

Internal Audit Department

O R A N G E C O U N T Y
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FIRST FOLLOW-UP AUDIT INTERNAL CONTROL AUDIT:

HEALTH CARE AGENCY CONTRACT DEVELOPMENT AND MANAGEMENT PAYMENT APPROVAL AND FISCAL MONITORING

AS OF APRIL 30, 2012

Our First Follow-Up Audit found Health Care Agency Contract Development and Management fully implemented seven (7) recommendations and two (2) recommendations are in process from our original audit report dated September 15, 2011. During the original audit period, HCA/CDM administered 496 Human Services Contracts totaling \$271 million.

AUDIT NO: 1130-H
(Original Audit No. 1030)

REPORT DATE: JUNE 25, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Senior Auditor: Abdul Khan, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**

Director

Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

Certified Fraud Examiner (CFE)

Certified in Financial Forensics (CFF)

Chartered Global Management Accountant (CGMA)

E-mail: peter.hughes@iad.ocgov.com

Eli Littner **CPA, CIA, CFE, CFS, CISA**

Deputy Director

Certified Fraud Specialist (CFS)

Certified Information Systems Auditor (CISA)

Michael Goodwin **CPA, CIA**

Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**

Senior Audit Manager

Autumn McKinney **CPA, CIA, CISA, CGFM**

Senior Audit Manager Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Audit No. 1130-H June 25, 2012

TO: Mark Refowitz, Director
Health Care Agency

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Internal Control Audit:
Health Care Agency Contract Development
and Management Payment Approval and
Fiscal Monitoring, Original Audit No. 1030,
Issued September 15, 2011

We have completed a First Follow-Up Audit of the Health Care Agency Contract Development and Management Payment Approval and Fiscal Monitoring processes. Our audit was limited to reviewing, as of April 30, 2012, actions taken to implement **nine (9) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 11-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors.

The results of our First Follow-Up Audit are discussed in the [OC Internal Auditor's Report](#) following this transmittal letter. Our First Follow-Up Audit found Health Care Agency Contract Development and Management **fully implemented seven (7) recommendations, and two (2) recommendations are in process** from our original audit report dated September 15, 2011. As such, we will conduct a Second Follow-Up Audit approximately six months from the date of this report.

Each month I submit an [Audit Status Report](#) to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the [OC Internal Auditor's Report](#) on page 5.

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Health Care Agency Contract Development and Management
Payment Approval and Fiscal Monitoring
Audit No. 1130-H***

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OC Internal Auditor's Report



Audit No. 1130-H

June 25, 2012

TO: Mark Refowitz, Director
Health Care Agency

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Internal Control Audit: Health Care Agency
Contract Development and Management Payment Approval and Fiscal
Monitoring, Original Audit No. 1030, Issued September 15, 2011

Scope of Review

We have completed a First Follow-Up Audit of the Health Care Agency Contract Development and Management (HCA/CDM) Payment Approval and Fiscal Monitoring processes. Our audit was limited to reviewing, as of April 30, 2012, actions taken to implement **nine (9) recommendations** from our original audit.

Background

Our original audit evaluated internal controls for approving contract payments to ensure they are valid, supported, authorized, timely, and comply with contract terms and with County and HCA/CDM policies. We also evaluated fiscal monitoring processes administered in HCA/CDM and performed by external audit firms. In addition, we evaluated the efficiency and effectiveness of HCA/CDM's payment approval and fiscal monitoring processes. During the audit period, HCA/CDM administered **496 Human Services Contracts totaling \$271 million**.

The original audit identified nine (9) recommendations pertaining to internal controls with regards to processing and approving invoices for payment and for enhancing fiscal monitoring processes to ensure the proper use of County funds.

Results

Our First Follow-Up Audit indicated Health Care Agency **fully implemented seven (7) recommendations, and two (2) recommendations are in process**. We believe the remaining two (2) recommendations are still appropriate and further efforts should be made to fully implement them. Based on the first Follow-Up Audit we conducted, the following is the implementation status of the nine (9) original recommendations:

1. **Invoice Payment Authorization Limits and Supervisory Reviews (Control Finding)**

HCA/CDM evaluate establishing dollar thresholds by which Contract Administrators can approve invoice payments, and enhance the supervisory review process to include approving higher dollar payments and monitoring the payment approval process by Contract Administrators.

Current Status: Implemented. HCA/CDM reviewed existing County best practices pertaining to invoice review and approval by Contract Administrators.



Based on their evaluation, HCA/CDM management determined that it is not feasible to establish dollar thresholds by which Contract Administrators can approve invoice payments or to enhance the supervisory review process to include approving higher dollar payments because of existing controls that are in place. In its evaluation, HCA/CDM contacted other contracting sections within County departments/agencies to determine best practices.

HCA/CDM cited existing controls requiring all large dollar contracts awarded by the Board of Supervisors receive continuous contract monitoring by HCA/CDM; the budgeted and actual expenditures are tracked by HCA/Financial/Program Support Services; and Program Support ensures the services are provided as required. In addition, all invoices are audited by HCA Accounting Services' staff before payments are processed, where dollar thresholds exist for additional supervisory/manager approval. HCA/CDM management believes that adding a threshold for invoice approvals could impede the process and delay payments to the contracted providers, and would not add any additional assurance than what is already provided. Because HCA/CDM evaluated this issue, and there are mitigating controls in place to reduce the risk of errors and irregularities with contract payments, we consider this recommendation implemented.

2. **Verification of Authorized Contractor Signatures (Control Finding)**

HCA/CDM evaluate establishing a list of authorized contractor signatures to be maintained in contract files to help Contract Administrators verify the propriety of contractor signatures on invoices.

Current Status: Implemented. HCA/CDM evaluated establishing and maintaining a list of authorized contractor signatures. During the evaluation, HCA/CDM found California State Government Code Section 910.2 and modified its policies and procedures in accordance with the code to accept invoices on provider/contractor letterhead or in a form regularly used in conduct of their business in lieu of obtaining an authorized contractor signature on the invoice. Government Code Section 910.2 states

"The claim shall be signed by the claimant or by some person on his behalf. Claims against local public entities for supplies, materials, equipment or services need not be signed by the claimant or on his behalf if presented on a billhead or invoice regularly used in the conduct of the business of the claimant."

HCA/CDM consulted with Auditor-Controller/Claims and Disbursing management who concurred the code section applies in this situation. By adhering to this Government Code, the need to have invoices signed by the contractor was eliminated. Because HCA/CDM took measures to modify its invoice policies and procedures concerning authorized contractor signatures, we consider this recommendation implemented.

3. **Invoice Processing: Receipt from Contractors (Control Finding)**

HCA/CDM ensure there is documentation maintained in the contract files explaining the delay in receiving contractor invoices after the required due date.

Current Status: In Process. HCA/CDM evaluated this recommendation and decided to amend contract language to state that invoices due on a particular date (e.g. the 10th day of each month), and received after that date, may not be processed in the same month. HCA/CDM's written procedures also require Contract Administrators to include a note and sign their file copy for any invoice received after the due date.



HCA/CDM started amending the language in its contract renewals; however, amendments to the multi-year contracts still need to be done, and are expected to be completed by July 1, 2012. Our testing of four (4) invoices found that two (2) were submitted late and there was no documentation by the Contract Administrator for the two late invoices. Because HCA/CDM is working towards implementation concerning the receipt of contractor invoices, we consider this recommendation in process.

Planned Action: HCA/CDM plans to amend the language in the multi-year contracts and will have revised policy and procedures implemented by July 1, 2012.

4. **Invoice Processing: Date-Stamping** (Control Finding)

HCA/CDM ensure invoices are consistently date-stamped upon receipt from the contractor and when submitted to HCA Accounting Services.

Current Status: **Implemented.** HCA/CDM conducted staff training and modified desk procedures to include directions for date-stamping invoices upon receipt. In their evaluation, HCA/CDM found that some Contract Administrators are receiving invoices directly from the contractors by email or in meetings, which bypasses the front desk from date stamping invoices when received. As a result, HCA/CDM modified its procedures to require Contract Administrators to notify the front desk when they receive invoices directly, and have the front desk date stamp the invoice for the receipt date. Our testing of twenty-two (22) invoices found no exceptions with date-stamping. Because HCA/CDM took corrective action to modify its date-stamping policies and procedures, we consider this recommendation implemented.

5. **Invoice Processing: Processing Timeframes** (Control Finding)

HCA/CDM evaluate its invoice processing timeframe policy and ensure that exceptions are documented accordingly in contract files.

Current Status: **Implemented.** HCA/CDM evaluated the invoice processing timeframe policy specific to their internal processing and external processes by areas outside of HCA/CDM. It was determined that seven (7) working days would be appropriate for HCA/CDM's internal processing timeframe for invoice review. If invoices are not processed within that target period, the Contract Administrators will document the delay on the invoice copy. Based on our testing of 22 invoices, we found invoices were processed within one to three days. Because HCA/CDM evaluated its invoice processing timeframes and we did not find any exceptions during our testing, we consider this recommendation implemented.

6. **Invoice Processing: Verification of Fee-for-Service** (Control Finding)

HCA/CDM ensure that all Fee-for-Service invoices document approval from HCA programs. In instances where program verification is not needed, there should be documentation maintained in the contract files explaining why program verification was not needed.

Current Status: **Implemented.** HCA/CDM discussed this finding with HCA Program staff and updated procedures accordingly. Any invoices that do not require Program verification will be documented in the contract file.



We tested four (4) Fee-for-Service invoices and noted that two (2) were not pre-approved by Program staff. We also noted instances when program approval is obtained by email in lieu of a signature. HCA/CDM revised its policy to require documented program approval on the invoices effective March 1, 2012. We obtained invoices for April and May 2012, and found appropriate program verification was documented on the invoice with no email verifications. HCA/CDM also revised its invoice approval section to include a signature line for program approval. Because of the corrective actions taken by HCA/CDM, we consider this recommendation implemented.

7. **Written Policies and Procedures Need Updating (Control Finding)**

HCA/CDM review, update, and communicate policies and procedures as needed that reflect current expectations of management and department practices. This includes evaluating how the variance calculations are reported in the Expenditure and Revenue Reports.

Current Status: In Process. HCA/CDM reviewed, updated, and communicated policies and procedures found outdated from the original audit. These revised procedures now reflect current expectations of management and department practices. We noted that one policy and procedure for *Expenditure/Revenue Report & Invoice Processing* is still in process of revision to address the variance line item inconsistency identified in the original audit. Because HCA/CDM is still working towards implementing the recommendation concerning variance line item calculations reported in the Expenditure and Revenue Reports, we consider this recommendation in process.

Planned Action: HCA/CDM determined the best approach to address the variance calculation was to create a new report template to allow for consistency across the Division to include the re-calculation and description of the variance line item. As there are multiple Expenditure and Revenue formats and versions used within the Division, the timing of this project was modified to begin with the upcoming Fiscal Year. HCA/CDM firmly believes that this would be a better approach and ensure a Division wide adherence and consistency of reporting, which is the desired goal. HCA/CDM will have revised policy and procedures implemented prior to July 1, 2012.

8. **Completion of Audit Tracking Logs (Control Finding)**

HCA/CDM ensure its External and Single Audit Tracking Logs are updated completely and contain relevant information for tracking audit status, such as audit start dates, completion dates and follow-up status on prior audit findings.

Current Status: Implemented. HCA/CDM reallocated internal staff to manage the audit tracking logs and updated the External and Single Audit Tracking Logs to contain relevant status information. We obtained and reviewed the External and Single Audit Tracking Logs and found some minor revisions that were needed, which were addressed and corrected. Because HCA/CDM took measures to modify its External and Single Audit Tracking Logs, we consider this recommendation implemented.



9. **Timing of Fiscal Monitoring Audits (Control Finding)**

HCA/CDM evaluate the feasibility of conducting on-going fiscal monitoring by performing on-site reviews of program expenditures during the contract period in addition to the fiscal monitoring performed by external audits after the contract period ends.

Current Status: Implemented. HCA/CDM evaluated the feasibility of conducting on-going fiscal monitoring of program expenditures during the contract period, in addition to the fiscal monitoring performed by external audits after the contract period ends. HCA/CDM determined that it is beneficial to implement a process for on-going fiscal monitoring. However; it is not feasible for current Contract Administrators to conduct these reviews. Therefore, the HCA/CDM Manager in charge of fiscal audits has expanded the scope of external audits to include a review of program expenditures during the contract period.

HCA/CDM revised its written procedure No. D.02 – *External Independent Audits* to reflect that a sample of audits shall be performed on a certain number of contractors within the current fiscal year (contract period) at or around the six month period. These audits will supplement the audits performed after the contract period. Because HCA/CDM evaluated this issue and made the applicable policy changes, we consider this recommendation implemented.

We appreciate the assistance extended to us by Health Care Agency staff during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
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Daniel Davis, Division Manager, Contract Development and Management, HCA
Foreperson, Grand Jury
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