



**INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE**

**Recipient of the Institute of Internal Auditors
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**INTERNAL CONTROL REVIEW
OF
DISTRICT ATTORNEY**

REVOLVING FUND

**For the Period
May 1, 2005 through April 30, 2006**

AUDIT NUMBER: 2597

REPORT DATE: AUGUST 9, 2006

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Deputy Director:	Eli Littner, CPA, CIA
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**Internal Control Review of
District Attorney Revolving Fund**

**For the Period
May 1, 2005 through April 30, 2006**

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Transmittal Letter

Audit No. 2597

August 9, 2006

TO: Tony Rackauckas
District Attorney

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

SUBJECT: Internal Control Review of the District Attorney
Revolving Fund

We have completed a review of internal controls over revolving fund processes of the District Attorney for the period May 1, 2005 through April 30, 2006. The final **Internal Auditor's Report** is attached along with your responses to our recommendations.

In January 2005, we implemented a more structured and rigorous Follow-Up Audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our first Follow-Up Audit will now begin no later than six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-Up Audit will now begin at 12 months from the release of the original report, by which time all audit recommendations are expected to be addressed and implemented.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We have attached a Follow-Up Audit Report Form. Your department should complete this template as our audit recommendations are implemented. When we perform our Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

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.

As always, the Internal Audit Department is available to partner with you so that you can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendations.

Additionally, we will request your department to complete a Customer Survey of Audit Services. You will receive the survey shortly after the distribution of our final audit report.

Attachment

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

Lisa Bohan-Johnston, Director, Administrative Services/D.A.

Kim Dinh, Manager, Financial Services/D.A.

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2597

August 9, 2006

Tony Rackauckas
District Attorney
401 Civic Center Drive West
Santa Ana, CA 92702

We have completed a review of internal controls over revolving fund processes of the District Attorney for the period May 1, 2005 through April 30, 2006. Our audit was performed in accordance with professional standards established by the Institute of Internal Auditors.

District Attorney management is responsible for establishing and maintaining a system of internal controls. The objectives of an internal control system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. County of Orange Accounting Manual No. S-2 – *Internal Control Systems* prescribes the policies and standards the departments/agencies should follow in establishing and maintaining internal control systems. Our review enhances and complements, but does not substitute for, the District Attorney's continuing emphasis on control activities and self-assessment of control risks.

Because of inherent limitations in any system of internal controls, 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 that the degree of compliance with the procedures may deteriorate. Accordingly, our review performed for the limited purpose described above would not necessarily disclose all weaknesses in the District Attorney's operating procedures, accounting practices, and compliance with County policy.

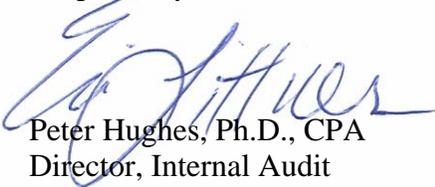
Based upon our audit, **no material weaknesses or significant issues were identified.** However, we did identify **3 control findings** resulting in **3 recommendations** to improve controls and processes as noted in the Detailed Observations, Recommendations and Management Responses section of this report. See *Attachment A* for description of Report Item Classifications.

While our report indicates the specific areas where our observations are directly applicable, **the District Attorney should implement the recommendations in other business processes they find as applicable to them.** An expectation of the Board of Supervisors is that departments and agencies will view this report as a “lessons learned” opportunity to guide them in proactively self-assessing other similar operations or processes.

We appreciate the courtesy and cooperation extended to us by the personnel of the District Attorney’s Office during our review. As we identified issues during the review, District Attorney personnel were very responsive in taking corrective actions.

If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,


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

FOR

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Lisa Bohan-Johnston, Director, Administrative Services/D.A.
- Kim Dinh, Manager, Financial Services/D.A.
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted a review of internal controls over revolving fund processes of the District Attorney. The objectives of our audit were to determine whether internal controls are in place and operating to ensure:

1. Revolving funds are adequately safeguarded.
2. Revolving fund transactions are processed in accordance with applicable County Accounting Manual (CAM) procedures.
3. Revolving fund transactions are properly authorized and recorded completely, accurately and timely.

Additionally, we would identify areas to improve efficiency and effectiveness related to the above processes as they came to our attention.

BACKGROUND

The mission of the Office of the District Attorney is to enhance public safety and welfare and create a sense of security in the community through the vigorous enforcement of criminal and civil laws in a just, honest, efficient and ethical manner. The District Attorney represents the People of the State of California in the justice system. The Office is organized into three major divisions: Criminal Prosecution, Bureau of Investigation, and Administrative Services, which administers the revolving funds.

The District Attorney maintains one revolving fund of **\$70,000** for general operations (Fund 100/Agency 026). The fund is allocated for departmental petty cash expenditures (\$40,000) and for travel cash advances (\$30,000), and consists of checking accounts and cash. During the period under review, the District Attorney **incurred approximately \$128,000 in petty cash expenditures and \$116,000 in travel cash advances.**

SCOPE

Our audit was limited to internal controls and processes over revolving funds for the period from May 1, 2005 through April 30, 2006. Our methodology included inquiry, auditor observation, and examination and testing of relevant documentation.

CONCLUSION

No material weaknesses or significant issues were identified. Based upon the objectives of our audit, we noted the following:

1. Controls and processes are in place to ensure revolving funds are adequately safeguarded. We note in our audit report where an enhancement is needed regarding segregation of revolving fund duties. This is considered a **Control Finding** and is discussed in the Observations, Recommendations and Management Responses section of this report. See *Attachment A* for description of Report Item Classifications.



2. Controls and processes are in place to ensure revolving fund transactions are processed in accordance with applicable County Accounting Manual (CAM) procedures. We note in our audit report where enhancements are needed in the areas of mileage claim submission for travel cash advances and for the resolution of long-outstanding reconciling items on bank and fund reconciliations. These are considered **Control Findings** and are discussed in the Observations, Recommendations and Management Responses section of this report.
3. Controls and processes are in place to ensure revolving fund transactions are properly authorized and recorded completely, accurately and timely.



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

SEGREGATION OF DUTIES

Adequate segregation of duties reduces the risk of one individual concealing errors and irregularities and not being detected. CAM C-7 states that purchases from the revolving cash fund must be approved by an authorized person who does not also have revolving fund custodian, check signer, or reconciliation duties.

Finding No. 1:

During our review of 20 petty cash expenditures, we found two transactions where management personnel approved the petty cash request and signed the petty cash check. We were informed by management that the procedure is to have two different individuals approve the request and sign the check, and that these instances were an oversight.

Recommendation No. 1:

We recommend the District Attorney ensure the duties of petty cash request approval and check signing are properly segregated.

District Attorney Management Response:

Concur. As explained in the Finding section above, the audited items were an oversight whereby one manager approved the petty cash request and signed the petty cash check. The District Attorney's long-standing procedure requires two different individuals approve the request and sign the check. Therefore, a change to our current procedure is not necessary.

TRAVEL CASH ADVANCES

CAM C-1, *Cash Advances – Revolving Funds*, governs the use of travel cash advances. It requires the unused portion of travel cash advances to be returned, along with the Mileage and Other Expenses Claim form, within five (5) working days after the completion of the event for which the advance was made.

Finding No. 2

For 4 of 15 travel cash advances reviewed, the related mileage claim was not submitted within five (5) working days after the completion of the event for which the advance was made. Three of the four advances were submitted between 8 and 21 working days, and one was submitted one year after the completion of the event. District Attorney Administrative/Financial Services staff are aware of the five-day requirement and have a process in place to monitor and pursue the outstanding travel advances.

Recommendation No. 2

We recommend the District Attorney ensure that employees requesting travel cash advances submit the Mileage and Other Expenses Claim form within five working days after the completion of the event for which the advance is made.

District Attorney Management Response:

Concur. We have already implemented an enhanced tracking process to monitor travel cash advances immediately following the completion of the event for which the advance is made. Furthermore, the department is developing an automated program to track travel cash advances and anticipate implementing this automated tracking process in FY 2006-07.



BANK AND FUND RECONCILIATIONS

A reconciliation is a comparison of one set of data to another, identifying and investigating differences, and taking corrective action when necessary to resolve those differences. Both revolving fund bank reconciliations and fund reconciliations help ensure the accuracy and completeness of revolving fund transactions. A critical element of the reconciliation process is to resolve reconciling items timely to identify errors or unauthorized uses of the funds.

Finding No. 3

The petty cash bank reconciliation, cash advance bank reconciliation, and cash advance fund reconciliation were performed monthly and properly identified reconciling items; however, some of the outstanding items were not yet resolved. Prior to our audit, actions were taken to resolve several of the items; however, the following items remain open:

- The petty cash bank reconciliation contained one check for \$360.00 dated in January 2006.
- The cash advance bank reconciliation contained seven checks totaling \$154.94 dating from September 2001 to November 2005.
- The cash advance fund reconciliation contained one check for \$886.19 dated in July 2005.

We noted that District Attorney staff are working toward resolving the above items, and that the funds are being reconciled and balanced on a monthly basis.

Recommendation No. 3

We recommend the District Attorney ensure long-outstanding items on bank reconciliations and fund reconciliations are resolved timely.

District Attorney Management Response:

Concur. All long-outstanding items on bank reconciliations mentioned in the Finding section above have been resolved. The District Attorney is collaborating with the Auditor-Controller department to resolve the last long-outstanding cash advance item. Moreover, an enhanced tracking process is already implemented to monitor outstanding items for a timely resolution.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify 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 immediately address “Material Weaknesses” brought to their attention.

- **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.





TONY RACKAUCKAS
DISTRICT ATTORNEY

MEMO

OFFICE OF THE DISTRICT ATTORNEY

August 2, 2006

TO: PETER HUGHES, Ph.D., DIRECTOR, INTERNAL AUDIT

FROM:  LISA BOHAN-JOHNSTON, DIRECTOR, ADMINISTRATIVE SERVICES

SUBJECT: DRAFT REPORT ON INTERNAL CONTROL REVIEW OF THE DISTRICT ATTORNEY REVOLVING FUNDS

Attached you will find the District Attorney's response to the above subject. We have reviewed the recommended actions in the report and confirm that the Office of the District Attorney has taken a great effort to implement these recommendations as deemed appropriate and applicable.

As always, we appreciate the professionalism your staff extended to our Office during the field audit.

If you have any questions regarding our response, please contact Kim Dinh at (714) 347-8435. Thank you.

cc: Kim Dinh, DA

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**INTERNAL CONTROL REVIEW OF
THE DISTRICT ATTORNEY REVOLVING FUNDS**

SEGREGATION OF DUTIES: PETTY CASH ITEMS

Recommendation No. 1:

We recommend District Attorney ensure the duties of petty cash request approval and the check signing are properly segregated.

District Attorney Management Response:

Concur. As explained in the Finding section above, the audited items were an oversight whereby one manager approved the petty cash request and signed the petty cash check. The District Attorney's long-standing procedure requires two different individuals approve the request and sign the check. Therefore, a change to our current procedure is not necessary.

TRAVEL CASH ADVANCES: FIVE DAY & RECONCILIATION DEADLINES

Recommendation No. 2

We recommend the District Attorney ensure that employees requesting travel cash advances submit the Mileage and Other Expenses Claim form within five working days after the completion of the event for which the advance is made.

District Attorney Management Response:

Concur. We have already implemented an enhanced tracking process to monitor travel cash advances immediately following the completion of the event for which the advance is made. Furthermore, the department is developing an automated program to track travel cash advances and anticipate implementing this automated tracking process in FY 2006-07.

Recommendation No. 3

We recommend the District Attorney ensure long-outstanding items on bank reconciliations and fund reconciliations are researched and resolved timely.

District Attorney Management Response:

Concur. All long-outstanding items on bank reconciliations mentioned in the Finding section above have been resolved. The District Attorney is collaborating with the Auditor-Controller department to resolve the last long-outstanding cash advance item. Moreover, an enhanced tracking process is already implemented to monitor outstanding items for a timely resolution.

