County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Barry Zimmerman, Director, Human Services Agency **Date:** June 22, 2009

From: Christine L. Cohen

Subject: AUDIT OF CHANGE IN DIRECTOR FOR THE HUMAN SERVICES AGENCY

EXECUTIVE SUMMARY

We have completed our audit of the change in director for the Human Services Agency (HSA). Our overall objective was to determine whether appropriate actions had been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding director. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

Overall, HSA satisfactorily transferred accountability and administrative functions from the preceding to the succeeding director. For example, we confirmed that County property was collected from the prior director and that electronic security controls were updated properly. We also verified that California Form 700, *Statement of Economic Interests,* was filed timely and that expense reimbursements paid to the prior director appeared reasonable.

However, opportunities were available to improve the transition process and strengthen certain department operations. Specifically, we found that actions were needed to:

- Improve oversight of petty cash funds to strengthen accountability.
- Ensure that all check signers have been deputized by the Auditor-Controller.
- Implement procedures to transfer accountability and dispose of fixed assets properly.
- Identify, track, inventory, and dispose of sensitive non-fixed assets as required by County policy.
- Update signature authorizations in a timely manner.
- Ensure that all withdrawals from RAIN client trust accounts are properly authorized.

HSA management initiated corrective action to address our findings. Corrective action is planned to be completed by September 30, 2009.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Steve Bennett, Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable Peter Foy, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Marty Robinson, County Executive Officer

AUDIT OF CHANGE IN DIRECTOR FOR THE HUMAN SERVICES AGENCY

BACKGROUND:

The Human Services Agency (HSA) is the central resource in Ventura County for public services that promote personal independence and a strong community. HSA's mission is to strengthen families, promote self-sufficiency, and support safety, health, and well-being. HSA serves more than 10 percent of the County's population and provides a safety net for individuals and families who need assistance with basic necessities, such as food, housing, and health care.

HSA's RAIN Transitional Living Center provides housing, training, and other necessary resources to help individuals and families successfully transition to independent living. To aid in this transition, RAIN has established client savings trust accounts, whereby RAIN clients are required to maintain at least $200 on account to encourage savings and cover incidental costs. As of June 30, 2008, a total of 12 clients had over $30,000 on account.

The current director, Barry Zimmerman, was appointed to replace Ted Myers as HSA director effective March 30, 2008. HSA was authorized 1,086 positions for fiscal year 2008-09 and a combined budget of over $194 million.

SCOPE:

Our overall audit objective was to determine whether appropriate actions had been taken to accomplish the transfer of accountability and administrative functions from the preceding to the succeeding director. Specifically, we:

- verified that petty cash, change funds, trust funds, and outside bank accounts were accounted for properly, the account use was appropriate, and balances were reasonably stated;
- confirmed that fixed assets were accounted for properly and transferred to the incoming director and evaluated controls over sensitive non-fixed assets (e.g., laptop computers, etc.);
- verified that required documents, such as *Statements of Economic Interests* and signature authorizations, were completed;
- reviewed actions taken to update security measures, including the deactivation of facility access cards and termination of computer access;
- confirmed that County equipment was collected from the outgoing director and accounted for properly;
- verified that expenses incurred by the outgoing director in the months before the director's departure were appropriate; and
- evaluated the management of trust accounts for RAIN clients.

We performed audit tests and evaluations using documents provided by HSA Administration and the Auditor-Controller's Office. Our procedures included a count of petty cash and change funds at all five HSA offices entrusted with such funds during July 2008.

The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. For our audit, we used documents and records for the period January 2007 through February 2009.

FINDINGS:

Overall, we found that HSA satisfactorily transferred accountability and administrative functions from the preceding to the succeeding HSA director. Change funds, trust funds, and outside bank accounts were accounted for properly and balances appeared to be reasonably stated. We confirmed that County property was collected from the prior HSA director and that computer access was properly terminated. In addition, we verified that California Form 700, *Statement of Economic Interests,* was filed in a timely manner by both the preceding and succeeding HSA director. We also verified that all expense reimbursements received by the prior director during the 6 months prior to leaving County service were appropriate. Further, RAIN client trust accounts were accounted for properly and balances appeared to be reasonably stated.

However, we identified several areas where action was needed to improve accountability for departmental assets and transactions. Specifically, improved oversight of petty cash funds was needed to address certain internal control weaknesses. In addition, action was needed to ensure that all check signers have been deputized by the Auditor-Controller. Improvements were also needed to properly account for and dispose of fixed assets and sensitive non-fixed assets. Our audit also disclosed that signature authorizations were not updated in a timely manner upon the change in director and that RAIN client trust account withdrawals were not always properly authorized.

Summarized below are details of the areas where improvements were needed. HSA management initiated corrective action during the audit as noted.

1. Petty Cash. Attention was needed to better manage and control HSA's five petty cash funds authorized at $1,275 in the Ventura County Financial Management System (VCFMS). Specifically, improvements were needed to address the reasons for shortages and overages in individual funds, netting to a total shortage of $24.19, and replenish petty cash more frequently.

   A. Net Shortage. During our cash counts in July 2008, net petty cash funds counted were less than the amounts authorized. Specifically, of the five HSA locations with petty cash, two locations were short by a total of $74.59 and one location was over by $50.40, representing a net shortage of $24.19. Management did acknowledge that annual cash counts were conducted over the phone rather than in person, which may have exacerbated the out-of-balance condition.

      Management Action. HSA management concurred with the finding and stated: "HSA Fiscal will process the necessary transactions with the Auditor-Controller to correct the net shortage and determine the proper balance of the funds on an ongoing basis. The process will include trying to identify the reason for the net shortage."

   B. Replenishment. Petty cash custodians did not always request replenishment of petty cash funds in a timely manner, indicating that the size of individual petty cash funds may be larger than needed. The County Administrative Policy on *Control of Petty Cash and Revolving Fund Accounts* states that petty cash funds should be replenished on a monthly basis. However, at the time of our cash counts in July 2008, reimbursement had not yet been requested for expenditures dating as far back as October 2003, March 2006, June 2007, and July 2007 for four out of the five HSA offices. Untimely replenishment increases the risk of not identifying misappropriation or theft of cash in a timely manner and also results in the posting of expenditures to improper accounting periods.

Management Action. HSA management concurred with the finding and stated: "HSA Fiscal will institute a requirement that petty cash custodians complete a monthly reconciliation of the petty cash funds and receipts on hand and submit a request for reimbursement to Fiscal at that time. Any petty cash fund not having activity will be reviewed with program management to determine if the fund is still necessary."

2. Current Deputized Auditor-Controllers. Deputizations for HSA outside bank account signers were not kept current in accordance with Government Code Section 24102, which states that deputies must be appointed as such by the Auditor-Controller. We found significant discrepancies between HSA's list of deputized signers and the Auditor-Controller's list. Of the 39 individuals on HSA's list, 19 (49%) were not formally deputized by the Auditor-Controller. As a result, our review of 131 checks totaling $9,267 issued from HSA's CalWORKs outside bank account from April through June 2008 disclosed that 2 checks totaling $110 were signed by non-deputized personnel. Although the number and dollar amount of checks signed by non-deputized personnel did not appear to be significant, the potential existed for more significant unauthorized disbursements to occur based on HSA's list.

   Management Action. HSA management concurred with the finding and stated: "As part of the current annual process of preparing the annual reports on outside bank accounts, HSA Fiscal will require any signers that have not been deputized to complete the deputation process before continuing to sign checks. Any changes requested by program staff during the year will be required to be deputized before completing bank signature cards."

3. Fixed Assets. Improvements were needed to account for fixed assets properly. Specifically, we noted that accountability was not transferred upon the change in director and disposition forms were not always submitted to the Auditor-Controller.

   A. Transfer of Accountability. Accountability was not transferred for over $868,000 in fixed assets from the preceding director to the succeeding director. The preceding director resigned, effective March 29, 2008, without transferring accountability with a signed receipt to the succeeding director as required by Government Code Section 24051. Therefore, from March 30 to July 8, 2008, when the succeeding director properly certified the fixed asset inventory, accountability was not established over fixed assets. Management's implementation of proper exit procedures would ensure appropriate transfer of accountability.

      Management Action. HSA management concurred with the finding and stated: "HSA Fiscal and Administrative staff will be instructed on the requirement for transfer of accountability with a signed receipt to the succeeding director immediately upon the change of director in addition to the annual certification process."

   B. Disposition. HSA did not always submit fixed asset disposition forms to the Auditor-Controller to update the VCFMS fixed asset list as directed in the County Executive Office's annual inventory memorandum. Specifically, the Fixed Asset Inventory List as of June 30, 2008, included one fixed asset worth $5,430 that had previously been sent to surplus in December 2006. However, because the necessary forms had not been submitted to the Auditor-Controller, the VCFMS fixed asset list improperly reflected that the asset was still at HSA. The timely submission of disposition forms would help to ensure the accuracy of the VCFMS fixed asset list on an on-going basis.

Management Action. HSA management concurred with the finding and stated: "HSA Fiscal and Administrative staff will be instructed on the requirement for submittal of fixed asset disposition forms to the Auditor-Controller immediately on disposal to insure the accuracy of the fixed asset list."

4. Sensitive Non-Fixed Assets. Controls over sensitive non-fixed assets were in need of improvement. Sensitive non-fixed assets are non-capitalized items with a value of less than $5,000, and are subject to pilferage and misappropriation if not properly controlled. Because formal tracking through VCFMS is not required, departments must establish and implement internal controls to maintain proper accountability as required by the County Administrative Policy on *County Non-Fixed Asset Inventory Control*. However, we found that sensitive non-fixed assets were not always properly identified, tracked, or inventoried and that proper procedures were not always followed for the disposal of these assets.

   A. Identification, Tracking, and Inventory. HSA's methods to identify, track, and inventory sensitive non-fixed assets were not always sufficient. Although each County department is responsible for determining which non-fixed assets are considered "sensitive," and therefore warrant special handling, HSA did not identify certain significant, susceptible items as "sensitive." For example, although HSA claimed to possess approximately 85 laptop computers upon our inquiry, these laptops were not included on HSA's master list provided to the auditor in July 2008. In addition, this list still identified a cell phone in the possession of the former director although the phone had been given to the succeeding director in March 2008. Further, HSA did not conduct periodic physical inventories of sensitive non-fixed assets, which placed the items at risk of theft or loss without detection.

   Management Action. HSA management concurred with the finding and stated: "HSA will determine what should be identified as sensitive non-fixed assets and conduct an agency wide inventory to update the inventory list. The inventory list will be maintained on an ongoing basis and physical inventory performed annually. Computers including laptops are monitored electronically by Track-It software. The software records each time a computer is logged onto the system. Computers that show no activity will be periodically reviewed by Business Technology to verify they are still on site."

   B. Disposition. HSA did not always follow proper procedures for the disposal of sensitive non-fixed assets. The County Administrative Policy on *Disposition of Surplus Personal Property* requires that departments submit a PUR-1 form to the General Services Agency (GSA) when sensitive non-fixed assets are sent to surplus. This form includes the description and quantity of the items and is signed by an authorized representative of the submitting department and GSA. However, for the 328 items HSA claimed to have sent to surplus during calendar year 2008, none were reported on the required PUR-1 form. Items not reported on a PUR-1 form included 231 desktop computers and 2 laptop computers. As a result, HSA could not support the assertion that these items, which were no longer in HSA's possession, were actually sent to GSA.

Management Action. HSA management concurred with the finding and stated: "HSA Fiscal and Business Technology staff will be instructed on the requirement for completion of a PUR-1 form signed by HSA and GSA representatives for the items sent to surplus."

5. Signature Authorizations. Signature authorizations were not updated in a timely manner after the resignation of the prior director on March 29, 2008. All signature authorizations required by the Auditor-Controller, including authorizations for wire transfers and signing/receiving specified documents, were not signed by the succeeding director until June 16, 2008 (i.e., 80 days after the prior director's resignation). Failure to update signature authorizations promptly could allow for unauthorized transactions and/or access to financial accounts resulting in misappropriation of assets.

   Management Action. HSA management concurred with the finding and stated: "HSA Fiscal staff will be instructed of the requirement for updated signature authorizations upon the change of director in addition to the annual process."

6. RAIN Client Trust Withdrawals. Controls were not always sufficient to ensure that withdrawals of client funds from RAIN client trust accounts were properly authorized. Our review of six withdrawals totaling $1,020 during April through June 2008 disclosed that one withdrawal for $400 was not authorized with a signature from the client or RAIN management. Although we confirmed that the $400 withdrawal was paid on a check written to the order of the client, obtaining evidence of client and manager approval provides support that withdrawals are appropriate, accurate, and authorized.

   Management Action. HSA management concurred with the finding and stated: "RAIN management staff has been informed that all requests for withdrawals of client funds must be supported by signatures of the client and RAIN management and the requested withdrawal amount is verified in the clients balance on the client ledger maintained by HSA Fiscal."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by September 30, 2009.

We appreciate the cooperation and assistance extended by you and your staff during this audit.