

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



ITEM
2.11
(ID # 3172)

MEETING DATE:

Tuesday, January 17, 2017

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2016-023: RIVERSIDE UNIVERSITY HEALTH SYSTEM – MEDICAL CENTER, Change of Department Head [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2016-023: Riverside University Health System – Medical Center, Change of Department Head

ACTION: Consent


Paul Angulo, Director of Auditor Controller 12/5/2016

BACKGROUND:

Summary

We have completed an audit of the Riverside University Health System – Medical Center, Change of Department Head to provide independent, objective, and reliable assessments of internal controls to the Board of Supervisors and management in accordance with Board of Supervisors Resolution 83-338. This audit was conducted to ensure accountability over the transfer of revolving funds and capital assets from the predecessor to the new appointed department head.

Based upon the results of our audit, we determined that the revolving fund was not transferred to the new director of Riverside University Health System - Medical Center in a timely manner. Further, we identified opportunities for improvement of internal control relating to capital assets.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: N/A	

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

C.E.O. RECOMMENDATION: APPROVE

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

N/A

ATTACHMENT A.

Riverside County Auditor-Controller's Office Internal Audit Report 2016-023: Riverside University Health System – Medical Center, Change of Department Head


Stephanie P. Pasi 1/10/2017

Internal Audit Report 2016-023

**Riverside University Health System - Medical
Center, Change of Department Head**

Report Date: November 3, 2016



**Office of Paul Angulo, CPA, MA
Riverside County Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802



Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

November 3, 2016

Zareh Sarrafian
Assistant CEO - Health System
Riverside University Health System - Medical Center
26520 Cactus Avenue
Moreno Valley, CA 92555

Subject: **Internal Audit Report 2016-023: Riverside University Health System - Medical Center, Change of Department Head**

Dear Mr. Sarrafian:

We have completed an audit of the Riverside University Health System - Medical Center. In an effort to provide independent, objective, and reliable assessments of internal controls to the Board of Supervisors and management in accordance with Board of Supervisors Resolution 83-338, we conducted a Change of Department Head audit. This audit is conducted to ensure accountability over the transfer of revolving funds and capital assets from the predecessor to the new appointed department head. The audit covered the period of July 1, 2014, through May 31, 2016.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.


Based upon the results of our audit, we determined that the revolving fund was not transferred to the new director of Riverside University Health System - Medical Center in a timely manner. Further, we identified opportunities for improvement of internal control relating to capital assets.

Internal Audit Report 2016-023: Riverside University Health System - Medical Center, Change of Department Head

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to the reported conditions and recommendations contained in our report. Management's responses are included in the report.

We thank the Riverside University Health System - Medical Center management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

“Riverside University Health System - Medical Center (Medical Center) is located in the City of Moreno Valley, centrally located and accessible to all areas of Riverside County. Its mission is to provide superior quality health care to County of Riverside residents with a special focus on individuals and populations in need. Its vision is to benefit all residents of County of Riverside by serving as an academically affiliated primary, secondary, and tertiary level health care center with a tradition of superior quality and service.

Although the institution is over 100 years old, a modern, seismically compliant building opened in March 1998. The Medical Center is a 520,000 square foot state-of-the-art tertiary care and level II adult and pediatric facility, licensed for a total of 439 beds. There are 362 licensed beds in the main acute-care hospital, and 77 licensed beds in a separate psychiatric facility. The Medical Center has 12 operating rooms, a helipad located directly adjacent to the Trauma Center, and state-of-the-art digital radiology services, including magnetic resonance imaging and computerized tomography and all single bed rooms. There are also adult, pediatric and neonatal intensive care units, a birthing center and complete pulmonary services including hyperbaric oxygen treatments. The award winning Medical Center is well designed and equipped to provide the latest in health care through the 21st century and beyond.

The Medical Center is a teaching hospital accredited by the Joint Commission on Accreditation of Health Care. It offers training programs for nursing students, medical residents, and allied health professionals attending Riverside Community College, Loma Linda University, Western College of Health Services, and University of California Riverside.”¹

The department head assumed responsibility of department operations on December 12, 2014.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over the transfer of revolving funds and capital assets when there is a change in department head.

Audit Conclusion

Based upon the results of our audit, we determined that the revolving fund was not transferred to the new director of the Medical Center in a timely manner. Further, we identified opportunities for improvement of internal control relating to capital assets.

¹ County of Riverside – Riverside County Regional Medical Center About Us website, assessed October 11, 2016, <http://www.rcrmc.org/home/index/aboutus>

Revolving Funds

Background

Under the authority of Government Code Section 29320-29334, the Riverside County Board of Supervisor's adopted Board Resolution 74-156 on May 14, 1974, authorizing the establishment of a revolving fund, under the custodianship of a county officer, for use on official county business. The Board of Supervisors adopted Board Resolution 83-338, authorizing the Riverside County Auditor-Controller to audit revolving funds of any officer accountable for such resources upon transfer of such resources to a new officer.

The Medical Center has one revolving fund, with an authorized balance of \$10,000, maintained in the form of petty cash. The revolving fund consists of nine sub accounts. The two most significant balances are held at the cashiers petty cash fund totaling \$7,775 and at the cafeteria totaling \$1,375. The cashiers petty cash fund is primarily used to provide change to hospital departments, employee and customers, receipt payments for ID badge replacement, supplies sold, agency classes and x-ray copies, and petty cash reimbursements. The cafeteria fund is primarily used to provide change to customers in the cafeteria. The department has a system in place for review, reconciliation, and replenishment of the revolving funds on a consistent basis.

There were a total of 20 revolving fund replenishment transactions during the audit period. We reviewed the supporting documentation for five revolving fund replenishment transactions totaling \$4,410 of \$8,182 (54% of total reimbursements as of May 31, 2016), and determined these transactions were for official county business.

The Medical Center has an established process in place for the use of the revolving funds. Access to the revolving fund/petty cash is limited to the fund custodians and one back-up individual. We physically observed the petty cash funds are kept in locked safes with access limited.

Objective

To determine if the required forms for the transfer of accountability of revolving funds from the predecessor to the new appointed department head were completed, and properly filed with the Riverside County Auditor-Controller's Office. Also, to assess the adequacy of internal controls over the safeguarding of the revolving funds.

Audit Methodology

To accomplish our objectives, we:

- Reviewed Riverside County Auditor-Controller's Standard Practice Manual (SPM) Form AR-1, *Revolving Fund Request Order & Change Form* for the establishment and transfer of revolving funds.

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- Interviewed key personnel and reviewed department procedures over the revolving funds.
- Verified revolving fund reconciliations were prepared.
- Performed a surprise cash count and reconciled to the fund assignment amounts without exception.
- Verified adequate segregation of duties existed.
- Reviewed a sample of replenishment transactions and traced to supporting documentation.

Finding 1: Transfer of Accountability

The Medical Center completed and filed the SPM Form AR-1, *Revolving Fund Request Order & Change Form* 20 months after the date the new director was appointed. The SPM Form AR-1 effective May 25, 2016 was provided to the Riverside County Auditor-Controller's Office on June 27, 2016. *Riverside County Board of Supervisors Board Resolution 74-156, Section 7*, states, "In the event that the officer having a revolving fund is succeeded by another person of whom a like fund is established, the fund may be transferred by said officer to his successor..." To ensure accountability for public funds, an SPM Form AR-1 should be completed and submitted to the Riverside County Auditor-Controller's Office as soon as the change occurs.

Recommendation: 1

Ensure the SPM Form AR-1 requesting a change in custodian is completed and filed with the Riverside County Auditor-Controller's Office, as soon as there is a change in custodianship.

Management's Response:

"Concur"

Actual/estimated Date of Corrective Action: June 17, 2016

Capital Assets

Background

Capital assets are tangible assets of significant value which have a utility that extends beyond the current year, and are broadly classified as land (valued at \$1 or more), buildings and improvements, infrastructure, and equipment (acquisition cost of \$5,000 or greater).

Per the Riverside County Auditor-Controller's Standard Practice Manual, Policy Number 515 (formerly 912) *Transfer of Accountability on Capital Assets*, upon retirement or termination of a department head, accountability for capital assets must be transferred to the new or acting department head and notification filed with the Riverside County Auditor-Controller's Office.

As of December 12, 2014, the time the new director acknowledged receipt of capital assets from the outgoing officer, the Medical Center maintained 1,061 capital assets in the Riverside County financial system asset module, consisting of various equipment, land, building, and software with the combined acquisition cost of \$280,348,722.

Objective

To determine if the required SPM Form AM-1, *The Inventory of County Property for Capital Assets*, for the transfer of accountability of capital assets from the predecessor to the new appointed department head was completed and properly filed with the Riverside County Auditor-Controller's Office.

Audit Methodology

To accomplish our objectives, we:

- Obtained an understanding of board policies and applicable standards.
- Established the date of the department head change.
- Verified proper forms were completed for transfer of accountability of capital assets and submitted to the Riverside County Auditor-Controller's Office.

Finding 2: Accuracy of Capital Asset Listing

The Medical Center capital asset listing attached to the SPM Form AM-1, *Inventory of County Property for Fixed Assets* dated December 12, 2014, the date of transfer of accountability, was inaccurate. The listing was a copy of the capital asset listing submitted to the Riverside County Auditor-Controller's Office for certification as of June 30, 2014, because personnel were not aware that an updated listing should be provided with the SPM Form AM-1 when department head changes occur. The June 30, 2014, listing consisted of 1,030 capital assets in the

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Riverside County financial system asset module, including various equipment, land, buildings, software, and improvements with the combined acquisition cost of \$275,805,604. Per our procedures, during the timeframe of July 1, 2014 and December 12, 2014, there were 31 new assets acquired in the amount of \$4,543,118. Consequently, by not completing an accurate capital asset listing as of the date of transfer of accountability, the department head was not made aware of the material capital asset additions that have occurred since the last certification was submitted on June 30, 2014.

Recommendation: 2

Ensure that an accurate capital asset listing reflecting all additions and deletions since the last certification is attached to SPM Form AM-1, *Inventory of County Property for Fixed Assets* and acknowledged by the new department head.

Management's Response:

“Concur. In error the department did not conduct a special inventory of assets at the time that Zareh Sarrafian became CEO. It is not possible now to take a special inventory on assets that were here in 2014. Medical Center staff are now aware of this requirement and will take the proper steps in the future when there is another change of CEO

Medical Center staff have diligently conducted and submitted to the Auditor-Controller annual inventories as required. The most recent inventory and AM-1 form dated 7/7/16 are included with this letter. It is from a review of these historic documents that the Auditor-Controller was able to list and calculate the value of new assets acquired between July 1, 2014 and December 12, 2014.”

Actual/estimated Date of Corrective Action: Not possible to conduct a full 2014 inventory at this time.

Finding 3: Incomplete SPM Form AM-2

Based on our review of the capital asset certification for the year ended June 30, 2015 the Medical Center has not submitted the SPM Form AM-2, *Authorized Signature for Capital Assets Certification* to the Riverside County Auditor-Controller's Office. The purpose of the Form AM-2 is for the department head to authorize an individual to certify the capital assets inventory listing for the department and business unit. The Medical Center fiscal officer signed the certification for the year ended June 30, 2015; however, no SPM Form AM-2 was attached and signed by the department head authorizing the fiscal officer to sign. By not completing the SPM Form AM-2, there is no clear authorization to transfer the responsibility of the certification to the fiscal officer.

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Recommendation: 3

Complete and submit SPM Form AM-2, *Authorized Signature for Capital Assets Certification* and the SPM Form AM-1, *Inventory of County Property for Fixed Assets*, for the period ending June 30, 2016, signed by the director to the Riverside County Auditor-Controller's Office.

Management's Response:

“Concur. The form was completed on 12/12/14 and submitted on or about that date to the Auditor-Controller. Apparently the copy was either not received or misplaced after it was received. In any case, a new copy is included with this letter.

Further there was recently a change to the authorized signature authority. The newest AM-2 was submitted on 6/21/16 and submitted the the Auditor-Controller on or about that date. A copy of this form is included with this letter.”

Actual/estimated Date of Corrective Action: 12/12/14