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

Director: Dr. Peter Hughes, MBA, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Senior Auditor: Abdul Khan, CPA, CIA
# Orange County Board of Supervisors

## Internal Audit Department


**Providing Facts and Perspectives Countywide**

**RISK BASED AUDITING**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title/Qualifications</th>
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<tbody>
<tr>
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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website:  [www.ocgov.com/audit](http://www.ocgov.com/audit)

**OC Fraud Hotline (714) 834-3608**
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.
First and Final Close-Out Follow-Up Audit of Internal Control Audit: OC Public Works Payroll Process Audit No. 2927-E

As of May 5, 2010

Transmittal Letter i

OC Internal Auditor's Report 1
Audit No. 2927-E

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 OCPW 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:**

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Alisa Drakodaidis, Deputy CEO, OC Infrastructure
- Carlos Bustamante, Director, OCPW Administration
- Liz Jewell, Chief, OCPW Department & Finance Services
- Susan Umali, Payroll Supervisor, OCPW Payroll Operations
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors