

Internal Audit Department

O R A N G E C O U N T Y

CAPS⁺ AUDIT ALERT NO. 1

The purpose of the CAPS⁺ Audit Alert is to promptly bring to the CAPS Steering Committee's attention important potential issues for their immediate assessment and if necessary, corrective action. The process incorporates an accelerated management response timeline to ensure the timely completion and dissemination of audit issues so as to not impede progress of the CAPS⁺ Implementation Project.

This CAPS⁺ Audit Alert No. 1 addresses the completeness of written strategies for developing and documenting comprehensive key procedures and internal controls for the new CAPS⁺ system and related processes. The CAPS Steering Committee concurred with our recommendation and stated that a revised CAPS⁺ Policy and Procedure Plan would be completed by April 30, 2008 to address the issues raised.

AUDIT NO: 2764-A
DATE: APRIL 29, 2008

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Internal Audit Department

Serving the OC Board of Supervisors since 1995

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Letter from Director Peter Hughes



Transmittal Letter



AUDIT NO. 2764-A APRIL 29, 2008

TO: CAPS Steering Committee:
David Sundstrom, Auditor-Controller, Chair
Bob Franz, Chief Financial Officer, Vice-Chair
Satish Ajmani, Chief Information Officer
Carl Crown, Human Resources Director
Shaun Skelly, Auditor-Controller Senior
Director of Accounting and Technology

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: CAPS⁺ Audit Alert No. 1 – Completeness
of Internal Control Documentation

Attached is our **CAPS⁺ Audit Alert No.1** for the CAPS⁺ Implementation Project.

Each month I submit an **Audit Status Report** to the BOS. Accordingly, the results of this CAPS⁺ Audit Alert will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully address or mitigate difficult audit issues. Please feel free to call me should you wish to discuss any aspect of our CAPS⁺ Potential Issue Alert.

ATTACHMENTS

Other recipients of this CAPS⁺ Audit Alert No. 1 are listed on page 4.

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CAPS⁺ AUDIT ALERT NO. 1

AUDIT No. 2764-A

APRIL 29, 2008

TO: CAPS Steering Committee

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: CAPS⁺ Audit Alert No. 1 – Completeness of Internal Control Documentation

CAPS⁺ Audit Alert

The purpose of a CAPS⁺ Audit Alert is respond to the CAPS Steering Committee's request to quickly bring to their attention important potential issues for their assessment and if necessary, corrective action.

Because of the importance of the CAPS⁺ Implementation Project's schedule, timely feedback is critical. As such, this CAPS⁺ Audit Alert is not subject to the same rigor and formality of a traditional report in that we have not fully developed the issues and have not verified the accuracy of all information.

The CAPS⁺ Audit Alerts have an accelerated management response timeline to ensure the timely dissemination of audit issues so as to not impede progress of the CAPS⁺ Implementation Project.

As described in our MOU dated August 28, 2007, the Internal Audit Department's role on the CAPS⁺ Implementation Project is reviewing and providing feedback on the internal control plans (ICPs) that will be developed by the CAPS⁺ Project Implementation team for the new system.

As such, we have been following the progress of the internal control plans and have identified a potential issue for your assessment and if necessary, corrective action as further described below.

Issue No. 1 - Completeness of Internal Control Documentation:

The CAPS⁺ Policy and Procedure Plan is a plan for the development of policies and procedures for the input and processing of CAPS⁺ documents. The Plan does not specifically discuss internal controls or an approach to developing the internal control documentation.

It is our understanding that when the CAPS⁺ Policy and Procedure Plan was being developed, the intention was for the internal controls documentation to be addressed in the CAPS⁺ Security and Workflow Plan. However, during the subsequent development of the draft CAPS⁺ Security and Workflow Plan, it was recognized by relevant members of the CAPS⁺ Implementation Project management that a revision to the CAPS⁺ Policy and Procedure Plan was needed.

To facilitate Internal Audit's early input, we were invited to a meeting on February 14, 2008, with members of the CAPS⁺ Implementation Project team to discuss a preliminary draft of the CAPS⁺ Security and Workflow Plan.

During the meeting, we discussed that the draft CAPS⁺ Security and Workflow Plan only includes internal control plans (ICPs) for documents that will be "workflowed" in the new CAPS⁺ system, such as requisitions and journal vouchers. Workflow is the automated routing of electronic documents for review and approval. The number of document types that will be workflowed in the CAPS⁺ system is yet to be determined, but rough estimates range from 5 to 15 initial document types in Phase 1.



Because there are other critical processes outside the scope of the draft CAPS⁺ Security and Workflow Plan, a documented strategy should be created, possibly as a revision the CAPS⁺ Policy and Procedure Plan, to assign responsibility for ensuring that procedures and related internal controls are documented in the following areas:

- Non-Workflow CAPS⁺ Documents and Transactions: A written strategy for documenting the internal controls for “non-workflow” CAPS⁺ documents/transactions has not been created yet. These controls should not be limited to reviews and approvals, but should also include other procedures and controls such as monitoring, reconciliations, and segregation of duties. A separate Internal Control Plan does not need to be prepared for each non-workflow CAPS⁺ document and transaction. The internal controls could be documented in the written procedures. Responsibility for this likely is the CAPS⁺ Implementation Project team.

Examples of procedures and controls to include: What controls will exist for timely resolution of disposing errors and/or suspense items; who will reconcile the input and output of system interfaces to ensure the complete recording in the CAPS⁺ system; and what level of supporting documentation for transactions should be retained by the departments/agencies?

- On-Going Security and Maintenance: A written strategy for documenting the key procedures and internal controls for on-going (post implementation) security and maintenance of the CAPS⁺ system has not been created. The strategy should include documentation of key procedures and internal controls for both the application and operating system. The controls could be documented in the written procedures rather than in separate control documents. Responsibility for this should likely be allocated among the CAPS⁺ Implementation Project team, the CAPS Project Management Office, and CEO/Information Technology.

Examples of procedures and controls to include: What kind of security monitoring will be conducted including special logging for “super users” and/or system administration staff; what will be the password policies; what will be the change management procedures; and what back-ups of data will occur?

- Centralized/Core Functions: A written strategy for documenting the key procedures and internal controls for the centralized/core functions such as accounts payable and general ledger has not been created. The centralized/core functions reside with the Auditor-Controller, CEO/Information Technology, CEO/ Purchasing, and CEO/Budget. The controls could be documented in the written procedures rather than in separate control documents. Responsibility for this should likely be allocated among the centralized/core functions.



Examples of procedures and controls to include: Who will monitor the system assurance jobs that ensure debit and credit entries balance on the general ledger; what procedures will exist for maintaining the vendor master table; and what pre/post reviews will be required for disbursements including electronic fund transfers?

The CAPS⁺ Implementation Project management is aware of this issue and has been evaluating it. They preliminarily discussed ways to address this issue including formation of a Procedure and Controls committee that would include representatives from the CAPS⁺ Implementation Project team, the centralized/core departments, and Internal Audit.

Although the CAPS⁺ Implementation Project management is currently working through this issue, we are communicating our issues timely in writing to help facilitate discussion, ensure complete assessment of the issues, and to establish a mechanism for communicating and tracking these issues and corresponding corrective actions.

Additionally, Internal Audit has offered to provide an "Internal Controls 101" training course to the CAPS⁺ Implementation Project team and other relevant staff. The CAPS⁺ Implementation Project management has accepted this offer and plans are underway to schedule a training event.

It should also be noted that documented key procedures and internal controls related to the CAPS⁺ system processes are even more important with the new Statements on Auditing Standards No. 104 – 111 (collectively referred to as the Risk Assessment Standards), effective for the County's fiscal year ended 6/30/08. Application of the new risk assessment standards may result in a material weakness or significant deficiency for the County if the County has not identified its key risks and mitigating internal controls related to material misstatements to the financial statements. Key manual and system (application and general) controls for the CAPS⁺ system will need to be documented to satisfy the new standards. On February 6, 2008, the CAPS⁺ Implementation Project functional teams received training on the new risk assessment standards from the County's external auditors.

Recommendation No. 1: We recommend that the CAPS Steering Committee ensure that written strategies are created for developing and documenting comprehensive key procedures and internal controls for the new CAPS⁺ system and related processes as a whole as discussed above. The strategies should clearly identify the responsible procedure owners and timelines for completion.

CAPS Steering Committee Response:

Concur. The CAPS Steering Committee will ensure a written CAPS+ Policy and Procedure Plan will be completed by April 30, 2008. The Plan will identify responsible owner departments for each of the areas identified in the Internal Audit Alert No. 1, the process to document internal controls, and give timelines for completion of the related policy and procedures.



CAPS Steering Committee Response Continued:

To ensure coordination of all the involved departments, a CAPS+ Policies and Procedures Workgroup was formed that includes members from Auditor-Controller, CEO/Budget, CEO/IT, CAPS Program Management Office, CEO/Purchasing, and the CAPS+ Implementation Team. The first Workgroup meeting was held on March 31, 2008.

Acknowledgment

We appreciate the courtesy and cooperation extended to us by the personnel of the CAPS+ Project Implementation team. If you have any questions regarding our CAPS+ Audit Alert, please call me directly at 834-5475 or Eli Littner, Deputy Director at 834-5899, or Autumn McKinney, Senior Audit Manager at (714) 834-6106.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer

CAPS+ Project Advisory Committee:

Bill Castro, Director, Auditor-Controller/Satellite Operations
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Frank Kim, Director, CEO/Budget
Jan Grimes, Director, Auditor-Controller/Central Operations
Jim Pierce, Chief Technology Officer, CEO/Information Technology
Steve Rodermund, Manager, CAPS Program Management Office
Ron Vienna, County Purchasing Agent, CEO/Purchasing

CAPS+ Project Management Team (excluding vendors):

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Michael Muldrow, CGI, Assistant Project Manager
Linh Phan, ACS, Assistant Project Manager
Rick Roberts, GCAP, Transition Manager
Elias Thuo, Saile Technologies, Disengagement Project Manager



ATTACHMENT A: CAPS Steering Committee Response



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April 24, 2008

TO: Dr. Peter Hughes
Director, Internal Audit Department

SUBJECT: Response to Internal Audit Alert No. 1 – Completeness of Internal Control Document

On February 25, 2008, your department issued Audit No. 2764.A, Audit Alert #1 for the CAPS+ Implementation Project. The response below has been reviewed and approved by the CAPS Steering Committee.

Audit Alert Recommendation #1: We recommend that the CAPS+ Steering Committee ensure that written strategies are created for developing and documenting comprehensive key procedures and internal controls for the new CAPS+ system and related processes as a whole as discussed above. The strategies should clearly identify the responsible procedure owners and timelines for completion.

CAPS Steering Committee Response:

Concur. The CAPS Steering Committee will ensure a written CAPS+ Policy and Procedure Plan will be completed by April 30, 2008. The Plan will identify responsible owner departments for each of the areas identified in the Internal Audit Alert No. 1, the process to document internal controls, and give timelines for completion of the related policy and procedures. To ensure coordination of all the involved departments, a CAPS+ Policies and Procedures Workgroup was formed that includes members from Auditor-Controller, CEO/Budget, CEO/IT, CAPS Program Management Office, CEO/Purchasing, and the CAPS+ Implementation Team. The first Workgroup meeting was held on March 31, 2008.

If you have any questions, please contact Larry Chanda, CAPS+ Project Manager at 834-2181 or Larry.Chanda@ceoit.ocgov.com.

David E. Sundstrom
Auditor-Controller

DS:dms



ATTACHMENT A: CAPS Steering Committee Response (continued)

CAPS+ Audit Alert No. 2 Response
April 24, 2008
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CAPS+ Project Advisory Committee	Jan Grimes, Auditor-Controller, Director, Central Accounting Operations William Castro, Auditor-Controller, Director, Satellite Accounting Operations Phillip Daigneau, Auditor-Controller, Director Information Technology Steve Rodermund, CAPS Program Manager Jim Pierce, CEO, Chief Technology Officer Ron Vienna, CEO, County Purchasing Agent Frank Kim, CEO, Budget Director
CAPS+ Project Management Team (excluding vendors)	Larry Chanda, Project Manager Denise Steckler, Assistant Project Manager Bill Malohn, Auditor-Controller IT John Humann, CEO Purchasing Sreesha Rao, CEO IT Mitch Tevlin, CEO Budget Cecilia Novella, Project Communications