



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

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FOLLOW-UP AUDIT
OF THE
**PUBLIC ADMINISTRATOR/
PUBLIC GUARDIAN**

**CASH RECEIPTS AND DISBURSEMENTS,
TRUST AND SPECIAL USE REVOLVING FUNDS,
WAREHOUSE AND PROPERTY CONTROLS,
AND THE BUDGET PROCESS**

(BOARD DIRECTIVE NO. 22, DATED MAY 3, 2005)

(ORIGINAL AUDIT NO. 2528)

AS OF AUGUST 31, 2006

AUDIT NUMBER: 2636-A

REPORT DATE: NOVEMBER 8, 2006

Audit Director: Peter Hughes, Ph.D., CPA
Deputy Director: Eli Littner, CPA, CIA
Audit Manager: Michael Goodwin, CPA, CIA
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**Follow-Up Audit of the
Public Administrator/Public Guardian
Cash Receipts and Disbursements, Trust and Special Use Revolving Funds,
Warehouse and Property Controls, and the Budget Process**

**(Board Directive No. 22, dated May 3, 2005)
Original Audit No. 2528**

As of August 31, 2006

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Transmittal Letter

Audit No. 2636-A

November 8, 2006

TO: John S. Williams
Public Administrator/Public Guardian

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

SUBJECT: Follow-Up Audit of the Public Administrator/Public Guardian
Cash Receipts and Disbursements, Trust and Special Use Revolving Funds,
Warehouse and Property Controls, and the Budget Process
(Board Directive No. 22, dated May 3, 2005)
Original Audit No. 2528, Issued January 19, 2006

We have completed a Follow-Up Audit of cash receipts and disbursements, trust and special use revolving funds, warehouse and property controls, and the budget process at the Public Administrator/Public Guardian. Our audit was limited to reviewing, as of August 31, 2006, actions taken to implement the recommendations in our audit report dated January 19, 2006.

Please note, we have implemented a more 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). As a matter of policy, our first Follow-Up Audit will now begin no later than six months upon the official release of the report. 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 now begin at 12 months from the release of the original 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.

Because there are seven recommendations pending implementation, we have attached a Second Follow-Up Audit Report Form. The Public Administrator/Public Guardian should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit approximately six months from the release of this Follow-Up Audit report, we will need to obtain the completed document to facilitate our review.

As the Director of Internal Audit, I submit a monthly audit status report to the Board of Supervisors (BOS) where I detail any material 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 the Public Administrator/Public Guardian to help 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.

Attachment

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Bruce Peotter, Assistant Public Administrator/Public Guardian
- Connie Draxler, Chief Deputy, PA/PG
- Frank Tuanai, Chief of Fiscal Services, PA/PG
- Teara Le Blanc, Information Technology Manager, PA/PG
- Mark Johnson, Property Services Manager, PA/PG
- Foreperson, Grand Jury
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INTERNAL AUDITOR'S REPORT

Audit No. 2636-A

November 8, 2006

TO: John S. Williams
Public Administrator/Public Guardian

SUBJECT: Follow-Up Audit of the Public Administrator/Public Guardian
Cash Receipts and Disbursements, Trust and Special Use Revolving Funds,
Warehouse and Property Controls, and the Budget Process
(Board Directive No. 22, dated May 3, 2005)
Original Audit No. 2528, Issued January 19, 2006

We have completed a Follow-Up Audit of internal controls over cash receipts and disbursements, trust and special use revolving funds, warehouse and property controls, and the budget process at the Public Administrator/Public Guardian (PA/PG). Our audit was limited to reviewing actions taken as of August 31, 2006 to implement the recommendations made in our original audit report.

The original audit report contained sixteen (16) recommendations. Our Follow-Up Audit indicated nine (9) recommendations have been fully implemented; two (2) recommendations were partially implemented; two (2) recommendations were in process of implementation, and three (3) recommendations have not been implemented.

We believe the remaining seven (7) recommendations are still appropriate and further efforts should be made to fully implement them. The recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the January 19, 2006 report is shown in parentheses after each heading. See *Attachment A* for a description of Report Item Classifications.

1. **Information Technology Controls (Recommendation No. 1)**

Recommendation No. 1: We recommend PA/PG management continue to evaluate the feasibility of a replacement system for ePAGES. If a system replacement is an option, PA/PG needs to ensure appropriate system controls for data processing, audit trails, and logical security are part of the replacement system. If not, PA/PG should assess each of the items identified above and initiate the appropriate course of action based upon its risk assessment and cost/benefit analysis. (**Significant Issue**)

Current Status: **In Process.** PA/PG conducted a feasibility study and elected to replace its information system. Approval was received from the County Executive Office to fund the purchase of the replacement. PA/PG anticipates funding to replace ePAGES will amount to \$500,000 in FY 06-07 and \$500,000 in FY 07-08. However, the definition of the new system's functionality and data processing requirements are underway and deployment of the replacement system is anticipated to take place between January and June 2008.

PA/PG Planned Action: An RFP to acquire ePAGES replacement system is scheduled to open to the public early November 2006. Documentation of PA/PG's business requirements will be finalized by December 31, 2006. In compliance with Orange County Accounting Manual Procedure S-1, John Williams, Public Administrator/Public Guardian, sent a memo to Peter Hughes, Director of Internal Audit, officially informing Internal Audit of PA/PG's intent to replace its financial system. Upon completion of the accounting business requirements, PA/PG plans to seek Internal Audit's review, feedback and approval of the new system's scope and requirements; specifically in the area of appropriate system controls. Prior to deploying the new system (2008), Internal Audit will be given an opportunity to assist in evaluating that proper handling, security and auditing controls have been incorporated.

2. Information Technology Continuity Plan (Recommendation No. 2)

Recommendation No. 2: We recommend PA/PG update their IT continuity plan (that is in line with the overall business continuity plan) and consider including the following elements:

- Response and recovery procedures meant to bring IT operations back to the state they were in before the incident or disaster.
- Identification of critical applications, third party services, personnel and supplies, and data files needed for recovery.
- Utilization of back-up site and/or offsite storage of critical back-up media.
- Communication procedures with stakeholders, employees, key customers, critical suppliers and management.
- Critical information on continuity teams, affected staff, customers, suppliers, public authorities and media.
- Control procedures to ensure the continuity plan is up-to-date and reflects current business requirements.
- Guidelines on how to use the continuity plan (including periodic staff training).

The plan should be documented, agreed upon by both end-user functions and the IT function, communicated to affected parties and tested periodically. (**Control Finding**)

Current Status: **In Process.** PA/PG is preparing a continuity plan with the elements described above. PA/PG currently performs daily backup of data, engages an external vendor for information protection and storage services, and maintains documented specifications for server information. In addition, PA/PG is participating in the Business Continuity Planning Committee comprised of County agencies and departments. The participating agencies and departments will access software provided by CEO/IT that creates and implements information availability plans and business continuity management environments. However, the target completion dates for developing and implementing the County Business Continuity Plans are February 2007 and April 2007, respectively.



PA/PG Planned Action: PA/PG is coordinating development of an IT business continuity plan with CEO IT. The plan is scheduled to be completed by the end of November 2006.

3. Segregation of Duties (Recommendation No. 4)

Recommendation No. 4: We recommend PA/PG review the bank reconciliation and subsidiary ledger posting process and take appropriate action to segregate those duties. (**Control Finding**)

Current Status: **Not Implemented.** The Fiduciary Manager who was responsible for both reconciling bank accounts and posting transactions to the subsidiary ledger retired. One of the Accountants was assigned sole responsibility for preparing the bank reconciliations; however, the Accountant still has responsibility for approving and posting transactions into the subsidiary ledger. If these duties cannot be adequately segregated, supervisory review of these activities is encouraged.

PA/PG Planned Action: Beginning in September 2006, a Senior Accountant/Auditor I Supervisor with no involvement in processing or approval of revolving fund transactions, will be assigned with the responsibility of preparing bank reconciliations. Completed bank reconciliations will be reviewed and approved by the Chief of Fiscal Services.

4. Inventory of Receipt Forms (Recommendation No. 5)

Recommendation No. 5: We recommend PA/PG conduct and document periodic physical inventories of used and unused handwritten cash receipt forms. (**Control Finding**)

Current Status: **Not Implemented.** A physical inventory of used and unused pre-numbered cash receipt forms has not been performed.

PA/PG Planned Action: Accounting will establish an inventory log of all used and unused Receipt Forms. The log will be utilized to conduct physical inventory counts and monitoring of Receipt Forms on a semi-annual basis.

5. Safeguarding and Inventories of Forms (Recommendation No. 6)

Recommendation No. 6: We recommend PA/PG ensure unused Property Inventory forms are properly secured, and that periodic inventories of unused Property Inventory forms be performed and documented. (**Control Finding**)

Current Status: **Partially Implemented.** The unused Property Inventory forms are secured in a storage cabinet located in a vault with access limited to authorized staff members. However, an inventory of unused Property Inventory forms has not been performed.

PA/PG Planned Action: Accounting will establish an inventory log of all unused Property Inventory forms. The log will be used to conduct physical inventory on a semi-annual basis.



6. Issuance of Forms and Property Tags (Recommendation No. 7)

Recommendation No. 7: We recommend PA/PG ensure all previously issued Property Inventory forms are accounted for before issuing additional forms. In addition, Property Inventory forms and property tags should be issued sequentially. (**Control Finding**)

Current Status: **Partially Implemented.** PA/PG emphasized the proper form and property tag procedures with department supervisors and included the proper handling and completion of Property Inventory forms in staff performance plans. In addition, it was noted that PA/PG sequentially issues property inventory tags and periodically accounts for Property Inventory forms. However, PA/PG does not determine whether all previously issued Property Inventory forms are accounted for before issuing additional forms.

PA/PG Planned Action: Accounting will not only establish a procedure in place to account for the issued and outstanding Property Inventory forms, it will also conduct a periodic inventory on a quarterly basis to ensure all issued Property Inventory forms are accounted for.

7. Physical Inventories of Property (Recommendation No. 13)

Recommendation No. 13: We recommend PA/PG determine an appropriate frequency of physical inventory counts and perform and document periodic physical inventories of property that is valuable and susceptible to theft. (**Control Finding**)

Current Status: **Not Implemented.** An appropriate frequency of physical inventory counts was not determined and an inventory of property has not been performed.

PA/PG Planned Action: PA/PG discussed with Internal Audit and determined that periodic physical inventory counts of estate personal property in the warehouse would not be economically or procedurally feasible considering the value of items being stored in the warehouse. Instead, PA/PG believes that its plan to install security cameras in the warehouse to closely monitor activities and the access in and out of the warehouse along with overall management oversight will be more effective and practical for protecting inventories.



We appreciate the courtesy and cooperation extended to us by the personnel of the Public Administrator/Public Guardian during our review. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at 834-5899, or Michael Goodwin, Audit Manager at 834-6066.


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

Attachment A – Report Item Classifications

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Bruce Peotter, Assistant Public Administrator/Public Guardian
- Connie Draxler, Chief Deputy, PA/PG
- Frank Tuanai, Chief of Fiscal Services, PA/PG
- Teara Le Blanc, Information Systems Manager, PA/PG
- Mark Johnson, Property Services Manager, PA/PG
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



ATTACHMENT A: Report Item Classifications

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

- **Material Weaknesses:**
Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address “Material Weaknesses” brought to their attention immediately.
- **Significant Issues:**
Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.
- **Control Findings:**
Audit findings 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.

