



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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**FIRST FOLLOW-UP AUDIT
LIMITED REVIEW OF CONTROLS AND
IMPLEMENTATION OF THE IWMD'S LANDFILL
FEE COLLECTION AND ACCOUNTS
RECEIVABLE SYSTEMS**

**AS OF
OCTOBER 31, 2005**

AUDIT NUMBER: 2524

REPORT DATE: JANUARY 26, 2006

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First Follow-Up Audit
Limited Review of Controls and Implementation of the IWMD's
Landfill Fee Collection and Accounts Receivable Systems

As of
October 31, 2005

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Transmittal Letter

Audit No. 2524

January 26, 2006

TO: Janice Goss, Director
Integrated Waste Management Department

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

SUBJECT: First Follow-Up Audit of the Limited Review of Controls and Implementation of the IWMD's Landfill Fee Collection and Accounts Receivable Systems, Original Audit No. 2327, Issued July 6, 2004

We have completed the First Follow-Up Audit of the Limited Review of Controls and Implementation of the IWMD's Landfill Fee Collection and Accounts Receivable Systems. Our audit was limited to reviewing actions taken, as of October 31, 2005, to implement the recommendations made in our original audit report dated July 6, 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 (**July 2006**). We have provided a Second Follow-Up Audit Report Form for completion prior to our Second Follow-Up Audit.

As the Director of Internal Audit, 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 and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report 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 G. Mauk, County Executive Officer
Ron Pierre, Manager, IWMD Business Services
Martha Campbell, Manager, IWMD Information Systems
Tonya Burnett, Manager, IWMD Accounting
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2524

January 26, 2006

Janice Goss, Director
Integrated Waste Management
320 North Flower Street, Suite 400
Santa Ana, California 92702

We have completed the First Follow-Up Audit of the Limited Review of Controls and Implementation of the IWMD's Landfill Fee Collection and Accounts Receivable Systems. Our audit was limited to reviewing actions taken, as of October 31, 2005, to implement the recommendations made in our original audit report dated July 6, 2004.

The original audit report contained fifteen (15) recommendations, ten (10) of which required action and therefore were reviewed as part of this audit. The other five (5) recommendations are dependent on the implementation of phase two of the Landfill Information System Technology Study (LISTS) and are deferred. See Item No. 4 below.

This First Follow-Up Audit found that of the remaining ten (10) recommendations:

- Seven (7) recommendations were fully implemented.
- One (1) recommendation was partially implemented.
- One (1) recommendation was partially implemented/closed.
- One (1) recommendation was closed.

The remaining recommendations are noted below along with a comment on the current status. The item number from the July 6, 2004 report is shown in parentheses after the heading.

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

1. User Account Privileges (No. 1B)

Recommendation: We recommend that IWMD reduce the landfill fee collection and accounts receivable systems' privileges granted to the Information Systems staff in accordance with proper duties segregation practices.

Current Status: Partially Implemented/Closed. In the original audit, we noted Information Systems (IS) staff had full privileges in both the Accounts Receivable and the Landfill Fee Collection System for post-implementation needs. During our Follow-Up Audit, we confirmed that access was appropriately restricted for IS staff in the Accounts Receivable System; however, one IS staff retains his ability to add, edit, or delete master file entries and transactions in the Landfill Fee Collection System.

As IWMD management has determined it is necessary for one IS staff to have access to the Landfill Fee Collection System for support and testing purposes, we identified mitigating factors that help to reduce the risks associated with the permissions granted to the one IS staff:

- Accounting controls such as daily reconciliations of cash and checks received.
- Duties segregation as IS personnel have no access to cash/checks received (they are processed at the landfills).
- The application does not perform disbursements or electronic funds transfers (EFT).
- As a potential detective control, transaction history logs are available that can be reviewed if needed to identify which user performed a transaction.

Separation of duties may not be cost effective or possible in smaller IS organizations. Based upon the size of the IWMD's IS function (seven total employees) and the mitigating factors above, IWMD management has agreed to accept the risk of allowing one IS staff the ability to add, edit, or delete master file entries and transactions in the Landfill Fee Collection System. This appears to be a reasonable solution and we will perform no further follow-up on this item.

2. **System Audit Logs & Monitoring (No. 3B)**

Recommendation: We also recommend that IWMD establish audit log review, including methodology and responsibility, and audit log retention policies for both systems [fee collection and accounts receivable].

Current Status: Partially Implemented. During our Follow-Up Audit, we noted that IWMD had established a methodology for review of the Landfill Fee Collection and Accounts Receivable System audit logs, but had not formalized the review yet.

IWMD Planned Action:

IWMD will formalize the process for reviewing and monitoring audit logs for both systems as part of phase two of the LISTS project. Estimated implementation of this recommendation is April 2006.

3. **Access Controls (No. 4B)**

Recommendation: We recommend that IWMD specify more comprehensive and complete security requirements in future software purchases.

Current Status: Closed. There were no recent software purchases made by IWMD so we did not validate the status of this recommendation. However, IWMD management has informed us that any future software purchases will specify more comprehensive and complete security requirements. As this recommendation was advisory in nature and IWMD has no immediate significant software purchases planned, no further follow-up will be performed for this item.



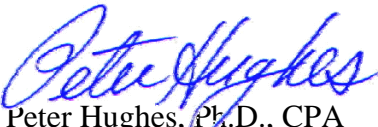
4. Recommendations Dependent on LISTS Project Phase Two

There are five recommendations made in the original report that have not been implemented and are dependent on the completion of phase two of the LISTS Project. We recommended that IWMD:

- Obtain changes to the landfill fee collection system to validate vehicle weights for reasonableness (No. 2B).
- Remove the ability for Fee Station Attendants to query their system balance without a supervisor present or monitor balance inquiries recorded on the system audit log (No. 2C).
- Implement controls to help ensure a transaction is created for every vehicle that passes the fee station (No. 2D).
- Ensure that “no sale” transactions appear in the daily transaction activity and system audit log of the landfill fee collection system (No. 3C).
- Approach the software vendors for the Landfill Fee Collection and Accounts Receivable Systems and seek the missing security features as mentioned or perform enhanced timely reviews of security related incidents recorded on the system audit logs (No. 4A).

The second phase of the LISTS project is underway and is estimated to be completed in February 2006. We will follow up on the above recommendations in our Second Follow-Up Audit.

We appreciate the cooperation and assistance extended to us by the IWMD Information Systems and Accounting staff during our Follow-Up Audit.


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

Distribution Pursuant to Audit Oversight Committee Procedure No. 1

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Members, Audit Oversight Committee
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Ron Pierre, Manager, IWMD Business Services
Martha Campbell, Manager, IWMD Information Systems
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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.

