



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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FINAL CLOSE-OUT

**FIRST FOLLOW-UP AUDIT
CLERK-RECORDER
LIMITED REVIEW OF CHANGES TO THE
CASHIERING SYSTEM**

**AS OF
SEPTEMBER 30, 2005**

AUDIT NUMBER: 2565

REPORT DATE: December 8, 2005

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Final Close-Out

**First Follow-Up Audit
Clerk-Recorder
Limited Review of Changes to the Cashiering System**

As of
September 30, 2005

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Transmittal Letter

Audit No. 2565

December 8, 2005

TO: Tom Daly
County Clerk-Recorder

FROM: Peter Hughes, Ph.D., CPA
County Internal Auditor

SUBJECT: **First and Final Close-Out Follow-Up** Audit of the Clerk-Recorder Limited Review of Changes to the Cashiering System, Original Audit No. 2244, Issued March 27, 2003

We have completed the First and Final Close-Out Follow-Up Audit of the Clerk-Recorder Limited Review of Changes to the Cashiering System. Our audit was limited to reviewing actions taken, as of September 30, 2005, to implement the recommendations made in our original audit report dated March 27, 2003. The results of our Follow-Up audit are discussed in the **Internal Auditor's Report** following this transmittal letter. **Because satisfactory corrective action has been taken for thirteen planned corrective actions and recommendations, this report represents the final close-out of the original audit.**

As the County Internal Auditor, I now submit a monthly audit status report to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month, the implementation status of audit recommendations as disclosed by our Follow-Up Audits, any pressing audit or resource issues; as well as, respond to inquiries from the BOS. Therefore, the results of this Follow-Up Audit will be included in a future status report to the BOS.

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Doug Wilson, Administrative Manager, Clerk-Recorder
- Mitse Cohodas, Budget Manager, Clerk-Recorder
- Susie Sullivan, IS Manager, Clerk-Recorder
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT
FINAL CLOSE-OUT

Audit No. 2565

December 8, 2005

Tom Daly, Clerk-Recorder
12 Civic Center Plaza
Santa Ana, California 92702

We have completed the First and Final Close-Out Follow-Up Audit of the Clerk-Recorder Limited Review of Changes to the Cashiering System. Our audit was limited to reviewing actions taken, as of September 30, 2005, to implement the recommendations made in our original audit report dated March 27, 2003.

The original audit report contained thirteen (13) recommendations, each of which required action and therefore were reviewed as part of this audit. This First and Final Follow-Up Audit found ten (10) recommendations were fully implemented and three (3) recommendations were partially implemented/closed.

Accordingly, we are pleased to report that satisfactory corrective action has taken place for the eleven planned corrective actions and recommendations. As such, this report represents the final close-out of the original audit.

1. Programmer Access to Production Data Sets (No. 1)

Recommendation: We recommend the Clerk-Recorder restrict all staff of the I/S Division's access to production datasets.

Current Status: **Partially Implemented/Closed.** In the original audit, we noted that four of the Information Systems (I/S) Division's staff had access to production datasets for the Cashiering System through the use of an SQL edit utility. During our follow-up audit, we confirmed that this access was removed for two of the four I/S staff.

As the Clerk-Recorder has determined it is necessary for the remaining two I/S staff (the I/S Manager and Senior Programmer/Analyst) to have access to the Cashiering System for support and database backup purposes, we identified mitigating factors that help to reduce the risks associated with the permissions granted to the two I/S staff:

- Accounting controls such as daily reconciliations of cash and checks received.
- Duties segregation as I/S personnel have no access to cash/checks received and refunds/disbursements are reviewed and approved by the Financial Services Division.
- The Cashiering System does not perform electronic funds transfers (EFT).

Separation of duties may not be cost effective or possible in smaller I/S organizations. Based upon the size of the Clerk-Recorder's I/S Division (six total employees) and the mitigating factors above, Clerk-Recorder management has agreed to accept the risk of allowing two I/S staff access to the Cashiering System's production datasets. This appears to be a reasonable solution and we will perform no further follow-up on this item.

2. Segregation of Duties (No. 3)

Recommendation: We recommend the Clerk-Recorder obtain a software update that prevents:

- a) The same employee from applying payments to a sale/receivable they created,
- b) The same employee from issuing a refund on a sale they created, and
- c) Allowing the same user who created a void transaction to subsequently approve/process it.

Current Status: **Partially Implemented/Closed.** During our follow-up audit, we noted the following:

- Part a) is no longer applicable as the Clerk-Recorder does not accept partial payments.
- Part b) was not implemented as we were advised by Clerk-Recorder management that it was not cost effective to modify the cashiering system in accordance with our recommendation. The Clerk-Recorder has informed us they will add a step to their quality assurance function wherein a sample of refunds will be periodically audited by an independent person to ensure refunds are issued to the proper payee (i.e., the original maker of the check).
- Part c) was partially implemented as the Clerk-Recorder reduced (not eliminated) the number of users who can create a void and subsequently approve/process it. Only users with the highest permission level (3) can do this; however, procedurally level 3 users do not create voids. If a level 3 user created a void, this can be identified through certain audit trails.

The above actions appear reasonable and we will perform no further follow-up for parts a), b), and c).

3. Void & Refund Audit Trails (No. 4)

Recommendation: We recommend the Clerk-Recorder modify the following key reports:

- a) The Daily Void Report should identify the employee and supervisor processing each void transaction, as well as report all "undo voids" and the related voids.
- b) The Daily Tender Report should document all void activity for house charge transactions voided the same day.
- c) The Daily Tender Report and Recap Report should list the number of voids and refunds for the day.




Current Status: **Partially Implemented/Closed.** During our follow-up audit, we noted the following:

- Part a) was partially implemented. The Clerk-Recorder determined it was not cost effective to implement system changes to record on system reports an undo void transaction (and its related void transaction) or identify the supervisor approving a void transaction.
 - For the recording of undo void transactions, an alternate control was not implemented. The Clerk-Recorder informed us that undo void transactions occur rarely and can only be processed by users with the highest permission level (3). Clerk-Recorder management has agreed to accept the risk of not recording undo void transactions.
 - For recording the identity of supervisor approving a void, a manual report was created that documents the cashier requesting the void and their respective supervisor who approves it. These manual reports are then reconciled to system reports. The manual recording of the approving supervisor meets the intention of our recommendation.

- Parts b) and c) were implemented.

The above actions appear reasonable and we will perform no further follow-up for parts a), b), and c).

We appreciate the cooperation and assistance extended to us by the Clerk-Recorder's financial services and information systems staff during our Follow-Up Audit.


Peter Hughes, Ph.D., CPA
County Internal Auditor

Distribution Pursuant to Audit Oversight Committee Procedure No. 1
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Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
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