

OFFICE OF AUDITS & ADVISORY SERVICES



HEALTH & HUMAN SERVICES AGENCY – CHILD WELFARE SERVICES OFFICERS’ TRANSITION AUDIT

FINAL REPORT

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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

March 24, 2017

TO: Cathi Palatella, Director
HHSA – Child Welfare Services

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: HHSA – CHILD WELFARE SERVICES OFFICERS' TRANSITION AUDIT

Enclosed is our report on the HHSA – Child Welfare Services Officers' Transition Audit. We have reviewed your response to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Michelle Ludwick at (858) 495-5655.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:ML:aps

Enclosure

c: Nick Macchione, Director, Health and Human Services Agency
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Dean Arabatzis, Chief Operations Officer, Health and Human Services Agency
Andrew Pease, Executive Finance Director, Health and Human Services Agency

INTRODUCTION

Audit Objective	The Office of Audits & Advisory Services (OAAS) has completed an officers' transition audit for the Health & Human Services Agency – Child Welfare Services (CWS). The objective of the audit was to determine if there is reasonable assurance that the outgoing officer, Debra Zanders-Willis, and interim incoming officer, Cathi Palatella took appropriate actions and filed required reports as of August 19, 2016 in compliance with California Codes, County regulatory requirements, and County policies and procedures. These requirements were explained in the instruction letter provided to each officer.
Background	The County Charter, Section 801.1(a), requires that the OAAS conduct such an audit when County officers leave or assume office to determine if certain affidavits, authorizations, disclosures, and reports are properly completed and processed. These actions provide for an orderly transition of officers, establish proper accountability for public assets and promote the County's General Management System (GMS), including its key disciplines of accountability, transparency and ethical conduct; fiscal stability; and continuous improvement and innovation.
Audit Scope & Limitations	<p>The reports are the responsibility of the officer who signs them. The OAAS' responsibility is to provide an opinion on the reports based upon the audit.</p> <p>This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.</p>
Methodology	OAAS reviewed all the reports filed by the outgoing and interim incoming officers, obtained supporting documentation, and performed limited internal control testing.

AUDIT RESULTS

Summary	In our opinion, there is reasonable assurance that the outgoing and interim incoming officers took appropriate actions and filed required reports in compliance with California Codes, County regulatory requirements, and County policies and procedures in connection with an officer's transition. However, OAAS found exceptions regarding internal controls over fixed assets, materials and supplies, trust fund documentation and the administration of donations.
Finding I:	Internal Controls Over Fixed Assets OAAS tested a sample of 10 fixed assets and could not obtain reasonable assurance that the Capitalized Property Inventory Certificate (AUD Form 504) is accurately presented. Specifically, the following was found:

- **Incorrect Asset Capitalization** – OAAS found that fixed asset no. 1026782 recorded at \$106,737 was composed of at least four structures that function independently. Upon acquisition of the shade structures, they were billed as a single asset. Therefore, according to CWS staff, the value of each structure could not be determined.

According to Auditor & Controller (A&C) – Projects, Revenue and Grants Accounting (PRGA), separate structures placed around buildings should be recorded as separate improvements if they are independently functioning and meet the standard threshold for capitalization. The County of San Diego Capital Asset Guide states the standard threshold for capitalizing buildings and improvements is \$50,000.

The composition and size of the four structures were similar; therefore, it appears that none of the structures would exceed the \$50,000 threshold. As a result, the balance reported on the Capitalized Property Inventory Certificate and the Oracle Fixed Asset Module (OFAM) is inaccurate.

- **Missing Asset Tags** – Four fixed assets did not have the required tags affixed. Further, one of the assets missing a property tag was a security system with many pieces of hardware located in different buildings throughout the Polinsky Children's Center (PCC). According to CWS, asset tags may not have been received and affixed when these items were purchased.

Missing asset tags can result in inaccurate or incomplete inventories due to the inability to confirm whether the sighted asset is the item listed on the report. Further, it increases the risk of assets being lost or stolen.

- **Incorrect Asset Location** – Out of the 26 fixed assets reported by CWS, the following 6 fixed assets (23%) had incorrect location assigned:

Table 1. Fixed Asset With Incorrect Locations

Asset No.	Description	Location	Asset Value
1023616	Live Scan TP-3100	463 Midway Dr., Escondido	\$7,750.24
1023618	Live Scan TP-3100	1750 5 th Ave., San Diego	\$7,750.23
1023619	Live Scan TP-3100	Levant St., San Diego	\$7,750.23
1023620	Live Scan TP-4100	1255 Imperial Ave., San Diego	\$7,750.23
1023623	Live Scan TP-3100	151 Van Houten, El Cajon	\$7,750.23
1023624	Live Scan TP-3100	1000 Bay Marina Dr., National City	\$7,750.23

According to CWS staff, several sites combined operations or moved over the last eight to ten years. The addresses for the fixed assets were not updated in Oracle to properly reflect the location of the assets.

During the audit, CWS completed required forms to transfer the assets to the correct location in the OFAM. Incorrect locations can result in inaccurate or incomplete inventories due to the inability to easily locate the items listed on the Oracle report.

The County of San Diego Administrative Manual Item No. 0050-02-1 (COSD Admin Manual) requires department heads to be responsible for all County property (assets). These responsibilities include the identification and control of these assets, the filing of inventories, and the submission of reports, as specified by the Board of Supervisors. In addition, departments are required to obtain identifying labels from A&C and affix them to the assets.

The County of San Diego Fiscal Year-End Closing Manual (Year-End Manual) states that departments should correct or enter any missing location code numbers to correspond with the physical location of the property.

Recommendation: To improve the accuracy and reliability of fixed assets reported, CWS should:

1. In coordination with PRGA, review the cost and nature of the structures reported as a fixed asset, and if deemed necessary remove the asset from the OFAM.
2. Provide refresher training to staff to ensure that fixed assets are properly managed, including proper recording of acquisitions and transfers of assets.
3. Ensure that all fixed assets have asset tags affixed. For assets that include separate components, ensure that individual components of the asset are properly identified to allow asset tracking.
4. Make the necessary corrections to the OFAM to accurately reflect the physical location(s) of assets.

Finding II:

Documentation to Support Trust Fund Cost Allocation

OAAS performed detailed testing on a total of 12 transactions (receipts and disbursements) from AB2994 Children's Trust Fund #71110 and Polinsky Center Donations Trust Fund #66105. Two disbursements from the AB2994 Children's Trust Fund totaling \$23,784 were an expense allocation related to activities also funded by three federal funding streams. While the nature of the expense was appropriate, CWS did not provide sufficient documentation to demonstrate that the amounts allocated to the trust fund were reasonable.

According to CWS staff, in early FY 2015-16 they did not have a formal methodology for calculating allocation of expenses related to blended services. Instead, CWS charged the maximum amount to the AB2994 Children's Trust Fund. As a result, OAAS could not verify that the amount allocated to the trust fund was adequate.

A strong system of internal controls requires adequate and complete supporting documentation to be maintained to properly support cost allocations.

Recommendation: To ensure adequacy and completeness of supporting documentation for expenditures, CWS should ensure that the methodology used to allocate costs benefiting multiple projects is sufficiently documented to substantiate the reasonability of the allocation basis used.

Finding III: **Internal Controls Over In-Kind Donations**
OAAS found that a number of assets stored by CWS were in-kind donations received for PCC. In-kind donations received are recorded in a donation database. These assets are stored and locked at a warehouse.

OAAS noted that CWS has not established adequate segregation of responsibilities related to the management of donated goods. For instance, two warehouse staff maintain physical custody of donations, approve disbursements of donations, and maintain records of donation disbursed from the warehouse. There is no reconciliation or supervisory review of the records maintained in the warehouse and the donation database. As a result, CWS is unable to determine the quantity and value of donated items on hand.

Lack of proper segregation of duties over the management of donated goods increases the risk that donations are misappropriated or not used for their intended purpose.

According to the COSO Framework, dividing or allocating tasks among various individuals makes it possible to reduce the risk of error and fraud. Ideally, different individuals should have responsibility for custody, authorization, record keeping, and reconciliation.

Recommendation: To increase the accountability of donations and decrease the risk of error and fraud, CWS should:

1. Develop and implement a process for conducting a reconciliation of donated items received to items requested and disbursed.
2. Establish appropriate segregation of duties over the physical custody, authority for disbursement, record keeping, and reconciliation of donations.

Finding IV: **Materials and Supplies Inventory Balances**
CWS maintains a stock of non-office materials and supplies to support their daily activities such as diapers, wipes, and children's clothing. However, OAAS found that CWS did not perform required inventories counts of non-office materials and supplies and omitted these balances from the Materials and Supplies Inventory Certificate (AUD Form 502).

According to CWS staff, management decided to exclude non-office materials and supplies from the annual inventory because the understanding was that items used by the population served did not fall under these requirements. However, CWS was unable to find documentation to support their understanding.

Incomplete physical inventory counts of materials and supplies results in understated inventory balances reported to OAAS in the Materials and Supplies Inventory Certificate. Also, as confirmed by CWS staff, materials and supplies inventory balances reported to A&C as part of the year-end process were incomplete. Last, it increases the risk of lost or misappropriated inventory.

In accordance with the Year-End Manual and to fulfill the requirements of Section 24051 of the Government Code, Section 91.1 and 91.2 of the County Administrative Code, each department is required to complete and submit all materials and supplies inventory counts for which they are responsible. Further, every department must file a complete inventory balance for fire insurance purposes.

Recommendation: To improve the accuracy of the materials and supplies inventory balance reported, CWS should:

1. Conduct a physical inventory of non-office materials and supplies maintained by CWS to support their operations.
2. Submit a revised Materials and Supplies Certificate (AUD Form 502) to OAAS with updated inventory balances.

Finding V:

Materials and Supplies Locations

OAAS found that CWS reports materials and supplies inventory by division (low org) and not by building location, as required by County policy. Specifically, OAAS noted that the PCC maintains the majority of their materials and supplies in a warehouse located in a separate building. However, there was no materials and supplies inventory reported for the warehouse; instead it was reported as part of the PCC's inventory.

CWS staff indicated that they had the understanding that since the two locations share the same low org they should be reported together.

In accordance with the Year-End Manual, departments are required to file a "Materials and Supplies/Minor Equipment and Books Inventory" by building location each year for fire insurance purposes.

Incorrect location recorded for materials and supplies can create difficulty locating items when physical inventories are conducted. Further, it increases the risk that in the event of a fire, CWS could not readily determine property lost or destroyed.

Recommendation: To ensure that location information for materials and supplies is accurate, CWS should segregate inventory by building location and make proper corrections to their records.

Office of Audits & Advisory Services

C Compliance R Reliability E Effectiveness A Accountability T Transparency E Efficiency

VALUE

DEPARTMENT'S RESPONSE



County of San Diego

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AGENCY DIRECTOR

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CATHI PALATELLA
DIRECTOR
CHILD WELFARE SERVICES

March 21, 2017

RECEIVED

TO: Juan R. Perez
Chief of Audits

FROM: Cathi Palatella, Director
Child Welfare Services

MAR 24 2017

OFFICE OF AUDITS &
ADVISORY SERVICES

DEPARTMENT RESPONSE TO AUDIT RECOMMENDATIONS: HHSA - CHILD WELFARE SERVICES OFFICERS' TRANSITION AUDIT

Finding I: Internal Controls Over Fixed Assets

OAAS Recommendation 1: CWS should, in coordination with PRGA, review the cost and nature of the structures reported as a fixed asset, and if deemed necessary remove the asset from the OFAM.

Action Plan: CWS will review the cost and nature of the structures reported as a fixed asset, and if deemed necessary remove the asset from the OFAM.

Planned Completion Date: 6/30/17

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

OAAS Recommendation 2: CWS should provide refresher training to staff to ensure that fixed assets are properly managed, including proper recording of acquisitions and transfers of assets.

Action Plan: Staff will receive additional training to ensure that fixed assets are properly managed, including proper recording of acquisitions and transfers of assets.

Planned Completion Date: 6/30/17

Contact Information for Implementation: Ed Nieto, Senior Accountant

OAAS Recommendation 3: CWS should ensure that all fixed assets have asset tags affixed. For assets that include separate components, ensure that individual components of the asset are properly identified to allow asset tracking.

Action Plan: CWS will ensure that all fixed assets have asset tags affixed. For assets that include separate components, ensure that individual components of the asset are properly identified to allow asset tracking.

Planned Completion Date: 6/30/17

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

OAAS Recommendation 4: Make the necessary corrections to the OFAM to accurately reflect the physical location(s) of assets.

Action Plan: CWS made the necessary corrections to the OFAM to accurately reflect the physical location(s) of assets.

Planned Completion Date: Completed

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

Finding II: Documentation to Support Trust Fund Cost Allocation

OAAS Recommendation: To ensure adequacy and completeness of supporting documentation for expenditures, CWS should ensure that the methodology used to allocate costs benefiting multiple projects is sufficiently documented to substantiate the reasonability of the allocation basis used.

Action Plan: CWS will ensure that the methodology used to allocate costs benefiting multiple projects is sufficiently documented to substantiate the reasonability of the allocation basis used.

Planned Completion Date: 6/30/17

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

Finding III: Internal Controls Over In-Kind Donations

OAAS Recommendation 1: CWS should develop and implement a process for conducting a reconciliation of donated items received to items requested and disbursed.

Action Plan: CWS will develop and implement processes for strengthening internal controls over the disbursement of donated items. As part of these processes, reasonable tolerance for inventory value management levels will be established and controls will be developed to minimize inventory shrinkage risk while maximizing staff efficiency.

Planned Completion Date: 6/30/18

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

OAAS Recommendation 2: CWS should establish appropriate segregation of duties over the physical custody, authority for disbursement, record keeping, and reconciliation of donations.

Action Plan: Full segregation of duties related to in-kind donations would require additional personnel resources. To mitigate the potential for improper disbursement of donated items, CWS will develop and implement internal inventory management processes as well as supervisory review controls for the oversight of in-kind donations.

Planned Completion Date: 6/30/18

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

Finding IV: Materials and Supplies Inventory Balances

OAAS Recommendation 1: CWS should conduct a physical inventory of non-office materials and supplies maintained by CWS to support their operations.

Action Plan: CWS will conduct a physical inventory of non-office materials and supplies maintained by CWS to support operations.

Planned Completion Date: 6/30/18

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

OAAS Recommendation 2: CWS should submit a revised Materials and Supplies Certificate (AUD Form 502) to OAAS with updated inventory balances.

Action Plan: CWS will submit a Materials and Supplies Certificate (AUD Form 502) to OAAS with updated inventory balances.

Planned Completion Date: 6/30/18

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

Finding V: Materials and Supplies Locations

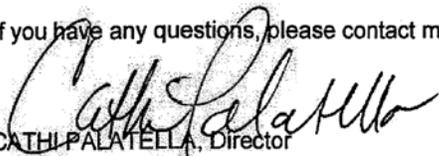
OAAS Recommendation: CWS should segregate inventory by building location and make proper corrections to their records.

Action Plan: CWS will segregate inventory by building location and make proper corrections to their records.

Planned Completion Date: 6/30/17

Contact Information for Implementation: Mike Weissenburger, Departmental Budget Manager

If you have any questions, please contact me at (858) 616-5815.



CATHI PALATELLA, Director
Child Welfare Services