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May 10, 2007

Ms. Cynthia Hinckley
Department of Public Social Services
4060 County Circle Drive
Riverside, CA 92503

Subject: Internal Auditor's Report #2007-308 Department of Public Social Services Follow-Up Audit

Dear Ms. Hinckley:

We have completed a follow-up audit of the Department of Public Social Services. The audit was limited to reviewing actions taken, as of October 31, 2006, to implement the recommendations made in our original audit reports #2004-010, dated July 1, 2004 and #2006-004, dated April 25, 2006.

We conducted our audit in accordance with auditing standards established by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide sufficient, competent, and relevant evidence to achieve the audit objectives. We believe our work provides a reasonable basis for the conclusions reached.

The original audits contained eight recommendations, all of which required implementation and therefore, were reviewed as part of this audit. For an in-depth understanding of the original audits, please refer to Internal Auditor's Reports #2004-010 and 2006-004.

Management implemented our recommendations to correct the findings noted in Internal Auditor's Reports #2004-010 and #2006-004.

The following is a summary of the current status of the findings and recommendations identified in the original audits.

INTERNAL AUDITOR'S REPORT #2004-010

Program Accounting

Finding 1: Program advances were not used to immediately cover estimated monthly Assistance disbursements and Administrative expenditures, but remained in a restricted sub-fund until Claims were filed. Additionally, over-advances identified during the claim process were not moved to a Due-To-Other-Governments (DTOG) liability account, but remained in the Deferred Revenue sub-fund until reallocated to other periods and/or programs at the direction of the State.

Recommendation 1.1: DPSS Program fiscal management policies and procedures should be modified to use Federal and State Program advances at the time disbursements are processed for estimated Administrative and Assistance expenditures. Consideration should also be given to using sub-fund accounts for all financial transactions, including Program advances and expenditures. General Accounting should be consulted to identify the best process to minimize financial impacts on the general fund while ensuring efficiency and accuracy of program accounting.

Current Status: Fully Implemented. The Department of Public Social Services modified the fiscal policies and procedures to transfer Federal and State Program advances in the Trust Fund to the General Fund when they become aware of the State remittance. Our review of advances for July and August 2006 indicated that program advances transfers were made on average five days after notification of remittance.

Recommendation 1.2: Procedures should be enhanced to ensure over-advances received from the State are accurately reflected in a Due-To-Other-Governments account for financial reporting.

Current Status: Fully Implemented. The Department of Public Social Services implemented procedures whereby over-advances received from the State are recorded in the Due-To-Other-Governments account to ensure accurate financial reporting. Our review indicated that the department was utilizing the following accounts: Deferred Revenue, Due-From-Other-Governments and Due-To-Other-Governments to account for assistance programs.

Finding 2: A monthly reconciliation of the Welfare Advance Sub-Fund (#11063) Cash Account (#101100) was performed by an employee who posts transactions to the general ledger account, and to the sub-ledger maintained by the department. Inadequate segregation of transaction posting and account reconciliation duties could result in unidentified posting errors or misappropriated funds.

Recommendation 2: Management should ensure the monthly reconciliations are performed by an employee who does not process transactions to the account, and the preparer's and approver's signature and date are documented on the reconciliation.

Current Status: Fully Implemented. The Department of Public Social Services restructured the Management Reporting Unit. The restructuring gave management the ability to ensure adequate segregation of duties and appropriate review of reconciliation duties.

Finding 3: Monthly reconciliations of the General Fund (#10000) Due-From-Other-Governments (#118100) to departmental sub-ledgers of Public Assistance and Administrative Claim balances due from the State of California were not performed.

Recommendation 3: Management should ensure the monthly reconciliation of the General Fund Due - From-Other-Governments account is performed by an employee who does not process transactions to the account, and the preparer's and approver's signature and date are documented on the reconciliation. All variances identified should be researched to ensure proper disposition.

Current Status: **Fully Implemented.** The Department of Public Social Services has restructured the Management Reporting Unit duties to ensure that monthly reconciliations are performed by an employee who does not process transactions to the account. In addition, the monthly reconciliation provides for the preparer's and approver's signature and date.

Finding 4: Desktop procedures were not documented for processing and posting Public Assistance Program advance, disbursement, claim, and settlement transactions.

Recommendation 4: Management should ensure detailed desktop procedures are documented, reviewed, and approved for each Program process.

Current Status: **Fully Implemented.** The Department of Public Social Services developed detailed desktop procedures for processing and posting Public Assistance Program advance, disbursement, claim and settlement transactions. Our review of these procedures confirmed that revisions are made on a continuing basis and cover the areas of claims, Treasurer Cash Receipts and reconciliations.

INTERNAL AUDITOR'S REPORT #2006-004

Capital Assets

Finding 1: Five of 65 capitalized assets selected for detailed testing could not be located, nor could the disposition of these assets be confirmed.

Recommendation 1: Request a discharge of accountability for missing assets, in accordance with SPM III-E-2-1.1.

Current Status: **Fully Implemented.** The Department of Public Social Services did not request a discharge of accountability since they were able to locate the five missing assets. The Department identified one of the capital assets as excess to their requirements and transferred the asset to Purchasing and Contracting for disposal. Purchasing and Contracting disposed of the asset and forwarded the AM-7 to the Auditor-Controller's Office.

Finding 2: Purchasing documents supporting the acquisition of fixed assets were not verified prior to updating the PeopleSoft Asset Management Module. Capitalized assets were understated in the PeopleSoft Asset Management Module because sales tax, freight charges, and asset upgrades were not added with the total cost.

Recommendation 2.1: Update the Asset Management Module to reflect the appropriate recorded cost of undervalued assets.

Current Status: **Fully Implemented.** The Department of Public Social Services adjusted the values for the undervalued assets to account for sales tax and freight. The required documentation to update the costs associated with the items in the PeopleSoft Asset Management Module was provided to the Auditor-Controller's Office.

Recommendation 2.2: Ensure a verification of purchase documents precedes the recording of asset acquisitions in the Asset Management Module by department personnel.

Current Status: **Fully Implemented.** The Department of Public Social Services refined the tracking process for capitalized items to ensure a verification of purchase document precedes the recording of asset acquisitions in the PeopleSoft Asset Management Module by department personnel. Our review of 69 capital assets acquired during the review period indicated that the correct costs associated with these acquisitions were reflected in the PeopleSoft Asset Management Module.

We appreciate the cooperation and assistance extended to us by Department of Public Social Services staff during this follow-up audit. Their assistance contributed significantly to the successful completion of the audit.

ROBERT E. BYRD, CGFM
Auditor-Controller



By: Michael G. Alexander, MBA, CIA
Chief Internal Auditor

cc: Board of Supervisors
County Counsel
Executive Office
Grand Jury