



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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**FOLLOW-UP AUDIT
OF DEPARTMENT CONTROL REVIEW
RESOURCES & DEVELOPMENT
MANAGEMENT DEPARTMENT
REVOLVING FUNDS,
ORIGINAL AUDIT No. 2431**

AS OF MAY 31, 2005

AUDIT NUMBER: 2532

REPORT DATE: July 7, 2005

Audit Director: Peter Hughes, Ph.D., CPA
Deputy Director: Eli Littner, CPA, CIA
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**Follow-Up Audit of Department Control Review
Resources & Development Management Department
Revolving Funds, Original Audit No. 2431**

As of May 31, 2005

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**COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT**

OFFICE OF THE DIRECTOR

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Transmittal Letter

Audit No. 2532

July 7, 2005

TO: Bryan Speegle, Director
Resources and Development Management Department

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

SUBJECT: Follow-Up Audit of Department Control Review
Resources & Development Management Department Revolving Funds
Original Audit No. 2431

We have completed our initial follow-up audit of Resources & Development Management Department revolving funds. Our audit was limited to reviewing, as of May 31, 2005, actions taken to implement the recommendations made in our original audit report dated November 3, 2004. The results of our 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 (**January 2006**). We have provided a Secondary Follow-Up Audit Report Form for completion prior to our secondary follow-up audit.

In addition, as the Director of Internal Audit Department, effective December 14, 2004, 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.

*Bryan Speegle, Director
Resources & Development Management Department
July 7, 2005
Page ii*

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Vicki Wilson, Deputy CEO/Infrastructure & Environment
Steve Danley, Director, RDMD/Administration
Michael McMillan, Chief, RDMD/Purchasing & Contract Services
Brian Murphy, Chief, RDMD/Central Quality Assurance
Darlene J. Bloom, Clerk of the Board of Supervisors
Foreman, Grand Jury



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INTERNAL AUDITOR'S REPORT

Audit No. 2532

July 7, 2005

Bryan Speegle, Director
Resources & Development Management Department
300 N. Flower Street
Santa Ana, CA 92703

We have completed an initial follow-up audit of internal controls and processes over revolving funds of the Resources & Development Management Department (RDMD). Our audit was limited to reviewing actions taken as of May 31, 2005 to implement the recommendations made in our original audit report dated November 3, 2004.

The original audit report contained seven (7) recommendations. Our follow-up audit indicated three recommendations were fully implemented and four recommendations were partially implemented. We believe the recommendations are still appropriate and further efforts should be made to fully implement them. The audit report recommendations not fully implemented are noted below along with a comment on the current status. The item number from the November 3, 2004 report is shown in parentheses after each heading.

Note: the four items contained in this follow-up audit report are considered as “**reportable conditions.**” See *Attachment A* for a description of audit report items.

1. Authorized Signature Lists and Bank Signature Cards (Item I.A.)

Recommendation No. 1.A: Purchasing and Contract Services/CFA obtain a current authorized signature list and Bank Signature Card from O&M. CFA should also have a process to ensure that all outlying locations maintain current authorized signature lists and Bank Signature Cards, and that those lists are updated timely and filed with the appropriate parties.

Current Status: **Partially Implemented.** Purchasing and Contract Services/CFA obtained current authorized signature lists and Bank Signature Cards; however, CFA had not yet implemented a process to ensure that all outlying locations maintain and/or update their authorized signature lists and Bank Signature Cards.

Resources & Development Management Department Planned Action:

CFA will submit annual reminders to other Petty Cash locations for verification and updates of authorized signature(s).

2. Periodic Inventory of Unused Checks (Item I.B.)

Recommendation No. I.B: RDMD perform and document periodic inventories of unused revolving fund check stock in accordance with the best practices identified.

Current Status: **Partially Implemented.** We noted that O&M performed and documented inventories of its revolving fund check stock. CFA informed us that inventories of unused revolving fund check stock were performed, but there was no written documentation of the inventory and supervisory review.

Resources & Development Management Department Planned Action:

CFA revised the current revolving fund check log to document the date and time of the periodic inventory and to include a signature for the supervisory review.

3. Segregation of Duties (Item II)

Recommendation No. II: RDMD ensure revolving fund duties for authorizing, check signing, and reconciling are segregated. If that is not possible due to limited staffing, ensure that the incompatible duties undergo a detailed supervisory review.

Current Status: **Partially Implemented.** RDMD had taken steps to ensure segregation of duties; however, during our follow-up, we noted two instances where an O&M supervisor authorized a petty cash voucher and also signed the revolving fund check.

Resources & Development Management Department Planned Action:

O&M Management will take measures to ensure individuals approving petty cash transactions will not sign the corresponding revolving fund checks.

4. Fund Reconciliations (Item III.B.)

Recommendation No. III.B: RDMD ensure that fund reconciliations are performed monthly to the authorized fund amount and that any discrepancies are resolved timely. The preparer and the reviewer should sign and date the reconciliation. In addition, RDMD should resolve the existing reconciling items.

Current Status: **Partially Implemented.** The CFA revolving fund had been reconciled more frequently; however, reconciliation had not been completed monthly. In calendar year 2005, reconciliations were completed in January, March and May. We noted that the reconciling items found in the original audit have been resolved; however, an unidentified fund overage still exists. The overage ranges between \$555 and \$833, and there had been no discussion with the Auditor-Controller regarding the overage issue as indicated in RDMD's response.

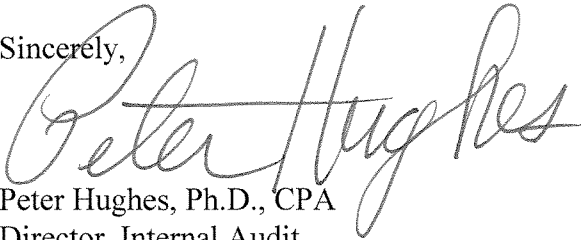
Resources & Development Management Department Planned Action:

CFA will perform reconciliation on a monthly basis and contact the Auditor-Controller before July 29, 2005 to discuss disposition of the overage.



We appreciate the cooperation and assistance extended to us by the personnel of the Resources & Development Management Department during our follow-up audit.

Sincerely,



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

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Vicki Wilson, Deputy CEO/Infrastructure & Environment
Steve Danley, Director, RDMD/Administration
Michael McMillan, Chief, RDMD/Purchasing & Contract Services
Brian Murphy, Chief, RDMD/Central Quality Assurance
Darlene J. Bloom, Clerk of the Board of Supervisors
Foreman, Grand Jury



Attachment A

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

- **Material Weaknesses:**
Audit findings 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 that represent a deficiency in the design or operation of processes or internal controls. Significant issues do not present a material exposure throughout the County; yet generally will require more immediate attention and corrective action by management than expected with a “Reportable Condition.”
- **Reportable Conditions:**
Audit findings that require management’s corrective action to implement or enhance processes and internal controls.

