


County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Barry Fisher, Director, Health Care Agency

Date: April 25, 2014

From:  Jeffery S. Burgh, Assistant Auditor-Controller

Subject: AUDIT OF PRIOR CHANGE IN DIRECTOR FOR THE HEALTH CARE AGENCY

We have completed our audit of the prior change in director for the Health Care Agency ("HCA"). 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 during the previous change in HCA leadership in 2011. Except as disclosed in the attached report, the audit was conducted 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.

EXECUTIVE SUMMARY

Overall, HCA satisfactorily transferred accountability and administrative functions from the preceding to the succeeding director. For example, we confirmed that County property was returned, computer access was properly updated, and a *Statement of Economic Interests* was filed timely for the outgoing director. Fixed asset inventories were completed in a timely manner and signature approvals had been updated. In addition, we confirmed that trust accounts were accounted for properly and that petty cash and change funds were intact.

However, opportunities were available to improve accountability and better manage the transition upon a change in director. Specifically, we noted that:

- Travel expenses were not always appropriate or accounted for properly.
- Documentation of inventory and disposal of sensitive non-fixed assets was not always maintained.
- *Statements of Economic Interests* were not completed in a timely manner or as required by the incoming director.
- Authority over petty cash and change funds was not always delegated in the manner reported to the Auditor-Controller.

Except as noted in the attached report, HCA management initiated corrective action to address our findings. Responses indicated that corrective action was completed during the course of the audit. HCA management provided the following closing remarks: "In conclusion, Management is committed to ensure compliance with respect to internal controls. The Change of Director checklist has been updated to

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incorporate some of the above findings. Management believes that internal control is adequate and sound; fraud is not detected, and expenses are appropriate and accounted for."

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 Kathy Long, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Peter C. Foy, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors
Michael Powers, County Executive Officer

County of Ventura
Office of the Auditor-Controller



AUDIT OF PRIOR CHANGE IN DIRECTOR
FOR THE HEALTH CARE AGENCY

April 25, 2014

Jeffery S. Burgh
Assistant Auditor-Controller

**AUDIT OF PRIOR CHANGE IN DIRECTOR
FOR THE HEALTH CARE AGENCY**

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AUDIT OF PRIOR CHANGE IN DIRECTOR FOR THE HEALTH CARE AGENCY

BACKGROUND

The Health Care Agency ("HCA") is comprised of the following seven departments: Public Health; Behavioral Health; Emergency Medical Services; Medical Examiner; Medical Center; Ambulatory Care; and Health Care Plan. HCA provides a system which ensures access to quality, cost effective, culturally sensitive health care for all, especially the most vulnerable members of Ventura County.

Robert Gonzalez replaced Michael Powers as HCA director effective April 1, 2011, upon commencement of the outgoing director's term as County Executive Officer. The budget for fiscal year 2012-13 authorized 2,532 positions for HCA and a budget of \$595 million.

SCOPE

Our overall audit objective was to determine whether appropriate actions were taken to transfer accountability and administrative functions from the outgoing to the incoming director during the prior change in HCA leadership in 2011. Specifically, we:

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

We performed audit tests and evaluations using documents provided by HCA and the Auditor-Controller's Office for the period July 2009 through October 2012. Our procedures included a surprise count of selected petty cash and change funds. Except as discussed in the following paragraph, the audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors ("*IIA Standards*").

In connection with our audit, certain disclosures are necessary pursuant to *IIA Standards*. Specifically, *IIA Standards* state: "If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment." In the temporary absence of an appointed or elected Auditor-Controller, the County Executive Officer ("CEO") has designated the Assistant Auditor-Controller as acting department head with an associated assignment pay premium. This necessarily impairs *IIA Standards* regarding independence because the Assistant Auditor-Controller currently receives the acting department head assignment pay

premium as approved by the CEO and because the department under audit is subject to CEO oversight. However, as the integrity of our audit findings has not been subject to inappropriate influence by the CEO, the reader of this report can rely on the information contained herein.

FINDINGS

Overall, we found that accountability and administrative functions were satisfactorily transferred from the preceding to the succeeding director. We verified that County property was returned and computer access was terminated for the outgoing director. We also verified that signature approvals had been updated and that California Form 700, *Statement of Economic Interests*, was filed timely by the outgoing director. We found that fixed asset inventories were completed timely and trust accounts were accounted for properly. Our cash counts confirmed that petty cash and change funds were intact.

However, we identified areas where actions were needed to improve accountability and manage the transition upon a change in director. Specifically, we noted that travel expenses were not always appropriate or accounted for properly, and that documents supporting the physical inventory and disposal of sensitive non-fixed assets were not always maintained. *Statements of Economic Interests* were not filed in a timely manner by the incoming director. In addition, we found that authority for petty cash and change funds was not always delegated in the manner reported to the Auditor-Controller.

Following are details of the areas where improvements were needed. Except as noted in Finding 3, HCA management initiated corrective action during the audit.

1. **Travel Expenses.** Improvements were needed to ensure that travel expenses were appropriate and accounted for properly. Specifically, we noted instances of improper use of the County travel credit card and lack of receipt documentation to support charges. Additionally, we noted that actions were needed to properly track the use of airline ticket credits.

A. **Prohibited Purchases.** Travel credit card charges were not always appropriate. According to County Administrative Policy No. Chapter VII(C)-1, *Reimbursement of Employees County Business Expenses*, only "authorized personnel" are eligible for reimbursement of expenses incurred for the County. However, our review of travel credit card transactions disclosed one \$333 airfare charge and one \$18 meal in December 2010 for an employee of another public entity not meeting the definition of "authorized personnel." Compliance with County policy is essential to ensure appropriate and allowable use of the County travel credit card.

Management Action. HCA management stated: "The travel credit card transactions covering the \$18 meal charge and \$333 plane travel by the employee of another public entity was necessary and a reasonable expense for the benefit of the County. This expense is related to the development of the Managed Medi-Cal in Ventura County. In 2005-06, the Governor of California signed into law a mandate for the expansion of managed care programs. On June 2, 2009, the Board selected the County Organized Health System for Managed Medi-Cal in Ventura, to which the Board passed the Ordinance 4409 on December 29, 2009. Health Care Agency was charged with creating this entity. In the initial stages, the Healthcare Agency incurred all expenses related to this start up. As described on the Board letter dated December 29, 2009, the Healthcare Care Agency has developed a claiming plan for administrative services which can effectively include this

type of travel expenses. However after multiple discussions, the State refused to provide funding for the development stage of this organization. It was communicated to HCA that this was not included in the State's Budget, nor would it be funded by the State for future claims. The decision was made to hold a face to face meeting with State officials, which was attended by the former HCA Director and the CEO of the Managed Medi-Cal Plan, who was hired on November 2010, and the only contracted employee by the Plan. County staff coordinated the schedules and booked the flights. The travel expenses, in question, which transpired in December 2010, entailed the negotiation of funds with the State of California for the County, which is clearly on County business. HCA Management has requested reimbursement of the total amount of \$351.40 from Gold Coast Health Plan. A check for this amount was received on April 30, 2013."

- B. **Lack of Receipts.** Receipt documentation for business travel expenses charged to the department's travel credit card was not always retained, in nonconformance with County policy. County Administrative Policy No. Chapter VII(C)-1, *Reimbursement of Employees County Business Expenses*, states that supporting documentation generally includes the actual invoices, receipts, sales slips, passenger coupons, hotel bills, etc. Travel credit card users are required to remit the receipts to the department's credit card custodian promptly upon return to the office for confirmation and retention. However, receipt documentation was not maintained for \$144 (5%) of the \$2,834 in travel card transactions for the outgoing director from November 2010 through March 2011. Maintaining receipt documentation is needed to verify the appropriateness of charges, which mitigates the risk of unauthorized transactions, such as personal purchases and other unallowable items. (Note: HCA was able to obtain copies of the receipts after reviewing our draft audit report, although receipts were not maintained in HCA's central files during the audit.)

Management Action. HCA management stated: "All receipts have been obtained. All of the former HCA Director's expense claims and accompanying receipts were accounted for diligently by HCA Director's former administrative assistant and believed to have provided these documents to HCA Fiscal Accounts Payable. The former administrative assistant has transferred to the County Executive Office, and during the move, the copies were likely misplaced. Receipts were kept and were promptly submitted and given to HCA- Accounts Payable upon return from travel. There was a turn-over in HCA Accounts Payable department, in that the former staff in charge of credit card disbursements and record keeping for these documents has retired. She was contracted back to work as a part time employee to provide the same function. During the audit, the receipts in question, which are now approximately two years old were not available, or stored and filed appropriately. Considering the volume of receipts and transactions processed that are being administered for storage, this occurrence may not be extraordinarily unusual and the fact that there has been a staff transition. This can be mitigated through an electronic storage system, allowing each document to be scanned. At this time, HCA is in the process of implementing an electronic medical records system but does not include fiscal payable transactions. Having a paperless system in the accounts payable area for the future will be ideal county-wide. This will result to savings in storage, supplies, retrieval expenses, monitoring record keeping requirements and will facilitate a faster audit. The reimbursement process currently in place as documented in HCA's Self Assessment Audit Report in 2010 meets the requirement of a sound internal control and is adequate. The process entails a review of the claim for proper signature, business purpose and supporting documents. Claims are paid only when expenses are validated for their appropriateness and are submitted for payment processing to the Auditor-Controller for check issuance. As noted all expenses have been accounted for and are appropriate."

- C. **Airline Ticket Credit.** HCA did not properly track an airline credit for a ticket that was not used. Our review of three airline credits/refund disclosed that one (33%) airline credit was not tracked. Specifically, a \$317 airline ticket was purchased on November 1, 2010; however, the ticket was not used, and the airline issued a credit for future travel rather than crediting the amount back to the travel credit card. Although HCA initially stated that the airline credit was used at some point, HCA confirmed that the airline credit was not used and actually expired on November 1, 2011. Proper tracking of airline credits is needed to ensure appropriate use by HCA.

Management Action. HCA management stated: "HCA has a process in place to track airline credit. HCA is very diligent in finding the best and lowest fare for county-business related travel. Often times, the lowest cost fares are more advantageous than refundable full fares but have several restrictions on unused airline tickets. The unused ticket was restricted to the outgoing HCA Director. Soon after the cancellation of the airline ticket, the HCA Director, moved to the County Executive Office. A miscommunication between administrative staff members during the transition may have transpired. Furthermore, the person who oversaw these expenses and credits has left the organization. There were a number of attempts made to secure and extend the credit expiration from Southwest Airlines, but was unsuccessful. In good faith, the former HCA Director, has paid the County for the value of the misapplied credit offsetting HCA's financial loss from this transaction. The payback of the unused airline ticket credit from the employee is not a County requirement."

2. **Sensitive Non-Fixed Assets.** Improvements were needed to maintain proper accountability over sensitive non-fixed assets. 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 the Ventura County Financial Management System is not required, departments must establish and implement internal controls to maintain proper accountability. However, we noted documentation did not always support that physical inventories were performed or that sensitive non-fixed assets were disposed of properly.

- A. **Physical Inventory.** HCA did not always document the performance of the periodic inventory of sensitive non-fixed assets required by County Administrative Policy No. Chapter VII(B)-3, *County Sensitive Non-Fixed Asset Inventory Control*. HCA conducted a physical inventory prior to the outgoing director's departure on April 1, 2011. While HCA stated that physical inventories were also performed in 2009 and 2010, we were unable to confirm that the inventories were actually performed as HCA did not maintain written documentation. HCA management stated that annual inventories would be performed in response to our prior audit report of the change in HCA director dated March 23, 2009. However, over 3,000 sensitive non-fixed assets continued to be at risk of loss or misappropriation without detection due to lack of physical counts. (Note: Although HCA provided a spreadsheet listing sensitive non-fixed assets as of February 9, 2009, inventory count sheets were not maintained to confirm the actual physical inventory was conducted.)

Management Action. HCA management stated:

"HCA started tracking Sensitive Non-Fixed Asset (FA) inventory since 2008 as an operational improvement instituted by the former HCA Director. Each department has established a database to track Non-FA inventories such as laptops and cell phones. HCA began the annual inventory of

Sensitive Non-FA items in 2009 following the creation of Department databases. Each Department within HCA is responsible in managing their own database. The Non FA inventory list, as provided during the audit, is kept electronically and maintained by each HCA Department using a Microsoft Excel Program. The Non FA inventory list includes an identifier for each item, namely: assigned tag number, description and location for each items, date of acquisition and disposition, and the name of the employee to which the item is being assigned. There are unique protocols from each HCA Department ensuring proper control of the Non FA inventory. For example in Behavioral Health, the records are maintained by a Management Assistant and periodically reviewed by the Chief Operating Officer. A request form is completed for a cell phone or a computer and is approved by the corresponding supervisor. When the requested item is issued, the employee signs a form acknowledging the receipt of the item (phone) and understanding of the policy. Invoices are reviewed and reconciled to the number of phones or non FA items assigned every month and are approved for processing of payment. Reports are prepared quarterly for HCA Fiscal Management for updates and documentation of the changes in the non FA inventory. The phones or non FA items which are no longer in use are sent to GSA for recycling or disposal, are inventoried, and any payments received from recycling or disposal are sent to Fiscal. While formal physical inventories for Non FA were documented for 2009 and 2011, no supporting documentation was located for 2010. Non FA inventory list is currently being maintained and frequently updated. Non FA items are not replaced or issued without the approval of the supervisor.

"The consolidated inventory system is maintained and updated monthly at HCA Fiscal for easier audit trail purposes."

- B. **Supporting Documentation for Disposal.** Supporting documentation was not always maintained for sensitive non-fixed assets that were purportedly submitted to the General Services Agency ("GSA") for disposal. Our review of seven sensitive non-fixed assets classified as "disposed" on the HCA Sensitive Non-Fixed Asset Master List disclosed that disposition documentation for four (57%) computers was not retained. GSA also could not confirm receipt of the assets. Therefore, assurance could not be provided that these items were disposed of properly through GSA Surplus.

Management Action. HCA management stated: "HCA departments maintain records of purchases and transfers. We have requested a copy from GSA for the disposed inventory. Management is committed to ensure compliance with respect to disposal of Non-FA items. HCA will require and retain receipts from GSA for our disposed equipment. A centralized storage system will be maintained for these GSA receipts and managed by the HCA CFO."

3. **Statement of Economic Interests.** As similarly identified in our prior audit report of the change in HCA director dated March 23, 2009, California Form 700, *Statement of Economic Interests*, was not filed in a timely manner by the incoming director. Form 700 informs the public about potential conflicts of interest and is required by the Fair Political Practices Commission ("FPPC") to be filed within 30 days after assuming or leaving office. However, Form 700 for the sole position stated as "HCA Director" was not filed with the Clerk of the Board ("COB") until September 2, 2011, or 154 days after assuming office on April 1, 2011. We also noted the form reported the incorrect date of April 25, 2011, as the assuming office date. HCA asserted that this Form 700 was intended for assuming office as a commissioner with the Ventura County Medi-Cal Managed Care Commission. However, because the commission was not identified as an additional agency for which the form was filed, Form 700 had not been filed by the

incoming director as a commissioner. Although HCA provided us with a Form 700 for the position "Director" that was completed on March 30, 2011, we were informed during the audit that this Form 700, which was not filed with the COB, was the annual Form 700 for the incoming director's prior position as Medical Director. Untimely and lack of filing can result in FPPC fines and challenge the County's compliance efforts.

Management Response. HCA management stated:

"A copy of the Form 700 which was signed by the incoming HCA Director on 3/30/2011 is retained at HCA Administrative office and was provided to the Auditor. While it was deemed unfiled due to the presumed lack of record from the Clerk of the Board's office, the document copy on file provides evidence that the form was completed timely. Another form was submitted to COB to satisfy the requirement. In addition, it was also argued that the form was not filled out properly by not marking the box labeled 'new position,' rather; the box labeled 'annual' was incorrectly marked. Considering that the main objective of the change in directorship audit is to assess the susceptibility of fraud, the issue behind this finding is unreasonable with the premise that the form was indeed signed on 3/30/11, the period when the new Director assumed the office as HCA Director. This was clearly indicated on the form.

"As explained during our meeting with the Deputy Auditor Controller and the assigned Auditor, the incoming HCA Director had completed Form 700 statements for over ten years as a contracted physician and the form is timely filed at the time of assuming the new role as HCA Director. He is also a Commissioner at the Gold Coast Health Plan, where he is required to fill a separate Form 700 for this position. Since this HCA Change of Director event, the COB has instituted an electronic system for filing Form 700's that should avoid future losses or non-delivery of completed forms."

Auditor's Comment. To emphasize, we were informed during the audit that the form signed on March 30, 2011, was the annual filing for the incoming director's prior position as HCA's Medical Director, not for assuming the office of HCA Director. This was further supported by the filing of this annual Form 700 within HCA and not with the COB. Regardless, we stress that Form 700 needs to be filled out clearly and submitted to the COB upon assuming office as the COB's electronic system will not necessarily prompt the filing of an assuming office Form 700.

4. **Delegation of Authority.** HCA did not always delegate authority for duties relating to petty cash and change funds as reported to the Auditor-Controller. The *Delegation of Authority for Individual Department Petty Cash, Change and Revolving Funds* form is required to identify the persons authorized to perform specific duties related to these funds. These duties include responsibility for the custody, request for reimbursement, and reconciliation of department funds. Our review of 5 out of 34 petty cash and change funds disclosed that personnel not listed on the form, as of June 30, 2011, reconciled 4 of the 5 funds and were allowed access to 2 of the funds. Our review also disclosed one petty cash reimbursement submitted by an individual not listed on the form. Failure to properly specify delegation of authority over funds could increase the risk of lack of segregation of duties.

Management Action. HCA management stated:

"In the case of the reconciliation of funds by personnel not listed on the FY 2011-12 Delegation of Authority, HCA management identified that the assignment of reconciliation was done so at the

discretion of the department managers and that all funds in question are verified by either the Fiscal Manager III or CHO-Billing. HCA management believes that there is sufficient internal control and segregation of duties.

"In the case of the access to funds by personnel not listed on the FY 2011-12 Delegation of Authority, HCA management identified that these personnel provided temporary emergency coverage during cashiering staff shortages. Receipts are issued and transactions are documented and balanced at the end of the day and verified by the Clerical Supervisor III. The receipts are forwarded to the Cash Control Department, where the Fiscal Assistants reconcile the cash against the daily receipts. Reconciled cash receipt information is then returned to Patient Accounting where it is posted in Data Control by the Data Entry Operator III's, who do not have access to posting adjustments into patient accounts, and is, again, verified by the Clerical Supervisor II and/or Manager-Patient Accounts. HCA management believes that there is sufficient internal control and segregation of duties.

"The test controls are appropriate and consistent with the results of the 2010 Internal Control Self - Assessment (CSA) prepared by HCA, and the current audit confirmed that the tested petty cash and change funds were intact and that the tested cash collections were accounted for and deposited properly.

"To date, no funds were misappropriated, segregation of duties is in place, and forms are routinely verified and completed to signify specific roles."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

Except for Finding 3, we believe that HCA management actions taken or planned were responsive to the audit findings. Responses indicated that corrective actions were completed during the course of the audit.