Internal Audit Department

INTERNAL CONTROL REVIEW OF HOUSING & COMMUNITY SERVICES DEPARTMENT – HOUSING CHOICE VOUCHER PROGRAM PAYMENTS

For the Period:
July 1, 2006 through June 30, 2007

AUDIT NO: 2724
REPORT DATE: JANUARY 17, 2008

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Internal Audit Department

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Transmittal Letter

AUDIT NO. 2724   JANUARY 17, 2008

TO: Julia Bidwell, Interim Director
Housing & Community Services
Department

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

SUBJECT: Internal Control Review of Housing &
Community Services Department –
Housing Choice Voucher Program
Payments

We have completed our Internal Control Review of the Orange County Housing Authority (OCHA) Housing Choice Voucher Program payments that are administered by the Housing & Community Services Department, for the period July 1, 2006 through June 30, 2007. The final report is attached for your review.

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 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 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.

Table of Contents

Internal Control Review of Housing & Community Services Department – Housing Choice Voucher Program Payments
Audit No. 2724

For the Period
July 1, 2006 through June 30, 2007

INTERNAL AUDITOR'S REPORT

AUDIT NO. 2724   **JANUARY 17, 2008**

TO: Julia Bidwell, Interim Director
              Housing & Community Services Department

SUBJECT: Internal Control Review of Housing & Community
              Services Department – Housing Choice Voucher
              Program Payments

Audit Highlight

For the year ended June 30, 2007, OCHA made approximately **$89 million** in Housing Choice Voucher Program payments.

Scope of Review

We have completed our Internal Control Review of the Orange County Housing Authority (OCHA) Housing Choice Voucher Program payments that are administered by the Housing & Community Services Department (HCS), for the period July 1, 2006 through June 30, 2007. 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 **eight (8) control findings and 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. In addition, we were informed that when HCS transmits its payment data electronically to its bank (Union Bank), County Executive Office/Information Technology (CEO/IT) must open all County ports to allow the transmission to occur. Therefore, we issued a separate **"Audit Alert"** to the Deputy CEO/Chief Information Officer (CIO). The CIO took immediate steps to mitigate and correct the process. See **"Audit Alert and CIO Response"** at Attachment D of this report.

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 HCS' and HCS Accounting'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 HCS' and HCS Accounting'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 HCS and HCS Accounting. 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,

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
    John Hambuch, Housing Assistance Division Manager, HCS
    Andrae Frierson, Information Services Manager, HCS
    David E. Sundstrom, Auditor-Controller
    Shaun Skelly, Senior Director, Accounting and Technology
    Bill Castro, Director, Satellite Accounting Operations
    Mike Montijo, Accounting Manager, HCS Accounting
    Satish Ajmani, Deputy CEO and Chief Information Officer
    Foreperson, Grand Jury
    Darlene J. Bloom, Clerk of the Board of Supervisors

Internal Auditor's Report

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department conducted an Internal Control Review of Orange County Housing Authority Housing Choice Voucher Program payments that are administered by the Housing & Community Services Department, 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. The objectives of our audit were to evaluate internal controls and determine if they are in place and operating effectively to ensure:

▸ Payments are accurate, valid (adequately supported), processed timely, and are properly recorded.
▸ Payments are properly authorized and processed in compliance with HCS management's directives and with County accounting procedures.
▸ Assets are properly safeguarded (restricted access to critical asset control forms, critical records, transaction processing areas, etc.).
▸ Business processes are efficient and effective as related to payment processing.

We also gained a high-level understanding of selected general and application controls over information systems used to process payments.

BACKGROUND

The mission of the Housing & Community Services Department (HCS) is to work in partnership with and advocate for Orange County's diverse communities, improve lives by supporting and providing needed community services, strengthen economic viability, and preserve and expand affordable housing opportunities; thereby enhancing the quality of life for our community. The Housing Assistance section of HCS functions as the Orange County Housing Authority (OCHA), which makes housing subsidy disbursements for the Housing Choice Voucher Program. OCHA has provided rental assistance to more than 9,400 households in the Housing Choice Voucher Program. For the year ended June 30, 2007, OCHA made approximately **$89 million** in Housing Choice Voucher Program payments. OCHA utilizes HAPPY Software's Housing Pro System to manage the Housing Choice Voucher Program and other special housing programs, from application to payment issuance to on-going monitoring.

SCOPE

Our audit evaluated controls and processes over of the OCHA Housing Choice Voucher Program payments for the period July 1, 2006 through June 30, 2007. We also gained a high-level understanding of selected general and application information technology controls over HCS' Housing Pro System. We completed internal control questionnaires via inquiry with HCS Information Services management and staff, and reviewed various related documents. We did not perform detailed testing of information technology controls. We also did not include a review of the housing voucher program eligibility process. 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:** *Payments are accurate, valid (adequately supported), processed timely, and are properly recorded.*

▸ **Results:** Controls and processes are in place to ensure payments are adequate, valid (adequately supported), processed timely, and recorded properly. We noted where improvement could be made in the detection of duplicate payments. We noted seven (7) duplicate payments were made to landlords totaling $7,279. We noted where improvement could be made in the areas of establishing accountability for the preparation and review of reports received from the bank. Also, we identified where conflicting job duties could be reassigned and where relevant file documentation could be better maintained and retained. These issues are discussed in detail in the Detailed Observations, Recommendations and Management Responses section of this report.

▸ **Objective:** *Payments are properly authorized and processed in compliance with HCS management's directives and with County accounting procedures.*

▸ **Results:** Controls and processes are in place to ensure payments are properly authorized and processed in compliance with management's directives and with County accounting procedures.

▸ **Objective:** *Assets are properly safeguarded (restricted access to critical asset control forms, critical records, transaction processing areas, etc.).*

▸ **Results:** Assets are properly safeguarded.

‣ **Objective:** *Business processes are efficient and effective as related to payment processing.*

‣ **Results:** No inefficient or ineffective procedures concerning backlogs or duplication of work in payment processing were noted or came to our attention.

‣ **Objective:** *To gain a high-level understanding of selected general and application controls over information systems used to process payments.*

‣ **Results:** Based on our high-level understanding of selected general and application controls, nothing came to our attention to indicate that a material weakness or significant issue exists. We noted where enhancements could be made in the areas of performing regular information technology risk assessments, formalizing an information technology security plan and performing regular testing of the information technology business continuity plan. The items are discussed in the Detailed Observations, Recommendations and Management Responses section of this report.

In addition, we were informed that when HCS transmits its payment data electronically to its bank (Union Bank), County Executive Office/Information Technology (CEO/IT) must open all County ports to allow the transmission to occur. Therefore, we issued a separate **"Audit Alert"** to the Deputy CEO/Chief Information Officer (CIO). The CIO took immediate steps to mitigate and correct the process. See **"Audit Alert and CIO Response"** at Attachment D of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Duplicate Payments

Observation
We reviewed the entire population of payments made for the Housing Choice Voucher Program (approximately $89 million for the audit period) and noted seven (7) duplicate payments to landlords were made totaling $7,279. HCS program staff have procedures in place to identify and review potential duplicate payments made during the main check runs (first day of the month check runs). HCS Accounting has a procedure in place to identify and review potential duplicate payments made during the supplemental check runs (approximately the middle of each month). The duplicate payments noted were all made during main check runs at the first of the month. The duplicate payments were not detected due to an oversight in the review performed by HCS program staff.

Recommendation No. 1
We recommend HCS request reimbursement for the duplicate payments noted, and evaluate if procedures need to be enhanced for detecting duplicate payments during the main check runs.

HCSD Management Response:
Concur. We concur that seven out of more than 42,000 checks written during the year were duplicated and these errors were not detected during the preparation and review process. Three owners have reimbursed HCS for the duplicate payments and actions are underway to collect the overpayments from the remaining owners.

Staff has researched each of the seven duplicate payments to determine how the error could have occurred. The determination is that there is no pattern or correlation between these transactions. Staff also consulted with the software vendor technicians, who were unable to establish a cause. All duplicate payments are reviewed monthly and staff will continue to explore manual or computerized methods that may enhance this process to detect irregularities and duplicate payments. Periodic computer software updates from the vendor may also help these efforts.

Internal Control Review of Housing & Community Services Department
Housing Choice Voucher Program Payments
Audit No. 2724

Page 6

Positive Pay Exception Reports

Prior to check generation, HCS Accounting submits check information to Union Bank (payees, check numbers and check amounts). A Positive Pay Exception report is provided to HCS Accounting by Union Bank when a payee, check number, or amount does not match the check information previously submitted by HCS to Union Bank. HCS Accounting is required to process Positive Pay Exception Reports (informing the bank whether to correct and pay, or deny the payment) via Union Bank's website.

Observation
Positive Pay Exception Reports are not consistently signed by the HCS Accounting processor and are not reviewed by a supervisor.

Recommendation No. 2
We recommend HCS Accounting ensure Positive Pay Exception Reports are signed by the processor.

Auditor-Controller Management Response:
Concur. All Positive Pay Exception reports during the audit period were examined by the processor, but they were not initialed in every instance. HCS Accounting management has reminded staff to ensure that all Positive Pay Exception Reports are reviewed, initialed and dated, in all instances. HCS Accounting management will conduct periodic spot checks to ensure compliance with this recommendation.

Recommendation No. 3
We recommend HCS Accounting ensure a documented supervisory review of Positive Pay Exception Reports is performed.

Auditor-Controller Management Response:
Concur. All Positive Pay Exception Reports are now reviewed, initialed and dated by an HCS Accounting manager or supervisor. HCS Accounting management will conduct periodic spot checks to ensure compliance with this recommendation.

Segregation of Duties

A satisfactory system of internal control includes segregating duties to eliminate opportunities to perpetrate and conceal errors or irregularities. This in turn depends on the assignment of work in such a fashion that no one individual controls all phases of an activity or transaction.

Observation
The Accounting Office Supervisor has incompatible duties being responsible for having custody of checks, performing bank reconciliations and processing Positive Pay Exception Reports from Union Bank. Our review, however, did not disclose any instances of errors or irregularities resulting from these incompatible duties.

Recommendation No. 4

We recommend HCS Accounting ensure the duties of check custody, processing Positive Pay Exception Reports and performing bank reconciliations are segregated.

Auditor-Controller Management Response:

Concur. We have shifted duties so that the Positive Pay Exception Reports are now processed by a Senior Accounting Assistant and bank reconciliations are now prepared by an Accounting Assistant II, neither of whom has custody of checks.

Owner Documentation

HCS Leasing and HCS Accounting are required to obtain and maintain certain owner related documents to establish owners as eligible vendors and to support payments made to the owners.

Observation

Some tenant files we selected for testing were missing required documents. Documents from 3 of 30 payments tested were not on file:

- One did not have the Housing Choice Voucher Program agreement between the owner and OCHA on file.
- One did not have the lease agreement between the owner and OCHA on file.
- One did not have a completed W-9 on file.

Recommendation No. 5

We recommend HCS evaluate its file review process to ensure tenant files contain all required documents.

HCSD Management Response:

Concur. We concur that the above-indicated documents were missing from three program files. The quality control functions have been re-evaluated to determine how this occurred. Steps that are being immediately initiated to avoid such missing documents include the following:

- In order to obtain an approval and signature, every file will be reviewed to verify the QC process was completed and comprehensive.
- When a 60-day time line is exceeded, all pending files will be brought to the attention of management for review and follow-up to ensure prompt completion.
- A Vendor (property owner) will not be approved until a completed W-9 has been submitted.

Information Technology Security

We were informed that when HCS transmits its payment data electronically to its bank (Union Bank), County Executive Office/Information Technology (CEO/IT) must open all County ports to allow the transmission to occur. Opening all ports on a routine basis increases the risk of unauthorized access to the County's network. We issued a separate **"Audit Alert"** to the Deputy CEO/Chief Information Officer (CIO). The CIO took immediate steps to mitigate and correct the process. See **"Audit Alert and CIO Response"** at Attachment D of this report.

Information Technology Risk Assessment

Information technology risk assessments are important as they help make certain that major threats and vulnerabilities are identified and considered, the greatest risks are identified, and appropriate decisions are made regarding which risks to accept and which risks to mitigate through security controls. HCS should perform regular information technology risk assessments to ensure threats and vulnerabilities to critical systems, such as the Housing Pro System, are identified.

Observation

We were informed that CEO/IT performed an IT risk assessment for HCS when the former Housing & Community Development Department merged with the former Community Services Agency to become HCS in 2003. However, HCS has not performed a recent comprehensive high-level risk assessment including:

- Classification of resources based on their respective need for protection.
- Identification of specific threats against sensitive and critical resources.

Recommendation No. 6

We recommend HCS establish a systematic information technology risk assessment framework for the Housing Pro System which assesses the relevant information risks with the achievement of business objectives.

HCSD Management Response:

Concur. Working with executive management, the IT team will create a risk assessment framework for Housing Pro software, which may also be applied to other systems within HCS.

Information Technology Security Plan & Management Structure

Departments should maintain formalized security plans that describe the department's security program. Also, a security management structure should be established to implement the department's security plan.

Observation
HCS has various security practices in place; however, HCS has not developed a formalized security plan for the Housing Pro System that describes the department's security program and policies and procedures that support it. Also, a security management structure has not yet been established.

Recommendation No. 7
We recommend HCS develop a formalized security plan that describes the department's security program concerning the Housing Pro System. In addition, HCS should create a security management structure to implement the security program.

HCSD Management Response:
Concur. HCS will document the security measures currently in place for the Housing Pro system. It is anticipated the security management structure will be an output of the risk assessment.

Information Technology Business Continuity Planning
Business continuity plans should be tested periodically to ensure all individuals understand their respective responsibilities in the event of a business interruption or disaster and to detect problems in the execution of the plan.

Observation
HCS has developed an information technology business continuity plan; however, the plan has not been tested.

Recommendation No. 8
We recommend HCS perform periodic tests of its information technology business continuity plan.

HCSD Management Response:
Concur. The HCS IT continuity plan is an integral part of the overall HCS Disaster Recovery Plan (DRP). HCS/IT will work with other Division Managers within HCS to consolidate the HCS DRP and perform testing. We will tentatively schedule a test of the consolidated DPR within the next 18 months.

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: Housing & Community Services Department Management Responses

Housing & Community Services Department
C O U N T Y   O F   O R A N G E

January 8, 2008

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

FROM Julia Bidwell, Interim Director,
Housing & Community Services Department

SUBJECT: Internal Control Review of Housing & Community Services Department –
AUDIT NO. 2724: Housing Choice Voucher Program Payments

The Housing & Community Services Department and Auditor-Controller management reviewed
the final report of the Internal Control Review of the Orange County Housing Authority (OCHA)
Housing Choice Voucher Program payments for the period July 1, 2006 through June 30, 2007.
As indicated in the report, no material weaknesses or significant issues were identified, however,
the Audit team identified eight (8) control findings and recommendations to enhance controls and
processes. These findings were elucidated the Detailed Observations, Recommendations and
Management Responses section of the report.

In compliance with this request, the Housing & Community Services Department (HCS) has
completed Attachments B and C of the Follow-up Audit Report Form. These documents are
attached and provide responses from both the HCS Department and Auditor Controller
management.

On behalf of our management team, I wish to thank and the audit team for your courtesy and
diligence in conducting the review as part of our mutual goal to maintain and enhance effective
internal control systems. Please advise us if further clarification or information is needed regarding
the eight responses submitted for your consideration.

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ATTACHMENT B: Housing & Community Services
Department Management Responses (continued)

January 8, 2008

Internal Control Review of Housing & Community Services Department
Housing Choice Voucher Program Payments
Housing & Community Services Department
Audit No. 2724

ATTACHMENT B: Housing & Community Services Department Management Responses

Duplicate Payments
Observation
We reviewed the entire population of payments made for the Housing Choice Voucher Program (approximately $89 million for the audit period) and noted seven duplicate payments to landlords were made totaling $7,279. The duplicate payments were not detected due to an oversight in the review performed by HCS program staff.

Recommendation #1
We recommend HCS request reimbursement for the duplicate payments noted, and evaluate if procedures need to be enhanced for detecting duplicate payments during the main check runs.

HCS Management Response:
We concur that seven out of more than 42,000 checks written during the year were duplicated and these errors were not detected during the preparation and review process. Three owners have reimbursed HCS for the duplicate payments and actions are underway to collect the overpayments from the remaining owners.

Staff has researched each of the seven duplicate payments to determine how the error could have occurred. The determination is that there is no pattern or correlation between these transactions. Staff also consulted with the software vendor technicians, who were unable to establish a cause. All duplicate payments are reviewed monthly and staff will continue to explore manual or computerized methods that may enhance this process to detect irregularities and duplicate payments. Periodic computer software updates from the vendor may also help these efforts.

Owner Documentation
Observation
Some tenant files were missing required documents. Documents from three of 30 payments tested were not on file:
- One did not have the Housing Choice Voucher Program agreement between the owner and OCHA on file.
- One did not have the lease between the owner and tenant on file.
- One did not have a completed W-9 on file.

Recommendation #5
We recommend HCS and HCS Accounting evaluate their file review process to ensure tenant files contain all required documents.

ATTACHMENT B: Housing & Community Services
Department Management Responses (continued)

HCS Management Response:
We concur that the above-indicated documents were missing from three program files.   The quality control functions have been re-evaluated to determine how this occurred. Steps that are being immediately initiated to avoid such missing documents include the following:

- In order to obtain an approval and signature, every file will be reviewed to verify the QC process was completed and comprehensive.
- When a 60-day time line is exceeded, all pending files will be brought to the attention of management for review and follow-up to ensure prompt completion.
- A Vendor (property owner) will not be approved until a completed W-9 has been submitted.

Information Technology Risk Assessment
Information technology risk assessments are important as they help make certain that major threats and vulnerabilities are identified and considered, the greatest risks are identified, and appropriate decisions are made regarding which risks to accept and which risks to mitigate through security controls. HCS should perform regular information technology risk assessments to ensure threats and vulnerabilities to critical systems, such as the Housing Pro System, are identified.

Observation
We were informed that CEO/IT performed an IT risk assessment for HCS when the former Housing & Community Development Department merged with the former Community Serviced Agency to become HCS in 2003.   However, HCS has not performed a recent comprehensive high-level risk assessment including:
- Classification of resources based on their respective need for protection.
- Identification of specific threats against sensitive and critical resources.

Recommendation # 6
We recommend HCS establish a systematic information technology risk assessment framework for the Housing Pro system. Which assesses the relevant information risks with the achievement of business objectives.

HCS Management Response:
Working with executive management, the IT team will create a risk assessment framework for Housing Pro software, which may also be applied to other systems within HCS.

Information Technology Security Plan & Management Structure
Departments should maintain formalized security plans that describe the department's security program. Also, a security management structure should be established to implement the department's security plan.

Observation
HCS has various security practices in place; however, HCS has not developed a formalized security plan for the Housing Pro System that describes the department's security program and policies and procedures that support it. Also, a security management structure has not been established.

ATTACHMENT B: Housing & Community Services Department Management Responses (continued)

Recommendation #7
We recommend HCS develop a formalized security plan that describes the department's security program concerning the Housing Pro system. In addition HCS should create a security management structure to implement the security program.

HCS Management Response
HCS will document the security measures currently in place for the Housing Pro system. It is anticipated the security management structure will be an output of the risk assessment.

Information Technology Business Continuity Planning
Business continuity plans should be tested periodically to ensure all individuals understand their respective responsibilities in the event of a business interruption or disaster and to detect problems in the execution of the plan.

Observation
HCS has developed an information technology business continuity plan; however, the plan has not been tested.

Recommendation #8
We recommend HCS perform periodic tests of its information technology business continuity plan.

HCS Management Response
The HCS IT continuity plan is an integral part of the overall HCS Disaster Recovery Plan (DRP). HCS/IT will work with other Division Managers within HCS to consolidate the HCS DRP and perform testing. We will tentatively schedule a test of the consolidated DPR within the next 18 months.

ATTACHMENT C: Auditor-Controller Management Responses

AUDITOR-CONTROLLER
COUNTY OF ORANGE

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ASSISTANT AUDITOR-CONTROLLER
INFORMATION TECHNOLOGY

RECEIVED
'07 DEC 14 AM 9: 46
INTERNAL AUDIT DEPARTMENT

December 13, 2007

TO: Julia Bidwell, Interim Director
           Housing and Community Services Department

SUBJECT: Response to Internal Control Review of HCS
           Housing Choice Voucher Program Payments

We reviewed the draft audit report prepared by the Internal Audit Department covering the Internal Control Review of HCS Housing Choice Voucher Program Payments for the period of July 1, 2006, to June 30, 2007.

We concur with the recommendations made in the draft audit report that relate to HCS Accounting. Our responses to these recommendations are attached.

Please call Mike Montijo, HCS Accounting Manager, at 480-2848 if you have any questions regarding this letter. Thank you.

David E. Sundstrom
Auditor-Controller

MM:lr (HCS Audit Response/agency)
Attachment

cc: Peter Hughes, Director, Internal Audit Department
    Bill Castro, Director of Satellite Accounting Operations
    John Hambuch, HCS/OCHA
    Mike Montijo, Manager, HCS Accounting

Internal Control Review of Housing & Community Services Department
Housing Choice Voucher Program Payments
Audit No. 2724

Page 16

ATTACHMENT C: Auditor-Controller Management Responses (continued)

Internal Audit Department
Internal Auditor's Report
Review of Housing and Community Services Department
Housing Choice Voucher Program Payments

Positive Pay Exception Reports

Observation

Positive pay exception reports are not consistently signed by the HCS Accounting processor and are not reviewed by a supervisor.

Recommendation #2

We recommend HCS Accounting ensure that Positive Pay Exception Reports are signed by the processor.

Auditor-Controller Management Response

Concur. All Positive Pay Exception Reports during the audit period were examined by the processor, but they were not initialed in every instance. HCS Accounting management has reminded staff to ensure that all Positive Pay Exception Reports are reviewed, initialed and dated, in all instances. HCS Accounting management will conduct periodic spot checks to ensure compliance with this recommendation.

Recommendation #3

We recommend HCS Accounting ensure a documented supervisory review of Positive Pay Exception Reports is performed.

Auditor-Controller Management Response

Concur. All Positive Pay Exception Reports are now reviewed, initialed and dated by an HCS Accounting manager or supervisor. HCS Accounting management will conduct periodic spot checks to ensure compliance with this recommendation.

Segregation of Duties

Observation

The Accounting Office Supervisor has incompatible duties being responsible for having custody of checks, performing bank reconciliations and processing Positive Pay Exception Reports from Union Bank. Our review, however, did not disclose any instances of errors or irregularities resulting from these incompatible duties.

Recommendation #4

We recommend HCS Accounting ensure that the duties of check custody, processing Positive Pay Exception Reports and performing bank reconciliations are segregated.

Auditor-Controller Management Response

Concur. We have shifted duties so that the Positive Pay Exception Reports are now processed by a Senior Accounting Assistant and bank reconciliations are now prepared by an Accounting Assistant II, neither of whom has custody of checks.

ATTACHMENT D: Audit Alert and CIO Response

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OC Internal Audit Department
Audit Alert

Audit No. 2724

November 7, 2007

TO: Satish Ajmani, Deputy CEO
         Chief Information Officer

SUBJECT: Audit Issue Arising During Internal Control Review of
         Housing & Community Services Department
         Housing Choice Voucher Program Payments

We have completed an Internal Control Review of the Orange
County Housing Authority Housing Choice Voucher Program
Payments that are administered by the Housing & Community
Services Department (HCS).

During the course of our review, we were informed that when HCS
transmits payment data electronically to its bank (Union Bank),
CEO/IT must open all County ports to allow the transmission to
occur. Opening all ports on a routine basis (payments are
transmitted the same time each month) increases the risk of
unauthorized access to the County's network.

In early 2006, Union Bank upgraded its payment transmission
software. Since that upgrade, payments could not be transmitted
successfully unless CEO/IT opened all County ports. HCS has
notified CEO/IT Network Operations of this issue, but the issue
remains unresolved.   HCS has supplied CEO/IT Network
Operations with the days and times of its check runs; and CEO/IT
Network Operations opens all County ports during the payment
transmission and closes them after the transmission has occurred.

Please review the circumstances noted above, confirm your
assessment of the vulnerabilities within this process, take any
necessary mitigation or corrective action, and report back to us the
results of your review.

Should you have any questions or desire additional information,
please contact me or Eli Littner, Deputy Director at 834-5899, or
Michael Goodwin, Senior Audit Manager at 834-6066.

Thank you for your courtesy and cooperation.

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

cc: Thomas G. Mauk, County Executive Officer
      Julia Bidwell, Interim Director, HCS
      John Hambuch, Housing Assistance Division Manager, HCS
      Andrae Frierson, Information Services Manager, HCS

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

ATTACHMENT D: Audit Alert and CIO Response (continued)

County Executive Office

Memorandum

RECEIVED 2008 JAN 15 PM 3: 26 INTERNAL AUDIT DEPARTMENT

January 15, 2008

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

From: Satish Ajmani, Deputy CEO and Chief Information Officer

Subject: Audit Issue Arising During Internal Control Review of Housing &
             Community Services Department Housing Choice Voucher Program Payments

_____

We have received your audit alert on the security vulnerabilities of how Housing & Community Services (HCS) transmits payment data electronically to its bank (Union Bank). In the review, it was noted that the County opening of all firewall ports to allow the transmission on a routine basis (payments are transmitted the same time each month) increases the risk of unauthorized access to the County's network.

After reviewing the circumstances noted above, we concurred with the analysis and took immediate steps to mitigate and correct the process.

CEO/IT contacted and worked with both HCS and Union Bank to develop a new secure process. In this new process, HCS sends the data directly to Union Bank and no longer through a third party vendor. The HCS system is now behind a firewall and opens only 1 (one) port from 1 (one) IP address. Additionally, software has been installed and configured on the HCS system that encrypts the data thus protecting any information transmitted to Union Bank.

We believe that this new process has dramatically reduced the risk of unauthorized access to the County network. Should you have any further questions or desire additional information, please contact me or Ron Moskowitz, Information Security Officer at (714) 834 – 7177.

Thank you for your cooperation.

cc: Thomas G. Mauk, County Executive Officer
       Julia Bidwell, Interim Director, HCS
       John Hambuch, Housing Assistance Division Manager, HCS
       Andrae Frierson, Information Services Manager, HCS
       Ron Moskowitz, Information Security Officer, County Executive Office