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FIRST FOLLOW-UP AUDIT:

INTERNAL CONTROL REVIEW OF RESOURCES AND DEVELOPMENT MANAGEMENT DEPARTMENT/
FACILITIES OPERATIONS
CONTRACT ADMINISTRATION AND
CASH DISBURSEMENTS
ORIGINAL AUDIT No. 2632

AS OF FEBRUARY 8, 2008

The original audit report contained five (5) recommendations. Our Follow-Up Audit indicated that Facilities Operations took satisfactory corrective action to fully implement three (3) recommendations and partially implement two (2) recommendations. During the original audit, Facilities Operations was involved with about 1,300 contracts totaling approximately \$19.8 million.

AUDIT NO: 2727-A REPORT DATE: APRIL 21, 2008

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

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Transmittal Letter

AUDIT NO. 2727-A April 21, 2008

TO: Bryan Speegle, Director

OC Public Works

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: First Follow-Up Audit of Internal Control

Review of RDMD/Facilities Operations Contract Administration and Cash Disbursements, Original Audit No.

2632, Issued May 22, 2007

We have completed a First Follow-Up Audit of contract administration and cash disbursements processes and controls in Resources and Development Management Department (RDMD)/Facilities Operations. On March 18, 2008 by resolution of the Board of Supervisors, a new department named OC Public Works was established which comprised all the functions of the former RDMD, with the exception of OC Parks and the Internal Services Publishing Unit. In addition, Facilities Operations is now referred to as OC Facilities. Our audit was limited to reviewing, as of February 28, 2008, actions taken to implement the five recommendations in our original audit report.

The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter. Because there are two recommendations pending implementation, we have attached a <u>Second Follow-Up Audit Report Form</u>. Your department should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

Each month I submit an **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.

ATTACHMENTS

Other recipients of this report listed on the Internal Auditor's Report on page 3.

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First Follow-Up Audit of Internal Control Review of Resources and Development Management Department/Facilities Operations Contract Administration and Cash Disbursements Original Audit No. 2632, Issued May 22, 2007, Audit No 2727-A

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OC Internal Audit Report

INTERNAL AUDITOR'S REPORT

AUDIT No. 2727-A

APRIL 21, 2008

TO: Bryan Speegle, Director

OC Public Works

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: First Follow-Up Audit of Internal Control Review of

RDMD/Facilities Operations Contract Administration and

Cash Disbursements, Original Audit No. 2632,

Issued May 22, 2007

Scope of Review

We have completed a First Follow-Up Audit of contract administration and cash disbursements processes and controls in RDMD/Facilities Operations. On March 18, 2008 by resolution of the Board of Supervisors, a new department named OC Public Works was established which comprised all the functions of the former RDMD, with the exception of OC Parks and the Internal Services Publishing Unit. In addition, Facilities Operations is now referred to as OC Facilities. During the original audit, Facilities Operations was involved with about 1,300 contracts totaling approximately \$19.8 million.

Our audit was limited to reviewing actions taken as of February 28, 2008 to implement the five recommendations made in our original audit report pertaining to processing Change Orders, supporting documentation for time extensions, processing Notices of Completion, approving invoices, and invoice processing times.

Results

The original audit report contained five (5) recommendations. Our Follow-Up Audit indicated that Facilities Operations took satisfactory corrective action to fully implement three (3) recommendations and partially implement two (2) recommendations. We believe the remaining two 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 their status. The item number from the May 22, 2007 report is shown in parentheses after each heading.

1. Approval of Invoices (Recommendation No. 4)

<u>Recommendation:</u> We recommend Facilities Operations evaluate the invoice approval process for standing contracts and develop a process by which there is periodic verification of contracted services at the user level. Once the process is defined, it should be documented in a written procedure.

OC Internal Audit Report

<u>Current Status:</u> **Partially Implemented.** Facilities Operations evaluated the invoice approval process for standing contracts and has a process and written procedure in place for periodic verification of contracted services at the user level. A *Matrix for Verifying Completion of Work on Standing Contracts (Matrix*) was developed and is maintained by the Facilities Operations Purchasing Manager.

The *Matrix* shows the frequency, rotational schedule, required supporting documents, and responsible individual for verifying work completion for each contract type. We believe this is an effective management tool for verifying completion of work at the user level and commend Facilities Operations on its development and use.

For our Follow-Up Audit, we selected ten (10) standing contracts and twenty (20) invoices to test the invoice approval process and noted the following:

- Two contract types (for light bulb replacement and professional contract services) were not listed on the *Matrix*, and therefore, did not have requirements for verifying work completion. However, we did note that three of the four invoices selected for these contracts had supporting documents verifying the completion of work.
- Four invoices did not have supporting documents to verify work completion as required per the *Matrix*.

Facilities Operations should ensure the *Matrix* is maintained and updated for each contract type, and that supporting documents are obtained to verify completion of work.

OC Facilities Planned Action:

Facilities Operations will ensure that the Matrix is kept updated and that supporting documents are maintained to verify work completion.

2. Invoice Processing Times (Recommendation No. 5)

<u>Recommendation:</u> We recommend Facilities Operations evaluate the 30-day practice for processing invoices and determine if enhancements can be made to meet invoice processing timeframes as per management's expectations.

<u>Current Status:</u> **Partially Implemented.** Facilities Operations evaluated the 30-day practice for processing invoices and developed written procedures stating that all invoices shall be processed and sent to RDMD/Purchasing and Contract Services within 30 days of receipt. If processing the invoice is delayed beyond 30 days of receipt, a note shall be included on the invoice explaining the reasons for the delay.

OC Internal Audit Report

For our Follow-Up Audit, we reviewed the invoice processing times for 20 invoices and noted that 6 of 20 invoices were not processed within 30 days, and ranged from 35 to 87 days. Additionally, there were no notes on these invoices explaining the reasons for delays. Facilities Operations should continue efforts to meet processing timeframes and document reasons for any exceptions.

OC Facilities Planned Action:

Facilities Operations has hired additional accounting staff and implemented a spreadsheet to log-in and track processing of all invoices. All invoices which are beyond 30 days will include notes explaining reasons for the delay.

We appreciate the cooperation and assistance extended to us by OC Public Works and OC Facilities 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:

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