



# Orange County Auditor-Controller Internal Audit



Internal Control Audit:  
OC Community Resources/OC Parks  
Special Revenue Fund 405

For the Year Ended  
June 30, 2016

Audit Number 1422  
Report Date: May 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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**Orange County Auditor-Controller**

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AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1422**

**May 30, 2017**

**TO:** Dylan Wright, Director  
OC Community Resources

**SUBJECT:** Internal Control Audit:  
OC Community Resources/OC Parks Special Revenue Fund 405

We have completed our Internal Control Audit over Special Revenue Fund 405 in OC Community Resources (OCCR)/OC Parks 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 quarter 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.

A handwritten signature in blue ink, appearing to read "Toni Smart".

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
- Cymantha Atkinson, Deputy Director of OCCR
- Thea Bullock, Director of Compliance, OCCR
- Bryan Rayburn, Business Office Manager, OCCR
- Stacy Blackwood, Director of OC Parks, OCCR
- Jonathan Nicks, Deputy Director of OC Parks, OCCR
- Kirk Holland, Business Manager, OCCR/OC Parks
- Connie Chang, Finance and Strategic Planning Manager, OCCR

Other recipients of this report (continued):

Nicole Nguyen, Budget Manager, OCCR/OC Parks  
Lyndsay Brennan, Budget Manager, OCCR/OC Parks  
Lydia Garcia, Contract Development Manager, OCCR  
Nina Badalamenti, Contract Manager & Cal Card Administration Manager, OCCR  
Fue Tuiuteleapaga, Procurement Manager, OCCR  
Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller  
Win Swe, Accounting Manager III, Auditor-Controller/OCCR Accounting Services  
Foreperson, Grand Jury  
Robin Stieler, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor



# Table of Contents

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*Internal Control Audit:  
OC Community Resources/OC Parks  
Special Revenue Fund 405  
Audit No. 1422*

For the Year Ended June 30, 2016

<b>Transmittal Letter</b>	<b>i</b>
<b>Internal Auditor's Report</b>	
<b>OBJECTIVES</b>	<b>1</b>
<b>RESULTS</b>	<b>1</b>
<b>BACKGROUND</b>	<b>2</b>
<b>SCOPE AND METHODOLOGY</b>	<b>2</b>
<b>Detailed Findings, Recommendations, and Management Responses</b>	
<b>Finding No. 1 – Active OC Expediter User Accounts for Former Employees (Control Finding)</b>	<b>5</b>
<b>Finding No. 2 – COFA Document for Fund 405 Needs to be Created (Control Finding)</b>	<b>5</b>
<b>ATTACHMENT A: Report Item Classifications</b>	<b>7</b>
<b>ATTACHMENT B: OCCR/OC Parks Management Responses</b>	<b>8</b>

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# Internal Auditor's Report

**Audit No. 1422**

**May 30, 2017**

**TO:** Dylan Wright, Director  
OC Community Resources

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

**SUBJECT:** Internal Control Audit:  
OC Community Resources/OC Parks Special Revenue Fund 405

## OBJECTIVES

We have completed our Internal Control Audit of Special Revenue Fund 405 (Fund 405) in OC Community Resources (OCCR)/OC Parks for the year ended June 30, 2016. We performed this audit in accordance with the FY 16-17 Audit Plan and Risk Assessment approved by the Audit Oversight Committee and the Board of Supervisors to ensure the special revenue fund is properly administered and maintained in compliance with County policy and procedures, and is utilized in accordance with fund requirements. Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. The objectives of this audit were to:

1. Evaluate if internal controls are in place to ensure Fund 405 transactions are used for specific purposes.
2. Evaluate if internal controls are in place to ensure Fund 405 transactions are valid, adequately supported, processed timely, properly recorded, and properly approved.
3. Determine if administration of Fund 405 is effective and efficient (e.g., no backlogs, duplication of work, or benefit from automating a manual process).

## RESULTS

**Objective 1:** Our audit found that internal controls are in place to ensure Fund 405 is used for specific purposes. We identified **one (1) Control Finding** regarding the need to create/update COFA documentation for Fund 405.

**Objective 2:** Our audit found that internal controls are in place to ensure Fund 405 transactions are valid, adequately supported, processed timely, properly recorded, and properly approved. We identified **one (1) Control Finding** regarding the need to periodically review user accounts within the OC Expediter system.

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





# Internal Auditor’s Report

## BACKGROUND

OCCR/OC Parks encompasses regional, wilderness and historic facilities, as well as coastal areas, throughout the County of Orange. OCCR/OC Parks’ mission is “as a steward of significant natural and cultural resources, Orange County Parks manages and operates a system of regional parks, beaches, harbors, trails and historic sites that are places of recreation and enduring value.”

On June 28, 1988, the Board of Supervisors approved dissolution of the Orange County Harbors, Beaches, and Parks District. The County of Orange was designated as the successor to the assets and liabilities of the dissolved district, and all district revenues were distributed to special funds, to be used exclusively for harbors, beaches, and parks purposes. Board Resolution 88-931 states, “all such assets shall be distributed to the County of Orange to a special fund. All such assets shall be used exclusively for District purposes authorized in Part 2, Division 8, of the Harbors and Navigation Code.”

On September 13, 2010, OC Parks was moved from the OC Public Works Department to the OCCR Department.

### OCCR/OC Parks Special Revenue Fund 405

The purpose of a special revenue fund is to establish accountability for general government financial resources that are restricted by law or contractual agreement to specific purposes other than debt service or major capital projects. Fund 405 is the operating fund for OC Parks and is a non-major special revenue fund in the County’s accounting system. All operating activities are recorded in this fund. Monies received in Fund 405 shall be expended only for “park purposes.”

OCCR/OC Parks revenue sources are primarily from property taxes, rents, and concessions and its major expenditures are for professional and specialized services.

**Table 1. Fund 405 Overview as of and for the year ended June 30, 2016**

Authority for Fund Establishment	Expenditures	Revenues	Fund Balance
Board Resolution 88-931 states all such assets shall be used exclusively for District purposes authorized in Part 2, Division 8, of the Harbors and Navigations Code.	\$83,229,603	\$84,203,638	\$3,410,930

## SCOPE AND METHODOLOGY

Our audit covered the year ended June 30, 2016, and included OCCR/OC Parks’ administration of Fund 405. Our scope and methodology included:

1. Evaluating aspects of compliance and internal controls over OCCR/OC Parks administration of Fund 405, limited to determining whether funds used (expenditures) are in accordance with the established purpose. We reviewed controls over expenditures in the categories of (1) Services & Supplies, (2) Other Financing Uses, and (3) Salaries & Employee Benefits.
2. Performing test of transactions of Fund 405 to ensure they are accurate, valid, adequately supported, processed timely, and properly recorded.



# Internal Auditor's Report

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3. Ensuring expenditures are properly authorized and processed in compliance with County and OCCR/OC Parks policies and procedures (including segregation of duties, management reviews/approvals, appropriate job coding, etc.).
4. Assessing effectiveness and efficiency over administration of Fund 405.

## Scope Exclusions

Our audit scope excluded the following areas:

- A review of revenue sources for Fund 405.
- A review of information technology controls for any of OCCR's systems used in the administration of Fund 405 (e.g., OC Expediter).

## 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 found still not implemented or mitigated after the second Follow-Up Audit. Such open issues will 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 recommendations are 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.

## 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 of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for OCCR/OC Parks' continuing emphasis on control activities and self-assessment of control risks.





# Internal Auditor's Report

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## **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 OCCR/OC Parks' 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 OCCR, OCCR/OC Parks, and OCCR/Accounting 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

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## Finding No. 1 – Active OC Expediter User Accounts for Former Employees (Control Finding)

OCCR procedures for employee separation did not ensure user accounts were deleted/suspended.

Not updating user roles when personnel are terminated or transferred from OCCR increases the risk of unauthorized access to OC Expediter.

We noted two employees who were terminated or transferred from OCCR and still had access to OC Expediter. OC Expediter is the system used by OCCR to process purchase requisitions for Fund 405 expenditures. Upon notification from Internal Audit, OCCR took steps to remove access for the two referenced employees. A limited review of user roles was performed by OCCR in the summer of 2016, when the OC Governance Team moved certain OC Expediter maintenance responsibilities from IT to department staff, but a detailed review of user accounts was not performed at this time.

County Accounting Manual (CAM) S-2 – Internal Control Systems, Section 3.3 states that “independent evidence shall be maintained to document that authorizations are issued by persons acting within the scope of their authority...computer system controls should be utilized to safeguard records and preserve data integrity.” User access should be updated timely when personnel have terminated or transferred from OCCR. We were informed OCCR is in the process of creating a procedure for review of user accounts in OC Expediter.

### Recommendation No. 1:

We recommend OCCR perform periodic reviews of OC Expediter user accounts. We also recommend OCCR ensure user roles in OC Expediter are deactivated when personnel are terminated or transferred from OCCR.

### OCCR/OC Parks Management Response:

**Concur** – OCCR has implemented a process to review OC Expediter user accounts on a routine basis and ensure they are deactivated when personnel leave OCCR.

## Finding No. 2 – COFA Document for Fund 405 Needs to be Created (Control Finding)

A Chart of Accounts (COFA) document for Fund 405 does not exist.

The absence of the COFA document increases the risk of misunderstanding or miscommunication regarding rights and responsibilities for the controlling department. It also increases the risk of unallowable use of restricted funds.

COFA documents are used to establish or modify various funds in the County. While our audit found no COFA for establishing Fund 405, OCCR provided documents that support the program, such as various Board of Supervisors’ resolutions and related documents, some going back to 1972, which occurred prior to the implementation of the Auditor-Controller policy requiring COFAs. Because Fund 405 was established prior to the existing policy, the documents lack certain elements as required by the policy, e.g., 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. Some of the elements are contained in the old documents, but some documents are very limited in the information provided.



## Detailed Findings, Recommendations, and Management Responses

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CAM F-3 - *Requesting Establishment/Deletion of Funds/Agencies*, Section 2.2.1 – Approvals for Establishment of Fund or Agency states that “A new fund or agency which is required to be established by the Board, because the statute, regulation or other authority requires that the fund or agency be established by Board action, must be submitted to the Board on an Agenda Item Transmittal (AIT). The AIT must be submitted to the Auditor-Controller and to the CEO for review, and concurrence must be obtained from the CEO.” Section 2.3 states that, “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 or 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;
- (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.”

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 are not available. OCCR/OC Parks should work with the Auditor-Controller to create a COFA for Fund 405.

### **Recommendation No. 2:**

We recommend OCCR/OC Parks partner with the Auditor-Controller to establish a COFA for Fund 405.

### **OCCR/OC Parks Management Response:**

**Concur** – OCCR will work with OCCR Accounting to establish a COFA for Fund 405.



# Detailed Findings, Recommendations, and Management Responses

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## 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: OCCR/OC Parks Management Responses



May 19, 2017

**DYLAN WRIGHT**  
DIRECTOR  
OC COMMUNITY RESOURCES

**CYMANTHA ATKINSON**  
DEPUTY DIRECTOR  
OC COMMUNITY RESOURCES

**JENNIFER HAWKINS, DVM**  
DIRECTOR  
OC ANIMAL CARE

**RENEE RAMIREZ**  
DIRECTOR  
OC COMMUNITY SERVICES

**JULIA BIDWELL**  
DIRECTOR  
HOUSING & COMMUNITY  
DEVELOPMENT & HOMELESS  
PREVENTION

**STACY BLACKWOOD**  
DIRECTOR  
OC PARKS

**HELEN FRIED**  
COUNTY LIBRARIAN  
OC PUBLIC LIBRARIES

**TO:** Toni Smart, Director  
Auditor-Controller, Internal Audit Division

**RE: AUDIT NO. 1422 OC Community Resources/OC Parks Special  
Revenue Fund 405**

The Auditor-Controller Internal Audit Division completed an audit of Special Revenue Fund 405 in OC Community Resources (OCCR)/OC Parks for the year ended June 30, 2016. Below are OC Community Resources' responses to the audit findings and recommendations, which have been reviewed and approved by the County Executive Office.

**Finding No. 1 – Active OC Expediter User Accounts for Former Employees (Control Finding)**

**Recommendation No. 1:**

We recommend OCCR perform periodic reviews of OC Expediter user accounts. We also recommend OCCR ensure user roles in OC Expediter are deactivated when personnel are terminated or transferred from OCCR.

**OCCR/OC Parks Management Response:**

**Concur** - OCCR has implemented a process to review OC Expediter user accounts on a routine basis and ensure they are deactivated when personnel leave OCCR.

**Finding No. 2 – COFA Document for Fund 405 Needs to be Created (Control Finding)**

**Recommendation No. 2:**

We recommend OCCR/OC Parks partner with the Auditor-Controller to establish a COFA for Fund405.

**OCCR/OC Parks Management Response:**

**Concur** - OCCR will work with OCCR Accounting to establish a COFA for Fund 405.

If you have any questions related to these responses, please contact Brian Rayburn, Business Office Manager, OC Community Resources at 714-480-2885.



OFFICE OF THE DIRECTOR  
1770 NORTH BROADWAY  
SANTA ANA, CA 92706-  
2642  
PHONE: 714.480.2788  
FAX: 714.480.2899

Sincerely,

  
Signature

5/17/17  
Date

DR: bwr