



O R A N G E C O U N T Y

AUDITOR-CONTROLLER

I N T E R N A L A U D I T

**FIRST AND FINAL
CLOSE-OUT FOLLOW-UP
REVIEW OF THE
INTERNAL CONTROLS
OVER THE CHECK PRINTING
AND SAFEGUARDING OF THE
CHECK STOCK AT THE
ORANGE COUNTY
DATA CENTER**



**Audit Number 1144 (reference 1528)
Report Date: February 8, 2016**



O R A N G E C O U N T Y
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I N T E R N A L A U D I T

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1144
(Reference No. 1528)

February 8, 2016

TO: Eric H. Woolery, CPA
Auditor-Controller

SUBJECT: First and Final Close-out Follow-up Review of
the Internal Controls over the Check Printing
and Safeguarding of the Check Stock at the
Orange County Data Center

We have completed our first and final close-out follow-up review of the internal controls over the check printing and safeguarding of the check stock at the Orange County Data Center, original review no. 1107. Our review was limited to reviewing actions taken as of December 31, 2014, to implement the ten recommendations made in the original review.

The results of our follow-up review are discussed in the attached Internal Auditor's Report. All ten recommendations from the original review have been fully implemented.

Please contact me should you wish to discuss any aspect of the report.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachment

Other recipients of this report:

Christina Koslosky, Chief Information Officer, County Executive Office
KC Roestenberg, Director of Enterprise IT Shared Services
Claire Moynihan, Director of Central Accounting Operations, Auditor-Controller
Scott Suzuki, Claims and Disbursing Manager, Auditor-Controller



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over the Check Printing and Safeguarding of the Check Stock
at the Orange County Data Center
Audit No. 1144 (Reference No.1528)***

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Internal Auditor's Report

Audit No. 1144 (Reference No. 1528)

February 8, 2016

TO: Eric H. Woolery, CPA
Auditor-Controller

FROM: Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

SUBJECT: First and Final Close-out Follow-Up Review of the Internal Controls over the Check Printing and Safeguarding of the Check Stock at the Orange County Data Center

We have completed our first and final close-out follow-up review of the internal controls over the check printing and safeguarding of the check stock at the Orange County Data Center (OCDC), original review no. 1107. Our review was limited to reviewing actions taken as of December 31, 2014, to implement the ten recommendations made in the original review.

Our follow-up review indicates that the Auditor-Controller's Office (A-C) and the County Executive Office's Information Technology Division (CEO IT) fully implemented all ten recommendations from the original review. The finding numbers and the report item classifications from the original review are shown in parentheses after the headings.

Finding 1 – Control Numbers are not Reconciled (Significant Control Weakness)

Recommendation No. 1: We recommended that A-C management establish a process for monitoring the completeness of the check stock control numbers used in the check production process in order to account for all of the check stock.

Current Status: **Fully Implemented.** Although the A-C Disbursing Unit does not monitor for the completeness of check stock, they rely on other mitigating controls that would prevent the issuance of fraudulent checks. This includes a positive pay process with Wells Fargo Bank and appropriate levels of review and authorizations. Check stock numbers are being controlled at OCDC. These controls sufficiently mitigate the risk of fraudulent checks being issued.

Finding 2 – No Documented Transfer of Accountability of the Transported Checks (Control Finding)

Recommendation No. 2: We recommended that A-C and CEO IT management document the transfer of the printed checks between OCDC and the Auditor-Controller's Office in order to establish accountability for the checks.

Current Status: **Fully Implemented.** OCDC uses a log to document the transfer of checks to the A-C Check Writing Unit.



Internal Auditor's Report

Finding 3 – No Dual Control over Destruction of Checks and Check Destruction is Not Documented (Control Finding)

Recommendation No. 3A: We recommended that A-C management require a second individual witness the destruction of the spoiled or duplicate checks in order to provide dual control over the check destruction process.

Recommendation No. 3B: We recommended that A-C management ensure the destruction of checks is documented in writing to provide an audit trail and establish accountability for the disposition of the checks.

Current Status: **Fully Implemented.** The A-C Disbursing Unit utilizes two staff to witness the check destruction process. They sign a log to document that they were present for the check destruction.

Finding 4 – No Evidence of Supervisory Review of Manual Calculations (Control Finding)

Recommendation No. 4: We recommended that A-C management visibly document their supervisory quality assurance review of the manual calculations of the check totals performed by the A-C Check Writing staff.

Current Status: **Fully Implemented.** The A-C Claim and Disbursing Unit documents supervisory review of their check count log.

Finding 5 – Incorrect Data on OCDC Check Log (Control Finding)

Recommendation No. 5: We recommended that CEO IT management strengthen controls over the accurate recording of check printing information on OCDC's check log.

Current Status: **Fully Implemented.** We verified that OCDC is accurately documenting printed checks on their check log.

Finding 6 – Incorrect Data on A-C Check Writing's Manual Calculation (Control Finding)

Recommendation No. 6: We recommended that A-C management strengthen controls over the accuracy of the A-C Check Writing's manual calculations.

Current Status: **Fully Implemented.** The A-C Disbursing Unit is using a control number batch log and matching its total to two different records for accuracy.



Internal Auditor's Report

Finding 7 – The Inventory Did Not Include All Unsealed Boxes of Check Stock (Control Finding)

Recommendation No. 7A: We recommended that CEO IT management physically check all unsealed boxes as part of the physical inventory of the check stock.

Recommendation No. 7B: We recommended that A-C management ensure that A-C staff securely reseal boxes of check stock immediately after they have been opened for initial inspection in order to reduce the likelihood of lost or misappropriated check stock.

Current Status: **Fully Implemented.** OCDC inventories open boxes and documents them on their inventory log. Boxes that were opened for inspection were resealed by OCDC employees with security tape and signed.

Finding 8 – No Written Policies and Procedures (Control Finding)

Recommendation No. 8: We recommended that A-C management establish written policies and procedures for the handling and destruction of spoiled and duplicate checks and for the periodic physical inventory of OCDC check stock.

Current Status: **Fully Implemented.** We verified that the A-C Disbursing Unit established and implemented written procedures for the inventory and destruction of checks.

Note: See Attachment A for the classification of report item noted in parentheses.



Internal Auditor's Report

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing Findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the Department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

These are Audit Findings or a combination of Audit Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.