



# INTERNAL AUDIT DEPARTMENT



**Internal Control Audit:  
OC Public Works/OC Road  
Special Revenue Funds**

**For the Year Ended December 31, 2020**

**Audit No. 2019  
Report Date: August 9, 2021**

## Number of Recommendations

0

**Critical Control  
Weaknesses**

0

**Significant Control  
Weaknesses**

1

**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 Public Works/OC Road Special Revenue Funds

August 9, 2021

## AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of OC Public Works (OCPW)/OC Road special revenue funds process for the year ended December 31, 2020.
RESULTS	<ul style="list-style-type: none"> <li>OCPW's internal control over OC Road special revenue funds process was generally effective to ensure sources and uses of funds are proper and in compliance with County and departmental policy, procedures, laws, and accounting standards.</li> <li>OCPW/OC Road's special revenue funds process is generally efficient.</li> </ul>
RISK IDENTIFIED	<p>As a result of our findings, a potential risk includes:</p> <ul style="list-style-type: none"> <li>Misappropriation and/or improper or inconsistent processing of County funds.</li> </ul>
NUMBER OF RECOMMENDATIONS	<p>An opportunity for enhancing internal control includes:</p> <ul style="list-style-type: none"> <li>Determining whether certain dormant account balances should be held or disbursed and closed.</li> </ul>
0	CRITICAL CONTROL WEAKNESSES
0	SIGNIFICANT CONTROL WEAKNESSES
1	CONTROL FINDINGS

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



## INTERNAL AUDIT DEPARTMENT

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Audit No. 2019

August 9, 2021

To: James Treadaway  
OC Public Works Director

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

Subject: Internal Control Audit: OC Public Works/OC Road Special Revenue Funds

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We have completed an internal control audit of OC Public Works (OCPW)/OC Road special revenue funds process for the year ended December 31, 2020. Details of our results and recommendation immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCPW concurred with all our recommendations and the Internal Audit Department considers OCPW'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 OCPW'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
- County Executive Office Distribution
- OC Public Works Distribution
- Auditor-Controller Distribution
- Robin Stieler, Clerk of the Board of Supervisors
- Foreperson, Grand Jury
- Eide Bailly LLP, County External Auditor

# INTERNAL AUDIT DEPARTMENT

## RESULTS

<b>BUSINESS PROCESS &amp; INTERNAL CONTROL STRENGTHS</b>	<p>Business process and internal control strengths noted during our audit include:</p> <ul style="list-style-type: none"> <li>✓ Documented internal policy and procedures regarding fund duties, purposes, and uses of special revenue funds are established.</li> <li>✓ Subsidiary records and general ledger are maintained and reconciled on a monthly basis.</li> <li>✓ Adequate segregation of duties is maintained for receipting/depositing, recording, disbursing, and reconciling.</li> <li>✓ Department balance sheet accounts are used to track different projects.</li> <li>✓ Accounts payable staff audit invoices against the contract or legal authority for payment and obtain confirmation of receiving goods and services from the department.</li> <li>✓ Auditor-Controller administration processes vendor modifications to vendor profiles, such as changes in mailing address.</li> <li>✓ Disbursements are supported by payment documentation and maintained in CAPS+.</li> <li>✓ Internal applications used to process invoices do not allow for duplicate invoices.</li> </ul>
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<b>FINDING No. 1</b>	<b>Development Deposits</b>  <p>One account under Fund 115 – BSAC 9120, Development Deposits, has dormant department balance sheet accounts containing \$224,900. These deposits were collected between December 15, 1999 and June 19, 2012, and the associated accounts were inactive for approximately nine to 21 years as of December 2020.</p>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RISK</b>	<p>Increased risk of misappropriation and/or improper/inconsistent processing of County funds.</p>
<b>RECOMMENDATION</b>	<p>OCPW management should determine whether Fund 115 – BSAC 9120 dormant account balances should be held or disbursed and closed.</p>



# INTERNAL AUDIT DEPARTMENT

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## MANAGEMENT RESPONSE

**Concur** with recommendation. OCPW and OCPW Accounting will take steps to research the dormant account balances to determine project status and whether the funds should be kept, or disbursed and closed. By February 22, 2022, OCPW and OCPW Accounting will take appropriate action on the disposition of funds.

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## AUDIT TEAM

Scott Suzuki, CPA, CIA, CISA, CFE	Assistant Director
Michael Dean, CPA, CIA, CISA	Senior Audit Manager
Zan Zaman, CPA, CIA, CISA	Audit Manager
Alejandra Hernandez	Senior Auditor
Mari Elias, DPA	Administrative Services Manager

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# INTERNAL AUDIT DEPARTMENT

## APPENDIX A: ADDITIONAL INFORMATION

<b>OBJECTIVES</b>	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"><li>1. Evaluate the effectiveness of OCPW's internal control over OC Road special revenue funds to ensure sources and uses of funds are proper and in compliance with County and departmental policy, procedures, laws, and accounting standards.</li><li>2. Review OCPW/OC Road special revenue funds process for efficiency.</li></ol>
<b>SCOPE &amp; METHODOLOGY</b>	<p>Our audit scope was limited to OCPW's internal controls over OC Road special revenue Funds 115 and 174 for the year ended December 31, 2020. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
<b>EXCLUSIONS</b>	<p>Our audit scope did not include a review of information technology controls over systems used in the administration of special revenue funds. In addition, our review did not include Funds 148 and 151.</p>
<b>PRIOR AUDIT COVERAGE</b>	<p>We have not issued any audit reports for OCPW with a similar scope within the last ten years.</p>
<b>BACKGROUND</b>	<p>The mission of OCPW OC Road is "to provide the public with a safe and reliable roadway system and plan for future transportation demands."</p> <p>OCPW's OC Road funds are largely administered by OCPW's Administrative Services including the Accounting Services unit staffed by the Auditor-Controller, with some functions performed by other units, such as OC Development Services, OC Infrastructure Programs, OC Construction, and OC Survey.</p> <p>As of December 31, 2020, OCPW's OC Road Funds 115 and 174 had a combined cash balance of approximately \$179 million.</p>



# INTERNAL AUDIT DEPARTMENT

<b>PURPOSE &amp; AUTHORITY</b>	We performed this audit in accordance with the FY 2020-21 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
<b>PROFESSIONAL STANDARDS</b>	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.
<b>FOLLOW-UP PROCESS</b>	<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>
<b>MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL</b>	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.
<b>INTERNAL CONTROL LIMITATIONS</b>	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.



# INTERNAL AUDIT DEPARTMENT

## APPENDIX B: 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 <b>Critical Control Weaknesses</b> 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. <b>Significant Control Weaknesses</b> 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. <b>Control Findings</b> are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>





# INTERNAL AUDIT DEPARTMENT

## APPENDIX C: OC PUBLIC WORKS MANAGEMENT RESPONSE



County Administration South  
601 North Ross Street  
Santa Ana, CA 92701

P.O. Box 4048  
Santa Ana, CA 92702

(714) 667-8800

info@ocpw.ocgov.com

OCPublicWorks.com



Administrative Services



OC Development Services



OC Facilities Design & Construction Management



OC Facilities Maintenance & CUF



OC Fleet Services



OC Construction



OC Environmental Resources



OC Operations & Maintenance



OC Infrastructure Programs




OC Survey

## ORANGE COUNTY OC Public Works MEMORANDUM

**Date:** July 27, 2021

**To:** Aggie Alonso, CPA, CIA CRMA, Internal Audit Department

**From:** James Treadaway, Director of OC Public Works 

**Subject:** Response to Draft Report - Audit No. 2019: OC Public Works/OC Road Special Revenue Funds

OC Public Works has received and reviewed the draft form of the Internal Audit Department's audit of OC Road Special Revenue Funds and hereby provides the following response to the recommendation:

### Finding No. 1 - Development Deposits

#### Recommendation:

OCPW management should determine whether Fund 115 - BSAC 9120 dormant account balances should be held or disbursed and closed.

#### Management Response:

##### **Concur with recommendation.**

OCPW and OCPW Accounting will take steps to research the dormant account balances to determine project status and whether the funds should be kept, or disbursed and closed. By February 22, 2022, OCPW and OCPW Accounting will take appropriate action on the disposition of funds.

Should you have any questions, please contact James Treadaway by telephone at (714) 667-9700 and/or email at [James.Treadaway@ocpw.ocgov.com](mailto:James.Treadaway@ocpw.ocgov.com).

cc: Aggie Alonso, CPA, CIA, CRMA, Director, Internal Audit Department  
Scott Suzuki, CPA, CIA, CISA, CFE, Assistant Director, Internal Audit Department  
Michael Dean, CPA, CIA, CISA, Senior Audit Manager, Internal Audit Department  
Mari Elias, DPA, Administrative Services Manager, Internal Audit Department  
Zan Zaman, CPA, CIA, CISA, Audit Manager, Internal Audit Department  
Gianne Morgan, CIA, Audit Manager, Internal Audit Department  
Alejandra Hernandez, Senior Auditor, Internal Audit Department  
Lala Ragen, Director, Performance Policy and Management, County Executive Office  
Tim Corbett, Chief Deputy Director, OCPW  
Kevin Onuma, County Engineer, OCPW  
Ron Vienna, Deputy Director, Administrative Services, OCPW  
Greg White, Executive, A-C/Satellite Accounting Operations  
Paul Villanueva, Accounting Manager, A-C/OCPW Accounting  
James Christiansen, Infrastructure Accounting Manager, A-C/OCPW Accounting  
Tam Vu, Revenue Streams Manager, OCPW

