OC Board of Supervisors'

Internal Audit Department

ORANGE COUNTY

FINAL CLOSE-OUT

SECOND FOLLOW-UP AUDIT:

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

As of January 10, 2008

Follow-Up Audit of corrective actions taken by Social Services Agency (SSA) and SSA Accounting to address four (4) remaining recommendations resulting from our original audit of accounts receivable and collections, in which over $285 million in financial assistance was issued during the original audit, and the processes by which over-issuances of benefits are pursued through SSA's accounts receivable and collections processes.

AUDIT NO: 2728-B
REPORT DATE: FEBRUARY 20, 2008

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Transmittal Letter

AUDIT NO. 2728-B **February 20, 2008**

TO: Ingrid Harita, Director
Social Services Agency

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Final Close-Out Second Follow-Up Audit: Internal Control Review of Social Services Agency Accounts Receivable and Collections Processes, Original Audit No. 2575, Dated June 29, 2006

We have completed a Second Follow-Up Audit of internal controls over accounts receivable and collections processes at the Social Services Agency. Our audit was limited to reviewing, as of January 10, 2008, actions taken to implement the recommendations in our first Follow-Up Audit report dated April 25, 2007 (#2636-D). The results of our Second Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter.

Because satisfactory corrective action has been taken and/or the item was closed for the four (4) recommendations, **this report represents the final close-out of the original audit.**

Each month I submit an **Audit Status Report** to the Board of Supervisors 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.

ATTACHMENT

Other recipients of this report listed on the Internal Auditor's Report on page 3.

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INTERNAL AUDITOR'S REPORT

AUDIT NO. 2728-B **FEBRUARY 20, 2008**

TO: Ingrid Harita, Director
Social Services Agency

SUBJECT: Final Close-Out Second Follow-Up Audit:
Internal Control Review of Social Services Agency Accounts Receivable and Collections Processes
Original Audit No. 2575, Dated June 29, 2006

Scope of Review

We have completed a Second Follow-Up Audit of accounts receivable and collections processes at the Social Services Agency (SSA). Our audit was limited to reviewing actions taken as of January 10, 2008 to implement the remaining recommendations in our First Follow-Up Audit report dated April 25, 2007, #2636-D.

Background

Our original audit assessed the controls over SSA's processes to establish accounts receivable and perform collection activities where there are over-issuances of benefits to SSA clients. During the original audit, SSA issued over $285 million in financial assistance. When over-issuances of benefits are identified, a receivable is established and collection efforts are made to collect monies due back to the County. At the time of the original audit, there was approximately $19 million in outstanding accounts receivable, which date back to 1996. The original audit report contained seven (7) recommendations to improve controls and processes over accounts receivable and collections.

Results

Our First Follow-Up Audit report noted four (4) recommendations that were not fully implemented. Our Second Follow-Up Audit indicated two (2) recommendations have been fully implemented and two (2) recommendations have been closed. The two closed recommendations are noted below along with a comment on their current status. The item number from the original audit report is shown in parentheses after each heading.

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.

   Current Status: **Closed**. SSA and SSA/Accounting jointly evaluated constraints that impact the timely identification and establishment of accounts receivable; established and updated related procedures; analyzed and identified overpayments for closed cases; and established policy on acceptable timeframes to establish accounts receivable. Our review of ten cases noted that actual timeframes to establish accounts receivable for Non-General Relief (CalWORKS, Food Stamps and Foster Care) did not improve from our First Follow-Up Audit. In addition, a process to monitor timeliness of accounts receivable was still under development.

   The time lags in identifying and establishing accounts receivable for Non-General Relief were attributed to staffing shortages and over 100% turnover during 2007 in the SSA/Program Integrity Unit. The formerly vacant positions are currently filled due to an upgrade of the position classification. In addition, SSA/Program Integrity consolidated the Fraud and Non-Fraud technicians to increase flexibility over workload assignments, and is developing a report for monitoring the timeliness of accounts receivable. As updated procedures and staffing are in place to enhance the timeliness in identification and establishment of accounts receivable, we will consider this recommendation "closed."

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.

   Current Status: **Closed.** SSA Accounting has established a process to reconcile the accounts receivable source transactions with the balances on the Ventura Automated Collections System (VACS) on a monthly basis.

For the sample months of April 2007 through September 2007, our Second Follow-Up Audit found that the reconciliations contained unsupported differences that were immaterial to the total outstanding accounts receivable balance. In addition, it was noted that the reconciliations did not show evidence of managerial review.

SSA and SSA Accounting are committed to reducing and eliminating the unidentified reconciling items, and are making progress in identifying causes of the reconciling differences. They will establish a process to ensure there is a documented management review of the reconciliations. SSA Accounting is also requesting assistance from SSA Information Technology to help them identify and reduce the unidentified differences and improve the effectiveness of the reconciliations. Because SSA Accounting has established a reconciliation process and is making progress with the reconciling items, we will consider this recommendation "closed."

Acknowledgment

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of the SSA and SSA Accounting. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at (714) 834-5899 or Michael Goodwin, Senior Audit Manager, at (714) 834-6066.

Respectfully Submitted,

Dr. Peter Hughes, CPA, Director
Internal Audit Department

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