



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: OC Community Resources Payroll Process

For the Year Ended September 30, 2018

Audit No. 1813
Report Date: June 20, 2019

Number of Recommendations

0

Critical Control
Weaknesses

0

Significant Control
Weaknesses

1

Control Finding

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:
OC Community Resources Payroll Process

June 20, 2019

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of OC Community Resources (OCCR) payroll process for the year ended September 30, 2018.
RESULTS	<ul style="list-style-type: none"> We concluded that OCCR's internal control over the payroll process was generally effective to ensure payroll (including payroll changes and premium pay) was complete, accurate, valid, timely, and in accordance with department procedures and management's authorization. We concluded that the payroll process was generally efficient.
RISKS IDENTIFIED	<p>As a result of our finding, a potential risk is:</p> <ul style="list-style-type: none"> Unauthorized changes to payroll and access to sensitive data.
NUMBER OF RECOMMENDATIONS	<p>An opportunity for enhancing internal control is:</p> <ul style="list-style-type: none"> Perform periodic review of Virtual Timecard Interface user access and maintain access to only authorized personnel.
0	CRITICAL CONTROL WEAKNESSES
0	SIGNIFICANT CONTROL WEAKNESSES
1	CONTROL FINDING

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



INTERNAL AUDIT DEPARTMENT

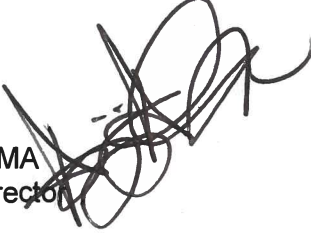
Audit No. 1813

June 20, 2019

To: Dylan Wright, Director
OC Community Resources

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

Subject: Internal Control Audit:
OC Community Resources Payroll Process



We have completed an Internal Control Audit of OC Community Resources' (OCCR) payroll process for the year ended September 30, 2018. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCCR concurred with our recommendation and the Internal Audit Department considers OCCR's management response appropriate to the recommendation 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 OCCR's 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
- CEO Distribution
- OC Community Resources Distribution
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Vavrinek, Trine, Day & Co., LLP, County External Auditor

INTERNAL AUDIT DEPARTMENT

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

Business process and internal control strengths noted during our audit include:

- ✓ The department follows Auditor-Controller (A-C) policy and procedures, as well as internal procedures for processing payroll.
- ✓ Personnel, timekeeping, and payroll processing duties are properly segregated.
- ✓ Employee timecards are certified online, approved by the supervisor, and workflowed through the automated Virtual Timecard Interface (VTI) system.
- ✓ Missing Timecards reports are run in VTI to track missing timecards. A final Missing Timecards report is run to ensure all timecards are submitted prior to final upload.
- ✓ Reminder e-mails are sent to supervisors in case of missing timecards to meet payroll deadlines.
- ✓ Errored Timecards reports are run to account for timecard errors automatically detected by VTI. A final Errored Timecards report is run to ensure all errors are resolved prior to final upload to A-C Information Technology (A-C IT).
- ✓ Timecard errors are investigated and resolved by obtaining supporting documentation or contacting the employee's supervisor and obtaining written authorization.
- ✓ Timecard Audit reports are reviewed by the Payroll Supervisor to monitor for unauthorized changes to payroll.
- ✓ The Hours by Pay Code report is reviewed regularly for several pay codes.
- ✓ An Upload Summary report is reviewed prior to the final upload that lists the count of all employees from all pay locations and type of pay codes used.
- ✓ Timecards are uploaded timely to A-C IT on a bi-weekly basis.
- ✓ A monthly reconciliation is prepared to ensure payroll transactions are properly recorded.



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FINDING No. 1	<p>VTI User Access</p> <p>Three employees retained VTI “Payroll Clerk” and “Group Admin” user roles when access was no longer required. One of the employees has left the department and the remaining two are no longer in the Payroll unit.</p> <p>Upon notification from Internal Audit, OCCR removed “Payroll Clerk” and “Group Admin” user roles from the three employees.</p>
CATEGORY	Control Finding
RISK	<p>Not updating user roles when employees no longer require access increases the risk of unauthorized access to VTI, which can result in unauthorized changes to payroll and access to sensitive data, such as employee information, leave balances, etc.</p>
RECOMMENDATION	<p>OCCR perform periodic reviews of VTI user access and maintain access to only authorized personnel.</p>
MANAGEMENT RESPONSE	<p>Concur. OCCR's Payroll Team staffed by Auditor-Controller is developing an internal process for: (a) identifying the positions that perform the payroll function, including assigned users such as VTI Payroll Clerk and Group Admin; (b) monitoring the roster of identified positions at least quarterly to ensure that assigned users are current and remain authorized for access to VTI; and (c) making appropriate changes if previously assigned users have left the department or have been reassigned elsewhere within the department. This recommendation is expected to be implemented by August 1, 2019. Auditor-Controller recently integrated VTI access provisioning into its Access Request Application (ARA), which will support efforts to monitor access.</p>

AUDIT TEAM	<p>Scott Suzuki, CPA, CIA, CISA Michael Dean, CPA, CIA, CISA Gianne Acosta, CIA Stephany Pantigoso</p>	<p>Assistant Director Senior Audit Manager Audit Manager Senior Auditor</p>
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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> 1. Assess internal control over payroll processing (including payroll changes and premium pay) to ensure payroll is complete, accurate, valid, timely, and in accordance with department procedures and management’s authorization. 2. Review the payroll process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over OCCR’s payroll process for the year ended September 30, 2018. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of controls over Human Resources functions or systems used to process payroll. Additionally, we did not review processes pertaining to payroll withholdings, disbursements to other agencies, check printing, timekeeping, or payroll information system controls.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for OCCR with a similar scope within the last ten years.</p>
BACKGROUND	<p>OCCR’s payroll is performed by the Payroll team under the OCCR Accounting Unit staffed by the Auditor-Controller. OCCR uses Virtual Timecard Interface (VTI) to process payroll on a bi-weekly basis for approximately 1,060 employees.</p> <p>During the audit period, total gross pay for OCCR employees was approximately \$91 million.</p>



INTERNAL AUDIT DEPARTMENT

PURPOSE & AUTHORITY	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).
PROFESSIONAL STANDARDS	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.
FOLLOW-UP PROCESS	<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>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	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.
INTERNAL CONTROL LIMITATIONS	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 B: 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 Critical Control Weaknesses 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. Significant Control Weaknesses 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. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



APPENDIX C: OC COMMUNITY RESOURCES MANAGEMENT RESPONSE



May 28, 2019

DYLAN WRIGHT
DIRECTOR
OC COMMUNITY RESOURCES

CYMANTHA ATKINSON
DEPUTY DIRECTOR
OC COMMUNITY RESOURCES

MIKE KAVIANI
DIRECTOR
OC ANIMAL CARE

SHANNON LEGERE
DIRECTOR
OC HOUSING & COMMUNITY
DEVELOPMENT & HOMELESS
SERVICES

RENEE RAMIREZ
DIRECTOR
OC COMMUNITY SERVICES

STACY BLACKWOOD
DIRECTOR
OC PARKS

SHERRY TOTH
ACTING COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

Aggie Alonso, CPA, Director
Internal Audit Department

Dear Mr. Alonso

RE: Draft Internal Audit Report No. 1813.

On March 25, 2019, OC Community Resources (OCCR) received a copy of the Internal Audit Department's draft report for Audit No 1813 (Audit). Below please find OCCR's response to the audit finding and recommendation, which has been reviewed and approved by the County Executive Office.

Finding No. 1. VTI User Access (Control Finding)

Recommendation No. 1:

We recommend OCCR perform periodic reviews of VTI user access and maintain access to only authorized personnel.

OCCR Management Response:

Concur. OCCR's Payroll Team staffed by Auditor-Controller is developing an internal process for: (a) identifying the positions that perform the payroll function, including assigned users such as VTI Payroll Clerk and Group Admin; (b) monitoring the roster of identified positions at least quarterly to ensure that assigned users are current and remain authorized for access to VTI; and (c) making appropriate changes if previously assigned users have left the department or have been reassigned elsewhere within the department. This recommendation is expected to be implemented by August 1, 2019. Auditor-Controller recently integrated VTI access provisioning into its Access Request Application (ARA), which will support efforts to monitor access.

If you have any questions related to this response, please contact Jeff Kirkpatrick at 714-480-2849.

Sincerely,



Dylan Wright, Director
OC Community Resources

5/28/19

Date



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