



# County of Riverside

## INTERNAL AUDITOR'S REPORT

### Department of Public Social Services

**April 25, 2006**

Office of  
**Robert E. Byrd, CGFM**  
County Auditor-Controller

4080 Lemon Street  
P.O. Box 1326  
Riverside, CA 92502-1326



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April 25, 2006

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

Subject: Internal Auditor's Report #2006-004 – Department of Public Social Services

Dear Ms. Hinckley:

We have completed an audit of the Department of Public Social Services. We conducted the audit during the period November 2005 through February 2006 for operations of July 1, 2003 through February 10, 2006.

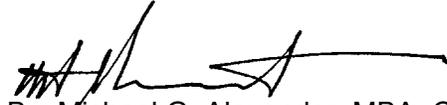
Our purpose was twofold: to meet the requirements of Board of Supervisors Resolution 83-338, paragraph III.A.4, which requires an audit of revolving funds and capital assets whenever a new director is appointed; and, to provide management and the Board of Supervisors with an independent assessment about the adequacy of internal controls over the department's revolving fund and capital assets processes and accounting procedures.

We conducted our audit in accordance with the 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 the audit provides a reasonable basis for our conclusions.

Based upon the results of our audit, we determined the Department of Public Social Services' capital assets and revolving funds were transferred in their entirety to the new director upon appointment by the Board of Supervisors. However, we identified opportunities for improving the capital asset accounting process. Throughout the audit, we discussed the results contained in this report, as well as comments and suggestions of lesser significance, with the appropriate level of management.

We thank the management and staff of the Department of Public Social Services for their cooperation during the audit. Their assistance contributed significantly to the successful completion of the audit.

Robert E. Byrd, CGFM  
County Auditor-Controller

A handwritten signature in black ink, appearing to read "Michael G. Alexander", with a long horizontal stroke extending to the right.

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

cc: Board of Supervisors  
County Counsel  
Executive Office  
Grand Jury

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## **Executive Summary**

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**Overview** The Riverside County Department of Public Social Services (DPSS) is committed to helping its customers maintain and strengthen individual and family life. Through programs such as CalWORKS cash aid, Child Protective Services (CPS) and In-Home Supportive Services (IHSS), DPSS provides protection from abuse and neglect; encourages self-respect; and promotes responsible, self-sufficient citizenship. The department is responsible for nearly 8,000 IHSS cases; 6,600 CPS cases; and approximately 90,000 cases in the Medi-Cal, Food Stamp, General Relief and CalWORKs programs. In addition, each month the department receives approximately 300 referrals to the Adult Protective Services Program; and 3,000 referrals to the Child Protective Services programs. DPSS employs approximately 3,300 employees in 135 classifications; has offices located throughout the County, from Blythe to Corona; and operates with an annual budget exceeding \$520 million.

This audit was conducted in accordance with Board of Supervisors Resolution 83-338, paragraph III.A.4. The resolution requires an audit of revolving funds and capital assets upon the appointment of a new director. Cynthia Hinckley replaced Dennis Boyle as the director of the Department of Social Services, effective July 12, 2005.

**Overall Objective** Our primary audit objective was to determine the existence and adequacy of internal controls over the department's revolving funds and capital assets; and to verify the department's revolving funds and capital assets were transferred in their entirety to the new director upon her appointment by the Board of Supervisors.

**Overall Conclusion** Based upon the results of our audit, we determined the Department of Public Social Services' capital assets and revolving funds were transferred in their entirety to the new director upon appointment by the Board of Supervisors. However, we identified opportunities for improving the capital asset accounting process.

Details about our audit methodology, results, findings and recommendations are provided in the body of our report.

**Objectives**

To determine:

- whether internal controls were in place to ensure the department's capital assets and revolving funds were appropriately recorded and safeguarded from loss; and,
- whether the department's capital assets and revolving funds were transferred in their entirety from the former director to the new director on July 12, 2005.

**Methodology**

To accomplish our objectives, we:

- conducted interviews and performed walk-throughs with department personnel;
- identified and reviewed applicable policies and procedures, Board ordinances, laws, codes, and regulations;
- completed narratives of the revolving fund and capital asset processes;
- performed a risk assessment of the capital asset and revolving fund functions and procedures;
- conducted operational reviews and observations; and,
- performed detail testing of the capital asset and revolving fund accounting processes and transactions.

**Results**

**Transfer of Accountability**

On July 12, 2005, a new director was appointed to DPSS by the Board of Supervisors. Upon the change in department heads, accountability for capital assets and revolving funds must be transferred to the incoming director. In accordance with Standard Practice Manual (SPM) 912, transfer of accountability over capital assets is accomplished by submitting a Capital Asset Transfer Form (SPM AM-6) to the Auditor-Controller's Office. Likewise, accountability for revolving funds is transferred to the new director utilizing a Revolving Fund Request Order and Change Form (SPM AR-1).

Based on the results of our testing, we determined capitalized assets and revolving funds were appropriately transferred to the new director upon her appointment by the Board of Supervisors.

**Results**

**Capital Assets**

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As of June 30, 2005, the Department reported 603 capitalized assets on the annual asset inventory certification submitted to the Auditor-Controller's Office. These assets had a recorded cost exceeding \$9,560,000 and included items such as computers, copiers and vehicles.

The management staff of each department or agency within the County of Riverside is required to account for County property in his/her possession or charge. This responsibility should include performance of the annual inventory and establishment of controls over the acquiring, monitoring, and disposal of capital assets. In addition, it is also the responsibility of the department to record asset acquisitions into the PeopleSoft Asset Management Module.

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**Finding 1**

Five of 65 capitalized assets selected for detailed testing could not be located, nor could the disposition of these assets be confirmed. The five assets were purchased for a combined cost of \$68,667.25, with a current book value of \$6,845.62 as of January 31, 2006. These assets consisted of two mailing machines, two fingerprinting machines and one printer. Per discussions with management, the department has performed a full investigation in regards to locating the missing assets, with no success.

Standard Practice Manual III-E-2-1.1 requires the Auditor-Controller's Office be "notified within 30 days of each acquisition, betterment, modification, disposal, transfer or change to fixed assets." In addition, the department must request a discharge of accountability from the Board of Supervisors when an asset is considered lost. If records are not appropriately updated to reflect the transfer or disposal of fixed assets, a misrepresentation of these assets may occur.

**Recommendation 1**

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

**Management's Reply**

Concur. Of the five assets identified as missing, two have subsequently been located, while the remaining three are still being researched. Once the research has been completed, the appropriate documentation will be submitted to the Auditor-Controller's office following SPM III-E-2-1.1 guidelines. DPSS management would like to note that the five assets identified in this finding pre-date current DPSS internal control standards, which also reflect an expanded policy to account for capitalized and non-capitalized assets.

The date of correction will occur prior to the FY 05/06 certification.

**Finding 2** Purchase documents supporting the acquisition of fixed assets were not verified prior to updating the PeopleSoft Asset Management Module. Upon receipt, fixed assets were routinely recorded in the REMEDY database by DPSS' Information Technology or Materials Services personnel. REMEDY is an independent database used by DPSS to monitor the status of capitalized and non-capitalized assets. The database provides the necessary information used by the Management Reporting Unit to record acquisitions in the PeopleSoft Asset Management Module. However, sales tax, freight charges and asset upgrades were not routinely included in the REMEDY database. As a result, fixed assets were understated in the PeopleSoft Asset Management Module. Specifically, 188 capitalized assets with a recorded cost exceeding \$1.6 million, representing 100% of assets acquired by the Department between July 1, 2003 and December 31, 2005, were understated by \$306,178.77. Policy number 901 of the Standard Practice Manual requires assets be accounted for at cost on the general ledger. Equipment cost is defined as the purchase price plus any additional costs attributed to putting the equipment in place.

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

**Management's Reply** Concur. DPSS internal control procedures include tracking capitalized and non-capitalized assets, thus maintaining an additional asset listing in an internal system (Remedy). This dual tracking of assets, OASIS and Remedy, resulted in the incorrect input of asset values in the OASIS system. The Department will adjust the values in Peoplesoft to account for sales tax and freight. Furthermore, the Department will define a reconciling process to help mitigate future discrepancies.

The date of correction will occur prior to the FY 05/06 certification.

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

**Management's Reply** Concur. The Department will refine the current tracking process which will use the purchasing documents as a base for the asset module. We will also define a reconciling process to help mitigate future discrepancies.

The date of correction will occur prior to the FY 05/06 certification.

DPSS management has reviewed the process for the recording and tracking of assets and has initiated a workgroup that will focus on refining the entire process across the organization. Goals of this workgroup will include:

- ❖ Aligning DPSS processes with OASIS and the Auditor Controller's guidelines.
- ❖ Enhance and expand our annual physical audit.
- ❖ Expand the procurement policy to ensure the accuracy of the asset listing in PeopleSoft.
- ❖ Streamline existing processes to better leverage technology and reduce redundancies.

These measures will help ensure that DPSS has the most efficient and effective asset tracking process while being aligned with County tracking standards.

**Results**

**Revolving Funds**

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The Department has two revolving funds with a combined authorized balance of \$30,000. Fund #47, with a balance of \$25,000, is used to support the day to day operations of DPSS' administration. The fund is maintained in a checking account, with \$225 reserved as a petty cash fund for emergency purchases. Fund #115 with a balance of \$5,000 supports the In-Home Supportive Services/Public Authority Program. The entire balance is maintained in a checking account.

Based upon the results of our testing, we determined no significant issues existed over the revolving fund process. Overall, the Department had a good system of internal controls in place to ensure the appropriate use of the authorized revolving funds.



# Department of Public Social Services

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**Cynthia Hinckley, Ph.D., Director**

**LOIS CARSON**  
Executive Director  
Community Action

**SHARRELL BLAKELEY, MSW**  
Assistant Director  
Children's Services

**SUSAN LOEW**  
Assistant Director  
Administrative Services

DATE: April 14, 2006  
TO: Auditor-Controller  
Audits-and Specialized Accounting Division  
FROM: *for* Cynthia Hinckley, Director *Susan Loew*  
Department of Social Services  
SUBJECT: Reply to Draft Audit Report

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## Recommendation Number 1 :

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

a. **Management position concerning the recommendation:**

    X     Concur                                 Disagree

b. **Comments:**

Of the five assets identified as missing, two have subsequently been located, while the remaining three are still being researched. Once the research has been completed, the appropriate documentation will be submitted to the Auditor-Controller's office following SPM III-E-2-1.1 guidelines. DPSS management would like to note that the five assets identified in this finding pre-date current DPSS internal control standards, which also reflect an expanded policy to account for capitalized and non-capitalized assets.

c. **Actual/estimated Date of Corrective Action: 6/30/2006**

The date of correction will occur prior to the FY 05/06 certification.

d. **Estimated cost to implement recommendation (If material)**

\$           0          

## Recommendation Number 2:

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

a. **Management position concerning the recommendation:**

b.     X     Concur                                 Disagree  
Comments:

DPSS internal control procedures include tracking capitalized and non-capitalized assets, thus maintaining an additional asset listing in an internal system (Remedy). This dual tracking of assets, OASIS and Remedy, resulted in the incorrect input of asset values in the OASIS system. The Department will adjust the values in Peoplesoft to account for sales tax and freight. Furthermore, the Department will define a reconciling process to help mitigate future discrepancies.

c. **Actual/estimated Date of Corrective Action: 6/30/2006**

The date of correction will occur prior to the FY 05/06 certification.

d. **Estimated cost to implement recommendation (If material)**

\$            0           

**Recommendation Number 3:**

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

a. **Management position concerning the recommendation:**

c.     X     Concur                                 Disagree  
Comments:

The Department will refine the current tracking process which will use the purchasing documents as a base for the asset module. We will also define a reconciling process to help mitigate future discrepancies.

c. **Actual/estimated Date of Corrective Action: 6/30/2006**

The date of correction will occur prior to the FY 05/06 certification.

d. **Estimated cost to implement recommendation (If material)**

\$ \_\_\_\_\_ 0 \_\_\_\_\_

***Additional Comments***

DPSS management has reviewed the process for the recording and tracking of assets and has initiated a workgroup that will focus on refining the entire process across the organization. Goals of this workgroup will include:

- ❖ Aligning DPSS processes with OASIS and the Auditor Controller's guidelines.
- ❖ Enhance and expand our annual physical audit.
- ❖ Expand the procurement policy to ensure the accuracy of the asset listing in PeopleSoft.
- ❖ Streamline existing processes to better leverage technology and reduce redundancies.

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