



INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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FIRST FOLLOW-UP AUDIT OF THE INTERNAL CONTROL REVIEW OF SOCIAL SERVICES AGENCY

ACCOUNTS RECEIVABLE AND COLLECTION PROCESSES

As of December 31, 2006

AUDIT NUMBER: 2636-D

REPORT DATE: APRIL 25, 2007

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**First Follow-Up Audit of the
Internal Control Review of
Social Services Agency
Accounts Receivable and Collection Processes**

Original Audit No. 2575

As of December 31, 2006

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Transmittal Letter

Audit No. 2636-D

April 25, 2007

TO: Ingrid Harita, Director
Social Services Agency

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

SUBJECT: First Follow-Up Audit of the Internal Control Review of
Social Services Agency Accounts Receivable and Collections Process,
Original Audit No. 2575, Issued June 29, 2006

We have completed a First Follow-Up Audit of accounts receivable and collections processes at Social Services Agency. Our audit was limited to reviewing, as of December 31, 2006, actions taken to implement the seven recommendations in our audit report dated June 29, 2006.

Please note, we have 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 at six months upon the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

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 four recommendations pending implementation, we have attached a Second Follow-Up Audit Report Form. Social Services Agency should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

*Ingrid Harita, Director
Social Services Agency
April 25, 2007
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Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this Follow-Up 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 SSA 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
- David E. Sundstrom, Auditor-Controller
- Jess Carbajal, Director of Agency Administration, SSA/Administration
- Carol Wiseman, Deputy Director, SSA/Financial and Administration Services
- Patty Tilton, Manager, SSA/Program Integrity
- Shaun Skelly, Chief Assistant Auditor-Controller
- Bill Castro, Assistant Auditor-Controller, Satellite Accounting Operations
- Espi Garcia, Senior Manager, SSA/Accounting
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INTERNAL AUDITOR'S REPORT

Audit No. 2636-D

April 25, 2007

TO: Ingrid Harita, Director
Social Services Agency

SUBJECT: First Follow-Up Audit of the Internal Control Review of
Social Services Agency Accounts Receivable and Collection Processes
Original Audit No. 2575, Issued June 29, 2006

We have completed a First Follow-Up Audit of internal controls over accounts receivable and collection processes at the Social Services Agency (SSA). Our audit was limited to reviewing actions taken as of December 31, 2006 to implement the recommendations made in our original audit report.

The original audit report contained seven (7) recommendations. Our Follow-Up Audit indicated three (3) recommendations have been fully implemented; two (2) recommendations were partially implemented; and two (2) recommendations were in process of implementation.

We believe the remaining four (4) 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 June 29, 2006 report is shown in parentheses after each heading. See *Attachment A* for a description of Report Item Classifications.

1. **Timeliness in Identification/Establishment of Accounts Receivable (Recommendation No. 1)**

Recommendation: 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.
(Significant Issue)

Current Status: Partially Implemented. SSA Accounting reviewed the activities involved in establishing accounts receivable following the receipt of client debt referrals from SSA. The review identified the process to establish accounts receivable and the personnel responsible for completing the process. For our follow-up audit, we selected ten cases to test timeliness in establishing accounts receivable and noted the following:

- Five **General Relief** loan balances recorded in VACS by SSA/Accounting and Collections disclosed that billing statements were processed between **63 and 425** days after the completion of public assistance loans; whereas our original audit noted processing times between 117 and 452 days.
- Five **Non-General Relief** (CalWORKS, Food Stamps and Foster Care) cases disclosed initial collection notices were sent out between **41 and 74** days after identifying the over-issuance; whereas our original audit noted processing times between 122 and 275 days. Significant improvement was noted in this area.

SSA and SSA Accounting still need to establish a policy indicating acceptable timeframes between the completion and identification of assistance loans and over-issued benefits and the establishment of receivables in VACS that should be communicated within the agency and monitored for effectiveness.

Auditor-Controller Planned Action:

Concur. There are four steps involved in the identification and establishment of General Relief loans before a billing statement is sent to the debtor. First, SSA identifies and notifies SSA Accounting of the public assistance loan. Second, SSA Accounting conducts skip tracing techniques to confirm the debtor's information is correct. Third, SSA Accounting prepares a Statement of Aid documenting the amount of the loan. Fourth, the account is set up in VACS (Ventura Automated Collection System). SSA Accounting only controls steps two, three and four. Our goal is to complete these three steps within 15 days of notification from SSA. We will submit this goal to SSA for their concurrence by June 1, 2007.

Non-General Relief (Foster Care, CalWORKS, and Food Stamps) over-issuance cases are set up in VACS by SSA staff. SSA Accounting is not involved in the establishment of these receivables. Because billing statements are only run monthly, there could be a built in lag for initial statements of up to 30 days for accounts depending on whether or not the account is set up by the cut off date for running monthly billing statements. To help offset this built in lag, demand letters are prepared and mailed when accounts are initially set up, advising clients of their debt.

We are available to meet with SSA to explore other options to decrease the time lag between loan origination or over issuance and the mailing of billing statements.

Social Services Agency Planned Action:

Concur. SSA will meet with program staff to determine what policies and procedures are in place for establishing and notifying Accounts Receivable when a case should be identified for debt referral. We will also determine what length of time would be reasonable for the completion of the debt referral and establishment of the claim.

2. Reconciliation of Accounts Receivable Transactions to VACS (Recommendation No. 3)

Recommendation: 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. (**Significant Issue**)



Current Status: **Partially Implemented.** SSA Accounting reconciles the accounts receivable transactions for payments applied to outstanding receivables shown on VACS. However, a process has not been established to reconcile the source documents to VACS for increases in receivables, reductions for balance write-offs, and consideration of the total VACS balance. The staff position responsible for reconciling accounts receivable transactions has been vacant for several months.

Auditor-Controller Planned Action:

Concur. We are now reconciling payment source documents to the VACS outstanding receivables balance. We are currently working on a more complete reconciliation between other source documents and VACS.

3. Accounts Receivable and Collection Processes (Recommendation No. 5)

Recommendation: 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. (**Control Finding**)

Current Status: **In Process.** SSA and SSA Accounting met to discuss the audit findings and recommendations, and planned to exchange documented accounts receivable and collection procedures for review. However, the joint evaluation between SSA and SSA Accounting concerning the policy on recoveries has not yet been completed or documented in a written policy.

Auditor-Controller Planned Action:

Concur. SSA Accounting provided documentation for collections criteria for all types of receivables (Foster Care, CalWORKs, Food Stamps, and General Relief) to SSA Administration for their review and concurrence.

Social Services Agency Planned Action:

Concur. SSA Program Integrity has provided copies of their operations manual for processing Non-Fraud overpayment claims for CalWORKs, Refugee Cash Assistance, Food Stamps, Foster Care, and In Home Supportive Services programs to SSA Administration for their review and concurrence.

4. Collection Actions (Recommendation No. 6)

Recommendation: We recommend SSA and SSA Accounting jointly evaluate additional collection options and determine an appropriate level of effort for alternate resolution of receivables. (**Control Finding**)

Current Status: **In Process.** SSA Accounting took measures to implement this recommendation by consulting with County Counsel and creating a template memorandum to show required information for pursuing claims above \$5,000 in Superior Court. However, SSA has not provided reciprocal review of the process to determine the appropriate level of effort for alternate resolution of receivables. SSA should be part of this decision-making process in conjunction with SSA Accounting.

Auditor-Controller Planned Action:

Concur. SSA Accounting will provide the criteria for pursuing claims above \$5,000 to SSA Administration for their review and concurrence by June 1, 2007.



Social Services Agency Planned Action:

Concur. SSA will review the criteria to be submitted by SSA Accounting to determine if that is the appropriate level of action for pursuing these types of collections.

We appreciate the courtesy and cooperation extended to us by the personnel of SSA and SSA Accounting during our Follow-Up Audit. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at 834-5899, or Michael Goodwin, Senior 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
- David E. Sundstrom, Auditor-Controller
- Jess Carbajal, Director of Agency Administration, SSA/Administration
- Carol Wiseman, Deputy Director, SSA/Financial and Administration Services
- Patty Tilton, 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



ATTACHMENT A: Report Item Classifications

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

