INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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

Integrity ◆ Objectivity ◆ Independence

FIRST FOLLOW-UP AUDIT OF INTEGRATED WASTE MANAGEMENT DEPARTMENT

CONTRACT ADMINISTRATION PROCESS AND CONTROLS

As of May 31, 2007

AUDIT NUMBER: 2636-I **REPORT DATE: AUGUST 29, 2007**

Audit Director:	**Peter Hughes, Ph.D., CPA**
Deputy Director:	**Eli Littner, CPA, CIA**
Senior Audit Manager:	**Michael Goodwin, CPA, CIA**
Audit Manager:	**Winnie Keung, CPA, CIA**

First Follow-Up Audit of
Integrated Waste Management Department
Contract Administration Process and Controls

Original Audit No. 2591

As of May 31, 2007

TABLE OF CONTENTS

Transmittal Letter i

INTERNAL AUDITOR'S REPORT 1

ATTACHMENT A: Report Item Classifications 3

ATTACHMENT B: IWMD and Auditor-Controller Management Response 4

Independence
Objectivity
Integrity

Providing Facts and Perspectives Countywide

OFFICE OF THE DIRECTOR

DR. PETER HUGHES

PH.D., MBA, CPA,
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)

E-MAIL: peter.hughes@iad.ocgov.com

ELI LITTNER
DEPUTY DIRECTOR
CPA, CIA, CFE,
Certified Fraud Specialist (CFS),
Certified Information Systems Auditor (CISA)

MICHAEL J. GOODWIN
SENIOR AUDIT MANAGER
CPA, CIA

ALAN MARCUM
SENIOR AUDIT MANAGER
MBA, CPA, CIA, CFE

AUTUMN MCKINNEY
SENIOR AUDIT MANAGER
CPA, CIA, CISA
Certified Government Financial Manager (CGFM)

HALL OF FINANCE & RECORDS
12 CIVIC CENTER PLAZA, RM. 232
SANTA ANA, CA 92701

www.ocgov.com/audit

(714) 834-5475
(714) 834-2880 Fax

OC FRAUD HOTLINE
(714) 834-3608

COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

Transmittal Letter

Audit No. 2636-I

August 29, 2007

TO: Janice V. Goss, Director
Integrated Waste Management Department

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

SUBJECT: First Follow-Up Audit of Integrated Waste Management Department Contract Administration Process and Controls, Original Audit No. 2591, Issued November 29, 2006

We have completed a First Follow-Up Audit of the Integrated Waste Management Department's contract administration process and controls. Our audit was limited to reviewing, as of May 31, 2007, actions taken to implement the eleven recommendations in our audit report dated November 29, 2006. The results of our Follow-Up Audit along with a new finding we identified are discussed in the **Internal Auditor's Report** following this transmittal letter.

Please note, we have 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 now begins at six months upon 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 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 a new control finding was noted during our Follow-Up Audit, we have attached a Second Follow-Up Audit Report Form. IWMD Accounting should complete this template as our audit recommendation is implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

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

Each month I submit an **Audit Status Report** to the 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 Follow-Up Audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with you so that IWMD 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.

Attachment

Other recipients of this report:
Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO, Infrastructure & Environmental Services
David E. Sundstrom, Auditor-Controller
Ronald Pierre, Deputy Director, IWMD/Administration
Dick Harabedian, Deputy Director, IWMD/North Regional Landfill Operations
Gary Brown, Deputy Director, IWMD/Central Regional Landfill Operations
Michael Giancola, Deputy Director, IWMD/South Regional Landfill Operations
Shaun Skelly, Director of Accounting Operations, Auditor-Controller
Bill Castro, Assistant Auditor-Controller, Satellite Accounting Operations
Tonya Burnett, Manager, IWMD/Accounting Services
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

Independence
Objectivity
Integrity

Providing Facts and Perspectives Countywide

OFFICE OF THE DIRECTOR

DR. PETER HUGHES

PH.D., MBA, CPA,
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)

E-MAIL: peter.hughes@iad.ocgov.com

ELI LITTNER
DEPUTY DIRECTOR
CPA, CIA, CFE,
Certified Fraud Specialist (CFS),
Certified Information Systems Auditor (CISA)

MICHAEL J. GOODWIN
SENIOR AUDIT MANAGER
CPA, CIA

ALAN MARCUM
SENIOR AUDIT MANAGER
MBA, CPA, CIA, CFE

AUTUMN MCKINNEY
SENIOR AUDIT MANAGER
CPA, CIA, CISA
Certified Government Financial Manager (CGFM)

HALL OF FINANCE & RECORDS
12 CIVIC CENTER PLAZA, ROOM 232
SANTA ANA, CA 92701

www.ocgov.com/audit

(714) 834-5475
(714) 834-2880 Fax

OC FRAUD HOTLINE
(714) 834-3608

COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

INTERNAL AUDITOR'S REPORT

Audit No. 2636-I

August 29, 2007

TO: Janice V. Goss, Director
Integrated Waste Management Department

SUBJECT: First Follow-Up Audit of Integrated Waste Management Department Contract Administration Process and Controls
Original Audit No. 2591, Issued November 29, 2006

We have completed a First Follow-Up Audit of the Integrated Waste Management Department's Contract Administration process and controls. Our audit was limited to reviewing, as of May 31, 2007, actions taken to implement the eleven recommendations made in our original audit report.

The original audit report contained eleven (11) recommendations. **We are pleased to report that satisfactory corrective action has taken place for all eleven audit recommendations. We commend IWMD on their responsiveness and attentiveness given to implementing our recommendations for IWMD Administration and the three landfills.**

During our Follow-Up Audit, a new issue came to our attention pertaining to our recommendations involving Contract Monitoring Worksheets prepared in **IWMD Accounting**, which is staffed and managed by **Auditor-Controller** personnel. These worksheets are used by the divisions to help monitor contract expenditures. Our finding and recommendation are discussed below and is considered a **Significant Issue**. See *Attachment A* for a description of report item classifications.

New Finding – Contract Monitoring Worksheets

IWMD Accounting prepares and maintains Contract Monitoring Worksheets (Worksheets) to monitor the expenditures of all contracts. These Worksheets contain contract information, all expenditures and available balances by vendor for all IWMD locations. Total contract expenditures are automatically updated when IWMD Accounting inputs transactions into the Worksheets during invoice processing.

We reviewed six Worksheets for purposes of our Follow-Up Audit and found that three Worksheets (50%) contained formula errors resulting in total contract expenditures being understated by $1,465.15 and $222.27, respectively, for two contractors at North and South Landfills. We also noted a Worksheet for one contractor at Central landfill contained an error in the invoice column resulting in expenditures being double counted.

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

Although supervisory reviews of the Worksheets were performed by Auditor-Controller staff in IWMD Accounting to ensure completeness, these formula errors were not detected during the reviews.

Because IWMD divisions use Contract Monitoring Worksheets to monitor contract expenditures, some which are shared contracts between the divisions, it is important that the Worksheets contain accurate information as to prevent the risk of contract overruns. A detailed desk review in addition to a supervisory review would help ensure the accuracy of the Worksheets.

New Recommendation
We recommend IWMD Accounting establish procedures to ensure the accuracy of *Contract Monitoring Worksheets.*

IWMD and Auditor-Controller Management Response:
Concur. IWMD Accounting has established a procedure to ensure the accuracy of Contract Monitoring Worksheets. The IWMD Accounting Accounts Payable Supervisor will review the payment postings and check the formulas on the Contract Monitoring Worksheets for Negotiated Contracts. The payment postings and formulas on the Price Agreement Contract Monitoring Worksheets will be checks by IWMD Accounting staff and/or the Accounts Payable Supervisor. If the Contract Monitoring Worksheets contain any errors, the appropriate Accounts Payable staff will be notified and corrections will be made.

We appreciate the courtesy and cooperation extended to us by the personnel of the IWMD and IWMD Accounting during our Follow-Up Audit. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at 834-5899, or Michael Goodwin, Senior 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
Alisa Drakodaidis, Deputy CEO, Infrastructure & Environmental Services
David E. Sundstrom, Auditor-Controller
Ronald Pierre, Deputy Director, IWMD/Administration
Dick Harabedian, Deputy Director, IWMD/North Regional Landfill Operations
Gary Brown, Deputy Director, IWMD/Central Regional Landfill Operations
Michael Giancola, Deputy Director, IWMD/South Regional Landfill Operations
Shaun Skelly, Director of Accounting Operations, Auditor-Controller
Bill Castro, Assistant Auditor-Controller, Satellite Accounting Operations
Tonya Burnett, Manager, IWMD/Accounting Services
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 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.

COUNTY OF ORANGE

INTEGRATED WASTE MANAGEMENT DEPARTMENT

Janice V. Goss, Director
320 N. Flower Street, Suite 400
Santa Ana, CA 92703

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

August 15, 2007

RECEIVED
INTERNAL AUDIT DEPARTMENT
2007 AUG 20 PM 1:52

To: Thomas Mauk
County Executive Officer

Peter Hughes, CPA
Director, Internal Audit

From: Janice V. Goss, Director
Integrated Waste Management Department

RE: Audit No. 2636-I – Response to Draft Report on First Follow-up Audit of IWMD Contract Administration Process and Controls – Original Audit No. 2591

For your review and approval, please find attached IWMD's and Auditor Controller's joint response to Follow-up Audit No. 2636-I – Draft Report on First Follow-up of IWMD Contract Administration Process and Controls.

If IWMD can be of further assistance in this audit, please contact myself or Rochelle Carpenter at (714) 834-4060.

Janice V. Goss

Janice V. Goss

CONCUR:

for T.M.

Thomas Mauk

Attachment

cc: Ron Pierre, Deputy Director, IWMD/Business Services
Rochelle Carpenter, Manager, IWMD/Management Services
David Sundstrom, Auditor-Controller
Alisa Drakodaidis, Deputy CEO, CEO/Infrastructure & Environmental Services

AUDITOR-CONTROLLER
COUNTY OF ORANGE

HALL OF FINANCE AND RECORDS
12 CIVIC CENTER PLAZA, ROOM 202
POST OFFICE BOX 567
SANTA ANA, CALIFORNIA 92702-0567

(714) 834-2450 FAX: (714) 834-2569

www.ac.ocgov.com

SHAUN M. SKELLY
CHIEF ASSISTANT AUDITOR-CONTROLLER

JAN E. GRIMES
ASSISTANT AUDITOR-CONTROLLER
CENTRAL OPERATIONS

WILLIAM A. CASTRO
ASSISTANT AUDITOR-CONTROLLER
SATELLITE ACCOUNTING OPERATIONS

PHILLIP T. DAIGNEAU
ASSISTANT AUDITOR-CONTROLLER
INFORMATION TECHNOLOGY

DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

July 31, 2007

TO: Janice Goss, Director
Integrated Waste Management Department

SUBJECT: Response to First Follow-Up Audit of the Internal Control Review of Integrated Waste Management Department Contract Administration Process and Controls

We reviewed the draft audit report prepared by the Internal Audit Department covering the First Follow-Up Audit of the Internal Control Review of Integrated Waste Management Department Contract Administration Process and Controls as of May 31, 2007.

We concur with the recommendation made in the draft audit report. Our response is attached.

Please call Tonya Burnett, IWMD Accounting Manager, at 834-4173 if you have any questions regarding this letter. Thank you.

David E. Sundstrom
Auditor-Controller

Attachment

cc: Peter Hughes, Director, Internal Audit Department
Bill Castro, Assistant Auditor-Controller, Satellite Accounting Operations
Ronald Pierre, Deputy Director, IWMD Business Services
Rochelle Carpenter, Manager, IWMD Management Services
Tonya Burnett, Manager, IWMD Accounting

Internal Audit Department
Internal Auditor's Report
First Follow-Up Audit of the Internal Control Review of
Integrated Waste Management Department
Contract Administration Process and Controls

During our Follow-Up Audit, a new issue came to our attention pertaining to our recommendations involving Contract Monitoring Worksheets prepared in IWMD Accounting, which is staffed and managed by Auditor-Controller personnel. These worksheets are used by the divisions to help monitor contract expenditures. Our finding and recommendation are discussed below and is considered a Significant Issue.

Finding
IWMD Accounting prepares and maintains Contract Monitoring Worksheets (Worksheets) to monitor the expenditures of all contracts. These Worksheets contain contract information, all expenditures and available balances by vendor for all IWMD locations. Total contract expenditures are automatically updated when IWMD Accounting inputs transactions into the Worksheets during invoice processing.

We reviewed six Worksheets for purposes of our Follow-Up Audit and found that three Worksheets (50%) contained formula errors resulting in total contract expenditures being understated by $1,465.15 and $222.27, respectively, for two contractors at North and South Landfills. We also noted a Worksheet for one contractor at Central landfill contained an error in the invoice column resulting in expenditures being double counted.

Although supervisory reviews of the Worksheets were performed by Auditor-Controller staff in IWMD Accounting to ensure completeness, these formula errors were not detected during the reviews.

Because IWMD divisions use Contract Monitoring Worksheets to monitor contract expenditures, some which are shared contracts between the divisions, it is important that the Worksheets contain accurate information as to prevent the risk of contract overruns. A detailed desk review in addition to a supervisory review would help ensure the accuracy of the Worksheets.

New Recommendation
We recommend IWMD Accounting establish procedures to ensure the accuracy of Contract Monitoring Worksheets.

Auditor-Controller Management Response:
Concur. IWMD Accounting has established a procedure to ensure the accuracy of Contract Monitoring Worksheets. The IWMD Accounting Accounts Payable Supervisor will review the payment postings and check the formulas on the Contract Monitoring Worksheets for Negotiated Contracts. The payment postings and formulas on the Price Agreement Contract Monitoring Worksheets will be checked by IWMD Accounting staff and/or the Accounts Payable Supervisor. If the Contract Monitoring Worksheets contain any errors, the appropriate Accounts Payable staff will be notified and corrections will be made.