



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

COUNTYWIDE AUDIT OF FIDUCIARY FUNDS:

OC PUBLIC WORKS

For the Period
July 1, 2014 through
June 30, 2015



Audit Number 1519
Report Date: April 21, 2016



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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Orange County Auditor-Controller

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1519

April 21, 2016

TO: Shane L. Silsby, Director
OC Public Works

SUBJECT: Countywide Audit of Fiduciary Funds:
OC Public Works

We have completed our audit of internal controls over fiduciary funds in OC Public Works for the period July 1, 2014 through June 30, 2015. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly 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
- Mark Denny, Chief Operating Officer
- Jessica Witt, Deputy Chief Operating Officer
- Robin Uptegraff, Assistant Director, OCPW
- Becky Juliano, Deputy Director, Administrative Services, OCPW
- Randy Dunlap, Administrative Manager II, Centralized Quality Assurance, OCPW
- Jackie Cadotte, Compliance Services Manager, Central Quality Assurance, OCPW
- Howard Thomas, Accounting Manager, OCPW
- 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. 1519***

For the Period July 1, 2014 through June 30, 2015

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Internal Auditor's Report

Audit No. 1519

April 21, 2016

TO: Shane L. Silsby, Director
OC Public Works

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

SUBJECT: Countywide Audit of Fiduciary Funds:
OC Public Works

OBJECTIVES

As part of a Countywide Audit of Fiduciary Funds, we have completed our audit of internal controls over fiduciary funds in OC Public Works (OCPW) for the period July 1, 2014 through June 30, 2015. We conducted this audit to ensure fiduciary funds are properly administered and maintained in compliance with County policy, procedures, and fund requirements. Our audit objectives were to:

1. Evaluate internal controls to ensure fiduciary fund transactions are accurate, valid, adequately supported, processed timely, properly recorded, and that fund receipts and disbursements are made in accordance with the established fund purpose and uses.
2. Evaluate internal controls to ensure fiduciary fund reconciliations are accurate, complete and timely in compliance with County policy and departmental policy.
3. Evaluate for proper segregation of duties and management reviews and approvals related to the administration of fiduciary funds.
4. Determine if administration of fiduciary funds is effective and efficient (e.g., no backlogs, duplication of work, benefit in automating manual process).

RESULTS

Objective #1: Our audit found that internal controls are in place to ensure fiduciary fund transactions are accurate, valid, adequately supported, processed timely, properly recorded and transactions were made in accordance with the established fund purpose and uses. We have **no audit findings under this objective.**

Objective #2: Our audit found that internal controls over fund reconciliations are in place to ensure fiduciary fund reconciliations are accurate, complete and timely in compliance with County policy and departmental policy. We have **no audit findings under this objective.**

Objective #3: Our audit found that internal controls are in place regarding segregation of duties and management reviews and approvals of fiduciary fund transactions and fund reconciliations. We have **no audit findings under this objective.**

Objective #4: Our audit did not disclose any instances concerning duplication of work or backlogs; however, we did find that documentation for establishing certain fiduciary funds, known as Chart of Accounts (COFAs), were based on memos from the 1970s and 1980s prior to the implementation of the Auditor-Controller policy and had limited information based on current COFA requirements and format. We identified **one (1) Control Finding** to work with the OCPW Accounting to update the COFAs for Funds 150, 158 and 328 as determined necessary by management.



Internal Auditor's Report

BACKGROUND

We conducted a Countywide Audit of Fiduciary Funds to ensure funds are properly administered and maintained in compliance with County policy, procedures and fund requirements. This report is on our audit of selected fiduciary funds administered by OCPW. We are issuing separate reports for our audits of fiduciary funds in the County Executive Office, Child Support Services, Clerk-Recorder, District Attorney/Public Administrator, Health Care Agency/Public Guardian, OC Community Resources, Probation, Registrar of Voters, Sheriff-Coroner, and Treasurer-Tax Collector.

Fiduciary funds are used to account for assets held by the County in a trustee or agency capacity on behalf of outside parties, including employees, individuals, private organizations or other governments. These funds cannot be used to support the County's programs. Fiduciary funds are to be used and accounted for in accordance with applicable legal requirements; Federal, State, and other governmental regulations; trust agreements, trust indentures, or other fiduciary agreements; and generally accepted accounting principles.

County Accounting Manual (CAM) Procedures F-3, *Requesting Establishment/Deletion of Funds/Agency* and F-4, *Fiduciary Funds* provide the policy, procedures and internal control requirements for establishing and maintaining fiduciary funds. Fiduciary funds are classified as either: 1) Private-Purpose Trust Funds; 2) Pension and Other Employee Benefits Trust Funds; and 3) Agency Funds. For this audit, we are including only select Private-Purpose Trust Funds and Agency Funds as described below:

Public Administration Trust Funds (Fund Class U1) – This type of private-purpose trust fund is used to account for trust arrangements where the principal and income benefit individuals, private organizations, or other governments. Examples include unidentified funds, unclaimed prisoner funds, and decedents' property held for escheatment.

Agency Funds (Fund Class A5) – This type of agency fund is used by certain County departments to hold various types of cash receipts and deposits in a fiduciary capacity. Disbursements are made from these funds by checks issued by the Auditor-Controller upon requisition of the responsible department.

As of June 30, 2015, OCPW had the following fiduciary funds:

Fund	Fund Class	Name/Date Established	Purpose	FY 14/15 Receipts/Disbursements	Fund Balance at 6/30/15
150	A5	Drainage Improvement Program Established: July 1973	To account for financial activity related to the Drainage Improvement Program.	Receipts: \$39,250 Disbursements: \$0	\$2,264,986
158	A5	Major Thoroughfare & Bridge Established: July 1984	To accumulate Developer Fees and interest for use on specific MT&B Road projects	Receipts: \$4,995,230 Disbursements: \$1,308,367	\$9,816,902
306	A5	Refundable Deposits (OCPW) Established: June 1999	To account for Development Services (Planning) Refundable Deposits	Receipts: \$7,696,359 Disbursements: \$6,842,525	\$8,775,602
328	A5	Refundable Deposits (OCPW) Established: Sept. 1978	To account for the disbursements and deposits of various customer refundable deposits (e.g. Road and Flood Surety Deposits, HBP Parks CPP Deposits, Misc. Deposits, Misc. Instruments, Real Estate, Cable TV and Performance Bonds)	Receipts: \$397,810 Disbursements: \$423,467	\$15,162,472
2AL	A5	OCPW Customer Deposits Established: June 2003	Map Check and Annexation Deposits / OCGIS License Fees	Receipts: \$884,469 Disbursements: \$773,850	\$1,135,206



Internal Auditor's Report

Note: We performed disbursement testing on a sample of transactions in Funds 158 and 328. We tested June 30, 2015 fund reconciliations for Funds 150, 158, 306, 328 and 2AL. Because we only performed testing on select fiduciary funds in OCPW, **it is important that OCPW determine if the findings and recommendations contained in this report are applicable to other fiduciary funds under its administration.**

SCOPE AND METHODOLOGY

Our audit of internal controls over fiduciary funds administered by OCPW was performed to ensure fiduciary funds are properly administered, safeguarded and maintained in compliance with County policy, procedures and specific fund requirements for the period from July 1, 2014 through June 30, 2015. Our audit included inquiry, auditor observation, and limited testing for assessing the adequacy of internal controls and compliance with established County and departmental procedures. We limited our scope for our Countywide Audit of Fiduciary Funds to select Public Administration Trust Funds (Fund Class U1) and Agency Funds (Fund Class A5).

Scope Exclusions. We did not include the following funds in our Countywide Audit of Fiduciary Funds. These will be considered for future audits based on our risk assessment and audit planning process:

- Unapportioned Tax and Interest Funds (Fund Class A2)
- Pension Trust & Other Employee Benefits (Fund Classes P1, P2, P3, P4, P5, P6)
- OCDA Redevelopment private purpose trust fund (Fund Class U2)

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 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 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.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendation is 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.



Internal Auditor's Report

MANAGEMENT'S RESPONSIBILITIES FOR INTERNAL CONTROLS

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 (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OC Public Works' 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 controls, 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 OC Public Works' operating procedures, accounting practices, and compliance with County policy.

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 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.



Detailed Findings, Recommendations and Management Responses

Finding No. 1 – Fiduciary Fund Documents Lacking Required Elements (Control Finding)

Criteria

County Accounting Manual procedure F-3, *Requesting Establishment/Deletion of Funds/Agencies*, Section 2.3 states:

“The AIT or request letter must contain the following information: (A) The legal authority for establishing the new fund or agency; (B) If no legal authority, the policy/administrative reason or other authority for establishing the fund or agency; (C) Whether or not the fund or agency is a budgeted fund or agency, and if available, the Activity Code to be used for this budget; (D) A description of the revenue sources for the fund or agency, and the uses of the fund or agency; (E) Any expiration date for the fund or agency; (F) Whether the fund will earn its own interest, or if it does not, which other fund should receive the interest earned on balances in the new fund (this does not apply to new agencies); (G) If the fund will not earn its own interest, the reason for the redirection of interest: legal or contractual provision, or management decision; (H) The specific account codings and dollar amounts of appropriations and estimated revenues to be established for the fund or agency, if the fund or agency is being established pursuant to 2.2.3 above; and (I) The responsible controlling department for the new fund or new agency; and (J) For funds with separate cash accounts, the planned disposition of any residual account balances when the fund is closed. Include legal or other authority for the distribution.”

Details

Chart of Financial Accounts (COFAs) are documents used to establish or modify various funds in the County. Our audit found that OCPW had COFAs for all fiduciary funds, except for Funds 150, 158 and 328. Instead of a COFA, OCPW provided us memos establishing the fund dated from the 1970s and 1980s, which occurred prior to the implementation of the of the Auditor-Controller policy. Because these funds were established prior to the existing policy, the memos lack certain elements as required by the policy, such as citing legal or other authority for fund distributions, expiration dates, whether it is interest bearing, and the planned disposition of any account residual balances when the fund is closed.

Auditor-Controller General Accounting is responsible for establishing and maintaining COFA documents. They are aware of the fact that some of the fund establishment documents are old and lack the elements that are required. Currently, if a department/agency requests a revision to a COFA that is not in the current format, the Auditor-Controller will require them to use the current COFA format that includes all required elements. We were informed by Auditor-Controller General Accounting that it is a goal to eventually have all COFAs in the current format. OCPW should work jointly with OCPW Accounting in determining which COFAs can be updated. Our audit did not note any other issues arising from the old COFAs.

The absence of complete written fiduciary fund documentation increases the risk of misunderstandings and miscommunication regarding rights, responsibilities and authorized uses for the department or agency holding the fiduciary funds in a trustee capacity.

Recommendation No. 1:

OCPW work with OCPW Accounting to prepare a COFA for the fiduciary funds noted above that includes all the required elements.

OC Public Works Management Response:

Concur. OCPW Accounting has completed Form 5201 (Request for Establishment, Deletion, Modification of Fund) requesting modification to the purpose and use of Funds 150, 158, and 328. OCPW Accounting has submitted the Chart of Financial Accounts (COFA) Form 5201 to Auditor-Controller for approval.



Detailed Findings, Recommendations and Management Responses

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.



Detailed Findings, Recommendations and Management Responses

ATTACHMENT B: OC Public Works Management Response



March 17, 2016

To: Ms. Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division
12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Subject: Response to Draft Report – Audit No. 1519, Countywide Audit of Fiduciary Funds: OC Public Works

Dear Ms. Smart:

OC Public Works has received and reviewed in draft form, the Internal Audit Department's Review of the Countywide Audit of Fiduciary Funds: OC Public Works.

OC Public Works understands the primary purpose of the Internal Audit Department's review was to ensure fiduciary funds are properly administered and maintained in compliance with County policy, procedures and requirements.

OC Public Works hereby provides the following response to the Internal Audit Department's "Recommendation No. 1".

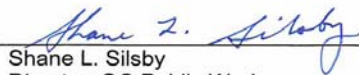
Recommendation No. 1: OC Public Works work with OCPW Accounting to prepare a COFA for the fiduciary funds noted above that includes all the required elements.

OC Public Works' Response: Concur

OCPW Accounting has completed Form 5201 (Request for Establishment, Deletion, Modification of Fund) requesting modification to the purpose and use of Funds 150, 158, and 328. OCPW Accounting has submitted the Chart of Financial Accounts (COFA) Form 5201 to Auditor-Controller for approval.

Thank you and should you have any questions, please contact Jackie Cadotte at OC Public Works at 714-667-3287.

Sincerely,

Signature: 
Shane L. Silsby
Director, OC Public Works

300 N. Flower Street, Santa Ana, CA 92703
P.O. Box 4048, Santa Ana, CA 92702-4048

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Detailed Findings, Recommendations and Management Responses

ATTACHMENT B: OC Public Works Management Response (continued)

cc: Eric Woolery, Auditor-Controller
Jessica Witt, Assistant to the Chief Operating Officer
Robyn Uptegraff, Assistant Director, OCPW
Becky Juliano, Deputy Director, Administrative Services, OCPW
Randi Dunlap, Administrative Manager II, Centralized Quality Assurance, OCPW
Jackie Cadotte, Compliance Services Manager, Centralized Quality Assurance, OCPW
Tonya Riley, Director, Satellite Accounting Operations, A-C
Howard Thomas, Accounting Manager, OCPW Accounting