface eliminates any time lag between discovery of overpaid benefits and establishment of accounts receivable in VACS.

In addition, the backlog of overpayments and over-issuances in Program Integrity has been addressed by filling of vacant positions.

Aged Accounts Receivable (Significant Issue)

An accounts receivable aging report provides outstanding balances by the various aging categories, provides management with a monitoring tool for identifying patterns of delinquency and shows where collection efforts should be concentrated.

Finding No. 2

SSA utilizes VACS to maintain records for public assistance loans and overpaid benefits. VACS, which is administered by a State consortium of users, provides the delinquency date of each individual account but does not produce an accounts receivable aging report. During our fieldwork, we obtained an electronic file with a listing of delinquent accounts and prepared an accounts receivable aging report as of August 31, 2005 (see Finding and Recommendation #5 below for results of the aging report). SSA and SSA Accounting should evaluate the feasibility of modifying VACS to produce an aging report. Until then, an aging report should be periodically prepared and reviewed by management.

Recommendation No. 2

We recommend SSA and SSA Accounting evaluate the feasibility of modifying VACS to produce aging reports. In the interim, SSA Accounting should prepare accounts receivable aging reports to analyze delinquency patterns and make decisions how to concentrate collection efforts.

Auditor-Controller Management Response:

Concur. During the Auditors visit, SSA Accounting/Collections prepared an aging report and will begin preparing this report on a monthly basis beginning July 2006. This report will be reviewed monthly to help maximize collection efforts by concentrating on larger and newer dollar amounts outstanding. In addition, a formal modification to VACS will be requested at the State VACS Consortium Enhancement Meeting in July 2006, asking them to approve the design and implementation of an integrated aging report.

SSA Management Response:

Concur. Although VACS balances are being maintained by SSA Accounting/Collections and will be modified as stated above, SSA will support efforts to analyze delinquency patterns and make decisions how to concentrate collection efforts.



Reconciliation of Accounts Receivable Transactions to VACS (Significant Issue)

SSA Accounting maintains accounts receivable records consisting of monthly transaction lists showing additions and reductions to VACS, and VACS reports that serve as the accounts receivable subsidiary ledger. We were informed that SSA's accounts receivable for public assistance repayments are not reported in the County General ledger due to uncertainty in recovering the outstanding amounts.

Finding No. 3

We noted that SSA Accounting does not reconcile the series of monthly transaction lists with information maintained on VACS. SSA Accounting prepares a series of monthly transaction lists for additions and reductions to VACS based upon source documents from where the receivable is established. As indicated in this report, unpaid debts are recorded on VACS by various programs in SSA. Because of the risk of potential input errors from a variety of sources, it is important to reconcile source documents to VACS to ensure accurate and complete records.

Recommendation No. 3

We recommend SSA Accounting establish a process to reconcile the accounts receivable source transactions with the balances on VACS on a monthly basis. The reconciliations should identify and show the resolution of reconciling items, and also have a documented managerial review.

Auditor-Controller Management Response:

Concur. SSA Accounting/Accounts Receivable has established a process to reconcile the Accounts Receivable source transactions with the balances in VACS on a monthly basis.

SSA Management Response:

Concur. This is the responsibility of SSA Accounting who will be reconciling Accounts Receivable source transactions with the balances in VACS on a monthly basis.

Discharge of Accountability (Significant Issue)

County of Orange Accounting Manual, *Discharge of Accountability for Collection*, Number B-3, establishes uniform procedures for preparation of requests by departments/agencies and approval by the Auditor-Controller of discharges of accountability for collection of money due the County. The procedure requires departments/agencies desiring discharge of accountability of amounts considered uncollectible to file with the Auditor-Controller an *Application for Discharge of Accountability*. A verified application is then filed by the department/agency head with the Auditor-Controller for consideration. The Auditor-Controller or his designee determines whether amounts will be discharged.

Write-offs processed in SSA between September 2004 and August 2005 totaled \$2,027,205.

Finding No. 4

The discharge of accountability for uncollected receivables is not authorized at an appropriate management level in SSA Accounting. We noted that write-offs of bad debt were prepared by SSA/Collections and approved by the Manager in SSA/Collections and Accounts Receivable. We believe that approval for the discharge of accountability should be done by at least the SSA Accounting Manager level, or by higher-level management in SSA or the Auditor-Controller.

Recommendation No. 4

We recommend SSA and SSA Accounting ensure that discharge of accountability for uncollectible debt is approved at an appropriate level of management. Documentation should be maintained showing the individual(s) authorized to approve discharge of accountability.



Auditor-Controller Management Response:

Concur. The SSA Accounting Manager will now be responsible for approval of the discharge of accountability for uncollected receivables.

SSA Management Response:

Concur. SSA supports designation of the SSA Accounting Manager to approve discharge of accountability.

Accounts Receivable and Collection Processes (Control Finding)

One source of revenue for SSA is from repayments of public assistance. Maximizing and leveraging revenue is important to provide funding needed to administer programs and offset SSA's overhead costs. Effective accounts receivable and collection controls are essential for the revenue producing activity. During the course of our audit, we prepared the following accounts receivable aging analysis of public assistance loans and overpaid benefits owed to SSA as of August 31, 2005:

<u>Delinquency</u>	<u>Amount</u>	<u>Percentage</u>
Under 1 year	\$ 949,985	5.00%
1-2 years	862,054	4.54%
2-3 years	776,902	4.09%
3-4 years	1,097,558	5.78%
4-5 years	767,955	4.04%
<u>Over 5 years</u>	<u>14,547,208</u>	<u>76.55%</u>
Total	\$19,001,662	100.00%

As the schedule indicates, over 76% of the total outstanding receivables are over 5 years old. However, it should be noted that this balance contains amounts that have been previously written-off and contains data back to 1996. We were informed that receivables remain on VACS following the discharge of accountability and write-off of the debt in the event clients apply for future public assistance.

Finding No. 5

Although the amount of receivables may not be material to SSA's operations, it is indicative that processes need some enhancements to be more effective. Also, the likelihood of collecting these receivables diminishes the longer they are outstanding. In our opinion, two crucial elements to be addressed to help minimize long overdue amounts: (1) **earlier identification and notification** of loan repayments and/or public assistance over-payments as soon as eligibility has changed or expired; and (2) **additional collection actions** could be taken to help ensure monies are paid back.

Because both SSA and SSA Accounting have had numerous changes in staff and management over the past few years, we believe that current processes and procedures for ensuring timely recovery of public assistance loans and overpaid benefits need to be re-evaluated by SSA. Based on SSA's business objectives and available resources, the collection process should be focused on maximizing collection efforts in areas where collectibility is most likely. It was cited that the prior SSA administration did not want to take more aggressive collection actions with its clients and vendors.

Our audit did not include a review of eligibility requirements for public assistance, nor did we review the process by which overpayments are identified throughout SSA before being reported to SSA Accounting. The Agency should consider evaluating its effectiveness in these areas as a means to prevent or minimize overpayments of public assistance.



Recommendation No. 5

We recommend SSA and SSA Accounting jointly evaluate their current processes and procedures concerning recoveries of public assistance loans and over-issued benefits to help minimize debts from becoming long-outstanding and less likely to be collected. The results of this evaluation should be documented in a written policy.

Auditor-Controller Management Response:

Concur. SSA Accounting follows guidelines and collection policy approved by SSA. SSA's policies are focused on meeting the Agency's mission and goals. We will meet with SSA to review current collection processes and procedures and will work with them to implement any requested changes in collection policies.

SSA Management Response:

Concur. Changes in the California Department of Social Services (CDSS) client reporting responsibilities have resulted in fewer case actions. Quarterly Reporting only allows for adjustment of benefits when it is either a County initiated or mandatory reporting change, the number of overpaid/overissued benefits has decreased and has contributed toward SSA's 98% Food Stamp accuracy rate, which exceeds State and Federal requirements. The CalWIN system implemented in February 2006 has the ability to automatically begin grant adjustments to recoup overpaid benefits in all active cases and eliminate the additional manual process of updating Accounting records in VACS through the overnight CalWIN interface. Since the implementation of CalWIN, all current processes are being reviewed and updated in accordance.

Collection Actions and Quality Control Reviews (Control Findings)

California Welfare and Institutions Code §11004(i) states, in part, where an overpayment has been made, recovery shall be made by appropriate action under state law against the income or resources of the individual responsible for the overpayment. SSA and SSA Accounting are responsible for developing collection procedures that assure the collection of amounts owed to the County. To help ensure timely and consistent application of the policies and procedures and compliance with legal requirements, quality control reviews of collection activity should be conducted.

Finding No. 6

We noted that all available options to resolve delinquent accounts receivable were not pursued.

Procedures used in SSA Accounting/Collections include telephone calls, a series of collection letters and filing tax offset claims. Procedures do not include reporting delinquent accounts to credit bureaus or seeking court judgments against debtors, or contracting with the Franchise Tax Board (FTB) for collection of unpaid "court-ordered" debts. These additional collection actions are being used in the **Auditor-Controller Collections Unit** and by other departments who perform collection services. For example, the **Probation Department** has been successful in utilizing the FTB for assistance with collection of any unpaid "court-ordered" obligations imposed by a State Superior Court. FTB actions include issuing levies that are not limited by intrastate jurisdictional boundaries. Levy actions include orders to withhold bank accounts, earnings from an employer, and payments for commissions, rents and royalties. SSA and SSA Accounting should evaluate the feasibility of pursuing additional collection actions to enhance their current process.

Recommendation No. 6

We recommend SSA and SSA Accounting jointly evaluate additional collection options and determine an appropriate level of effort for alternate resolution of receivables.



Auditor-Controller Management Response:

Concur. We will work jointly with SSA to further evaluate our collection options and level of effort. One area that SSA Accounting will focus on will be the pursuit of delinquent accounts in Small Claims Court for accounts over \$5,000. However, the total number of these accounts that meet the criteria for collection in Small Claims Court are not significant.

Also, it should be noted that as part of our collection efforts, SSA Accounting has been successful in working with the Franchise Tax Board (FTB) for CalWORKs debts, \$25 and higher, and with the Treasury Offset Program (TOP) for Food Stamp debts, \$50 and higher. In comparison, Probation Department's "Debt Collection Inventory" contains all "court-ordered" debts, which are "judgment" debts that allow easy access for issuing levies and are not limited by intrastate jurisdictional boundaries, and levy actions, which include orders to withhold bank accounts, earnings from an employer, and payments for commissions, rents and royalties. In order to act on these additional collection procedures, there must be a "judgment". At this time, SSA Accounting's "Debt Collection Inventory" typically contains "non court-ordered" debts, therefore these additional Probation Department procedures would not be feasible for SSA Accounting.

SSA Management Response:

Concur. SSA will work jointly with SSA Accounting to ensure that methods of recouping overpaid public assistance benefits on active cases are implemented in accordance with State and Federal regulations.

Finding No. 7

Our review of 20 outstanding accounts receivable as of August 31, 2005 disclosed that in 6 instances (30%) quality control review by the Collection Supervisor of collection actions was not documented in VACS. We were informed the supervisor performed these reviews but did not always document them. Periodic quality control reviews help ensure consistency in the application of collection actions.

Recommendation No. 7

We recommend SSA Accounting conduct periodic and documented quality control reviews of collection activity to help ensure action is performed consistently, timely and in accordance with established policies and procedures.

Auditor-Controller Management Response:

Concur. A new VACS code (QCR-Quality Control Review) has been established and will be used to document when a quality control review is performed. We will begin using this new code in July 2006.

SSA Management Response:

Concur. SSA Accounting will provide Quality Control Reviews that will be documented through the newly established VACS code.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we have classified 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.





County of Orange
SOCIAL SERVICES AGENCY

888 N. MAIN STREET
SANTA ANA, CA 92701-3518
(714) 541-7700

INGRID HARITA
DIRECTOR

ALISA DRAKODAIDIS
CHIEF DEPUTY DIRECTOR

JESS CARBAJAL
DIVISION DIRECTOR
ADMINISTRATIVE SERVICES

REBECCA GUIDER
DIVISION DIRECTOR
ADULT SERVICES &
ASSISTANCE PROGRAMS

MICHAEL L. RILEY, Ph.D.
DIVISION DIRECTOR
CHILDREN & FAMILY SERVICES

PHYLLIS WATANABE
DIVISION DIRECTOR
FAMILY SELF-SUFFICIENCY

June 23, 2006

Peter Hughes, Ph.D., CPA, Director
Internal Audit Department
County of Orange
400 Civic Center Drive West
Building 12, Room 232
Santa Ana, CA 92701-4521

Reference: Response to Internal Control Review of Social Services Agency
Accounts Receivable and Collections Processes
Audit Number 2575

We have reviewed the draft report prepared by your department for the above-mentioned audit of our Agency for the period September 1, 2004 through August 31, 2005. We concur with the recommendations as they relate to processes that are under the control of SSA. Attached are our responses.

If you have any further questions or require further information, please call Jess A. Carbajal at 714-541-7795.

Sincerely,

A handwritten signature in black ink, appearing to read "Ingrid Harita", is written over a horizontal line.

Ingrid Harita
Director
Attachment

cc: David E. Sundstrom, Auditor Controller
Bill Mahoney, Deputy CEO, Government/Public Services
Bill Castro, Assistant Auditor Controller, Satellite Accounting Operations
Espí Garcia, Manager, SSA Accounting
Alisa Drakodaidis, Chief Deputy Director, SSA
Jess Carbajal, Director of Administrative Services Division, SSA

RECEIVED
INTERNAL AUDIT DEPARTMENT
2006 JUN 28 AM 10:30





DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

AUDITOR-CONTROLLER
COUNTY OF ORANGE

HALL OF FINANCE AND RECORDS
12 CIVIC CENTER PLAZA, ROOM 202
POST OFFICE BOX 567
SANTA ANA, CALIFORNIA 92702-0567

(714) 834-2450 FAX: (714) 834-2569

www.ac.ocgov.com

SHAUN M. SKELLY
CHIEF ASSISTANT AUDITOR-CONTROLLER

JAN E. GRIMES
ASSISTANT AUDITOR-CONTROLLER
CENTRAL OPERATIONS

WILLIAM A. CASTRO
ASSISTANT AUDITOR-CONTROLLER
SATELLITE ACCOUNTING OPERATIONS

MAHESH N. PATEL
ASSISTANT AUDITOR-CONTROLLER
INFORMATION TECHNOLOGY

June 14, 2006

TO: Ingrid Harita, Director
Social Services Agency

SUBJECT: Response to Internal Control Review of SSA Accounts Receivable and
Collections Processes

RECEIVED
INTERNAL AUDIT DEPARTMENT
2006 JUN 19 AM 9:38

We reviewed the draft audit report prepared by Internal Audit Department covering the review of internal controls of the Accounts Receivable and Collections Processes of the Social Services Agency for the period September 1, 2004 through August 31, 2005.

We concur with the recommendations made in the draft audit report that relates to processes that were under the control of SSA Accounting operations. Our responses are attached.

Please call Espi Garcia at 245-6161 if you have any questions regarding this letter.

A handwritten signature in black ink, appearing to read "David E. Sundstrom".

David E. Sundstrom
Auditor Controller

EG:dm
Attachment

cc: Peter Hughes, Director, Internal Audit Department
Bill Castro, Assistant Auditor Controller, Satellite Accounting Operations
Espi Garcia, Manager, SSA Accounting
Jess Carbajal, Director of Agency Administration, SSA



**Internal Audit Report
Internal Control Review of
SSA Accounts Receivable and Collection Processes
Audit Number 2575**

Page 1

Finding No. 1

The identification and establishment of accounts receivable were not always performed in a timely manner.

Our review of 10 General Relief loan balances recorded in VACS by SSA Accounting/Collections between June and August 2005 disclosed that 7 were processed between 117 and 452 days after the completion of public assistance cash loans. SSA Accounting/Collections receives notification of loan balances from the General Relief programs, and we could not readily determine responsibility for these time lags.

For Non-General Relief benefits, SSA/Program Integrity and other SSA programs (not SSA Accounting) are responsible for the review and establishment of accounts receivable and sending out notices to clients. A review of five cases disclosed two instances where initial collection notices were sent out 122 and 279 days after identifying the over-issuance. During our fieldwork, we noted that three staff members at SSA/Program Integrity were responsible for the review of pending over-issuance cases, and that there was a backlog of between 1,340 and 1,486 overpayments/over-issuances awaiting verification for the months of June through August 2005.

Because the identification and establishment of a claim is the starting point of an accounts receivable and collection process, timeliness in establishing the receivable is crucial to help ensure clients are located and receive prompt notification. Shortening these time lags should increase the likelihood of collecting the repayments and making the collection process more effective.

Recommendation No. 1

We recommend SSA and SSA Accounting work jointly to identify any barriers and constraints that impact the timely identification, establishment and notification of accounts receivable. Once identified, SSA and SSA/Accounting should take appropriate measures to decrease the time lags to an acceptable level (to be determined by SSA) by establishing appropriate guidelines and procedures, and by monitoring the effectiveness of the established procedures.

Auditor-Controller Management Response:

Concur. During the audit SSA Accounting identified one area where improvement was needed. Referrals for Collection Notices are delivered by SSA staff directly to SSA Accounting Collections Support Unit for processing. After processing by the Collections Support Unit, they remained in a basket for several days waiting for SSA Accounting/General Accounting to pick them up. These Notices are now being delivered daily to SSA Accounting/General Accounting for the next step in processing, which is preparation of a Statement of Aid. This change in policy should improve Accounting's processing time by 3 to 5 days. This change was initiated during the audit.

We will also meet with SSA to help identify any barriers or constraints that impact the timely identification, establishment and notification of accounts receivable. We will then work to improve any of our processes identified as needing improvement.



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SSA Management Response:

Concur. Effective February 2006, SSA has implemented a new automated eligibility determination system in which SSA and SSA Accounting can work jointly to identify any barriers and constraints that impact the timely identification, establishment and notification of Accounts Receivable. Prior to CalWIN implementation, setting up accounts receivable in Ventura Automated Collection (VACS) system was a manual process. CalWIN has automated the VACS and the CalWIN nightly interface eliminates any time lag between discovery of overpaid benefits and establishment of accounts receivable in VACS.

In addition, the backlog of overpayments and over-issuances in Program Integrity has been addressed by filling of vacant positions.

Finding No. 2

SSA utilizes VACS to maintain records for public assistance loans and overpaid benefits. VACS, which is administered by a State consortium of users, provides the delinquency date of each individual account but does not produce an accounts receivable aging report. During our fieldwork, we obtained an electronic file with a listing of delinquent accounts and prepared an account receivable aging report as of August 31, 2005 (see Finding and Recommendation #5 below for results of the aging report). SSA and SSA Accounting should evaluate the feasibility of modifying VACS to produce an aging report. Until then, an aging report should be periodically prepared and reviewed by management.

Recommendation No. 2

We recommend SSA and SSA Accounting evaluate the feasibility of modifying VACS to produce aging reports. In the interim, SSA Accounting should prepare accounts receivable aging reports to analyze delinquency patterns and make decisions how to concentrate collection efforts.

Auditor-Controller Management Response:

Concur. During the Auditors visit, SSA Accounting/Collections prepared an aging report and will begin preparing this report on a monthly basis beginning July 2006. This report will be reviewed monthly to help maximize collection efforts by concentrating on larger and newer dollar amounts outstanding. In addition, a formal modification to VACS will be requested at the State VACS Consortium Enhancement Meeting in July 2006, asking them to approve the design and implementation of an integrated aging report.

SSA Management Response:

Concur. Although VACS balances are being maintained by SSA Accounting/Collections and will be modified as stated above, SSA will support efforts to analyze delinquency patterns and make decisions how to concentrate collection efforts.



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Finding No. 3

We noted that SSA Accounting does not reconcile the series of monthly transaction lists with information maintained on VACS. SSA Accounting prepares a series of monthly transaction lists for additions and reductions to VACS based upon source documents from where the receivable is established. As indicated in this report, unpaid debts are recorded on VACS by various programs in SSA. Because of the risk of potential input errors from a variety of sources, it is important to reconcile source documents to VACS to ensure accurate and complete records.

Recommendation No. 3

We recommend SSA Accounting establish a process to reconcile the accounts receivable source transactions with the balances on VACS on a monthly basis. The reconciliations should identify and show the resolution of reconciling items, and also have a documented managerial review.

Auditor-Controller Management Response:

Concur. SSA Accounting/Accounts Receivable has established a process to reconcile the Accounts Receivable source transactions with the balances in VACS on a monthly basis.

SSA Management Response:

Concur. This is the responsibility of SSA Accounting who will be reconciling Accounts Receivable source transactions with the balances in VACS on a monthly basis.

Finding No. 4

The discharge of accountability for uncollected receivables is not authorized at an appropriate management level in SSA Accounting. We noted that write-offs of bad debt were prepared by SSA/Collections and approved by the Manager in SSA/Collections and Accounts Receivable. We believe that approval for the discharge of accountability should be done by at least the SSA Accounting Manager level, or by higher-level management in SSA or the Auditor-Controller.

Recommendation No. 4

We recommend SSA and SSA Accounting ensure that discharge of accountability for uncollectible debt is approved at an appropriate level of management. Documentation should be maintained showing the individual(s) authorized to approve discharge of accountability.

Auditor-Controller Management Response:

Concur. The SSA Accounting Manager will now be responsible for approval of the discharge of accountability for uncollected receivables.

SSA Management Response:

Concur. SSA supports designation of the SSA Accounting Manager to approve discharge of accountability.



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Finding No. 5

Although the amount of receivables may not be material to SSA's operations, it is indicative that processes need some enhancements to be more effective. Also, the likelihood of collecting these receivables diminishes the longer they are outstanding. In our opinion, two crucial elements to be addressed to help minimize long overdue amounts: (1) earlier identification and notification of loan repayments and/or public assistance over-payments as soon as eligibility has changed or expired; and (2) additional collection actions could be taken to help ensure monies are paid back.

Because both SSA and SSA Accounting have had numerous changes in staff and management over the past few years, we believe that current processes and procedures for ensuring timely recovery of public assistance loans and overpaid benefits need to be re-evaluated by SSA. Based on SSA's business objectives and available resources, the collection process should be focused on maximizing collection efforts in areas where collectability is most likely. It was cited that the prior SSA administration did not want to take more aggressive collection actions with its clients and vendors.

Our audit did not include a review of eligibility requirements for public assistance, nor did we review the process by which overpayments are identified throughout SSA before being reported to SSA Accounting. The Agency should consider evaluating its effectiveness in these areas as a means to prevent or minimize overpayments of public assistance.

Recommendation No. 5

We recommend SSA and SSA Accounting jointly evaluate their current processes and procedures concerning recoveries of public assistance loans and over-issued benefits to help minimize debts from becoming long-outstanding and less likely to be collected. The results of this evaluation should be documented in a written policy.

Auditor-Controller Management Response:

Concur. SSA Accounting follows guidelines and collection policy approved by SSA. SSA's policies are focused on meeting the Agency's mission and goals. We will meet with SSA to review current collection processes and procedures and will work with them to implement any requested changes in collection policies.

SSA Management Response:

Concur. Changes in the California Department of Social Services (CDSS) client reporting responsibilities have resulted in fewer case actions. Quarterly Reporting only allows for adjustment of benefits when it is either a County initiated or mandatory reporting change, the number of overpaid/overissued benefits has decreased and has contributed toward SSA's 98% Food Stamp accuracy rate, which exceeds State and Federal requirements. The CalWIN system implemented in February 2006 has the ability to automatically begin grant adjustments to recoup overpaid benefits in all active cases and eliminate the additional manual process of updating Accounting records in VACS through the overnight CalWIN interface. Since the implementation of CalWIN, all current processes are being reviewed and updated in accordance.



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Finding No. 6

We noted that all available options to resolve delinquent accounts receivable were not pursued.

Procedures used in SSA Accounting/Collections include telephone calls; a series of collection letters and filing tax offset claims. Procedures do not include reporting delinquent accounts to credit bureaus or seeking court judgments against debtors, or contracting with the Franchise Tax Board (FTB) for collection of unpaid "court-ordered" debts. These additional collection actions are being used in the Auditor-Controller Collections Unit and by other departments who perform collection services. For example, the Probation Department has been successful in utilizing the FTB for assistance with collection of any unpaid "court-ordered" obligations imposed by a State Superior Court. FTB actions including issuing levies that are not limited by intrastate jurisdictional boundaries. Levy actions include orders to withhold bank accounts, earnings from an employer, and payments for commissions, rents and royalties. SSA And SSA Accounting should evaluate the feasibility of pursuing additional collection actions to enhance their current process.

Recommendation No. 6

We recommend SSA and SSA Accounting jointly evaluate additional collections options and determine an appropriate level of effort for alternate resolution of receivables.

Auditor-Controller Management Response:

Concur. We will work jointly with SSA to further evaluate our collection options and level of effort. One area that SSA Accounting will focus on will be the pursuit of delinquent accounts in Small Claims Court for accounts over \$5,000. However, the total numbers of these accounts that meet the criteria for collection in Small Claims Court are not significant.

Also, it should be noted that as part of our collection efforts, SSA Accounting has been successful in working with the Franchise Tax Board (FTB) for CalWORKs debts, \$25 and higher, and with the Treasury Offset Program (TOP) for Food Stamp debts, \$50 and higher. In comparison, Probation Department's "Debt Collection Inventory" contains all "court-ordered" debts, which are "judgment" debts that allow easy access for issuing levies and are not limited by intrastate jurisdictional boundaries, and levy actions, which include orders to withhold bank accounts, earnings from an employer, and payments for commissions, rents and royalties. In order to act on these additional collection procedures, there must be a "judgment". At this time, SSA Accounting's "Debt Collection Inventory" typically contains "non court-ordered" debts, therefore these additional Probation Department procedures would not be feasible for SSA Accounting.

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Finding No. 7

Our review of 20 outstanding accounts receivable as of August 31, 2005 disclosed that in 6 instances (30%) quality control review by the Collections Supervisor of collection actions was not documented in VACS. We were informed the supervisor performed these reviews but did not always document them. Periodic quality control reviews help ensure consistency in the application of collection actions.

Recommendation No. 7

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