

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

SPECIAL REQUEST AUDIT: COUNTYWIDE AUDIT OF EMPLOYEE CASH ADVANCES

As of April 30, 2011

The County issues cash advances to employees only for travel-related purposes. At April 30, 2011, seven (7) County departments and agencies had 222 outstanding travel cash advances made to employees totaling \$97,489. Of that amount, 126 advances totaling \$55,857 were outstanding more than five (5) working days after the end of travel and 31 advances totaling \$10,551 were outstanding more than 60 days and may be subject to IRS withholding. **As of August 31, 2011, all 222 advances outstanding at April 30, 2011 were claimed and finalized.**

We identified **ten (10) Significant Control Weaknesses** and **fourteen (14) Control Findings** resulting in **twenty-four (24) Recommendations** where internal controls and processes need improvement regarding compliance with County policies, CAMs, and IRS regulations, and written procedures need enhancement related to the processing of travel cash advances.

AUDIT No: 1056

REPORT DATE: JANUARY 27, 2012

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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach

 ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1056 January 27, 2012

TO: Members, Board of Supervisors
Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller
County Department/Agency Heads

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

SUBJECT: Special Request Audit:
Countywide Audit of
Employee Cash Advances

We have completed a Countywide Audit of Employee Cash Advances as of April 30, 2011. This audit was performed at the suggestion of Supervisor John Moorlach and in accordance with our *FY 2010-11 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our 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). 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 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.

We have attached a **Follow-Up Audit Report Form**. Your agency should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit 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 critical 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 from each of the seven departments with outstanding cash advances at April 30, 2011 to complete a **Customer Survey** of Audit Services. We will send out the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 14.

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Countywide Audit of
Employee Cash Advances
Audit No. 1056***

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Audit No. 1056

January 27, 2012

Audit Highlight

The County issues cash advances to employees only for travel-related purposes.

At April 30, 2011, seven (7) County departments and agencies had 222 outstanding travel cash advances made to employees totaling \$97,489. Of that amount, 126 advances totaling \$55,857 were outstanding more than five (5) working days after the end of travel and 31 advances totaling \$10,551 were outstanding more than 60 days and may be subject to IRS withholding.

As of August 31, 2011, all 222 advances outstanding at April 30, 2011 were claimed and finalized.

We identified **ten (10) Significant Control Weaknesses** and **fourteen (14) Control Findings** resulting in **twenty-four (24) Recommendations** where internal controls and processes need improvement regarding compliance with County policies, CAMs, and IRS regulations, and written procedures need enhancement related to the processing of travel cash advances.

TO: Members, Board of Supervisors
Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller
County Department/Agency Heads

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

SUBJECT: Special Request Audit: Countywide Audit of
Employee Cash Advances

OBJECTIVES

At the suggestion of Supervisor John Moorlach and in accordance with our *FY 2010/2011 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors, we conducted a Countywide Audit of Employee Cash Advances as of April 30, 2011. Our audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. The objectives of our audit were to:

1. Determine the type and amount of outstanding cash advances as of April 30, 2011 for all County departments and agencies.
2. Determine whether those employee cash advances outstanding as of April 30, 2011 have been claimed and finalized by August 31, 2011.
3. *Determine for those departments and agencies with outstanding employee cash advances at April 30, 2011 whether those cash advances were claimed in compliance with certain County Accounting Manual (CAM) procedures (C-7 Revolving Cash Funds and C-1 Cash Advances – Revolving Funds), County Travel Policies, and Internal Revenue Service (IRS) Regulations.*

RESULTS

We audited countywide employee cash advances outstanding at April 30, 2011.

We identified **ten (10) Significant Control Weaknesses** and **fourteen (14) Control Findings** resulting in **twenty-four (24) Recommendations** to enhance controls and processes as discussed in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications. Based upon our audit, we noted:

- **Objective #1:** *Determine the type and amount of outstanding cash advances as of April 30, 2011 for all County departments and agencies.*



Results: We surveyed all 25 County departments and agencies and, based on the survey responses, found that the County issues two types of cash advances: 1) Employee Travel Cash Advances, and 2) Operational Advances (not made to employees). Cash advances outstanding at April 30, 2011 are as follows:

Travel Cash Advances (Made to Employees):

Of the 25 County departments and agencies, seven (7) departments/agencies reported employee travel cash advances outstanding at April 30, 2011, as follows:

Department/ Agency	Travel Cash Advances Outstanding at April 30, 2011	
	Number	Amount
Sheriff-Coroner	185	\$76,494.67
Probation	16	\$5,482.63
Assessor	4	\$4,400.00
District Attorney	4	\$3,840.00
OC Waste & Recycling	6	\$3,706.69
Public Defender	6	\$3,247.11
OC Public Works	1	\$318.00
Total	222	\$97,489.10

Operational Advances (Not Made to Employees):

Of the 25 County departments and agencies, three (3) departments/agencies reported operational advances outstanding at April 30, 2011, as follows (Public Administrator/Public Guardian is one department):

Department/ Agency	Operational Advances Outstanding at April 30, 2011	
	Number	Amount
HCA	1	\$54.00
Public Guardian/ Public Administrator	27	\$32,116.93
Sheriff-Coroner	69	\$102,090.28
Sheriff-Coroner	5	\$1,427.97
Total	102	\$135,689.18

Because Operational Cash Advances are part of departmental/agency operations and are not issued to employees, they are outside the scope of this audit and will not be included. See **Scope Exclusions** below.

- **Objective #2:** Determine whether employee cash advances outstanding as of April 30, 2011 have been claimed and finalized by August 31, 2011.

Results: For the employee travel cash advances outstanding at April 30, 2011, we found that all 222 outstanding claims were submitted and finalized prior to August 31, 2011.



- **Objective #3:** Determine for those departments and agencies with outstanding employee cash advances at April 30, 2011 whether those cash advances were claimed in compliance with certain County Accounting Manual (CAM) procedures (C-7 Revolving Cash Funds and C-1 Cash Advances – Revolving Funds), County Travel Policies, and Internal Revenue Service (IRS) Regulations.

Results: For those departments and agencies with outstanding employee cash advances at April 30, 2011, we found several departments/agencies not in compliance with CAMs, County Travel Policies, and IRS Regulations. We noted **seven (7) Significant Control Weaknesses** regarding noncompliance with timeliness of expense claim submission (See Findings 1-7), **two (2) Significant Control Weaknesses** regarding noncompliance with IRS requirements of taxable compensation and withholding for outstanding cash advances (See Findings 8-9), and **one (1) Significant Control Weakness** and **six (6) Control Findings** regarding noncompliance with disclosure and certification requirements of outstanding cash advances (See Findings 10-15 and Finding 17).

In addition, we noted **one (1) Control Finding** regarding A-C/Claims monitoring of outstanding cash advances (See Finding 16) and **three (3) Control Findings** regarding clarification of CAMs procedures related to outstanding cash advances (See Findings 18-20). We also noted **four (4) Control Findings** regarding the documentation and processing of expense claims and cash advance repayments (See Findings 21-24).

The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
1-4	Significant Control Weakness	Expense Claims Not Submitted Within Five (5) Working Days – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Section 2.2.1 (see pg. 15). Sheriff-Coroner	Recommendation No. 1 Sheriff-Coroner ensure employees are submitting a <i>Mileage & Other Expenses Claim Form</i> within five (5) working days as required by CAM C-1 Section 2.2.1.	Concur
1-4	Significant Control Weakness	Expense Claims Not Submitted Within Five (5) Working Days – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Section 2.2.1 (see pgs. 15-16). Assessor	Recommendation No. 2 Assessor ensure employees are submitting a <i>Mileage & Other Expenses Claim Form</i> within five (5) working days as required by CAM C-1 Section 2.2.1.	Concur

OC Internal Auditor's Report



Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
1-4	Significant Control Weakness	<p>Expense Claims Not Submitted Within Five (5) Working Days – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Section 2.2.1 (see pgs. 15-16).</p> <p>Probation</p>	<p>Recommendation No. 3 Probation Department ensure employees are submitting a <i>Mileage & Other Expenses Claim Form</i> within five (5) working days as required by CAM C-1 Section 2.2.1.</p>	Concur
1-4	Significant Control Weakness	<p>Expense Claims Not Submitted Within Five (5) Working Days – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Section 2.2.1 (see pgs. 15-16).</p> <p>District Attorney</p>	<p>Recommendation No. 4 District Attorney ensure employees are submitting a <i>Mileage & Other Expenses Claim Form</i> within five (5) working days as required by CAM C-1 Section 2.2.1.</p>	Concur
5-7	Significant Control Weakness	<p>Expense Claims Not Submitted Within 30 Days – Noncompliance with CAP 017-02 <i>County Business Travel & Reimbursement of Related Expenses Policy</i> and BOS Resolution #05-265 <i>Expense & Reimbursement Policy for Elected Officials</i> (see pgs. 16-17).</p> <p>Sheriff-Coroner</p>	<p>Recommendation No. 5 Sheriff-Coroner ensure employees are submitting a <i>Mileage & Other Expenses Claim Form</i> within thirty (30) days from the end of the travel event as required by CAP 017-02 Section 18.6.1.</p>	Concur
5-7	Significant Control Weakness	<p>Expense Claims Not Submitted Within 30 Days – Noncompliance with CAP 017-02 <i>County Business Travel & Reimbursement of Related Expenses Policy</i> and BOS Resolution #05-265 <i>Expense & Reimbursement Policy for Elected Officials</i> (see pgs. 16-17).</p> <p>Assessor</p>	<p>Recommendation No. 6 Assessor submit a <i>Mileage & Other Expenses Claim Form</i> within thirty (30) days of the expense being incurred as required by BOS Res. #05-265 Section D.</p>	Concur

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Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
5-7	Significant Control Weakness	<p>Expense Claims Not Submitted Within 30 Days – Noncompliance with CAP 017-02 <i>County Business Travel & Reimbursement of Related Expenses Policy</i> and BOS Resolution #05-265 <i>Expense & Reimbursement Policy for Elected Officials</i> (see pgs. 16-18).</p> <p>District Attorney</p>	<p>Recommendation No. 7 District Attorney ensure employees are submitting a <i>Mileage & Other Expenses Claim Form</i> within thirty (30) days from the end of the travel event as required by CAP 017-02 Section 18.6.1.</p>	Concur
8-9	Significant Control Weakness	<p>Taxable Compensation – Noncompliance with CAP 017-02 <i>County Business Travel & Reimbursement of Related Expenses Policy</i> and IRS Code 1.62-2 <i>Reimbursements and Other Expense Allowance Arrangements</i> (see pgs. 18-19).</p> <p>Sheriff-Coroner</p>	<p>Recommendation No. 8 Sheriff-Coroner ensure that, if travel expenses are not substantiated by the employee within 60 days of the completion of the travel event, the appropriate steps are taken to treat the amount as compensation to the employee subject to withholding and payment of taxes as required by IRS Code Section 1.62-2 and CAP 017-02 Section 18.6.</p>	Concur
8-9	Significant Control Weakness	<p>Taxable Compensation – Noncompliance with CAP 017-02 <i>County Business Travel & Reimbursement of Related Expenses Policy</i> and IRS Code 1.62-2 <i>Reimbursements and Other Expense Allowance Arrangements</i> (see pgs. 18-19).</p> <p>Assessor</p>	<p>Recommendation No. 9 Assessor ensure that, if travel expenses are not substantiated by the employee within 60 days of the completion of the travel event, the appropriate steps are taken to treat the amount as compensation to the employee subject to withholding and payment of taxes as required by IRS Code Section 1.62-2 and CAP 017-02 Section 18.6.</p>	Concur

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Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
10-15	Control Finding	Disclosure & Certification of Outstanding Advances – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Sections 2.6 & 2.8 (see pgs. 19-20). Sheriff-Coroner	Recommendation No. 10 Sheriff-Coroner ensure the amount of outstanding cash advances is disclosed and certified on the <i>Revolving Cash Fund/Cash Advance Reimbursement</i> claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.	Concur
10-15	Control Finding	Disclosure & Certification of Outstanding Advances – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Sections 2.6 & 2.8 (see pgs. 19-21). Probation	Recommendation No. 11 Probation ensure the amount of outstanding cash advances is disclosed and certified on the <i>Revolving Cash Fund/Cash Advance Reimbursement</i> claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.	Concur
10-15	Control Finding	Disclosure & Certification of Outstanding Advances – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Sections 2.6 & 2.8 (see pgs. 19-21). Assessor	Recommendation No. 12 Assessor ensure the amount of outstanding cash advances is disclosed and certified on the <i>Revolving Cash Fund/Cash Advance Reimbursement</i> claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.	Concur

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Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
10-15	Control Finding	Disclosure & Certification of Outstanding Advances – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Sections 2.6 & 2.8 (see pgs. 19-21). District Attorney	Recommendation No. 13 District Attorney ensure the amount of outstanding cash advances is disclosed and certified on the <i>Revolving Cash Fund/Cash Advance Reimbursement</i> claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.	Concur
10-15	Control Finding	Disclosure & Certification of Outstanding Advances – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Sections 2.6 & 2.8 (see pgs. 19-21). OC Waste & Recycling	Recommendation No. 14 OC Waste & Recycling ensure the amount of outstanding cash advances is disclosed and certified on the <i>Revolving Cash Fund/Cash Advance Reimbursement</i> claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.	Concur
10-15	Control Finding	Disclosure & Certification of Outstanding Advances – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Sections 2.6 & 2.8 (see pgs. 19-22). OC Public Works	Recommendation No. 15 OC Public Works ensure the amount of outstanding cash advances is disclosed and certified on the <i>Revolving Cash Fund/Cash Advance Reimbursement</i> claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.	Concur

OC Internal Auditor's Report



Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
16	Control Finding	A-C/Claims Monitoring of Outstanding Advances (see pg. 22). Auditor-Controller	Recommendation No. 16 Auditor-Controller review the <i>Revolving Cash Fund/Cash Advance Reimbursement</i> forms and fund reconciliation for outstanding cash advances to ensure compliance with CAM C-7/C-1, County travel policies, and IRS regulations and also consider whether the departments/agencies should provide detail supporting documentation of outstanding cash advances to facilitate A-C/Claims review.	Partially Concur
17	Significant Control Weakness	Certification of No Advances Outstanding – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Section 2.6 (see pg. 23). Sheriff-Coroner	Recommendation No. 17 Sheriff-Coroner inform the department head of cash advances outstanding more than 30 days from the end of the travel event and ensure outstanding cash advances are being actively pursued for collection at the earliest possible time as required.	Concur
18	Control Finding	Payroll Deductions – Noncompliance with CAM C-1 <i>Cash Advances – Revolving Funds</i> Section 2.1.2 (see pgs. 23-24). Auditor-Controller	Recommendation No. 18 Auditor-Controller clarify the CAM C-1 accounting procedure to include steps for departments/agencies to follow for implementing the Section 2.1.2 provision to deduct outstanding cash advances from amounts due to the employee; i.e. payroll garnishment.	Partially Concur
19	Control Finding	Subsequent Travel Cash Advances Issued to Employees with Outstanding Cash Advances (see pgs. 24-25). Auditor-Controller	Recommendation No. 19 Auditor-Controller consider adding a provision to CAM C-1 prohibiting the issuance of subsequent travel cash advances to employees with outstanding cash advance claims.	Concur

OC Internal Auditor's Report



Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
20	Control Finding	Consistency of Travel Policies (see pgs. 25-26) Auditor-Controller	Recommendation No. 20 Auditor-Controller consider revising CAMs C-1 and C-7 to incorporate pertinent travel-related policies (County and IRS) related to timeliness of cash advance claims submission.	Concur
21	Control Finding	Cash Repayment of Unused Cash Advances (see pgs. 26-27) Sheriff-Coroner	Recommendation No. 21 Sheriff-Coroner ensure repayment of unused cash advances are made in the form of a personal check as required by CAM C-1 Section 2.3 or consult with Auditor-Controller to determine alternative acceptable procedures.	Concur
22	Control Finding	Revolving Fund Custodian Was Not Completing the Cash Advance Request Form (see pg. 27) Sheriff-Coroner	Recommendation No. 22 Sheriff-Coroner ensure the revolving fund custodian immediately documents the receipt of <i>Mileage and Other Expenses Claim Forms</i> and the receipt and amount of repayment of unused cash advances on the Cash Advance Request form as required by CAM C-1 Section 2.4.	Concur
23	Control Finding	Untimely Deposits (see pg. 28) Sheriff-Coroner	Recommendation No. 23 Sheriff-Coroner ensure the revolving fund custodian immediately verifies and documents the receipt of repayments of unused cash advances and deposits the repayments to the bank account in a timely manner as required by CAM C-1 Section 2.4.	Concur

OC Internal Auditor's Report



Finding No.	Finding Classification - (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
24	Control Finding	Expense Claims Dated Incorrectly (see pgs. 28-29) Sheriff-Coroner	Recommendation No. 24 Sheriff-Coroner ensure employees date the <i>Mileage and Other Expenses Claim Form</i> with the date the claim is submitted along with all required supporting documentation and any repayment of unused cash advance, to ensure compliance with CAM C-1, Section 2.2.1.	Concur



BACKGROUND

This countywide audit of employee cash advances was added to our *FY 2010/2011 Audit Plan and Risk Assessment* as a result of issues at the State of California related to unreimbursed employee cash advances. A 2009 audit conducted by the State Controller found that \$13.3 million in paycheck and travel advances made to state employees had not been repaid at 11 different state agencies. Of that, more than \$500,000 of the debt was more than three years old and could not be collected (the employees are not required to repay debts over three years old).

To determine the outstanding amount of cash advances made to employees at the County of Orange, we conducted a survey of all County departments and agencies (25 departments/agencies). This survey was necessary due to the lack of transparency of outstanding cash advances in the centralized accounting records (e.g. General Ledger). We found that the detail of outstanding cash advances is maintained only at the department/agency level (See further discussion of cash advance reporting in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report).

Type of Cash Advances:

Based on the results of our survey, we found that the County issues the following two types of cash advances:

- **Travel Cash Advance:** Cash advances made to employees for travel-related expenses to avoid causing hardship to employees who would otherwise have to use their own funds when traveling on County business.
- **Operational Cash Advance:** Cash advances made to support department/agency operations. These advances are not made to employees. Examples of operational advances are:
 - **Public Administrator/Public Guardian (PA/PG):** Cash advanced to pay fees, expenses, and charges incurred by the PA/PG on behalf of an estate (authorized by Government Code Section 29460-29464);
 - **Sheriff:** Cash advanced to pay minor miscellaneous operational expenses (e.g. professional standards publications, intake release center, special operation, etc.).

The County prohibits payroll cash advances to employees. Operational Cash Advances are outside the scope of this audit and will not be included. See **Scope Exclusions** below.

Employee Cash Advances:

Employee cash advances are made only for travel-related expenses. Travel cash advances are issued from the revolving funds used for petty cash disbursements established for each County department/agency, according to the provisions of County of Orange Accounting Manual (CAM) Procedures C-7 *Revolving Cash Funds* and C-1 *Cash Advances – Revolving Funds*. Travel cash advances are further subject to the criteria and requirements established in the *County Business Travel and Reimbursement of Related Expenses Policy* (County Administrative Procedure 017-02), the *Expense and Reimbursement Policy for Elected Officials* (BOS Resolution 05-265), and *IRS Regulations* (Title 26, Chapter I, Part 1, Section 62-2).



Travel Cash Advance Process:

The process for issuing and claiming employee travel cash advances is outlined in CAM C-1 *Cash Advances – Revolving Funds*, as follows:

Request: The employee requesting the cash advance prepares a *Cash Advance Request* form. The form includes the following employee signed statement:

"I accept full responsibility for safeguarding the above amount advanced from time of receipt until repayment. I agree that I am responsible for obtaining all necessary receipts documenting travel expenses and will file a *Mileage & Other Expenses Claim* with the revolving fund custodian no later than five (5) working days after returning from my trip. At that time, I will repay any excess amount advanced over claimed actual travel expenses to the custodian. I further authorize that any cash advanced to me that is not claimed or repaid can be deducted from any amount due to me from the County of Orange."

Approval: The *Cash Advance Request* form is approved by a person authorized by an Officer of the department/agency. The amount advanced should be reasonable and approximately equal to the amount to be used during the travel event and should not be issued unreasonably far in advance of the travel event. The approved *Cash Advance Request* form is submitted to the revolving fund custodian who issues a check for the cash advance. The *Cash Advance Request* form is signed and dated by the person who physically receives the cash advance from the custodian.

Expense Claim: The requestor is required to prepare and file a *Mileage and Other Expenses Claim Form* with the revolving fund custodian within five (5) working days after the completion of the travel event. The date and amount of the cash advance is noted on the *Mileage and Other Expenses Claim Form*. The requestor returns any unused portion of the cash advance to the revolving fund custodian along with the *Mileage and Other Expenses Claim Form* within five (5) working days after the completion of the travel event. The revolving fund custodian reimburses the requestor for any claimed actual travel expenses in excess of the cash advance. The *Mileage and Other Expenses Claim Form* is reviewed and approved by an employee who is authorized to approve such payments to ensure that expenses are appropriate and required receipts are attached.

Reimbursement: The custodian completes a *Revolving Cash Fund/Cash Advance Reimbursement* claim envelope and encloses all *Mileage and Other Expenses Claim Forms* and supporting documents. An authorized signer, a person who does not have custodian, check signer or reconciliation duties, reviews the envelope's contents for propriety, signs and seals the envelope, and submits it to the Auditor-Controller/Claims and Disbursing Section for reimbursement.

Signing and submitting the *Revolving Cash Fund/Cash Advance Reimbursement* claim envelope for reimbursement of the revolving fund represents department/agency certification that all cash advances were made in accordance with policies and procedures established for petty cash funds and cash advances for travel purposes. Such signature and submittal is also a representation that any cash advances outstanding for more than 30 days after completion of the travel event have been brought to the attention of the department head and are being actively pursued for collection at the earliest possible time.



SCOPE AND METHODOLOGY

Our audit evaluated internal controls and processes over the claiming of employee cash advances to determine compliance with related County Accounting Manual (CAM) procedures (*C-7 Revolving Cash Funds* and *C-1 Cash Advances – Revolving Funds*), County Travel Policies, and Internal Revenue Service (IRS) Regulations. Our methodology included inquiry, auditor observation and testing of relevant documents.

1. To determine the total amount of outstanding cash advances at April 30, 2011, we conducted a survey of all County departments and agencies (25 departments/agencies). We requested that all County departments and agencies report the type and total amount of outstanding cash advances as of April 30, 2011. We provided a template form to help facilitate the department/agency responses and requested the responses be submitted by May 13, 2011. See **Attachment B** for a Summary of Outstanding Cash Advances at April 30, 2011.
2. For the outstanding employee cash advances (travel-related advances) at April 30, 2011 as reported by the departments and agencies, we reviewed supporting documentation to determine that a *Mileage and Other Expenses Claim Form* had been submitted by the employee to finalize the cash advance claim by August 31, 2011.
3. For the outstanding employee cash advances (travel-related advances) at April 30, 2011, we performed an aging to determine how many days the claims were outstanding from the completion of travel. See **Attachment C** for the Aging of Outstanding Cash Advances at April 30, 2011. We reviewed pertinent supporting documentation including *Mileage and Other Expenses Claims Forms*, *Cash Advance Request Forms*, and *Revolving Cash Fund/Cash Advance Reimbursement* claim packages to evaluate compliance with County Accounting Manual (CAM) procedures (*C-7 - Revolving Cash Funds* and *C-1 – Cash Advances – Revolving Funds*), County Travel Policies, and Internal Revenue Service (IRS) Regulations related to timeliness of claiming.

SCOPE EXCLUSIONS

We audited outstanding cash advances as of April 30, 2011. Our audit did not include cash advances issued after April 30, 2011. We audited certain “internal controls” related to maintaining compliance with established cash advance policies; however we did not conduct a detailed Internal Control Review of these processes. We did not audit operational cash advances or determine when the outstanding operational advances were finalized. In addition, we did not audit compliance with other aspects of the CAM procedures, County Travel Policies, or IRS Regulations unrelated to cash advance processes.

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 by Management 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. Our Internal Control Audit enhances and complements, but does not substitute for the departments'/agencies' 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 audit would not necessarily disclose all weaknesses in the departments'/agencies' operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by all County department and agency personnel during our audit. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899; or Alan Marcum, Senior Audit Manager at 834-4119.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Audit Oversight Committee
Foreperson, Grand Jury
Susan Novak, Interim Clerk of the Board of Supervisors

County Department/Agency Heads List:

Webster J. Guillory, Assessor
David E. Sundstrom, Auditor-Controller
Steven Eldred, Director, Child Support Services
Susan Novak, Interim Clerk of the Board of Supervisors
Tom Daly, Clerk-Recorder
Nicholas Chrisos, County Counsel
Thomas G. Mauk, County Executive Officer
Mahesh Patel, Deputy CEO, Chief Information Officer
Bob Franz, Deputy CEO, Chief Financial Officer
Tony Rackauckas, District Attorney
Acting Director, Health Care Agency
Carl Crown, Director, Human Resources Department
Alan L. Murphy, Director, John Wayne Airport
Steve Franks, Director, OC Community Resources
Brad Gross, Director, OC Dana Point Harbor
Jess Carbajal, Director, OC Public Works
Michael Giancola, Director, OC Waste and Recycling
Stephen J. Connolly, Executive Director, Office of Independent Review
Steve Danley, Performance Audit Director
Steven Sentman, Chief Probation Officer
John S. Williams, Public Administrator
Lucille Lyon, Public Guardian/Assistant Public Administrator
Frank Ospino, Interim Public Defender
Neal Kelley, Registrar of Voters
Sandra Hutchens, Sheriff-Coroner
Dr. Michael Riley, Director, Social Services Agency
Shari Freidenrich, Treasurer-Tax Collector

Detailed Results, Findings, Recommendations and Management Responses



OBJECTIVE #3: Determine for those departments and agencies with outstanding employee cash advances at April 30, 2011 whether those cash advances were claimed in compliance with certain County Accounting Manual (CAM) procedures (C-7 *Revolving Cash Funds* and C-1 *Cash Advances – Revolving Funds*), County Travel Policies, and Internal Revenue Service (IRS) Regulations.

Finding Nos. 1-4 – Expense Claims Not Submitted Within Five (5) Working Days – Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.2.1 (Significant Control Weakness)

CRITERIA:

CAM C-1 Section 2.2.1 – Mileage and Other Expenses Claim Form states the requestor shall file a *Mileage and Other Expenses Claim Form* with the custodian of the revolving fund, itemizing the actual and necessary expenses. The claim shall be submitted within five (5) working days after the completion of the event for which the advance is made.

EXCEPTIONS NOTED:

Of the seven (7) departments/agencies with reported employee travel cash advances outstanding at April 30, 2011, we noted four (4) departments/agencies where the employee had not submitted the *Mileage & Other Expenses Claim Form* within 5 working days as required (calculated from the completion of the travel event to April 30, 2011). See *Attachment C* for the Outstanding Employee Cash Advances Aging Schedule.

Department/ Agency	Mileage & Other Expenses Claim Forms Not Submitted within 5 Working Days		
	Number of Advances	Amount of Advances	# of Days Outstanding to 4/30/11
Sheriff-Coroner	114	\$48,481.42	9 to 225 days
Assessor	4	\$ 4,400.00	53 to 284 days
Probation	7	\$2,135.63	9 to 14 days
District Attorney	1	\$840.00	45 days
Total	126	\$55,857.05	9 to 284 days

Recommendation No. 1

We recommend that the Sheriff-Coroner ensure employees are submitting a *Mileage & Other Expenses Claim Form* within five (5) working days as required by CAM C-1 Section 2.2.1.

Sheriff-Coroner Management Response

Concur. A handout was developed which summarizes the procedures to close out travel cash advances. This document is distributed to staff upon receiving their cash advances. Financial Operations staff performs follow-up if the cash advances are not cleared within five days of the date of return from travel.

Recommendation No. 2

We recommend that the Assessor ensure employees are submitting a *Mileage & Other Expenses Claim Form* within five (5) working days as required by CAM C-1 Section 2.2.1.



Assessor Management Response

Concur. An internal memo is periodically distributed to all Assessor Department Operation Managers to remind and ensure that staff complies with CAM C-1, Section 2.2.1 and returns the unused portion of travel cash advances along with Mileage and Other Expenses Claims forms, within five working days after the completion of the event for which the advance is made. However, please note that a five-working day turnaround is not practical for Assessor Department's auditors to complete and submit all necessary claim forms and paperwork as the auditor also needs to review and complete the business audit reports immediately after the audit trips.

Recommendation No. 3

We recommend that the Probation Department ensure employees are submitting a *Mileage & Other Expenses Claim Form* within five (5) working days as required by CAM C-1 Section 2.2.1.

Probation Management Response

Concur. Probation will enhance our internal tracking system to ensure that claims are filed within the 5-day period as required by CAM C-1 Section 2.2.1.

Recommendation No. 4

We recommend that the District Attorney ensure employees are submitting a *Mileage & Other Expenses Claim Form* within five (5) working days as required by CAM C-1 Section 2.2.1.

District Attorney Management Response

Concur. The District Attorney has already changed its current procedure effective November 1, 2011 by sending a notification email to employees on their last day of the travel event to request a Mileage & Other Expenses Claim Form be submitted by the 5th working day after completion of the travel event.

Finding Nos. 5-7 – Expense Claims Not Submitted Within 30 Days – Noncompliance with CAP 017-02 *County Business Travel and Reimbursement of Related Expenses Policy* and BOS Resolution #05-265 *Expense & Reimbursement Policy for Elected Officials* (Significant Control Weakness)

CRITERIA:

County Administrative Procedure (CAP) 017-02 *County Business Travel and Reimbursement of Related Expenses Policy* Section 18.6.1 – Expense Claims states that expense claims for travel should generally be filed within 30 days from the end of the travel event.

Board of Supervisors (BOS) Resolution #05-265 *Expense and Reimbursement Policy for Elected Officials* Section D – Expense Report Content and Submission Deadline states that all **County Officials** must submit their expense reports within 30 days of an expense being incurred, accompanied by receipts documenting each expense. Inability to provide such documentation in a timely fashion may result in the expense being borne by the official or officer.

Detailed Results, Findings, Recommendations and Management Responses



EXCEPTIONS NOTED:

Of the seven (7) departments/agencies with reported employee travel cash advances outstanding at April 30, 2011, we noted three (3) departments/agencies where the employee did not submit a *Mileage & Other Expenses Claim Form* within 30 days as required by CAP 017-02 Section 18.6.1 (calculated from the completion of the travel event to April 30, 2011). In addition, we noted one (1) department (Assessor) where a County Official did not submit a *Mileage & Other Expenses Claim Form* within 30 days as required by BOS Res. #05-265 Section D. See *Attachment C* for the Outstanding Employee Cash Advances Aging Schedule.

Department/ Agency	Mileage & Other Expenses Claim Forms Not Submitted within 30 Days		
	Number of Advances	Amount of Advances	# of Days Outstanding to 4/30/11
Sheriff	49	\$17,086.19	31 to 225 days
Assessor	4	\$4,400.00	53 to 284 days
District Attorney	1	\$840.00	45 days
Total	54	\$22,326.19	31 to 284 days

Recommendation No. 5

We recommend that the Sheriff-Coroner ensure employees are submitting a *Mileage & Other Expenses Claim Form* within thirty (30) days from the end of the travel event as required by CAP 017-02 Section 18.6.1.

Sheriff-Coroner Management Response

Concur. A reminder of the procedures will be distributed department wide. The Travel Unit now actively monitors the status of outstanding cash advances and now contacts those individuals who have not submitted their travel claims within five days of the date of return from travel. Claims more than 15 days delinquent are now brought to the attention of management. Employees with travel cash advances outstanding more than 30 days after the date of return from travel are now reported to the Sheriff in accordance with County policy.

Recommendation No. 6

We recommend that the Assessor submit a *Mileage & Other Expenses Claim Form* within thirty (30) days of the expense being incurred as required by BOS Res. #05-265 Section D.

Assessor Management Response

Concur. The Assessor Department will submit Mileage and Other Expenses Claim Forms consistent with the BOS Res. #05-265.

Recommendation No. 7

We recommend that the District Attorney ensure employees are submitting a *Mileage & Other Expenses Claim Form* within thirty (30) days from the end of the travel event as required by CAP 017-02 Section 18.6.1.

Detailed Results, Findings, Recommendations and Management Responses



District Attorney Management Response

Concur. The District Attorney has already changed its current procedure effective November 1, 2011 by bringing to management attention any cash advances outstanding for more than five (5) working days after completion of the travel event to actively pursue for collection.

Finding Nos. 8-9 – Taxable Compensation – Noncompliance with CAP 017-02 County Business Travel and Reimbursement of Related Expenses Policy and IRS Code 1.62-2 Reimbursements and Other Expense Allowance Arrangements (Significant Control Weakness)

CRITERIA:

County Administrative Procedure (CAP) 017-02 *County Business Travel and Reimbursement of Related Expenses Policy* Section 18.6 – Frequency of Submitting County Business Travel Expense Claims states that in accordance with IRS regulations (see below), any travel costs advanced and not substantiated within 60 calendar days from the conclusion of the travel (employee has not filed a claim with documentation to support the travel expenses) must be treated as taxable compensation to the traveler.

Internal Revenue Service (IRS) Code Section 1.62-2 Reimbursements and Other Expense Allowance Arrangements states that if travel expenses are not substantiated within a reasonable period of time or if any amounts in excess of the substantiated expenses are not returned within a reasonable period of time, the amount is subject to withholding and payment of employment taxes. This IRS Code Section further defines that a *reasonable period* is within 60 days after the expense is paid or incurred.

EXCEPTIONS NOTED:

At April 30, 2011, we noted two (2) departments/agencies where employees did not submit a *Mileage & Other Expenses Claim Form* to substantiate the travel expenses within 60 days from the conclusion of travel. We did not note any instances where cash advance amounts in excess of the travel expenses were not returned along with the *Mileage & Other Expenses Claim Form*. See *Attachment C* for the Outstanding Employee Cash Advances Aging Schedule.

Department/ Agency	Mileage & Other Expenses Claim Forms Not Submitted within 60 Days		
	Number of Advances	Amount of Advances	# of Days Outstanding to 4/30/11
Sheriff	28	\$7,150.96	71 to 225 days
Assessor	3	\$3,400.00	223 to 284 days
Total	31	\$10,550.96	71 to 284 days

Therefore, 31 cash advances totaling \$10,551 may be subject to withholding and payment of taxes as required by IRS Code Section 1.62-2 and CAP 017-02 Section 18.6. As noted above in Objective #2, all cash advances outstanding at April 30, 2011 have been claimed and finalized by August 31, 2011. However, the Auditor-Controller will review these cash advances to determine whether they are still subject to withholding.



Recommendation No. 8

We recommend that the Sheriff-Coroner ensure that, if travel expenses are not substantiated by the employee within 60 days of the completion of the travel event, the appropriate steps are taken to treat the amount as compensation to the employee subject to withholding and payment of taxes as required by IRS Code Section 1.62-2 and CAP 017-02 Section 18.6.

Sheriff-Coroner Management Response

Concur. The Auditor-Controller will be notified of all travel expenses that are not substantiated by the employee within 60 days of the completion of the travel event.

Recommendation No. 9

We recommend that the Assessor ensure that, if travel expenses are not substantiated by the employee within 60 days of the completion of the travel event, the appropriate steps are taken to treat the amount as compensation to the employee subject to withholding and payment of taxes as required by IRS Code Section 1.62-2 and CAP 017-02 Section 18.6.

Assessor Management Response

Concur. Please note that Auditor-Controller's Accounting Manual policy does not address how to report employee cash advances for travel expenses that are not substantiated within 60 days of completion of the travel event. Therefore, guidance is needed related to how to report such cash advances for adjustment of employees' gross salary for the year to be subject to withholding and employment of taxes.

Finding Nos. 10-15 – Disclosure and Certification of Outstanding Advances – Noncompliance with CAM C-1 Cash Advances – Revolving Funds Sections 2.6 and 2.8 (Control Finding)

CRITERIA:

CAM C-1 Section 2.6 Reimbursing the Revolving Fund states when a department/agency wishes to have its revolving fund reimbursed for cash advance travel expenses, the custodian shall complete a Petty Cash/Cash Advance Reimbursement (*Revolving Cash Fund/Cash Advance Reimbursement*) claim envelope and enclose all *Mileage and Other Expenses Claim Forms* and supporting documents. An authorized signer, a person who does not have custodian, check signer or reconciliation duties, reviews the envelope's contents for propriety, signs and seals the envelope, and submits it to the Auditor-Controller Claims and Disbursing Section.

CAM C-1 Section 2.8 – Certification of No Advances Outstanding states that signing and submitting the Petty Cash/Cash Reimbursement (*Revolving Cash Fund/Cash Advance Reimbursement*) claim envelope for reimbursement of the revolving fund shall represent department/agency certification that all cash advances were made in accordance with policies and procedures established for petty cash funds and cash advances for travel purposes. Such signature and submittal is also a representation that any cash advances outstanding for more than 30 days after completion of the travel event have been brought to the attention of the department head and are being actively pursued for collection at the earliest possible time.

Detailed Results, Findings, Recommendations and Management Responses



EXCEPTIONS NOTED:

For six (6) of the seven (7) departments/agencies with reported employee travel cash advances outstanding at April 30, 2011, our review of a sample of *Revolving Cash Fund/Cash Advance Reimbursement* claim envelopes submitted to the Auditor-Controller Claims and Disbursing Section for reimbursement of travel cash advances found that the claim envelopes did not disclose the amount of outstanding cash advances at the time of the reimbursement request, although the claim envelopes were signed as certification.

The claim envelope contains a box where the department/agency is to indicate the amount of outstanding cash advances over 30 days. The claim envelope (in effect at April 30, 2011) also contains a revolving fund reconciliation that includes a box where the department/agency is to indicate the total amount of outstanding cash advances. For the six (6) departments/agencies noted in the table below, the amount of outstanding cash advances was not documented on the claim envelope either in the fund reconciliation and/or the amount of outstanding cash advances over 30 days, as follows:

Department/ Agency	Outstanding Advances not Disclosed on Claim Envelope	
	Reconciliation – Total Outstanding Advances	Outstanding Cash Advances Over 30 Days
Sheriff-Coroner		X
Probation	X	
Assessor		X
District Attorney	X	X
OC Waste & Recycling	X	
OC Public Works	X	

The detail of outstanding cash advances is maintained only at the department/agency level. This lack of transparency of outstanding advances makes disclosure by departments/agencies through the reimbursement process a critical step in ensuring compliance with IRS regulations. A-C/Claims personnel rely on accurate and complete information, certified by departments/agencies, to identify long-outstanding advances where IRS withholding may be required.

Recommendation No. 10

We recommend that Sheriff-Coroner ensure the amount of outstanding cash advances is disclosed and certified on the *Revolving Cash Fund/Cash Advance Reimbursement* claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

Sheriff-Coroner Management Response

Concur. Staff authorized to sign the Petty Cash/Cash Reimbursement claim envelopes have been instructed to include the amount of outstanding cash advances on the envelopes submitted to the Auditor-Controller Claims and Disbursing Section.



Recommendation No. 11

We recommend that Probation ensure the amount of outstanding cash advances is disclosed and certified on the *Revolving Cash Fund/Cash Advance Reimbursement* claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

Probation Management Response

Concur. Probation will implement an additional review process to ensure that the claim envelope is completed and submitted in compliance with CAM C-1 Sections 2.6 and 2.8.

Recommendation No. 12

We recommend that Assessor ensure the amount of outstanding cash advances is disclosed and certified on the *Revolving Cash Fund/Cash Advance Reimbursement* claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

Assessor Management Response

Concur. The Assessor Department will ensure that the amount of outstanding cash advances is disclosed in the appropriate boxes of the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller Claims and Disbursing Section.

Recommendation No. 13

We recommend that District Attorney ensure the amount of outstanding cash advances is disclosed and certified on the *Revolving Cash Fund/Cash Advance Reimbursement* claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

District Attorney Management Response

Concur. The District Attorney already implemented this recommendation by including the amount of outstanding cash advances in its Cash Reimbursement claim envelope submitted to the Auditor-Controller department on November 3, 2011.

Recommendation No. 14

We recommend that OC Waste & Recycling ensure the amount of outstanding cash advances is disclosed and certified on the *Revolving Cash Fund/Cash Advance Reimbursement* claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

OC Waste & Recycling Management Response

Concur. Effective immediately OCWR commenced disclosure and certification on the Petty Cash/Cash Reimbursement claim envelope submitted to Auditor-Controller Claims and Disbursing.



Recommendation No. 15

We recommend that OC Public Works ensure the amount of outstanding cash advances is disclosed and certified on the *Revolving Cash Fund/Cash Advance Reimbursement* claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

OC Public Works Management Response

Concur. OC Public Works will ensure the amount of outstanding cash advances is disclosed and certified on the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller Claims and Disbursing Section.

Finding No. 16 – A-C/Claims Monitoring of Outstanding Advances (Control Finding)

CRITERIA:

The *Revolving Cash Fund/Cash Advance Reimbursement* form is an attachment to CAM C-7 *Revolving Cash Fund* and is the prescribed form for departments/agencies to use when requesting a revolving fund reimbursement, including travel cash advances. An integral part of the reimbursement request form is a fund reconciliation which discloses the revolving fund components, including the amount of outstanding cash advances.

EXCEPTIONS NOTED:

We were informed by A-C/Claims personnel that this fund reconciliation is not reviewed or monitored by A-C/Claims as part of their processing of revolving fund reimbursement claims. Due to the risk of noncompliance with IRS regulations, A-C/Claims should monitor the status of outstanding cash advances as part of their review of the *Revolving Cash Fund/Cash Advance Reimbursement* requests.

A-C/Claims should also consider requiring the departments/agencies to provide additional detail information of outstanding cash advances (such as travel dates and amounts) in order to more effectively monitor outstanding cash advances for compliance with CAM C-7/C-1, County travel policies, and IRS regulations.

Recommendation No. 16

We recommend that the Auditor-Controller review the *Revolving Cash Fund/Cash Advance Reimbursement* forms and fund reconciliation for outstanding cash advances to ensure compliance with CAM C-7/C-1, County travel policies, and IRS regulations and also consider whether the departments/agencies should provide detail supporting documentation of outstanding cash advances to facilitate A-C/Claims review.

Auditor-Controller Management Response

Partially Concur. The Auditor-Controller will determine the appropriate review to be completed on the Petty Cash/Cash Reimbursement forms and fund reconciliation to ensure compliance with all procedures, policies, and regulations and will also consider whether departments/agencies should provide detail supporting documentation of outstanding cash advances by June 29, 2012.

Internal Auditor Rejoinder

We support the Auditor-Controller in their further evaluation and determination of appropriate review necessary to ensure compliance with procedures, policies, and regulations. We will evaluate their resolution at the time of our First Follow-Up Audit.



Finding No. 17 – Certification of No Advances Outstanding – Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.6 (Significant Control Weakness)

CRITERIA:

CAM C-1 Section 2.8 – Certification of No Advances Outstanding states that signing and submitting the Petty Cash/Cash Reimbursement (*Revolving Cash Fund/Cash Advance Reimbursement*) claim envelope for reimbursement of the revolving fund shall represent department/agency certification that all cash advances were made in accordance with policies and procedures established for petty cash funds and cash advances for travel purposes. Such signature and submittal is also a representation that any cash advances outstanding for more than 30 days after completion of the travel event have been brought to the attention of the department head and are being actively pursued for collection at the earliest possible time.

EXCEPTIONS NOTED:

At April 30, 2011, Sheriff-Coroner reported 75 cash advances totaling \$36,386 outstanding more than 30 days after completion of the travel event (see Finding No. 5). We found that those outstanding cash advances (ranging from 31-225 days after travel completion) had not been brought to the attention of the department head, as required by CAM C-1.

Based on survey results, the Sheriff-Coroner reported a high volume of cash advance activity and experienced the highest occurrences of long-outstanding cash advance claims. Based on discussion with Sheriff-Coroner staff, Sheriff-Coroner has a process in place to monitor and follow-up on outstanding claims. However, as a result of budget cuts within the last two years, the back-up position to the Travel Desk was eliminated which impacted the timeliness of claims monitoring and follow-up. Sheriff-Coroner explained that their current Petty Cash/Cash Reimbursement certification process does not include notifying the department head of cash advances outstanding more than 30 days.

Keeping the department head informed of cash advances outstanding more than 30 days allows the department head to determine the best course of action to pursue collection.

Recommendation No. 17

We recommend that Sheriff-Coroner inform the department head of cash advances outstanding for more than 30 days after completion of the travel event and ensure outstanding cash advances are being actively pursued for collection at the earliest possible time in accordance with CAM C-1 Section 2.6 requirements.

Sheriff-Coroner Management Response

Concur. All cash advances outstanding for more than 30 days after completion of the travel event are now brought to the attention of the Sheriff.

Finding No. 18 – Payroll Deductions - Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.1.2 (Control Finding)

CRITERIA:

CAM C-1 Section 2.1.2 - Employee Signed Statement states that the employee requesting the cash advance prepares a *Cash Advance Request* form that includes the following employee signed statement:



"I accept full responsibility for safeguarding the above amount advanced from time of receipt until repayment. I agree that I am responsible for obtaining all necessary receipts documenting travel expenses and will file a Mileage & Other Expenses Claim with the revolving fund custodian no later than five (5) working days after returning from my trip. At that time, I will repay any excess amount advanced over claimed actual travel expenses to the custodian. I further authorize that any cash advanced to me that is not claimed or repaid can be deducted from any amount due to me from the County of Orange."

EXCEPTIONS NOTED:

We found that long-outstanding cash advances not claimed or repaid timely (within 60 days of the end of the travel event) were not deducted from amounts due the employee in accordance with CAM C-1 Section 2.1.2. We also noted that CAM C-1 does not include the steps for departments/agencies to follow in order to implement this provision.

Deducting the long-outstanding cash advance from amounts due to the employee (i.e., through payroll deduction) within 60 days of the completion of the travel event would eliminate the need to treat the advance as taxable compensation to the employee, which is subject to withholding and payment of taxes as required by IRS Code Section 1.62-2 and CAP 017-02 Section 18.6 (See Finding Nos. 8-9).

Recommendation No. 18

We recommend that the Auditor-Controller clarify the CAM C-1 accounting procedure to include steps for departments/agencies to follow for implementing the Section 2.1.2 provision to deduct outstanding cash advances from amounts due to the employee; i.e. payroll garnishment.

Auditor-Controller Management Response

Partially Concur. The Auditor-Controller will review the accounting procedure and consult with County Counsel regarding the appropriate steps that can be taken to deduct outstanding cash advances from amounts due to the employee by June 29, 2012.

Internal Auditor Rejoinder

We support the Auditor-Controller in their further review and consultation with County Counsel. We will evaluate their resolution at the time of our First Follow-Up Audit.

Finding No. 19 – Subsequent Travel Cash Advances Issued to Employees with Outstanding Cash Advances – Not Specifically Prohibited by CAM C-1 Cash Advances – Revolving Funds (Control Finding)

CRITERIA:

County Accounting Manual (CAM) procedures do not address issuing additional travel cash advances to employees with existing cash advances outstanding in excess of policy/procedure requirements (i.e., five (5) business days).

EXCEPTIONS NOTED:

We found two (2) departments/agencies (Assessor, Sheriff-Coroner) that issued subsequent travel cash advances to employees who already had outstanding cash advances not claimed or repaid timely (within five (5) business days of the end of the travel event).

Detailed Results, Findings, Recommendations and Management Responses



Department/ Agency	Subsequent Cash Advances Issued to Employees with Long- Outstanding Cash Advances			
	Number of Employees with Subsequent Advances	Number of Cash Advances	Total Outstanding Cash Advances	# of Days Outstanding to 4/30/11
Sheriff	21	85	\$49,951.51	Up to 198 days
Assessor	1	4	\$4,400.00	Up to 284 days
Total	22	89	\$54,351.51	Up to 284 days

Issuing additional cash advances to employees with outstanding cash advances may put County resources at risk of being uncollected (i.e., the employee terminates/retires and the outstanding advance is overlooked and uncollected). Additionally, prohibiting subsequent travel cash advances may help to improve the timeliness of claim submission by employees with existing outstanding cash advances.

Recommendation No. 19

We recommend that the Auditor-Controller consider adding a provision to the CAM C-1 *Cash Advances – Revolving Funds* accounting procedure prohibiting the issuance of subsequent travel cash advances to employees with outstanding cash advance claims.

Auditor-Controller Management Response

Concur. The Auditor-Controller will consider adding a provision to the accounting procedure prohibiting the issuance of subsequent travel cash advances to employees with outstanding cash advance claims as part of implementing Recommendation No. 20.

Finding No. 20 – Consistency of Travel Policies (Control Finding)

CRITERIA:

County travel policies should be consistent and communicated to staff to help ensure compliance with management's expectations.

EXCEPTIONS NOTED:

We noted that County Accounting Manual (CAM) Procedures C-1 *Cash Advances - Revolving Funds* and C-7 *Revolving Cash Fund* do not include reference to other pertinent travel-related policies and regulations related to timeliness of claims submission.

A-C should consider revising the CAMs C-1 and C-7 to incorporate pertinent travel policies, such as:

- County Administrative Procedure (CAP) 017-02 *County Business Travel and Reimbursement of Related Expenses Policy* Section 18.6.1 – states that expense claims for travel should generally be filed within 30 days from the end of the travel event.
- County Administrative Procedure (CAP) 017-02 *County Business Travel and Reimbursement of Related Expenses Policy* Section 18.6 – Frequency of Submitting County Business Travel Expense Claims states that in accordance with IRS regulations, any travel costs advanced and not substantiated within 60 calendar days from the conclusion of the travel (employee has not filed a claim with documentation to support the travel expenses) must be treated as taxable compensation to the traveler.



- Board of Supervisors (BOS) Resolution #05-265 *Expense and Reimbursement Policy for Elected Officials* Section D – Expense Report Content and Submission Deadline states that all **County Officials** must submit their expense reports within 30 days of an expense being incurred, accompanied by receipts documenting each expense. Inability to provide such documentation in a timely fashion may result in the expense being borne by the official or officer.
- Internal Revenue Service (IRS) Code Section 1.62-2 Reimbursements and Other Expense Allowance Arrangements states that if travel expenses are not substantiated within a reasonable period of time *or* if any amounts in excess of the substantiated expenses are not returned within a reasonable period of time, the amount is subject to withholding and payment of employment taxes. This IRS Code Section further defines that a *reasonable period* is within 60 days after the expense is paid or incurred.

Recommendation No. 20

We recommend that the Auditor-Controller consider revising CAMs C-1 *Cash Advances – Revolving Funds* and C-7 *Revolving Cash Fund* to incorporate pertinent travel policies related to timeliness of claims submission, as noted above.

Auditor-Controller Management Response

Concur. Auditor-Controller will update the procedure to include references to travel policies by June 29, 2012.

Finding No. 21 – Cash Repayment of Unused Cash Advances - Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.3 (Control Finding)

CRITERIA:

CAM C-1 Section 2.3 – Repayment of Unused Portion of Cash Advance requires the repayment of the unused portion of cash advances be in the form of a personal check, and not cash, made payable to the Officer, to minimize the risk associated with the handling of cash.

EXCEPTIONS NOTED:

We found in our review of 48 *Mileage and Other Expenses Claim Forms* related to prisoner transportation travel that Sheriff-Coroner employees are returning the unused portion of cash advance in the form of cash, rather than personal check as required by the CAM. Sheriff-Coroner employees repaid a total of \$6,803.09 in cash related to the 48 claims.

Repayment of unused cash advances should be made by check in order to reduce the risk of loss or misappropriation inherent in the handling of cash. We were informed that Sheriff-Coroner employees may be reluctant to submit checks that disclose personal information, such as address, due to safety concerns.

Recommendation No. 21

We recommend that Sheriff-Coroner ensure repayment of unused cash advances are made in the form of a personal check as required by CAM C-1 Section 2.3 or consult with Auditor-Controller to determine alternative acceptable procedures.



Sheriff-Coroner Management Response

Concur. After seeing this recommendation, Sheriff staff discussed this procedure with Auditor-Controller management regarding alternative acceptable procedures. The vast majority of travel claims that require the return of funds involve prisoner transportation by deputy sheriffs. Most sworn staff is opposed to disclosing their personal information such as home addresses and phone numbers out of safety concerns. With that new information, the Auditor-Controller has agreed to revise this procedure and we will continue to accept cash payments.

Finding No. 22 – Revolving Fund Custodian Was Not Completing the Cash Advance Request Form - Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.4 (Control Finding)

CRITERIA:

CAM C-1 Section 2.4 – Recording the Receipt of Claim and Unused Portion of Cash Advance by the Custodian requires that immediately upon receipt of the *Mileage and Other Expenses Claim Form*, the revolving fund custodian shall sign and date the *Cash Advance Request* form. Immediately upon receipt of any unused portion of the cash advance, the custodian shall sign and date the *Cash Advance Request* form and post the amount of the repayment to the box marked “Amount of Repayment.”

EXCEPTIONS NOTED:

We found in our review of 48 *Mileage and Other Expenses Claim Forms* and supporting documentation related to prisoner transportation travel at Sheriff-Coroner that for all 48 claims the revolving fund custodian did not sign/date the *Cash Advance Request* form to evidence receipt of the claim form or to evidence receipt and verification of repayment of the unused portion of cash advance. As a result, there is no documented evidence of when the claims and repayments were received by the custodian. In addition, the amount of cash repayment was not verified by the custodian immediately when the repayment was received. As noted above in Finding No. 21, Sheriff-Coroner employees repaid \$6,803.09 in cash related to the 48 cash advance claims.

Documented evidence should be maintained to ensure compliance with County and IRS claiming requirements and to ensure accountability is established for the transfer of receipts.

Recommendation No. 22

We recommend that Sheriff-Coroner ensure the revolving fund custodian immediately documents the receipt of *Mileage and Other Expenses Claim Forms* and the receipt and amount of repayment of unused cash advances on the *Cash Advance Request* form as required by CAM C-1 Section 2.4.

Sheriff-Coroner Management Response

Concur. Procedures have been recently implemented to document when the claims are received as well as the repayment of any related unused cash advances.



Finding No. 23 – Untimely Deposits - Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.4 (Control Finding)

CRITERIA:

CAM C-1 Section 2.4 – Recording the Receipt of Claim and Unused Portion of Cash Advance by the Custodian requires that immediately upon receipt of any unused portion of the cash advance, the custodian shall sign and date the *Cash Advance Request* form, post the amount of the repayment to the box marked “Amount of Repayment,” and deposit the check into the checking account used for the revolving fund. The custodian shall otherwise record and deposit this receipt in the same manner as other reimbursements to revolving funds.

EXCEPTIONS NOTED:

We found in our review of the 48 *Mileage and Other Expenses Claim Forms* and supporting documentation related to prisoner transportation travel at Sheriff-Coroner that the majority of claims were not processed timely by the revolving fund custodian. For 27 of the 48 claims reviewed, the accompanied cash repayments were not verified or deposited by the custodian for 180 days or more after they were submitted. As noted above in Finding No. 21, Sheriff-Coroner employees repaid \$6,803.09 in cash related to the 48 cash advance claims. Also as noted above in Finding No. 22, the revolving fund custodian did not verify the amount of repayments when received. As a result, the majority of the \$6,803.09 cash repayments were placed, unverified, in a safe and not deposited in the bank for over 6 months. As of November 9, 2011, all repayments had been deposited to the bank.

Cash receipts should be verified and documented immediately upon receipt and should be deposited timely to reduce the risk of loss or misappropriation.

Recommendation No. 23

We recommend that Sheriff-Coroner ensure the revolving fund custodian immediately verifies and documents the receipt of repayments of unused cash advances and deposits the repayments to the bank account in a timely manner as required by CAM C-1 Section 2.4.

Sheriff-Coroner Management Response

Concur. This function has been given a higher priority among existing staff; however, it was not done timely in the past due to staffing shortages. Procedures have been implemented to ensure that all travel claims involving the repayment of any related unused cash advances are verified immediately upon receipt and the funds promptly deposited in the bank as required by CAM C-1 Section 2.4.

Finding No. 24 – Expense Claims Dated Incorrectly - Noncompliance with CAM C-1 Cash Advances – Revolving Funds Section 2.2.1 (Control Finding)

CRITERIA:

CAM C-1 Section 2.2.1 – Mileage and Other Expenses Claim Form requires the requestor to file a *Mileage and Other Expenses Claim Form* with the custodian of the revolving fund within five (5) working days after the completion of the event for which the advance is made.



EXCEPTIONS NOTED:

We found in our review of the 48 *Mileage and Other Expenses Claim Forms* and supporting documentation related to prisoner transportation travel at Sheriff-Coroner that the following claims were dated incorrectly by the employee (requestor):

- 8 of 48 claims were dated the first date of travel
- 6 of 48 claims were dated with the range of travel dates (i.e. 4/3/11 – 4/5/11)

The *Mileage and Other Expenses Claim Form* should reflect the date the claim is submitted by the employee along with all required supporting documentation and any repayment of unused cash advance. The claim date is used to determine whether the claim was submitted within the CAM C-1 requirements.

Recommendation No. 24

We recommend that Sheriff-Coroner ensure employees date the *Mileage and Other Expenses Claim Form* with the date the claim is submitted along with all required supporting documentation and any repayment of unused cash advance, to ensure compliance with CAM C-1, Section 2.2.1.

Sheriff-Coroner Management Response

Concur. A reminder of the procedures will be distributed to staff department wide.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

- ▶ **Critical Control Weaknesses:**
Audit findings or a combination of Significant Control Weaknesses that represent serious exceptions to the audit objective(s), policy and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.
- ▶ **Significant Control Weaknesses:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.
- ▶ **Control Findings:**
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT B: Employee Travel Cash Advances at April 30, 2011

Department/ Agency	Outstanding Cash Advances At April 30, 2011		Within Limits 1-5 Working Days		Past Limits > 5 Working Days	
	#	\$	#	\$	#	\$
Assessor	4	\$4,400.00	0	\$0.00	4	\$4,400.00
District Attorney	4	\$3,840.00	3	\$3,000.00	1	\$840.00
OC Public Works	1	\$318.00	1	\$318.00	0	\$0.00
OC Waste & Recycling	6	\$3,706.69	6	\$3,706.69	0	\$0.00
Probation	16	\$5,482.63	9	\$3,347.00	7	\$2,135.63
Public Defender	6	\$3,247.11	6	\$3,247.11	0	\$0.00
Sheriff-Coroner	185	\$76,494.67	71	\$28,013.25	114	\$48,481.42
Totals	222	\$97,489.10	96	\$41,632.05	126	\$55,857.05

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT C: Employee Travel Cash Advances Past Limits

Department/ Agency	Past Limits Aging: Last Day of Event to April 30, 2011									
	Total Past Limits: > 5 Working Days		6 to 30 Days		31 to 60 Days		61 to 120 Days		121 to 284 Days	
	#	\$	#	\$	#	\$	#	\$	#	\$
Assessor	4	\$4,400.00	0	\$0.00	1	\$1,000.00	0	\$0.00	3	\$3,400.00
District Attorney	1	\$840.00	0	\$0.00	1	\$840.00	0	\$0.00	0	\$0.00
Probation	7	\$2,135.63	7	\$2,135.63	0	\$0.00	0	\$0.00	0	\$0.00
Sheriff-Coroner	114	\$48,481.42	65	\$31,395.23	21	\$9,935.23	8	\$2,245.80	20	\$4,905.16
Totals	126	\$55,857.05	72	\$33,530.86	23	\$11,775.23	8	\$2,245.80	23	\$8,305.16



ATTACHMENT D: Assessor - Department/Agency Management Responses



County of Orange

MEMO RECEIVED
INTERNAL AUDIT DEPARTMENT

2011 DEC 20 AM 10: 56

December 19, 2011

To: Peter Hughes

Internal Audit
Director

From: Webster J. Guillory

Assessor

Subject: Audit No. 1056 – Confidential Draft Report on Countywide Audit of Employee Cash Advances

The Assessor Department received and reviewed Internal Audit Department's Report for Audit No 1056 - Confidential Draft Report on Countywide Audit of Employee Cash Advances.

Assessor Department's Management Response is presented in the attachment. At this time, we believe it is not necessary to schedule an exit interview.

Please call Shaw Lin at (714) 834-2734 if you have any questions.

WJG:ra

Attachment: Assessor Department Management Response to Audit No. 1056 (2 pages)

cc: Eli Littner, Deputy Director, Internal Audit Department
Shaw Lin, Manager of Management Services, Assessor Department



ATTACHMENT D: Assessor - Department/Agency Management Responses (continued)

Orange County Internal Audit Department Audit No. 1056
Confidential Draft Report on Countywide Audit of Employee Cash Advances

Assessor Department Management Response

Finding No. 1-4:

Expense Claims Not Submitted Within 5 Working Days – Non Compliance with CAM C-1 *Cash Advances – Revolving Funds* Section 2.2.1

Recommendation No. 2

We recommend the Assessor Department ensure that employees are submitting a *Mileage and Expense Claim Form* within five (5) working days as required by CAM C-1 Section 2.2.1

Assessor Department response: *Concur. An internal memo is periodically distributed to all Assessor Department Operation Managers to remind and ensure that staff complies with CAM C-1, Section 2.2.1 and returns the unused portion of travel cash advances along with Mileage and Other Expenses Claims forms, within five working days after the completion of the event for which the advance is made. However, please note that a five-working day turnaround is not practical for Assessor Department's auditors to complete and submit all the necessary claim forms and paperwork as the auditor also needs to review and complete the business audit reports immediately after the audit trips.*

Finding No. 5-7:

Expense Claims Not Submitted Within 30 Days – Noncompliance with CAP 017-02 *County Business Travel & Reimbursement of Related Expense Policy* and BOS Resolution #05-265 *Expense and Reimbursement Policy for Elected Officials*

Recommendation No. 6:

We recommend that the Assessor submit a *Mileage and Other Expenses Claim Form* within thirty (30) days of the expense being incurred as required by BOS Res. # 05-265 Section D

Assessor Department response: *Concur. The Assessor Department will submit Mileage and Other Expenses Claim Forms consistent with the BOS Res. # 05-265.*

December 19, 2011

Page 1 of 2



ATTACHMENT D: Assessor - Department/Agency Management Responses (continued)

Orange County Internal Audit Department Audit No. 1056
Confidential Draft Report on Countywide Audit of Employee Cash Advances

Assessor Department Management Response

Finding No. 8-9

Taxable Compensation – Noncompliance with CAP 017-02 *County Business Travel & Reimbursement of Related Expenses Policy* and IRS Code 1.62-2 *Reimbursement and Other Expense Allowance Arrangements*

Recommendation No. 9

We recommend that the Assessor ensure that, if travel expenses are not substantiated by the employee within 60 days of the completion of the travel event, the appropriate steps are taken to treat the amount as compensation to the employee subject to withholding and payment of taxes as required by IRS Code Section 1.62-2 and CAP 017-03 Section 18.6

***Assessor Department response:** Concur. Please note that Auditor Controller's Accounting Manual policy does not address how to report employee cash advances for travel expenses that are not substantiated within 60 days of completion of the travel event. Therefore, guidance is needed related to how to report such cash advances for adjustment of employees' gross salary for the year to be subject to withholding and employment taxes.*

Finding No. 10-15

Disclosure & Certification of Outstanding Advances – Noncompliance with CAM C-1 Cash Advances - Revolving Funds Section 2.6 and 2.8

Recommendation No. 12

We recommend that Assessor ensure the amount of outstanding cash advances is disclosed and certified on the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Section 2.6 and 2.8 requirements

***Assessor Department response:** Concur. The Assessor Department will ensure that the amount of outstanding cash advances is disclosed in the appropriate boxes of the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller Claims and Disbursing Section.*

December 19, 2011

Page 2 of 2



ATTACHMENT D: Auditor-Controller - Department/Agency Management Responses



DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

ORANGE COUNTY AUDITOR-CONTROLLER

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SHAUN M. SKELLY, CPA
CHIEF DEPUTY
AUDITOR-CONTROLLER

JAN E. GRIMES, CPA
DIRECTOR
CENTRAL ACCOUNTING OPERATIONS

PHILLIP T. DAIGNEAU
DIRECTOR
INFORMATION TECHNOLOGY

STEVEN P. RODERMUND
PROGRAM MANAGER
CAPS+ PROGRAM MANAGEMENT OFFICE

January 13, 2012

TO: Peter Hughes, Director
Internal Audit Department

SUBJECT: Response – Countywide Audit of Employee Cash Advances, Audit No. 1056

The following are our responses to the recommendations contained in the Countywide Audit of Employee Cash Advances, Audit No. 1056.

Recommendation No. 16

We recommend that the Auditor-Controller review the Petty Cash/Cash Reimbursement forms and fund reconciliation for outstanding cash advances to ensure compliance with CAM C-7/C-1, County travel policies, and IRS regulations and also consider whether the departments/agencies should provide detail supporting documentation of outstanding cash advances to facilitate A-C/Claims review.

Auditor-Controller Management Response:

Partially Concur. The Auditor-Controller will determine the appropriate review to be completed on the Petty Cash/Cash Reimbursement forms and fund reconciliation to ensure compliance with all procedures, policies, and regulations and will also consider whether departments/agencies should provide detail supporting documentation of outstanding cash advances by June 29, 2012.

Recommendation No. 18

We recommend that the Auditor-Controller clarify the CAM C-1 accounting procedure to include steps for departments/agencies to follow for implementing the Section 2.1.2 provision to deduct outstanding cash advances from amounts due to the employee; i.e. payroll garnishment.

Auditor-Controller Management Response:

Partially Concur. The Auditor-Controller will review the accounting procedure and consult with County Counsel regarding the appropriate steps that can be taken to deduct outstanding cash advances from amounts due to the employee by June 29, 2012.



ATTACHMENT D: Auditor-Controller - Department/Agency Management Responses (continued)

Peter Hughes, Director, Internal Audit Department
January 13, 2012
Page 2

Recommendation No. 19

We recommend that the Auditor-Controller consider adding a provision to the CAM C-1 *Cash Advances – Revolving Funds* accounting procedure prohibiting the issuance of subsequent travel cash advances to employees with outstanding cash advance claims.

Auditor-Controller Management Response:

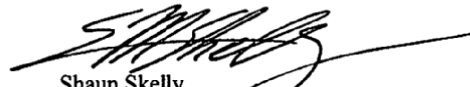
Concur. The Auditor-Controller will consider adding a provision to the accounting procedure prohibiting the issuance of subsequent travel cash advances to employees with outstanding cash advance claims as part of implementing Recommendation No. 20.

Recommendation No. 20

We recommend that the Auditor-Controller consider revising CAMs C-1 *Cash Advances – Revolving Funds* and C-7 *Revolving Cash Fund* to incorporate pertinent travel policies related to timeliness of claims submission, as noted above.

Auditor-Controller Management Response:

Concur. Auditor-Controller will update the procedure to include references to travel policies by June 29, 2012.



Shaun Skelly
Chief Deputy Auditor-Controller

VR

cc: Alan Marcum, Senior Audit Manager, Internal Audit Department
Jan Grimes, Director, A/C-Central Accounting Operations
Victoria Ross, A/C -Claims and Disbursing Manager



ATTACHMENT D: District Attorney - Department/Agency Management Responses



TONY RACKAUCKAS
DISTRICT ATTORNEY

RECEIVED
INTERNAL AUDIT DEPARTMENT

MEMO 2011 DEC -6 AM 10:00

OFFICE OF THE DISTRICT ATTORNEY

December 6, 2011

TO: ALAN MARCUM, SENIOR AUDIT MANAGER, INTERNAL AUDIT
FROM: LISA BOHAN-JOHNSTON, DIRECTOR, ADMINISTRATIVE SERVICES
SUBJECT: RESPONSES TO COUNTYWIDE AUDIT OF EMPLOYEE CASH ADVANCE

Listed below are the District Attorney's written responses to Recommendation Nos. 4, 7, and 13 of the Countywide audit of employee cash advance.

Recommendation No. 4

We recommend that the District Attorney ensure employees are submitting a *Mileage & Other Expenses Claim Form* within five (5) working days as required by CAM C-1 Section 2.2.1.

District Attorney Management Response

Concur. The District Attorney has already changed its current procedure effective November 1, 2011 by sending a notification email to employees on their last day of the travel event to request a *Mileage & Other Expenses Claim Form* be submitted by the 5th working day after completion of the travel event.

Recommendation No. 7

We recommend that the District Attorney ensure employees are submitting a *Mileage & Other Expenses Claim Form* within thirty (30) days from the end of the travel event as required by CAP 017-02 Section 18.6.1.

District Attorney Management Response

Concur. The District Attorney has already changed its current procedure effective November 1, 2011 by bringing to management attention any cash advances outstanding for more than five (5) working days after completion of the travel event to actively pursue for collection.

Recommendation No. 13

We recommend that District Attorney ensure the amount of outstanding cash advances is disclosed and certified on the *Petty Cash/Cash Reimbursement claim envelope* submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

District Attorney Management Response

Concur. The District Attorney already implemented this recommendation by including the amount of outstanding cash advances in its *Cash Reimbursement claim envelope* submitted to the Auditor-Controller department on November 3, 2011.

1



ATTACHMENT D: District Attorney - Department/Agency Management Responses (continued)

If you have any questions or need additional information, please feel free to contact me at (714) 347-8443 (email: lisa.bohan-johnston@da.ocgov.com) or Financial Services Manager Kim Dinh at (714) 347-8435 (email: kim.dinh@da.ocgov.com). Thank you.

cc: Kim Dinh/DA



ATTACHMENT D: OC Public Works - Department/Agency Management Responses



Jess A. Carbajal, Director
300 N. Flower Street
Santa Ana, CA
P.O. Box 4048
Santa Ana, CA 92702-4048
Telephone: (714) 834-2300
Fax: (714) 834-5188

Memorandum

DATE: December 21, 2011
TO: Dr. Peter Hughes, CPA, Director
Internal Audit Department
FROM: Jess A. Carbajal, Director, OC Public Works
SUBJECT: Response to Countywide Audit of Employee Cash Advances, Audit No. 1056

I am pleased to provide OC Public Works' response to the Internal Audit Department's Draft Report on the Countywide Audit of Employee Cash Advances. Our response has been reviewed and approved by the County Executive Office.

We will work closely with our Petty Cash and Auditor-Controller Claims teams to implement the Internal Audit Department's recommendation as indicated in our following response.

I would like to express my appreciation for the professionalism of the Internal Audit Department staff that conducted this audit.

Should you have any questions regarding OC Public Works' responses to the recommendations, or require additional information on these items, please contact Larry Stansifer at (714) 667-3286 or Tony Bernard at (714) 667-3209.

Thank you.

Attachment

- c: Alisa Drakodaidis, Deputy CEO, OC Infrastructure
Fred Neroni, Interim Director, Administrative Services, OC Public Works
Liz Jewell, Manager, Finance Services, Administrative Services, OC Public Works
Mary Fitzgerald, Manager, Accounting Services, Administrative Services, OC Public Works
Larry Stansifer, Manager, Administrative Services, OC Public Works
Tony Bernard, Manager, OC Fleet & Procurement Services, OC Public Works

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INTERNAL AUDIT DEPARTMENT
2011 DEC 22 AM 11:01



ATTACHMENT D: OC Public Works - Department/Agency Management Responses (continued)

Countywide Audit of Employee Cash Advances, Audit No. 1056
Page 2 of 2

OC Public Works Responses to the Internal Audit Department's Draft Report: Countywide Audit of Employee Cash Advances, Audit No. 1056

Recommendation No. 15

We recommend that OC Public Works ensure the amount of outstanding cash advances is disclosed and certified on the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

OC Public Works, OC Fleet Response:

Concur. OC Public Works will ensure the amount of outstanding cash advances is disclosed and certified on the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller Claims and Disbursing Section.



ATTACHMENT D: OC Waste & Recycling - Department/Agency Management Responses



Michael B. Giancola, Director
300 N. Flower Street, Suite 400
Santa Ana, CA 92703

www.oclandfills.com
Telephone: (714) 834-4000
Fax: (714) 834-4183

TO: Dr. Peter Hughes, MBA, CPA, CIA

CC: Michael Goodwin, Senior Audit Manager
Alan Marcum, Senior Audit Manager

FROM: Michael B. Giancola, Director
OC Waste & Recycling

DATE: December 30, 2011

SUBJECT: Response to Draft Report on the Countywide Audit of Employee Cash Advances (Audit No. 1056)

OC Waste & Recycling has prepared its response to the Draft Report on the Countywide Audit of Employee Cash Advances. The recommendation number used in your report references our response.

Recommendation No. 14

OC Waste & Recycling ensure the amount of outstanding cash advances is disclosed and certified on the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

OC Waste & Recycling Management Response:

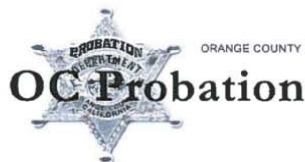
Concur. Effective immediately OCWR commenced disclosure and certification on the Petty Cash/Cash Reimbursement claim envelope submitted to Auditor-Controller Claims and Disbursing.

If you have any questions or follow-up questions please contact me or Dylan Wright at (714) 834-4137.


cc: Alisa Drakodaidis, Deputy CEO, OC Infrastructure
Dylan Wright, Deputy Director, Business Services OCWR
Alan Yuki, Manager, Budget & Purchasing Services OCWR



ATTACHMENT D: OC Probation - Department/Agency Management Responses



STEVEN J. SENTMAN
CHIEF PROBATION OFFICER
TELEPHONE: (714) 937-4500
1535 E. ORANGEWOOD AVENUE
ANAHEIM, CA
MAILING ADDRESS:
P. O. BOX 10260
SANTA ANA, CA 92711-0260

DATE: December 29, 2011
TO: Peter Hughes, Director of Internal Audit
FROM: Steven Sentman, Chief Probation Officer 
SUBJECT: Probation Department Response to the Countywide Audit of Employee Cash Advances

In response to the draft audit report Countywide Audit of Employee Cash Advances issued on October 31, 2011, below are the Probation Department responses to recommendations.

Recommendation No. 3 – We recommend that the Probation Department ensure employees are submitting a *Mileage & Other Expense Claim Form* within five (5) working days as required by CAM C-1 Section 2.2.1.

Concur - Probation will enhance our internal tracking system to ensure that claims are filed within the 5-day period as required by CAM C-1 Section 2.2.1

Recommendation No. 11 – We recommend that Probation ensure the amount of outstanding cash advances is disclosed and certified on the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller claims and Disbursing Section in accordance with CAM C-1 Sections 2.6 and 2.8 requirements.

Concur – Probation will implement an additional review process to ensure that the claim envelope is completed and submitted in compliance with CAM C-1 Sections 2.6 and 2.8.

If you have any questions regarding these responses, please contact Brian Wayt at (714) 937-4728. Thank you.

SJS:bw



ATTACHMENT D: Sheriff-Coroner - Department/Agency Management Responses



**SHERIFF-CORONER DEPARTMENT
COUNTY OF ORANGE
CALIFORNIA**

SANDRA HUTCHENS
SHERIFF-CORONER

January 4, 2011

Dr. Peter Hughes, CPA
Director of Internal Audit
Hall of Finance & Records
12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

RECEIVED
INTERNAL AUDIT DEPARTMENT
2012 JAN 11 AM 11:43

RE: Sheriff-Coroner Response to the Revised Draft Report on Countywide Audit of Employee Cash Advances—Audit No. 1056

Dear Dr. Peter Hughes:

We are providing this letter in response to the Revised Draft Report of the Countywide Employee Cash Advances Audit No. 1056 at April 30, 2011. The audit resulted in four (4) Significant Control Weaknesses and five (5) Control Findings for the Sheriff-Coroner. The finding, recommendations, and Sheriff-Coroner responses are noted below:

Finding Nos. 1-4 – Expense Claims Not Submitted Within 5 Working Days-Noncompliance with CAM C-1 Cash Advances-Revolving Funds Section 2.2.1 (Significant Control Weakness)

Recommendation No. 1:

We recommend that the Sheriff-Coroner ensure employees are submitting a Mileage & Other Expense Claim Form within five (5) working days as required by CAM C-1 Section 2.2.1.

Sheriff-Coroner Management Response:

Concur. A handout was developed which summarizes the procedures to close out travel cash advances. This document is distributed to staff upon receiving their cash advances. Financial Operations staff performs follow-up if the cash advances are not cleared within five days of the date of return from travel.

Finding Nos. 5-7 – Expense Claims Not Submitted Within 30 Days- Noncompliance with CAP 017-02 County Business Travel and Reimbursement of Related Expenses Policy and BOS Resolution #05-265 Expense & Reimbursement Policy for Elected Officials (Significant Control Weakness)

Recommendation No. 5:

We recommend that the Sheriff-Coroner ensure employees are submitting a Mileage & Other Expense Claim Form within thirty days from the end of the travel event as required by CAP 017-02 Section 18.6.1.

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Sheriff-Coroner Management Response:

Concur. A reminder of the procedures will be distributed department wide. The Travel Unit now actively monitors the status of outstanding cash advances and now contacts those individuals who have not submitted their travel claims within five days of the date of return from travel. Claims more than 15 days delinquent are now brought to the attention of management. Employees with travel cash advances outstanding more than 30 days after the date of return from travel are now reported to the Sheriff in accordance with County policy.

Finding Nos. 8-9 – Taxable Compensation-Noncompliance with CAP 017-02 County Business Travel and Reimbursement of Related Expenses Policy and IRS Code 1.62-2 Reimbursements and other Expense Allowance Arrangements (Significant Control Weakness)

Recommendation No. 8:

We recommend that the Sheriff-Coroner ensure that, if travel expenses are not substantiated by the employee within 60 days of the completion of the travel event, the appropriate steps are taken to treat the amount as compensation to the employee subject to withholding and payment of taxes as required by IRS Code Section 1.62-2 and CAP 017-02 Section 18.6.

Sheriff-Coroner Management Response:

Concur. The Auditor-Controller will be notified of all travel expenses that are not substantiated by the employee within 60 days of the completion of the travel event.

Finding Nos. 10-15 – Disclosure and Certification of Outstanding Advances-Noncompliance with CAM C-1 Cash Advances- Revolving Funds Sections 2.6 and 2.8 (Control Finding)

Recommendation No. 10:

We recommend that the Sheriff-Coroner ensure the amount of outstanding cash advances is disclosed and certified on the Petty Cash/Cash Reimbursement claim envelope submitted to the Auditor-Controller Claims and Disbursing Section in accordance with CAM C-1 Sections 2.6. and 2.8 requirements.

Sheriff-Coroner Management Response:

Concur. Staff authorized to sign the Petty Cash/Cash Reimbursement claim envelopes have been instructed to include the amount of outstanding cash advances on the envelopes submitted to the Auditor-Controller Claims and Disbursing Section.

Finding No. 17 – Certification of No Advances Outstanding-Noncompliance with CAM C-1 Cash Advances- Revolving Funds Section 2.6 (Significant Control Weakness)

Recommendation No. 17:

We recommend that the Sheriff-Coroner inform the department head of cash advances outstanding for more than 30 days after the completion of the travel event and ensure outstanding cash advances are being actively pursued for collection at the earliest possible time in accordance with CAM C-1 Section 2.6 requirements.

Sheriff-Coroner Management Response:

Concur. All cash advances outstanding for more than 30 days after completion of the travel event are now brought to the attention of the Sheriff.



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Finding No. 21 – Cash Repayment of Unused Cash Advances-Noncompliance with CAM C-1 Cash Advances- Revolving Funds Section 2.3 (Control Finding)

Recommendation No. 21:

We recommend that the Sheriff-Coroner ensure repayment on unused cash advances are made in the form of a personal check as required by CAM C-1 Section 2.3 or consult with Auditor-Controller to determine alternative acceptable procedures.

Sheriff-Coroner Management Response:

Concur. After seeing this recommendation, Sheriff staff discussed this procedure with Auditor-Controller management regarding alternative acceptable procedures. The vast majority of travel claims that require the return of funds involve prisoner transportation by deputy sheriffs. Most sworn staff is opposed to disclosing their personal information such as home addresses and phone numbers out of safety concerns. With that new information, the Auditor-Controller has agreed to revise this procedure and we will continue to accept cash payments.

Finding No. 22 – Revolving Fund Custodian Was Not Completing the Cash Advance Request Form-Noncompliance with CAM C-1 Cash Advances- Revolving Funds Section 2.4 (Control Finding)

Recommendation No. 22:

We recommend that the Sheriff-Coroner ensure the revolving fund custodian immediately document the receipt of Mileage and Other Expenses Claim forms and the receipt and amount of repayment of unused cash advances on the Cash Advance Request form as required by CAM C-1 Section 2.4.

Sheriff-Coroner Management Response:

Concur. Procedures have been recently implemented to document when the claims are received as well as the repayment of any related unused cash advances.

Finding No. 23 – Untimely Deposits-Noncompliance with CAM C-1 Cash Advances- Revolving Funds Section 2.4 (Control Finding)

Recommendation No. 23:

We recommend that the Sheriff-Coroner ensure the revolving fund custodian immediately verifies and documents the receipt of repayments of unused cash advances and deposits the repayments in the bank account in a timely manner as required by CAM C-1 Section 2.4.

Sheriff-Coroner Management Response:

Concur. This function has been given a higher priority among existing staff; however, it was not done timely in the past due to staffing shortages. Procedures have been implemented to ensure that all travel claims involving the repayment of any related unused cash advances are verified immediately upon receipt and the funds promptly deposited in the bank as required by CAM C-1 Section 2.4.

Finding No. 24 – Expense Claims Dated Incorrectly-Noncompliance with CAM C-1 Cash Advances- Revolving Funds Section 2.2.1 (Control Finding)

Recommendation No. 24:

We recommend that the Sheriff-Coroner ensure employee date the Mileage and Other Expenses Claim form with the date the claim is submitted along with all required supporting documentation and any repayment of unused cash advance, to ensure compliance with CAM C-1, Section 2.2.1.



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Sheriff-Coroner Management Response:

Concur. A reminder of the procedures will be distributed to staff department wide.

We appreciate the time taken by you and your staff to make recommendations which will help us to improve our Employee Cash Advance process. Thanks for the professionalism of those who conducted the audit. As you can see, we have already implemented changes to address most of the recommendations and I look forward to your follow-up audit to assess the effectiveness of those changes.

If you have any questions, please contact me at (714) 647-1800 or Senior Director Jane Reyes Administrative Services Command at (714) 834-6680.

Sincerely,


Sandra Hutchens
Sheriff-Coroner 

cc: Executive Director Rick Dostal, Administrative Services Command
Senior Director Jane Reyes, Administrative Services Command
Noma M. Crook-Williams, Assistant Director, Financial/Administrative Services Division
Sharon Tabata, Financial Officer, Financial/Administrative Services Division
Jeff Franzen, Financial Operations Manager, Financial/Administrative Services Division
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