REVIEW OF SOLANO COUNTY

HEALTH & SOCIAL SERVICES

OFF-CYCLE CHECK DISBURSEMENT PROCEDURES

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Auditor-Controller: Simona Padilla-Scholtens, CPA
Audit Manager: Ian Goldberg, CGAP
Auditor: Donna Lee, CPA

Attachment A

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Review of Solano County Health and Social Services

Off-Cycle Check Disbursement Procedures

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INTRODUCTION

In accordance with our Fiscal Year 2008/09 Audit Plan, we conducted a review of Health and Social Services Off-Cycle Check Disbursement Procedures for checks issued through the PayBase system at remote locations. We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing.

BACKGROUND

H&SS enters check data into a Web-Based Internal Application, which is then written to a file and electronically transferred to the PayBase Application for check formatting and printing. For simplification, we will refer to this process collectively as the PayBase system. The PayBase system is a countywide standard integrated system used to issue checks.

Health and Social Services processes and prints an average of 25 checks per day through the PayBase system for CalWORKs immediate needs and ancillary payments. These checks are processed by the Fiscal and Employment and Eligibility divisions of Health and Social Services in Fairfield and Vallejo and are printed in Fairfield, Vallejo, and Vacaville for client pick-up.

OBJECTIVE

The objectives of our review were to:
1) Determine if the controls in place over off-cycle checks processed through the PayBase system at Health and Social Services remote locations are sufficient to protect the County's assets from unauthorized use or misappropriation.
2) Determine if the controls in place for granting security access and changes to the PayBase system are sufficient to protect the County's assets from unauthorized access.

SCOPE AND METHODOLOGY

We performed a high level review of internal controls over checks issued in remote locations through the PayBase system to determine if proper controls are in place and operating effectively. In addition, we performed limited procedures consisting mainly of inquiry of Information Technology and Health and Social Services staff regarding controls over the process for granting security access and authorization for changes to the PayBase system.

CONCLUSION

Our review disclosed findings in internal controls over off-cycle checks issued through the PayBase system at remote locations. We believe the findings and the related recommendations listed on the following pages will assist Health and Social Services to improve and strengthen internal controls over checks issued through the PayBase system.

FINDINGS AND RECOMMENDATIONS

1. POLICY FOR GRANTING SECURITY ACCESS TO THE PAYBASE SYSTEM

Off-cycle checks in Health and Social Services (H&SS) Fiscal are processed and printed through the PayBase system. The Department of Information Technology administers user access to the PayBase system. Our review noted no policies and procedures have been established by the Auditor-Controller's Office to ensure users are properly authorized to access the PayBase system to print checks.

To ensure proper controls over County assets, access to the PayBase system must be restricted to authorized employees. Policies and procedures must define the approval process for granting access to the PayBase system. All users with access to the PayBase system to print checks must be authorized by the Auditor-Controller as a Deputy Auditor.

Policies and procedures for accessing or changing users in the PayBase system have not been established. The lack of policies and procedures resulted in an Accounting Clerk III in H&SS Fiscal, who is not an authorized Deputy Auditor, being granted access to process and print checks through the PayBase system.

RECOMMENDATIONS:

Auditor-Controller's Office (ACO)/Department of Information Technology (DoIT):

A. Immediately remove check printing duties from staff not authorized as a Solano County Deputy Auditor.

B. Develop policies and procedures for granting user access to the PayBase system.

C. Require approval from the Auditor-Controller's Office (ACO) for all additions or changes to the PayBase system access. The ACO will approve/deny all changes and notify DoIT accordingly.

MANAGEMENT RESPONSE:

ACO:

We agree with the Auditor's findings and have taken corrective action. The Auditor's Office directed DOIT to remove the check printing duties from staff not authorized as a Deputy Auditor. The security access to PayBase will only be granted approval by the Auditor's Office. Therefore, effective immediately, DOIT will only grant access upon direction from the Auditor's Office.

DoIT:

The Department of Information Technology (DoIT) agrees with the Auditor's findings and is taking corrective action on the items as listed below. We expect the corrective actions to be completed by August 14, 2009.

    A. DoIT has worked with the Auditor-Controller's Office to identify staff not authorized as a Solano County Deputy Auditor. DoIT has removed printing duties from unauthorized staff as directed by the Auditor Controller's Office.

    B. DoIT will assist the ACO in the development of overall administrative policies and procedures. DoIT will then develop its internal policies and procedures for how DoIT will grant user access to the PayBase system and maintain related documentation.

    C. DoIT's policies and procedures will include obtaining formal approval from the ACO before any/all changes are made for access to PayBase.

2. CONTROLS OVER OFF-CYCLE CHECK PRINTING

We identified the following conditions related to H&SS off-cycle check printing:

➤ Checks are processed by H&SS Fiscal in CalWIN and entered manually into the PayBase system without a secondary review.

➤ There are no system controls in the PayBase system to identify data entry errors such as duplicate check numbers.

➤ Checks are processed and printed in multiple locations throughout the County (Fairfield, Vallejo, Vacaville) without a secondary review.

➤ Checks are written manually when the PayBase system is down. There is no secondary review or authorization of manual checks before they are issued to the client.

➤ Supervisors authorized as Deputy Auditors (Supervisor/Deputy Auditor) prepare and print checks when staffing is low. There is no second review by someone in a superior position to the Supervisor/Deputy Auditor before the checks are issued to the clients.

Proper internal controls require an independent review of check processing. A second Deputy Auditor or a Supervisor / Deputy Auditor should review and approve all checks and supporting documentation prepared by fiscal staff before checks are issued and released to clients. In addition, system controls should be implemented to restrict the system from issuing duplicate check numbers.

Lack of secondary review and lack of PayBase system controls led to a check being printed and released to a client with a duplicate check number and could have resulted in the misappropriation of Solano County assets.

RECOMMENDATIONS:

H&SS:

A. Require a secondary Deputy Auditor to match the data entered into the PayBase system with the supporting documentation and sign-off as approved prior to printing the check.

B. Centralize check processing to one location and allow a "print-only" function at the other two locations. This will allow for improved controls around check processing operations.

C. Develop policies and procedures for manual check issuance (when the PayBase system is down) requiring a secondary Deputy Auditor to compare the manual check to the supporting documentation to ensure accuracy and to authorize the release of the check to the client.

D. Work with DOIT to determine the cost/benefit of adding controls to the PayBase system to prevent data entry errors such as duplicate check numbers.

E. Require second approval by someone in a superior position for all checks prepared by a Supervisor / Deputy Auditor.

F. Work with ACO to determine chain of command for Supervisor/Deputy Auditor role. For example, first line should be the secondary Supervisor/Deputy Auditor. If they are not available, then the H&SS Assistant Directors or CFO would be the next line, etc.

MANAGEMENT RESPONSE:

H&SS:

A. H&SS has implemented this recommendation. H&SS is waiting for the ACO to deputize a sufficient number of employees in the Fiscal Disbursement and Welfare to Work (WtW) units to both process checks in the PayBase system, and to perform the required secondary review. In the meantime, staff in the two units are reviewing each other's check issuances. H&SS anticipates that the State will make deep budget cuts in the WtW program, which will reduce the number of staff available, making it more difficult to conduct the secondary review. The increasing number of applications for public assistance, and the reductions in staffing, is already impacting staff's ability to keep up with the current workload. H&SS will continue to conduct the secondary review as required by the ACO; however, given staffing shortages, this could result in failure to meet State regulations for timely issuance.

B. H&SS will explore the feasibility of centralizing check processing, with a print only function at other locations. However, given the urgent nature of these checks, it may be difficult to centralize this function. The need to issue checks cannot be anticipated until the Eligibility staff determines the benefits. The actual check issuance often occurs after the offices are closed. The process requires close coordination with onsite Eligibility staff to ensure that the appropriate benefit is issued, and that the client is given the check in accordance with procedures.

C. H&SS has implemented this recommendation regarding secondary review of manual check issuance. The recommendation is basically the same as "A".

D. The audit finding references that a check was issued to a client with a duplicate check number, due to the lack of routine system controls within the PayBase system. PayBase does not notify or flag the user when a duplicate check number is issued. Most check issuance systems, including off the shelf software such as Quicken, have this feature. It should be noted that a duplicate payment was NOT issued to the client and it is unlikely that this incident would have "resulted in the misappropriation of Solano County assets". All checks issued via PayBase are reconciled to the CalWIN system. In the event that a check was issued in error, the Overpayment Recovery Unit would recoup the funds from future payments to the client, as is normally done whenever a benefit is issued incorrectly as a result of client misinformation or employee error.

H&SS agrees with the recommendation to upgrade the PayBase system to include basic features such as flagging a duplicate check number. However, DoIT and the ACO should determine the cost/benefit of upgrades, and these costs should be distributed to all departments utilizing the system.

E. These two recommendations appear to be in conflict with recommendation A, which states that a secondary review should be performed by another Deputy Auditor, without regard to job classification. However, recommendations E&F indicate that a secondary review should be conducted by someone in a "superior position" if the check is issued by a "Supervisor/Deputy Auditor". H&SS requests that the ACO clarify the responsibility for

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conducting secondary reviews in the Policy and Procedures that they will develop for the use of the PayBase system.

3. CONTROLS OVER WARRANT REGISTER

Off-cycle and down-time checks are processed by Fiscal staff from each location (Fairfield, Vallejo, Vacaville). On a daily basis, Fiscal staff create a log to track all checks issued; the log is referred to as the "Register of Warrants." At the end of the day, staff fax a copy of the "Register of Warrants" to the Treasurer and ACO. The log is used by the Treasurer to add checks to the "Positive Pay" system, which authorizes the bank to cash the checks. Our review identified the following control weaknesses:

H&SS:

> ➢ The "Register of Warrants" is not reviewed or authorized by an H&SS Supervisor.

> ➢ The "Register of Warrants" is not certified and signed by a Deputy Auditor.

> ➢ Checks included in the "Register of Warrants" are added to the positive pay file at the bank without verification by the Treasurer of proper authorization by H&SS Supervisor authorized as Deputy Auditor (Supervisor / Deputy Auditor).

> ➢ The "Register of Warrants" does not have a column for an explanation of the payment, which is necessary in order for the Treasurer and ACO to understand the purpose of the payment.

> ➢ H&SS staff authorize checks issued and cashed in the same day via verbal confirmation with the bank representative. No H&SS staff have been specifically designated to oversee this process.

ACO:

> ➢ No dollar thresholds have been established by the ACO for secondary authorization.

The Treasurer should only add payments to the positive pay system that have been reviewed and authorized by a designated H&SS Supervisor / Deputy Auditor. Dollar thresholds should be established to limit the County's exposure to misappropriation of assets. Without Supervisor /Deputy Auditor authorization and dollar thresholds, unauthorized checks could be approved for payment by the Treasurer, which could result in the misappropriation of Solano County funds.

RECOMMENDATIONS:

H&SS:

> **A.** Require Supervisor / Deputy Auditor review and approval of "Register of Warrants" before faxing to ACO and Treasurer each day.

B. Modify "Register of Warrants" to include the reason for the payment (Temporary Homeless, etc.), and a statement certifying "As Supervisor / Deputy Auditor I hereby certify upon my own personal knowledge that the warrants listed have been issued or voided/destroyed in accordance with Solano County Policy."

C. Work with DOIT and ACO to modify current software applications to include Supervisor/Deputy Auditor review and certification.

D. Establish read-only access for ACO and Treasurer, thereby allowing the ACO and Treasurer to view and add checks to positive pay as needed and eliminating the need for the manual "Register of Warrants."

ACO:

A. Develop policies and procedures requiring review and approval by the ACO of any check over $1,500 before the Treasurer's Office adds to the bank's positive pay system.

MANAGEMENT RESPONSE:

H&SS:

A. The Senior Accountant supervising Fiscal Disbursement is now reviewing and approving Register of Warrants and completing a Master log.

B. H&SS will request that the County Compliance Officer review the recommendation to include a column on the Register of Warrants for an "explanation of the payment" which is necessary in order for the "Treasurer and the ACO to understand the purpose of the payment". Since checks are issued for client benefits, the Compliance Office should determine if this recommendation is consistent with privacy and confidentiality regulations.

C. H&SS is working with DoIT and the ACO to include a "Deputy Auditor" review field in PayBase with access limited to designated H&SS staff only. Once the "Deputy Auditor" review field is added in PayBase, H&SS will implement this recommendation.

D. DoIT should develop a process that will allow the Treasurer and the ACO to have read-only access on check issuance information via a shared drive (e.g., Sharepoint). This will eliminate the need for the bank to contact H&SS for checks issued and cashed on the same day since the Treasurer will already have this information on a more current/real time basis.

ACO:

We concur with the recommendation. The Auditor's Office will work with H&SS and Treasurer's Office to develop necessary measures to implement the recommendation.

4. INADEQUATE SEGREGATION OF DUTIES

We noted the following improper segregation of duties:

H&SS:

- H&SS Fiscal staff reconcile transactions in CalWIN to the daily "Register of Warrants." This reconciliation is completed by the Accounting Clerk or the Accounting Technician, who also have the authority to prepare and sign checks. No supervisor review of the reconciliation is performed.

ACO:

- The Department of Information Technology generates and sends a file to the bank on a daily basis which lists all checks issued by the County. Checks processed by the bank that do not match the checks included in the daily file are sent to the Treasurer as an exception. The Treasurer reviews and authorizes the exceptions and maintains custody of cash.

Proper segregation of duties requires that no individual is placed in such a position that (s)he can perpetrate and conceal errors and irregularities while performing regularly assigned duties. To achieve proper segregation of duties you must segregate three principal activities: authorization of transactions, custody of assets, and accounting/reconciling of transactions.

Principal activities in H&SS and the Treasurer have not been properly segregated to ensure custody of assets, authorization of transactions, and the accounting/reconciling of transactions are independently performed. Improper segregation of duties could result in the misappropriation of Solano County assets.

RECOMMENDATION:

H&SS:

A. Segregate the responsibility for the reconciliation of the "Register of Warrants" from employees who have the authority to prepare and sign checks.

B. Require a Supervisor to document review and approval of all reconciliations.

ACO:

A. Establish procedures to require Auditor-Controller approval for all check exceptions.

MANAGEMENT RESPONSE:

H&SS:

A. H&SS will implement this recommendation to the extent feasible with the reduced level of staffing. H&SS will ensure that the Register of Warrants is reconciled by a Deputy Auditor who has not participated in the issuance of checks recorded in that day's Register. It may not always be possible to ensure that the reconciliation is performed by someone who "does not have authority to prepare and sign checks". In general, the reconciliation will be performed by a Supervisor or Senior Accountant; however, these staff may also have the authority to prepare and sign checks as a back up to the line staff performing these functions.

B. In light of the ongoing budget issues, H&SS has not filled a vacant Accounting Supervisor position in the Vallejo office; as a result, one supervisor is covering the Fiscal Disbursement staff in the three facilities. H&SS will assign the reconciliation to a supervisor whenever possible. H&SS will ensure that the reconciliation of the Register is conducted by another staff person, who did not issue checks or assist in the reconciliation of the register that day. H&SS welcomes any specific recommendations from the ACO on how to deal with segregation of duties issues when resources are very limited.

It should be noted that the determination to issue a benefit, and the amount of the benefit, is made by Eligibility staff and not the fiscal staff who process the check. The reconciled Register of Warrants, as noted above, is then received and approved by the Senior Accountant. As a result, the risk identified by the ACO relating to the concealment of errors and irregularities is minimized.

ACO:

We concur with the recommendation. Effective immediately the Auditor-Controller's Office is approving all check exceptions.

5. CHECK FORMATTING

We noted staff enter client/vendor names into the PayBase system inconsistently. The names are sometimes entered last name first, or first name first.

Strong internal controls require the formatting of vendor/client names is consistent and input exactly how the name appears in CalWIN. Inconsistent formatting could allow for the client/vendor to be paid multiple times for the same claim, which could result in the misappropriation of Solano County assets.

RECOMMENDATION:

H&SS:

Develop policies and procedures requiring uniformity in the data entered into the PayBase system so client/vendor names are formatted the same every time (i.e., Last name, First Name).

MANAGEMENT RESPONSE:

H&SS:

H&SS has Policies and Procedures in place regarding the formatting of checks. The Fiscal Disbursement Unit staff have consistently issued checks mirroring the CalWIN format. The WtW Unit staff have already implemented the appropriate internal processes to follow the CalWIN format.

The PayBase system, as currently configured, does not have a feature which requires that the user enter the payee or vendor name in a consistent manner. H&SS will request that DoIT research the feasibility of establishing an alert feature to prevent incorrect entries, which is common in many software programs.

6. **CALWIN DOWN-TIME PROCEDURES**

When an eligibility worker is not able to process a check request in CalWIN, a check is processed outside of the CalWIN system by H&SS Fiscal. This process is referred to as "down-time" check issuance. The "down-time" check issuances are recorded by Fiscal as a NonSystem Determined Issuance (NSDI) entry in order for the disbursement to properly interface with IFAS. We noted multiple NSDI entries for "down-time" checks were recorded in CalWIN more than 30 days after the check was issued.

All check disbursements should be recorded in IFAS daily. If the NSDI is not processed, the disbursement will not be reflected in IFAS. Check disbursements not reflected in CalWIN or IFAS results in the records being out of balance.

RECOMMENDATION:

H&SS:

Fiscal Supervisor should record NonSystem Determined Issuance (NSDI) entries into CalWIN no later than the day after the check is issued. Within two days after the check is issued, Supervisor should verify NSDI entries have been posted into CalWIN. These policies should be implemented immediately.

MANAGEMENT RESPONSE:

H&SS:

The recommendation has been implemented; entries are posted to CalWIN within 2 days.

7. **SAFE ACCESS**

Health and Social Services maintains blank check stock in a locked safe, secured by a combination, and accessible by fiscal staff. The combination is not changed periodically or when an employee is terminated. Proper internal controls require the safeguarding of County assets. Not changing the combination periodically or when an employee is terminated could result in the theft of blank check stock.

RECOMMENDATION:

H&SS:

In order to safeguard the blank check stock, we recommend policies and procedures be developed to require the combination of the safe be changed periodically and when an employee having access to the safe is terminated.

MANAGEMENT RESPONSE:

H&SS:

In order to implement this recommendation completely, H&SS will need to replace two of the three safes currently in use. The combination for the new safes can be changed by H&SS staff, and will not require the service to be performed by a locksmith. It should be noted that the safes are kept in a secure area, which requires access by use of the employee badge, or via combination door locks. When an employee is terminated, their badge is immediately de-activated. Combinations on the door locks can also be changed by H&SS as warranted. As a result of these existing security measures, the risk exposure is limited as related to this finding.