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FINAL CLOSE-OUT SECOND AND FINAL FOLLOW-UP INTERNAL CONTROL AUDIT:

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

As of December 31, 2012

Our Second Follow-Up Audit found that Health Care Agency Contract Development and Management (HCA/CDM) fully implemented the two (2) recommendations remaining from our original audit containing nine (9) recommendations. Previously, seven (7) recommendations were implemented in our First Follow-Up Audit report dated June 25, 2012. Because all recommendations were implemented, the original audit is closed for follow-up purposes.

During the original audit period, HCA/CDM administered 496 Human Services Contracts totaling \$271 million.

AUDIT NO: 1228-C ORIGINAL AUDIT NO. 1030

REPORT DATE: JANUARY 15, 2013

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Deputy Director: Eli Littner, CPA, CIA
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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









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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA







Audit No. 1228-C January 15, 2013

TO: Mark Refowitz, Director Health Care Agency

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Second and Final Close-Out Follow-Up:

Internal Control Audit of Health Care Agency Contract Development and Management Payment Approval and Fiscal Monitoring, Original Audit No. 1030, Issued September

15, 2011

We have completed a Second and Final Follow-Up Audit of Health Care Agency Contract Development and Management Payment Approval and Fiscal Monitoring. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the **two (2) recommendations** remaining from our First Follow-Up Audit report dated June 25, 2012. We conducted this Second Follow-Up Audit in accordance with the *FY 12-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the OC Internal Auditor's Report following this transmittal letter. Our Second Follow-Up Audit found that Health Care Agency Contract Development and Management fully implemented the two (2) recommendations remaining. Previously, seven (7) recommendations were implemented. As such, this report represents the final close-out of the original audit.

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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Audit No. 1228-C January 15, 2013

TO: Mark Refowitz, Director

Health Care Agency

FROM: Dr. Peter Hughes, CPA, Director/

Internal Audit Department

SUBJECT: Second and Final Close-Out Follow-Up: Internal Control Audit of Health Care

Agency Contract Development and Management Payment Approval and Fiscal

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Monitoring Original Audit No. 1030, Issued September 15, 2011

Scope of Review

We have completed a Second and Final Close-Out Follow-Up Audit of Health Care Agency Contract Development and Management (HCA/CDM) Payment Approval and Fiscal Monitoring. Our audit was limited to reviewing actions taken, as of December 31, 2012, to implement the **two (2) recommendations** remaining from our First Follow-Up Audit report dated June 25, 2012.

Background

Our original audit evaluated internal controls for approving contract payments to ensure they are valid, supported, authorized, timely, and comply with contract terms, 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) Control Findings** pertaining to processing and approving invoices for payment and for enhancing fiscal monitoring processes to ensure the proper use of County funds. In our First Follow-Up Audit, seven (7) recommendations were implemented.

Results

Our Second Follow-Up Audit indicated that HCA/CDM **implemented the two (2) recommendations** remaining from our First Follow-Up Audit. As such, we consider the original audit closed for follow-up purposes. The following is the implementation status of the nine (9) original recommendations:

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.

<u>Current Status</u>: **Implemented (First Follow-Up Audit).** 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 <u>not</u> 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. <u>Verification of Authorized Contractor Signatures</u> (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.

<u>Current Status</u>: **Implemented (First Follow-Up Audit).** 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. <u>Invoice Processing: Receipt from Contractors</u> (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.

<u>Current Status</u>: Implemented (Second Follow-Up Audit). HCA/CDM evaluated this recommendation and amended 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.



We observed the changes to the written procedures and tested a sample of invoices received after the required due date. No exceptions were noted. Because HCA/CDM took measures to establish and implement policy and procedures concerning late receipt of contractor invoices, we consider this recommendation implemented.

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.

<u>Current Status</u>: **Implemented (First Follow-Up Audit).** 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. <u>Invoice Processing: Processing Timeframes</u> (Control Finding)

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

<u>Current Status</u>: **Implemented (First Follow-Up Audit).** 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. <u>Invoice Processing: Verification of Fee-for-Service</u> (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.

<u>Current Status</u>: **Implemented (First Follow-Up Audit).** 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.

<u>Current Status</u>: **Implemented (Second Follow-Up Audit)**. 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. 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 recalculation and description of the variance line item. HCA/CDM believed that this would be a better approach and ensure Division-wide adherence and consistency of reporting, which is the desired goal. HCA/CDM implemented the revised policy and procedures as of July 1, 2012. Our review of the revised Expenditure and Revenue Report template found that the variance calculations identified in the original audit were corrected. Because HCA/CDM took measures to establish and implement policy and procedures including reporting variance calculations in Expenditure and Revenue Reports, we consider this recommendation implemented.

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.

<u>Current Status</u>: **Implemented (First Follow-Up Audit).** 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. <u>Timing of Fiscal Monitoring Audits</u> (Control Finding)

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

<u>Current Status</u>: **Implemented (First Follow-Up Audit).** 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 HCA/CDM staff during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Robert J. Franz, Interim County Executive Officer
Steven Eldred, Interim Deputy CEO, Government and Public Services
Jeff Nagel, Ph.D., Deputy Agency Director, Finance/Administrative Services, HCA
Daniel Davis, Division Manager, Contract Development and Management, HCA
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