

## **Anatomy of an Audit**

### **Summary**

An audit being conducted by the Audit Division of the Auditor-Controller's Office on a Human Services Agency (HSA) claim for reimbursement from state funds was found to have taken an inordinate amount of time to complete. The reasons given for the delay were a series of personnel changes in the Auditor-Controller's Office and in HSA. The audit report showed that several major discrepancies existed in the processing of the claim. Corrective measures recommended by the Audit Division were accepted and are being implemented by HSA.

### **Background**

It was brought to the attention of the Grand Jury that the HSA Work Opportunity and Responsibility to Kids (Cal WORKS) portion of the County Expense Claim (CEC) audit which was begun in January 2002 was not yet completed in November 2003. The Grand Jury requested information concerning the status of the audit and was informed that a series of personnel changes involving key individuals had caused delays in the completion of the audit.

HSA uses the CEC to request reimbursement from the State of California Department of Social Services (CDSS) for expenditures relating to various services, e.g., Cal WORKS, MediCal and Food Stamps. CDSS also uses the CEC to obtain financial and statistical information upon which to base future funding allocations for social programs administered by the County. The HSA Fiscal Services Division is responsible for preparing, submitting and assuring the accuracy of the CEC.

### **Methodology**

The Grand Jury requested information from the Auditor-Controller on the HSA CEC audit. The Auditor-Controller replied that the audit would be completed by the end of December 2003. The Grand Jury requested a copy of the audit when completed. A copy of the audit report dated December 30, 2003, was received on January 6, 2004. The Grand Jury met with a representative of the County Executive Office who had reviewed the audit report.

### **Findings**

- F-01.** HSA did not always reimburse the California Employment Development Department (EDD) Welfare to Work (WtW) expenditures in a timely manner. This resulted in the same claim being submitted to CDSS prior to repaying EDD. The Audit Division found that concurrent claiming, which is a violation of federal cash management regulations, resulted from expenditures not being paid in a timely manner.

- F-02.** The corrective action for F-01 requires that any WtW expenditures that are later claimed to a different funding source have proper documentation requesting the change and be approved by the Agency Fiscal Officer. After approval, HSA will initiate the process to reimburse the program where the expenditures were originally claimed.
- F-03.** Adequate supporting documentation was not always produced by HSA for WtW expenditures claimed on the CEC and submitted to CDSS for reimbursement. HSA inappropriately claimed expenditures based on estimates rather than actual expenses to maximize CDSS funds that would otherwise expire at the end of the fiscal year. This claim was submitted without any supporting documents.
- F-04.** HSA now requires supporting schedules referring to actual invoices be included in the claim work papers.
- F-05.** Expenditures were not always claimed on the CEC for the proper periods. Expenditures of \$545,267 were improperly claimed in June 2001 to cover funds that would expire June 30, 2001. The \$545,267 was subsequently repaid by HSA and was reclaimed by an amended first quarter of Fiscal Year 2002 claim.
- F-06.** HSA has instituted procedures to prevent claiming of expenditures in the wrong period. Expenditures are isolated by accounting period and are reconciled to the Ventura County Financial Management System. In addition, the manager of the Budget and Claims Unit reviews the claim.
- F-07.** The lack of proper monitoring of funding allocations did not ensure their maximum use and did not preclude unnecessary cost from being incurred. In one case, WtW expenditures exceeded the allocated matching funds by \$134,546. This amount was a loss to the County in the form of non-reimbursable costs.
- F-08.** HSA now reviews all expenditures to allocations and identifies any expenditure exceeding funding allocations. Corrective action is taken to stay within approved allocations. Procedures have been developed to ensure these reviews.
- F-09.** The time required to complete this HSA CEC audit was almost two years. This resulted from personnel changes in the Audit Division and in HSA.

## **Conclusion**

- C-01.** Concurrent claiming resulted from expenditures not being paid in a timely manner which is a violation of federal cash management regulations. (F-01)
- C-02.** Corrective action has been taken which requires proper documentation. This should preclude concurrent claims from occurring in the future. (F-02)
- C-03.** Lack of adequate documentation allowed double claims to be submitted for the same expenditures. (F-03)
- C-04.** Supporting schedules referencing actual invoices should solve the double claims problem. (F-04)

- C-05.** Claims not submitted in the proper period required the performance of additional work at additional cost by county employees to effect repayment. (F-05)
- C-06.** New procedures in effect will prevent claims from being filed in the wrong time period. (F-06)
- C-07.** Proper monitoring and review is necessary so that funding does not exceed allocations. (F-07)
- C-08.** Diligent reviews described in the corrective actions above will prevent costs from exceeding funding allocations. (F-08)
- C-09.** Critical functional areas in both the Audit Division and in HSA do not have adequate back-up plans to cover personnel changes. (F-09)

## Recommendations

- R-01.** HSA should continue to employ and maintain corrective actions that were recommended by the Audit Division.
- R-02.** Audit Division should periodically review and also enforce the corrective actions initiated by HSA.
- R-03.** Audit Division and HSA should develop more effective contingency plans to cover key personnel changes.

## Responses

| Recommendations                  | R-01 | R-02 | R-03 |
|----------------------------------|------|------|------|
| <b>Responses Required From:</b>  |      |      |      |
| Auditor-Controller               |      | X    | X    |
| Board of Supervisors             | X    |      | X    |
| <b>Responses Requested From:</b> |      |      |      |
| Human Services Agency            | X    |      | X    |