



# Orange County Auditor-Controller Internal Audit



Cash Compliance Audit:  
OC Community Resources/OC Parks

For the Period  
September 1, 2015 through  
August 31, 2016

Audit Number 1655  
Report Date: August 3, 2017



O R A N G E C O U N T Y  
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AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1655**

**August 3, 2017**

**TO:** Dylan Wright, Director  
OC Community Resources

**SUBJECT:** Cash Compliance Audit:  
OC Community Resources/OC Parks

We have completed our audit of internal controls over OC Community Resources/OC Parks' revolving funds and cashing funds for the period September 1, 2015 through August 31, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior quarter 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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

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

**Attachments**

Other recipients of this report:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Eric Woolery, Auditor-Controller  
Frank Kim, County Executive Officer  
Lala Ragen, Deputy Chief Operating Officer  
Cymantha Atkinson, Deputy Director of OC Community Resources  
Stacy Blackwood, Director of OC Parks, OC Community Resources  
Jonathan Nicks, Deputy Director of OC Parks, OC Community Resources  
Thea Bullock, Director of Compliance, OC Community Resources  
Kirk Holland, Business Manager, OC Community Resources/OC Parks  
Connie Chang, Financial and Strategic Planning Manager, OC Community Resources  
Brian Rayburn, Business Office Manager, OC Community Resources  
Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller  
Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting  
Foreperson, Grand Jury  
Robin Stieler, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor



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OC Community Resources/OC Parks  
Audit No. 1655***

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# Internal Auditor's Report

**Audit No. 1655**

**August 3, 2017**

TO: Dylan Wright, Director  
OC Community Resources

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

SUBJECT: Cash Compliance Audit:  
OC Community Resources/OC Parks

## OBJECTIVES

We have completed our audit of OC Community Resources (OCCR)/OC Parks' revolving fund and cashing fund internal controls for the period September 1, 2015 through August 31, 2016. We performed this audit in accordance with the FY 2016-17 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS) to determine whether internal controls were in place to ensure OCCR/OC Parks is performing cash handling duties in compliance with Auditor-Controller (A-C) County Accounting Manual (CAM) C-4 Depositing, A-C CAM C-5 Handwritten Cash Receipts, A-C CAM C-7 Revolving Cash Fund, A-C CAM S-2 Internal Control Systems, and OCCR/OC Parks' policies and procedures. We also followed-up on the four (4) recommendations from OCCR Accounting Claims/Fiscal Monitoring Unit's prior cash handling review for the FY 2012-13 dated December 18, 2012. Our audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* prescribed by the Institute of Internal Auditors.

## RESULTS

Our audit found that OCCR/OC Parks has internal controls in place to ensure cash handling duties are in compliance with A-C CAM requirements and OCCR/OC Parks' policies and procedures. We identified **four (4) Control Findings** for missing or unauthorized approver signatures, long-outstanding checks on the bank reconciliation, physical inventory of hand-written cash receipt books not being performed, and documentation not being maintained for safe combination changes.

We also found that OCCR/OC Parks took satisfactory corrective action to implement the **four (4) recommendations** from OCCR Accounting Claims/Fiscal Monitoring Unit's prior cash handling review. OCCR/OC Parks has implemented mitigating controls to limit the risk resulting from the inadequately segregated duties.

## BACKGROUND

OCCR/OC Parks has **22 parks throughout Orange County, one beach, and Dana Point Harbor**. OCCR/OC Parks have **revolving funds of \$7,510** and **cash change funds of \$1,670** totaling **\$9,180**. OCCR Accounting is responsible for administering, monitoring, and replenishing the revolving funds. During the audit period, OC Parks incurred **\$15,119** of revolving fund expenditures.



# Internal Auditor's Report

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## SCOPE AND METHODOLOGY

Our audit scope was limited to internal controls and processes over revolving funds and cash change funds for the period September 1, 2015 through August 31, 2016. The methodology included inquiry of staff, review of relevant documents, observation, and transaction testing.

We also reviewed the status of the **four (4) recommendations** from the prior cash handling review by the OCCR Accounting Claims/Fiscal Monitoring Unit conducted during FY 2012-13.

## FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the AOC and the BOS. Our **First Follow-Up Audit** will generally be scheduled at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will generally be scheduled at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues appear on the AOC agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

## MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROLS

In accordance with the Auditor-Controller's CAM S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for OCCR/OC Parks' continuing emphasis on control activities and self-assessment of control risks.

## Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the OCCR/OC Parks' operating procedures, accounting practices, and compliance with County policy.



# Internal Auditor's Report

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The Auditor-Controller Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

## **ACKNOWLEDGEMENT**

We appreciate the courtesy extended to us by the personnel of OCCR/OC Parks and OCCR Accounting during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Nancy Ishida, Senior Audit Manager, at (714) 796-8067.



# Detailed Findings, Recommendations, and Management Responses

Our follow-up of the **four (4)** recommendations from the prior cash handling review resulted in the following:

Recommendation from FY 2012-13	Current Status
1. Parks Management review cash handling procedures at all locations to determine whether duties may be segregated among existing staff as required according to Auditor-Controller procedures. If duties cannot be segregated, Parks Management should work with the OCCR Administrative Services Director and OCCR Accounting Manager to determine whether mitigating controls can be put into place to reduce the risk that cash may be misappropriated and go undetected.	<b>Implemented</b> due to mitigating controls put in place to segregate duties. OC Parks headquarters employees reconcile the cash at each park once a month and submit the reconciliation to OCCR Accounting for review. Additionally, the petty cash vouchers are reviewed by the OC Parks petty cash central custodian when they are submitted for replenishment.
2. Parks Management review internal controls in low risk locations that were not reviewed and determine whether required internal controls need to be implemented.	<b>Implemented</b> due to mitigating controls put in place to segregate duties. Smaller parks' cash functions have been combined into the regional area park in the same Operations Group.
3. Parks Management review other control weaknesses identified in this report and implement procedures to address these weaknesses.	<b>Implemented</b> , with the exceptions noted in <b>Finding Nos. 1, 3, and 4.</b>
4. If Parks Management determines that a required internal control cannot be implemented, this should be documented and discussed with the OCCR Administrative Services Director to agree on the accepted risk.	<b>Implemented</b> due to OC Parks' addition of mitigating internal controls to reduce risk.

## Finding No. 1 – Petty Cash Vouchers Had Unauthorized Approvers or Missing Approver Signatures (Control Finding)

The following exceptions were observed during our audit testing:

- Out of 246 unreimbursed petty cash vouchers tested, 30 (12%) were missing the approver signatures.
- Out of 246 petty cash vouchers tested, 20 (8%) had no signature or were approved by an unauthorized person.
- Four voucher packet summary sheets were missing authorized signatures.
- One reimbursement summary sheet was signed by an unauthorized approver.

We were informed that the park rangers are typically the authorized approvers; however, they are not always available when approvals are needed. This was also observed during OCCR Accounting's review.





# Detailed Findings, Recommendations, and Management Responses

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CAM C-7, Revolving Cash Fund, Section 2.2.1 states. "Purchases or cash advances from the revolving cash fund must be approved by an authorized person who does not also have revolving fund custodian, check signer, or reconciliation duties." Additionally Section 2.2.2 states "Before disbursing currency or issuing a revolving cash fund check to reimburse an employee for a purchase, the fund custodian is to record the final purchase amount and expenditure coding on a Revolving Cash Fund Voucher. The custodian is to examine all supporting documents (e.g., handwritten or cash register receipts) for appropriateness, and obtain signatures from the persons approving the purchase and receiving the reimbursement."

Proper approvals can decrease the risk that funds could be misused or incorrectly processed.

### **Recommendation No. 1:**

We recommend OCCR/OC Parks ensure the petty cash vouchers are properly approved before funds are paid. An alternative approval procedure should be implemented for emergency situations, such as temporary verbal approvals.

### **OCCR/OC Parks Management Response:**

**Concur** – OC Parks will implement procedures for employees to obtain petty cash approvals prior to funds being paid when the primary approver for the park facility is not available. The process will include additional directions and training for requestors and the approvers.

### **Finding No. 2 – Long-Outstanding Items on Bank Reconciliation (Control Finding)**

OCCR had not addressed the long-outstanding checks that had been listed on the revolving fund bank reconciliations.

We reviewed the revolving fund bank reconciliation from August 31, 2016, which listed 27 stale dated outstanding checks totaling \$2,865. The oldest checks were dated prior to November 8, 2008.

CAM C-7, Section 2.4.4 states, "Unusual reconciling items should be brought to the attention of management."

### **Recommendation No. 2:**

We recommend OCCR Accounting ensure long-outstanding reconciling items are reviewed and resolved timely. OCCR Accounting should implement a policy for the disposition of stale dated checks, such as voiding the checks and reversing the accounting entries.

### **OCCR/OC Parks Management Response:**

**Concur** – OCCR Accounting has implemented a policy that requires a quarterly review of checks over 6 months old to void checks, credit reimbursement, contact the bank to void the checks, reissue check to payee and record replacement check number in the records.



# Detailed Findings, Recommendations, and Management Responses

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## **Finding No. 3 – Physical Inventory of Handwritten Cash Receipts Was Not Performed (Control Finding)**

An inventory of handwritten cash receipt books was not performed. OCCR Accounting stated they log when the receipt books were issued and returned, and to which park they were issued; however, an inventory has not been taken of the unused cash receipt books. A periodic inventory helps to ensure unused receipt books are properly safeguarded and reduces the risk that cash receipt books may be used inappropriately. This was also observed during OCCR Accounting's review.

CAM C-5, Handwritten Cash Receipts, Section 2.2.2.E.3 "Duties of the Custodian" states, "Have an inventory of the cash receipt forms performed periodically by an employee with no custodial or cashiering duties."

### **Recommendation No. 3:**

We recommend that OCCR/OC Parks ensure that an employee with no custodial or cashiering duties performs periodic physical inventories of the unused cash receipt books.

### **OCCR/OC Parks Management Response:**

**Concur** – OC Parks will assign reviewers from OC Parks Headquarters to perform periodic physical inventories of the unused cash receipt books at the various parks locations. OC Parks Headquarters employees do not have custodial or cashiering duties.

## **Finding No. 4 – No Documentation Maintained For Safe Combination Changes (Control Finding)**

Eight (44%) of the 18 parks audited did not have documentation showing the dates of safe combination changes, or documentation that the safe combinations had been changed after employees with knowledge of the combinations had been transferred or terminated. When safe combinations are not changed when these employees leave, there is increased risk that funds could be misappropriated. This was also observed during OCCR Accounting's review.

CAM S-2, Internal Control Systems, Section 3.2 states, "Access to County assets should be limited to authorized personnel who require these assets in the performance of their assigned duties."

### **Recommendation No. 4:**

We recommend OCCR/OC Parks ensure the safe combinations are changed whenever staff with knowledge of the safe combinations are transferred or terminated. Additionally, OCCR/OC Parks should require each park to maintain documentation of safe combination changes.

### **OCCR/OC Parks Management Response:**

**Concur** – OC Parks to implement procedure to verify safe combinations are changed when staff with knowledge of the safe combinations separate from the County or transfer out of OC Parks. OC Parks employees that transfer within the parks system may be assigned to various locations in the system; therefore transfers within OC Parks will not trigger combination changes.



# Detailed Findings, Recommendations, and Management Responses

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## 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, which 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.



# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT B: OCCR/OC Parks Management Responses



**DYLAN WRIGHT**  
DIRECTOR  
OC COMMUNITY RESOURCES

**CYMANTHA ATKINSON**  
DEPUTY DIRECTOR  
OC COMMUNITY RESOURCES

**JENNIFER HAWKINS, DVM**  
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OC ANIMAL CARE

**RENEE RAMIREZ**  
DIRECTOR  
OC COMMUNITY SERVICES

**JULIA BIDWELL**  
DIRECTOR  
HOUSING & COMMUNITY  
DEVELOPMENT & HOMELESS  
PREVENTION

**STACY BLACKWOOD**  
DIRECTOR  
OC PARKS

**HELEN FRIED**  
COUNTY LIBRARIAN  
OC PUBLIC LIBRARIES

August 1, 2017

**TO:** Toni Smart, Director  
Auditor-Controller, Internal Audit Division

**RE: AUDIT NO. 1655 Cash Compliance Audit: OC Community Resources/ OC Parks**

The Auditor-Controller Internal Audit Division completed a cash compliance audit of OC Parks for the period September 1, 2015 through August 31, 2016. The OC Community Resources' responses to the audit findings and recommendations have been reviewed and approved by the County Executive Office.

**Finding No. 1 – Petty Cash Vouchers Had Unauthorized Approvers or Missing Approver Signatures (Control Finding)**

**Recommendation No. 1:**

We recommend that OCCR/OC Parks ensure the petty cash vouchers are properly approved before funds are paid. An alternative approval procedure should be implemented for emergency situations, such as temporary verbal approvals

**OCCR/OC Parks Management Response:**

**Concur** –OC Parks will implement procedures for employees to obtain petty cash approvals prior to funds being paid when the primary approver for the park facility is not available. The process will include additional directions and training for requestors and the approvers.

**Finding No. 2 – Long-Outstanding Items on Bank Reconciliation (Control Finding)**

**Recommendation No. 2:**

We recommend OCCR Accounting ensure long-outstanding reconciling items are reviewed and resolved timely. OCCR Accounting should implement a policy for the disposition of stale dated checks, such as voiding the checks and reversing the accounting entries.

**OCCR Accounting Response:**

**Concur** – OCCR Accounting has implemented a policy that requires a quarterly review of checks over 6 months old to void checks, credit reimbursement, contact the bank to void the checks, reissue check to payee and record replacement check number in the records.



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# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT B: OCCR/OC Parks Management Responses

OC COMMUNITY RESOURCES RESPONSE TO AUDIT REPORT #1655  
PAGE 2 OF 2  
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**Finding No. 3 – Physical Inventory of Handwritten Cash Receipts Was Not Performed (Control Finding)**

**Recommendation No. 3:**

We recommend that OCCR/OC Parks ensure that an employee with no custodial or cashiering duties performs periodic physical inventories of the unused cash receipt books.

**OCCR/OC Parks Management Response:**

**Concur** – OC Parks will assign reviewers from OC Parks Headquarters to perform periodic physical inventories of the unused cash receipt books at the various parks locations. OC Parks Headquarters employees do not have custodial or cashiering duties.

**Finding No. 4 – No Documentation Maintained For Safe Combination Changes (Control Finding)**

**Recommendation No. 4:**


We recommend OCCR/OC Parks ensure the safe combinations are changed whenever staff with knowledge of the safe combinations are transferred or terminated. Additionally, OCCR/OC Parks should require each park to maintain documentation of safe combination changes.

**OCCR/OC Parks Management Response:**

**Concur** – OC Parks to implement procedure to verify safe combinations are changed when staff with knowledge of the safe combinations separate from the County or transfer out of OC Parks. OC Parks employees that transfer within the parks system may be assigned to various locations in the system; therefore transfers within OC Parks will not trigger combination changes.

If you have any questions related to these responses, please contact Thea Bullock, Compliance Director, OC Community Resources at 714-480-2875.

Sincerely,

  
\_\_\_\_\_  
Signature

7/31/17  
\_\_\_\_\_  
Date

DW:tlb