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Internal Audit Department

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

INTERNAL CONTROL REVIEW OF AUDITOR-CONTROLLER - CLAIMS & DISBURSING'S EDUCATIONAL AND PROFESSIONAL REIMBURSEMENT PROCESS

For the Year Ending:
June 30, 2007

AUDIT NO: 2720-1
REPORT DATE: JANUARY 29, 2008

An evaluation of the adequacy and integrity of internal controls; compliance with applicable rules and County policies; and process efficiencies and effectiveness over Auditor-Controller Claims & Disbursing's Educational & Professional Reimbursement Process, in which 3,285 requests were processed amounting in over $1.4 million in reimbursements to employees.

Corporate Controls:
Centralized Core Business System Audit

Audit Director: Peter Hughes, Ph.D., CPA
Deputy Director: Eli Littner, CPA, CIA
Sr. Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Winnie Keung, CPA, CIA
Senior Auditor: Lisette Free, CPA

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Internal Audit Department

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Internal Audit Department

Providing Facts and Perspectives Countywide

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Letter from Director Peter Hughes

Transmittal Letter

AUDIT NO. 2720-1 **JANUARY 29, 2008**

TO: David E. Sundstrom
Auditor-Controller

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

SUBJECT: Internal Control Review of Auditor-Controller - Claims & Disbursing's Educational and Professional Reimbursement Process

We have completed our Internal Control Review of the educational and professional reimbursement process administered by Auditor-Controller Claims & Disbursing for the year ended June 30, 2007, in which A-C Claims processed **3,285** educational and professional reimbursement requests totaling **$1,420,893.** We also audited the planned proposed changes to the educational and professional reimbursement process.

This is one in a series of audit reports of Auditor-Controller Claims & Disbursing. We will also issue separate audit reports for the Mileage & Other Expenses reimbursement process (#2720-2); issues concerning employee Social Security Numbers (#2720-3); and Vendor Payments (#2720-4).

Please note we have a 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 begin at six months from the official release of the report. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

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 six months from the release of the first Follow-Up Audit 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.

Letter from Director Peter Hughes

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 first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the 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 your staff so that they 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 complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

Other recipients of this report are listed on the Internal Auditor's Report on page 2.

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For the Year Ending
June 30, 2007

INTERNAL AUDITOR'S REPORT

AUDIT NO. 2720-1 **JANUARY 29, 2008**

TO: David E. Sundstrom, Auditor-Controller

SUBJECT: Internal Control Review of Auditor-Controller – Claims & Disbursing's Educational and Professional Reimbursement Process

Audit Highlight

For Fiscal Year 2006/07, A-C Claims & Disbursing Unit processed **3,285** educational and professional reimbursement requests totaling **$1,420,893.**

Scope of Review

We conducted an Internal Control Review of the educational and professional reimbursement process administered by the Auditor-Controller's Claims and Disbursing Unit for the year ending June 30, 2007, as well as the proposed changes to the reimbursement process.

We will issue separate audit reports for the other processes included in our Internal Control Review of Auditor-Controller Claims & Disbursing Unit, including the **Mileage and Other Expenses Reimbursements** (#2720-2); issues concerning **Employee Social Security Numbers** (#2720-3); and for **Vendor Payments** (#2720-4). Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors.

Results

Based on our audit, **no material weaknesses or significant issues were identified.** However, we did identify **three Control Findings** resulting in **eight (8) recommendations** to enhance controls and processes as discussed in the Detailed Observations, Recommendations and Management Responses section of this report. See *Attachment A* for a description of Report Item Classifications.

Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual section S-2 - *Internal Control Systems*, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because *management has primary responsibility* for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated and weaknesses, when detected, must be promptly corrected." The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Internal Audit's review enhances and complements, but does not substitute for the Auditor-Controller's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

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 the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the purpose described above would not necessarily disclose all weaknesses in Auditor-Controller's operating procedures, accounting practices and compliance with County policy.

Acknowledgment

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of Auditor-Controller's Claims and Disbursing Unit. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at (714) 834-5899 or Michael Goodwin, Senior Audit Manager, at (714) 834-6066.

Respectfully Submitted,

Peter Hughes

Dr. Peter Hughes, CPA, Director
Internal Audit Department

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:
- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Shaun Skelly, Senior Director, A-C/Accounting and Technology
- Jan Grimes, Director, A-C/Central Accounting Operations
- Robert Leblow, Senior Manager, A-C/Claims and Disbursing
- Toni Smart, Manager, A-C/Internal Audit and Staff Services
- Carl Crown, Director, Human Resources Department
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

AUDIT NO. 2720-1 **JANUARY 29, 2008**

OBJECTIVES

The Internal Audit Department conducted an Internal Control Review of selected centralized, core business processes in the Auditor-Controller's Claims & Disbursing Unit. One of the areas of our Internal Control Review was an evaluation of the educational and professional reimbursement process, which included an evaluation of the adequacy and integrity of internal controls; compliance with applicable rules, regulations and department policies, and evidence of process efficiencies and effectiveness.

Our audit objectives for the educational and professional reimbursement process were to determine:

- For the existing process, that reimbursement requests are processed completely, accurately, and timely in accordance with department/agency procedures, management's authorization and the County's Personnel and Salary Resolution.
- For the proposed changes to the process, that the Auditor-Controller is authorized to revise the reimbursement policies and forms by reviewing applicable Government Codes; that changes are in compliance with Internal Revenue Service (IRS) rules and regulations; and that the newly revised reimbursement form contains proper information and department/agency certifications because supporting documentation will no longer be required for A-C Claims' review.
- Business processes are efficient and effective as related to the A-C Claims & Disbursing Unit's processing of employee educational and professional reimbursements.

BACKGROUND

The mission of the Auditor-Controller (A-C) is to promote public oversight, provide accountability, and support financial decision-making for the County. The A-C's annual budget is approximately $16.5 million and has approximately 415 employees. The A-C is comprised of three divisions: Central Operations, Agency Accounting and Information Technology. Central Operations provides the "core" accounting activities required of the Auditor-Controller which benefit the County as a whole. The Claims & Disbursing Unit within the A-C Central Operations provides payroll and claims processing for all County departments, including reviewing and processing employee educational and professional reimbursements, sometimes referred to as "tuition reimbursements."

Pursuant to the County's Personnel and Salary Resolution (PSR) 2003, "*the Educational and Professional Reimbursement Program is designed to encourage employees to continue their professional development through a variety of opportunities.....; items eligible for reimbursement must have the reasonable potential for contributing to achieving County business objectives.'*" The maximum qualified reimbursement that an eligible employee could receive in Fiscal Year 2006/07 was $2,000.

Employees use *County of Orange Educational and Professional Reimbursement Claim* forms to request educational and professional reimbursements. County departments/agencies are responsible for approving their employee's request based on the criteria set forth in the PSR and guidelines provided by the Auditor-Controller Claims Unit (A-C Claims). A-C Claims reviews the claims and supporting documentation for compliance with program requirements and approves them for payment. The approved requests are sent to A-C Disbursing and are provided to a vendor for data entry. After the vendor inputs the information, it is uploaded to the Countywide Accounting and Personnel System (CAPS) for payment processing.

For Fiscal Year 2006/07, A-C Claims processed **3,285** educational and professional reimbursement requests totaling **$1,420,893.**

SCOPE

Our audit included an evaluation of controls and processes over educational and professional reimbursements starting from A-C Claims' receipt of department/agency reimbursement requests through submission of the claims to A-C Disbursing for payment processing. Our review covered the period from July 1, 2006 to June 30, 2007.

In addition, we reviewed the proposed changes to the educational and professional reimbursement process in which departments/agencies will be responsible to ensure all claims are adequately supported and maintained for future inspection. We did not review A-C Disbursing's processing or payment of these requests. Furthermore, we did not review controls in departments/agencies over preparation of reimbursement claims. Our methodology included inquiry, auditor observation and examination, and testing of relevant documentation.

RESULTS

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

- **Objective:** For the existing process, that reimbursement requests are processed completely, accurately, and timely in accordance with department/agency procedures, management's authorization, and the County's Personnel and Salary Resolution.

- **Results:** Controls and processes are in place to ensure reimbursement requests are processed completely and accurately in accordance with department/agency procedures and management's authorization. We note in this report where controls can be enhanced in the areas of policies and procedures and the claims review process. These are considered **Control Findings** and are discussed in the Detailed Observations, Recommendations and Management Responses section of this report. See *Attachment A* for Report Item Classifications.

- **Objective:** For the proposed changes to the process, that the Auditor-Controller is authorized to revise the reimbursement policies and forms by reviewing applicable Government Codes; that changes are in compliance with Internal Revenue Service (IRS) rules and regulations; and that the newly revised reimbursement form contains proper information and department/agency certifications because supporting documentation will no longer be required for A-C Claims' review.

- **Results:** The Auditor-Controller is authorized to revise the reimbursement policies and forms in accordance with the applicable Government Code. The revised *Educational and Professional Reimbursement Claim* form contains appropriate information and department/agency certifications. We note in this report where the policies and procedures and the revised claim form can be enhanced for continued compliance with County, PSR and IRS procedures and requirements for an educational assistance program. These are considered **Control Findings.**

- **Objective:** Business processes are efficient and effective as related to the A-C Claims & Disbursing Unit's processing of employee educational and professional reimbursements.

- **Results:** No inefficient or ineffective procedures concerning backlogs or duplication of work in educational and professional reimbursement claim processing were noted or came to our attention.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Current Educational and Professional Reimbursement Process

Pursuant to the County's Personnel and Salary Resolution (PSR), the maximum reimbursement claim for each eligible employee during Fiscal Year 2006/2007 was $2,000. (On July 31, 2007, the Board of Supervisors approved and adopted PSR changes that increased the maximum reimbursement from $2,000 to $3,000).

To obtain reimbursement, employees prepare a claim form based on the criteria set forth in the PSR and attach the required supporting documentation showing payment and proof of attendance/completion. Department/agency management review and approve the claims and forward them to A-C Claims. A-C Claims logs the receipt of the claims on a Tuition Log and attempts to review and approve the claims within 12 working days of receipt. The claims are then forwarded to A-C Disbursing where they are provided to an outside contractor for data entry. The contractor inputs the approved reimbursement claims into a database, which is subsequently uploaded onto the Countywide Accounting and Personnel System (CAPS) for payment through the employee's bi-weekly paycheck.

We evaluated controls over the current process to determine if reimbursement requests are processed completely, accurately, and timely in accordance with established PSR and Auditor-Controller procedures and with management's authorization.

Proposed Educational and Professional Reimbursement Process

A-C Claims is revising its process for educational and professional reimbursement claims. The most notable change to the process is that departments/agencies will no longer be required to submit supporting documentation with the reimbursement claim. Instead, departments/agencies will "certify" their review and approval on a newly revised *Educational and Professional Reimbursement Claim* form indicating that supporting documents are adequate and meet the criteria set forth in the PSR. A-C Claims will approve claims based on the forms being signed and certified by authorized individuals. In addition, departments/agencies will be required to retain all claim supporting documents for at least 5 years for the Auditor-Controller's and Internal Audit Department's inspection. A-C Claims will periodically perform post quality assurance reviews to ensure the appropriateness of the claims.

We evaluated the proposed process to ensure that the Auditor-Controller is authorized to revise the reimbursement policies and forms; reviewed applicable Government Codes and IRS rules and regulations concerning employee educational reimbursements; and reviewed the revised *Educational and Professional Reimbursement Claim* form to determine if it contains appropriate information and departmental certifications.

Based on our audit of the current and proposed processes, we have the following observations and recommendations in the areas of policies and procedures, claims review, and the revised reimbursement claim form.

Observation No. 1 – Policies and Procedures (Control Finding)

PSR Article III – *Educational and Professional Reimbursement Program* provides the policy guidelines for employees to follow to continue their professional development. Section 3 indicates reimbursement eligibility for courses related to obtaining a degree, accredited certificate programs, vocational skills programs, professional conferences, fees related to certifications or accreditations, and fees related to taking professional examinations. A-C Claims also maintains written procedures describing their claim review process.

With the proposed change to the process, the responsibility to ensure reimbursement claims are in accordance with established criteria will now be with department management who review, approve and certify the claim requests. Because of this change, detailed policies and procedures should be developed to supplement the PSR and provide guidelines for all agencies/departments to ensure consistency and compliance in reimbursement claiming. We were informed that A-C Claims is in process of establishing such written policies and procedures in preparation for the process change.

The following are where we believe policies and procedures need to be established or enhanced:

a. Criteria to Approve Professional Examinations

PSR Article III is specific about grade requirements and course completion requirements for classes and degree programs. However, the criteria for reimbursement for professional examinations and associated expenses (i.e., review courses) is not clearly defined, such as the number of times an employee can claim reimbursement for taking such exams and review courses and proof of completion. Because this is not defined, A-C Claims reimburses for professional examinations and related expenses based upon proof of payment, regardless if the employee passes or fails the exam, attended the exam, or the number of times the examination is taken. It should be noted that A-C Claims does not have the authority to revise or amend the PSR; this is done in Human Resources and requires Board approval.

Recommendation No. 1a

Auditor-Controller Claims & Disbursing partner with the Human Resources Department to obtain clarification on reimbursement requirements for professional examinations and associated expenses, and provide these guidelines to departments/agencies.

Auditor-Controller Management Response:

Concur. It is the role of the Human Resources Department and not the Claims Section to establish policies and provide guidance on the implementation of the provisions of the Personnel and Salary resolution. Therefore, we cannot compel this action although we will contact the Human resources department and bring this recommendation to their attention. We will also bring forward any recommendations we have for establishing this policy. If they agree to establish guidelines in this area we will provide them to departments/agencies.

b. Monitoring Annual Reimbursement Limits and Prior Period Claim Expenses

Responsibility for monitoring employee reimbursements to not exceed the annual limit was not clear. A-C Claims does not currently monitor individual employees exceeding the annual limit and indicated that is the responsibility of employees and their respective departments/agencies. However, we noted one department who had an employee exceed their annual limit, as discussed below, and thought A-C Claims was monitoring individual reimbursement limits. This responsibility should be made clear in the policies to be established for departments/agencies.

Our testing found that 54 employees received reimbursements in excess of $2,000 during FY 06/07. This could have resulted from several factors including exceeding the annual limit, timing differences for prior period expenditures, or from employees transferring departments. We reviewed 5 of the 54 employee reimbursements to determine if their annual limit had been exceeded and found one employee exceeded the limit by $1,512. The other four reimbursements may have exceeded the annual limit in FY 06/07 because they included expenditures incurred in FY 05/06. We noted that the PSR and A-C Claims' procedures did not address monitoring annual limits in situations involving incurred and posted prior period claims.

Recommendation No. 1b

Auditor-Controller Claims & Disbursing establish written procedures and guidelines for departments/agencies that discuss responsibility for monitoring employees' annual reimbursement limits in situations involving prior period expenditures.

Auditor-Controller Management Response:
Concur. The Claims & Disbursing Unit will update their procedures to include discussion of the responsibility to monitor annual limits for reimbursement. The procedure will be updated by March 30, 2008, and will be distributed to departments and agencies afterwards.

c. Post Quality Assurance Reviews

Once the new claim process is implemented, A-C Claims plans to perform periodic post quality assurance reviews in departments/agencies to ensure consistency and compliance with program objectives and procedures. We believe this is an important control and detailed procedures should be established and communicated to all departments. Policies should include the methodology and attributes to be reviewed, frequency of reviews, reporting methods, and follow-up. A-C Claims is in the process of establishing procedures and guidelines for use by all departments/agencies.

Recommendation No. 1c
Auditor-Controller Claims & Disbursing establish written procedures for performing post quality assurance reviews describing the reviews and ensure the procedures are distributed countywide.

Auditor-Controller Management Response:
Concur. Procedures for performing post audits will be documented and added to unit procedures for the Compliance unit. These will be completed by March 30, 2008.

Observation No. 2 – Claims Review Process (Control Finding)

We selected twenty-five (25) educational and reimbursement claims to determine if they were processed completely, accurately, and timely in accordance with department/agency procedures and management's authorization. Our testing disclosed the following:

- Reimbursement claim forms were processed between two (2) to fifty-two (52) business days. A-C Claims' goal is to process the claims within 12 business days.
- One reimbursement claim form was missing the approval signature from A-C Claims and was not detected when processed in A-C Disbursing.
- One reimbursement claim form for a conference did not have proof of completion/attendance as required by the PSR.
- Three reimbursement claim forms were not accurately input into the Tuition Log.

Because A-C Claims is revising the educational and professional reimbursement claims process, processing time in A-C Claims should be significantly reduced. The missing approval signature was stated to be an oversight and should have been detected and returned by A-C Disbursing during processing. The Tuition Log used to track A-C Claims' processing time should contain accurate information to be effective.

Recommendation No. 2

Auditor-Controller Claims & Disbursing establish written procedures for processing claims under the proposed process that address timeframes for processing reimbursement claims, ensuring approval signatures are in place, and accurately updating the Tuition Log as claims are received.

Auditor-Controller Management Response:

Concur. The Claims & Disbursing Unit will add a discussion of timeframes and approval signatures to our procedure for processing tuition claims. We will no longer maintain the Tuition Logs under the new procedure because these are very time consuming to create and we receive relatively few inquiries on the status of individual claims. Under the new procedure we will use ERMI report HR31P to verify that claims are paid. Because we are no longer reviewing backup to claims, all claims received by the established cutoffs should be processed each pay period.

Observation No. 3 – Revised Educational and Professional Reimbursement Claim Form (Control Finding)

We reviewed the revised *Educational and Professional Reimbursement Claim* form for compliance with established policies, applicable Government Codes and Internal Revenue Service rules and regulations concerning employee educational assistance reimbursements; and reviewed the revised form to determine if it contains proper information and departmental certifications since supporting documentation will no longer be required to be submitted to A-C Claims.

The following areas that management should be considered prior to the distribution of the revised Form to enhance internal controls and be in compliance with applicable rules and regulations.

a. Department Certification Regarding Maximum Reimbursement Limit

The revised *Educational and Professional Reimbursement Claim* form includes five certifications to be made by departments/agencies approving the claims. These include certification the claim is in accordance with the requirements of the County's reimbursement program.

As noted above in 1.b, A-C Claims did not monitor Educational and Professional Reimbursement claims to ensure employees do not exceed the annual limit prescribed in the PSR. To ensure claims are in compliance with the PSR prescribed annual limit, we believe that an additional departmental certification is needed specifically stating the claim does not exceed the employee's annual limit.

Recommendation No. 3a

Auditor-Controller Claims & Disbursing add a certification to the revised *Educational and Professional Reimbursement Claim* form indicating the claimed year-to-date amount does not exceed the annual employee limit.

Auditor-Controller Management Response:

Concur. This has been added to the new claim form.

b. Taxable Reimbursement Limits

According to the Internal Revenue Service, Publication 15-B, *Employer's Tax Guide to Fringe Benefits* Publication, educational assistance, including the cost of books, equipment, fees, supplies, and tuition, is non-taxable up to $5,250 for calendar years 2006 and 2007. Any amount in excess of $5,250 should be identified and reported to employees as taxable income.

For calendar year 2006, no employees would likely exceed the IRS limit since the County's fiscal year limit was $2,000 (which meant that the maximum reimbursement that an employee could receive in one calendar year would be $4,000). However, in calendar year 2007 due to an increase of the benefit to $3,000 per fiscal year, an employee could potentially receive up to $6,000 which would put them over the IRS limit. Because of the increase in this benefit, A-C Claims should develop a process to monitor employee reimbursements exceeding the IRS limit and report them accordingly.

Recommendation No. 3b

Auditor-Controller Claims & Disbursing develop and implement procedures to monitor employee reimbursement claims to determine if they exceed the IRS maximum limits of non-taxable income and report accordingly.

Auditor-Controller Management Response:

Concur. We will use ERMI report HR31P for the last three pay periods each year to review for employees who exceed the IRS maximum limit.

c. Transportation Expenses - Parking

According to the Internal Revenue Service, Publication 15-B, *Employer's Tax Guide to Fringe Benefits* states that employee educational assistance, which includes the cost of books, equipment, fees, supplies, and tuition, up to $5,250 is excluded from income and not subject to federal income tax. However, transportation expense (i.e., parking) is not considered an education expense; therefore, it is taxable. The revised *Educational and Professional Reimbursement Claim* form identifies parking (transportation expense) separately from other expenses for this purpose. We believe the form can be enhanced by indicating parking and other transportation expenses as "taxable" on the form so employees are aware of the requirement.

Recommendation No. 3c

Auditor-Controller Claims & Disbursing include on its revised *Educational and Professional Reimbursement Claim* form notification that transportation expenses such as parking are taxable income to be reported to the IRS.

Auditor-Controller Management Response:

Concur. We have added a special column to the current form for parking and designated it as a taxable reimbursement.

d. Record Retention

The proposed reimbursement process no longer requires departments/agencies to submit claim supporting documents to A-C Claims; however, agencies are required to maintain supporting documentation for inspection for five years. During the transition of the claiming process, departments may still be submitting claim support documents to A-C Clams. If supporting documentation is received by A-C Claims, the documents, along with a reminder should be returned to the agency/department to ensure current procedures and retention policies are adhered to.

Recommendation No. 3d

Auditor-Controller Claims & Disbursing establish a process to notify and return claim supporting documents to departments/agencies to ensure current procedures and retention policies are adhered to.

Auditor-Controller Management Response:

Concur. The implementation of the new procedure began on December 10, 2007. Claims received after that date on the new forms have had their supporting documentation returned to departments with a reminder that they are subject to the five year retention requirement.

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 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 and/or Efficiency/Effectiveness Issues:**
  Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.

ATTACHMENT B: Auditor-Controller Management Responses

AUDITOR-CONTROLLER
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DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

January 2, 2008

RECEIVED
INTERNAL AUDIT DEPARTMENT
2008 JAN -7 AM 7:57

TO: Peter Hughes, Director, Internal Audit Department

SUBJECT: Draft Report on Internal Control Review of Auditor-Controller's Educational and Professional Reimbursement Process

Following is our response to the recommendations contained in your report: Draft Report on Internal Control Review of Auditor-Controller's Educational and Professional Reimbursement Process.

Recommendation No. 1a
Auditor-Controller Claims & Disbursing partner with the Human Resources Department to obtain clarification on reimbursement requirements for professional examinations and associated expenses and provide these guidelines to departments/agencies

Auditor-Controller Management Response:
Concur. It is the role of the Human Resources department and not the Claims Section to establish policies and provide guidance on the implementation of the provisions of the Personnel and Salary Resolution. Therefore, we cannot compel this action although we will contact the Human Resources Department and bring this recommendation to their attention. We will also bring forward any recommendations we have for establishing this policy. If they agree to establish guidelines in this area we will provide them to departments/agencies.

Recommendation No. 1b
Pursuant to requirements set forth in the PSR, Auditor-Controller Claims & Disbursing establish written procedures and guidelines for departments/agencies that discuss responsibility for monitoring employees' annual reimbursement limits in situations involving prior period expenditures.

Auditor-Controller Management Response:
Concur. The Claims & Disbursing Unit will update their procedures to include discussion of the responsibility to monitor annual limits for reimbursement. The procedure will be updated by March 30, 2008, and will be distributed to departments and agencies afterwards.

ATTACHMENT B: Auditor-Controller Management Responses (continued)

Peter Hughes, Director, Internal Audit Department
January 2, 2008
Page 2

Recommendation No. 1c
Auditor-Controller Claims & Disbursing establish written procedures for performing post quality assurance reviews describing the reviews and ensure the procedures are distributed countywide.

Auditor-Controller Management Response:
Concur. Procedures for performing post audits will be documented and added to the unit procedures for the Compliance unit. These will be completed by March 30, 2008.

Recommendation No. 2
Auditor-Controller Claims & Disbursing establish written procedures for processing claims under the proposed process that address timeframes for processing reimbursement claims, ensuring approval signatures are in place, and accurately updating the Tuition Log as claims are received.

Auditor-Controller Management Response:
Concur. The Claims & Disbursing Unit will add a discussion of timeframes and approval signatures to our procedure for processing tuition claims. We will no longer maintain the Tuition Logs under the new procedure because these are very time consuming to create and we receive relatively few inquiries on the status of individual claims. Under the new procedure we will use ERMI report HR31P to verify that claims are paid. Because we are no longer reviewing backup to claims, all claims received by the established cutoffs should be processed each pay period.

Recommendation No. 3a
Auditor-Controller Claims & Disbursing add a certification to the revised *Educational and Professional Reimbursement Claim* form indicating the claimed year-to-date amount does not exceed the annual employee limit.

Auditor-Controller Management Response:
Concur. This has been added to the new claim form.

Recommendation No. 3b
Auditor-Controller Claims & Disbursing develop and implement procedures to monitor employee reimbursement claims to determine if they exceed the IRS maximum limits of non-taxable income and report accordingly.

Auditor-Controller Management Response:
Concur. We will use ERMI report HR31P for the last three pay periods each year to review for employees who exceed the IRS maximum limit.

ATTACHMENT B: Auditor-Controller Management Responses (continued)

Peter Hughes, Director, Internal Audit Department
January 2, 2008
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Recommendation No. 3c
Auditor-Controller Claims & Disbursing include on its revised *Educational and Professional Reimbursement Claim* form notification that transportation expenses such as parking are taxable income to be reported to the IRS.

Auditor-Controller Management Response:
Concur. We have added a special column to the current form for parking and designated it as a taxable reimbursement.

Recommendation No. 3d
Auditor-Controller Claims & Disbursing establish a process to notify and return claim supporting documents to departments/agencies to ensure current procedures and retention policies are adhered to.

Auditor-Controller Management Response:
Concur. The implementation of the new procedure began on December 10, 2007. Claims received after that date on the new forms have had their supporting documentation returned to departments with a reminder that they are subject to the five year retention requirement.

Thank you for the opportunity to respond to the draft report. Please contact Jan Grimes at 834-2470 if you have any questions on our response.

David E. Sundstrom
Auditor-Controller

RL:lr (Tuition Expense Audit Response/wg/lr)