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CAPS+ AUDIT ALERT NO. 4: REVIEW OF INTERNAL CONTROLS IN COST ACCOUNTING DOCUMENTATION

As of March 15, 2009

This CAPS+ Audit Alert No. 4 addresses our review of internal controls contained in the CAPS+ Cost Accounting documentation. We find that the CAPS+ Cost Accounting documentation identifies several internal controls that if implemented properly will facilitate appropriate segregation of duties, reviews and approvals, audit trails, and account reconciliations.

We also identified **five (5) recommendations** that will improve the planned internal controls and/or improve the system implementation documentation.

The CAPS Steering Committee concurred with all five (5) of our recommendations.

The scope of our review did not include certain important open items as described in page 4 of our report.

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.

AUDIT NO: 2845-B DATE: MAY 22, 2009

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Providing Facts and Perspectives Countywide

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Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 2845-B May 22, 2009

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 & Technology

FROM: Dr. Peter Hughes, CPA

County Internal Auditor

SUBJECT: CAPS+ Audit Alert No. 4: Review of Internal

Controls in Cost Accounting Documentation

Attached is our CAPS+ **Audit Alert** No. 4: Review of Internal Controls in Cost Accounting Documentation 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.

Unlike our traditional audit reports, we will not perform a follow-up audit for this CAPS+ **Audit Alert** in six months. However, depending on the materiality, any recommendations not implemented could be included in a future CAPS+ **Audit Alert**.

We will request the CAPS Steering Committee to complete a **Customer Survey** of our services. You will receive the survey shortly after the distribution of our final CAPS+ **Audit Alert** No. 4.

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+ **Audit Alert**.

ATTACHMENTS

Other recipients of this CAPS+ Audit Alert are listed on pages 5 and 6.

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Audit No. 2845-B

May 22, 2009

TO: <u>CAPS Steering Committee</u>:

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

County Internal Auditor

SUBJECT: CAPS+ Audit Alert No. 4 - Review of Internal

Controls in Cost Accounting Documentation

CAPS+ Audit Alert

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

Because 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.

OBJECTIVE

We have performed a review of the *draft* CAPS+ Cost Accounting documentation provided by the CAPS+ Implementation Team. There is additional documentation that needs to be completed as described below in Scope Exclusions on Page 4.

The primary purpose of our review is to review and provide feedback whether the *draft* CAPS+ Cost Accounting documentation contains appropriate internal controls in the key areas of:

- 1. Proper segregation of duties;
- 2. Appropriate reviews and approvals;
- 3. Audit trails related to preservation of source documents and recording of reviews and approvals; and
- 4. Sound account reconciliations.

Our review provides feedback that should be considered by the CAPS+ Implementation Team as they finalize the documentation.

BACKGROUND

As described in our MOU dated August 29, 2007, the Internal Audit Department's role on the CAPS+ Implementation Project is reviewing and providing feedback on the internal controls contained in the internal control documents (ICDs) and written procedures developed by the CAPS+ Project Implementation Team for the new system.

Cost Accounting Process Overview

CAPS+ Cost Accounting is important to the County as it will be used by many departments, supports grant claims involving significant amounts of revenue and expenditures, and impacts general ledger accounts. The proper set-up/update of certain CAPS+ Cost Accounting tables is important because an error made could impact future processing functions later in the process lifecycle, i.e. incorrect amounts claimed or recorded on the general ledger.



Key Changes to Cost Accounting Processes for CAPS+ Include:

- 1. All departments that receive grants are now required to track expenditures and revenues in CAPS+. This will increase the number of Cost Accounting user departments.
- 2. All Cost Accounting table updates/set-up will be performed centrally by the Auditor-Controller. Currently in CAPS, some departments are able to update certain Cost Accounting tables.

<u>Key Cost Accounting Processes</u>: establishing new job user departments; establishing new job cost structures; creating new job numbers (billable and non-billable); job cost transfers (automated recurring billings to other County departments); internal equipment usage billing (OC Public Works only); job number corrections; and cost allocations (allocates costs accumulated for one job number/pool using an established methodology such as fixed percentages or statistical units).

<u>User Departments:</u> There will be **23** user departments/organizations for CAPS+ Cost Accounting: Assessor, Auditor-Controller, District Attorney, County Executive Office, Child Support Services, Clerk of the Board, Clerk-Recorder, Courts, Health Care Agency, Human Resources, John Wayne Airport, OC Children and Families Commission, OC Community Resources, OC Dana Point Harbor, OC Public Works, OC Waste and Recycling, Public Administrator/Public Guardian, Performance Audit, Probation, Registrar of Voters, Sheriff-Coroner, Social Services Agency, and Treasurer-Tax Collector.

Processes for Entering Cost Accounting Data and Updating Tables

The processes for entering Cost Accounting data into CAPS+ include the following:

 Manual Forms (Support Centralized Table Updates): The user departments will complete standardized manual forms and submit to Auditor-Controller/Information Technology. Utilizing the completed forms, the Auditor-Controller will set-up and/or enter data into the applicable CAPS+ Cost Accounting tables.

The following manual forms will be completed by the user departments:

- New Department Job User Questionnaire: Sets-up department as a job cost user.
- <u>Job Number Prefix/Structure, Major Program, and Program Forms</u>: Establishes key structure/control elements for cost accounting.
- <u>Job Number Flexible Fields (JNFF) Form</u>: Assigns descriptions to job number segments.
- Equipment ID (EQID) Form: Sets-up/modifies equipment ID and description.
- Internal Cost Rate (INCR) Form: Sets-up/modifies equipment rates.
- Location (LOC) Form: Sets-up/modifies locations.
- <u>Cost Allocation/Pool Base Distribution Update Form</u>: Sets-up/modifies cost allocations.
- 2. <u>CAPS+ System Documents</u>: In CAPS+, a "document" is a method by which transactions are created and update the system. The below five (5) CAPS+ Cost Accounting system documents will be utilized by the user departments:
 - <u>JN (Job Number) Document</u>: Create, modify, and expire billable and non-billable job numbers.
 - <u>ICTEB (Internal Cost Transfer Equipment Billing) Document</u>: Used by OC Public Works to enter bi-weekly equipment usage per the manual Equipment Usage Cards.



- <u>JVJC (Job Correction Journal Voucher) Document</u>: Used to record job number correction accounting entries (amounts).
- <u>CHLH (Labor Hour Charge Transaction) Document</u>: Used to record labor hour corrections or transfers from one job number to another (hours).
- <u>CHLB (Labor Burden Charge Transaction) Document</u>: Used to record labor burden adjustments.

Additionally, Auditor-Controller/Information Technology will utilize six (6) additional CAPS+ Cost Accounting system documents as applicable (CH, CHEB1, CHP1, CHCA1, IETJB1 and JVP1).

3. <u>Table Updates</u>: As mentioned in 1. above, the Cost Accounting table updates will be performed by Auditor-Controller/Information Technology. There are sixty-eight (68) Cost Accounting user maintained tables with update capability planned for implementation, not including the system option and special account tables.

<u>Note</u>: For the first six (6) months after the CAPS+ go-live date of July 1, 2009, table updates will be performed by the CAPS+ Cost Accounting Functional Team members, rather than the Auditor-Controller/Information Technology staff.

- 4. <u>Batch Jobs</u>: There are four (4) key CAPS+ Cost Accounting batch jobs planned for implementation:
 - <u>Bi-weekly Job Cost Job</u>: Processes cost transfers (automated recurring billings within the department or to other County departments).
 - <u>Bi-weekly Equipment Usage Cards</u>: Equipment cards are printed and distributed to OC Public Works for their completion.
 - <u>Bi-weekly Equipment Billing Job</u>: Used by OC Public Works. Posts the ICTEB documents (equipment usage data) to the Internal Costing Journal and generates the CHEB1 document which posts to the General Ledger.
 - Monthly Cost Allocation Job: Processes cost allocations and generates the CHCA1 document which posts to the General Ledger.
- 5. <u>Interfaces</u>: A feeder system will automatically send data to CAPS+ creating the applicable interface system document (CHP1 or JN document). The interface document must pass all business edits. The next day, the authorized department user corrects any errors and submits the document for processing. There are three (3) Cost Accounting inbound interfaces planned for implementation: labor distribution (AHRS) data, OC Public Works/Facilities Operations job number data, and Sheriff-Coroner job number data.

SCOPE

Our review consisted of inquiry and a review of provided documentation to identify internal controls related to:

- Proper segregation of duties;
- Appropriate reviews and approvals;
- Audits trails related to preservation of source documents and recording of reviews and approvals; and
- Sound account reconciliations.



For this CAPS+ **Audit Alert** No. 4, our review and feedback is limited to the below two "draft" documents. We collectively refer to these as the *draft* CAPS+ Cost Accounting documentation:

- 1. OC CAPS+ Department Procedure Manual Cost Accounting (as of 2/4/09)
- 2. Security Roles Spreadsheet Cost Accounting (as of 12/31/08 Version 15). The spreadsheet has some open items and is subject to change.

In addition, we interviewed the CAPS+ Cost Accounting Functional Team to supplement our understanding of the internal controls and to identify any additional relevant controls not included in the above *draft* documents. We also obtained the following documents to gain a better background understanding of CAPS+ Cost Accounting functionality:

- AMS Advantage Cost Accounting User Guide
- CGI Training materials for Cost Accounting
- Fit Analysis Cost Accounting
- As Is Processes Cost Accounting documents
- To Be Processes Cost Accounting documents
- Job Aids (as of 2/10/09):
 - 1. Job Number Setup Using a JN Document
 - 2. Equipment Usage Job Aids
 - 3. Job Corrections Using a JVJC Document
 - 4. Recording One-Sided Labor Burden Adjustment Charges (CHLB)
 - 5. Recording Labor Hour Corrections or Transfers (CHLH)
- Issues Log for Cost Accounting (as of 1/20/09)

SCOPE EXCLUSIONS

Our review was not subject to the same rigor and formality of a traditional audit in that we have not fully developed the issues and have not verified the accuracy of all information. We relied predominantly on documentation provided by the CAPS+ Implementation Team for our review. Additionally our review is based on planned internal controls which could change.

Open Items

As of March 15, 2009, the following documentation was not completed by the CAPS+ Implementation Project Team and therefore, was not available for our review. We were informed by CAPS+ Implementation Project Management that some documents may be in process, some documents are dependent on other tasks being finalized, and some documents may not be as critical until after go-live.

- <u>Centralized Procedures for Cost Accounting</u>: These are the CAPS+ written procedures to be performed by Auditor-Controller/Information Technology.
- <u>Segregation of Duties Analysis</u>: This is a documented analysis of system user access to ensure conflicting roles are not assigned to a single user.
- <u>IT Security Administration Function</u>: This is documentation describing the procedures for the IT security administration function including: maintaining user access, reviewing security violations, monitoring powerful user activity, monitoring inappropriate user activity, and reviewing access to sensitive data (i.e., social security numbers, bank account information, HIPAA, etc.).



 <u>Audit Log Strategy</u>: This is documentation identifying which tables (master, operational) and user roles (administrators, supervisors, users) to log activity and who should be reviewing the logs and following-up as deemed appropriate.

CAPS+ Implementation Project Management has informed us that it plans to complete the above documentation when appropriate in the system development life cycle. See updated information on pages 12 and 13.

RESULTS

Based on our review, we find that the provided *draft* CAPS+ Cost Accounting documentation identifies several internal controls that, **if implemented properly**, will facilitate appropriate segregation of duties, reviews and approvals, audit trails, and account reconciliations.

We also identified **five (5) recommendations** for your assessment that will improve the planned internal controls and/or improve the system implementation documentation which are noted in the Detailed Observations, Recommendations and Management Responses section of this report.

ACKNOWLEDGMENT

We appreciate the courtesy and cooperation extended to us by the personnel of the CAPS+ Implementation Project Team and the CAPS Steering Committee. If you have any questions regarding our CAPS+ Audit Alert No. 4, please call me directly at (714) 834-5475 or Eli Littner, Deputy Director at (714) 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
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

CAPS+ Project Advisory Committee:

Bill Castro, Director, Auditor-Controller/Satellite Operations
Phil Daigneau, Director, Auditor-Controller/Information Technology
Frank Kim, Director, CEO/Budget
Jan Grimes, Director, Auditor-Controller/Central Operations
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Other CAPS+ Project Team Members:

Moses Hernandez, Cost Accounting Functional Team Member
Jay Hormuth, Cost Accounting Functional Team Member
Cindy Wong, Cost Accounting Functional Team Member
Terence Lo, Auditor-Controller, CAPS+ Security and Workflow Team Member
David Schulman, GCAP, CAPS+ Security and Workflow Team Member



1. Segregation of Duties

As a control objective, CAPS+ Cost Accounting should have controls that prevent the same individual from entering, processing, reviewing/authorizing, and verifying/reconciling a Cost Accounting transaction in order to establish proper segregation of duties throughout the process. This can be accomplished by having separate individuals perform the following tasks:

- Completing manual cost accounting forms
- Reviewing/approving manual cost accounting forms
- Updating cost accounting tables
- Reviewing complex cost accounting table set-ups/updates
- Reviewing audit logs
- Reconciling cost transfers (billings to other departments) and cost allocations.

An analysis of segregation of duties also often includes analysis of sensitive roles (powerful users) and sensitive data (i.e., social security numbers, bank information, HIPAA, etc.).

Positive Comments:

Internal Audit identified the following internal controls relating to segregation of duties:

User Roles and Sensitive Access:

- The CAPS+ application utilizes a role based authorization methodology providing the capability to properly segregate duties.
- The *draft* Cost Accounting Security Roles Spreadsheet lists each user role and their assigned access to each Cost Accounting application resource (documents, tables, and queries). This spreadsheet can assist with the segregation of duties analysis (see open item on page 12 below). The spreadsheet has some open items and is subject to change.
- For the user maintained Cost Accounting tables, update access is generally limited to the CA_Admin role. There are a few tables that can also be updated by the CA_Alloc_User and the CA_Labor_User roles. All three (3) roles are within Auditor-Controller/Information Technology. Limiting update access to tables is important because the table update actions are not subject to approval by another user. See Open Item on page 13 below regarding the audit logging of these tables.
- We were informed that a centralized approver (Auditor-Controller's Internal Audit Unit) will review the UDOC (system document that creates and maintains user roles) to ensure no conflicting roles are assigned to a user.
- For the JN, CHLH, and CHLB system documents, access will be limited to County department staff with the authority to process Job Cost system related documents.
- For the ICTEB system document, access is limited to certain OC Public Works/Accounting staff.

Document Workflow and Configurable Controls:

The JVJC system document (corrections) will be electronically workflowed. We will
review the JVJC workflow controls when reviewing the CAPS+ General Accounting
documents.



OC CAPS+ Department Procedure Manual:

- The completion of the manual Cost Accounting forms and the entering of data into CAPS+ is performed by separate individuals (County departments vs. centralized Auditor-Controller/Information Technology).
- OC Public Works field staff complete the bi-weekly Equipment Usage Cards and OC Public Works/Accounting staff enter the equipment usage data into CAPS+ (ICTEB document).

If implemented properly, these planned control features will facilitate properly segregated duties.

2. Reviews and Approvals

As a control objective, the CAPS+ Cost Accounting should have controls to ensure that Cost Accounting transactions are properly reviewed and approved before processing continues. In addition, the controls should prevent a user from entering and reviewing/approving the same transaction.

Positive Comments:

Internal Audit identified the following internal controls relating to reviews and approvals:

Document Workflow and Configurable Controls:

The JVJC system document (corrections) will be electronically workflowed. We will
review the workflow controls when reviewing the CAPS+ General Accounting
documents.

OC CAPS+ Department Procedure Manual:

- Only the Department Finance Manager, Accounting Manager, Budget Manager or designee (per an authorized signature list) are authorized to approve the manual Cost Accounting forms. The manual forms include signature and date lines for the preparer and approver.
- Auditor-Controller/Information Technology will review and approve the manual Cost Accounting forms submitted by the departments. The manual forms include a signature and date line to document this centralized review.
- We were informed that the Auditor-Controller/Information Technology will compare the authorized signatures on the manual Cost Accounting forms with the CAPS+ authorized signature lists.
- Auditor-Controller/Information Technology will review the printed equipment usage cards and forward to OC Public Works/Accounting staff to distribute to OC Public Works field staff for completion.
- User departments are required to have written agreements or MOU's on file if billing or allocating costs to another County department.

If implemented properly, these planned control features will facilitate the establishment of appropriate reviews and approvals. We also identified the following suggestion for improvement:



Observation No. 1: Review of Complex Cost Accounting Table Set-Ups/Updates

For the user maintained Cost Accounting tables, update access is limited to three roles within Auditor-Controller/Information Technology. Limiting update access to tables is important because the table update actions are not subject to on-line approval by another user. Additionally, Auditor-Controller/Information Technology will review and sign-off on the manual Cost Accounting forms submitted by the user departments before updating certain tables.

The CAPS+ Cost Accounting tables for job costing and cost allocations may include complex structures/rules/control elements. For those complex tables, a manual review should be performed by another person after the table is set-up/updated. This is important because any errors made in the tables could impact future processing functions later in the process lifecycle; i.e., incorrect amounts claimed or recorded on the general ledger.

Recommendation No. 1: We recommend that the CAPS Steering Committee ensure that the CAPS+ Project Management Team evaluates whether any of the Cost Accounting table set-ups/updates warrant review by another person. If there are, this requirement should be addressed in the centralized CAPS+ Cost Accounting procedures.

CAPS Steering Committee's Response: Concur. The centralized CAPS+ Cost Accounting Procedures will document the process to review table set-up and maintenance. Additionally, cost accounting tables will be added to the list of tables to be logged and audited on a regular basis. Centralized procedures will be completed by December 31, 2009.

3. Audit Trails Including Source Documents

As a control objective, CAPS+ Cost Accounting should have sufficient audit trails to document each Cost Accounting transaction activity including review and approval. This would enable management to track transactions from the source to the ultimate result and to trace backward from results to identify the transactions and events they record.

Positive Comments:

Internal Audit identified the following internal controls relating to audit trails:

System Features:

- The system maintains a history (log) of system document activity including: comments, version number, function (new, modification, cancellation), and user ID.
 The preparer and approver user id are documented. If a change is made to a final system document, the original final document is preserved as a historical final document.
- Table activity may be logged including: table name, last update date, action, user id, original value, and new value. See open item below on page 13.
- CAPS+ preserves copies of the Cost Accounting Journal and the Internal Costing Journal entries.
- There is a flag for billable vs. non-billable job numbers.



• Department users will not be allowed to delete a job number. They can only expire a job number, which will close the job number and still preserve history in the system.

OC CAPS+ Department Procedure Manual:

- Standardized manual Cost Accounting forms have been created for the user departments to ensure the proper data is consistently and completely gathered.
- The departments submit the manual Cost Accounting forms to Auditor-Controller/Information Technology. The Auditor-Controller/Information Technology retains the completed forms to support the Cost Accounting system updates (hard copy vs. electronic copy vs. document attachment is to be determined).

If implemented properly, these planned control features will facilitate the establishment of audit trails and source documents to document each transaction activity including review and approval. We also identified the following suggestion for improvement:

Observation No. 2: CAPS+ Department Procedures Do Not Include Retention of Equipment Usage Cards

OC Public Works/Accounting enters bi-weekly equipment usage into CAPS+ per the usage (miles or hours) recorded on the manual Equipment Usage Cards. The OC CAPS+ Department Procedure Manual for Cost Accounting does not address retention of the completed Equipment Usage Cards.

Recommendation No. 2: We recommend that the CAPS Steering Committee ensure the CAPS+ Project Management Team includes retention requirements for the completed Equipment Usage Cards in the OC CAPS+ Department Procedure Manual for Cost Accounting.

CAPS Steering Committee's Response: Concur. The CAPS+ Department Cost Accounting Procedures will be revised by July 1, 2009 to include the ten (10) year retention period for Equipment Usage Card that is required by the owner department, OC Public Works.

4. Account Reconciliations

As a control objective, the CAPS+ Cost Accounting should have controls to ensure that sound account reconciliations are performed. This could include reviews or comparisons of system output for reasonableness.

Positive Comments:

Internal Audit identified the following internal controls relating to account reconciliations:

OC CAPS+ Department Procedure Manual:

- Job Cost Reports: User Departments are recommended to reconcile their job cost reports with the Expense Budget to Actual reports to ensure errors or reconcilable items are addressed timely. For example, the User Departments should reconcile job labor burden charges (estimates) with the actual benefit costs recorded.
- Cost Allocation Reports: User Departments are recommended to review the cost allocation reports to ensure costs or revenues are allocated appropriately.



If implemented properly, these planned control features will facilitate sound account reconciliations. We also identified the following suggestions for improvement:

Observation No. 3: CAPS+ Department Procedures Do Not Include Reconciliation of Equipment Usage Cards

OC Public Works/Accounting enters bi-weekly equipment usage data into CAPS+ as recorded on the manual Equipment Usage Cards. The CAPS+ system does not provide a subtotal of the equipment usage data entered into the system for comparison with the manual Equipment Usage Cards to ensure proper input. A system modification to add a subtotal feature was evaluated, but the cost of the modification exceeded the benefit. Alternatively, the CAPS+ Project Implementation Team is developing a system report that can be used by OC Public Works/Accounting to reconcile the data input to CAPS+ with the Equipment Usage Cards. This reconciliation is not included in the CAPS+ Department Procedure Manual for Cost Accounting.

Recommendation No. 3:

We recommend that the CAPS Steering Committee ensure the CAPS+ Project Management Team include the Equipment Usage Card reconciliation in the OC CAPS+ Department Procedure Manual for Cost Accounting.

CAPS Steering Committee's Response: Concur. The CAPS+ Cost Accounting Team will work collaboratively with OC Public Works on reconciliation procedure for the Equipment Usage Cards. The CAPS+ Department Cost Accounting Procedures will be revised to include this procedure by December 31, 2009.

Observation No. 4: CAPS+ Department Procedures Do Not Include Review or Reconciliation of Inbound Interfaces

There are three (3) Cost Accounting inbound interfaces planned for implementation: labor distribution (AHRS) data, OC Public Works/Facilities Operations job number data, and Sheriff-Coroner job number data. The OC CAPS+ Department Procedure Manual for Cost Accounting does not include procedures for processing interface transactions including correction of errors and review or reconciliation of the interface data (system output reports) by the applicable County departments.

Recommendation No. 4:

We recommend that the CAPS Steering Committee ensure the CAPS+ Project Management Team include procedures for processing interface transactions, including correction of errors and review or reconciliation of the interface data (system output reports) by the applicable County departments, in the OC CAPS+ Department Procedure Manual for Cost Accounting.

CAPS Steering Committee's Response: Concur. The CAPS+ Department Cost Accounting Procedures will be revised by July 1, 2009 to include procedures for the appropriate County departments to follow for processing interface transactions, including correction of errors and review or reconciliation of the interface data (system output reports).



5. Other Item

Observation No. 5: Update CAPS+ Department Procedures Terminology

Draft departmental user procedures for Cost Accounting have been created by the CAPS+ Implementation Project Team. The procedures will be considered "draft" for the 12 months after the go-live date of July 1, 2009 to allow for changes needed as the user departments gain more experience with CAPS+. After the *draft* procedures were written, several of the key terminology changed. For example: Guard will be replaced by OCID (single sign-on), some manual forms have been renamed, and the centralized function responsible for maintaining Cost Accounting tables may change (CAPS+ Project Office vs. Auditor-Controller/Information Technology). At the next reasonable opportunity, the written departmental user procedures should be updated with the newer terminology.

Recommendation No. 5:

We recommend that the CAPS Steering Committee ensure the CAPS+ Project Management Team update the CAPS+ Department Procedure Manual for Cost Accounting with the newer terminology at the next reasonable opportunity.

CAPS Steering Committee's Response: Concur. The CAPS+ Department Cost Accounting Procedures will be revised by July 1, 2009 to include newer terminology.

6. Current Status of Open Items

In our CAPS+ Audit Alert No. 3: Review of Internal Controls in Capital Assets Documentation, dated March 17, 2009, we identified four (4) important open items that are recommended for completion. These four (4) items are also applicable to CAPS+ Cost Accounting.

As the CAPS Steering Committee agreed with the four (4) recommendations and action plans were communicated, we are not repeating the recommendations in this Audit Alert. We plan to monitor the progress and may report the status in a future CAPS+ Audit Alert. As of March 15, 2009, below is the status for these items:

Segregation of Duties Analysis

The CAPS+ Security and Workflow Team is developing a segregation of duties matrix that will list all CAPS+ financial and procurement roles along with all non-CAPS+ document processes (i.e., vendor invoice approval, request for check, etc.) and identify any conflicting roles. The matrix will be reviewed by the CAPS+ Functional teams, the Auditor-Controller, County Procurement Office, CAPS Project Management Office (PMO), and Auditor-Controller/Internal Audit. The project is expected to be completed by June 1, 2009.

We met with the CAPS+ Security and Workflow Team and discussed their approach and observed an excerpt of their preliminary segregation of duties matrix.



Security Administration Function

The CAPS+ security administration function has not been defined yet. Security administration includes: maintaining user access, reviewing security violations, monitoring powerful users (i.e. system administration and functional analysts) activity, monitoring inappropriate user activity, and reviewing access to sensitive data (i.e., social security numbers, bank account information, HIPAA, etc.).

The CAPS+ Security and Workflow Team will be responsible for the security administration of the system for the first 6 months after the system is implemented. The procedures for these activities will be documented and transitioned to other organizational entities during this period. The project is expected to be completed by December 31, 2009.

Centralized Procedures

Written procedures for the centralized Auditor-Controller CAPS+ Cost Accounting functions have not been developed yet. The written centralized procedures for Cost Accounting should include:

- ▶ A comparison of signatures on manual Cost Accounting forms with authorized signature lists.
- ▶ The review of manual Cost Accounting forms submitted by the County departments prior to updating CAPS+.
- Retention of the manual Cost Accounting forms submitted by the County departments (i.e., hard copy, electronic copy, or as attachment to CAPS+ document).
- ▶ The centralized steps for processing Cost Accounting transactions (system "documents") and updating tables in CAPS+. Powerful system documents, such as the CH document which allows one-sided entries to the Cost Accounting journals, should be limited.
- Review of audit logs as described on page 13 below.

We were informed that in order to meet project due dates, the CAPS+ Implementation Team will not document all of the centralized CAPS+ procedures until sometime after the system go-live date of July 1, 2009. Instead, the CAPS+ Implementation Team is currently preparing a list of the most critical/high risk centralized processes. Then, it will document those most critical/high risk procedures before the go-live date of July 1, 2009.

To help mitigate the lack of centralized written procedures for Cost Accounting, for the first six (6) months after the system go-live date of July 1, 2009, table updates will be performed by the CAPS+ Cost Accounting Functional Team members, rather than the Auditor-Controller/Information Technology staff.

Audit Log Configuration

CAPS+ is capable of performing audit logging of system activity; however, documentation has not been created to address configuration of audit logs for Cost Accounting. Audit log configuration documentation should include which tables, transactions, and users to log and who will review the logs.



We were informed that the CAPS+ Security and Workflow Team is analyzing the current CAPS system audit logs to determine which tables will be replicated in CAPS+ and to identify additional tables that will require logs.

After completion of the analysis, the CAPS+ Security and Workflow Team will document the CAPS+ audit logs. The CAPS+ Security and Workflow Team will review the audit logs for the first six (6) months after implementation of CAPS+ while training the CAPS Project Management Office on the process. Detailed procedures for reviewing the audit logs will be developed and transitioned to another organizational entity during this 6-month period. The project is expected to be completed by March 16, 2009.



ATTACHMENT A: CAPS Steering Committee Response



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May 20, 2009

TO: Dr. Peter Hughes

Director, Internal Audit Department

SUBJECT: Response to Internal Audit Alert No. 4 - Review of Internal Controls in

Cost Accounting Documentation

On April 21, 2009, your department issued Audit No. 2848-B, Audit Alert #4, Review of Internal Controls in Cost Accounting Documentation for the CAPS+ Implementation Project. The attached response has been reviewed and approved by the CAPS Steering Committee.

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

David E. Sundstron Auditor-Controller

DMS;Ir Attachment



ATTACHMENT A: CAPS Steering Committee Response (continued)

CAPS+ Audit Alert No. 4 Response May 20, 2009 Page 2

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Shaun Skelly, Auditor-Controller, Senior Director Accounting & Technology

Satish Ajmani, CEO, Chief Information Officer Carl Crown, Human Resources Director

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 Joel Manfredo, CEO, Chief Technology Officer Ron Vienna, CEO, County Purchasing Agent Frank Kim, CEO, Budget Director

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CAPS+ Project Management Team (excluding vendors)

Larry Chanda, Project Manager

Denise Steckler, Assistant Project Manager

Bill Malohn, Auditor-Controller IT John Humann, CEO Purchasing Steve Winings, CEO IT Mitch Tevlin, CEO Budget

Cecilia Novella, Project Communications



ATTACHMENT A: CAPS Steering Committee Response (continued)

Recommendation	Response
Recommendation No. 1: We recommend that the CAPS Steering Committee ensure that the CAPS+ PMT evaluates whether any of the Cost Accounting table set-ups/updates warrant review by another person. If there are, this requirement should be addressed in the centralize CAPS+ Cost Accounting procedures.	Concur: The centralized CAPS+ Cost Accounting Procedures will document the process to review table set-up and maintenance. Additionally, cost accounting tables will be added to the list of tables to be logged and audited on a regular basis. Centralized procedures will be completed by December 31, 2009.
Recommendation No. 2: We recommend that the CAPS Steering Committee ensure the CAPS+ PMT includes retention requirements for the completed Equipment Usage Cards in the OC CAPS+ Department Procedure Manual for Cost Accounting.	Concur: The CAPS+ Department Cost Accounting Procedures will be revised by July 1, 2009 to include the ten (10) year retention period for Equipment Usage Card that is required by the owner department, OC Public Works.
Recommendation No. 3: We recommend that the CAPS Steering Committee ensure the CAPS+ Project Management Team include the Equipment Usage Card reconciliation in the OC CAPS+ Department Procedure Manual for Cost Accounting.	Concur: The CAPS+ Cost Accounting Team will work collaboratively with OC Public Works on a reconciliation procedure for the Equipment Usage Cards. The CAPS+ Department Cost Accounting Procedures will be revised to include this procedure by December 31, 2009.
Recommendation No. 4: We recommend that the CAPS Steering Committee ensure the CAPS+ Project Management Team include procedures for processing interface transactions, including correction of errors and review or reconciliation of the interface data (system output reports) by the applicable County departments, in the OC CAPS+ Department Procedure Manual for Cost Accounting.	Concur: The CAPS+ Department Cost Accounting Procedures will be revised by July 1, 2009 to include procedures for the appropriate County departments to follow for processing interface transactions, including correction of errors and review or reconciliation of the interface data (system output reports).
Recommendation No. 5: We recommend that the CAPS Steering Committee ensure the CAPS+ Project Management Team update the CAPS+ Department Procedure Manual for Cost Accounting with the newer terminology at the next reasonable opportunity.	Concur: The CAPS+ Department Cost Accounting Procedures will be revised by July 1, 2009 to include newer terminology.