



PUBLIC INFORMATION

INTERNAL AUDIT DEPARTMENT



**Internal Control Audit:
Sheriff-Coroner
Concealed Carry Weapon Licensing and
Records Units Cash Receipts**

For the Year Ended September 30, 2019

**Audit No. 1918
Report Date: August 17, 2020**

Number of Recommendations

0

**Critical Control
Weaknesses**

1

**Significant Control
Weaknesses**

5

Control Findings

OC Board of Supervisors

CHAIRWOMAN MICHELLE STEEL
SECOND DISTRICT

VICE CHAIRMAN ANDREW DO
FIRST DISTRICT

SUPERVISOR DONALD P. WAGNER
THIRD DISTRICT

SUPERVISOR DOUG CHAFFEE
FOURTH DISTRICT

SUPERVISOR LISA A. BARTLETT
FIFTH DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Sheriff-Coroner Concealed Carry Weapon Licensing and Records Units Cash Receipts

August 17, 2020

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of Sheriff-Coroner's (OCSD) cash receipts process for the Concealed Carry Weapon Licensing and Records units for the year ended September 30, 2019.
RESULTS	<ul style="list-style-type: none"> We concluded that OCSD's internal control over the cash receipts process is generally effective to ensure cash receipts are properly collected, recorded, deposited, and safeguarded. We concluded that the cash receipts process was generally efficient.
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Unauthorized access to sensitive data. Misappropriation or theft of County assets. Inconsistent procedures if the in-house financial system or licensing software shuts down. Undetected errors and an inadequate audit trail.
NUMBER OF RECOMMENDATIONS	Opportunities for enhancing internal control include:
0 CRITICAL CONTROL WEAKNESSES	<ul style="list-style-type: none"> Seeking features to strengthen access controls over the web-based system and periodically reviewing user access.
1 SIGNIFICANT CONTROL WEAKNESSES	<ul style="list-style-type: none"> Endorsing checks immediately upon receipt. Ensuring deposits are made timely. Establishing a written business continuity plan.
5 CONTROL FINDINGS	<ul style="list-style-type: none"> Ensuring deposits are reviewed by having cashiers (preparer) and supervisors (reviewer) document their review with a signature/initial and date. Assigning custody of keys and maintaining written documentation of key holders. Developing a written policy for combination changes and the collection of keys. Performing periodic inventories of unused cash receipts.

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608

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Audit No. 1918

August 17, 2020

To: Don Barnes
Sheriff-Coroner

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Internal Control Audit: Sheriff-Coroner Concealed Carry Weapon Licensing and
Records Units Cash Receipts

We have completed an Internal Control Audit of Sheriff-Coroner's (OCSD) Cash Receipts process for the Concealed Carry Weapon Licensing and Records units for the year ended September 30, 2019. Due to the sensitive nature of a specific finding (restricted information), only the results for Finding Nos. 2 through 6 immediately follow this letter. Results for Finding No. 1 are included in Appendix A (which is redacted from public release) and additional information including background and our objectives, scope, and methodology are included in Appendix B.

OCSD concurred with all of our recommendations and the Internal Audit Department considers OCSD's management response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by OCSD's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Sheriff-Coroner Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Eide Bailly LLP, County External Auditor

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RESULTS

**BUSINESS PROCESS
& INTERNAL
CONTROL
STRENGTHS**

Business process and internal control strengths noted during our audit include:

- ✓ Financial Services and the Concealed Carry Weapon (CCW) Licensing Unit have established written internal policy and procedures for cash handling.
- ✓ Financial Services maintains a log that documents cash receipts received for deposit and the transfer of accountability.
- ✓ Financial Services inputs the finalized CAPS+ Cash Receipt (CR) document number into the in-house financial system to ensure deposits are recorded in CAPS+.
- ✓ Cash receipts and receipt books are stored in a secure manner and accessible only by authorized personnel.
- ✓ Deposits are picked up via an armored transport service.
- ✓ Transactions are reconciled to system records and recorded on a daily transmittal deposit form.
- ✓ All deposits are recorded into the in-house financial system that generates a CR file with account coding to be uploaded into CAPS+.

FINDING NO. 1

Removed due to the sensitive nature of the finding.

FINDING NO. 2**Timeliness of Check Endorsements and Deposits**

Checks received by licensing staff are not endorsed with a restrictive endorsement stamp immediately upon receipt. Instead, checks are stored in a locked cabinet, and are subsequently transferred to the back-office staff for deposit preparation. Endorsement of the check(s) typically occurs the next business day.

In addition, we noted that payments are not deposited in a timely manner. Out of 30 transactions tested, it took an average of five business days to deposit and record payments. OCSO stated that this was due to a staff shortage during the audit period and practices have since changed to process deposits within two days, and if they are held for longer, Financial Services is informed of the delay.

CATEGORY

Control Finding



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RISK	Not endorsing checks immediately upon receipt increases the risk of misappropriation or theft of County assets. This risk is further increased when payments are not deposited timely.
RECOMMENDATION	OCSD management ensure: A. Cashiers endorse checks with a restrictive endorsement stamp immediately upon receipt. B. Payments collected or received are deposited timely.
MANAGEMENT RESPONSE	Concur. A. CCW and Records staff have been instructed to endorse checks with a restrictive endorsement stamp immediately upon receipt. B. Payments received will be deposited within 2 business days.

FINDING NO. 3	Business Continuity Plan Although OCSD has a process in place to collect cash receipts in the event the financial in-house system or the licensing software become inoperable, a written business continuity plan has not been established. If the systems become inoperable, staff can process manual licensing applications, submit a manual upload for CAPS+ recording, and perform a manual daily reconciliation. OCSD stated that a written business continuity plan is currently being developed.
CATEGORY	Control Finding
RISK	Not having a formal written business continuity plan could result in inconsistent procedures being followed in the event the in-house system or licensing software become inoperable.
RECOMMENDATION	OCSD establish a written policy and procedure detailing a business continuity plan in the event the in-house financial system or the licensing software become inoperable.
MANAGEMENT RESPONSE	Concur. Financial Operations has drafted written policies and procedures that includes a business continuity plan. CCW documented a continuity plan that was incorporated into the CCW Policy/Training Manual in May 2020.



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FINDING NO. 4	Deposit Transmittal Reports <p>The daily Deposit Transmittal Reports were not consistently signed and/or dated by the Cashier (preparer)/Supervisor (reviewer). In 12 reports tested, we noted the following:</p> <ul style="list-style-type: none"> • Seven (58%) had no preparer signature (name is printed) and were not dated by the preparer or reviewer. • Three (25%) were not dated by both the preparer and the reviewer. • Two (17%) had no reviewer signature.
CATEGORY	Control Finding
RISK	Not consistently documenting preparation and review of deposit records increases the risk of undetected errors and results in an inadequate audit trail.
RECOMMENDATION	OCSD management ensure the preparation and review of deposit transmittal reports are properly documented.
MANAGEMENT RESPONSE	<p>Concur. The Deposit Transmittal form was revised to reflect the dates prepared and reviewed. The updated form has been in use since late June 2020.</p> <p>CCW and Records staff have been instructed to properly complete and sign the Deposit Transmittal forms prior to submitting to Financial.</p>

FINDING NO. 5	Policy & Procedures (P&Ps) and Record of Key Holders <p>OCSD secures cash receipts in a locked box/register but does not maintain a written record of keyholders. One unit has not assigned custody of the keys.</p> <p>In addition, the department does not have a written policy pertaining to the changing of combinations on safes and the collection of keys from terminated staff. OCSD stated that P&Ps are currently being developed.</p>
CATEGORY	Control Finding
RISK	Failure to maintain documentation of key holders increases the risk of theft of cash assets.



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RECOMMENDATION	OCSD management ensure: A. Individual units assign appropriate custody of keys. B. Individual units maintain written documentation of key holders. C. A written policy is developed pertaining to the changing of safe combinations and the collecting of keys from terminated employees.
MANAGEMENT RESPONSE	Concur. OCSD is in the process of documenting procedures that detail the proper administration of keys and safe combinations. The procedures are expected to be completed by October 2020.

FINDING NO. 6	Inventory of Cash Receipts Although OCSD logs when receipt books are issued and returned, an inventory of the unused cash receipt books has not been performed.
CATEGORY	Control Finding
RISK	Not performing a physical inventory of unused cash receipt books increases the risk that cash receipt books may be used inappropriately.
RECOMMENDATION	OCSD assign an employee with no custodial or cashiering duties to periodically perform an inventory of unused cash receipt books.
MANAGEMENT RESPONSE	Concur. OCSD implemented an inventory of Receipt Books in March. This process was assumed by Audit Staff in May 2020 and is performed at the end of each month.

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Gianne Morgan, CIA Alejandra Hernandez	Assistant Director Senior Audit Manager Audit Manager Senior Auditor
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APPENDIX A: RESTRICTED INFORMATION

Content in Appendix A has been removed from this report due to the sensitive nature of the specific finding.



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APPENDIX B: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> 1. Evaluate the effectiveness of internal control over the cash receipts process to ensure cash receipts are properly collected, recorded, deposited, and safeguarded. 2. Review the cash receipts process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over OCSD's cash receipts process for the Concealed Carry Weapon Licensing and Records units for the year ended September 30, 2019. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of the accounts receivable process or the cash receipts process for fiduciary and special revenue funds. In addition, we did not review IT general controls or perform a comprehensive review of application controls over OCSD's information systems used to process cash receipts.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for OCSD with a similar scope within the last ten years.</p>
BACKGROUND	<p>OCSD generates daily cash receipts from various divisions for services provided, such as the Professional Standards Division (PSD) for licensing, Records & Support Services for subpoena records and clearance letters, Southeast/Southwest Operations Divisions for repossession/towing fees, and the Coroner Division for transportation services. These transactions do not include special purpose funds, such as jail cashing, parking citations, or grant revenue.</p> <p>During the audit period, total daily cash receipts under these divisions were approximately \$464,200, of which \$379,500 (82%) was generated by the Concealed Carry Weapon (CCW) Licensing unit under PSD, \$35,900 (8%) by the Records unit under Records & Support Services, and the remaining 10% by the various other operational units.</p> <p>Cash receipts accounting services are provided by the Financial Services unit within OCSD's Administrative Services Command. Deposits collected at the unit level are transferred to Financial Services for deposit. Financial Services uses an in-house system to process all cash receipts received from the various units.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2019-20 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	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 internal control 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 department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	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 the department's operating procedures, accounting practices, and compliance with County policy.



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APPENDIX C: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>These are audit findings or a combination of audit 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 its attention immediately.</p>	<p>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.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



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APPENDIX D: SHERIFF-CORONER MANAGEMENT RESPONSE

ORANGE COUNTY SHERIFF'S DEPARTMENT

EXTERNAL MEMO

To: Director Aggie Alonso, Orange County Internal Audit Department
From: Director Noma M. Crook, Financial/Administrative Services Division
Date: August 3, 2020
RE: Sheriff-Coroner Concealed Carry Weapon Licensing and Records Units Cash Receipts Audit



As requested, attached is the Management Letter and the response to the Sheriff-Coroner Concealed Carry Weapon Licensing and Records Units Draft Audit Report.

If you have any questions or require additional information, please contact Monique Vansuch, Audit Manager at (714) 834-3201 or me at (714) 834-6681 for further assistance.

c: Executive Director Brian Wayt, Administrative Services Command
Senior Director Robert Beaver, Administrative Services
Sharon Tabata, Assistant Director, Financial/Administrative Services Division
Linh Vuong, Cost/Audit Manager, Financial/Administrative Services Division
Scott Suzuki, Assistant Director, Orange County Internal Audit Department
Michael Dean, Senior Audit Manager, Orange County Internal Audit Department

Integrity without compromise | Service above self | Professionalism in the performance of duty | Vigilance in safeguarding our community



Finding # No. 1:

[illegible]

In addition, we noted that payments are not deposited in a timely manner. Out of 30 transactions tested, it took an average of five business days to deposit and record payments. OCSD stated that this was due to a staff shortage during the audit period and practices have since changed to

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process deposits within two days, and if they are held for longer, Financial Services is informed of the delay.

Recommendation:

OCSO management ensure:

- A. Cashiers endorse checks with a restrictive endorsement stamp immediately upon receipt.
- B. Payments collected or received are deposited timely.

Response:

Concur.

- A. CCW and Records staff have been instructed to endorse checks with a restrictive endorsement stamp immediately upon receipt.
- B. Payments received will be deposited within 2 business days.

Finding No. 3:**Business Continuity Plan**

Although OCSO has a process in place to collect cash receipts in the event the financial in-house system or the licensing software become inoperable, a written business continuity plan has not been established.

If the systems become inoperable, staff can process manual licensing applications, submit a manual upload for CAPS+ recording, and perform a manual daily reconciliation. OCSO stated that a written business continuity plan is currently being developed.

Recommendation:

OCSO establish a written policy and procedure detailing a business continuity plan in the event the in-house financial system or the licensing software become inoperable.

Response:

Concur.

Financial Operations has drafted written policies and procedures that includes a business continuity plan.
CCW documented a continuity plan that was incorporated into the CCW Policy/Training Manual in May 2020.

Finding No. 4:**Deposit Transmittal Reports**

The daily Deposit Transmittal Reports were not consistently signed and/or dated by the Cashier (preparer)/Supervisor (reviewer). In 12 reports tested, we noted the following:

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- Two (17%) had no reviewer signature.

Recommendation:

OCSD management ensure the preparation and review of deposit transmittal reports are properly documented.

Response:

Concur.

The Deposit Transmittal form was revised to reflect the dates prepared and reviewed. The updated form has been in use since late June 2020.

CCW and Records staff have been instructed to properly complete and sign the Deposit Transmittal forms prior to submitting to Financial.

Finding No. 5:**Policy & Procedures (P&Ps) and Record of Key Holders**

OCSD secures cash receipts in a locked box/register but does not maintain a written record of key holders. One unit has not assigned custody of the keys.

In addition, the department does not have a written policy pertaining to the changing of combinations on safes and the collection of keys from terminated staff. OCSD stated that P&Ps are currently being developed.

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- A. Individual units assign appropriate custody of keys.
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Response:

Concur. OCSD is in the process of documenting procedures that detail the proper administration of keys and safe combinations. The procedures are expected to be completed by October 2020.

Finding No. 6:**Inventory of Cash Receipts**

Although OCSD logs when receipt books are issued and returned, an inventory of the unused cash receipt books has not been performed.



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Recommendation:

OCSD assign an employee with no custodial or cashiering duties to periodically perform an inventory of unused cash receipt books.

Response:

Concur. OCSD implemented an inventory of Receipt Books in March. This process was assumed by Audit Staff in May 2020 and is performed at the end of each month.

