

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Barry Zimmerman, Director, Human Services Agency

Date: March 18, 2010

From: Christine L. Cohen

Subject: **AUDIT TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT
FOR THE HUMAN SERVICES AGENCY**

EXECUTIVE SUMMARY

We have completed our audit to validate the Control Self-Assessment (CSA) completed by the Human Services Agency (HSA) 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 HSA conscientiously completed the Internal Control Questionnaire (ICQ) tool provided in the *Internal Control Guidelines and Control Self-Assessment Program*. All HSA departments were included in the CSA and input was provided by appropriate fiscal managers and staff. As a result of the CSA, HSA identified five potential internal control improvements; upon further evaluation, HSA determined that the improvements were not necessary. We also verified that selected control activities were generally in place and operating effectively as indicated by HSA's responses in the ICQ.

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

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

Also, during our tests of selected control activities, we found that control improvements were needed to improve the timeliness of collection notices sent to clients due to over-issuance of welfare benefits.

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HSA management planned to implement corrective action during the next CSA triennial cycle, which is scheduled to begin in 2010.

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

Attachment

cc: Honorable Kathy Long, Chair, Board of Supervisors
Honorable Linda Parks, Vice Chair, Board of Supervisors
Honorable Steve Bennett, 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 HUMAN SERVICES 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 Human Services Agency (HSA) completed the CSA on October 31, 2007, using the Internal Control Questionnaire (ICQ) tool provided in the *Guidelines*. HSA's CSA results were based on information available from October 15 through 29, 2007.

SCOPE:

Our overall audit objective was to evaluate the effectiveness of HSA'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 HSA'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 HSA's five main departments: Administrative Services; Adult and Family Services; Business and Employment Services; Children and Family Services; and Transitional Assistance Services. Specifically, we performed limited tests of certain control activities in the following areas by tracing transactions, reviewing documentation, observing procedures, and/or discussing controls with management and staff, as appropriate:

- Operational goals and objectives
- Cash transactions
- Overdue account collection
- Accounts payable
- Financial reporting
- Departmental policies

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 October 2007 through September 2009.

FINDINGS:

Overall, we found that HSA made a conscientious effort in conducting the CSA. Fiscal managers and appropriate staff from each HSA department were involved in conducting the CSA using the ICQ. This work was compiled into one ICQ, which contained HSA's answers to 142 internal control questions. While a "Yes" answer indicated that internal controls were in place and operating effectively for those areas, a "No" or "N/A" (i.e., Not Applicable) answer did not necessarily suggest that the internal control area should be noted as a deficiency in need of improvement.

HSA answered "Yes" to 139 (98%) questions, "No" to 1 (1%) question, and "N/A" to 2 (1%) questions. Upon evaluation of each general control area (e.g., cash, accounts receivable, etc.), HSA identified five internal control improvements; however, after further evaluation, HSA determined that the improvements were not necessary.

Our audit confirmed that operational goals and fiscal objectives were readily available for reference and effectively communicated to employees and the general public. We also found that departmental policies appeared to be easily accessible by staff through web-based tools. In addition, our tests of selected control activities at each of HSA's main departments disclosed that the tested controls were generally in place and operating effectively. Specifically, for the items tested, we found that:

- Revolving fund check procedures were adequate to properly account for cash transactions.
- Accounts payable for contracted services were accurately processed and paid.
- Expense claim data reconciled with Ventura County Financial Management System records.

However, we encourage HSA to implement certain improvements during the performance of the CSA to more fully derive the benefits of participating in the CSA Program. Specifically, improvements could be achieved by conducting a formal risk assessment of significant functions to better determine whether internal control activities adequately mitigate risks to the accomplishment of departmental goals and objectives. Also, the ICQ tool used by HSA could be more effective with modifications to reflect particular facts, conditions, and risks relevant to HSA operations. Additionally, the method of verifying internal controls could be enhanced by performing detailed tests of controls in significant areas. Further, fully developing improvement plans and designating responsible personnel and completion dates would facilitate the accomplishment of improvement actions. Also, during our tests of selected control activities, we noted that the distribution of collection notices could be improved to foster more timely collections on outstanding debts.

Summarized below are details of the areas where HSA'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.** A risk assessment of significant processes within HSA was not documented to support that various 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 HSA’s mission, goals, and objectives, and considers the effect of “what can go wrong” scenarios. As processes change due to the dynamics of accomplishing HSA’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 risk assessment of HSA’s risks, certain significant programs, functions, and processes may not be addressed during the CSA.

Management Action. HSA management stated: “HSA is in agreement with the Auditor-Controller that a risk assessment is a vital component of the administration of our programs. In completing the risk assessment component of the CSA document, it was not apparent that such documentation was a requirement. This was the first time HSA staff had the opportunity to participate in the risk assessment process. In the future we will work with the Auditor-Controller to take appropriate steps to more fully identify and document our risk assessment procedures.”

2. **Assessment Tool.** The ICQ tool used by HSA to assess internal controls was not modified to ensure the inclusion of control activities for all of HSA’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. HSA management stated: “We agree that it may be appropriate in some cases to modify the ICQ to better document the unique aspects of the Human Services Agency. Our interpretation of the instructions provided in the CSA document did not indicate the depth of the review that would be required or expected. The modification of the CSA tool was seen as an option, not a mandate. We look forward to working with the Auditor-Controller in future CSA’s to more fully assess our internal controls.”

3. **Method of Verification.** HSA 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 142 ICQ questions answered, an explanation was provided for virtually every question of how HSA 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 HSA did verify the effectiveness of controls for purposes of the CSA.

Management Action. HSA management stated: “Regular and significant monitoring and auditing reviews are performed on most programs operated by HSA by various State and federal agencies. Such reviews include random testing and identification of risk. We welcome and recognize the value of

the CSA process as an augment to such on-going risk assessment and commit to work toward documenting such testing and results in future risk assessment processes.”

4. **Internal Control Improvement Plan.** HSA’s internal control improvement plan could be enhanced to facilitate the accomplishment of the five improvements HSA identified 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. However, although HSA identified five improvements within the body of the ICQ, the improvements were not summarized into a comprehensive plan, identifying the impacted department and delegating responsibility and completion dates. In addition, certain improvements were not fully developed to adequately describe the corrective actions needed.

Management Action. HSA management stated: “The Agency is taking steps to improve and document outcomes relative to the internal control improvement plan. Based on the results of the Control Self-Assessment, HSA recognizes the need for the internal control improvement plan to more accurately reflect the desired outcomes.”

5. **Timeliness of Collection Notices.** During our tests of selected control activities, we noted that collection notices resulting from over-issuance of welfare benefits were not always distributed to clients in a timely manner. HSA’s procedures specify that collection letters should be sent every 30 days over a 90-day period before entering the client into the Tax Intercept Program, whereby federal and state payments, such as tax refunds, are intercepted to pay outstanding welfare debts. For the case that we tested, the first notice was sent on June 17, 2008; however, the second and third notices were not sent until August 27 and December 3, 2008, or 71 and 98 respective days between notices. Therefore, the 90-day process was extended to 169 days, or almost double the intended timeline, which also consequently delayed entering the client into Tax Intercept. According to HSA management, collection of outstanding debt related to Food Stamps and CalWORKs are eligible for collection incentives of 4.5 percent and 2.5 percent, respectively. Based on outstanding debt information for the first quarter of fiscal year 2009-10, HSA could receive approximately \$280,000 if all outstanding debts were collected.

Management Action. HSA management stated: “There are established timeframes in the procedures for notifying clients and initiating collection processes through the tax intercept process that we strive to meet. HSA will continue to review the current processes to see if system improvements can be developed and implemented. We will continue to make the best use of staffing resources to maximize collections on outstanding debt owed to the County.”

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.