

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

FINAL CLOSE-OUT **SECOND FOLLOW-UP** **INTERNAL CONTROL AUDIT:**

OC COMMUNITY RESOURCES **DISBURSEMENT APPROVAL PROCESS**

AS OF JANUARY 22, 2014

Our Second Follow-Up Audit found that OC Community Resources (OCCR) implemented the one (1) recommendation remaining from our original audit containing five (5) recommendations. Previously, four (4) recommendations were implemented and one (1) was in-process in our First Follow-Up audit report dated May 29, 2013.

During the original audit period, OCCR disbursed \$83 million in expenditures from OC Animal Care, OC Community Services, OC Parks, OC Public Libraries, and OCCR Administrative Services.

AUDIT NO: 1122-F2
(REFERENCE 1340)
ORIGINAL AUDIT NO. 1122

REPORT DATE: FEBRUARY 10, 2014

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Kenneth Wong, CPA, CIA

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

 ORANGE COUNTY BOARD OF SUPERVISORS'
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GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Audit No. 1122-F2 February 10, 2014

TO: Steve Franks, Director
OC Community Resources

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **Second and Final Close-Out** Follow-Up
Internal Control Audit: OC Community
Resources Disbursement Approval Process,
Original Audit No. 1122, Issued September
18, 2012

We have completed a Second Follow-Up Internal Control Audit of OC Community Resources Disbursement Approval Process. Our audit was limited to reviewing, as of January 22, 2014, actions taken to implement the **one (1) recommendation** from our First Follow-Up Audit report dated May 29, 2013. We conducted this Second Follow-Up Audit in accordance with the *FY 13-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found OC Community Resources **implemented the remaining one (1) recommendation. As such this report represents the final close-out of the original audit**

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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OC Community Resources Disbursement Approval Process
Audit No. 1122-F2***

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OC Internal Auditor's Report



Audit No. 1122-F2

February 10, 2014

TO: Steve Franks, Director
OC Community Resources

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Second and Final Close-Out Follow-Up Internal Control Audit: OC Community Resources Disbursement Approval Process, Original Audit No. 1122, Issued September 18, 2012

Scope of Review

We have completed a Second Follow-Up Internal Control Audit of OC Community Resources (OCCR) Disbursement Approval Process. Our audit was limited to reviewing actions taken, as of January 22, 2014, to implement the **one (1) recommendation** remaining from our First Follow-Up Audit report dated May 29, 2013.

Background

We conducted an Internal Control Audit of the OCCR disbursement approval process, which included an evaluation of internal controls, testing compliance with OCCR and County policies, and evaluating process efficiencies and effectiveness. The original audit identified **one (1) Significant Control Weakness** concerning segregation of duties and **four (4) Control Findings** to enhance existing controls regarding payment processing timeframes, date-stamping invoices, budgetary approvals of invoices, and written procedures for supervisory and management reviews.

Results

Our Second Follow-Up Audit found OC Community Resources took satisfactory corrective action to implement the one (1) recommendation remaining. **This report represents the final close-out of the original audit.**

Based on our Follow-Up Audits, the following is the implementation status of the five (5) original recommendations. The item number from the original audit is shown before each heading.

1. Segregation of Purchasing and Disbursement Approval Duties (Significant Control Weakness)

OCCR evaluate the assigned responsibilities and user security roles of the 27 identified individuals with incompatible duties, and take measures to better segregate the duties for approving purchases, receiving goods/services, and approving accounts payable transactions. Once determined, OCCR should ensure the individual's CAPS+ Access Request Forms are updated accordingly.

Current Status: Implemented (Second Follow-Up Audit). We noted in our First Follow-Up Audit that OCCR started evaluating security roles of the 27 individuals when the finding was first identified during audit fieldwork. Between March 8, 2012 and January 22, 2014, OCCR either modified or deleted CAPS+ Access Request Forms (ARFs) for all 27 users. We noted during our Second Follow-Up Audit that the modified ARFs addressed or segregated the incompatible manual duties shown in the ARF Section J or K – *Authorization to Approve Manual Documents*.



In addition, OCCR management has assigned a staff member to review, evaluate and monitor security roles in CAPS+. The assigned staff member will generate and review a quarterly report on security roles in CAPS+ to ensure any incompatible duties are addressed. Since OCCR took satisfactory corrective action in this area, we consider this recommendation implemented.

2. Payment Processing Timeframes and Date Stamping of Invoices (Control Finding)

OCCR and OCCR Accounting evaluate its payment processing timeframe policy and ensure that current timeframe to process payments is in accordance with management's expectation. Any payments exceeding the expected timeframe should be documented accordingly.

Current Status: Implemented (First Follow-Up Audit). OCCR and OCCR Accounting met and discussed the payment processing timeframe policy and decided to maintain the 30-day timeframe. We tested a sample of nine (9) disbursements paid in February and March 2013 to test whether invoices are paid within 30-days of receiving a payable invoice and found that three (3) disbursements (33%) were processed over 30 days from the receipt of the payment invoice or request. It was noted that documentation was available to provide an explanation for each of the three payments exceeding the expected timeframe. In addition, OCCR has developed a process to monitor and track payment processing times. They now maintain spreadsheets that show timing and causes of delays for DPA and non-DPA invoices by each OCCR program. These monitoring tools allow OCCR to identify and address any "bottlenecks" in payment processing. Since OCCR and OCCR Accounting took satisfactory corrective action in this area, we consider this recommendation implemented.

3. Payment Processing Timeframes and Date Stamping of Invoices (Control Finding)

OCCR Accounting ensure all vendor invoices, claims, and payment requests are date-stamped upon receipt.

Current Status: Implemented (First Follow-Up Audit). OCCR Accounting reminded staff to date stamp all payment documents upon receipt. We tested a sample of nine (9) disbursements paid in February and March 2013 to test whether payment documents are date stamped to signify the start of the payment processing timeframe and found no exceptions. Since OCCR Accounting took satisfactory corrective action in this area and our testing found no exceptions, we consider this recommendation implemented.

4. Disbursement Approval from OCCR Budget Personnel (Control Finding)

OCCR and OCCR Accounting evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types.

Current Status: Implemented (First Follow-Up Audit). OCCR and OCCR Accounting met and discussed the budgetary review policy and decided to maintain the practice of payment review by OCCR Budget personnel for DPA contracts and payment review by either Program Directors or Program Managers for non-DPA contracts. We tested a sample of nine (9) disbursements to test whether disbursement approval is provided in accordance with OCCR policy for budgetary review and approval and found no exceptions. Since OCCR and OCCR Accounting took satisfactory corrective action in this area and we found no exceptions in our testing, we consider this recommendation implemented.



5. **Enhancing Disbursement Approval Policies and Procedures** (Control Finding)

OCCR Accounting enhance their written policies and procedures to define requirements of the supervisory/management review and approval process for the three dollar thresholds (\$100K, \$500K, and \$1M).

Current Status: Implemented (First Follow-Up Audit). OCCR Accounting updated their written policies and procedures for processing payments to include supervisory and managerial reviews over the thresholds of \$100K, \$500K, and \$1M.

We reviewed OCCR Accounting's written policies and procedures and found that the requirements for supervisory and management review were added for the high dollar thresholds. By doing so, OCCR Accounting's disbursement approval policy is aligned with disbursement approval processes in Auditor-Controller Claims & Disbursing concerning supervisory and management review of high dollar payments. Since OCCR Accounting took satisfactory corrective action in this area, we consider this recommendation implemented.

We appreciate the cooperation of OCCR during this Follow-Up Audit. If you have any questions, please contact me directly or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
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Mark Denny, Chief Operating Officer
Stacy Blackwood, Director, OC Parks
Ryan Drabek, Director, OC Animal Care
Helen Fried, County Librarian, OC Public Libraries
Karen Roper, Director, OC Community Services
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Macias Gini & O'Connell LLP, County External Auditor