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

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**RISK BASED AUDITING**

- 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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes  
Director  
Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA  
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  
Senior Audit Manager  
CPA, CIA

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

Hall of Finance & Records  
12 Civic Center Plaza, Room 232  
Santa Ana, CA 92701  
Phone: (714) 834-5475  
Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website:  www.ocgov.com/audit

OC Fraud Hotline (714) 834-3608
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


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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Second and Final Close-Out Follow-Up Internal Control Audit: OC Community Resources Disbursement Approval Process Audit No. 1122-F2
As of January 22, 2014

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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
- Michael B. Giancola, County Executive Officer
- 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
- Anna Peters, Director, OC Community Resources Administrative Services
- Brian Probolsky, Manager, OCCR Business Practices
- Connie Chang, Budget Manager, OC Community Resources
- Denise Steckler, Chief Deputy Auditor-Controller
- Tonya Burnett, Director, A-C Satellite Accounting Operations
- Salvador Lopez, Senior Manager, OCCR Accounting
- Foreperson, Grand Jury
- Susan Novak, Clerk of the Board of Supervisors
- Macias Gini & O’Connell LLP, County External Auditor