



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: Probation Department Cal-Cards

For the Year Ended March 31, 2019

Audit No. 1822

Report Date: March 24, 2020

Number of Recommendations

0

Critical Control
Weaknesses

0

Significant Control
Weaknesses

3

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:
Probation Department Cal-Cards

March 24, 2020

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of Probation Department's (Probation) Cal-Card process for the year ended March 31, 2019.						
RESULTS	<ul style="list-style-type: none"> We concluded that Probation's internal control over the Cal-Card process is generally effective to ensure Cal-Card expenditures are complete (recorded/reported), accurate, valid (authorized), processed timely, and in compliance with County policies. We concluded that the Cal-Card process is generally efficient. 						
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Inconsistent processing of Cal-Card purchases. Improper use tax payments and difficulty monitoring different types of transactions against respective compliance requirements. Inefficient processing of travel requisitions. 						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1" data-bbox="99 1434 394 1738"> <tr> <td data-bbox="99 1434 203 1535">0</td> <td data-bbox="203 1434 394 1535">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1535 203 1635">0</td> <td data-bbox="203 1535 394 1635">SIGNIFICANT CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1635 203 1738">3</td> <td data-bbox="203 1635 394 1738">CONTROL FINDINGS</td> </tr> </table>	0	CRITICAL CONTROL WEAKNESSES	0	SIGNIFICANT CONTROL WEAKNESSES	3	CONTROL FINDINGS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> Establishing internal policy and procedures regarding Cal-Card purchases. Ensuring the appropriate Cal-Card type is used when making purchases. Implementing OC Expediter for travel requisitions.
0	CRITICAL CONTROL WEAKNESSES						
0	SIGNIFICANT CONTROL WEAKNESSES						
3	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. 1822

March 24, 2020

To: Steven J. Sentman
Chief Probation Officer

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

Subject: Internal Control Audit: Probation Department Cal-Cards



We have completed an Internal Control Audit of Probation Department's (Probation) Cal-Card process for the year ended March 31, 2019. 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.

Probation concurred with all our recommendations and the Internal Audit Department considers Probation'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 Probation'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
- Probation Department 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	<p>Business process and internal control strengths noted during our audit include:</p> <ul style="list-style-type: none"> ✓ Duties between the Cal-Card user roles are adequately segregated. ✓ Requisitions are approved by management prior to a purchase. ✓ Relevant documentation (e.g., travel approvals, receipts) is included with the requisition prior to closing. ✓ The Billing Official facilitates the timely review and submission of Cal-Card documentation packets by issuing timeline reminders to cardholders every billing cycle. ✓ After submission of payment packets to the Auditor-Controller for processing, the Billing Official monitors accounting activity to ensure remittance to U.S. Bank is accurate and timely. ✓ Probation communicates applicable County policy and procedure updates to staff via e-mail. ✓ Purchase documents are retained in compliance with the County's Retention Schedule. ✓ Probation participates in the County Procurement Office's annual compliance review process.
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FINDING NO. 1	<p>Internal Policy and Procedures</p> <p>Probation's Purchasing Services team uses the County Procurement Office's (CPO) Cal-Card policy, along with other applicable County policies, to govern the department's Cal-Card expenditures. The Purchasing Services team developed internal travel policies, but has not established internal policy and procedures regarding Cal-Cards. County policies provide general guidance, but may not cover the department's specific business needs.</p>
CATEGORY	Control Finding
RISK	<p>Not having departmental policy and procedures could result in inconsistent processing of Cal-Card purchases and management directives not being followed.</p>
RECOMMENDATION	<p>Probation management establish internal policy and procedures regarding Cal-Card purchases.</p>



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MANAGEMENT RESPONSE	Concur. Probation concurs with this recommendation as written. Probation is in the process of developing written policies and procedures that will minimize the inconsistencies of processing Cal-Card purchases. Internal policies and procedures is underway for implementation by June 2020. See Response to Finding No. 3, for Internal Policies and Procedures for travel related expenditures.
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FINDING NO. 2	Cal-Card Type We noted five transactions in which non-travel related items were purchased with a Travel Card. We also noted two transactions in which training registration fees were paid with a P-Card.
CATEGORY	Control Finding
RISK	Use tax is paid on goods from out-of-state vendors purchased through the P-Card. Not using the proper card can result in improper payments of use tax. In addition, not using the proper payment method can make it difficult for management to monitor the different types (travel and food vs. non-travel) of transactions against the respective compliance requirements.
RECOMMENDATION	Probation management ensure the appropriate Cal-Card type is used when making purchases.
MANAGEMENT RESPONSE	Concur. Probation concurs with this recommendation as written. Probation is in the process of developing written policies, procedures and training for the Purchasing Services staff that will minimize the inconsistencies of processing Cal-Card purchases. Implementation and training to be completed by April 2020.

FINDING NO. 3	Manual Travel Requisitions Probation's P-Card purchase requisitions are routed online via OC Expediter, but Travel Card requisitions are still manually routed. OC Expediter is a routing-based requisition software tool and an invoice tracking system used to process and approve requisitions. OC Expediter is also used to monitor available or remaining contract balances to avoid contract overruns. The department is implementing OC Expediter for travel requisitions and anticipates completion in early 2020.
CATEGORY	Control Finding



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RISK	Manual routing can lead to delays in the travel requisition process and an increased risk of errors.
RECOMMENDATION	Probation management ensure the implementation of OC Expediter for travel requisitions.
MANAGEMENT RESPONSE	Concur. Probation concurs with this recommendation as written. Probation is in the process of revising existing department policies and developing procedures for the implementation of electronically routing and approving Travel Requisition using OC Expediter. Implementation of this process pursuant to the September 24, 2019, County Business Travel and Meeting Policy is pending the CEO/County Procurement Office's implementation and roll out of the modified Travel/Training requisitions to all County agencies.

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Gianne Morgan, CIA Gabriela Cabrera	Assistant Director Senior Audit Manager Audit Manager Senior Auditor
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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	Our audit objectives were to: <ol style="list-style-type: none">1. Evaluate the effectiveness of internal control over the Cal-Card process to ensure Cal-Card expenditures are complete (recorded/reported), accurate, valid (authorized), processed timely, and in compliance with County policies.2. Review the Cal-Card process for efficiency.
SCOPE & METHODOLOGY	Our audit scope was limited to internal control over Probation Department's Cal-Card process for the year ended March 31, 2019. Our methodology included inquiry, observation, and examination of documentation.
EXCLUSIONS	Our audit scope did not include a review of Mileage & Other Expense claims or procurement aspects occurring before the requisition process, such as solicitations, vendor selection, contract establishment, etc. In addition, we did not review controls over information systems used to record Cal-Card transactions (e.g., CAPS+).
PRIOR AUDIT COVERAGE	We have not issued any audit reports for Probation with a similar scope within the last ten years.
BACKGROUND	<p>Probation's Procurement, Forms & Property Control unit under the Administrative and Fiscal Division is responsible for oversight of the Cal-Card process. The Purchasing Services team uses the County Procurement Office's (CPO) Cal-Card policy along with other applicable County policies to govern their Cal-Card expenditures.</p> <p>During the audit period, total Cal-Card expenditures were approximately \$570,000 of which \$258,000 (45%) were P-Card transactions and \$312,000 (55%) were Travel Card transactions.</p> <p>CPO Cal-Card Policy In order to streamline the County's purchasing process for one-time purchases, the Board of Supervisors approved, and CPO and Auditor-Controller initiated the purchasing card program by utilizing the State of California's Cal-Card program. The County's Cal-Card program consists of two card types, the P-Card (for goods and services) and the Travel Card (for travel and food-related purchases).</p> <p>The Cal-Card Policy was approved by the County Executive Office (CEO) on October 8, 2014. It establishes County policies and procedures detailing the appropriate use of the Cal-Card purchasing program while adhering to the County's Contract Policy Manual, Business Travel and Meeting Policy, and all other state and local laws. The Cal-Card Policy was updated and approved by the CEO on March 1, 2017 and again on October 20, 2017.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2019-20 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
<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 C: PROBATION DEPARTMENT MANAGEMENT RESPONSE



STEVEN J. SENTMAN
CHIEF PROBATION OFFICER

BRYAN PRIETO
ASSISTANT CHIEF PROBATION OFFICER

TELEPHONE: (714) 569-2000

1055 N. MAIN STREET, 5TH FLOOR
SANTA ANA, CA 92701

MAILING ADDRESS:
P.O. BOX 10260
SANTA ANA, CA 92711-0260

DATE: February 20, 2020

TO: Aggie Alonso, Internal Audit Department Director

CC:

FROM: Dana Schultz, Administrative & Fiscal Division Director

SUBJECT: Response - Internal Control Audit: Probation Department Cal-Cards, Audit No. 1822

On January 27, 2020 Orange County's Probation Department (Probation) received a copy of Internal Audit's report for Audit No. 1822. Please find Probation's response to the control audit findings and recommendations:

<p>Finding No. 1</p>	<p>Internal Policies and Procedures - Probation's Purchasing Services team uses the County Procurement Office's (CPO) Cal-Card policy, along with other applicable County policies, to govern the department's Cal-Card expenditures. The Purchasing Services team developed internal travel policies, but has not established internal policy and procedures regarding Cal-Cards. County policies provide general guidance, but may not cover the department's specific business needs.</p> <hr/> <p>Recommendation: Probation management establish internal policy and procedures regarding Cal-Card purchases.</p> <hr/> <p>Probation's Response: Probation concurs with this recommendation as written. Probation is in the process of developing written policies and procedures that will minimize the inconsistencies of processing Cal-Card purchases. Internal policies and procedures is underway for implementation by June 2020. See Response to Finding No. 3, for Internal Policies and Procedures for travel related expenditures.</p>
<p>Finding No. 2</p>	<p>Cal-Card Type - We noted five transactions in which non-travel related items were purchased with a Travel Card. We also noted two transactions in which training registration fees were paid with a P-Card.</p> <hr/> <p>Recommendation: Probation management ensure the appropriate Cal-Card type is used when making purchases.</p> <hr/> <p>Probation's Response: Probation concurs with this recommendation as written. Probation is in the process of developing written policies, procedures and training for the Purchasing Services staff that will minimize the inconsistencies of processing Cal-Card purchases. Implementation and training to be completed by April 2020.</p>



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Finding No. 3	<p>Manual Travel Requisitions: Probation's P-Card purchase requisitions are routed online via OC Expediter, but Travel Card requisitions are still manually routed. OC Expediter is a routing-based requisition software tool and an invoice tracking system used to process and approve requisitions. OC Expediter is also used to monitor available or remaining contract balances to avoid contract overruns. The department is implementing OC Expediter for travel requisitions and anticipates completion in early 2020.</p> <p>Recommendation: Probation management ensure the implementation of OC Expediter for travel requisitions.</p> <p>Probation's Response: <i>Probation concurs with this recommendation as written. Probation is in the process of revising existing department policies and developing procedures for the implementation of electronically routing and approving Travel Requisition using OC Expediter. Implementation of this process pursuant to the September 24, 2019, County Business Travel and Meeting Policy is pending the CEO/County Procurement Office's implementation and roll out of the modified Travel/Training requisitions to all County agencies.</i></p>
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