DEPARTMENT CONTROL REVIEW
HOUSING & COMMUNITY SERVICES DEPARTMENT
NEW PROGRAMS -CASH DISBURSEMENTS AND REVOLVING FUNDS

FOR THE PERIOD FROM

AUGUST 1, 2002 THROUGH JULY 31, 2003

REPORT DATE: July 15, 2004

Audit Number 2349

Audit Director:	**Dr. Peter Hughes, CPA, CIA**
Deputy Director:	**Eli Littner, CPA, CIA**
Audit Manager:	**Michael Goodwin, CPA, CIA**
In-Charge Auditor:	**Nancy Ishida, CPA, CIA**
Senior Auditor:	**Toni Smart, CPA**

INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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For the Period from August 1, 2002 through July 31, 2003

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COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

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

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

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.oc.ca.gov/audit/

Transmittal Letter

Audit No. 2349

July 15, 2004

TO: Paula Burrier-Lund, Director
Housing & Community Services Department

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

SUBJECT: Department Control Review of Housing & Community Services Department
New Programs - Cash Disbursements and Revolving Funds

We have completed our review of internal controls over cash disbursements and revolving funds processed by the Housing & Community Services Department (HCS) New Programs (Office on Aging, Special Programs, and Veterans Service Office) for the period from August 1, 2002 through July 31, 2003. The final report is attached along with your and the Auditor-Controller's responses to our recommendations. We have also attached a Customer Survey of Audit Services. Please complete the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department. We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
James D. Ruth, County Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
Jess Carbajal, Manager, HCS Administrative & Community Development Services
David E. Sundstrom, Auditor-Controller
Shaun Skelly, Assistant Auditor-Controller, Agency Accounting
Mike Montijo, Manager, HCS Accounting
Danny Wassenaar, Manager, HCS Accounting – Grand Building

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SANTA ANA, CA 92701

TELEPHONE: (714) 834-5475
FAX: (714) 834-2880
EMAIL: peter.hughes@ocgov.com
WEBSITE: www.oc.ca.gov/audit/

INTERNAL AUDITOR'S REPORT

Audit No. 2349

July 15, 2004

Paula Burrier-Lund, Director
Housing & Community Services Department
1770 N. Broadway
Santa Ana, CA 92706

We have completed a review of internal controls over cash disbursements and revolving funds processes of the Housing and Community Services Department (HCS) New Programs (Office on Aging, Special Programs, and Veterans Service Office) for the period from August 1, 2002 through July 31, 2003. Our review was made in accordance with professional standards established by the Institute of Internal Auditors for the purpose of evaluating the adequacy of internal controls in the areas noted above. We believe our review provides a reasonable basis for our opinion.

Management of HCS and HCS 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 Accounting Procedure (CAP) 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, HCS's and HCS Accounting'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. 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 HCS's and HCS Accounting's operating procedures, accounting practices, and compliance with County policy.

For cash disbursements, our review found that in contracts where there is support documentation and/or fiscal monitoring reviews, controls were generally effective but could be further enhanced. However, internal controls were insufficient over certain contracts where providers do not submit support documentation with payment requests and do not have on-site fiscal monitoring reviews. We found that controls over the revolving funds in the Veterans Services Office were not effective, and improvements are needed to revolving fund controls in the Office on Aging and Special Programs. Specifically, improvement is warranted for cash disbursements and revolving funds in the following areas:

- Ensuring the propriety and validity of contractor expenditures submitted to the County for reimbursement.
- Developing a written department policy for the fiscal monitoring process and ensuring fiscal monitoring reviews are performed in accordance with the policy.
- Ensuring that fiscal monitoring workpapers and reports are subject to a supervisory/management review.
- Establishing controls over revolving funds to ensure duties are properly segregated, fund and bank reconciliations are prepared timely, and revolving fund transactions comply with County Accounting Procedures.

Our observations and recommendations to improve controls, along with management responses are contained in this report. The complete text of responses from HCS and HCS Accounting are contained in Appendices A and B of this report.

We want to express our appreciation for the level of courtesy and cooperation extended to us by the personnel of HCS and HCS Accounting during our review. 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,

Dr. Peter Hughes, CPA
Director, Internal Audit

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
Members, Audit Oversight Committee
James D. Ruth, County Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
Jess Carbajal, Manager, HCS Administrative & Community Development
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Mike Montijo, Manager, HCS Accounting
Danny Wassenaar, Manager, HCS Accounting – Grand Building

OVERVIEW

OBJECTIVES

The Internal Audit Department conducted a review of the Housing & Community Services Department (HCS) New Programs for the purpose of evaluating internal controls to determine whether they are functioning adequately in the area of cash disbursements and revolving funds to ensure:

- Cash disbursements for contracted services and revolving fund transactions are processed completely, accurately, timely and in accordance with management's authorization.
- Cash disbursements for contracted services have adequate documentation to support contractor expenditures and justify payments made to the contractors.
- Fiscal monitoring is adequate to ensure contractor expenditures are appropriately supported and allowable according to legislative and County requirements.
- Revolving funds are adequately safeguarded and are processed in compliance with requirements of County Accounting Procedures for *Revolving Cash Funds, Cash Advances- Revolving Funds* and *Internal Control Systems.*

BACKGROUND

HCS's mission is to work in partnership with Orange County's diverse communities to preserve and expand affordable housing opportunities, strengthen economic viability and enhance the livability of neighborhoods.

On July 1, 2003 HCS (formerly the Housing & Community Development Department) acquired the following programs and divisions formerly under the Community Services Agency: Office on Aging, Special Workforce Development Programs, Veterans Services Office, Human Relations Commission, Domestic Violence Shelter Program, and the Alternate Dispute Resolution Program. HCS is now responsible for administering these programs, which are located at the Grand Avenue office. The Auditor-Controller has out-stationed accounting sections (herein referred to as HCS Accounting) located at both locations that provide a variety of accounting support functions to HCS.

Our review focused primarily on revolving fund transactions and cash disbursements for contracted services in the Office on Aging and Special Programs Divisions, and only revolving fund transactions in the Veterans Services Office. The following provides some background on these three programs:

Office on Aging (OoA)
OoA is responsible for ensuring that older adults in Orange County experience a high quality of life through its mandated role as lead advocate, systems planner and facilitator of services to older adults and their families and caregivers. The OoA contracts with 21 contractors that provide food and transportation services with approximately $9.2 million in contracts. OoA maintains a revolving fund with an authorized fund balance of $8,500, which is used primarily for travel cash advances and miscellaneous operating expenditures. The revolving fund is a checking account with no cash funds.

Special Programs
The Special Programs Division assists individuals who are employed, unemployed, and underemployed to increase their self-sufficiency and/or improve their ability to meet employment demands. Special Programs contracts with 18 contractors with approximately $11.2 million in contracts. Special Programs maintains a revolving fund with an authorized fund balance of $9,000 used primarily for travel cash advances and miscellaneous operating expenditures. The revolving fund consists of a checking account only.

Veterans Service Office (VSO)
VSO assists veterans and their family members in obtaining Federal and State benefits to which they are entitled. They do not contract with contractors for their program services. VSO maintains a revolving fund with an authorized fund balance of $4,200, which is used primarily for office supplies. The revolving fund consists of a cash fund and a checking account and is not used for travel cash advances.

SCOPE
Our review was limited to internal controls over contractor cash disbursements and revolving fund transactions in the Office on Aging and Special Programs Divisions, and revolving fund transactions in the Veterans Service Office for the period from August 1, 2002 to July 31, 2003. Our review included inquiry, auditor observation and testing of relevant documentation for assessing the adequacy of internal controls over these processes. We also considered County Accounting Procedures (CAPs), program procedures, and best business practices in our evaluation of controls. Our review did not include an evaluation of information systems used in the cash disbursement and revolving fund processes.

CONCLUSION
Cash Disbursements: Most contractor payments are made based on monthly payment requests that are not accompanied by support documentation of the expenditures. In addition, some of these contractors do not receive on-site fiscal monitoring reviews on an annual basis. Improvements are needed to strengthen processes and controls in this area by either obtaining sufficient supporting documentation with payment requests or by performing fiscal monitoring reviews. Improvement is also needed in reviewing the fiscal monitoring review workpapers and reports to ensure the work performed and results of the fiscal monitoring are adequately documented.

Revolving Funds: Controls were not effective over the Veterans Service Office revolving fund. Improvements are needed in all three revolving funds to ensure duties are properly segregated, fund and bank reconciliations are performed timely and revolving fund transactions comply with CAPs.

It should be noted that our testing did not disclose any instances of monetary loss or misappropriation in the areas we reviewed. Where we did find opportunities to establish controls or further enhance controls, they are detailed in the Observations, Recommendations and Management Responses section of this report. Responses from HCS and HCS Accounting have been included for each applicable recommendation and the complete texts of responses have been appended to the report.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

I. Contract Disbursements

HCS utilizes outside contractors to provide services required by Federal and State funded programs. HCS is responsible for administering these contracts, which includes providing fiscal monitoring, program oversight, and paying contractors. HCS Accounting provides accounting and fiscal monitoring services, while HCS Contract Analysts provide contract oversight and program monitoring services. HCS Accounting has an on-site Accounting Technician who performs the accounts payable function and schedules contractor payments in the County Accounting and Personnel System (CAPS).

A. Contractor Signature Lists

Authorized signature lists serve as a tool to ensure only authorized individuals approve certain types of transactions. Office on Aging (OoA) Accounting maintained an authorized signature list to verify the authenticity and authority of contractor signatures on the payment request forms (invoices); however, it was a typed list of names that did not include actual signatures. Verification to actual signatures provides evidence that the authorization is genuine and reduces the probability of paying unauthorized payment requests.

Recommendation No. I.A

HCS Accounting obtain a list of authorized signatures to use in verifying the contractor's authorized signatures on payment request forms.

HCS Department Response:

Concur. HCS will revise its department bid proposal process to include a requirement for obtaining an authorization list from all intended subrecipients.

HCS Accounting Response:

Concur. HCS Accounting staff has obtained lists of authorized signers which include actual signatures for all but one contractor. We are currently working with HCS to obtain a signature list for the remaining contractor.

B. Cancellation of Disbursement Documentation

Upon receipt of the contractor's payment request, photocopies are made for processing the payment. We reviewed a sample of vendor payments and noted that the original invoices had not been canceled (marked "paid"); however, the photocopies were stamped as paid. Canceling original expenditure requests upon payment reduces the risk of duplicate payments.

Recommendation No. I.B

HCS Accounting cancel the original requests for payment (invoices) by marking them as "paid."

HCS Department Response:

Concur. The recommendation has been implemented.

HCS Accounting Response:

Concur. This recommendation has been implemented.

II. Fiscal Monitoring (On-Site Reviews)

Contractors submit monthly invoices to HCS for payment. The invoices report the program budget, current billing and year-to-date expenditures. We noted the vast majority of payment requests do not include supporting documentation (e.g., timecards, invoices, etc). Supporting documentation provides evidence that program expenditures are accurate, proper, and are made in accordance with contract requirements.

In lieu of receiving supporting documentation with the payment requests, OoA and Special Programs place much reliance on HCS Accounting's on-site fiscal monitoring reviews to verify the accuracy and propriety of contractor expenditures. On-site fiscal monitoring is a mitigating control to ensure propriety of program expenditures; however, we noted that fiscal monitoring reviews were not consistently performed. Areas where improvement is needed in fiscal monitoring are discussed below:

A. Fiscal Monitoring Policy

There is no written policy documenting the frequency of OoA and Special Programs fiscal monitoring reviews. We noted that the criteria for scheduling fiscal monitoring reviews was not clear to some staff responsible for performing the reviews. A written policy will help clarify the frequency and guidelines for fiscal monitoring.

Recommendation No. II.A

HCS develop a written policy that addresses the guidelines and frequency for performing fiscal monitoring reviews.

HCS Department Response:
Concur. HCS will develop a written policy when the overall approach is determined as described in the response to recommendation II.B.1.

HCS Accounting Response:
Concur. When the overall approach is determined for HCS, as described in the response to Recommendation II.B.1, a written policy will be developed.

B. Fiscal Monitoring Coverage

During fiscal year 2002-03, OoA Accounting did not perform fiscal monitoring reviews for 8 of the 21 OoA contractors. Special Programs Accounting did not perform fiscal reviews for 4 of the 18 Special Programs contractors. The majority of these contractors do not submit support documentation with their payment requests. The 12 programs that did not have fiscal reviews included:

- Two OoA contractors that each had over $100,000 in annual budgeted program funds (City of Irvine - $123,341; OC Caregiver Resources - $635,486)

- Six OoA contractors that had annual budgeted revenues totaling approximately $603,471.

- Four Special Programs contractors, three of which totaled $227,000 and one with the Sheriff-Coroner with a budget of $286,688.

Additionally, OoA and Special Programs Accounting informed us that during fiscal reviews, they review audit reports from external audits performed on the contractors. While this is an important consideration, a financial audit of a contractor's financial statements does not necessarily ensure that the specific program expenditures invoiced to the County are accurate and adequately supported.

Management needs to evaluate the cost/benefit of requiring supporting documentation with contractor payment requests and for performing fiscal monitoring reviews, and determine a method that best provides assurance on the propriety of program expenditures. If supporting documentation is not submitted with payment requests, fiscal monitoring reviews should be performed.

Recommendation No. II.B.1
HCS should evaluate options for obtaining assurance of the propriety of contractor expenditures, which could include obtaining supporting documentation, performing fiscal monitoring reviews, or a combination of both; and select a methodology that best meets its program objectives.

HCS Department Response:
Concur. HCS – Office on Aging and Special Programs are reviewing the various approaches to implementing a written monitoring policy that provides the optimum oversight to each program while weighing the costs and benefits.

HCS Accounting Response:
Concur. HCS management and HCS Accounting management are evaluating all options and will select a methodology to provide for an efficient and effective review of contractor expenditures.

Recommendation No. II.B.2
Once a written policy is established, HCS should ensure that fiscal monitoring reviews are performed in accordance with their established written policy.

HCS Department Response:
Concur. HCS will work on developing a written policy. HCS will ensure that fiscal monitoring reviews are performed in accordance with established policy.

HCS Accounting Response:
Concur. When a written policy is established, we will ensure that fiscal monitoring and/or reviews of supporting documentation will be conducted in accordance with the policy.

C. Equipment Purchases

We noted that OoA's and Special Programs' on-site reviews do not include a review of contractor equipment purchased with program funds for existence, completeness, accuracy of records and propriety of the expenditure.

Contractors can purchase equipment with program funds. We found that the OoA Contract Analysts annually verify that the contractors have prepared an equipment inventory list, but do not physically verify the existence of the equipment. Special Programs Contract Analysts do not agree the amounts paid to the contractor for equipment to the contractor's equipment list. On-site reviews should include a review of equipment purchased with County funds to ensure the equipment exists and is being used as intended.

Recommendation No. II.C
HCS designate responsibility for monitoring contractor equipment records and revise the monitoring tools to include reviewing contractor equipment purchased with program funds.

HCS Department Response:
Concur. HCS will ensure that either program or fiscal monitoring tools will include an inventory of equipment purchased with program funds.

D. Supervisory Reviews

A supervisory review is a control procedure that ensures that the work was performed consistently, adequately, and that the test results support the conclusion and report findings. Special Programs and OoA Accounting prepare workpapers to document the work performed on the fiscal monitoring reviews.

We noted that OoA Accounting staff who performed the fiscal monitoring reviews prepared the workpapers and signed the fiscal monitoring reports without a supervisory review of the workpapers and report. Additionally, our review of Special Programs Accounting workpaper documentation for two contractors (Coastal One Stop and City of La Habra) noted the following issues that a supervisory review may have detected:

- Because of limited workpaper documentation, we were unable to determine if the reviewer tested timecards as part of reviewing the timekeeping process and controls at Coastal One Stop.

- For specific procedures performed, such as validating expenditures are properly supported and correctly coded, we found inconsistent documentation of the outcome of test procedures.

Recommendation No. II.D

HCS Accounting perform documented supervisory reviews of fiscal monitoring workpapers and final reports to ensure there is adequate documentation of the work performed to support the results of on-site reviews.

HCS Department Response:

Concur. HCS Management and program staff will work with HCS Accounting to update the process of fiscal monitoring and tracking.

HCS Accounting Response:

Concur. We are in the process of updating our fiscal monitoring tools to include a section which indicates that the workpapers and report were reviewed by an independent person.

E. Controls Over Meal Donations

One of OoA's services is to provide home delivered meals to senior citizens. Contractors who deliver meals to senior citizens can solicit donations from them, which is considered "program income." Program income is reported monthly to HCS and reduces the amount of reimbursements the County pays to the vendor.

We noted that OoA reviews controls for donations received from recipients of congregate meals. However, controls over donations given directly to delivery drivers for home-delivered meals are not reviewed to ensure all amounts given to the drivers are reported to the County. Delivery drivers are not required to provide receipts or to log donations given to them by meal recipients. The vendor also does not provide receipts or maintain detailed records of donors. We were informed that donations are voluntary and anonymous so receipts were intentionally not issued. Because program income from meal donations reduces the amount the County reimburses, under-reported donations could result in the County making larger payments to the contractors.

HCS and their contractors need to determine if they will continue the practice of allowing delivery drivers to receive meal donations. If so, they need to implement controls to ensure drivers report all donations received. Furthermore, HCS Accounting needs to ensure that the vendor is reporting all donations completely and accurately as program income to the County.

Recommendation No. II.E.1
HCS evaluate the meal donation process and determine how donations should be collected and reported to obtain assurance that all monies donated to the contractors are accurately and completely recorded in the contractors' records and reported to HCS.

HCS Department Response:
Concur. HCS OoA Program Management staff is developing a process that will provide necessary safeguards to ensure that all monies donated are properly tracked and accounted for.

Recommendation No. II.E.2
HCS Accounting include a review of controls over all types of meal donations in the fiscal monitoring reviews.

HCS Department Response:
Concur. HCS OoA Program Management staff will work with HCS Accounting to update fiscal monitoring process to include proper review and controls of all meal donations.

HCS Accounting Response:
Concur. HCS Accounting will update their Office on Aging fiscal monitoring tool to include a review of controls over meal donations.

III. Revolving Funds

OoA, Special Programs, and Veterans Service Office each have their own separate revolving funds. We noted the following control issues concerning revolving funds:

A. Segregation of Duties

Adequate segregation of duties reduces the risk that one individual may conceal errors and irregularities and not be detected. County Accounting Procedure (CAP) C-7 requires purchases or cash advances from the revolving fund to be approved by an authorized person who does not also have revolving fund custodian, check signer, or reconciliation duties. The CAP also requires a person with no other revolving fund duties to perform a reconciliation of the revolving fund once per month. Our review disclosed the following:

- **OoA and Special Programs**
  In 10 of 20 revolving fund transactions reviewed, the check signer also authorized the revolving fund petty cash vouchers/travel cash advances and approved the revolving fund cash replenishment requests. The fund custodian was also responsible for preparing the fund reconciliations. Custodial and reconciling duties should be segregated.

- **Veterans Service Office**
  The revolving fund custodian prepared the bank reconciliation and fund balance reconciliation and in some instances signed revolving fund checks.

Recommendation No. III.A

HCS ensure the revolving fund duties of authorization, custodian, reconciliation, and check signing are segregated. If this is not practical, a detailed supervisory review should be performed as a mitigating control.

HCS Department Response:

Concur. HCS has instituted the consolidation of two of the three program funds, Office on Aging and Special Programs, and will include the Veterans Service Office revolving fund into one fund. HCS Administration staff will be responsible for the funds and will ensure that related duties are adequately segregated.

B. Reconciliations

Reconciliations are comparisons of one set of data to another, identifying and investigating differences, and taking corrective action when necessary to resolve those differences. This control activity helps ensure the accuracy and completeness of transactions, and that any errors or irregularities are detected timely. We noted the following concerning bank and fund reconciliations:

- **OoA and Special Programs: Fund Reconciliations**
  Reconciliations to the authorized fund balances were not prepared monthly. Instead, reconciliations were done at the time of replenishment, which did not occur on a monthly basis. Special Programs reconciled the fund for 5 of 12 months from August 2002 through July 2003, and OoA reconciled the fund for 8 of 12 months. Special Programs was also reconciling to an incorrect fund balance (see report item III.C below).

- **Veterans Service Office: Bank and Fund Balance Reconciliations**
  The revolving fund was not reconciled to the authorized balance for 6 of 12 months. A reconciliation of the checking account was prepared monthly except for October 2002, but there were no documented supervisory reviews of the bank reconciliations. Bank reconciliations performed before 2002 were not available. We were informed that they were on a computer that stopped working and no hard copies of the reconciliations were retained.

HCS should determine a methodology for preparing fund reconciliations. The responsibility for the reconciliation should be assigned to an individual with no other revolving fund duties. If that is not practical, a detailed supervisory review should be performed that would include verification of amounts shown on the reconciliation to source documents.

Recommendation No. III.B
HCS take measures to ensure the monthly fund and bank reconciliations to the authorized fund balances are prepared and reviewed.

HCS Department Response:
Concur. HCS Administration staff will institute all appropriate measures to ensure that monthly fund and bank reconciliations are prepared and reviewed by authorized staff.

C. Authorized Fund Balances

The Veterans Service Office revolving fund balance, which is currently $4,866, exceeded the authorized fund balance of $4,200 for over two years. The cause has not been identified; however, we observed evidence that the overage existed before transferring the account from Bank of America to Wells Fargo in 2001.

We also noted that the fund custodian had not recorded a deposit for $666 in the revolving fund checkbook, resulting in an understated checkbook balance. This amount was the closing balance in the Bank of America account. The account had $866 when the revolving fund account was transferred to Wells Fargo in 2001, and was reduced by monthly bank charges to the amount of $666.

Special Programs Accounting maintained its revolving fund balance, authorized for $9,000, at a higher amount of $10,000 for over five years. The former Community Services Agency/Administration was responsible for the oversight of the revolving fund and did not identify this difference until the programs were transferred to HCS. The fund balance was adjusted to the correct authorized amount in June 2003.

Recommendation No. III.C
HCS ensure that revolving fund balances are maintained at the authorized fund balance amounts and that any discrepancies in the authorized balances are resolved timely.

HCS Department Response:
Concur. HCS Administrative staff will ensure that revolving fund balances are reviewed and maintained at the authorized fund balance amounts. All discrepancies in the authorized fund will be resolved within 30 days.

D. Authorization of Revolving Fund Transactions

Authorized signature lists help to verify the identity of persons authorizing transactions to reduce the risk of errors or improper transactions. Authorized signers should be independent of other revolving fund responsibilities.

1. Authorized Signer – Special Programs

Our review of ten checks issued from the revolving fund noted that the person who signed three of the checks was not on the authorized Wells Fargo bank signature list. The check signer (Interim Director of the Community Services Agency) was not added to the appropriate signature lists in a timely manner. The department experienced a sudden change in upper management during the audit period that may have contributed to this situation.

Recommendation No. III.D.1
HCS ensure that only the individuals on the current bank signature list be allowed to sign revolving fund checks.

HCS Department Response:
Concur. HCS Administration has reviewed and updated all current bank signature lists.

2. Authorization Prior to Payment - Veterans Service Office

Revolving fund vouchers were not authorized in writing prior to disbursing the funds. CAP C-7 requires the custodian to obtain signatures from the persons approving the purchase and receiving the reimbursement before disbursing currency or issuing a revolving fund check.

Recommendation No. III.D.2
HCS ensure that all vouchers are authorized in writing before releasing payments from the revolving fund.

HCS Department Response:
Concur. HCS Administration will require all appropriate and necessary documentation to be reviewed and authorized before releasing payment from the revolving fund.

3. Authorized Use of Revolving Funds

The Veterans Service Office used its revolving fund to pay for pagers obtained from a vendor that was not on a County master agreement. The County had master agreements with several other contractors that provided pager services that could have been utilized CAP C-7 states that the revolving fund process may not be used to circumvent the bidding process for services available through existing countywide or departmental contracts. County master agreements generally provide better rates for services through volume discounts.

Recommendation No. III.D.3
HCS ensure that revolving funds are used only for services and supplies that are not available through existing master agreements.

HCS Department Response:
Concur. HCS Administration will ensure that revolving funds are used appropriately for services and supplies in conformance with County master agreement policy.

E. Travel Documentation

Some employees did not submit cash advance travel forms to the revolving fund custodian within five working days as required by CAP C-1. Of the seven claims tested, five were submitted beyond the required five days and two were submitted over two months after the travel period.

Recommendation No. III.E
HCS implement control procedures to ensure employees submit cash advance reimbursement claim forms in accordance with CAP C-1.

HCS Department Response:
Concur. HCS Administration will remind staff of the 5-day requirement and track in accordance with CAP C-1.

F. Other Compliance and Control Issues

Our review noted the following issues concerning compliance and control:

- **Cancellation of Supporting Documentation - OoA, Special Programs**
  Supporting documentation for a sample of revolving fund vouchers and travel cash advances were not canceled (marked "paid"). Canceling original expenditure documentation reduces the risk of duplicate payments.

- **Certification of Faxed Invoices – OoA**
  Faxed invoices were not certified. To prevent duplicate payments, a copy or fax of an invoice must include a certification that the original has been lost or destroyed and has not previously been reimbursed.

- **Periodic Inventory of Checks – OoA, Special Programs, VSO**
  Periodic inventories of revolving fund checks were not performed. Physical inventories help detect lost or stolen checks in a timely manner, reducing the risk of misappropriation of County assets.

- **Surprise Counts- OoA, Special Programs, VSO**
  Surprise counts of revolving funds by an independent person were not performed. This control procedure helps ensure the accuracy and completeness of transactions and the safeguarding of financial assets.

Recommendation No. III.F.1
HCS ensure that the revolving fund custodian properly cancels supporting documentation upon payment and that faxed documents are properly certified.

HCS Department Response:
Concur. HCS Administrative staff will institute all necessary procedures to ensure that revolving funds are properly tracked and that all supporting documentation is appropriately reviewed and certified.

Recommendation No. III.F.2
HCS ensure a person with no other revolving fund responsibilities performs periodic inventories of revolving fund checks and surprise counts of the revolving funds.

HCS Department Response:
Concur. HCS Accounting staff will perform periodic inventories of revolving fund checks and perform surprise counts of the revolving funds as required.

Housing & Community Services Department
COUNTY OF ORANGE

MEMORANDUM

DATE: May 28, 2004

TO: Jim Ruth, County Executive Officer

FROM: Paula Burrer-Lund, Director

SUBJECT: HCS Response to Cash Disbursement and Revolving Funds Audit No. 2349

Attached, please find the Housing & Community Services Department (HCS) and Auditor-Controller response to the draft report for the Department Cash Disbursement and Revolving Funds Audit No. 2349. This audit was completed by the Internal Audit Department for the year July 1, 2002 through June 30, 2003, for the divisions of Office on Aging, Special Programs, and Veterans Service Office, all of which were part of the former Community Services Agency Department (CSA) at that time.

As you are aware, the CSA Department was dissolved July 1, 2003 and four divisions, comprised of Office on Aging, Special Programs Division, Veterans Service Office, and Human Relations Commission merged with the Housing and Community Development to become the Housing and Community Services Department. Since July 2003 and as a part of the merge transition, the HCS Administration Division has begun providing administrative support to the new merged divisions and assisting and implementing safeguards to ensure consistency with countywide policies for cash disbursement and revolving funds management.

Each of the observations have been reviewed by each of the subject divisions, as well as HCS Administration and HCS Accounting staff, and final recommendations have been reviewed by key representatives for each division and addressed in accordance with the audit oversight procedure.

Additionally, HCS Administration staff has already addressed some of the findings and is working with both HCS Accounting and Program staff to implement other changes within the next 30-60 days. The Accounting and Program staff are proposing substantial tracking and monitoring changes, which are expected to come about within the next 6 to 12 months.

Should you have any questions, please feel free to call me at (714) 480-2805 or Jess A. Carbajal at (714) 480-2820.

Attachments: HCS Department Response to Cash Disbursement and Revolving Fund Audit No. 2349
Auditor-Controller Response to Cash Disbursement and Revolving Fund Audit

c: Vicki Wilson, Deputy CEO, Infrastructure & Environmental Services
Ed Corser, Deputy CEO, Chief Financial Officer
Jess A. Carbajal, Deputy Director

Paula Burrier-Lund, Director
1770 N. Broadway • Santa Ana, CA 92706 • (714) 480-2900 • Fax (714) 480-2803
1300 S. Grand Avenue, Bldg. B • Santa Ana, CA 92705 • (714) 567-7420 • Fax (714) 834-6870
http://www.ochousing.org and http://www.oc.ca.gov/hcs

From: Villanueva, Diane
Sent: Monday, July 12, 2004 1:23 PM
To: Burrier-Lund, Paula; Carbajal, Jess; Littner, Eli; Goodwin, Mike; Aragon, Renee (Audit); Hughes, Peter
Subject: Audit #2349 HCS Response to Cash Disbursement and Revolving Funds

Importance: High
The County Executive Office has reviewed and approved HCS response #2349, HCS Response to Cash Disbursement and Revolving Funds. By copy of this email HCS is advised to submit their response to Internal Audit. Please call me if you have any questions.

Thank you,

Diane Villanueva
County Executive Office
(714) 834-3520
(714) 834-3555 fax
Diane.Villanueva@ocgov.com

ATTACHMENT B: Auditor-Controller Management Responses

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.oc.ca.gov/ac

JOHN H. NAKANE
CHIEF ASSISTANT AUDITOR-CONTROLLER

JAMES M. McCONNELL
ASSISTANT AUDITOR-CONTROLLER
CENTRAL OPERATIONS

SHAUN M. SKELLY
ASSISTANT AUDITOR-CONTROLLER
AGENCY ACCOUNTING

MAHESH N. PATEL
ASSISTANT AUDITOR-CONTROLLER
INFORMATION TECHNOLOGY

DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

RECEIVED

MAY 11 2004

INTERNAL AUDIT
DEPARTMENT

May 10, 2004

TO: Paula Burrier-Lund, Director
Housing and Community Services

SUBJECT: Response to HCS Cash Disbursements and Revolving Funds Audit

We reviewed the draft audit report prepared by the Internal Audit Department covering HCS Cash Disbursements, Fiscal Monitoring, and Revolving Funds. We have responded to those areas that were under the control of CSA Accounting (now HCS Accounting) during the review period.

For Sections I and II, this includes all of the disbursement and fiscal monitoring recommendations, with the exception of II.C. and II.E.1, which are primarily HCS functions. Our responses are provided in the attached document. For Section III, this includes recommendations related to the revolving funds for the Special Programs Division and the Office on Aging. These duties were subsequently reassigned to HCS Administration. Oversight of the Veterans Service Office revolving fund continues to be conducted by that Office. We concur with all of the Special Programs Division and the Office on Aging revolving fund recommendations; however, responses regarding corrective actions will be provided by HCS, who currently oversee these funds.

Please call Mike Montijo at 480-2848 if you have any questions regarding this report.

David E. Sundstrom
Auditor-Controller

SMS:lr
Attachment

cc: Peter Hughes, Director, Internal Audit Department
Shaun M. Skelly, Assistant Auditor-Controller, Agency Accounting

Attachment

Internal Audit Report Dated April 6, 2004
Cash Disbursements and Revolving Funds
Housing and Community Services Department

Recommendation No. I.A
HCS Accounting obtain a list of authorized signatures to use in verifying the contractor's authorized signatures on payment request forms.

Auditor-Controller Response:
Concur. HCS Accounting staff has obtained lists of authorized signers which include actual signatures for all but one contractor. We are currently working with HCS to obtain a signature list for the remaining contractor.

Recommendation No. I.B
HCS Accounting cancel the original requests for payment (invoices) by marking them as "paid."

Auditor-Controller Response:
Concur. This recommendation has been implemented.

Recommendation No. II.A
HCS develop a written policy that addresses the guidelines and frequency for performing fiscal monitoring reviews.

Auditor-Controller Response:
Concur. When the overall approach is determined for HCS, as described in the response to Recommendation II.B.1., a written policy will be developed.

Recommendation No. II.B.1
HCS should evaluate options for obtaining assurance of the propriety of contractor expenditures, which could include obtaining supporting documentation, performing fiscal monitoring reviews, or a combination of both and select a methodology to best meet its program objectives.

Auditor-Controller Response:
Concur. HCS management and HCS Accounting management are evaluating all options and will select a methodology to provide for an efficient and effective review of contractor expenditures.

Recommendation No. II.B.2
Once a written policy is established, HCS should ensure that fiscal monitoring reviews are performed in accordance with their established written policy.

Auditor-Controller Response:
Concur. When a written policy is established, we will ensure that fiscal monitoring and/or reviews of supporting documentation will be conducted in accordance with the policy.

Recommendation No. II.D
HCS Accounting performs documented supervisory reviews of fiscal monitoring workpapers and final reports to ensure there is adequate documentation of the work performed to support the results of on-site reviews.

Auditor-Controller Response:
Concur. We are in the process of updating our fiscal monitoring tools to include a section which indicates that the workpapers and report were reviewed by an independent person.

Recommendation No. II.E.2
HCS Accounting includes a review of controls over all types of meal donations in the fiscal monitoring reviews.

Auditor-Controller Response:
Concur. HCS Accounting will update their Office on Aging fiscal monitoring tool to include a review of controls over meal donations.

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