

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Michael Powers, Director, Health Care Agency

Date: October 8, 2009

From: Christine L. Cohen

Subject: **AUDIT TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT
FOR THE HEALTH CARE AGENCY**

EXECUTIVE SUMMARY

We have completed our audit to validate the Control Self-Assessment (CSA) completed by the Health Care Agency (HCA) on October 31, 2007. The audit was performed as a component of the County's CSA Program, which was established to promote strong internal controls throughout the County. The audit was performed in conformance 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, we found that HCA conscientiously completed the Internal Control Questionnaire (ICQ) tool provided in the *Internal Control Guidelines and Control Self-Assessment Program*. All HCA departments were included in the CSA and input was provided by appropriate fiscal managers and staff. HCA generally described how each internal control question was verified, whether through observing operations, reviewing documentation, and/or discussing the matter with personnel. HCA documented 10 internal control improvements within the ICQ.

We also verified that selected control activities were actually in place and operating effectively as indicated by HCA's responses in the ICQ. Our audit tests involved a review of processes and documentation across the HCA organization and confirmed that internal controls appeared to be adequate for the areas tested.

However, we found that opportunities existed to improve HCA's performance of the CSA and thus further strengthen internal controls and mitigate risks. Specifically, HCA's self-assessment of internal controls could be improved by:

- Documenting a formal risk assessment to support management's assertion that various HCA risks were considered and addressed during the conduct of the CSA.
- Customizing the assessment tool to reflect facts, conditions, and risks relevant to HCA.
- Formally documenting detailed tests of controls as appropriate to support management's assertion that controls were tested during the CSA.
- Preparing a comprehensive improvement plan specifying actions needed, designated personnel, and completion dates.

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HCA management planned to implement improvements during the next CSA triennial cycle, which is scheduled to begin in 2010. In response to the audit, HCA executive management stated:

"Since the purpose of the audit was to determine whether HCA could reasonably support the existence of strong internal controls, we used the ICQ as our benchmark in performing the audit. It was perceived that this step was adequate; thereby, the first three improvements mentioned above were considered unnecessary as our answers were descriptive and specific to assess each internal control section. HCA's documented improvements do not represent a weakness in the current control processes; but merely an enhancement, upgrade, and process automation through the use of technology.

"However, we generally concur that the CSA process improvements noted during the audit could further enhance HCA's self-assessment of internal controls. HCA supports an ongoing collaboration with the Auditor Controller staff to streamline and simplify this CSA process."

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 I. Long, Board of Supervisors
Honorable Peter C. Foy, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Marty Robinson, County Executive Officer

AUDIT TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT FOR THE HEALTH CARE AGENCY

INTRODUCTION: This audit was performed as a component of the County's Control Self-Assessment (CSA) Program, which was established to promote strong internal controls throughout the County.

BACKGROUND:

The County Executive Office and the Auditor-Controller jointly established the County's *Internal Control Guidelines and Control Self-Assessment Program (Guidelines)*. The CSA Program was designed as a triennial program for department heads to formally assess and report on the status of internal controls at least once every 3 years.

In June of 2007, all County departments were asked to participate in the CSA Program. The Health Care Agency (HCA) completed the CSA on October 31, 2007, using the Internal Control Questionnaire (ICQ) tool provided in the *Guidelines*. HCA's CSA results were based on information available from September 25 through October 31, 2007.

SCOPE:

Our overall audit objective was to evaluate the effectiveness of HCA's execution of the 2007 CSA Program. Specifically, we:

- verified the performance of an appropriate risk assessment;
- determined whether the tool used to conduct the CSA effectively assessed internal controls;
- evaluated the completeness of the CSA;
- verified that tests of control activities were performed; and
- evaluated the thoroughness and effectiveness of the internal control improvement plan.

With guidance from HCA's CSA Coordinators, we reviewed the processes followed to accomplish the CSA and conferred with key personnel who contributed to the CSA's completion.

To verify the CSA responses, we performed audit tests of selected control activities at each of HCA's six main departments: Administration; Behavioral Health; Medical Examiner; Public Health; Ventura County Health Care Plan; and Ventura County Medical Center. We tested certain control activities in the following areas by tracing transactions, reviewing documentation, observing procedures, and/or discussing controls with management and staff, as appropriate:

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| • Mission statements, goals and objectives | • Leased facilities |
| • Policies and procedures | • Credit cards |
| • Cash | • Accounts payable |
| • Patient accounting | • Fiscal reporting packages |
| • Grant tracking | • Payroll |
| • Information systems security | • Compliance procedures and training |

The audit was performed in conformance 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 April 1 through October 31, 2008.

FINDINGS:

Overall, we found that HCA made a conscientious effort in conducting the CSA. Fiscal managers and appropriate staff from each HCA department were involved in conducting the CSA using the ICQ. This work was compiled into one ICQ, which contained HCA's answers to 141 internal control questions. HCA answered "Yes" to 127 (90%) questions, indicating that internal controls were in place and operating effectively for those areas, and "N/A" (i.e., Not Applicable) to 14 (10%) questions. Upon evaluation of each general control area (e.g., cash, accounts receivable, etc.), HCA documented 10 internal control improvements that had been identified prior to the CSA for such matters as cash security, systems efficiency, asset tracking, automated reports, and payroll processes. During our audit, we confirmed that HCA has initiated action to implement these improvements.

Our audit confirmed that strategic missions, goals, and objectives have been established for each of HCA's main departments and that policies and procedures have been documented for significant processes and are readily available for reference. In particular, we found certain legal and program compliance policies and procedures to be especially strong.

In addition, our tests of selected control activities at each of HCA's main departments disclosed that the tested controls were in place and operating effectively. Specifically, for the items tested, we found that:

- Change funds were intact and cash collections were accounted for and deposited properly.
- Patient receivables agreed to patient billing statements, receivables were accurately tracked until collected, and charges were based on established rates.
- Grant billings were accurately based on written agreement provisions and were supported with appropriate expenditure schedules and invoices.
- Measures to safeguard major information technology assets and to store and protect electronic data appeared to be reasonable.
- Property leases were valid and rents were accurately tracked and paid.
- Credit card charges and other accounts payable appeared to be reasonable and were properly supported with receipts.
- Monthly financial status reports were available and the information provided appeared relevant.
- Payroll processing procedures appeared to be reasonable and time card data was accurately entered into the Ventura County Human Resources/Payroll System.
- Compliance issues and concerns were tracked with corresponding corrective action plans and employees received training on various compliance matters.

However, we encourage HCA to implement certain improvements during the performance of the CSA to more fully derive the benefits from participating in the CSA Program. Specifically, improvement could be achieved by documenting a formal risk assessment of significant functions to better support HCA's consideration of whether internal control activities adequately mitigate risks to the accomplishment of goals and objectives. Also, the ICQ tool used by HCA could be more effective with modifications to reflect particular facts, conditions, and risks relevant to HCA. Additionally, the method of verifying internal controls could be enhanced by formally documenting detailed tests of controls in significant areas. Further, incorporating identified control weaknesses and improvement comments into a comprehensive plan designating the affected HCA department, responsible personnel, and completion dates would facilitate the accomplishment of improvement actions.

Summarized below are details of the areas where HCA's performance of the CSA could be improved. Management planned to implement corrective action during the next CSA triennial cycle, which is scheduled to begin in 2010.

1. **Risk Assessment.** Although HCA management stated that various risks were considered while completing the ICQ, documenting a formal risk assessment of HCA's significant processes would support that risks were considered and addressed during the CSA. The importance of performing a risk assessment is stressed in the *Guidelines* and is the first step of "Steps to CSA" within *Appendix B: Department Implementation Guidelines*. A risk assessment evaluates the possible internal or external risks relevant to the achievement of HCA's mission, goals, and objectives, and considers the effect of "what can go wrong" scenarios. As processes change due to the dynamics of accomplishing HCA's mission and other improvement endeavors, such as through participation in the County's Service Excellence Program, a risk assessment helps to ensure that effective controls are in place and are maintained. Without a proper, documented assessment of HCA's risks, certain significant programs, functions, and processes may not be addressed during the CSA.

Management Action. HCA management stated:

"For the next CSA triennial cycle, which is scheduled to begin in 2010, HCA will incorporate the risk assessment of our significant functions in our self assessment process, as recommended. We will collaborate with the Auditor Controller to ensure that expectations are met.

"It was interpreted that by performing the ICQ, that the risk assessment was fulfilled. HCA determined that the ICQ would accurately identify areas of risk, and thus no formal risk assessment was required. We believe that through our findings, we have demonstrated that tested controls were in place and operating effectively, and are compatible to the HCA's mission: 'access to high quality preventive care and treatment for those facing barriers to access.'"

2. **Assessment Tool.** The ICQ tool used by HCA to assess internal controls could be further modified to ensure the inclusion of control activities for all of HCA's significant processes. The ICQ provided in the *Guidelines* is generic in nature and designed to evaluate common internal control areas, focusing mainly on universal fiscal controls. As noted in *Appendix D: Department Internal Control Questionnaire*, the questionnaire is a starting point that should be modified to reflect particular facts, conditions, and risks relevant to each department's own circumstances. Modifying the assessment tool to expand into fiscal and compliance controls not addressed in the ICQ as well as operational areas increases the effectiveness of the CSA.

Management Action. HCA management stated:

"For the next CSA triennial cycle, which is scheduled to begin in 2010, HCA plans to customize and redesign the ICQ tool. The modified ICQ format will be collaborated with the A/C to ensure that modifications are acceptable, provided that resources are sufficient and are available.

"While the generic format provided by A/C was used, we believed that the significant control activities of HCA's significant processes were reasonably addressed and evaluated. The results of our CSA did not identify high risk in any area. HCA's responses to the ICQ were modified to reflect specific points to evaluate significant HCA operational and control activities. In each of the sections of the ICQ, we have identified areas of improvement and have provided specific solutions and recommendations to enhance HCA's efficiency and control processes."

3. **Method of Verification.** HCA could improve the method of verifying that control activities were in place and operating effectively during the CSA. Within *Appendix B: Department Implementation Guidelines*, departments were encouraged to test control activities and retain supporting documents used to draw conclusions during the review. Of the 141 ICQ questions answered, an explanation was provided for virtually every question of how HCA verified whether internal controls were adequate (i.e., through observing operations, reviewing documentation, and/or discussing the matter with personnel). However, although management stated that actual detailed tests of controls were performed for some activities during the CSA, documenting the tests performed would provide support that HCA did verify the effectiveness of controls for purposes of the CSA.

Management Action. HCA management stated:

"For the next CSA triennial cycle, which is scheduled to begin in 2010, HCA will improve the method of verifying that control activities are in place.

"HCA completed the ICQ and CSA Program by observing the operational areas performed by assigned personnel, reviewing documentation, and/or stating the process with the function designee. By doing so, we believe that steps 4, 5, and 6 of the Appendix B, Departmental Implementation Guidelines were adequately and reasonably met."

4. **Internal Control Improvement Plan.** HCA's internal control improvement plan could be enhanced to facilitate the accomplishment of the 10 improvements HCA documented within the ICQ. As noted in *Appendix B: Department Implementation Guidelines*, one of the significant outcomes of the CSA is an improvement plan developed and self-directed by the department to address control deficiencies. The *Guidelines* also instruct departments to summarize the improvement plan on the *Department Transmittal* submitted to the Auditor-Controller and identify the person(s) responsible to implement improvements and the estimated date of completion. Although HCA documented the 10 improvements within the body of the ICQ, summarizing the improvements into a comprehensive plan would help to ensure that improvements were fully developed to describe the improvement actions needed, including identifying the impacted department and delegating responsibility and completion dates.

Management Action. HCA management stated:

"For the next CSA triennial cycle, which is scheduled to begin in 2010, HCA will summarize the improvements into a comprehensive plan.

"For each of the ICQ sections, HCA provided improvement recommendation in each control area. The recommended improvements do not represent a weakness in the current control processes; but merely an enhancement, upgrade, and process automation through the use of technology. These recommended improvements may require further capital infusion and resources in the development of these processes. These plans may require additional feasibility studies, redesigning of multiple function areas, and strategic alignment of the HCA priorities without impairing HCA's mission, goals, and objectives."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management's planned actions were responsive to the audit findings. Management planned to complete improvement actions during the next CSA triennial cycle.

We appreciate the cooperation and assistance extended by you and your staff during this audit. We also appreciate the feedback we received on the CSA Program, which we intend to evaluate before re-launching the CSA Program in 2010.