

Internal Audit Department

O R A N G E C O U N T Y
5th Largest County in the USA

FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT:

INTERNAL CONTROL AUDIT: OC PUBLIC WORKS PAYROLL PROCESS

ORIGINAL AUDIT No. 2925

AS OF MAY 5, 2010

Our First Follow-Up Audit found OC Public Works (OCPW) Payroll Operations fully implemented the two (2) recommendations from our original audit report dated October 28, 2009. OCPW Payroll Operations processed approximately \$80 million in employee payroll during the original audit period between July 1, 2008 and June 30, 2009.

AUDIT NO: 2927-E
REPORT DATE: MAY 17, 2010

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RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 2927-E May 17, 2010

TO: Jess A. Carbajal, Director
OC Public Works

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

SUBJECT: **First and Final Close-Out** Follow-Up
Audit of Internal Control Audit:
OC Public Works Payroll Process,
Original Audit No. 2925, Issued October
28, 2009

We have completed a First Follow-Up Audit of the Internal Control Audit for OC Public Works (OCPW) Payroll Process. Our audit was limited to reviewing, as of May 5, 2010, actions taken to implement two (2) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 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. Because satisfactory corrective action has been taken for the two (2) audit recommendations, **this report represents the close-out of the original audit.** We commend OCPW Payroll Operations for their timeliness and responsiveness in taking corrective actions on our audit recommendations.

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 2.

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Internal Control Audit: OC Public Works
Payroll Process
Audit No. 2927-E*

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OC Internal Auditor's Report



Audit No. 2927-E

May 17, 2010

TO: Jess A. Carbajal, Director
OC Public Works

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

SUBJECT: **First and Final Close-Out** Follow-Up Audit of Internal Control Audit:
OC Public Works Payroll Process

Scope of Review

We have completed a First Follow-Up Audit of Internal Control Audit for OC Public Works (OCPW) Payroll Process. Our audit was limited to reviewing, as of May 5, 2010 actions taken to implement **two (2) recommendations** from our original audit report dated October 28, 2009 (Audit No. 2925).

Background

The original audit of OC Public Works' Payroll process evaluated the bi-weekly payroll process starting with the receipt of VTI timecards in Payroll Operations to the uploading of payroll information to Central Payroll. Specifically, we evaluated for proper segregation of duties; supervisory or management authorization of employee hours and premium pay/overtime; existence of supporting documentation for changes to payroll after being submitted to Payroll Operations; and key reconciliations between VTI and CAPS+ to ensure completeness of payroll. The audit identified two findings and recommendation to document supervisory reviews and retain payroll exception reports, and to utilize a VTI *Timecard Audit Report* to monitor for unauthorized changes to payroll. During the original audit period, total gross pay for OCPW employees was approximately \$80 million.

Results

Our First Follow-Up Audit indicated that OCPW Payroll Operations fully implemented all two (2) recommendations. **As such, this report represents the final close-out of the original audit.** Based on the First Follow-Up Audit we conducted, the following is the implementation status of the two recommendations:

1. Supervisory Review and Retention of Payroll Documents (Control Finding)

OCPW ensure payroll reports are reviewed and signed by the Payroll Operations supervisor and copies of the payroll documents are retained.

Current Status: **Implemented.** OCPW Payroll Operations now ensures payroll reports are reviewed and signed by the Payroll Operations supervisor and copies of the payroll documents are retained. We tested a sample of payroll reports for two pay periods and found the payroll reports are reviewed and signed by both the Payroll Supervisor and the Chief of OCPW/Finance and Department Services, and reports are being retained with no exceptions noted. Therefore, we consider this recommendation implemented.



2. Use of *Timecard Audit Report* to Monitor Payroll Changes (Control Finding)

OCPW utilize the VTI *Timecard Audit Report* as a tool to monitor unauthorized changes to pay codes, such as modifying annual leave hours to regular hours. Payroll Operations can determine the frequency and extent of using this report after evaluating results.

Current Status: **Implemented.** OCPW Payroll Operations now utilizes the VTI *Timecard Audit Report* as a tool to monitor unauthorized changes to pay codes, such as modifying annual leave hours to regular hours. We tested a sample of VTI *Timecard Audit Reports* for two pay periods to determine if the VTI *Timecard Audit Report* is reviewed each pay period. We noted the report is utilized, reviewed and signed by both the Payroll Supervisor and the Chief of OCPW/Finance and Department Services each pay period, and reports are being retained. No exceptions were noted. Therefore, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of OCPW Payroll Operations during our First Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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