INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

2005 Recipient of the Institute of Internal Auditors
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FINAL CLOSE-OUT

SECOND 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 May 23, 2007

AUDIT NUMBER: 2637-D **REPORT DATE: JUNE 7, 2007**

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Deputy Director:	**Eli Littner, CPA, CISA, CIA**
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Final Close-Out

Second 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 May 23, 2007

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

Independence
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Transmittal Letter

Audit No. 2637-D

June 7, 2007

TO: John S. Williams
Public Administrator/Public Guardian

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

SUBJECT: Second and Final Close-Out 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 second and Final Close-Out 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. Our audit was limited to reviewing, as of May 23, 2007, actions taken to implement the seven (7) remaining recommendations in our initial follow-up audit report dated November 8, 2006. The recommendations stemmed from our original audit report dated January 19, 2006. Because satisfactory corrective has been taken, or is in process for all seven recommendations, this report represents the final close-out of the original audit.

Each month I submit an **Audit Status Report** to the Board of Supervisors 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.

Attachment

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Bruce Peotter, Assistant Public Administrator/Public Guardian
Frank Tuanai, Chief of Fiscal Services, PA/PG
Connie Draxler, Chief Deputy, PA/PG
Ann Barlow, Human Resources Manager, PA/PG
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

INTERNAL AUDITOR'S REPORT
FINAL CLOSE-OUT

Audit No. 2637-D

June 7, 2007

TO: John S. Williams
Public Administrator/Public Guardian

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

SUBJECT: Second and Final Close-Out 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 second and Final Close-Out Follow-Up Audit of internal controls over cash receipts and disbursements, trust and special use revolving funds, warehouse and property controls, and budget process at the Public Administrator/Public Guardian (PA/PG). Our audit was limited to reviewing, as of May 23, 2007, actions taken to implement the recommendations in our initial Follow-Up Audit report dated November 8, 2006.

The initial Follow-Up Audit report contained seven (7) recommendations. Our second Follow-Up Audit indicated four (4) recommendations have been fully implemented and three (3) recommendations are In Process/Closed for the reasons discussed below. The item number from the January 19, 2006 report is shown in parentheses after the heading. See Attachment A for a description of Report Item Classifications.

1. Information Technology Controls (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**)

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Current Status: **In Process/Closed.** A Request for Proposal was developed to replace the e-PAGES financial and case management system. It was sent out to bid and four responses were received. Vendor presentations are scheduled for mid-June. The panel to evaluate the responses and presentations include staff from County Counsel, Auditor/Controller, CEO/IT and the program. This will ensure that appropriate system controls, audit trails, and logical security needs will be met. Prior to deploying the new system, Internal Audit will be given an opportunity to assess the new system to ensure that the security and auditing controls are in place. Because PA/PG has taken steps to replace e-PAGES and has included requirements for data processing, audit trails and security, we have closed-out this item for follow-up purposes.

2. Information Technology Continuity Plan (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.

Current Status: **In Process/Closed.** As of April 13, 2007, all PA/PG IT services were centralized to the CEO/Office of Information Technology (CEO/IT). One IT position, currently budgeted under PA/PG, will be transferred to CEO/IT effective 7/1/07. CEO/IT will provide PA/PG with response and recovery procedures to bring IT operations back to functionality, protection and storage services of critical back-up media, and all other necessary objectives.

PA/PG has developed a draft Business Continuity Plan. CEO/IT is overseeing a County-wide project that is in process (phase 2) for the implementation of departmental Business Continuity Plans (BCP). Phase 3 and Phase 4 of the BCP project will include potential sourcing of recovery solutions and testing of the plans. The BCP project is a multi-year process with possible completion in late 2008. As PA/PG's BCP will be finalized and tested as part of the county-wide BCP project, we have closed-out this item for follow-up purposes.

3. **Physical Inventories of Property (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: **In Process/Closed.** PA/PG plans to install a security camera system in the warehouse to serve as an effective and practical method for protecting property. PA/PG believes the security camera system will monitor incoming and outgoing warehouse access. A vendor has conducted a "walk through" of PA/PG's warehouse and vault areas, assessed scope and specifications, and submitted an estimate for goods and services in December 2006. Because this project was not budgeted in the current fiscal year, PA/PG has requested in its FY 2007-08 budget funding to implement installation of a security camera systems. Because PA/PG has taken action to address the recommendation and is awaiting funding to proceed, we have closed-out this item for purposes of follow-up.

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of PA/PG. If we can be of further assistance, please contact me or Eli Littner, Deputy Director at (714) 834-5899 or Michael Goodwin, Senior Audit Manager at (714) 834-6066.

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
Bruce Peotter, Assistant Public Administrator/Public Guardian
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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 immediately address "Material Weaknesses" brought to their attention.

- **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.