INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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REVIEW OF PUBLIC DEFENDER BUDGET PROCESS & CONTROLS

AUDIT NUMBER: 2438-1 REPORT DATE: APRIL 27, 2005

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

Review of Public Defender
Budget Process & Controls
Audit No. 2438-1

As of December 31, 2004

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Transmittal Letter

Audit No. 2438-1

April 27, 2005

TO: Deborah A. Kwast
Public Defender

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

SUBJECT: Review of Public Defender Budget Process & Controls

We have completed a review of the County budget process in the Public Defender as of December 31, 2004. Our final **Internal Auditor's Report** follows this transmittal letter.

As the Director of the Internal Audit Department, effective December 14, 2004, I now make a monthly audit status presentation to the BOS where I detail any material and significant audit findings released in reports during the prior month, the implementation status of audit recommendations as disclosed by our Follow-Up Audits, any pressing audit or resource issues; as well as, respond to inquiries from the BOS. Therefore, the results of this audit will be included in a future summary to the Board.

Additionally, we will be sending a Customer Survey of Audit Services to the key audit contacts in your department. Please have them complete the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department.

We appreciate the cooperation and assistance extended to us by the budget personnel and management in the Public Defender.

Attachment

Other recipients of this report:
- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Foreman, Grand Jury
- Thomas G. Mauk, County Executive Officer
- Ed Corser, Deputy CEO, Chief Financial Officer
- Steve Dunivent, Manager, CEO/Budget Office
- Darlene J. Bloom, Clerk of the Board of Supervisors
- Becky Juliano, Manager of Administration, Public Defender

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INTERNAL AUDITOR'S REPORT

Audit No. 2438-1

April 27, 2005

Deborah A. Kwast
Public Defender
14 Civic Center Plaza
Santa Ana, CA 92701-4029

We have completed a review of the County budget process in the Public Defender. Our review was as of December 31, 2004 and included an evaluation of processes and controls for developing and monitoring department/agency budgets. The purpose of our review was to assess the budget process and controls at a sample of departments and agencies. This review is a continuation of our efforts to review the County budget process. Our prior audits of the County budget process included a review of the CEO/Budget Office, Auditor-Controller/Revenue and Budgets, and RDMD's Planning and Development Services Function (formerly Planning and Development Services Department), where a fund deficit occurred in June 2002 resulting from budget related issues.

SCOPE AND OBJECTIVES

Our review of the budget process was performed in the **Health Care Agency**, **Public Defender**, **Sheriff-Coroner Department** and the **Social Services Agency**. Our objective was to assess the process and controls regarding the development, review, approval, and monitoring of the FY 2004/05 budget to ensure budget issues are adequately understood and communicated within the organization, and are also reported to the County Executive Office. As such, we assessed management's reviews and approvals of budget documents and reports. Additionally, we evaluated the training processes for individuals responsible for department/agency budgets. Our review did not evaluate the process and controls in the CEO/Budget Office and Auditor-Controller/Revenue and Budgets, or the Budgeting Reporting and Analysis Support System (BRASS) used to create and compile budgets.

CONCLUSION

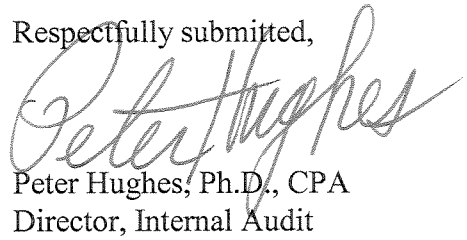
We are pleased to report that the process and controls in the Public Defender demonstrated **a well-defined and articulated budget process**. Our review of the budget process at the Public Defender **did not identify any reportable, significant or material issues.** Most noteworthy, we found that budget roles and responsibilities in the Public Defender are clearly established, and that communications within the Public Defender and with the County Executive Office are taking place and are effective. Budgets are being monitored regularly and there are adequate training and cross-training processes to minimize any potential disruptions in preparing and monitoring the Public Defender budget.

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

Although this report does not have any audit recommendations, as always, the Internal Audit Department is available to partner with you so that you 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.

We appreciate the cooperation and assistance extended to us by the staff of the CEO/Budget Office, Auditor-Controller/Revenue and Budgets, and especially from budget personnel and management in the Public Defender.

Respectfully submitted,



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

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
Members, Audit Oversight Committee
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
Ed Corser, Deputy County Executive Officer, Chief Financial Officer
Steve Dunivent, Manager, CEO/Budget Office
Becky Juliano, Manager of Administration, Public Defender

EXECUTIVE SUMMARY

We conducted a review of the budget process in the Public Defender as of December 31, 2004.

BACKGROUND

All departments/agencies prepare annual budget requests (budgets) that are submitted to the CEO/Budget Office and the Auditor-Controller for review, and ultimately to the Board of Supervisors for adoption in the County's Final Budget. Departments/agencies have primary responsibility over their budget preparation and monitoring processes. Depending on their size, departments/agencies have from one to several Budget Analysts and support staff to prepare and monitor their budgets. CEO/Budget Office provides departments/agencies with Budget Instructions and Budget Calendars for preparing their annual budgets.

CEO/Budget Office also establishes County budget policies, ensures adherence with the Budget Instruction Manual, and maintains the Budget Reporting and Analysis Support System (BRASS) used to create and compile budgets. CEO/Budget Office provides oversight of department/agency budgets by reviewing budget requests, augmentations, revenue and expenditure projections, variance analyses, and providing assistance to departments/agencies. Auditor-Controller/Revenue and Budgets also performs budget review and support responsibilities.

The Public Defender had two budgeted funds **totaling $47.8 million** for FY 2004/05 as follows:

Fund	Number	Budgeted Amount
General Fund	100/058	$47.7 million
Delta Special Revenue	15N	$51, 073

The Public Defender consists of three separate and distinct law offices: the Public Defender, the Alternate Defender, and the Associate Defender. The budget team consists of the Budget Manager (Manager of Administration), and one Budget Analyst. Approximately 93% of the budget is composed of salaries and benefits; the remaining 7% are for services and supplies.

OBJECTIVES

Our review assessed the process and controls at the Public Defender for the following:

- **Development, Review and Approval of the Budget for FY 04/05.**
  We evaluated the roles and responsibilities of budget staff and management, the adequacy of budget support documentation, evidence of management review and approval of budget support schedules, and effectiveness of communication between all levels involved in the development and approval of the budget, including Public Defender Executive Management and the County Executive Office.

- **Monitoring of Budgets.**
  We evaluated the Public Defender's on-going monitoring processes over the budget, which includes the monitoring of revenues, expenditures, fund balance available, net County cost, available financing reports, budget projections, variance reports, budget augmentation requests, and the analysis of prior year budget augmentations to related performance measures. We assessed the extent of on-going communications that occur between the Public Defender and the CEO/Budget Office throughout the year.

- **Training and Procedures.**
  We evaluated the training (and cross-training) processes and the existence of policies and procedures that are specific to the Public Defender and supplement the CEO/Budget Office instructions.

APPROACH

Our methodology included inquiry, auditor observation and examination of budget documents and correspondence showing how the Public Defender prepared, reviewed, approved, and monitored its annual budget.

To accomplish our objectives, we prepared a detailed *Internal Control Questionnaire* to identify the budget process and controls specific to departments and agencies. In the development of the questionnaire, we obtained input from the CEO/Budget Office to ensure areas addressed were pertinent to the department/agency budget process. We conducted interviews with Public Defender Budget Analysts and obtained their input to the questionnaire. To substantiate the responses on the questionnaire, we met with budget staff and management and examined related documentation. We conducted interviews with various individuals in the Public Defender to determine the effectiveness of communication of budget issues. Finally, we asked Public Defender what essential elements contributed to the budget process. In *Attachment A*, we have listed the factors that have contributed to the success in the budget process performed by the Public Defender and the other three departments/agencies we reviewed.

OBSERVATIONS

- The budget team uses instructions and calendars provided by the CEO/Budget Office.
- The Budget Analyst has worked there for 13 years, and the Manager of Administration has been the Budget Manager since October 1999.
- The Budget Request is adequately supported by various schedules that are retained.
- Summary spreadsheets are created showing monthly monitoring of revenues and expenditures, and are reviewed by the Manager of Administration and the Director.
- The Manager of Administration communicates on a daily basis with the Director to discuss budget and other related issues.
- There are frequent communications between the Director and the Deputy CEO.
- Explanations for budget variances are clear and reasonable.
- The Public Defender maintained current "Cost Apply" agreements with other departments/agencies.
- Documentation was prepared to analyze intended outcome indicators for prior year budget augmentations.

CONCLUSION

We are pleased to report that our review of the budget process at the Public Defender **did not identify any reportable, significant or material issues.** We found that budget roles and responsibilities within the Public Defender are clearly established. Communications about the budget are occurring within the Public Defender and with the County Executive Office through the Deputy County Executive Officers and the CEO/Budget Office. The approved budgets are monitored on a regular basis throughout the year and the required projection and variance reports are being submitted to the CEO/Budget Office. Additionally, we found that there are adequate training and cross-training processes in place to minimize any potential disruptions in preparing and monitoring the Public Defender budget.

ATTACHMENT A

DEPARTMENT/AGENCY SUCCESS FACTORS

The following are the factors the four departments/agencies identified during our review that contribute to their successful management of budgets. We believe departments/agencies should consider adopting any of these factors in their budget process where applicable.

POLICIES AND PROCEDURES

- Supplementing the CEO/Budget Office's Budget Instructions and Budget Calendar with their own detailed procedures and calendars that indicate specific tasks, dates, individuals responsible for the tasks, and back-up staff for each task.
- Preparing a detailed Strategic Financial Plan document to allow multi-year planning of needs and potential service reductions.
- Maintaining a step-by-step overview of the year-end closing process.
- Conducting year-round budget monitoring and Net County Cost projections.
- Using consistent formats for budget monitoring spreadsheets.
- Starting the budget process early (October) to ensure critical deadlines are met.
- Using technology to download useful information (e.g., State requirements) to analyze information and to monitor program status.

COMMUNICATION

- Actively involving Executive Management, Finance/Administration Management, and Program/Division Managers in developing budgets, reviewing monthly expenditure reports, and attending regular budget meetings.
- Holding Program/Division Managers accountable for their budgets.
- Having meetings with budget teams and the department/agency programs/divisions to review and discuss the budget after final adoption.
- Having exit meetings with budget teams and program/division managers for discussions on how the prior year budget was met.
- Communicating with the CEO/Budget Office to identify any upcoming changes.

TRAINING

- Budget teams providing workshops and training to Program/Division managers regarding budget preparation and monitoring.
- Budget Analysts working closely with each other with a willingness to cover other Budget Analysts in the event of absence.