



# INTERNAL AUDIT DEPARTMENT



*Image courtesy of the Orange County Sheriff's Department*

## Internal Control Audit: Sheriff-Coroner Billing of Law Enforcement Services for Harbor Patrol & Airport Police Services

As of November 30, 2018

Audit No. 1632  
Report Date: June 18, 2019

### Number of Recommendations

0

Critical Control  
Weaknesses

1

Significant Control  
Weaknesses

2

Control Findings

## OC Board of Supervisors

Chairwoman Lisa A. Bartlett  
5th District

Vice Chair Michelle Steel  
2nd District

Supervisor Andrew Do  
1st District

Supervisor Donald P. Wagner  
3rd District

Supervisor Doug Chaffee  
4th District



# INTERNAL AUDIT DEPARTMENT

Internal Control Audit:  
 Sheriff-Coroner  
 Billing of Law Enforcement Services for Harbor Patrol and Airport Police Services

June 18, 2019

## AUDIT HIGHLIGHTS

|   |   |                             |   |                              |   |                  |  |
|---|---|-----------------------------|---|------------------------------|---|------------------|--|
| SCOPE OF WORK   | Perform an Internal Control Audit of Sheriff-Coroner's (OCSD) billing of law enforcement services for Harbor Patrol and Airport Police Services for the year ended November 30, 2018.   |                             |   |                              |   |                  |  |
| RESULTS   | <ul style="list-style-type: none"> <li>We concluded that OCSD's internal control over the billing process was generally effective to ensure billing transactions are complete, accurate, valid, and processed timely in the County's financial system.</li> <li>We concluded that business processes were generally efficient as related to the billing of law enforcement services for Harbor Patrol and Airport Police Services.</li> </ul> |                             |   |                              |   |                  |  |
| RISKS IDENTIFIED  | <p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> <li>Inadequate security over personally identifiable information.</li> <li>Inappropriate changes or access to the Sheriff payroll system.</li> <li>Inaccurate billing.</li> </ul>   |                             |   |                              |   |                  |  |
| <p>NUMBER OF RECOMMENDATIONS</p> <table border="1" data-bbox="99 1381 391 1688"> <tr> <td data-bbox="99 1381 201 1478">0</td> <td data-bbox="201 1381 391 1478">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1478 201 1583">1</td> <td data-bbox="201 1478 391 1583">SIGNIFICANT CONTROL WEAKNESS</td> </tr> <tr> <td data-bbox="99 1583 201 1688">2</td> <td data-bbox="201 1583 391 1688">CONTROL FINDINGS</td> </tr> </table> | 0   | CRITICAL CONTROL WEAKNESSES | 1 | SIGNIFICANT CONTROL WEAKNESS | 2 | CONTROL FINDINGS | <p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> <li>Prioritize the replacement or upgrade of the Sheriff payroll system.</li> <li>Segregate database administrator duties for the Sheriff payroll system.</li> <li>Create written policy and procedures for evaluating billing rates.</li> </ul> |
| 0   | CRITICAL CONTROL WEAKNESSES   |                             |   |                              |   |                  |  |
| 1   | SIGNIFICANT CONTROL WEAKNESS  |                             |   |                              |   |                  |  |
| 2   | CONTROL FINDINGS  |                             |   |                              |   |                  |  |

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

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Audit No. 1632

June 18, 2019

To: Don Barnes  
Sheriff-Coroner

From: Aggie Alonso, CPA, CIA, CRMA  
Internal Audit Department Director

Subject: Internal Control Audit: Sheriff-Coroner  
Billing of Law Enforcement Services for Harbor Patrol and Airport Police Services

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We have completed an Internal Control Audit of the Sheriff-Coroner's (OCSD) billing of law enforcement services for Harbor Patrol and Airport Police Services for the year ended November 30, 2018. Due to the sensitive nature of specific findings (restricted information), only the results for Finding Nos. 2 and 3 immediately follow this letter. Results for the remaining finding is included in Appendix A (which is redacted from public release) and additional information including background and our objectives, scope, and methodology are included in Appendix B.

OCSD concurred with all of our recommendations and the Internal Audit Department considers OCSD's management response appropriate to the recommendations in this report.

Results of this audit will be included in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. Additionally, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by OCSD personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442, or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Sheriff-Coroner Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Vavrinek, Trine, Day & Co., LLP, County External Auditor

## INTERNAL AUDIT DEPARTMENT

## RESULTS

|  |   |
|--|---|
| <b>BUSINESS PROCESS &amp; INTERNAL CONTROL STRENGTHS</b> | <p>Business process and internal control strengths noted during our audit include:</p> <ul style="list-style-type: none"> <li>✓ Billings are processed timely.</li> <li>✓ An annual Cost Apply Agreement between OCSD and the recipient department is signed by both parties.</li> <li>✓ OCSD has internally developed written policy and procedures for the payroll process, which helps ensure costs are accurately recorded and billed.</li> <li>✓ A cost study is performed annually to apply the department overhead rate for the fiscal year.</li> <li>✓ Allocations are calculated automatically via spreadsheet.</li> <li>✓ Journal vouchers and supporting documentation are reviewed and approved by management.</li> <li>✓ CEO's updated allocation methodology for Harbor Patrol billings, effective FY 2018-19, has been implemented by OCSD.</li> </ul> |
| <b>FINDING NO. 1</b>                                     | Removed due to the sensitive nature of the finding.   |
| <b>FINDING NO. 2</b>                                     | <p><b>Segregation of Duties</b></p> <p>The database administrator for the Sheriff payroll system is the Payroll Manager. Proper segregation of duties requires that any end-user of a system not have any administration responsibilities over that system.</p>   |
| <b>CATEGORY</b>  | <b>Control Finding</b>  |
| <b>RISK</b>  | Inadequate segregation of duties increases the risk of inappropriate changes being made to the payroll system (e.g., adding unauthorized users) without detection.  |
| <b>RECOMMENDATION</b>                                    | OCSD adequately segregate duties by assigning database administration responsibilities for the Sheriff payroll system to an employee without payroll responsibilities.  |



INTERNAL AUDIT DEPARTMENT

|                            |   |
|----------------------------|---|
| <b>MANAGEMENT RESPONSE</b> | <p><b>Concur.</b> Database administration responsibilities have been reassigned to the Assistant Director Financial/Administrative Services to ensure proper segregation of duties.</p> <p>Implemented April 4, 2019</p>  |
| <b>FINDING NO. 3</b>       | <p><b>Billing Policy and Procedures</b></p> <p>OCSD has a practice in place to ensure law enforcement services fees are evaluated annually. However, written policy and procedures (P&amp;Ps) have not been established formalizing this practice and there are no written P&amp;Ps to identify the frequency of the evaluation to determine if the existing rate should be revised, and to ensure:</p> <ul style="list-style-type: none"> <li>• The final decision to revise the fees or rates is communicated timely and properly after they are officially approved by executive management.</li> <li>• The allocation base is verified and updated timely.</li> <li>• Costs are allocated equitably and consistently.</li> </ul> <p>OCSD management informed us they are in the process of creating these written P&amp;Ps.</p> |
| <b>CATEGORY</b>            | <b>Control Finding</b>  |
| <b>RISK</b>                | <p>Not having documented policy and procedures could result in inconsistent calculations for billing rates or department management directives not being followed. This also increases the risk of inappropriate or inaccurate billing rates, leading to over- or under-recovery of costs.</p>  |
| <b>RECOMMENDATION</b>      | <p>OCSD establish written policy and procedures that address the evaluation, frequency and timeliness of revision, communication, and calculation methods of billing rates.</p>   |
| <b>MANAGEMENT RESPONSE</b> | <p><b>Concur.</b> We are in the process of developing written policies and procedures that documents our process of full cost recovery. Services are billed based on actual costs and allocations are updated annually based on call statistics for the Harbor Patrol billing.</p> <p>Anticipated to be completed by November 30, 2019</p>  |



**INTERNAL AUDIT DEPARTMENT**

**AUDIT TEAM**

Scott Suzuki, CPA, CIA, CISA  
Michael Dean, CPA, CIA, CISA  
Zan Zaman, CPA, CIA  
Gianne Acosta, CIA

Assistant Director  
Senior Audit Manager  
Audit Manager  
Audit Manager



**APPENDIX A: RESTRICTED INFORMATION**

Content in Appendix A has been removed from this report due to the sensitive nature of the specific findings.





## INTERNAL AUDIT DEPARTMENT

## APPENDIX B: ADDITIONAL INFORMATION

|                                |  |
|--------------------------------|--|
| <b>OBJECTIVES</b>              | <p>Our audit objectives were to:</p> <ol style="list-style-type: none"> <li>1. Evaluate effectiveness of internal control over the billing process to ensure billing of law enforcement services for Harbor Patrol and Airport Police Services is complete (recorded/reported), accurate, valid (authorized), and processed timely in the County's financial system.</li> <li>2. Review the billing processes for efficiency.</li> </ol>   |
| <b>SCOPE &amp; METHODOLOGY</b> | <p>Our audit scope was limited to internal control over OCSD's billing of law enforcement services for Harbor Patrol and Airport Police Services for the year ended November 30, 2018. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>  |
| <b>EXCLUSIONS</b>              | <p>Our audit scope did not include a review of billing rates developed for OCSD by the CEO nor the reimbursement of charges billed.</p>  |
| <b>PRIOR AUDIT COVERAGE</b>    | <p>We have not issued any audit reports for OCSD with a similar scope within the last ten years.</p>   |
| <b>BACKGROUND</b>              | <p>OCSD's Field Operations &amp; Investigative Services Command provides patrol services to all unincorporated areas of the County and to 17 independent entities. The command also manages the following divisions: Airport Operations, North Operations, Southeast Operations, Southwest Operations, and Homeland Security.</p> <p>The Airport Operations Division provides law enforcement and security services at John Wayne Airport. Primary responsibilities include airport security, enforcement of applicable laws, parking/traffic control, lost &amp; found property management, response to medical emergencies, and assisting citizens conducting business at the airport.</p> <p>The Harbor Patrol/Marine Operations Bureau is part of the Homeland Security Division. The bureau provides around-the-clock law enforcement, marine firefighting and search/rescue services along the 48 miles of Orange County coastline and within the county's three major harbors at Newport Beach, Sunset-Huntington, and Dana Point.</p> <p>Total billings for FY 2017-18 law enforcement services were <b>\$16,744,500</b> for John Wayne Airport and <b>\$12,865,500</b> for Harbor Patrol.</p> |





## INTERNAL AUDIT DEPARTMENT

|   |   |
|---|---|
| <b>PURPOSE &amp; AUTHORITY</b>                          | We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2018-19 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).   |
| <b>PROFESSIONAL STANDARDS</b>                           | Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.  |
| <b>FOLLOW-UP PROCESS</b>                                | <p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p> |
| <b>MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL</b> | 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 internal controls is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.              |
| <b>INTERNAL CONTROL LIMITATIONS</b>                     | Because of inherent limitations in any system of internal control, 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 department's operating procedures, accounting practices, and compliance with County policy.   |



APPENDIX C: REPORT ITEM CLASSIFICATIONS

| Critical Control Weaknesses   | Significant Control Weaknesses   | Control Findings  |
|---|--|---|
| <p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address <b>Critical Control Weaknesses</b> brought to its attention immediately.</p> | <p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. <b>Significant Control Weaknesses</b> require prompt corrective actions.</p> | <p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. <b>Control Findings</b> are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p> |



INTERNAL AUDIT DEPARTMENT

APPENDIX D: SHERIFF-CORONER MANAGEMENT RESPONSE

ORANGE COUNTY SHERIFF'S DEPARTMENT

EXTERNAL MEMO



*[Handwritten signature]*

**TO:** Director Aggie Alonso, Internal Audit Department

**FROM:** Director Noma M. Crook, Financial Administrative Services Division

**DATE:** May 29, 2019

**RE:** Internal Control Audit: Sheriff-Coroner  
Billing of Law Enforcement Services for Harbor Patrol and Airport Police Services #1632

Enclosed is the Sheriff – Coroner’s response to the Draft Report - Billing of Law Enforcement Services for Harbor Patrol and Airport Police Services, Audit #1632.

If you have any questions or require additional information please contact me at (714) 834-6681 or Monique Vansuch at (714) 834-3201.

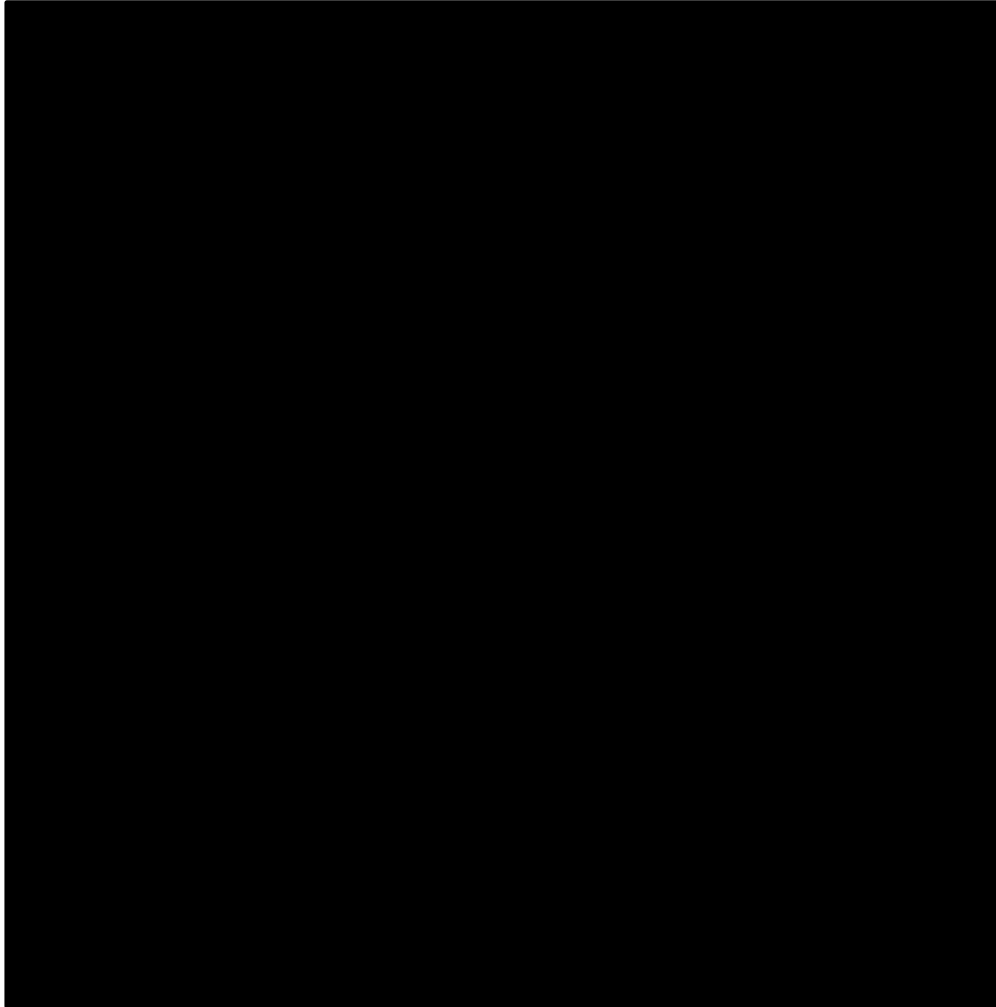
- c: Executive Director Brian Wayt, Administrative Services Command
- Senior Director Robert Beaver, Administrative Services Command
- Assistant Audit Director, Scott Suzuki, Internal Audit Department
- Michael Dean, Senior Audit Manager, Internal Audit Department
- Sharon Tabata, Assistant Director, Financial Administrative Services Division
- Lisa Watanabe, Financial Officer, Financial Administrative Services Division
- Diane Ramos, Payroll Manager, Financial Administrative Services Division
- Linh Vuong, Cost/Audit Manager, Financial Administrative Services Division
- Zan Zaman, Audit Manager I, Internal Audit Department
- Gianne Acosta, Audit Manager I, Internal Audit Department

Integrity without compromise | Service above self | Professionalism in the performance of duty | Vigilance in safeguarding our community



**Billing of Law Enforcement Services for Harbor Patrol and Airport Police Services #1632  
Sheriff-Coroner Response**

**Finding # No. 1:**



**Finding No. 2:**

**Segregation of Duties**

The database administrator for the [REDACTED] payroll system is the Payroll Manager. Proper segregation of duties requires that any end-user of a system not have any administration responsibilities over that system.

**Recommendation:**

We recommend OCSD adequately segregate duties by assigning database administration responsibilities for the [REDACTED] payroll system to an employee without payroll responsibilities.

**Response:**

Concur. Database administration responsibilities have been reassigned to the Assistant Director Financial/Administrative Services to ensure proper segregation of duties.

Implemented April 4, 2019

**Finding No. 3:**

**Billing Policy and Procedures**

OCSD has a process in place to ensure law enforcement services fees are evaluated annually. This process identifies the frequency of the evaluation to determine if the existing rate should be revised, and ensures:

- The final decision to revise the fees or rates for Harbor and Airport police services is communicated timely and properly after they are officially approved by executive management.
- The allocation base for Harbor costs is verified and updated timely.
- Costs for Harbor Patrol are allocated equitably and consistently.

However, written policy and procedures (P&Ps) for this process have not been established. OCSD management informed us they are in the process of creating these written P&Ps.

**Recommendation:**

We recommend OCSD establish written policy and procedures that address the evaluation, frequency and timeliness of revision, communication, and calculation methods of billing rates.

**Response:**

Concur. We are in the process of developing written policies and procedures that documents our process of full cost recovery. Services are billed based on actual costs and allocations are updated annually based on call statistics for the Harbor Patrol billing.

Anticipated to be completed by November 30, 2019