



Orange County Auditor-Controller Internal Audit



Audit of Unearned Revenue:
OC Public Works

For the Year Ended
June 30, 2016

Audit Number 1619-D
Report Date: March 30, 2017



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

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Transmittal Letter

Audit No. 1619-D

March 30, 2017

TO: Shane Silsby, Director
OC Public Works

SUBJECT: Audit of Unearned Revenue:
OC Public Works

We have completed our audit of internal controls over the recording of unearned revenue by OC Public Works (OCPW) for the year ended June 30, 2016. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a quarterly report to the Board of Supervisors (BOS) where I detail any critical 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 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
- Lilly Simmering, Deputy Chief Operating Officer
- Robyn Uptegraff, Assistant Director, OCPW
- Becky Juliano, Deputy Director, OCPW Administrative Services
- Anna Tutor, Centralized Quality Assurance, OCPW
- Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
- Howard Thomas, Accounting Manager III, OCPW Accounting Services
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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OC Public Works
Audit No. 1619-D*

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Internal Auditor's Report

Audit No. 1619-D

March 30, 2017

TO: Shane Silsby, Director
OC Public Works

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

SUBJECT: Audit of Unearned Revenue:
OC Public Works

OBJECTIVES

We have completed our audit of internal controls over the recording of unearned revenue by OC Public Works (OCPW) for the year ended June 30, 2016. The purpose of this audit is to support an initiative to partner with the County's external auditors to leverage audit resources. Our audit objectives were to:

1. Evaluate if internal controls over recording of unearned revenue in the County's financial system are adequate to ensure transactions are complete, accurate, valid, and processed timely.
2. Assist the external auditor function with its evaluation of unearned revenue.
3. Determine if the County's procedures for recording unearned revenue are efficient and effective, (e.g., no backlogs, duplication of work, or manual processes that could benefit from automation).

RESULTS

Objective #1: Our audit found internal controls over recording of unearned revenue in the County's financial system are adequate to ensure transactions are complete, accurate, valid, and processed timely.

Objective #2: Our audit assisted the external auditor function with its evaluation of unearned revenue.

Objective #3: Our audit did not disclose any instances concerning backlogs, duplication of work, or manual processes needing automation.

BACKGROUND

OCPW's mission is to "Protect and enrich the community through efficient delivery and maintenance of public works infrastructure, planning, and development services."

The Director's Office of OCPW oversees and works with all department Service Areas on the overall strategic direction and operational efficiencies of the department. The Director's Office drives key department-wide initiatives and has direct interaction with the County Board of Supervisors and the County Executive Office. Department Service Areas include:



Internal Auditor's Report

- Administrative Services leads the financial, administrative, and information technology operations for OCPW.
- OC Construction delivers construction management services for capital improvement projects for the County of Orange, such as flood control facilities, new roadways, and road improvements.
- OC Development Services oversees the planning and development entitlement requirements of projects within the County's unincorporated areas.
- OC Environmental Resources protects public health and safety, environmental quality, consumer value, and business competitiveness, throughout Orange County.
- OC Facilities Design & Construction Management provides professional architectural- and engineering-related services in support of capital projects and programs for various County agencies.
- OC Facilities Maintenance & Central Utility Facility ensures the efficient and innovative operation and maintenance of County facilities that enable various County agencies to better serve the public.
- OC Fleet Services delivers vehicle management services to all County agencies and departments.
- OC Operations & Maintenance ensures that roads, bridges, flood channels, dams, water retention basins, and other County facilities are constantly maintained, so these resources are safe and operating effectively for the communities it serves.
- OC Infrastructure Programs leads the engineering programming, project and policy development, and design and project management of road projects in unincorporated County areas and flood control projects throughout the entire County.
- OC Survey provides surveying and mapping services that support the public's land-use needs, and the design and construction of land development projects throughout the County.

Unearned Revenue

A basis of accounting for governmental funds exists where revenue is recognized when amounts are measurable and available. Known as the modified accrual basis of accounting, receiving alone is not sufficient to recognize revenue (cash basis accounting) and revenue recognition can occur before amounts are actually received (accrual basis of accounting). Revenues received in advance of meeting all the earning requirements are a liability and require an entry to balance sheet account Unearned Revenue. It is a liability of resources obtained prior to revenue recognition. For the year ended June 30, 2016, unearned revenue for OCPW was **\$14,783,395**.



Internal Auditor's Report

Table 1 – Unearned Revenue Account Codes

Account Code	Account Name
9540	Unearned Revenue Received
9543	Law Enforcement Services
9544	Support Services
9550	Billed Unearned Revenue

SCOPE AND METHODOLOGY

Our audit examined OCPW's processing of unearned revenue and related internal controls for the year ended June 30, 2016. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of internal controls and compliance with established County and departmental procedures.

Scope Exclusions. Our audit did not include an audit of application controls over CAPS+ Financial and Purchasing System.

FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will generally begin 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 begin 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.

As there were no findings in this report, completion of a **Follow-Up Audit Report Form** is not necessary as no Follow-Up Audit will be conducted.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL

In accordance with the Auditor-Controller's County Accounting Manual Section 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 the OCPW's continuing emphasis on control activities and self-assessment of control risks.



Internal Auditor's Report

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 OCPW's operating procedures, accounting practices, and compliance with County policy.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel of OC Public Works during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-5442, or Scott Suzuki, Assistant Director at (714) 834-5509.