



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: OC Community Resources Cash Disbursements & Payables

For the Year Ended August 31, 2020

Audit No. 2014
Report Date: June 30, 2021

Number of Recommendations

0

**Critical Control
Weaknesses**

1

**Significant Control
Weaknesses**

2

Control Findings

OC Board of Supervisors

CHAIRMAN ANDREW DO
1st DISTRICT

VICE CHAIRMAN DOUG CHAFFEE
4th DISTRICT

SUPERVISOR KATRINA FOLEY
2nd DISTRICT

SUPERVISOR DONALD P. WAGNER
3rd DISTRICT

SUPERVISOR LISA A. BARTLETT
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
OC Community Resources Cash Disbursements & Payables

June 30, 2021

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of OC Community Resources (OCCR) cash disbursements and payables process for the year ended August 31, 2020.	
RESULTS	<ul style="list-style-type: none">OCCR's internal control over the cash disbursements and payables process was generally effective to ensure transactions are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with County and departmental policy.OCCR's internal control over the Board of Supervisors' event disbursements was generally effective to ensure transactions are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with County and departmental policy.OCCR's disbursements and payables process is generally efficient.	
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none">Identity theft, loss of the public's trust, legal liability, and remediation costs.Undetected loss or theft.Delays in processing vendor payments.	
NUMBER OF RECOMMENDATIONS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none">Restricting storage of Personally Identifiable Information (PII).Implementing a procedure to document the transfer of accountability.Ensuring the timely payment of invoices.	
0	CRITICAL CONTROL WEAKNESSES	
1	SIGNIFICANT CONTROL WEAKNESSES	
2	CONTROL FINDINGS	

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



INTERNAL AUDIT DEPARTMENT

Audit No. 2014

June 30, 2021

To: Dylan Wright
OC Community Resources Director

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

Subject: Internal Control Audit: OC Community Resources Cash Disbursements & Payables

We have completed an internal control audit of OC Community Resources (OCCR) cash disbursements and payables process for the year ended August 31, 2020. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCCR concurred with all of our recommendations and the Internal Audit Department considers OCCR'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 OCCR'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
- CEO Distribution
- OC Community Resources Distribution
- Auditor-Controller Satellite Accounting Operations 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:

- ✓ Documented internal policy and procedures regarding cash disbursements and payables are established.
- ✓ Invoices are reviewed and verified for key elements, such as matching vendor name with master agreement and calculating total price and quantities.
- ✓ Acknowledgment of receipts are used to confirm goods/services received through OC Expediter.
- ✓ Invoices are assigned to staff based on payment type, e.g., DPA and non-DPA.
- ✓ Internal spreadsheets are used by staff to monitor contract expenditures.
- ✓ Disbursements are supported by payment documentation and maintained in CAPS+.
- ✓ Board of Supervisors invoices are verified with County Counsel to ensure they comply with the Political Reform Act.

FINDING NO. 1

Personally Identifiable Information

Certain personally identifiable information (PII) was found in disbursement supporting documentation.

We found PII, such as full names combined with social security numbers, on one of 26 (4%) disbursements. While this information was restricted to employees granted access to the County's financial images, the unredacted PII could potentially be accessed by an authorized user without a business need.

CATEGORY

Significant Control Weakness

RISK

Inadequate security over PII could result in identity theft. If this PII was accessed via unauthorized means, the impact to the County could include loss of the public's trust, legal liability, and remediation costs.

RECOMMENDATION

OCCR redact PII from disbursement supporting documentation.



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MANAGEMENT RESPONSE	Concur: Our current procedures require PII to be redacted from invoices whenever possible. We will take more care in scrutinizing invoices for, and redacting PII. Also, we will review invoices containing PII to determine if that information is necessary for invoice processing. If it is not necessary, we will work with the vendor(s) to have PII removed from the invoices prior to sending them to us for processing. If PII is required to process the invoice, the invoice will be properly secured in the ERMI system, in accordance with existing procedures. Finally, we will replace the disbursement supporting documentation identified during the audit which contained PII with a redacted version of the documentation.
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FINDING NO. 2	Transfer of Accountability No written documentation is maintained when checks are transferred from the OCCR Community Events Coordinator to the Board Office staff. On some occasions, the OCCR Community Events Coordinator picks up checks for community events on behalf of the Board of Supervisors. The Community Events Coordinator then transfers the checks to the Board Office staff for distribution to vendors.
CATEGORY	Control Finding
RISK	Potential loss or theft that may not be detected or resolved timely.
RECOMMENDATION	OCCR ensure transfers of accountability are documented when monies are transferred between employees.
MANAGEMENT RESPONSE	Concur: We have created a transfer of accountability log to be used when checks are transferred from one employee to another, including from OCCR staff to Board of Supervisors staff. This log includes details of the check being transferred, on what date and to whom it is being transferred, including that person's signature. A new procedure has also been developed to accompany this log. The recommendation has been implemented.

FINDING NO. 3	Timely Payment of Invoices Three of 31 (10%) invoices were processed after 30 days of receipt. OCCR AP unit has three vacancies that is attributing to increased workloads for current staff, which is causing increased processing time of invoices.
CATEGORY	Control Finding



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RISK	Late payments can affect vendors' ability to continue to conduct business with the County, which could result in procurement inefficiencies. Late payments may also subject the County to payment penalties.
RECOMMENDATION	OCCR apply resources as necessary to ensure invoices are processed within 30 days of receipt.
MANAGEMENT RESPONSE	Concur: We strive to meet the 30-day invoice processing timeframe and give priority to invoices related to critical goods and services. We are filling the vacancies in our Accounts Payable unit and are on track to be fully staffed by July 2021. In addition, we have been working on a project with our highest volume vendor, Brodart, to automate the billing and payment of their invoices. This process will account for approximately 1,000 invoices per month, freeing up our Accounts Payable staff to focus on processing other invoices.

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA, CISA Stephany Pantigoso Virginia Nguyen, CPA Mari Elias, DPA	Assistant Director Senior Audit Manager Audit Manager Senior Auditor Senior Auditor Administrative Services Manager
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APPENDIX A: 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 disbursements and payables process to ensure transactions are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with County and departmental policy.2. Evaluate the effectiveness of internal control over Board of Supervisors' event disbursements made by OCCR to ensure transactions are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with County and departmental policy.3. Review the cash disbursements and payables process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over OCCR's cash disbursement and payables process for the year ended August 31, 2020. Our methodology included inquiry, observation, and examination of documentation.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of Mileage and Other Expense Reimbursements or the Educational & Professional Reimbursement Program. In addition, we did not review disbursements made for the revolving fund and payroll. Finally, we did not review inventory counts to verify receipt of goods nor did we review any activities performed by Auditor-Controller Central Accounting.</p>
PRIOR AUDIT COVERAGE	<p>An audit with similar scope, Internal Control Audit: OC Community Resources Disbursement Approval Process, Audit No. 1122, was issued on September 18, 2012.</p>



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BACKGROUND

OC Community Resources (OCCR) provides greater access to residents and visitors who want to fully utilize the resources available in their communities.

Auditor-Controller (A-C) OCCR Accounting reviews payments that are statutorily required or authorized in contracts approved by the Board of Supervisors or by the County Procurement Office (or authorized Deputy Purchasing Agents). These payments are for a variety of goods and services that are necessary to OCCR's functioning.

During the audit period, OCCR disbursed the following amounts:

Program	Amount	% of Total
OC Animal Care	\$1,313,096	1%
OCCR Supportive Services	1,898,795	1%
OC Housing & Community Development	8,580,145	6%
OC Public Library	14,294,874	9%
OC Parks	56,401,506	37%
OC Community Services	71,464,278	46%
Total	153,952,697	100%



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PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2020-21 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 controls 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 B: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
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.	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.	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.



APPENDIX C: OC COMMUNITY RESOURCES MANAGEMENT RESPONSE



DYLAN WRIGHT
DIRECTOR
OC COMMUNITY RESOURCES

CYMANTHA ATKINSON
ASSISTANT DIRECTOR
OC COMMUNITY RESOURCES

JULIE LYONS
DIRECTOR
ADMINISTRATIVE SERVICES

ANDI BERNARD
DIRECTOR
OC ANIMAL CARE

JULIA BIDWELL
DIRECTOR
OC HOUSING & COMMUNITY DEVELOPMENT

RENEE RAMIREZ
DIRECTOR
OC COMMUNITY SERVICES

STACY BLACKWOOD
DIRECTOR
OC PARKS

JULIE QUILLMAN
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

OFFICE OF THE DIRECTOR
COUNTY ADMINISTRATION SOUTH
601 N. ROSS STREET, 6TH FLOOR
SANTA ANA, CA 92701
PHONE: 714.480.2788
FAX: 714.480.2899



June 18, 2021

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

Dear Mr. Alonso:

RE: Internal Audit Report No. 2014

On April 29, 2021, OC Community Resources (OCCR) received a copy of the Internal Audit Department's draft report for Audit No 2014 (Audit). Below please find OCCR's response to the audit finding and recommendation, which has been reviewed and approved by the County Executive Office.

Finding No. 1: Personally, Identifiable Information (Significant Control Weakness)

Recommendation:

OCCR redact PII from disbursement supporting documentation.

OCCR Management Response:

Concur: Our current procedures require PII to be redacted from invoices whenever possible. We will take more care in scrutinizing invoices for, and redacting PII. Also, we will review invoices containing PII to determine if that information is necessary for invoice processing. If it is not necessary, we will work with the vendor(s) to have PII removed from the invoices prior to sending them to us for processing. If PII is required to process the invoice, the invoice will be properly secured in the ERMI system, in accordance with existing procedures. Finally, we will replace the disbursement supporting documentation identified during the audit which contained PII with a redacted version of the documentation.

Finding No. 2: Transfer of Accountability (Control Finding)

Recommendation:

OCCR ensure transfers of accountability are documented when monies are transferred between employees.

OCCR Management Response:

Concur: We have created a transfer of accountability log to be used when checks are transferred from one employee to another, including from OCCR staff to Board of Supervisors staff. This log includes details of the check being transferred, on what date and to whom it is being transferred,

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including that person's signature. A new procedure has also been developed to accompany this log. The recommendation has been implemented.

Finding No. 3: Timely Payment of Invoices (Control Finding)

Recommendation:

OCCR apply resources as necessary to ensure invoices are processed within 30 days of receipt.

OCCR Management Response:

Concur: We strive to meet the 30-day invoice processing timeframe and give priority to invoices related to critical goods and services. We are filling the vacancies in our Accounts Payable unit and are on track to be fully staffed by July 2021. In addition, we have been working on a project with our highest volume vendor, Brodart, to automate the billing and payment of their invoices. This process will account for approximately 1,000 invoices per month, freeing up our Accounts Payable staff to focus on processing other invoices.

If you have any questions related to this response, please contact Nicole Swain, ASR & Special Projects Manager at 714-480-2775.

Sincerely,



Dylan Wright, Director
OC Community Resources

6/18/2021

Date

