



April 22, 2008

Ms. Renée Zito, Director
Department of Alcohol and Drug Programs
1700 K Street
Sacramento, CA 95814

Dear Ms. Zito:

Final Report: Department of Alcohol and Drug Programs—Risk and Control Assessment

Enclosed is our risk and control assessment of the Department of Alcohol and Drug Programs (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/risks. This section was developed jointly by Department and Finance staff. We did limited testing on most of these issues/risks because they represent ideas for program enhancements rather than potential control deficiencies. The assessment includes the Department's response to the draft report.

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 the 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:

David Botelho, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Michael Cunningham, Chief Deputy Director, Department of Alcohol and Drug Programs
Ms. Susan Lussier, Deputy Director Administration, Department of Alcohol and Drug Programs

A RISK AND CONTROL ASSESSMENT

Department of Alcohol and
Drug Programs

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

BACKGROUND, OBJECTIVES, SCOPE AND METHODOLOGY

Background

The Legislature enacted Government Code Section 13070 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 Department of Alcohol and Drug Programs (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 Department's mission is to lead efforts to reduce alcoholism, drug addiction and problem gambling in the State by developing, administering and supporting prevention, treatment and recovery programs. The Department works in partnership with the State's 58 county alcohol and drug program administrators and in cooperation with numerous private and public agencies, organizations and individuals. These activities are addressed with approximately 361 staff positions and an annual budget of more than \$662 million funded primarily by the State General Fund, Federal Funds, the Substance Abuse Treatment Trust Fund, and Drug Medi-Cal Regular FFP Reimbursement.

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 critical programmatic and business functions of the Department. Programs were selected for review based on management concerns, potential fiscal control weaknesses, and other risk factors applicable to the business functions of the Department.

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 November 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 Department management to conduct a risk analysis to identify and evaluate the threats and/or risks that could impede the Department's achievement of its objectives. Discussion sessions were conducted with each division 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 results of these activities comprise the Issues and Recommendations section of this document.

The risks/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.

STAFF:

Mary Kelly, CPA
Manager

Angie Williams
Supervisor

Sueann Gawel, CPA
Danielle Dannible

PRIOR FINDING STATUS SUMMARY

The Department of Finance (Finance) conducted an internal control review of the Department of Alcohol and Drug Programs (Department) in 2005. The results of that review were included in a report issued November 2005. The November 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:

- Cash Receipts
- Accounts Receivables
- Purchasing
- Cash Disbursements
- Personnel/Payroll
- Fixed Assets
- Fiscal Electronic Data Processing Controls

To facilitate our understanding of the Department's control environment, we reviewed the findings identified in the 2005 report. We conducted interviews with staff responsible for the areas of identified weaknesses 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 of the current status.

Cash Receipts

Prior Finding:

The Department did not make timely remittances to the State Treasurer of amounts above the \$25,000 limit as required by law.

Status:

This issue has not been resolved. Fourteen of thirty remittances tested disclosed that such remittances are still not being processed timely.

Accounts Receivables

Prior Finding:

The Department had not taken action on employee accounts receivable that were at least 61 days old for funds 1311 and 1319.

Status:

The Department has implemented adequate procedures to ensure the clearing of employee accounts receivable are performed timely.

Prior Finding:

Reconciliations did not occur between Personnel/Payroll and Accounting on a monthly basis.

Status:

Reconciliations between Personnel/Payroll and Accounting are still not conducted on a regular monthly basis.

Purchasing

Prior Finding:

The memorandum for signature authority delegation did not contain the names, only the titles of the persons authorized to sign for purchases.

Status:

The signature memorandum currently contains the names and titles of the persons authorized to sign for purchases.

Prior Finding:

There were insufficient internal controls and lack of follow-up or review processes for purchase orders.

Status:

The Department has implemented adequate internal controls over purchase orders.

Prior Finding:

The Department did not reconcile the CALSTARD01 report monthly.

Status:

Department staff reconciles the CALSTARD01 report on a monthly basis.

Cash Disbursements

Prior Finding:

The Department did not have written procedures for verifying checks, maintaining the petty cash fund, or issuing refunds.

Status:

The Department currently has adequate written procedures for verifying checks, maintaining the petty cash fund, and issuing refunds.

Prior Finding:

The Department did not maintain adequate separation of duties over cash disbursements, the revolving fund, blank check stock, safe key, and check routing and signing.

Status:

The Department has implemented adequate separation of duties over cash disbursements, the revolving fund, blank check stock, safe key, and check routing and signing.

Prior Finding:

The Department maintained improper format and maintenance of the daily checks written log, weak reconciling procedures, and inconsistent signature requirements for checks written over \$15,000.

Status:

The Department currently uses the proper format and maintenance procedures of the daily checks written log. In addition, there reconciling procedures are adequate and the signature requirements are being consistently met.

Prior Finding:

Checks written at the Department are typed using correctable ribbon.

Status:

The Department continues to use correctible ribbon to type checks.

Personnel/Payroll

Prior Finding:

The Department's leave credit balances were not current.

Status:

The Department has implemented procedures to ensure that leave balances are current.

Prior Finding:

Transfer-Out Clearance Checklists were not always complete.

Status:

Transfer-Out Clearance Checklists are now complete.

Prior Finding:

The Department did not maintain adequate written procedures for handling undeliverable warrants.

Status:

There continues to be inadequate written procedures for handling undeliverable warrants.

Fixed Assets

Prior Finding:

The Department's property register and physical inventory report did not contain a complete record of state property and fixed assets.

Status:

The property register and physical inventory report is complete.

Fiscal Electronic Data Processing Controls

Prior Finding:

The Department did not delete CALSTARS security access for separated employees on a timely basis and there were no agency wide procedures in place to process exit clearance forms and turn off CALSTARS security access for student assistants, retired annuitants and contractors.

Status:

All persons tested for CALSTARS security access at the Department are currently employed at the Department.

ISSUES AND RECOMMENDATIONS

The Issues and Recommendations in this report were developed through collaborative risk and control assessment discussions between the Department and Finance staff. At each division, discussion sessions 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/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.

Program Services Division

The Program Services Division (PSD) provides services in the areas of treatment and prevention.

The mission of PSD Treatment is to promote innovative and effective treatment program services. PSD Treatment utilizes outcome data to enhance and improve Alcohol and Other Drug (AOD) treatment services that will lead to continuous quality improvement. PSD Treatment comprises the following:

- Office of Women's and Perinatal Services, which oversees a statewide network of approximately 300 publicly-funded perinatal alcohol and drug treatment programs.
- Performance Management Branch, which assesses county and statewide outcome measures, insuring compliance with the federal National Outcomes Measures.
- Fiscal Management and Accountability Branch, which provides assistance to counties and providers on compliance with state and federal laws and regulations for the use of allocated funds for AOD services.
- Program and Fiscal Policy Branch, which is responsible for the statewide allocation of funds and provides fiscal information on the impact of departmental policies and projects.
- Health Insurance Portability and Accountability Act (HIPAA), which was established to implement changes to meet the Federal HIPAA requirements.

PSD Prevention Services' overarching goal is to develop and maintain a comprehensive statewide prevention system to prevent and reduce AOD problems, and to improve the health and safety of the citizens of the State.

Issue: **Reliance on Manual Processes**

The Negotiated Net Amount/Drug Medi-Cal (NNA/DMC) system is used for budgets and cost reports as the data is reported to the Department. This is a stand alone system and does not interface with any of the systems for Drug Medi-Cal billing activities. This includes the Short-Doyle Medi-Cal which is managed and administered by the Department of Health Care Services as well as the Tracking and Payment System (TAPS) that is managed and administered by the Department. Furthermore, the NNA/DMC system and TAPS do not interface with CalSTARS.

Therefore, claim schedules are being prepared manually and hard copies are sent over to the State Controller's Office (SCO).

Risk:

The lack of interfacing could create work duplication, inefficiency, human errors, untimely program updates and possible waste of State resources.

Recommendation:

The Department should work collaboratively with the Treatment Services Division to interface the systems, if possible, to reduce the reliance on manual processes. In addition, the Department should continue to work with the SCO to automate the claim schedule process.

Information Management Services Division

The Information Management Services Division (IMSD) provides information management services to the Department, including:

- Technology Support Services provides ongoing maintenance and enhancement of the vital technology infrastructure.
- CalOMS Treatment staff work with the program divisions to make maximum use of the data collected in the outcomes measurement system.
- Project Management Office supports the successful completion of business and technology projects.
- Application Support provides leadership and guidance for development of new data systems and ongoing maintenance and improvement of existing data systems.
- Data Management Services provides quality assurance services for all stages of data system functioning from development to data integrity, and administers the website.
- Office of Applied Research Analysis provides statistical data to constituents, performs research analysis, supports program evaluation, and writes reports to meet the information needs of the alcohol and other drug prevention and treatment services network.
- Information Security Office works to ensure the security of all human, electronic, and physical information critical to the functioning of the Alcohol and Other Drug services system in California.

Issue: Potential Loss of Staff

IMSD relies heavily on student assistants and retired annuitants to meet its workload. In addition, five of its ten full time staff will be retiring within the next three years.

Risk:

There will be a major loss of institutional knowledge and the Department may not be able to adequately replace retiring employees, retain employees, or effectively and efficiently achieve the Department's mission and goals. Also, there is a potential loss of services to both internal and external stakeholders.

Recommendation:

The Department should verify all desk procedures are current, develop a future hiring plan, and cross train existing staff.

Issue: HIPAA Translator at Risk of Failure

The Department relies on the Department of Health Care Services' (DHCS) Short-Doyle Medi-Cal (SD/MC) claims processing system to adjudicate approximately \$153 - \$158 million in local assistance funds (between fiscal years 2005/06 and 2006/07) or 24 percent of the Department's annual budget. Our review of this system has identified a significant risk of failure of a critical subsystem, the Health Information Portability and Accountability Act (HIPAA) Translator. The DHCS anticipates the earliest this system can be replaced is in 18-24 months. The Department has been given resources to work with the Department of Mental Health (DMH) and DHCS to prepare a contingency plan. To date, no such plan has been established.

Risk:

If the HIPAA Translator fails, the Department will not be able to process claims or make timely reimbursements to the counties and direct contract providers. Finance realizes this risk rests with DHCS and it is ultimately out of the control of the Department, however, measures must be taken to address the immediate risks that face the Department in the event of the translator failure. Furthermore, the issue has not been addressed in the Business Continuity Plan.

Recommendation:

The Department should continue to develop a continuity of operations contingency plan with DMH and DHCS to address the risk of a translation system failure while it anticipates the full initiation of the new Short-Doyle replacement system.

Administration Division

The Division of Administration is responsible for maintaining and enhancing a strong business environment in support of the Department's mission and goals. The Division's mission is to provide accurate and timely financial, administrative, and audit services in support of the Department's programmatic goals and objectives. The Division accomplishes its goals through three branches:

- Audit Services Branch, which is responsible for ensuring county and provider compliance with applicable federal and state laws, regulations, and guidelines, as related to Drug Medi-Cal, Substance Abuse Prevention and Treatment Block Grant, and Substance Abuse and Crime Prevention Act of 2000 funds.
- Human Resources Branch, which is responsible for personnel issues and transactions, and employee training.
- Fiscal and Administrative Services Branch, which is responsible for monitoring and accounting for the Department's budget, and for the contracts and procurement processes.

Issue: Insufficient Drug Medi-Cal Audits to Prevent Fraud

Drug Medi-Cal (DMC) funds had previously been determined to be misused. Because this is an ongoing concern, the Audit Services Branch audits this funding. The Audit Services Branch at the Department completed eleven audits in 2006 on the 1,262 providers who filed for DMC reimbursement. This is less than 1 percent audit coverage over the providers receiving funding.

Risk:

The number of audits is not sufficient to deter overcharges and protect the State's funds.

Recommendation:

The Audit Services Branch should work with field auditors and legal counsel to eliminate unnecessary or non beneficial steps in the audit program to decrease the amount time spent on DMC audits. The Audit Service Branch should review its assessment to verify that audits are being focused on the providers with the greatest probability of misuse.

Office of Grants Management

The mission of the Office of Grants Management (OGM) is to ensure the appropriate administration of federal formula and discretionary funds within the Department. The OGM is responsible for:

- Preparing and submitting the annual Substance Abuse Prevention and Treatment (SAPT) Block Grant application.
- Developing, maintaining, and modifying written policies, processes, and procedures to ensure compliance with requirements governing federal grants administered by the Department.
- Providing specific information and guidance to the Department's program divisions regarding federal grant requirements and compliance.
- Resolving Audit Issues with the Federal Government.
- Ensuring the Department receives its entitlement amount under the SAPT Block Grant formula.
- Developing and maintaining the "Grants Funding Opportunities" web-page for use by third parties in identifying public and private funding for substance abuse services.
- Identifying, tracking and analyzing federal appropriations legislation.
- Coordinating federal site visits and core reviews of the Department.

Issue: **Key Person Dependency**

The SAPT is a federal grant which accounts for about 50 percent of the Department's annual budget. There is currently only one person responsible for the SAPT Block Grant at the Department, a Staff Services Manager II (SSMII).

Risk:

If the current SSMII vacates the position, the Department would have to rely on several employees to administer the SAPT Grant until a replacement is identified and trained. There are currently procedure manuals and catalogs of Block Grant administering activities; however, because the activities are highly technical with a steep learning curve, the position must be filled by an analyst that meets a wide range of qualifications. Additionally, due to the extensive training period, the continuity of normal operations could be compromised.

Recommendation:

The Department should consider cross training other staff members of equal ranking for the administration of this grant.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

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March 5, 2008

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

Dear Mr. Botelho:

**DRAFT REPORT: DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS – RISK
AND CONTROL ASSESSMENT**

We have reviewed your draft report of the Department of Alcohol and Drug Programs' (ADP) Risk and Control Assessment. We appreciate your staff's efforts in identifying issues that potentially represent both ideas for program enhancements and potential internal control risk areas.

Overall, ADP concurs with your identified risk areas and recommendations. We find your draft report to be materially correct and do not have any comments or clarifications to the information contained in the draft report.

Sincerely,

Original Signed by:

RENÉE ZITO, LMSW, CASAC
Director

cc: Michael Cunningham
Susan Lussier



DO YOUR PART TO HELP CALIFORNIA SAVE ENERGY
For energy saving tips, visit the Flex Your Power website at
<http://www.fypower.org>