

Internal Audit Department

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

FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

OC COMMUNITY RESOURCES DISBURSEMENT APPROVAL PROCESS

AS OF MAY 8, 2013

Our First Follow-Up Audit found that OC Community Resources (OCCR) fully implemented four (4) recommendations and one (1) recommendation was in process of implementation from our original audit report dated September 18, 2012.

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: 1227-B
ORIGINAL AUDIT No. 1122

REPORT DATE: MAY 29, 2013

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'
Internal Audit Department

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**
Director Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Certified in Financial Forensics (CFF)
Chartered Global Management Accountant (CGMA)
E-mail: peter.hughes@iad.ocgov.com



Michael Goodwin **CPA, CIA**
Senior Audit Manager

Alan Marcum **MBA, CPA, CIA, CFE**
Senior Audit Manager

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

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OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Audit No. 1227-B May 29, 2013

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: First Follow-Up Audit of OC Community Resources Disbursement Approval Process, Original Audit No. 1122, Issued September 18, 2012

We have completed a First Follow-Up Audit of OC Community Resources Disbursement Approval Process. Our audit was limited to reviewing, as of May 8, 2013, actions taken to implement the **five (5) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 12-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our First Follow-Up Audit found OC Community Resources and OCCR Accounting **fully implemented four (4) recommendations and one (1) recommendation was in process of implementation.**

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. 1227-B*

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OC Internal Auditor's Report



Audit No. 1227-B

May 29, 2013

TO: Steve Franks, Director
OC Community Resources

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

SUBJECT: First Follow-Up Audit of OC Community Resources Disbursement Approval Process, Original Audit No. 1122, Issued September 18, 2012

Scope of Review

We have completed a First Follow-Up Audit of OC Community Resources (OCCR) Disbursement Approval Process. Our audit was limited to reviewing actions taken, as of May 8, 2013, to implement the **five (5) recommendations** from our original audit report dated September 18, 2012.

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 First Follow-Up Audit found OC Community Resources and OCCR Accounting **fully implemented four (4) recommendations** and **one (1) recommendation was in process** of implementation. Based on our First Follow-Up Audit, the following is the implementation status of the five (5) original recommendations:

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: In Process. OCCR started evaluating security roles of the 27 individuals in June 2012 when the finding was first identified during audit fieldwork. Between June and December 2012, OCCR either modified or deleted CAPS+ Access Request Forms (ARFs) for 11 users. However, we noted during our First Follow-Up Audit that the modified ARFs did not address or segregate the incompatible manual duties shown in the ARF Sections J or K – *Authorization to Approve Manual Documents*. The original audit identified 27 OCCR personnel that have authority to create and approve purchases and related vendor payments. None of the 11 revised ARFs had any revisions made regarding their purchasing and disbursement approval duties for manual documents. The remaining 16 ARFs for employees having similar incompatible duties were unchanged from the original audit.



We met with OCCR management to discuss the status of the recommendation. Management acknowledged that they need to further evaluate this recommendation to determine what duties should be segregated and if they can implement mitigating controls. OCCR is planning to continue the evaluation of security roles and amend the delegated authorities to coincide with the individual user's essential duties. Should resource constraints result in concerns regarding segregation of duties, OCCR will implement periodic evaluations to determine whether internal controls over approving purchases, receiving goods/services, and approving accounts payable transactions are present and functioning. In addition, OCCR is in the process of developing a CAPS+ security role report to identify any incompatible duties assigned to personnel. Since OCCR commenced a review of security roles and plans to continue to reduce the risks of incompatible duties, we consider this recommendation in process.

OCCR's Planned Action:

OCCR is continuing to review the security roles of the 27 individuals previously identified in June 2012 for segregation of duties. OCCR is also in the process of developing a quarterly security report to identify incompatible duties assigned to personnel. Also, while OCCR Budget Staff will continue to apply final approval for verification of funds and account coding for all purchase requisitions and invoices, staff will perform quarterly audits of payments as an additional control to address coding accuracy and ensure that manual procurement and payment documents were not initiated and/or authorized by the same person.

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

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

Current Status: Implemented. OCCR and OCCR Accounting 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 and found that three (3) disbursements (33%) were processed over 30 days from the receipt of the payment invoice or request. Documentation was available to provide an explanation for each of the three payments exceeding the expected timeframe. In addition, OCCR developed a process to monitor payment processing times, and they now maintain spreadsheets that show timing and causes of delays in processing invoices for each OCCR program. These monitoring tools allow OCCR to identify any "bottlenecks" in payment processing. Since OCCR and OCCR Accounting took actions 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. 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.** 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.** 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 assistance extended to us by OCCR and OCCR Accounting during our 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
Michael Giancola, County Executive Officer
Anna Peters, Director, OC Community Resources Administrative Services
Brian Probolsky, Manager, OCCR Business Practices
Connie Chang, Manager, OCCR Financial Management
Jan Grimes, Auditor-Controller
Denise Steckler, Director, A-C/Satellite Accounting Operations
Salvador Lopez, Administrative Manager, OCCR Accounting
Win Swe, Manager, OCCR Accounting
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Susan Novak, Clerk of the Board of Supervisors
Vavrinek, Trine, Day and Co., LLP, County External Auditor