

Kern County Administrative Office



County Administrative Center

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JOHN NILON

County Administrative Officer

August 9, 2016

Board of Supervisors
Kern County Administrative Center
1115 Truxtun Avenue
Bakersfield, CA 93301

JUNE 30, 2016 COMPLIANCE AND ACCOUNTABILITY REPORT

Fiscal Impact: None

County Ordinance Code 2.01.010 requires the County Administrative Office to report on the Compliance and Accountability function no later than 45 days after June 30, 2016 on departmental compliance issues for the period January 1, 2016 through June 30, 2016.

COMPLIANCE

Audit Requirements

Government Code Section 25250 requires the Board of Supervisors to at least biennially examine and audit, or cause to be audited, the financial accounts and records of all officers having responsibility for the care, management, collection, or disbursement of money belonging to the County or money received or disbursed by them under authority of law. The Board of Supervisors, by resolution dated June 13, 1956, adopted Government Code Section 26883 that gave the Board of Supervisors the power to require the Auditor-Controller to perform the audits of any department, office, board or institution under the Board of Supervisor's control including the requirement of Government Code Section 25250.

In general, an audit is an assessment of information aimed to determine the accuracy of information, provide insight and propose recommendations to improve. The audit scope depends on the focus, extent, and boundary of a particular engagement. Audits may be financial, compliance, or operational based and may vary significantly depending on the department and the objective. To fulfill biennial audit requirements, the Auditor-Controller's audit division primarily performed compliance audits for each County department. Compliance audits include assessing the adequacy of internal controls and examining, on a test basis, compliance with statutory requirements and the policy and procedures applicable to the department. On occasion, the Auditor-Controller audit division has performed additional auditing services such as financial statement audits and has performed other agreed upon procedures. The Auditor-Controller also contracts an independent certified public accountant (CPA) for specialized audits including those requiring an independent audit report and for audits they choose not to perform.

Post Audit Reviews

A responsibility of the County Administrative Office is to monitor and report to your Board the status of a department's compliance with policy and regulations after the issuance of an audit report. The County Administrative Office performs a post audit review process in which the Administrative Analysts and the County Compliance and Accountability Officer reviews audit findings with departments, ensures procedures are documented, and identifies probable solutions to the weaknesses and deficiencies identified in the audit reports. As a result of the review process and the proactive and diligent efforts of the Board of Supervisors, County Administrative Office, Auditor-Controller, and each County department, there is a decreasing trend in the average number of findings reported, including repeat findings. The collaboration has been a vital part of providing transparent and accountable County operations.

Departments are required to provide written procedures that will help to improve the internal controls that contributed to the findings. While the department may have implemented a corrective process, if the procedure was not documented (for purposes of the post audit review), compliance was considered still in progress.

Department heads are responsible for developing a corrective action plan and submitting it to the County Administrative Office within 45 days of the audit report. All departments have submitted their required corrective action plans for their internal audits listed in this report.

The following four audits were completed during the reporting period, but their corrective action plans were not due, so they will be included in the next compliance and accountability report for December 31, 2016:

Department	Report Date	Report Opinion	Corrective Action Plan Due Date
Fire	06/07/16	Modified	07/22/16
Public Works – Engineering, Surveying, Permit Services	06/14/16	Unmodified	07/29/16
Public Works – Roads and Transit	06/14/16	Modified	07/29/16
Public Works – Waste Management	06/14/16	Unmodified	07/29/16

The post audit review summaries are provided in Attachment A for the following departments that had audit reports issued and/or corrective action plans due during this reporting period:

Department	Report Date	Report Opinion	Attachment A Page
Treasurer-Tax Collector (TTC) Statement of Money in the County Treasury	11/17/15	Compliant	Not Required
TTC Investment Policy Compliance*	12/08/15	Unmodified	Not Required
Farm and Home Advisors	12/15/15	Unmodified	Not Required
Department of Human Services Revenue Accrual Reconciliation	12/15/15	Adequate	A-1
Child Support Services	01/05/16	Modified	A-2
Employers' Training Resource	01/05/16	Modified	A-3
Assessor-Recorder	01/05/16	Modified	A-4
Board of Supervisors	01/26/16	Unmodified	Not Required
Kern Solid Waste Management Enterprise Fund*	01/26/16	Unmodified	Not Required
Public Health Prop 10 Black Infant Health*	01/26/16	Unmodified	Not Required
Public Health Prop 10 Nurse Family Partnership*	01/26/16	Unmodified	Not Required
Public Health Prop 10 Successful Application Stipend*	01/26/16	Unmodified	Not Required
California Office of Emergency Services, Board of State and Community Corrections, Office of Traffic Safety, and Department of Justice Grants*	01/26/16	Unmodified	Not Required
Sheriff	02/02/16	Unmodified	Not Required
TTC Deferred Compensation*	03/01/16	Unmodified	Not Required
County's Comprehensive Annual Financial Report*	03/01/16	Unmodified	Not Required
TTC Statement of Money in the County Treasury	04/05/16	Compliant	Not Required
General Services	04/05/16	Unmodified	Not Required
Information Technology Services	04/05/16	Unmodified	Not Required
Kern Medical Physician Retirement	04/05/16	Unmodified	Not Required
Board of Trade	04/26/16	Modified	A-5
County Administrative Office	04/26/16	Unmodified	Not Required
TTC Statement of Money in the County Treasury	04/26/16	Compliant	Not Required
County's Single Audit*	04/26/16	Unmodified	Not Required

* Audit performed by Brown Armstrong Accountancy Corporation, not Kern County Auditor-Controller.

Many of the departments have achieved compliance on some of the findings identified in the audit reports. If compliance was not achieved for a specific finding by June 30, 2016 it is indicated as "In Progress" and the County Compliance and Accountability Officer will continue to work with the department to assist with remediation by the anticipated date of compliance indicated on the summary. An update on "In Progress" items will be provided in the December 31, 2016 Compliance and Accountability Report to your Board.

Follow-up Reviews on Previous Compliance Reports

In addition to the new audits that went to your Board in the past six months, a separate follow-up report on outstanding, unresolved audit findings from the December 31, 2015 Compliance and Accountability Report has been provided as Attachments B and C. Findings that continue to be "In Progress" on Attachment B are a concern and may be indicative that the department will receive repeat findings in these areas if not resolved soon. The County Compliance and Accountability Officer will continue to pursue adequate documentation and remedial proof on these items and will strive to help departments resolve these items by the next December 31, 2016 report. It is imperative that department heads are proactive in this process, as they are ultimately responsible for the success of their department's internal control processes. Follow-up findings that have been resolved during this reporting period are listed on Attachment C.

The following departments have outstanding issues over six months old (Attachment B):

Department	Report Date	Area of Concern	Attachment B Page
Kern Medical Cash	05/22/12	Cash Count	B-1
Kern Medical Payroll	08/21/12	Banked Holidays, On-call	B-1
Fire	04/14/15	Payroll TRACS	B-1
Kern Medical Operating Room	06/23/15	System Upgrade	B-2
Kern Medical Inpatient Pharmaceutical	06/23/15	Agreement Terms, System Upgrade, Cross-training	B-2
District Attorney	07/14/15	Accounts Receivable	B-3
Kern Medical Relative Value Unit	09/01/15	Rate Adjustment, Pay Settlement, Contract Retention	B-3

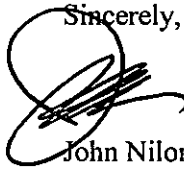
This report includes 30 unresolved Kern Medical audit findings from the December 31, 2015 report. Kern Medical committed to resolve all findings prior to this June 30, 2016 report; however, only 19 findings were achieved and 11 remained in progress. Effective July 1, 2016, Kern Medical responsibilities were transferred from the Kern County Board of Supervisors to a separate Kern County Hospital Authority Board of Governors. Under the enabling resolution your Board will continue to be informed of the Hospital Authority's annual independent financial statement audit findings and their corrective actions taken. The remaining 11 unresolved findings are not independent financial statement audit findings; therefore the Board of Governors will be informed of the unresolved findings.

CONCLUSION

As required by County ordinance, this report provides your Board with an update on department's compliance as identified through the audit process. This office will continue to assist departments in reaching resolution of the audit findings.

Board of Supervisors
Compliance and Accountability Report for June 30, 2016
August 9, 2016
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Therefore, IT IS RECOMMENDED that your Board receive and file the June 30, 2016 Compliance and Accountability Report.

Sincerely,

John Nilon
County Administrative Officer

JN:KB:COMPL Jun 2016 Report

Attachments

cc: All Department Heads
Kern County Hospital Authority Board of Governors

**JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
POST AUDIT REVIEW SUMMARY - CURRENT**

Budget Unit: 5120, 5220

Department: Department of Human Services - Revenue Accrual Reconciliation

Audit Issued: December 15, 2015

Corrective Action Plan Received: Yes

Audit Period: July 1, 2015 through September 30, 2015

Issuing Agency: Kern County Auditor-Controller

Policy/Regulation	Finding Level	Violation/Finding	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
1 Internal Control	Areas of Concern Recommendation	Recommendation - Auditor recommended that any excess fund balance at fiscal year end (FYE) from the revenue accrual process, for fund 00130 or 00140, be accounted for in appropriation for contingencies until the revenue reconciliation process is completed.	The department and County Administrative Office created a policy and procedure where all fund balance available at fiscal year end would be transferred to a general designation. On June 7, 2016, the Board of Supervisors approved the proposed fund balance policy. For FYE June 30, 2016, general designation was increased by \$1,054,532.	Achieved	Completed

**JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
POST AUDIT REVIEW SUMMARY - CURRENT**

**Budget Unit: 2183
Department: Child Support Services
Audit Issued: January 5, 2016**

**Corrective Action Plan Received: Yes
Audit Period: FYE June 30, 2015 and 2014
Issuing Agency: Kern County Auditor-Controller**

	Policy/Regulation	Finding Level	Violation/Finding	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
1	Generally Accepted Accounting Principles (GAAP) / County Policy	Significant Deficiency	Accrued Revenue - The amount accrued at fiscal year end (FYE) June 30, 2015 was overstated by \$710,305.	The FYE June 30, 2015 revenue accrual was corrected September 2015. The department updated their written procedures and worksheets. The procedure allows for revenue accruals when earned but not received in the period, and are both measurable and available in accordance with GAAP and County Policy. At FYE June 30, 2016 management reviewed the accuracy of accrual prior to submitting.	Achieved	Completed

**JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
POST AUDIT REVIEW SUMMARY - CURRENT**

**Budget Unit: 5923
Department: Employers' Training Resource
Audit Issued: January 5, 2016**

**Corrective Action Plan Received: Yes
Audit Period: FYE June 30, 2015 and 2014
Issuing Agency: Kern County Auditor-Controller**

Policy/Regulation	Finding Level	Violation/Finding	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
1 Internal Control	Significant Deficiency	Workforce Investment Act (WIA) Fund Balance Available - The department is grant-funded with expenditures reimbursed by local, state, federal and other agencies. At fiscal year end (FYE) June 30, 2015, the department reported approximately \$1.4 million in fund balance that was not reconciled.	The department reconciled the FYE June 30, 2015 fund balance available to the funding sources. Factors that caused fund balance to accumulate and appear excessive were timing issues, accruals, journal vouchers, reconciliations, and miscommunication. Going forward, the department commits to provide future reconciliations timelier as soon as the closing allocation process of prior month's revenues and expenditures are completed for the fiscal year end. The process includes staff gathering backup information and reviewing details of the fund balance available. Management will review and approve the backup documents providing better communication, cross training, and reviews.	Achieved	Completed

**JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
POST AUDIT REVIEW SUMMARY - CURRENT**

**Budget Unit: 1130
Department: Assessor-Recorder
Audit Issued: January 5, 2016**

**Corrective Action Plan Received: Yes
Audit Period: FYE June 30, 2015 and 2014
Issuing Agency: Kern County Auditor-Controller**

Policy/Regulation	Finding Level	Violation/Finding	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
1 Internal Control Integrated Framework by COSO	Significant Deficiency	Trust Fund - The department makes transfer tax disbursements based on recorded transactions; whether or not actually received or not. As of June 2015, the department could not account for approximately a \$504,037.84 balance in the Recorder's Real Property Transfer Tax Fund, therefore they could not determine the appropriate distribution to either the County's general discretionary revenue and/or the cities.	The department reviewed and researched the fund as far back as historical financial data existed to 1984. The department was able to identify and distribute \$98,091.91 to rightful recipients. Records were not available prior to 1984, but research discovered that undistributed excess fund balance existed prior to 1984. The department worked with the Auditor-Controller, Treasurer, County Counsel, and County Administrative Office to conclude that the remaining balance be cleared by maintaining \$25,000 as a revolving fund and transferring \$455,420.67 to the general discretionary revenue fund. The transfer was completed January 2016. Effective November 2015, the department changed their process to distribute transfer tax funds based on actual cash received. The improved process will also include monthly reconciliations to County's financial management system for accuracy.	Achieved	Completed

JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
POST AUDIT REVIEW SUMMARY - CURRENT

Budget Unit: 1812
Department: Board of Trade
Audit Issued: April 26, 2016

Corrective Action Plan Received: Yes
Audit Period: FYE June 30, 2015 and 2014
Issuing Agency: Kern County Auditor-Controller

	Policy/Regulation	Finding Level	Violation/Finding	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
1	Internal Control Integrated Framework by COSO, Kern County Administrative Policy and Procedure Manual (KCAPP) Section 531	Significant Deficiency	Insurance Certifications - The department failed to obtain the contract required insurance certificate for a Personal or Professional Service Agreement (PPSA) and for five grant recipients.	The department is working with County Counsel and Risk Management to amend the tourism grant agreements so that insurance certificates will no longer be required since they are considered unnecessary. The department is in progress of implementing procedures to ensure that all other contract required insurance certificates are maintained. The department's fiscal oversight moved to the County Administrative Office. A checklist will be developed as a method to ascertain that insurance certificates are maintained in the folder. CAO staff will maintain the checklist and the assistant CAO will annually verify compliance.	In Progress	10/01/16

JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
FOLLOW-UP POST AUDIT REVIEW SUMMARY - OVER SIX MONTHS OLD

Budget Unit - Department	Audit Report Date	Finding Level	Violation/Finding	12/31/15 Reported Estimated Date of Compliance	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
1 8997 - Kern Medical Cash	05/22/12	Significant Deficiency	Internal Control Weakness, Kern Medical's Policy / Cash Count - Cash count of 22 locations revealed the following: 1) 2 shortages of \$30.00 and \$99.15. 2) 1 overage of \$1.25. 3) Cash receipts used as a change fund. 4) 8 unauthorized locations, 1 approval, and un replenished.	06/30/16	Kern Medical provided written cash handling policies and procedures and implemented surprise quarterly cash counts and reconciliations. However, a recent June 30, 2016 audit identified this as a repeat finding due to lack of internal controls, including shortages and overages, improper change fund use, and unauthorized location use. Kern Medical must reassess and enforce their policies and procedures accordingly, reassess the purpose and locations of cash funds and update Auditor-Controller's records accordingly, replenishing variances, and retrain employees.	In Progress	-
2 8997 - Kern Medical Payroll	08/21/12	Material Weakness PARTIAL REPEAT	Internal Control Weakness / Banked Holidays - In the past, Kern Medical allowed employees to bank holidays resulting in a liability estimated at \$3 million.	06/30/16	Banking holidays was discontinued November 2010 and is now part of the compensation time balance in the County's payroll system; with the exception of all previous balances, residents, and physicians. On June 28, 2016 Kern Medical received Board authorization to increase the accrual limit and add all previous balances into the County's payroll system. On July 6, 2016, time balance adjustments were finalized in the County's payroll system but Kern Medical has not provided sufficient backup documentation to support the adjustment totals.	In Progress	-
3 8997 - Kern Medical Payroll	08/21/12	Significant Deficiency PARTIAL REPEAT	Internal Control Weakness / On-call Availability - Kern Medical did not request a contract amendment for a physician that provided more on-call coverage.	06/30/16	Kern Medical has failed to provided any support that indicates they monitor on-call activity to ensure it is in accordance with the contract terms.	In Progress	-
4 2415 - Fire	04/14/15	Significant Deficiency	Kern County Ordinance 3.24 Overtime Work, FLSA / Payroll - The following deficiencies were noted: a) The department's redefined workweek for 12-hour general employee dispatchers resulted in employee FLSA underpayments. Since August 2013 the department had only corrected one employee's pay and had not corrected the other remaining employees. b) The FLSA calculation to fire safety employees is a manual labor intensive calculation that only one employee in the department knows. The FLSA calculation is not reviewed by management before it is sent to the Auditor-Controller's office for review.	06/30/16	a) The department has completed the retroactive payroll calculations for all active fire dispatchers and on June 2, 2015 the Board approved the retro-pay. b) Two employees are now able to perform and review the manual FLSA calculation. All general and administrative safety employees are now using TRACS which includes an automated FLSA calculation. The department's IT and payroll staff continue to work with data in their Telestaff Program to develop a complete export of all safety employees into their CAMS Program and TRACS. The department has tested eight different pay periods and will continue to test and work with the Auditor-Controller's office to implement the Telestaff, CAMS, and TRAC's interface to reduce the manual labor-intensive FLSA overtime calculation and comply with Administrative Bulletin 40.	In Progress	12/31/16

JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
FOLLOW-UP POST AUDIT REVIEW SUMMARY - OVER SIX MONTHS OLD

Budget Unit - Department	Audit Report Date	Finding Level	Violation/Finding	12/31/15 Reported Estimated Date of Compliance	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
5 8997 - Kern Medical Operating Room (OR) Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control Weakness / Recommendation S - Auditor recommended a system upgrade to produce exceptions report of variances between billing records and final itemized statements to reduce manual reconciliation and ensure accuracy. It is difficult to locate, create, and utilize reports from various software systems to construct an audit trail to the final itemized statement.	06/30/16	Kern Medical is in process of evaluating a new electronic medical records systems.	In Progress	-
6 8997 - Kern Medical Inpatient Pharmaceutical Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control and Agreement Terms / Recommendation 1 - Auditor recommended that Kern Medical evaluate the vendor agreement's process for validating supplier prices as they are not sufficiently validated. The agreement only allows Kern Medical to verify pricing terms once a year with 60 days advance written notice. The 1999 agreement automatically renews for 1 year periods unless termination notice is provided within 60 days prior to expiration. Auditor recommended a contingency plan be developed to address risks of sourcing services from a single supplier. Risks include abrupt termination including inventory control reliance from a vendor owned software/hardware lease and potential inventory supply interruptions.	06/30/16	The prices paid for products are not set by the supplier. Prices paid are set by the group purchasing organization (GPO). The GPO periodically verifies accurate prices based on contract and manufacturers pricing. Supplier software is web-based and accessible from any computer and is continuously updated. In the event of contract termination, Kern Medical could obtain services from other suppliers without a contract and possibly higher prices. Kern Medical is evaluating possibility of issuing a Request for Proposals for other vendors. A quarterly review of the twenty most expensive medications will be performed to verify pricing.	In Progress	-
7 8997 - Kern Medical Inpatient Pharmaceutical Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control / Recommendation 2 - Auditor recommended an upgrade to software and hardware systems supplied by vendor in 2006 since it is difficult to produce audit support. Auditor recommended Kern Medical be able to produce and evaluate the services independently and rely less on supplier to provide information. Kern Medical has never been formally trained.	06/30/16	The software is web-based and continuously updated. The supplier will provide training to designated staff so that they can access and retrieve available reports. If a report is not retrievable, vendor will be asked to provide reports. Kern Medical will review agreement to determine obligation to maintain and update software.	In Progress	-

**JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
FOLLOW-UP POST AUDIT REVIEW SUMMARY - OVER SIX MONTHS OLD**

Budget Unit - Department	Audit Report Date	Finding Level	Violation/Finding	12/31/15 Reported Estimated Date of Compliance	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
8 8997 - Kern Medical Inpatient Pharmaceutical Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control / Recommendation 3 - Auditor recommended that the inpatient pharmacy cross-train other staff to administer ordering, receiving, inventorying, and dispensing. Reliance of a single employee's expertise could potentially compromise the effectiveness and contractual obligations if employee was out for an extended period of time.	06/30/16	Two employees have completed hands-on, one-on-one training under the acting pharmacy buyer. Kern Medical is in progress of cross-training employees.	In Progress	-
9 8997 - Kern Medical Inpatient Pharmaceutical Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control / Recommendation 7 - Auditor recommended cross-training employees to provide flexibility, coverage, and additional internal controls so that staff's responsibilities can be rotated.	06/30/16	Job duties are readily accessible on the Kern County Employee Website and the work-duties of technicians by shift and assignment are listed at workstations and checked off daily. Kern Medical is currently in progress of cross-training employees.	In Progress	-
10 2180, 2200 - District Attorney	07/14/15	Significant Deficiency PARTIAL REPEAT	Internal Control Integrated Framework by COSO and Administrative Bulletin 9 / Accounts Receivable - The following accounts receivable deficiencies were noted: a) The department's account receivable listing was not kept up-to-date and statements were not issued monthly. b) The department lacked proper segregation of duties over accounts receivable.	06/30/16	Accounts receivable duties were appropriately segregated. The department updated their accounts receivable listing monthly, however invoices were last issued on March 2016 because the department is working with County Counsel to adjust the fee schedule. Once completed the department will adjust accounts receivable records and issue monthly statements.	In Progress	12/31/16
11 8997 - Kern Medical Relative Value Unit (RVU)	09/01/15	Condition Recommendation	Resolution No. 2011-017 Terms / Condition 1 - Auditor recommended the resolution that requires Kern Medical to calculate and accordingly adjust RVU rates and payments within 30 days of the preceding quarter be revised to a more reasonable semiannual frequency. Initially each physician's base RVU compensation payment rate was properly established, however, the rate was not adjusted quarterly. 10 physician's RVU compensation rates were tested and all 10 were over or under compensated each quarter.	06/30/16	This finding is no longer applicable to those physicians previously covered by the resolution that have already transitioned to individual contracts. Physicians that have not been converted to an individual contract are still subject to the resolution terms but Kern Medical has not recalculated or adjusted their rates in accordance with the terms but rather tracks the over and underpayment balances monthly. The remaining contracts are anticipated to be completed by August 2016.	In Progress	-

JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
FOLLOW-UP POST AUDIT REVIEW SUMMARY - OVER SIX MONTHS OLD

	Budget Unit - Department	Audit Report Date	Finding Level	Violation/Finding	12/31/15 Reported Estimated Date of Compliance	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
12	8997 - Kern Medical RVU	09/01/15	Condition Recommendation	Resolution No. 2011-017 Terms / Condition 2 - Auditor recommended Kern Medical adjust RVU compensation as soon as possible and then subsequently on a semi-annual basis. Since inception, March 2011, Kern Medical did not initiate regular adjustments (payment or collection) as resolution requires, only sporadically as individual physicians requested the funds due to them. As of 12/31/14, Kern Medical's records indicated the total amount of RVU underpayment due to physicians was \$1,032,690.36 and RVU overpayment due from 2 former physicians was \$576,319.24. No attempt has been made to settle all payments.	06/30/16	The estimated RVU compensation is reviewed monthly but only some compensation adjustments were requested and settled during FY 2015/2016. Kern Medical anticipates transitioning remaining physicians previously covered by the resolution to individual contracts by August 2016. The individual contract language to settle all outstanding balances are being negotiated and adjusted individually. As of July 2016, the total amount of underpayment and overpayment was \$1,246,771 and \$1,508,909, respectively.	In Progress	-
13	8997 - Kern Medical RVU	09/01/15	Condition Recommendation	Resolution No. 2011-017 / Condition 3 - Auditor recommended Kern Medical identify or contract differently the physicians not required to reimburse RVU overpayments. Auditor recommended that Kern Medical evaluate and substantiate the need to compensate and maintain certain physicians that have high RVU overpayments. 2 specialty area physicians were retained despite underachieving according to the RVU compensation model.	06/30/16	Kern Medical has identified two specialty areas that will remain on a productivity compensation model. Kern Medical anticipates transitioning the remaining physicians in all other specialties that were previously covered by the resolution to individual contracts by August 2016. Individual contract language to settle outstanding balances are being negotiated and adjusted individually.	In Progress	-

**JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
FOLLOW-UP POST AUDIT REVIEW SUMMARY - RESOLVED**

Budget Unit - Department	Audit Report Date	Finding Level	Violation/Finding	12/31/15 Reported Estimated Date of Compliance	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
1 8997 - Kern Medical Cash	05/22/12	Significant Deficiency PARTIAL REPEAT	Internal Control Weakness, Kern Medical's Policy / Bank Account - \$5,000 revolving fund for credit card service fees contained a shortage of \$31.59.	06/30/16	Kern Medical provided a list of all bank fees and service charges that had not been replenished from October 2012 through May 2016 in the amount of \$200,446.62. On June 6, 2016, the Auditor-Controller approved Kern Medical's memo requesting the replenishment back to the \$5,000 revolving fund balance. Effective June 2016, staff and management were assigned to perform and review monthly reconciliations and replenishments as recommended by the Auditor-Controller to ensure the fund is intact and to report the activity timely and accurately.	Achieved	Completed
2 8997 - Kern Medical Cash	05/22/12	Significant Deficiency	Kern County Administrative Policy and Procedures Manual (KCAPP) Section 523.3 and .4 / Petty Cash Fund - The petty cash log was not updated and the fund was not reconciled monthly or replenished annually.	06/30/16	Staff and management were assigned to implement internal controls and to monitor cash activities. Kern Medical updated and replenished all prior outstanding reconciling variances and monitors activities with surprise cash counts and reconciliations.	Achieved	Completed
3 8997 - Kern Medical Accounts Payable	08/21/12	Significant Deficiency PARTIAL REPEAT	Internal Control Weakness, Kern Medical's Policy / Accuracy of Accruals - Accrual inaccuracies of duplication, period, incomplete, inaccurate, inappropriate, unsupported, exceeded and unadjusted balance.	06/30/16	Kern Medical implemented policies and procedures to ensure the accuracy of their accounts payable accruals by realigning key management responsibilities including the Accountant, Accounting Manager, Director of Finance, and Chief Financial Officer to reconcile, analyze, review and cross check.	Achieved	Completed
4 8997 - Kern Medical Accounts Payable	08/21/12	Significant Deficiency	Internal Control Weakness / Late Payment - Cash flow didn't allow for accounts payable to be paid timely. As of April 2012, Kern Medical had approximately \$26 million in accounts payable, of which \$12 million was for invoices received in 2011.	06/30/16	In 2015, Kern Medical filled key management positions that reevaluated the accounts payable and revenue cycle. An accountant was assigned to continually review and identify pending accrued invoices. Management monitored and analyzed daily cash collections disbursement schedules and quarterly projections. Kern Medical's improved cash flow and the management of appropriations, allowed Kern Medical to continue paying FY 2015/2016 accounts payables without significant delays.	Achieved	Completed
5 8997 - Kern Medical Payroll	08/21/12	Material Weakness PARTIAL REPEAT	Internal Control Weakness / Electronic Attendance System - Kern Medical implemented an attendance system that needs additional controls to prevent errors and create efficiencies in the payroll process.	06/30/16	Staff worked collaboratively with JB Developer's programmers to ensure all codes necessary for payroll processing were programmed. Additionally, internal controls of time card edits, authorizations, and approvals were implemented to restrict access to supervisors and managers. All requests for access levels are vetted, and if appropriate, approved by Human Resources Management to grant access. Periodic reviews and audits are conducted to ensure it remains as intended.	Achieved	Completed

JUNE 30, 2016
COMPLIANCE AND ACCOUNTABILITY
FOLLOW-UP POST AUDIT REVIEW SUMMARY - RESOLVED

Budget Unit - Department	Audit Report Date	Finding Level	Violation/Finding	12/31/15 Reported Estimated Date of Compliance	CAO Comments:	Compliance Status at 06/30/16	Estimated Date of Compliance
6 8997 - Kern Medical Payroll	08/21/12	Significant Deficiency PARTIAL REPEAT	KCAPP Section 120.8 / Record Keeping of Vacation and Sick Accruals - Kern Medical does not keep records of vacation and sick leave for physician and residents in the County's Payroll system.	06/30/16	All vacation and sick leave accrual rates and balances were added into the County's payroll system. The County's system will maintain all balances so that Kern Medical will no longer manually record and track.	Achieved	Completed
7 8997 - Kern Medical Financial Statements / County's Single Audit	02/03/15 04/14/15	Material Weakness PARTIAL REPEAT	Internal Control Weakness / State Receivables and Related Revenues - Kern Medical did not assess and update their indigent receivable estimates at year end. Revenues and related receivables audit adjustments were needed to decrease MD SPA, IGT SPD, and Hospital Fee by \$8.1 million, \$1.3 million, and \$2.0 million, respectively, and increase DSH SNCP by \$6.6 million.	06/30/16	Since 2013, Kern Medical periodically engaged a consultant to identify state revenue and receivables, review data, prepare cost reports, and train staff on implementing proper procedures to maintain adequate records and understanding of funding models. In accordance with the auditor's recommendation, the consultants are now engaged more frequently to help update estimated receivable and related revenue as needed (at least quarterly). Corrective action has been achieved through the consultant's work; the most recent audited financial statements for FYE June 30, 2015 did not have a repeat finding of misstated state receivables and related revenue as previous audited financial statements had. However, Kern Medical significantly relies on the consultants since they still do not have a complete understanding of the assumptions used and the information required to develop accurate estimates and identify errors timely.	Achieved	Completed
8 1900, 2625, 2620 - Public Works Department - Engineering, Surveying and Permit Services	06/02/15	Significant Deficiency	Accounting Matching Principle / Grant Expenditure Reimbursement - The department did not submit a request for reimbursement of grant funds in the amount of \$584,837 on a timely basis.	06/30/16	Additional staff was assigned to implement a more prompt submission of reimbursement for grants. Funds were still available and the department continued working with the Fire department for reimbursement. This was not a repeat finding in the recent audit.	Achieved	Completed
9 8997 - Kern Medical Operating Room (OR) Procurement Process	06/23/15	Areas of Concern Recommendation	Kern Medical Internal Policies and Procedures / Recommendation 1 - Auditor recommended that Kern Medical's Policy ADM-LD-400 Equipment (Procurement and Lending and Supplies - Nursing) that was due for review in May of 2010 be updated.	06/30/16	Kern Medical's policy was reviewed and updated.	Achieved	Completed
10 8997 - Kern Medical OR Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control Weakness / Recommendation 2 - Auditor recommended a required supervisor review and initial all OR orders that are prepared and received as being authorized.	06/30/16	Kern Medical updated their policies and procedures to include OR management's review and signature authorizing all orders processed through Q-Sight.	Achieved	Completed

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COMPLIANCE AND ACCOUNTABILITY
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11 8997 - Kern Medical OR Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control Weakness / Recommendation 3 - Auditor recommended each position of materials management and OR materials procurement staff document their job responsibilities and procedures and make it accessible to staff to improve internal controls and training for new-hires or coverage.	06/30/16	Kern Medical documented staff's essential functions and made them readily accessible for staff.	Achieved	Completed
12 8997 - Kern Medical OR Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control Weakness / Recommendation 4 - Auditor recommended nurses that initiate a surgical procedure billing record be required to review and reconcile it to their notes and an OR nursing supervisor review the reconciliation in a timely manner to improve accuracy. Billings are initiated by a nurse scanning or noting surgical supply items and OR materials staff bills. In one instance a patient's billing record was not closed so the items appeared on the next patient's record.	06/30/16	Kern Medical implemented a process to have an OR nurse perform an initial review of supply charges at the close of each case. A second nurse is assigned to daily review and verify all encounters have been completed and closed. Any encounters still open are given to the registered nurse circulator of the case to finish and close. Additionally, the OR material manager compares the encounter billing statement to delivery documents.	Achieved	Completed
13 8997 - Kern Medical OR Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control Weakness / Recommendation 6 - Auditor recommended Kern Medical's accountants periodically audit their final itemized billing statements and the OR's billings records to ensure accuracy from system errors and manual human errors.	06/30/16	Kern Medical performed billing audits on a quarterly basis and plans to continue performing audits each quarter.	Achieved	Completed
14 8997 - Kern Medical Inpatient Pharmaceutical Procurement Process	06/23/15	Areas of Concern Recommendation	Kern Medical Internal Policies and Procedures / Recommendation 4 - Auditor recommended that Kern Medical's Policy PCS-MM-101 (Controlled Substances - Nursing and Physicians Responsibilities Guidelines) and PHA-MN-230 (Controlled Substances - Inpatient Pharmacy Guidelines) that was due for review in April 2014 and May 2013, respectively, be updated.	06/30/16	Kern Medical reviewed and updated the policies and procedures.	Achieved	Completed
15 8997 - Kern Medical Inpatient Pharmaceutical Procurement Process	06/23/15	Areas of Concern Recommendation	Kern Medical Internal Policies and Procedures / Recommendation 5 - Auditor recommended that Kern Medical's Policy PCS-MM-720 (Automated Medication Dispensing System) and PHA-RI-100 (Pharmacy Compliance Process) that was due for review in May 2013 and April 2011, respectively, be updated.	06/30/16	Kern Medical reviewed and updated the policies and procedures.	Achieved	Completed

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16 8997 - Kern Medical Inpatient Pharmaceutical Procurement Process	06/23/15	Areas of Concern Recommendation	Internal Control / Recommendation 6 - Auditor recommended that each Inpatient pharmacy position document their job responsibilities and procedures and make it accessible to all staff to improve the internal control process, training for new-hires, and coverage.	06/30/16	Kern Medical documented staff's essential functions and made them readily accessible for staff.	Achieved	Completed
17 2180, 2200 - District Attorney	07/14/15	Significant Deficiency	KCAPPM Section 1105-1106, 1117 and 1123 / County and Private Vehicle Use - The following deficiencies were noted: a) The department did not maintain up-to-date records of the DMV Pull Notice Program. Risk Management was not notified to remove two employees from the DMV Pull Notice Program upon their departure from department. b) The department did not submit 39 employee driver's licenses and authorizations to drive on County business to Risk Management. c) 2 of 41 employees authorized for Vehicle Home Retention (VHR) did not have authorization form on file. 6 VHR were not signed by the department head. 1 employee did not sign his monthly vehicle mileage log.	06/30/16	The department provided Risk Management with an updated listing of employee driver's license information for the DMV Pull Notice Program. The department utilized the Auditor's system to track and maintain up-to-date driver's license and insurance records and periodically audited to ensure compliance. Employee's Vehicle Home Retention forms were reviewed and all were appropriately signed. Monthly vehicle mileage logs were completed by employees, reviewed by supervisor, forwarded to the business office for compilation, and reviewed prior to submittal to the Auditor-Controller.	Achieved	Completed
18 2180, 2200 - District Attorney	07/14/15	Significant Deficiency	Internal Control Integrated Framework by COSO / Cash Handling - The following deficiencies were noted: a) Reimbursed revolving fund for checks issued but not cleared. b) Checks were not being endorsed upon receipt at front desk. c) 9 of 27 checks examined were deposited 37 to 181 days from the date of receipt. e) 5 of 48 checks were not on check log. f) Did not reconcile the original records of cash and check receipts to the actual deposits. g) Did not reconcile the \$2,000 revolving fund for Checkbusters' credit card charges.	06/30/16	The department updated their policy and reconciliation process to verify collections, verify original records to deposits, and to reimburse checks that have cleared. The department's cash handling policy was updated to include timely check endorsements and deposits. The department's procedures were updated to ensure all check and cash collections are properly logged and reconciled to detect and correct any variances.	Achieved	Completed

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19	8997 - Kern Medical Relative Value Unit (RVU)	09/01/15	Condition Recommendation	Financial Statement Reporting / Condition 4 - Auditor recommended that Kern Medical properly include the RVU liability or asset annually on their financial statements. The RVU compensation liability has not been accounted for on previous financial statements.	06/30/16	Kern Medical updated their procedures to implement auditor's recommendation to properly include the RVU payable in the June 30, 2015 financial statements and the payable and receivable in each fiscal year-end financial statement thereafter in accordance with generally accepted accounting principles.	Achieved	Completed
20	8997 - Kern Medical Capital Assets	10/27/2015	Significant Deficiency	KCAPPM Section 406 and 408 / Capital Assets and Equipment Inventory - The following deficiencies were noted: a) 22 equipment items in Kern Medical's list could not be located. 54 assets located did not have a County asset tag. 5 assets did not have a Kern Medical inventory tag. 2 items located were not included in the County Capital Asset Program. 9 items were not located at specified location. 3 items located were not in operable condition. b) 17 items located were not in the County Capital Asset Program. c) 11 software items were not listed in the County Capital Asset Program and were purchased using a non-capital asset account.	06/30/16	Kern Medical updated their written procedures to improve controls identified in the audit. Kern Medical reconciled their inventory records with the County's and consultant's inventory records to resolve the discrepancies by adjusting, adding, and deleting inventory items. Kern Medical's Chief Financial Officer submitted an inventory affidavit on April 2016 that the provided inventory records including description, source, and cost was in their possession. Kern Medical did not perform a complete physical inventory verification but did verify inventory records with an alternative procedure that was deemed sufficient by the Auditor-Controller's office. Kern Medical implemented a policy for their accounting staff to continue sampling and reconciling inventory throughout the hospital on a monthly basis for sufficient coverage.	Achieved	Completed
21	8997 - Kern Medical Capital Assets	10/27/2015	Significant Deficiency	KCAPPM Section 407 Government Finance Officers Association / Capitalized Cost - The following deficiencies were noted: a) A training expense included in the purchase of 3 items was inaccurately capitalized. b) 15 items did not capitalize all applicable costs.	06/30/16	Kern Medical has reviewed capitalization procedures in accordance with generally accepted accounting principles and updated their policies accordingly. Kern Medical submitted all necessary capital asset program adjustments to accurately report cost.	Achieved	Completed
22	8997 - Kern Medical Capital Assets	10/27/2015	Significant Deficiency	KCAPPM Section 406 Kern Medical's Internal Policy / Inventory Adjustment Report (IAR) - The following deficiencies were noted: a) Equipment Disposal Reports were not submitted for 16 of 22 items that were not located. b) Completion of Equipment Disposal Reports for 6 items were submitted between 90 to 152 days late.	06/30/16	Kern Medical updated their written procedures to maintain and communicate an accurate equipment tracking system to ensure inventory records are up-to-date by deleting items as they are disposed of. Kern Medical reviewed and reconciled the deficiencies identified and adjusted each appropriately.	Achieved	Completed