



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

Recipient of the Institute of Internal Auditors
Award for Excellence

Integrity ♦ Objectivity ♦ Independence

**FOLLOW-UP AUDIT
OF
INTERNAL CONTROL REVIEW
OF
HEALTH CARE AGENCY**

**CONTRACT ADMINISTRATION &
CASH DISBURSEMENTS**

(ORIGINAL AUDIT NO. 2530)

AS OF MARCH 31, 2006

AUDIT NUMBER: 2532

REPORT DATE: JUNE 12, 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

**Follow-Up Audit of Internal Control Review of
Health Care Agency
Contract Administration and Cash Disbursements,
Original Audit No. 2530**

As of March 31, 2006

TABLE OF CONTENTS

Transmittal Letter.....	i
INTERNAL AUDITOR’S REPORT.....	1
ATTACHMENT A: Report Item Classifications	4



COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT
Recipient of the Institute of Internal Auditors
Award for Excellence

Integrity ♦ Objectivity ♦ Independence

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. 2532

June 12, 2006

TO: Juliette A. Poulson, Director
Health Care Agency

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

SUBJECT: Follow-Up Audit of Internal Control Review of Health Care Agency
Contract Administration and Cash Disbursements, Original Audit No. 2530

We have completed a Follow-Up Audit of contract administration and cash disbursements at Health Care Agency. Our audit was limited to reviewing, as of March 31, 2006, actions taken to implement the recommendations in our audit report dated October 20, 2005.

Please note, we have 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.

Because there are three recommendations pending implementation, we have attached a Second Follow-Up Audit Report Form. The Health Care Agency should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit approximately 12 months from the release of the original 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 the Health Care Agency so it 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.

Attachment

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

William Mahoney, Deputy CEO/Government/Public Services

Steve Franks, Deputy Agency Director, HCA/Financial and Administrative Services

Alice Moore, Division Manager, HCA/Contract Development and Management

Alice Sworder, Senior Manager, HCA/Accounting Services

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT
Recipient of the Institute of Internal Auditors
Award for Excellence

Integrity ♦ Objectivity ♦ Independence

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

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/

INTERNAL AUDITOR'S REPORT

Audit No. 2532

June 12, 2006

TO: Juliette A. Poulson, Director
Health Care Agency

SUBJECT: Follow-Up Audit of Internal Control Review of Health Care Agency
Contract Administration and Cash Disbursements, Original Audit No. 2530

We have completed a Follow-Up Audit of internal controls over contract administration and cash disbursements at Health Care Agency (HCA). Our audit was limited to reviewing actions taken as of March 31, 2006 to implement the recommendations made in our original audit report dated October 20, 2005.

The original audit report contained eight (8) recommendations. Our Follow-Up Audit indicated five (5) recommendations have been fully implemented, two (2) recommendations were partially implemented, and one (1) recommendation was in process of implementation. We found that HCA was committed and responsive to implementing our recommendations, and we commend them on the actions taken to implement the recommendations.

We believe the remaining three recommendations are still appropriate and further efforts should be made to fully implement them. The recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the October 20, 2005 report is shown in parentheses after each heading. Note: Two items contained in this Follow-Up Audit report were initially considered "Significant Issues" and one item was considered a "Control Finding."

1. **Frequency of Annual Site Visits (Recommendation No. 1)**

Recommendation No. 1: HCA/Contracts perform timely Annual Site Visits of provider services to determine contract compliance. (**Significant Issue**)

Current Status: **In Process.** HCA/Contracts prepared an Annual Site Visit schedule for fiscal year 2005-2006 identifying 99 contracts subject to Annual Site Visits. Because of staffing issues, the schedule was revised and certain Annual Site Visits were deferred. As of March 31, 2006, 47 Annual Site Visits were completed (47%). Three were scheduled for completion during April (3%) and 49 were scheduled to commence before June 2006 (49%). Management of HCA/Contracts informed us that they expect to complete all scheduled Annual Site Visits by June 30, 2006, and will allocate staffing resources accordingly to accomplish their goal.

HCA Planned Action: CDM Policy and Procedure – A.3 Annual Site Visit was updated October 7, 2005. Procedure includes criteria and approval requirements for exemption of annual site review, corrective action, technical assistance and follow up to initial annual site reviews, if applicable. In October 2005, Senior Contract Administrators prepared a schedule for annual site visits to be completed in the current fiscal year by contract administrators for all applicable contracts. Status of annual site visit is to be included in Quarterly Activity Report. CDM Policy and Procedure – A.16 Quarterly Activity Report was updated September 19, 2005, which includes requirement of annual site visit status to be reported.

2. Documentation of Fiscal and Administrative Reviews (Recommendation No. 4)

Recommendation No. 4: HCA/Contracts ensure that all required protocol work programs are utilized as intended in the Fiscal and Administrative Reviews. In addition, files should contain adequate and consistent documentation and reports to show the work performed and the conclusions reached. (**Significant Issue**)

Current Status: **Partially Implemented.** HCA/Contracts revised the policies and procedures for Fiscal and Administrative Reviews in November 2005. A Fiscal and Administrative Review Checklist was developed and is now required to be completed for each review. Documentation requirements indicating persons interviewed, findings noted, and items reviewed are being clarified and established. HCA/Contracts management has made arrangements to consult with an external certified public accounting firm on best practices for conducting audits and documenting test procedures.

At the time of our Follow-Up Audit, no Fiscal and Administrative Reviews had been conducted since the revision of the policies and procedures. Therefore, we were unable to evaluate the use of the protocol work program and compilation of documents to evidence work performed, conclusions reached, and the adequacy and consistency of supporting documentation.

HCA Planned Action: Supervising staff have been directed to perform periodic contract file reviews to ensure adequate and organized documentation is on file. This is also to be used as part of their employee performance evaluation. Reviews are to be unannounced to contract administrators, and to be provided immediately upon request.

3. Policies and Procedures (Recommendation No. 8)

Recommendation No. 8: HCA review, update, and communicate policies and procedures that reflect current expectations of management and department practices. (**Control Finding**)

Current Status: **Partially Implemented.** HCA/Contracts updated 11 policies and procedures, including two for Fiscal Monitoring and Annual Site Visits that were areas considered as significant issues in the original audit report. Of the remaining policies and procedures needing updating, we noted that two were eliminated, three were under review, and another 30 policies and procedures were scheduled for revision by June 30, 2006.



HCA Planned Action: All CDM Policies and Procedures (P&P's) are being updated with current practices. A tracking log has been developed to identify all P&P's and includes documentation of the date last updated and the current update once completed. P&P's that are inconsistent with Agency P&P's have been eliminated, and those that are no longer valid or do not warrant a P&P have been noted on the tracking log with an explanation for the elimination. Updated P&P's are distributed to CDM staff and training is provided to ensure staff understand changes in procedures. As of the end of March, 11 have been updated and 2 eliminated out of 45. The remaining 31 have been assigned for staff to have all updates completed by June 30, 2006.

We appreciate the courtesy and cooperation extended to us by the personnel of the HCA/Contracts during our review. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at 834-5899, or Michael Goodwin, Audit Manager at 834-6066.



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

Attachment A – Report Item Classifications

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- William Mahoney, Deputy CEO/Government/Public Services
- Steve Franks, Deputy Agency Director, HCA/Financial and Administrative Services
- Alice Moore, Division Manager, HCA/Contract Development and Management
- Alice Sworder, Senior Manager, HCA/Accounting Services
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



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.

