FINAL CLOSE-OUT FIRST FOLLOW-UP AUDIT:

INTERNAL CONTROL AUDIT OC WASTE & RECYCLING -DISBURSEMENT APPROVAL PROCESS

ORIGINAL AUDIT NO. 1027

AS OF JANUARY 31, 2012

Our First Follow-Up Audit found OC Waste & implemented Recycling fully both recommendations from our original audit report dated May 23, 2011. During the original audit, OC Waste & Recycling disbursed over \$54 million in expenditures for commodities and services.

AUDIT NO: 1130-E

REPORT DATE: MARCH 7, 2012

Director: Dr. Peter Hughes, MBA, CPA, CIA Deputy Director: Eli Littner, CPA, CIA Senior Audit Manager: Michael Goodwin, CPA, CIA Senior Internal Auditor: Lisette Free, CPA, CFE

RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

AICPA American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes

2008 Association of Local Government Auditors' Bronze Website Award



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

for the Most Outstanding Article of the Year - Ethics Pays

5th District – Patricia C. Bates Chairman ທ Shawn Nelson, Vice ഗ > Φ District 5 4 S Campbell 0 - Bill O District g р С 0 1st District – Janet Nguyen 2nd District – John M.W. Moorlach, Chairman m

Z ш () ∡ Ľ

n

0

Corange county board of supervisors' Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

<i>Dr. Peter Hughes</i> Director	Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF Certified Compliance & Ethics Professional (CCEP) Certified Information Technology Professional (CITP)
	Certified Internal Auditor (CIA) Certified Fraud Examiner (CFE)
E-mail:	Certified in Financial Forensics (CFF) peter.hughes@iad.ocgov.com
Eli Littner Deputy Director	CPA, CIA, CFE, CFS, CISA Certified Fraud Specialist (CFS) Certified Information Systems Auditor (CISA)
Michael Goodwin Senior Audit Manager	CPA, CIA
Alan Marcum Senior Audit Manager	MBA, CPA, CIA, CFE
Autumn McKinney Senior Audit Manager	CPA, CIA, CISA, CGFM Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232 Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: <u>www.ocgov.com/audit</u>



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA



Transmittal Letter

Audit No. 1130-E March 7, 2012

- TO: Michael Giancola, Director OC Waste & Recycling
- **FROM:** Dr. Peter Hughes, CPA, Director Internal Audit Department
- SUBJECT: First and Final Close-Out Follow-Up Audit: OC Waste and Recycling Disbursement Approval Process, Original Audit No. 1027, Issued May 23, 2011

We have completed a First Follow-Up Audit of the OC Waste & Recycling Disbursement Approval Process. Our audit was limited to reviewing, as of January 31, 2012, actions taken to implement the **two (2) recommendations** from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 11-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors.

The results of our First Follow-Up Audit are discussed in the OC Internal Auditor's **Report** following this transmittal letter. Because satisfactory corrective action has been taken for the two (2) audit recommendations, this report represents the close-out of the original audit.

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 audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the OC Internal Auditor's Report on page 2.

Table of Contents



First and Final Close-Out Follow-Up Audit: OC Waste & Recycling Disbursement Approval Process Audit No. 1130-E

As of January 31, 2012

Transmittal Letter	i
OC Internal Auditor's Report	
Scope of Review	1
Background	1
Results	1



Audit No. 1130-E

March 7, 2012

TO:	Michael Giancola, Director OC Waste & Recycling
FROM:	Dr. Peter Hughes, CPA, Director <i>Jetuchughes</i> Internal Audit Department
SUBJECT:	First and Final Close-Out Follow-Up Audit: OC Waste & Recycling Disbursement Approval Process, Original Audit No. 1027 Issued May 23, 2011

Scope of Review

We have completed a First Follow-Up Audit of the OC Waste & Recycling (OCWR) Disbursement Approval Process. Our audit was limited to reviewing, as of January 31, 2012, actions taken to implement **two (2) recommendations** from our original audit.

Background

Our original audit evaluated internal controls for approving and processing disbursements (e.g., payments to vendors for commodities and services) and to determine if OCWR's disbursement approval processes are aligned and consistent with the disbursement approval processes in Auditor-Controller Claims & Disbursing. **OCWR Accounting Services** is a Satellite Accounting Unit comprised of Auditor-Controller employees who provide accounting services and support to OCWR. Two recommendations were made in the original audit pertaining to duplication of work and maintaining system audit trails. During the original audit period, OCWR processed approximately **\$54 million in disbursements** for commodities and services.

Results

Our First Follow-Up Audit indicated OC Waste & Recycling fully implemented both recommendations. As such, this report represents the final close-out of the original audit. Based on the Follow-Up Audit we conducted, the following is the implementation status of the two (2) original recommendations:

1. <u>Duplication of Work in OC Waste & Recycling and Auditor-Controller Claims &</u> <u>Disbursing</u> (Control Finding)

Auditor-Controller Claims & Disbursing evaluate the feasibility of delegating disbursement approval responsibility for DPA agreements and purchase orders to OCWR Accounting (and to other Satellite Accounting Offices) given the availability of such information in CAPS+.

<u>Current Status</u>: **Implemented.** OCWR Accounting met with Auditor-Controller Claims & Disbursing in September 2011 to discuss the feasibility of delegating disbursement approval responsibility for DPA agreements and purchase orders to OCWR Accounting (and to other Satellite Accounting Offices). It was determined by Auditor-Controller management that it is not feasible at this time to delegate this approval responsibility to the Satellite Accounting Units due to current limited resources and development of the County's eProcurement project, which is anticipated to change the entire disbursement approval process. Because OCWR and Auditor-Controller Claims & Disbursing evaluated this issue, we consider this recommendation implemented.



2. Audit Trail for Changes Made During Payment Processing (Control Finding)

Auditor-Controller and OCWR Accounting evaluate the feasibility of establishing a workflow process in CAPS+ for the payment review and approval process. If this is not feasible, then OCWR Accounting should consider having the Accounting Technicians "submit" all payment documents as the creator to ensure an audit trail is maintained within CAPS+ for revisions made during the supervisory/management review.

<u>Current Status</u>: **Implemented.** Auditor-Controller and OCWR Accounting evaluated the feasibility of establishing a workflow process in CAPS+ for the payment review and approval process and determined that it was <u>not</u> feasible at this time due to limited system resources. After this issue was evaluated, Auditor-Controller Claims & Disbursing sent an email to the applicable Satellite Accounting Units clarifying the expectation that staff keying in payments need to "submit" as the creator and then obtain a supervisory review. By doing so, a system generated audit trail is maintained within CAPS+ for revisions made as a result of the supervisory review. OCWR modified its written procedures to reflect this processing change. Because OCWR Accounting took measures to modify their disbursement approval process, we consider this recommendation implemented.

We appreciate the assistance extended to us by OC Waste & Recycling and Auditor-Controller during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

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, OC Infrastructure Dylan Wright, Deputy Director, OC Waste & Recycling Alan Yuki, Manager, Budget Services, OC Waste & Recycling Shaun Skelly, Chief Deputy Auditor-Controller Mike Montijo, Manager, Accounting Services, OC Waste & Recycling Jan Grimes, Director, Auditor-Controller/Central Accounting Operations Victoria Ross, Senior Manager, A-C Claims & Disbursing Foreperson, Grand Jury Susan Novak, Clerk of the Board of Supervisors