



September 29, 2008

Mr. John Wagner, Director  
California Department of Social Services  
744 P Street  
Sacramento, CA 95814

Dear Mr. Wagner:

**Final Report—California Department of Social Services, Risk and Control Assessment**

Enclosed is the final report of our risk and control assessment of the California Department of Social Services (Department). The Department of Finance, Office of State Audits and Evaluations (Finance), performed this review in accordance with the Financial Integrity and State Manager's Accountability Act of 1983, Government Code Section 13400 et seq.

The assessment includes the status of previous audit findings and a section on currently identified issues or risks. The latter section was developed jointly by the Department and Finance staff and involved limited testing. The identified issues or risks represent ideas for program enhancements and potential control deficiencies.

The assessment, along with your response to the assessment's recommendations, should be signed by the Department Director and submitted to your agency secretary. Any other Department documents describing program initiatives and control activities can be included with the submitted assessment. Copies of the assessment should also be submitted to the Legislature, the State Auditor, the Governor, the Director of the Department of Finance, and the State Library.

We appreciate the assistance and participation of Department staff and management during our assessment. If you have any questions regarding this report, please contact Mary Kelly, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

***Original Signed by:***

Janet I. Rosman, Assistant Chief  
Office of State Audits and Evaluations

Enclosure

cc: On following page

cc: Mr. Bob Garcia, Chief Deputy Director, California Department of Social Services  
Mr. Calvin Rogers, Deputy Director, Information Systems Division, California Department  
of Social Services  
Mr. Eric Fujii, Deputy Director, Administration Division, California Department of Social  
Services  
Ms. Jo Frederick, Deputy Director, Community Care Licensing Division, California  
Department of Social Services  
Ms. Cynthia Fair, Manager, Information Systems Division, California Department of  
Social Services  
Mr. Jeffrey Hiratsuka, Chief, Central Operations Branch, California Department of Social  
Services  
Mr. Bill Vogel, Chief, Management and Staff Services Branch, California Department of  
Social Services

# A RISK AND CONTROL ASSESSMENT

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## California Department of Social Services

Prepared By:  
Office of State Audits and Evaluations  
Department of Finance

## **MEMBERS OF THE AUDIT TEAM**

Mary Kelly, CPA  
Manager

Angie Williams  
Supervisor

Staff  
Richard Faust  
Danielle Dannible

The final report is available on our website <http://www.dof.ca.gov>

You can contact our office at:

Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814  
(916) 322-2985

# BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

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## **Background**

The Legislature enacted Government Code Section 13400, which created the Financial Integrity and State Manager's Accountability Act of 1983 (FISMA). FISMA charges each state agency with the responsibility of maintaining effective systems of internal accounting and administrative program control as an integral part of its management practices. All levels of management at every state agency must be involved in assessing and strengthening these systems. The Legislature also mandated that the systems of internal accounting and administrative program control be evaluated on an ongoing basis. The California Department of Social Services (Department) contracted with the Department of Finance (Finance) for the performance of a Risk and Control Assessment to comply with the reporting requirements of FISMA.

The mission of the Department is to serve, aid, and protect needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The objectives of the Department are carried out by 4,200 employees. Nearly 1,700 such employees work in Services and Licensing Divisions located statewide in county welfare departments, offices and a host of community-based organizations. The Department has an annual budget of \$9 billion, including \$6.65 billion in Services and Licensing.

## **Objectives and Scope**

The objective of the risk and control assessment was to assist the Department in complying with the reporting requirements of FISMA. The scope of the assessment included performing an internal review and risk assessment of the Community Care Licensing Division of the Department. The review focused specifically on the cash receipts and accounts receivables cycles.

## **Methodology**

To initiate this assessment, Finance gained an understanding of the Department's mission and critical functions. We familiarized ourselves with the control environment of the Department by reviewing the Internal Control Review of the Department issued by Finance in March 2005. We conducted interviews with Department staff and reviewed documentation and procedures to determine if previous audit findings had been resolved. The Prior Finding Status Summary Section of this report is a follow-up review of findings identified in the 2005 report.

Finance collaborated with the Department management to conduct a risk analysis to identify and evaluate the threats and/or risks that could impede the Department's Community Care Licensing Division achievement of its objectives. Discussion sessions were conducted with several field offices throughout California to identify the most significant cash receipts and accounts receivables issues impacting the Department's functions. During the sessions, the control environment was also discussed. A follow-up evaluation of controls was conducted

where appropriate and recommendations were identified to address risk and control issues. The results of these activities comprise the Issues and Recommendations Section of this document.

The risks or issues and related recommendations do not necessarily constitute control deficiencies, but rather are enhancements to activities designed to achieve the Department's missions and goals.

# PRIOR FINDING STATUS SUMMARY

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The Department of Finance (Finance) conducted an internal control review of the California Department of Social Services (Department) in 2005. The results of that review were included in a report issued March 2005. The March 2005 report noted a number of controls that were functioning as intended. The report also identified areas where controls were not in place and made recommendations to implement appropriate controls. The report included findings and recommendations in the following areas:

- Fixed Assets
- Cash Disbursements
- Receivables
- Cash Receipts
- Budgets
- Contracts
- Community Care Licensing

To facilitate our understanding of the Department's control environment, we reviewed the findings identified in the 2005 report. After identifying staff with responsibility in the areas of identified weaknesses, we conducted interviews to determine the current control activities. We reviewed selected documents and procedures to determine if previous audit findings had been resolved. The following summarizes the findings noted in 2005 and our observations as to the current status.

## **Fixed Assets:**

Prior Finding:

The Department did not have adequate documentation of adjustments made to the property database as required by the State Administrative Manual (SAM) Section 8643.

Status:

The Department currently has an adequate documentation process for adjustments made to the property database.

Prior Finding:

The Department previously maintained unreliable fixed asset location codes in its property database.

Status:

The Department has complied with SAM Section 20050 by implementing adequate procedures to ensure a reliable property database is maintained.

**Cash Disbursements:**

Prior Finding:

The Department did not properly identify blank check stock on transfer receipts as required by SAM Section 8041.

Status:

The Department identifies blank check stock on transfer receipts; however, there remains inadequate control over the transfer of checks. Checks are not verified to be intact and are not safeguarded against loss of theft.

Prior Finding:

The Department's review of bank reconciliations by supervisors was not adequate to correct errors made by the preparer, as required by SAM Section 7923.

Status:

The Department currently maintains adequate supervisor review procedures for bank reconciliations.

Prior Finding:

The Department did not record manual cash disbursements within one business day as required by SAM Section 8094.

Status:

The recording of manual cash disbursements continues to be untimely. Fifty percent of manual disbursements tested were recorded an average of five days after the disbursement.

Prior Finding:

The Department did not adequately reconcile the check logs daily as required by SAM Sections 8041, 8080, and 8081.

Status:

The Department's check log entries tested were adequately reconciled.

Prior Finding:

The Department did not maintain adequate written desk procedures following the requirements of SAM Section 8042 for processing stale-dated checks. Stale-dated check stop payment

requests to the State Treasurer's Office (STO) were not completed after the one-year period of negotiability had expired.

Status:

The Department now maintains adequate desk procedures for processing stale-dated checks. In addition, there were no checks past the period of negotiability at the time of fieldwork.

**Receivables:**

Prior Finding:

The Department maintained inadequate monitoring of Personnel Accounts Receivables (PAR) and reconciliations were untimely.

Status:

The Department has recently implemented monitoring procedures for PAR and now performs timely reconciliations. However, since no collection procedures had been performed on PARs, the outstanding balance increased significantly from \$23,472 in 2005 to \$402,972 in 2008. In addition, long outstanding accounts receivables have passed the period of collection.

Prior Finding:

The Department did not perform cash receipt, bank, and local assistance reconciliations monthly (within thirty days of the preceding month) as required by SAM Section 7901.

Status:

Finance granted the Department a temporary extension of SAM Section 7901 from thirty days to sixty days. All reconciliations tested were prepared in accordance with the extension.

Prior Finding:

The Department did not send second notice collection letters within the 30 day interval required by SAM Section 8776.6 and did not initiate invoices timely after the claim was realized.

Status:

The Department now has adequate procedures to ensure collection notices are sent timely.

Prior Finding:

The Department did not maintain adequate separation of duties for local assistance and state operations in the Accounting Branch.

Status:

The Department does not have adequate separation of duties for the local assistance and state operations in the Accounting Branch. However, the Department has mitigating controls by performing timely reconciliations and having adequate review processes in place.

Prior Finding:

The Department did not maintain adequate travel advance collection procedures.

Status:

The Department has implemented the use of the California Automated Travel Expense Reimbursement System (CalATERS). The Department currently maintains adequate collection procedures for travel advances. There are no outstanding receivables since the implementation of CalATERS.

**Cash Receipts:**

Prior Finding:

The Department did not maintain adequate separation of duties over cash receipts.

Status:

There is currently adequate separation of duties over cash receipts.

Prior Finding:

The Department did not remit cash receipts to the STO in a timely manner in accordance with SAM Section 8091.

Status:

The Department's remittances remain untimely. The Department's cash receipts exceed the \$25,000 amount to warrant daily remittances as required by SAM Section 8091. Remittances are made weekly; however, there are delays of up to seven days at the close of a period. This condition is further addressed in Issue 1.

**Budgets:**

Prior Finding:

The Department did not maintain adequate written budget procedures.

Status:

The Department currently maintains adequate written budget procedures.

**Contracts:**

Prior Finding:

The Department's contract start dates preceded the contract execution dates.

Status:

This item has not been resolved. Seven of eight contracts tested had start dates that preceded execution dates by 26-139 days.

**Community Care Licensing:**

Prior Finding:

Civil and corporate penalty invoicing procedures for the Department had not been fully implemented.

Status:

This finding has been corrected.

# ISSUES AND RECOMMENDATIONS

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The Issues and Recommendations Section of this report was developed through collaborative risk and control assessment discussions between Department and Finance staff. At selected field offices and interviews with Department staff, discussions were conducted to identify the most significant program and administrative issues impacting the Department's functions. During the sessions, the control environment was also discussed. A follow-up evaluation of controls was conducted where appropriate and recommendations were identified to address risk and control issues.

The risks or issues and related recommendations do not necessarily constitute control deficiencies, but rather are enhancements to activities designed to achieve the Department's missions and goals.

## **Issue 1: Department's cash receipts processes are inefficient and costly**

The Department currently processes approximately 130,000 checks per year. Many of these checks are received in the field offices and sent via courier to the Department Cashier. Receiving, receipting, recording, safeguarding, and delivering these checks is a labor intensive process involving many employees each day.

The Department uses a manual report of deposit process that is inefficient and results in unnecessary costs related to staff processing time and materials. Significant staff time is required to process, reconcile, correct errors, and deliver the Report of Deposit (ROD) forms to the STO.

### **Risk:**

The current cash receipts process subjects the Department to:

- Increased opportunity of errors
- Excess staff processing time
- Potential loss of data

### **Recommendations:**

The Department should request participation in the STO Electronic Deposit Form (EDF) program. This program provides an internet based application that would replace the 5-part Report of Deposit Form that the Department currently uses.

The Department should request participation in the STO Remote Deposit pilot program. The program provides a mechanism for electronic check processing that scans the image and detail of each check and sends it electronically to a participating bank.

The Department should continue its efforts to expand the use of online credit card and electronic check payments.

## **Issue 2: Department lacks a comprehensive information technology solution to manage accounts receivable, cash receipts, and licensee data**

The Department uses several independent information technology systems that limit the effectiveness of information gathering, processing, and reporting.

Field office support staff are able to make manual changes to Program Cost Account (PCA) codes in the cash receipts database. In addition, one PCA code was listed twice with two different descriptions.

### **Risk:**

The lack of information system integration reduces management's ability to effectively gather, process, and report program fiscal and programmatic information. In addition, inadequate controls over PCA code usage may lead to significant accounting errors.

### **Recommendations:**

The Department should consider developing an information technology solution that reliably manages accounts receivable, cash receipts, and licensee data.

The Department is scheduled to be one of the state's first departments to implement the Financial Information System for California (FI\$CAL). Therefore, this system should be compatible with FI\$CAL.

## **Issue 3: Civil penalty process is inefficient and costly**

The Department uses a decentralized process for establishing and billing civil penalties. Field offices establish civil penalties, provide licensee notification, and manage civil penalty records and reports. Some of the functions performed by field office staff are inefficient, resulting in unnecessary costs and reduced accountability.

- Field office staff record and report penalty information using Excel spreadsheets that may be altered or destroyed and do not aggregate the information for use by other field offices.
- Based upon a survey of field office managers, it takes approximately 858 hours each month for field offices to prepare and manage civil penalties.
- The Department's Account processing system applies payments to the most outstanding debt, whether the payment was intended for that debt, without any notification to the licensee.
- Multiple copies of civil penalty documents are made and filed in various locations, consuming valuable staff time and resources.
- The current process lacks an effective mechanism to place a hold on a civil penalty that is pending appeal.

### **Risk:**

The lack of an automated civil penalty process reduces cost effectiveness and accountability over accounts receivables.

Failure to notify licensees that payments were applied to other outstanding debts may result in unpaid annual fees, additional penalties, and licensee dissatisfaction with the Department's billing process.

**Recommendations:**

The Department should centralize and automate the civil penalty process. Billing, cash receipts, and collection of delinquent payments should be centrally managed. Field offices should retain responsibility for establishing civil penalties and for recording civil penalty information. The centralized system should include the ability to flag civil penalties that have been appealed.

The Department should notify licensees whenever annual payments are applied to an outstanding debt.

**Issue 4: Collection of outstanding accounts receivables lacks timeliness and write-offs exceed authorized limits**

The Department has delegated authority from the California Victims Compensation and Government Control Board (CVCGCB) to write off uncollected receivables under \$250 per licensee. However, Department write-offs were based on individual invoiced amounts rather than the accumulated amount for each licensee.

**Risk:**

The Department may fail to timely collect significant state general fund receivables. In addition, the Department could lose CVCGCB delegation authority.

**Recommendations:**

The Department should implement policies and procedures for collection of outstanding receivables in accordance with SAM Section 8776.6. This includes limiting write-offs to no more than \$250 per licensee.

**Issue 5: Collection efforts by field office staff are inefficient and costly**

Licensee Program Analysts' (LPA) primary responsibilities are to assess and investigate complaints involving care facilities. However, LPAs currently spend a significant amount of their time assisting in collection efforts. Based upon a survey of field office managers, we estimated the following average costs related to collection efforts:

- LPAs use 417 hours each month for collection efforts.
- Use of LPAs to assist in collection efforts costs \$1,500 to \$5,000 per month more in salary costs than clerical office staff.
- Both LPAs and clerical office staff for all field offices use 611 hours each month for collection activities or the equivalent of three to four personnel years.

**Risk:**

The use of LPAs to assist in collection efforts reduces the number of site visits that may be performed. This could lead to:

- Increased fraud.
- Decrease in safety at the care facilities.
- Public dissatisfaction for unaddressed complaints at the care facilities.

**Recommendations:**

Create a centralized collection function within the Department to perform most collection functions. In addition, the Department should limit administrative functions to clerical office staff.

**Issue 6: Fees for miscellaneous services are inconsistently charged at the field offices**

Field office managers reported a wide range of fees for miscellaneous services provided to the public. The most notable disparities include:

- Facility directory fees ranged from no charge to \$12 per directory.
- Copy fees ranged from no charge to 10 cents per page.
- Printing fees ranged from no charge to 10 cents per page.
- Subpoena charges ranged from no charge to \$150 for depositions.

**Risk:**

The Department may fail to fully recover costs for public services. In addition, inconsistent fees may lead to public dissatisfaction with the Department.

**Recommendation:**

The Department should reevaluate the fee schedule for miscellaneous services and clearly communicate to the field offices the amount they should charge. In addition, the Department should update its Procedures Manual to include a standardized fee schedule, and create appropriate codes for miscellaneous services in their subsidiary accounting systems.

**Issue 7: Department orientation registration process is inefficient and costly**

Each field office maintains a separate orientation schedule and provides telephone registration to the public. The current process for recording information and answering questions is inefficient and consumes significant staff time. In addition, the public may not be made aware of orientations that are more convenient at other field offices.

Based upon a survey of field office managers, orientation registrations consume 873 hours of staff time per month or the equivalent of four to five personnel years.

In addition, registration payment options are inconsistent. Some offices require advance payment while other offices allow payment the day of the orientation.

**Risk:**

By relying primarily on telephone registrations, the Department may fail to realize significant cost savings and improvements in efficiency.

**Recommendations:**

Develop an online registration portal that will allow the public to self register for orientations at a time and location that is most convenient. A toll free number could be established for those registrants that do not have internet access.

The Department should establish a consistent policy on orientation payments and communicate this policy to field office staff.

## DEPARTMENT'S RESPONSE

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CDSS

JOHN A. WAGNER  
DIRECTOR

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY  
**DEPARTMENT OF SOCIAL SERVICES**



ARNOLD SCHWARZENEGGER  
GOVERNOR

August 29, 2008

Mr. David Botelho, Chief  
Department of Finance  
Office of State Audits and Evaluations  
300 Capitol Mall, Suite 801  
Sacramento, CA 95814

Dear Mr. Botelho:

SUBJECT: DRAFT REPORT-CALIFORNIA DEPARTMENT OF SOCIAL SERVICES  
(CDSS) RISK AND CONTROL ASSESSMENT

This letter is in response to the letter dated July 11, 2008, concerning the CDSS Community Care Licensing Division Risk and Control Assessment draft report.

Enclosed are the CDSS responses to the identified prior internal control review findings and responses to the current program, administrative, and control risks or issues identified in the assessment.

Thank you for allowing the CDSS the opportunity to review and comment on the draft report. If you have any questions regarding the enclosed CDSS responses please contact Cynthia Fair, Chief of Information Security and Audits Office, at (916) 651-9923 or [Cynthia.Fair@dss.ca.gov](mailto:Cynthia.Fair@dss.ca.gov).

Sincerely,

Original Signed by:

JOHN A. WAGNER  
Director

Enclosures

## PRIOR FINDINGS

### Fixed Assets:

**Prior Finding:**

The Department did not have adequate documentation of adjustments made to the property database as required by the State Administrative Manual (SAM) section 8643.

**Status:**

The Department currently has an adequate documentation process for adjustments made to the property database.

**CDSS Response:** All requirements have been met.

**Prior Finding:**

The Department previously maintained unreliable fixed asset location codes in its property database.

**Status:**

The Department has complied with SAM section 20050 by implementing adequate procedures to ensure a reliable property database is maintained.

**CDSS Response:** All requirements have been met.

### Cash Disbursements:

**Prior Finding**

The Department did not properly identify blank check stock on transfer receipts as required by SAM section 8041.

**Status:**

The Department identifies blank check stock on transfer receipts; however, there remains inadequate control over the transfer of checks. Checks are not verified to be intact and are not safeguarded against loss or theft.

**CDSS Response:** We concur.

**Comments/Proposed Improvement:**

CDSS procedures have been modified to ensure that only the number of checks required for each processing batch are removed from the safe.

**Prior Finding:**

The Department's review of bank reconciliations by supervisors was not adequate to correct errors made by the preparer, as required by SAM section 7923.

Status:

The Department currently maintains adequate supervisor review procedures for bank reconciliations.

**CDSS Response:** All requirements have been met.

Prior Finding:

The Department did not record manual cash disbursements within one business day as required by SAM section 8094.

Status:

The recording of manual cash disbursements continues to be untimely. Fifty percent of manual disbursements tested were recorded an average of five days after the disbursement.

**CDSS Response:** We concur.

**Comments/Proposed Improvement:**

Procedures have been modified with an additional step that ensures all manual disbursements are recorded within one business day. Manual disbursements are now approved by an employee who is responsible for recording manual cash disbursements in the CDSS's database prior to the check being released.

Prior Finding:

The Department did not adequately reconcile the check logs daily as required by SAM sections 8041, 8080, and 8081.

Status:

The Department's check log entries tested were adequately reconciled.

**CDSS Response:** All requirements have been met.

Prior Finding:

The Department did not maintain adequate written desk procedures following the requirements of SAM section 8042 for processing stale-dated checks. Stale-dated check stop payment requests to the State Treasurer's Office (STO) were not completed after the one-year period of negotiability had expired.

Status:

The Department now maintains adequate desk procedures for processing stale-dated checks. In addition, there were no checks past the period of negotiability at the time of fieldwork.

**CDSS Response:** All requirements have been met.

## Receivables:

### Prior Finding:

The Department maintained inadequate monitoring of Personnel Accounts Receivables (PAR) and reconciliations were untimely.

### Status:

The Department has recently implemented monitoring procedures for PAR and now performs timely reconciliations. However, since no collection procedures had been performed on PARs, the outstanding balance increased significantly from \$23,472 in 2005 to \$402,972 in 2008. In addition, long outstanding accounts receivables have passed the period of collection.

**CDSS Response:** We concur.

### Comments/Proposed Improvement:

CDSS has been consistently collecting outstanding Accounts Receivables (ARs). The increase in the dollar amount is contributed to over four hundred leave balance discrepancies that were corrected in the past year. Many of these leave discrepancies resulted in additional accounts receivables being established. A more aggressive collection process has been established and will be monitored closely. Personnel Specialists are sending out letters and setting up payment plans in order to collect the outstanding ARs that are less than three years old. We have consulted with the State Controller's Office (SCO) about long outstanding PARs. CDSS will submit a letter to SCO within the month asking for relief of accountability for PARs that are over three years old to mitigate long outstanding ARs.

### Prior Finding:

The Department did not perform cash receipt, bank, and local assistance reconciliations monthly (within 30 days of the preceding month) as required by SAM section 7901.

### Status:

Finance granted the Department a temporary extension of SAM section 7901 from 30 days to 60 days. All reconciliations tested were prepared in accordance with the extension.

**CDSS Response:** All requirements have been met.

### Prior Finding:

The Department did not send second notice collection letters within the 30-day interval required by SAM section 8776.6 and did not initiate invoices timely after the claim was realized.

Status:

The Department now has adequate procedures to ensure collection notices are sent timely.

**CDSS Response:** All requirements have been met.

Prior Finding:

The Department did not maintain adequate separation of duties for local assistance and State operations in the Accounting Branch.

Status:

The Department does not have adequate separation of duties for the local assistance and state operations in the Accounting Branch. However, the Department has mitigating controls by performing timely reconciliations and having adequate review processes in place.

**CDSS Response:** All requirements have been met.

Prior Finding:

The Department did not maintain adequate travel advance collection procedures.

Status:

The Department has implemented the use of the California Automated Travel Expense Reimbursement System (CalATERS). The Department currently maintains adequate collection procedures for travel advances. There are no outstanding receivables since the implementation of CalATERS.

**CDSS Response:** All requirements have been met.

#### Cash Receipts:

Prior Finding:

The Department did not maintain adequate separation of duties over cash receipts.

Status:

There is currently adequate separation of duties over cash receipts.

**CDSS Response:** All requirements have been met.

Prior Finding:

The Department did not remit cash receipts to the STO in a timely manner in accordance with SAM section 8091.

Status:

The Department's remittances remain untimely. The Department's cash receipts exceed the \$25,000 amount to warrant daily remittances as required by SAM

section 8091. Remittances are made weekly; however, there are delays of up to seven days at the close of a period. This condition is further addressed in Issue 1. (Following pages)

**CDSS Response:** We concur. (See following pages for response.)

#### Budgets:

Prior Finding:

The Department did not maintain adequate written budget procedures.

Status:

The Department currently maintains adequate written budget procedures.

**CDSS Response:** All requirements have been met.

#### Contracts:

Prior Finding:

The Department's contract start dates preceded the contract execution dates.

Status:

This item has not been resolved. Seven of eight contracts tested had start dates that preceded execution dates by 26-139 days.

**CDSS Response:** We concur.

#### Comments/Proposed Improvement:

CDSS has continued to address this issue since the previous finding and strives for all agreements to be executed prior to their execution date. However, CDSS does not believe the sampling and outcome of the contracts tested are indicative of the majority of contracts and amendments which are processed timely by the Department. The Contracts Section has filled its vacancies and has issued reminders to Bureau Chiefs and above to request contract renewals and/or contract amendments 90 days in advance of their effective dates.

CDSS has an ongoing commitment to ensure contracts are executed prior to their start date and will continue working with Program staff so that adequate time is provided to execute the contract before the start date.

#### Community Care Licensing:

Prior Finding:

Civil and corporate penalty invoicing procedures for the Department had not been fully implemented.

Status:  
This finding has been corrected.

**CDSS Response:** All requirements have been met.

## ISSUES AND RECOMMENDATIONS

Issue 1: Department's cash receipts processes are inefficient and costly.

The Department currently processes approximately 130,000 checks per year. Many of these checks are received in the field offices and sent via courier to the Department Cashier. Receiving, receipting, recording, safeguarding, and delivering these checks is a labor intensive process involving many employees each day. The Department uses a manual report of deposit process that is inefficient and results in unnecessary costs related to staff processing time and materials. Significant staff time is required to process, reconcile, correct errors, and deliver the Report of Deposit (ROD) forms to the State Treasurer's Office (STO).

### Risk:

The current cash receipts process subjects the Department to:

- Increased opportunity of errors
- Excess staff processing time
- Potential loss of data

### Recommendations:

The Department should request participation in the STO Electronic Deposit Form (EDF) program. This program provides an internet based application that would replace the five-part ROD Form that the Department currently uses.

The Department should request participation in the STO Remote Deposit pilot program. The program provides a mechanism for electronic check processing that scans the image and detail of each check and sends it electronically to a participating bank.

The Department should continue its efforts to expand the use of online credit card and electronic check payments.

**CDSS Response:** We concur.

### **Comments/Proposed Improvement:**

The CDSS will continue its efforts to expand the use of online credit card and electronic check payments. We will investigate the possibility of the Department participating in either/both the STO Electronic Deposit Form program, and the STO Remote Deposit pilot program.

Issue 2: Department lacks a comprehensive information technology solution to manage accounts receivable, cash receipts, and licensee data.

The Department uses several independent information technology systems that limit the effectiveness of information gathering, processing, and reporting.

Field office support staff is able to make manual changes to Program Cost Account (PCA) codes in the cash receipts database. In addition, one PCA code was listed twice with two different descriptions.

**Risk:**

The lack of information system integration reduces management's ability to effectively gather, process, and report program fiscal and programmatic information. In addition, inadequate controls over PCA code usage may lead to significant accounting errors.

**Recommendations:**

The Department should consider developing an information technology solution that reliably manages accounts receivable, cash receipts, and licensee data.

The Department is scheduled to be one of the State's first departments to implement the Financial Information System for California (FI\$CAL). Therefore, this system should be compatible with FI\$CAL.

**CDSS Response:** We concur.

**Comments/Proposed improvement:**

The Community Care Licensing Division (CCLD) has a comprehensive Information Technology Strategic Plan which includes improvements in the fee collection process. However, in order to develop and implement these strategies new resources will be necessary. Given the State's fiscal constraints it is unknown how soon CCLD will be able to pursue all of the technology strategies. In the interim, CCLD will ensure the PCA codes in the Lotus Notes Application are not editable. CCLD will also work with the Accounting Office to differentiate the different definitions of the PCA codes.

Issue 3: Civil penalty process is inefficient and costly.

The Department uses a decentralized process for establishing and billing civil penalties. Field offices establish civil penalties, provide licensee notification, and manage civil penalty records and reports. Some of the functions performed by field office staff are inefficient, resulting in unnecessary costs and reduced accountability.

- Field office staff record and report penalty information using Excel spreadsheets that may be altered or destroyed and do not aggregate the information for use by other field offices.
- Based upon a survey of field office managers, it takes approximately 858 hours each month for field offices to prepare and manage civil penalties.
- The Department's account processing system applies payments to the most outstanding debt, whether the payment was intended for that debt, without any notification to the licensee.
- Multiple copies of civil penalty documents are made and filed in various locations, consuming valuable staff time and resources.
- The current process lacks an effective mechanism to place a hold on a civil penalty that is pending appeal.

**Risk:**

The lack of an automated civil penalty process reduces cost effectiveness and accountability over accounts receivables. Failure to notify licensees that payments were applied to other outstanding debts may result in unpaid annual fees, additional penalties, and licensee dissatisfaction with the Department's billing process.

**Recommendations:**

The Department should centralize and automate the civil penalty process. Billing, cash receipts, and collection of delinquent payments should be centrally managed. Field offices should retain responsibility for establishing civil penalties and for recording civil penalty information. The centralized system should include the ability to flag civil penalties that have been appealed.

The Department should notify licensees whenever annual payments are applied to an outstanding debt.

**CDSS Response:** We do not concur.

**Comments/Proposed improvement:**

The CDSS does not concur with the above statement: "The Department's Account processing system applies to the most outstanding debt, whether the payment was intended for that debt." At CDSS the application of funds is actually applied to only annual fee and related assessments. The CDSS does feel that additional centralization is warranted. However, that would require staff resources, and under the current fiscal crisis facing the State it is unknown whether this would be possible. And while it is noted that moving it to a central location could involve the redirection of staff, those staff are accounted for in the budgetary standard for the field offices and cannot be moved.

**Issue 4: Collection of outstanding accounts receivables lacks timeliness and write-offs exceed authorized limits.**

The Department currently has over 3,400 uncollected civil penalties from 1996-2007, exceeding \$6.6 million.

The Department has delegated authority from the California Victims Compensation and Government Control Board (CVCGCB) to write off uncollected receivables under \$250 per licensee. However, Department write-offs were based on individual invoiced amounts rather than the accumulated amount for each licensee. As a result \$24,796 or 60 percent of the 2005 write-offs; and \$36,402, or 96 percent of the 2006 write-offs, exceeded the authorized amounts.

**Risk:**

The Department may fail to timely collect significant State general fund receivables. In addition, the Department could lose CVCGCB delegation authority.

**Recommendations:**

The Department should implement policies and procedures for collection of outstanding receivables in accordance with SAM section 8776.6. This includes limiting write-offs to no more than \$250 per licensee.

**CDSS Response:** We do not concur.

**Comments/Proposed improvement:**

CDSS does not concur with the write-offs percentage the DOF used for 2005 and 2006. However, CDSS concurs that the Department write-offs were based on individual invoiced amounts rather than the accumulated amount for each licensee.

The CCLD has instituted many ways to ensure collection on licensed operations; it is those entities that are no longer in operation where the Department has no leverage and almost no way to collect. CCLD takes aggressive collection action at both the local offices level and through the tax offset process. Many licensees are corporations and the tax offset process is therefore unavailable. Without any other tool other than the tax offset process, there is no viable method to collect on such outstanding debts.

Civil penalties are used to bring facilities into compliance. If the facility does not come into compliance, the facility is closed and once closed there is no leverage to collect these monies owed to the State. Additionally, there is a significant turnover rate in licensed care facilities so many facilities that were assessed civil penalties are now closed. The vast majority of those listed by the auditor are ten

or more year old fines with no viable way to collect and no viable way to offset these fines.

The largest civil penalties are levied against unlicensed operators to attempt to either get these operators to cease operating or to get them to comply by applying for a license. Given that these fines are levied against unlicensed/unregulated entities, there is virtually no way to collect on these entities or individuals unless they do become licensed, which is seldom the case.

#### **Issue 5: Collection efforts by field office staff are inefficient and costly.**

Licensee Program Analysts' (LPA) primary responsibilities are to assess and investigate complaints involving care facilities. However, LPAs currently spend a significant amount of their time assisting in collection efforts. Based upon a survey of field office managers, we estimated the following average costs related to collection efforts:

- LPAs use 417 hours each month for collection efforts.
- Use of LPAs to assist in collection efforts costs \$1,500 to \$5,000 per month more in salary costs than clerical office staff.
- Both LPAs and clerical office staff for all field offices use 611 hours each month for collection activities or the equivalent of three to four personnel years.

#### **Risk:**

The use of LPAs to assist in collection efforts reduces the number of site visits that may be performed. This could lead to:

- Increased fraud.
- Decrease in safety at the care facilities.
- Public dissatisfaction for unaddressed complaints at the care facilities.

#### **Recommendations:**

Create a centralized collection function within the Department to perform most collection functions. In addition, the Department should limit administrative functions to clerical office staff.

**CDSS Response:** We do not concur.

#### **Comments/Proposed improvement:**

The failure of facilities to pay their annual fees is most likely a signal that a facility is closed. There's significant work that goes into closing a facility. Issues over fee payments often involve the need for new application, capacity changes, etc. that require LPA follow-up. Most fee follow-up issues do involve LPA efforts.

If the payment involves a civil penalty enforcement, it is part of the overall compliance issue in the facility and clearly needs LPA follow through.

The budget standard does include LPA work specific to follow-up on these functions.

Issue 6: Fees for miscellaneous services are inconsistently charged at the field offices.

Field office managers reported a wide range of fees for miscellaneous services provided to the public. The most notable disparities include:

- Facility directory fees ranged from no charge to \$12 per directory.
- Copy fees ranged from no charge to 10 cents per page.
- Printing fees ranged from no charge to 10 cents per page.
- Subpoena charges ranged from no charge to \$150 for depositions.

**Risk:**

The Department may fail to fully recover costs for public services. In addition, inconsistent fees may lead to public dissatisfaction with the Department.

**Recommendation:**

The Department should reevaluate the fee schedule for miscellaneous services and clearly communicate to the field offices the amount they should charge. In addition, the Department should update its Procedures Manual to include a standardized fee schedule, and create appropriate codes for miscellaneous services in their subsidiary accounting systems.

**CDSS Response:** We concur.

**Comments/Proposed improvement:**

The CDSS will reissue a directive on charges to ensure consistency and ensure it is on the CCLD's website.

Issue 7: Department orientation registration process is inefficient and costly.

Each field office maintains a separate orientation schedule and provides telephone registration to the public. The current process for recording information and answering questions is inefficient and consumes significant staff time. In addition, the public may not be made aware of orientations that are more convenient at other field offices. Based upon a survey of field office managers, orientation registrations consume 873 hours of staff time per month or the equivalent of four to five personnel years. In addition, registration payment options are inconsistent. Some offices require advance payment while other offices allow payment the day of the orientation.

**Risk:**

By relying primarily on telephone registrations, the Department may fail to realize significant cost savings and improvements in efficiency.

**Recommendations:**

Develop an online registration portal that will allow the public to self-register for orientations at a time and location that is most convenient. A toll free number could be established for those registrants that do not have internet access. The Department should establish a consistent policy on orientation payments and communicate this policy to field office staff.

**CDSS Response:** We concur.

**Comments/Proposed improvement:**

As indicated above, CCLD has an Information Technology Strategic Plan which includes the goal to have a web based orientation scheduling and payment system. However, given the State's financial constraints it is unknown how soon this project could be developed.

## EVALUATION OF RESPONSE

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The Department of Social Services' (Department) response to the draft report has been reviewed and incorporated into this final report. In evaluating the Department's response, we provide the following comments:

### **Prior Findings Status Summary**

We acknowledge the Department's successful implementation of corrective action for all but five of our prior audit findings and note no disagreement in our recommendations for the five uncorrected findings.

### **Current Issues**

The Department concurred with all but the following three issues noted in our report:

#### **Issue 3**

The Department disagrees with our recommendation that the civil penalty process be automated, noting that it would require additional staff resources. The Department further disagrees with our description of its methodology. We cite the following excerpt from the Department's website to corroborate our description:

“CDSS account processing applies payments to the most outstanding debt, whether your payment was intended for a particular transaction or not. [The] order in which the payment is applied [is] CFH [Certified Family Home] or annual fee, dishonored check, probation fees, change in capacity, change in location, corporate status fee, late fee.”

We recommend that the Department address the risks identified in our report by developing and implementing a corrective action plan.

#### **Issue 4**

The Department concurs with the risk identified in our report but disagrees with the cited percentage of write-offs. We have revised the report to reflect the Department's concerns with the percentages cited, but note that the risk and recommendations remained unchanged.

#### **Issue 5**

The Department disagrees with our recommendation that collection activities be delegated to a centralized collection function and that administrative tasks be limited to clerical staff. The Department contends that Licensee Program Analyst (LPA) activities related to fee collection are activities that require LPA involvement. We continue to suggest that the Department limit administrative functions to clerical staff and use the LPA class for the more technical aspects of civil penalty enforcement, when necessary.