



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

*Integrity
Objectivity
Independence*

**FIRST FOLLOW-UP AUDIT
OF THE AUDITOR-CONTROLLER
LASER CHECK PRINTING**

As of
July 31, 2005

AUDIT NUMBER: 2523

REPORT DATE: September 30, 2005

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Deputy Director:	Eli Littner, CPA, CIA, CISA
Audit Manager:	Autumn McKinney, CPA, CIA
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**AUDITOR-CONTROLLER LASER CHECK PRINTING
FIRST FOLLOW-UP AUDIT
OF THE AUDITOR-CONTROLLER
LASER CHECK PRINTING**

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Transmittal Letter

Audit No. 2523

September 30, 2005

TO: David E. Sundstrom, Auditor-Controller

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: First Follow-Up Audit of the Auditor-Controller Laser Check Printing,
Original Audit No. 2326, Issued September 23, 2003

We have completed the First Follow-Up Audit of the Auditor-Controller Laser Checking Printing. Our audit was limited to reviewing actions taken, as of July 31, 2005, to implement the recommendations made in our original audit report dated September 23, 2003. The results of our First Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter.

At the request of the Audit Oversight Committee (AOC), we are to bring to their attention any audit recommendations we find still not addressed, resolved or implemented after our Second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for their discussion. The Second Follow-Up Audit will be conducted six months from the date of this report (**April 2006**). We have provided a Second Follow-Up Audit Report Form for completion prior to our Second Follow-Up Audit.

In addition, as the Director of Internal Audit Department, I make a monthly audit status presentation to the Board of Supervisors (BOS) where I detail any significant and material audit findings released in reports during the prior month and the status of audit recommendations implementation as disclosed by Follow-Up Audits. Accordingly, the results of this Follow-Up Audit will be included in a future summary to the BOS.

Because of these visible changes to our Follow-Up process, the Internal Audit Department is available to partner with all departments and agencies so that they can successfully implement or address difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report, recommendations or Follow-Up process.

Attachment

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas Mauk, County Executive Officer

Edward Corser, CFO, CEO/Finance & Budget

Shaun Skelly, Chief Assistant Auditor-Controller

Mahesh Patel, Assistant Auditor-Controller, Information Technology

Phil Daigneau, Manager, Auditor-Controller/Accounting Systems

Larry Chanda, Manager, Auditor-Controller/CAPS Administration

Carl Crown, Interim CTO, CEO/IT

John Wheeler, Assistant CIO, CEO/IT

Mary Ellen Fuelleman, Contract & Finance Division Manager, CEO/IT

Ted Kerekes, Data Systems Division Manager, CEO/IT

Phil Paker, Manager, ACS State and Local Solutions

Foreman, Grand Jury

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INTERNAL AUDITOR'S REPORT

Audit No. 2523

September 30, 2005

David E. Sundstrom, Auditor-Controller
12 Civic Center Plaza
Santa Ana, CA 92702

We have completed the First Follow-Up Audit of the Auditor-Controller Laser Check Printing. Our audit was limited to reviewing actions taken, as of July 31, 2005, to implement the recommendations made in our original audit report dated September 23, 2003.

The original audit report contained twenty-seven (27) recommendations, each of which required action and therefore were reviewed as part of this audit. This First Follow-Up Audit found eighteen (18) recommendations were fully implemented, three (3) recommendations were partially implemented, one (1) recommendation was in process, three (3) recommendations were not implemented, and two (2) recommendations were closed. We believe the remaining recommendations are still appropriate and further efforts should be made to fully implement them. The remaining nine (9) recommendations not fully implemented are noted below along with a comment on the current status. The item number from the September 23, 2003 report is shown in parentheses after each heading.

Note: The nine items contained in this First Follow-Up Audit Report are considered to be “**Control Findings.**” See *Attachment A* for a description of audit report item classifications.

1. Data Encryption (No. 4A)

Recommendation: We recommend the Auditor-Controller encrypt database tables and data files that contain sensitive information.

Current Status: **Not implemented.** Encryption was not implemented.

Auditor-Controller Planned Action: The Auditor-Controller concurs with the recommendation; however, the application source code must first be obtained by the County in order to implement encryption. See report item No. 7 below.

2. Logical Access to Security Files (No. 4C)

Recommendation: We recommend the Auditor-Controller require CEO/Information Technology (IT) to enable operating system security on the RxLaser servers at the EDC and to restrict access to folders containing critical data files.

Current Status: **Not Implemented.** Logical access to the application server's folder that contains critical data files was not restricted.

Auditor-Controller Planned Action: The Auditor-Controller concurs with the recommendation. According to the Auditor-Controller, the appropriate level of access for users and support staff has now been identified and implemented. The Internal Audit Department will validate this during a secondary Follow-Up audit.

3. Operating System Account Policies (No. 10)

Recommendation: We recommend the Auditor-Controller and CEO/IT set operating system account policies and local security settings to appropriate parameters including password expiration and complexity, enabling security auditing for selected events, and automatic workstation logout.

Current Status: **Partially Implemented.** Password expiration/complexity and automatic workstation have been implemented; however, audit policies for the Enterprise Data Center application server and the Auditor-Controller Disbursing Unit local workstation were not configured to industry best practices. The Internal Audit Department provided a list of recommended settings to the Auditor-Controller.

Auditor-Controller Planned Action: The Auditor-Controller concurs with the recommendation. According to the Auditor-Controller, audit policies have now been enabled to coincide with recommended security best practices. The Internal Audit Department will validate this during a secondary Follow-Up audit.

4. Application Controls (No. 12)

Recommendation: We recommend the Auditor-Controller consider implementing changes to the laser check printing application that prevent the printing of the authorized signature on test pages and prevent issuing checks payable solely to cash.

Current Status: **Partially Implemented.** Changes have been implemented to restrict the printing of test print checks only to authorized personnel; however, an application control to prevent checks from being issued payable solely to cash was not implemented.

Auditor-Controller Planned Action: The Auditor-Controller concurs with the recommendation and is in the process of evaluating ways to identify checks issued to "cash." Estimated implementation date is March 2006.



5. Change Controls (No. 13A & 13B)

Recommendation: We recommend the Auditor-Controller require CEO/IT to implement procedures to ensure the correct version of the laser check application is used for all updates and re-loads. We also recommend the Auditor-Controller and CEO/IT approve all changes to the laser check printing application in writing.

Current Status: **Closed.** Our current review indicated there were no recent changes to the laser check application. Accordingly, we could not determine whether these two recommendations were implemented. The County's contract with the laser check application vendor will end in June 2006. As it is unlikely that any changes will be made to the application before then and written change procedures exist, no further review will be performed for these two recommendations.

6. Audit Trails (No. 14)

Recommendation: We recommend the Auditor-Controller print or electronically archive the *Daily Report* for all checks printed and retain it in accordance with County record retention policies.

Current Status: **Not Implemented.** The *Daily Report* was not retained either in hard copy or electronic form.

Auditor-Controller Planned Action: The Auditor-Controller concurs with the recommendation and will store an electronic copy of the Daily Report in ERMI. Estimated implementation date is January 2006.

7. Policies & Procedures (No. 15)

Recommendation: We recommend the Auditor-Controller and CEO/IT prepare written policies and procedures for normal and emergency check processing.

Current Status: **Partially Implemented.** There were no documented policies and procedures for emergency check processing.

Auditor-Controller Planned Action: The Auditor-Controller concurs with the recommendation. A model for printing checks in the event of an emergency has been tested. Additional requirements have to be determined before development of the process. Estimated implementation date is March 2006.

8. Vendor Contractual Compliance (No. 16)

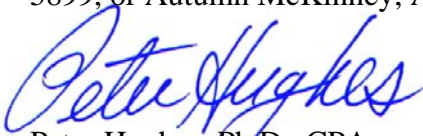
Recommendation: We recommend the A-C and the CEO/IT pursue contractual remedies against the vendor for specific performance in the areas of access control features, report capabilities, access to application source script, dual signature capability, and vendor support.



Current Status: **In Process.** None of the contractual issues raised in the original audit report were resolved. The only concession obtained from the vendor was an offer to place the source code in escrow.

Auditor-Controller Planned Action: The Auditor-Controller concurs with the recommendation. The original check printing application vendor, RxLaser, was taken over by a company called NowDocs. CEO/IT is having discussions with NowDocs regarding the purchase of the source script and resolution of other contractual issues including application support. CEO/IT will send out a letter to the new vendor about the contractual issues raised in our original audit. Planned resolution date based upon current action plan is October 2005.

We appreciate the cooperation and assistance extended to us by the personnel at the Auditor-Controller, CEO/IT, and ACS during our First Follow-Up Audit. If you have any questions regarding our review, please call me directly or Eli Littner, Deputy Audit Director, at (714) 834-5899, or Autumn McKinney, Audit Manager, at (714) 834-6106.



Peter Hughes, Ph.D., CPA
Director, Internal Audit

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas Mauk, County Executive Officer
- Edward Corser, CFO, CEO/Finance & Budget
- Shaun Skelly, Chief Assistant Auditor-Controller
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ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

Material Weaknesses:

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.

Significant Issues:

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

Control Findings:

Audit findings that require management’s corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our Follow-Up process of six months, but no later than twelve months.

