



# INTERNAL AUDIT DEPARTMENT



**Internal Control Audit:  
OC Community Resources/  
OC Public Libraries  
Special Revenue Fund 120**

**For the Calendar Year Ended  
December 31, 2022**

**Audit No. 2216  
Report Date: September 6, 2023**

## Number of Recommendations

**0**

**Critical Control  
Weaknesses**

**1**

**Significant Control  
Weakness**

**2**

**Control Findings**

## OC Board of Supervisors

CHAIRMAN DONALD P. WAGNER  
3rd DISTRICT

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1st DISTRICT

SUPERVISOR VICENTE SARMIENTO  
2nd DISTRICT

SUPERVISOR DOUG CHAFFEE  
4th DISTRICT

SUPERVISOR KATRINA FOLEY  
5th DISTRICT



# INTERNAL AUDIT DEPARTMENT

Internal Control Audit:  
OC Community Resources/OC Public Libraries Special Revenue Fund 120

September 6, 2023

## AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of OC Community Resources (OCCR)/OC Public Libraries (OCPL) Special Revenue Fund 120 and a limited review of documentation for all fiduciary and special revenue funds administered by OCCR for the Calendar Year ended December 31, 2022.						
RESULTS	<ul style="list-style-type: none"> <li>We concluded that OCCR's internal controls over OCPL Special Revenue Fund 120 were generally effective to ensure the sources and uses of funds are proper and in compliance with County and departmental policies and procedures.</li> <li>We concluded that OCCR/OCPL's special revenue fund process is generally efficient.</li> </ul>						
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> <li>Identity theft, loss of public's trust, legal liability, and remediation costs.</li> <li>Misunderstanding or not communicating the rights, responsibilities, and/or authorized uses for funds.</li> <li>Misappropriation and/or improper/inconsistent processing of County funds.</li> </ul>						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1"> <tr> <td data-bbox="99 1507 201 1608">0</td> <td data-bbox="201 1507 391 1608">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1608 201 1709">1</td> <td data-bbox="201 1608 391 1709">SIGNIFICANT CONTROL WEAKNESS</td> </tr> <tr> <td data-bbox="99 1709 201 1801">2</td> <td data-bbox="201 1709 391 1801">CONTROL FINDINGS</td> </tr> </table>	0	CRITICAL CONTROL WEAKNESSES	1	SIGNIFICANT CONTROL WEAKNESS	2	CONTROL FINDINGS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> <li>Redacting Personally Identifiable Information (PII).</li> <li>Ensuring all fiduciary and special revenue funds are fully supported with complete written documentation.</li> <li>Ensuring proper disposition of inactive funds.</li> </ul>
0	CRITICAL CONTROL WEAKNESSES						
1	SIGNIFICANT CONTROL WEAKNESS						
2	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. 2216

September 6, 2023

To: Dylan Wright  
OC Community Resources Director

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

Subject: Internal Control Audit: OC Community Resources/OC Public Libraries Special Revenue Fund 120

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We have completed an internal control audit of OC Community Resources (OCCR)/OC Public Libraries (OCPL) Special Revenue Fund 120 for the Calendar Year ended December 31, 2022. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology is included in Appendix A.

OCCR concurred with all our recommendations and the Internal Audit Department considers management's 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 personnel during our audit. If you have any questions regarding our audit, please contact me at (714) 834-5442 or Senior IT Audit Manager Michael Dean at (714) 834-4101.

### Attachments

#### Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- County Executive Office Distribution
- OC Community Resources Distribution
- Auditor-Controller Satellite Accounting Operations Distribution
- Robin Stieler, Clerk of the Board
- 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>✓ OCCR has detailed desk procedures for the performance of fund duties by OCPL, Accounting, and Budget staff, such as cash receipting, depositing, reconciling, and monitoring.</li> <li>✓ OCCR Budget staff maintains a monthly expenditure and revenue report to monitor the special revenue fund.</li> <li>✓ Receipting, depositing, disbursing, reconciling, and monitoring duties are adequately segregated.</li> <li>✓ OCCR Accounting reviews and approves invoices prior to disbursements.</li> <li>✓ Supporting documentation for fund receipts and disbursements is maintained.</li> <li>✓ OCCR maintains a separate fund account for OCPL's capital improvements.</li> </ul>
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<b>FINDING NO. 1</b>	<p><b>Personally Identifiable Information</b></p> <p>During our background research, we noted three instances where unredacted check images containing Personally Identifiable Information (PII), such as full names, addresses, and bank account information were included in departmental desk procedures (twice) and support documentation for a fund deposit transaction (once). While the fund deposit documentation is 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. As a result of our review, OCCR/OCPL redacted the PII in the desk procedures noted.</p>
<b>CATEGORY</b>	<b>Significant Control Weakness</b>
<b>RISK</b>	<p>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.</p>
<b>RECOMMENDATION</b>	<p>OCCR management ensure PII is redacted from support documentation.</p>
<b>MANAGEMENT RESPONSE</b>	<p><b>Concur.</b> OCCR has reviewed and removed Personally Identifiable Information from OCPL internal department desk procedures as recommended. This action was completed as of July 3, 2023.</p>



# INTERNAL AUDIT DEPARTMENT

<b>FINDING No. 2</b>	<p><b>Fund Documentation</b></p> <p>We noted seven of 26 (27%) funds were not adequately supported with Chart of Account (COFA) documentation in the current required format.</p> <p>For example, we noted documentation dated in the 1970s to establish a fund did not contain required elements such as budget control, interest revenue account coding, expiration date, and planned disposition of residual balances at closing. In addition, two funds (including Fund 120) did not have any COFA documentation. It should be noted that these funds were established prior to the current COFA requirements.</p>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RISK</b>	Absence of complete written fund documentation may increase the risk of misunderstanding or not appropriately communicating the rights, responsibilities, and authorized uses for funds.
<b>RECOMMENDATION</b>	OCCR management ensure that all fiduciary and special revenue funds are fully supported with complete written documentation in compliance with County policy.
<b>MANAGEMENT RESPONSE</b>	<b>Concur.</b> OCCR will ensure that fiduciary and special revenue funds are supported by complete written Chart of Account (COFA) documentation in the current required format. This will be done by January 31, 2024.

<b>FINDING No. 3</b>	<p><b>Inactive Fund</b></p> <p>During our preliminary review of fiduciary and special revenue funds administered by OCCR, we noted one fund (Fund 16E) has been inactive for several years. Fund 16E was originally established to process certain payments, but it was later determined these payments should be deposited through a different fund. OCCR indicated Fund 16E has never been used and is no longer needed. Therefore, OCCR stated they will close the fund.</p>
<b>CATEGORY</b>	<b>Control Finding</b>
<b>RISK</b>	Increased risk of misappropriation and/or improper/inconsistent processing of County funds.
<b>RECOMMENDATION</b>	OCCR management ensure the proper disposition of inactive funds.
<b>MANAGEMENT RESPONSE</b>	<b>Concur.</b> OCCR will conduct a review of fiduciary and special revenue funds to identify inactive funds. OCCR will ensure proposer disposition of inactive funds, which includes closing fund 16E. This will be done by January 31, 2024.



# INTERNAL AUDIT DEPARTMENT

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<b>AUDIT TEAM</b>	Michael Dean, CPA, CIA, CISA Gianne Morgan, CIA, CISA Stephany Franco Mary Ann Cosep Thuy Luu	Senior IT Audit Manager IT Audit Manager Senior Auditor Senior Auditor Staff Specialist
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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 internal controls over Special Revenue Fund 120 to ensure the sources and uses of funds are proper and in compliance with County and departmental policies and procedures.</li><li>2. Review the special revenue fund process for efficiency.</li></ol>
<b>SCOPE &amp; METHODOLOGY</b>	<p>Our audit scope was limited to internal controls over OCCR/OCPL's Special Revenue Fund 120 and a limited review of documentation for all fiduciary and special revenue funds administered by OCCR for the Calendar Year ended December 31, 2022. Our methodology included inquiry, examination of documentation, and testing of relevant transactions.</p>
<b>EXCLUSIONS</b>	<p>Our audit scope did not include review of information technology controls for any systems used in the administration of the special revenue funds. In addition, we did not review the fund disbursements process other than for a specific vendor since we recently reviewed OCCR's disbursements process in Audit No. 2014, report issued June 30, 2021.</p>
<b>PRIOR AUDIT COVERAGE</b>	<p>We issued an audit report for OCCR with a similar scope on March 15, 2016, Audit No. 1519 Countywide Audit of Fiduciary Funds: OC Community Resources for the Period July 1, 2014 through June 30, 2015. In addition, we issued audit report on April 1, 2016, Audit No. 1579 Cash Compliance Audit: OC Community Resources/OC Public Libraries For Fiscal Year 2015-16.</p>
<b>BACKGROUND</b>	<p>OC Public Libraries (OCPL), a program under OC Community Resources (OCCR), provides safe and easy access to libraries for the community, offers a broad spectrum of materials in multiple formats and provides the community with the best access to the collection, and delivers knowledgeable, friendly, and experienced staff to support the information needs of the community.</p> <p>Fund 120 was established as a special revenue fund for the administration of funds for OCPL's operations, with the exception of OCPL's capital improvements which is maintained in a separate fund. Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes.</p> <p>For the Fiscal Year 2022-23, Fund 120 had a final budget of approximately \$79 million.</p>



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<b>PURPOSE &amp; AUTHORITY</b>	We performed this audit in accordance with the FY 2022-23 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 shall establish effective internal controls as department management is responsible for internal control. Department management shall also continuously assess and strengthen internal control by evaluating internal control systems and promptly correcting weaknesses when detected." The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our 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.





## 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>



## 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

MONICHA SCHMIDT  
INTERIM DIRECTOR  
OC ANIMAL CARE

JULIA BIDWELL  
DIRECTOR  
OC HOUSING & COMMUNITY DEVELOPMENT

RENEE RAMIREZ  
DIRECTOR  
OC COMMUNITY SERVICES

PAM PASSOW  
DIRECTOR  
OC PARKS

JULIE QUILLMAN  
COUNTY LIBRARIAN  
OC PUBLIC LIBRARIES

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

## OC Community Resources

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

Dear Mr. Alonso,

RE: Draft Internal Audit Report No. 2216.

On August 15, 2023, OC Community Resources (OCCR) received a copy of the Internal Audit Department's draft report for Audit No 2216 (Audit). Below please find OCCR's response to the audit findings and recommendations, which have been reviewed and approved by the County Executive Office.

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

#### **Recommendation:**

OCCR Management ensure PII is redacted from support documentation.

#### **Management Response:**

Concur. OCCR has reviewed and removed Personally Identifiable Information from OCPL internal department desk procedures as recommended. This action was completed as of July 3, 2023.

### **Finding No. 2: Fund Documentation (Control Finding)**

#### **Recommendation:**

OCCR management ensure that all fiduciary and special revenue funds are fully supported with complete written documentation in compliance with County policy.

#### **Management Response:**

Concur. OCCR will ensure that fiduciary and special revenue funds are supported by complete written Chart of Account (COFA) documentation in the current required format. This will be done by January 31, 2024.

RE: DRAFT INTERNAL AUDIT REPORT NO. 2216  
PAGE 2 OF 2

**Finding No. 3: Inactive Fund (Control Finding)**

**Recommendation:**

OCCR management ensure the proper disposition of inactive funds.

**Management Response:**

Concur. OCCR will conduct a review of fiduciary and special revenue funds to identify inactive funds. OCCR will ensure proposer disposition of inactive funds, which includes closing fund 16E. This will be done by January 31, 2024.

If you have any questions related to this response, please contact James Dinwiddie III at 714-480-2889.

Sincerely,

  
\_\_\_\_\_  
Dylan Wright, Director  
OC Community Resources

8/24/23  
Date