

# Internal Audit Department

O R A N G E C O U N T Y

## INTERNAL CONTROL AUDIT: OC PUBLIC WORKS/TRANSPORTATION INTERDEPARTMENTAL BILLING PROCESS

For the Year Ending  
September 30, 2008

We audited OCPW/Transportation's interdepartmental billing process where for the year ending September 30, 2008, County departments/agencies were billed over \$22 million for asset management, parts, labor, fuel, vehicle pool rental and depreciation costs on a newly implemented Flagship Billing System and other supporting information systems.

We found that internal controls are in place to ensure: (1) interdepartmental billings are accurate, complete, valid, and have appropriate supporting documentation and management review; (2) user access to rates and account codes in the Flagship Billing System and the Fleet Focus System is adequately controlled; (3) high-level IT general controls for OCPW related to the Flagship Billing System are reasonable, and (4) interdepartmental billing processes are efficient and effective. We identified fifteen (15) Control Findings to enhance existing controls, processes and systems for interdepartmental billings.

AUDIT No: 2823

REPORT DATE: SEPTEMBER 29, 2009

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## Transmittal Letter



**Audit No. 2823**    **September 29, 2009**

**TO:** Jess A. Carbajal, Interim Director  
OC Public Works

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** Internal Control Audit: OC Public Works/  
Transportation Interdepartmental Billing  
Process

We have completed an Internal Control Audit of the OC Public Works/Transportation Interdepartmental Billing Process for the year ending September 30, 2008, in which Transportation billed County departments and agencies over **\$22 million** for asset management, parts, labor, pool rental and depreciation costs. We performed this audit in accordance with our *FY 2008-09 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a 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 begin at six months from 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 six months from the release of the first Follow-Up Audit 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.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed document to facilitate our review.

# Letter from Dr. Peter Hughes, CPA



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.

As always, the Internal Audit Department is available to partner with your staff so that they 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.

Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

## **ATTACHMENTS**

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 6.

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Interdepartmental Billing Process  
Audit No. 2823*

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September 30, 2008

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**Audit No. 2823**

**September 29, 2009**

TO: Jess A. Carbajal, Interim Director  
OC Public Works

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: Internal Control Audit: OC Public Works/Transportation  
Interdepartmental Billing Process

## Audit Highlight

We audited OCPW Transportation's interdepartmental billing process where for the year ending September 30, 2008, County departments/agencies were billed over \$22 million for asset management, parts, labor, fuel, vehicle pool rental and depreciation costs on a newly implemented Flagship Billing System and other supporting information systems.

We found that internal controls are in place to ensure: (1) interdepartmental billings are accurate, complete, valid, and have appropriate supporting documentation and management review; (2) user access to rates and account codes in the Flagship Billing System and the Fleet Focus System is adequately controlled; (3) high-level IT general controls for OCPW related to the Flagship Billing System are reasonable, and (4) interdepartmental billing processes are efficient and effective.

## OBJECTIVES

The Internal Audit Department conducted an Internal Control Audit of OC Public Works/Transportation interdepartmental billing process, which included an evaluation of the adequacy and integrity of internal controls; compliance with department and County policies, and evidence of process efficiencies and effectiveness. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. The four objectives of our audit were:

- 1. Accuracy and Propriety of Interdepartmental Billings:** Internal controls, processes and systems are in place to ensure interdepartmental billings are accurate, complete, valid, and have appropriate supporting documentation and management review. Included is an assessment of segregation of duties, reviews and approvals, and key reconciliations.
- 2. Application Controls - User Access:** Review application controls to support Audit Objective No. 1. As discussed in the Scope Exclusions on page 4 below, our review focused on user access to the rates and account codes in the Flagship Billing System and Fleet Focus System.
- 3. IT General Controls:** Perform a high-level review of IT general controls for OCPW as it relates to the Flagship Billing System.
- 4. Efficiency/Effectiveness:** Business processes are efficient and effective as related to Transportation's interdepartmental billing process.





## BACKGROUND

**OC Public Works** provides, operates, and maintains public and County facilities, ensures safe community development and construction, and improves the environmental quality for County residents. OC Public Works is comprised of four divisions: OC Facilities, OC Planning, OC Engineering, and OC Administration. **Transportation** (also referred to as Fleet Services) is under **OC Facilities**, and provides fleet vehicle services, equipment, and maintenance to County departments/agencies. Transportation is responsible for establishing billing rates and processing interdepartmental billings for services provided to the County departments/agencies. Transportation also provides vehicle pool rental to some non-County departments/agencies, e.g. Local Agency Formation Commission. In those instances, users are sent invoices for services provided.

Transportation provides the following four primary services:

1. **Asset Management:** Fleet management for County vehicles and equipment and related record-keeping in the Transportation operational system (Fleet Focus).
2. **Maintenance and Repair:** Maintenance and repair on County vehicles and equipment that includes parts, labor, body, paint and contracted services.
3. **Fuel:** Provide fuel to authorized users at County gas stations for business purposes. Also, manage a fuel program (Voyager) that allows authorized users to obtain fuel from non-County gas stations.
4. **Pool Rental:** Maintain a fleet of rental vehicles for use by County departments/agencies on an as needed basis.

Six components are billed in association with the above four services: *asset management, parts, labor, fuel, pool and depreciation.*

1. **Asset Management Fees** - A fixed monthly fee is charged for each vehicle maintained in Fleet Focus. For FY 08-09, the adopted fee was **\$15**.

Total asset management fees billed during the audit period were **\$402,525**; and there was an average of **2,236 vehicles** maintained each month.

2. **Parts** - Parts are used for maintenance and repair services, and are classified as either "inventory" or "commercial." Inventory parts are those that are regularly maintained in-house. Commercial parts are ordered from contracted vendors specifically for the work order. Department/agency users are charged for the cost of the parts plus a surcharge. For FY 08-09, the adopted surcharge rates are 36% and 39% for inventory and commercial parts, respectively.

Total parts billed during the audit period were **\$4,400,510**; and **129,062** and **1,797 units** of inventory and commercial parts, respectively, were used.

3. **Labor** - Labor hours are incurred for maintenance and repair services. For FY 2008-09, the adopted hourly rate ranges from **\$77 ~ \$83** depending on types of service.





Total labor billed during the audit period was **\$8,518,846**.

**Note:** We excluded the labor component from our audit because labor charges are not billed through Flagship Billing System (see Scope Exclusion below). Labor hours are captured in Virtual IntelliTime (VTI) and are automatically billed through the CAPS job cost system to the appropriate department/agency based on assigned job code.

4. **Fuel** - Authorized users can obtain fuel from County gas stations using a County ID card or from non-County gas stations using a Voyager fuel card. Users are charged for fuel price plus a surcharge per gallon. For FY 2008-09, the adopted surcharge rates are \$0.17 for County fuel and 5% cost per gallon for non-County fuel.

Total fuel billed during the audit period was **\$4,964,702, and 1,431,803 gallons** of gasoline were filled.

5. **Pool** - Transportation provides rental vehicles to County departments/agencies for business purposes. The user department/agency is charged for daily use. During FY 2008-09, the adopted pool rates were **\$50, \$54, & \$58** depending on vehicle size.

Total pool billed during the audit period was **\$451,992**.

6. **Depreciation** - Depreciation expense for vehicles is based on fixed asset data maintained in a program maintained by Auditor-Controller and is charged monthly to each department/agency.

Total depreciation expense billed during the audit period was **\$3,383,858**.

**Note:** We excluded the depreciation component from our audit because the depreciation expense is not billed through Flagship Billing System (see Scope Exclusion below). Fixed asset data is captured in a pre-CAPS program (AC-42) and is downloaded into the Transportation Billing System to calculate the monthly depreciation expense.

## Establishment of Fees and Billing Rates

Billings for transportation/fleet services are recorded in Internal Services Fund 296. Fees and billing rates are calculated annually for the purpose of cost recovery. OC Public Works determines the billing rates during the annual budget process. Adoption of annual fees and billing rates requires Board of Supervisors approval. Once approved, user agencies/departments are billed at the adopted billing rate or fee based on actual usage.

OMB (Office of Management and Budget) Circular A-87 guidelines allow an Internal Services Fund to maintain a 60-day working capital reserve, in addition to the full recovery of costs. At year end closing, OC Public Works/Accounting calculates the net income and the reserves, and determines if there are any surpluses or deficits for Fund 296. OC Public Works Facilities, Budget and Accounting determine the handling of any deficits/surplus at year end. It is feasible that if a deficit/surplus does occur, it will be billed/allocated to the appropriate user departments. Based on our review and inquiry, there have not been any deficit billings for the past few fiscal years, and in FY 2005-06, a surplus was allocated back to the user departments.



## Information Technology Systems

The following systems support the interdepartmental billings:

- **Flagship Billing System**: A Microsoft Access based system developed by Flagship Fleet Management that prepares the monthly interdepartmental billings, journal vouchers to the user agencies, and supporting reports for all Transportation fees and charges except for depreciation expenses (see Transportation Billing System below) and labor allocations (see note on page 3). The data used by Flagship Billing to create the billings is uploaded from two systems:
  - **Fleet Focus System (fleet operations)**: A comprehensive integrated system developed by Maximus/AssetWorks that records all fleet operational activities including fleet management, maintenance and repair (includes parts), vehicle pool rental, and fuel (County) costs.
  - **File Processor System (non-County fuel)**: A Microsoft Access based system developed by a third party that prepares the Voyager gas card monthly statement data for upload into Fleet Focus.
- **Transportation Billing System (depreciation)**: An in-house developed Microsoft Access database program that calculates the monthly depreciation expense billing based on fixed asset data contained in a pre-CAPS program (AC-42).

## SCOPE

Our audit evaluated internal controls and processes over Transportation interdepartmental billings for the period from October 1, 2007 through September 30, 2008. We evaluated the flow of transactions captured in the Fleet Focus System; the billable data extracted into the Flagship Billing System, and billings to departments/agencies generated by preparation of a journal voucher for the following four components: Asset Management, Parts, Fuel, and Vehicle Pool.

We evaluated user access to rates and account codes in the Flagship Billing System and the Fleet Focus System. We also performed a high-level review of IT general controls for OCPW as it relates to the Flagship Billing System. We also evaluated the efficiency/effectiveness of the interdepartmental billing process and the feasibility of consolidating depreciation billing into the Flagship Billing System. Our methodology included inquiry, auditor observation and testing of relevant documents.

## SCOPE EXCLUSIONS

Our audit did not include the controls for entering billable data in the Fleet Focus System; the establishment of the annual fee/rate schedule; or components of labor charges or depreciation expenses as discussed above.

**Application Controls**: We did not perform a review of application controls for the Fleet Focus System as our audit was focused on the billing processes performed by the Flagship Billing System. Additionally, application controls for the Flagship Billing System, File Processor System, and the Transportation Billing Systems are limited as these systems have very specific functionality, i.e. prepare billing, process gas card statement files, and depreciate vehicles. Therefore, our application testing was limited to the user access application controls.



## RESULTS

We audited the interdepartmental billing process and found that internal controls are in place to ensure: (1) interdepartmental billings are accurate, complete, valid and have appropriate supporting documentation and management review and (2) user access to the rates and account codes in the Flagship Billing System and Fleet Focus System is adequately controlled. We also found that: (3) high-level IT general controls for OCPW as related to the Flagship Billing System are reasonable and (4) interdepartmental billing processes were efficient and effective.

We identified **fifteen (15) Control Findings** resulting in **thirteen (13) recommendations** to enhance controls and processes as discussed in the *Detailed Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications. Based upon our audit, we noted:

- ▶ **Objective #1 - Accuracy and Propriety of Interdepartmental Billings:** *Internal controls, processes and systems are in place to ensure interdepartmental billings are accurate, complete, valid, and have appropriate supporting documentation and management review.*
- ▶ **Results:** We found overall internal controls, processes and systems in place to ensure interdepartmental billings are accurate, complete, valid, and have appropriate supporting documentation and management review. We noted **five (5) Control Findings** in the areas of reconciliations, variance reporting, and supervisory reviews. (See pages 7-10 )
- ▶ **Objective #2 – Application Controls - User Access:** *Review application controls to support Audit Objective No. 1. As discussed in the Scope Exclusions on page 4 above, our review focused on user access to the rates and account codes in the Flagship Billing System and Fleet Focus System.*
- ▶ **Results:** User access to the rates and account codes in the Flagship Billing System and Fleet Focus System is adequately controlled. We noted **one (1) Control Finding** for removing separated users from Fleet Focus (See page 11)
- ▶ **Objective #3 – Review of OCPW's High-Level IT General Controls:** *Perform a high-level review of IT general controls for OCPW as it relates to the Flagship Billing System.*
- ▶ **Results:** High-level IT general controls for OCPW as related to the Flagship Billing System are reasonable. We noted **four (4) Control Findings** for: system problem reporting, IT security management, IT involvement in the acquisition of third party software and hardware, and disaster recovery/business continuity. (See pages 12-14)
- ▶ **Objective #4 – Process Efficiency/Effectiveness:** *Business processes are efficient and effective as related to Transportation's interdepartmental billing process.*
- ▶ **Results:** No inefficient or ineffective procedures were noted concerning the interdepartmental billing process. We noted **five (5) Control Findings** to enhance efficiency and effectiveness over the processes performed in Transportation and Accounting Services. (See pages 14-17)



## Management's Responsibilities for Internal Controls

In accordance with the Auditor-Controller's County Accounting Manual section S-2 - *Internal Control Systems*, "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls. Control systems shall be continuously evaluated and weaknesses, when detected, must be promptly corrected." The criteria for evaluating an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OC Public Works/Transportation's continuing emphasis on control activities and self-assessment of control risks.

## Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in OC Public Works/Transportation's operating procedures, accounting practices and compliance with County policy.

## Acknowledgment

We appreciate the courtesy extended to us by OC Public Works/Transportation, Information Technology and Accounting Services. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899; or Michael Goodwin, Senior Audit Manager at 834-6066.

## Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
Alicia Drakodaidis, Deputy CEO, OC Infrastructure  
Carlos Bustamante, Director, OCPW Administration  
Dori Malloy, Director OCPW/OC Facilities  
Bill Douglas, Division Manager, OCPW Fleet Services  
Terry Collins, Contracts/Project Manager, OCPW Fleet Services  
Fred Neroni, Manager, OCPW/Information and Technology Services  
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Bill Castro, Director, AC/Satellite Accounting Operations  
Mary Fitzgerald, Accounting Manager, OCPW Accounting Services  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors



## **Audit Objective #1 - Accuracy and Propriety of Interdepartmental Billings**

Our objectives were to determine that internal controls, processes and systems are in place to ensure interdepartmental billings are accurate, complete, valid, and have appropriate supporting documentation and management review. We audited the interdepartmental billing process from when information is downloaded into the Flagship Billing System through the preparation of the journal vouchers allocating the billed amounts to County departments/agencies.

Our audit included testing, on a sample basis, to determine that the Flagship Billing System is accurately processing and billing asset management fees, fuel, parts, and pool rental based on established rates and fees; supervisory reviews of billings are conducted; and reconciliations between CAPS and Fleet Focus are performed, reviewed and have appropriate resolution of reconciling differences. We also tested OCPW Accounting's process and controls concerning their role in the interdepartmental billings.

## **Interdepartmental Billing Process and Control Strengths**

Our audit disclosed that overall controls are in place to ensure interdepartmental billings are accurate, complete, valid, and have appropriate supporting documentation and management review. Process and control strengths noted during the audit include:

- ✓ Accuracy and Completeness of Billings: Processes are in place to ensure the accuracy and completeness of interdepartmental billings. Transportation verifies rates and fees used prior to performing the billings, and OCPW Accounting verifies the rates on the billing reports.
- ✓ Management Review & Approval of Billings: All billing reports are reviewed and approved by Transportation management and by OCPW Accounting.
- ✓ Adequate Segregation of Duties: Duties of establishing interdepartmental billing rates, creating account coding in Fleet Focus; capturing activity of services performed; preparing and reviewing interdepartmental billings; authorizing issuance of billings; and performing reconciliations are adequately segregated.
- ✓ Error and Exception Reporting: Flagship Billing identifies potential errors that are subsequently reviewed and corrected in Transportation.
- ✓ Reconciliations Between Fleet Focus and CAPS: Procedures are in place requiring reconciliations be performed to identify and resolve errors and discrepancies between Transportation's billing system and the County's CAPS financial system.

The following are areas where processes and controls can be enhanced:

## **Finding No. 1 – Variances in Reconciliations Between Flagship and CAPS**

**(Control Finding)** Due to rounding in the Flagship Billing system, we noted there are immaterial discrepancies of \$0.01 – \$0.03 in the reconciliations between Flagship Billing and CAPS concerning the sales tax calculations.





Fleet Focus is used to capture the parts used and services performed. Mechanics input the value of the parts in Fleet Focus; then Flagship Billing automatically calculates the sales tax when processing the billing. CAPS shows the actual payment, including sales tax, made to the vendor. The purpose of reconciling Flagship to CAPS is to ensure all billable parts and service transactions are included and agreed to the amount that CAPS has paid to vendors. Transportation generates three reconciliation reports for this purpose. They are: *In CAPS not Fleet*, *Reconciliation*, and *In Fleet not CAPS*.

We noted a range of \$0.01 - \$0.03 rounding discrepancies on the *Reconciliation* report. While immaterial per transaction, the volume of these variances is high and could result in some minor over/under billings.

### **Recommendation No. 1**

OC Public Works/Transportation consult with the Flagship Billing System vendor for adjusting the sales tax calculation to eliminate the rounding discrepancies.

### **OC Public Works/Transportation Management Response:**

Concur. The sales tax calculation discrepancy is rooted in Fleet Focus, the fleet management software. We are working Flagship (the billing module vendor) to develop a calculation to offset the difference in the CAPS to Fleet Focus calculations to remedy the variance.

### **Finding No. 2 – Billing Error on Disposed Vehicle (Control Finding)**

Our testing noted that Transportation billed Social Services Agency (SSA) for asset management fees on a retired vehicle (D4340) from April through September and December 2008. The vehicle was retired by Transportation in March 2008. Supervisory review in Transportation and Accounting did not detect the error. SSA was incorrectly billed for seven months totaling \$105 (\$15 x 7 months).

The process to retire vehicles includes entering the disposition date in Fleet Focus and changing the status to indicate the equipment is no longer in use. However, for this piece of equipment, the disposition date was not entered in the appropriate field and the status was not changed. Since the status remained active, the agency was billed for monthly asset management fee. A procedure to reconcile the fleet inventory changes to asset management fees billed was not in place at the time of our audit.

### **Recommendation No. 2**

OC Public Works/Transportation establish a process to reconcile the fleet inventory changes to the monthly asset management fees and evaluate the need to credit the overbilled amount to the Social Services Agency.

### **OC Public Works/Transportation Management Response:**

Concur. Finding No. 2 was remedied prior to the audit. The audit uncovered the discrepancy that was previously detected by our internal review, but the credit of \$105 was not yet addressed at the time of the audit. Transportation has remedied the inaccuracy to ensure our internal billing does not incorrectly bill Internal Service Fund agencies in the Asset Management Fee (AMF). This was resolved by changing the billing module in Flagship to search not only disposition date, but for any vehicle that has a disposition notation (D) in front of the unit number. Now the Flagship billing program searches for any unit number that does not have a D in front of the unit number to bill the AMF.



## **Finding No. 3 – Supervisory Reviews of Interdepartmental Billings**

**(Control Finding)** We noted discrepancies between the Transportation billing reports and the Journal Vouchers (JV) prepared for interdepartmental billing during certain months of the audit period as follows:

- **Parts Billing:** The JV amount for parts in the July 2008 billing was \$39.33 less than the Transportation billing report. Also, the JV amount for parts in the October 2007 billing was \$418.41 more than the Transportation billing report.
- **Pool Billing:** The JV posted and billed for January 2008 was \$155 less than the amount billed on the Transportation billing report.

Supervisory reviews of the billing reports and JVs were performed in OCPW Accounting, but the errors were not detected. The review process should include agreeing amounts on the Transportation billing reports to the amounts posted on the JV and/or invoices.

## **Recommendation No. 3**

OC Public Works/Accounting ensure a process is in place to agree Transportation billing reports to the JVs posted and/or invoices billed to departments/agencies, and to identify and resolve all differences to ensure accuracy and completeness of billings.

## **OC Public Works/Transportation Management Response:**

Concur. Transportation agrees that discrepancies were found between the amounts in Transportation billing reports and the amounts actually billed by OCPW Accounting, and reviews of the billing reports and Journal Vouchers (JVs) did not detect these discrepancies. OCPW Accounting will ensure that the JVs they produce match the amounts on the billing reports they receive from Transportation.

## **Auditor-Controller Management Response:**

Concur. The January and July 2008 discrepancies occurred when two entities (Courts and LAFCO) switched from the monthly JV billing process to billing via a manual invoice. We will work with Transportation to better identify users that need to be manually invoiced rather than billed through the JV process in Fleet Focus/Flagship and on the billing reports.

The October 2007 billing was the first one processed using the new Flagship Billing System. During this implementation month, there were some inconsistencies on how oil and oil filters were billed that led to an immaterial difference in the parts billing. In subsequent months, a process to address these inconsistencies was developed and implemented.

It should be noted that neither situation described above has occurred again.

As further described in our response to Recommendation No. 12 below, we will include a requirement on the checklist to document the reconciliation of the Transportation billing report to the JV and manual invoices to ensure proper amounts are being charged.





## **Finding No. 4 – Reconciliations Between Fleet Focus and CAPS (Control Finding)**

Transportation performs reconciliations between Fleet Focus and CAPS to identify billing discrepancies and potential errors. Since the implementation of Flagship Billing in October 2007, Transportation prepared reconciliations (e.g., "In CAPS not Fleet" and "Reconciliation"); however, they have not been subject to a supervisory review and have not made any subsequent corrections to resolve the reported differences. Transportation is aware of the importance of the reconciliations and has analyzed the results for any significant concerns or system problems. In addition, because Transportation billings are recorded in an Internal Service Fund, any corrections needed should be made in the current year. Transportation indicated they plan to work on the reconciliations as resources permit.

### **Recommendation No. 4**

OC Public Works/Transportation ensure all reconciliations are being prepared and reviewed timely, and that reconciling differences are resolved and posted accordingly.

### **OC Public Works/Transportation Management Response:**

Concur. Fleet Services, in collaboration with Information Technology Services (ITS), has developed a process to download and create reconciliation and variance reports. Reconciliations were completed prior to the end of the fiscal year and Fleet Services is now on schedule to perform these duties on a monthly basis.

## **Finding No. 5 - Fuel Reconciliation Percentage Variance Calculations are Incorrect (Control Finding)**

Our audit noted that the percentage variance reported in the monthly Fuel Reconciliations was incorrect due to an error in the formula.

Transportation prepares a monthly Fuel Reconciliation to compare fuel inventory changes per fuel pump meter readings (also known as Veeder Root Readings) to fuel dispensed shown in the Fleet Focus System. Due to environmental factors and pump calibration changes, there can be discrepancies in fuel inventory. Transportation investigates possible causes when variances exceed 1%. This variance percentage is calculated on the monthly Fuel Reconciliation. However, any lost/unrecorded fuel cannot be traced to a vehicle and becomes an overhead expense. Corrective actions are taken as necessary to prevent future inaccurate fuel disposal readings. Therefore, the accuracy of the percentage variance is important in ensuring investigations are performed to ensure completeness and accuracy of future fuel billings.

It should be noted that Transportation took action to correct the formula when we first identified the error during our audit. As such, we have no recommendation.

### **Recommendation No. 5**

No recommendation needed as sufficient corrective action was taken.

### **OC Public Works/Transportation Management Response:**

Not required.



## **Audit Objective #2 – Application Controls – User Access**

Our audit included a review of application controls to support Audit Objective No. 1. As discussed in the Scope Exclusions on page 4 above, our review focused on user access to the rates and account codes in the Flagship Billing System and Fleet Focus System.

### **User Access - Flagship Billing System and Fleet Focus Strengths**

Our audit disclosed that user access to the rates and account codes in the Flagship Billing System and Fleet Focus System is adequately controlled.

The following is where controls could be improved to enhance controls over user access:

### **Finding No. 6 – Timely Removal of Separated User Access (Control Finding)**

OCPW/Transportation administers application security, including user access, for the Fleet Focus System. During our audit, we noted one employee who separated in December 2008, but their user access had not been removed from Fleet Focus. OCPW/Transportation disabled the account upon notification during the audit.

OCPW/Transportation indicated that it was an inadvertent oversight that the user account was not removed. OCPW/Information Technology receives periodic emails from OCPW/Human Resources of employee changes (separations, transfers, etc.). OCPW/Transportation staff responsible for user access should be added to the email distribution list as an additional reminder to remove separated users.

### **Recommendation No. 6**

OCPW/Information Technology should ensure the appropriate OCPW/Transportation staff are included in the email notifications of employee changes from OCPW/Human Resources to help ensure user accounts are disabled in a timely manner.

### **OC Public Works/Information Technology Management Response:**

Concur. ITS will initiate a new procedure to ensure the appropriate Fleet Services staff is advised in a timely manner via email notification when user accounts are disabled. This process will be utilized for all functions within the department, as OCPW/Human resources will include both ITS and the affected OC Public Works division when a user account modification is performed.

## **Audit Objective #3 – High-Level Review of IT General Controls**

Our audit included a high-level review of selected IT general controls for OCPW as it relates to the Flagship Billing System.

### **IT General Control Strengths**

Our audit disclosed that high-level IT general controls for OCPW as related to the Flagship Billing System are reasonable. Control strengths noted during the audit include:

- ✓ Physical Access Controls: Physical access to OCPW server room is controlled via card reader. Security monitoring procedures are in place.
- ✓ Change Control: OCPW Information Technology has developed Project Framework and Application Development Project Management Process documents to guide systems development.



- ✓ System Software: OCPW Information Technology has developed procedures for Applying Critical Security Patches to Servers and Workstations.
- ✓ Computer Operations: OCPW Information Technology utilizes a centralized problem reporting system to capture and manage system problems.

The following is where processes and controls could be improved to enhance general controls:

**Finding No. 7 – Fleet Focus, Flagship Billing, and Transportation Billing Application Modifications and Problem Reporting are Not Included in OCPW IT Problem Reporting (Control Finding)** OCPW Information Technology maintains centralized problem reporting for all system issues. However, during the audit period, modification requests and problems for the Fleet Focus System, Flagship Billing System, and the Transportation Billing System were not captured in the centralized problem reporting system.

During our audit fieldwork, OCPW Information Technology implemented a new problem reporting system (Footprints) to track all system incidents. In addition, all OCPW employees were trained to report system problems or modifications using Footprints. Internal Audit reviewed the subsequent procedures and determined them to be sufficient. Any system issues for the Flagship Billing System, Fleet Focus System, and Transportation Billing System are now included in the centralized problem report system.

#### **Recommendation No. 7**

No recommendation needed as sufficient corrective action was taken.

#### **OC Public Works/Information Technology Management Response:**

Not required.

#### **Finding No. 8 – IT Security Management Practices (Control Finding)**

OCPW Information Technology has various procedures that it performs as part of its security management program. However, not all of the procedures performed are documented in the form of a written procedure. Also, the existing written policies and procedures were not assembled or organized in a cohesive manner to collectively document a comprehensive security management program.

The follow processes need to be written or enhanced, and then assembled as part of a comprehensive written security management procedure:

- Incident response
- Remote access including tokens
- Periodic review of user access (network and application)
- Removing user access
- Data center visitor access
- Periodic reviews of security violations
- Periodic security training activities

A comprehensive security management program ensures an organization implements security measures sufficient to reduce risks and vulnerabilities to a reasonable and appropriate level and decreases the risk of security events affecting availability of information technology resources.



## **Recommendation No. 8**

We recommend that OCPW Information Technology improve its written policies and procedures to create a complete and cohesive set of policies and procedures for IT security management.

### **OC Public Works/Information Technology Management Response:**

Concur. ITS recognizes the need to improve and consolidate all ITS security management policies into a unified set of policies and procedures. ITS will create an information portal and integrate the policies and procedures for simple access and review by ITS and management staff.

## **Finding No. 9 – OCPW IT Involvement in Acquiring Third Party Software/Hardware (Control Finding)**

OCPW/Information Technology participates in the OCPW Managers' Computer Committee (MCC). The MCC reviews the status of OCPW IT projects and acquisitions/changes to software applications.

OCPW's written procedures for in-house developed applications require the involvement of OCPW/Information Technology. However, there are no written procedures requiring their involvement in the acquisition of third party software or hardware.

Requiring OCPW/Information Technology to be involved in the acquisition of software (whether developed in-house or purchased) and hardware will help ensure the software and hardware meets the organization wide requirements and standards.

## **Recommendation No. 9**

OCPW should modify its purchasing and software acquisition policies to require OCPW/Information Technology involvement in software and hardware acquisitions.

### **OC Public Works/Information Technology Management Response:**

Concur. OC Public Works will create a written policy and procedure that will require all technology procurements to be approved by ITS, along with ITS's direct involvement in the acquisition, implementation and administration of all technology contracts, including third party, as well as all hardware/software platform procurements.

## **Finding No. 10 – Disaster Recovery/Business Continuity Plans Not Complete (Control Finding)**

OCPW/Information Technology has documented various aspects of its Business Continuity/Disaster Recovery Plan. However, a consolidated/comprehensive plan does not exist. Also, only the restore aspects of the plan have been tested.

A comprehensive Disaster Recovery/Business Continuity Plan ensures the organization is prepared to handle various incidents and reduces the risk that information technology services will not be available in the event of a disaster. OCPW has been working on this as part of the CEO/Information Technology's countywide disaster recovery plan initiative.

## **Recommendation No. 10**

OCPW/Information Technology continue to document and test its disaster recovery/business continuity plan as part of the CEO/Information Technology countywide disaster recovery plan initiative.



## **OC Public Works/Information Technology Management Response:**

Concur. ITS will continue to work with CEO/IT and the CIO to perform Business Impact Analyses, create Business Continuity Plans, and perform disaster recovery testing of those plans. An out-of-state comprehensive website is available and contains all the OC Public Works continuity plans for access as needed. In addition, the Business Continuity progression is a recurrent process and will be reviewed annually and adjusted as business priorities change.

## **Process Efficiency/Effectiveness (Audit Objective #4)**

Our objective was to determine if business processes are efficient and effective as related to Transportation's interdepartmental billing process. No inefficient or ineffective procedures such as backlogs or duplication of work were noted or came to our attention concerning Transportation's interdepartmental billing process. However, we did note the following observations where efficiency and effectiveness can be improved:

### **Finding No. 11 – Transfer of Reconciliation Duties to Accounts Payable**

**(Control Finding)** *"In Fleet not CAPS"* is a reconciliation report between Fleet Focus and CAPS that Transportation has been generating since Flagship Billing was implemented. Items shown in this reconciliation report are invoices recorded in Fleet Focus, but not yet recorded in CAPS. Transportation records invoices in Fleet Focus upon receipt; however, there is a timing difference when invoices are processed in the Auditor-Controller and are posted in CAPS. Since departments/agencies are billed based on billable transactions captured in Fleet Focus, the timeliness of the vendor payment has no impact to the billing process. As a result, Transportation takes no action on these items and discontinued reviewing the reconciliations in February 2009.

This reconciliation report could be an effective tool for Transportation's accounts payable section to monitor the timeliness of vendor payments if there are no other similar controls in place.

### **Recommendation No. 11**

OCPW/Transportation evaluate assigning the duties to reconcile the *"In Fleet not CAPS"* reports to accounts payable for possible use in monitoring timeliness of vendor payments.

## **OC Public Works/Transportation Management Response:**

Concur. Fleet Services agrees that monitoring timeliness of vendor payments has no impact on the internal billing process. Vendor invoices are sent to Auditor-Controller, where they are time-stamped upon receipt. Monitoring timeliness of vendor payments is an Auditor-Controller function.

### **Finding No. 12 – Communication Between Transportation and Accounting**

**(Control Finding)** Transportation processes and prepares the interdepartmental billings on a monthly basis. Upon completion, Transportation posts the billing reports on the Fleet/Fuel Focus and Flagship Maintenance Portal (Portal) for review and approval by Accounting Services. There is no notification given to inform the Accounting Services Manager that the reports are ready for review. As a result, the Accounting Manager has to periodically check the Portal for availability of the reports.





Additionally, once the Accounting Manager performs the final review and approval of the billing reports, Accounting staff prepare four journal vouchers (asset management, parts, fuel, and pool) to post the charges on CAPS. The Accounting Manager notifies Transportation of the approval and to upload the billing reports to ERMI for user agencies/departments to view. We were informed the Accounting Manager did not consistently notify Transportation when billings were approved in Accounting.

Communications between Transportation and Accounting Services should be enhanced, such as implementing an email notification, to improve the efficiency of the billing process and avoid potential delays in billing.

### **Recommendation No. 12**

OCPW/Transportation and Accounting Services establish a process by which availability of the billing reports on the Portal is communicated to Accounting Services; and the approval of the billing reports to post onto ERMI is communicated to Transportation.

### **Auditor-Controller Management Response:**

Concur. We will develop a checklist that includes each billing report (parts, pool, etc.), and staff will document on the list when each report has been reviewed and the related JV or manual invoice has been processed. We will include a final step on the checklist to inform Transportation that the billings are completed so they can place the billing reports in ERMI for departments to review. This checklist will be completed concurrent with the staff's review and will be signed off by a supervisor. We will begin to use this checklist effective with the July 2009 billing reports.

We worked with OCPW/Transportation and have already implemented a system to notify us when billing reports are posted to the Portal.

### **Finding No. 13 – Timeliness of Account Code Updates in Fleet Focus**

**(Control Finding)** Transportation billings are processed based on account codes established in Fleet Focus. Accounting Services is responsible for adding/updating account codes in Fleet Focus per the user department/agency's request. Accounting can also make manual account code changes based upon requests received subsequent to the billing cycle when processing the JV.

We noted two (2) instances where account codes were invalid or changes were requested but were not updated into Fleet Focus timely. Instead, Accounting made the corrections manually for several months when processing the JVs for these two accounts. Inputting account codes timely into Fleet Focus will minimize the manual corrections needed by Accounting.

### **Recommendation No. 13**

OCPW/Accounting Services establish a procedure addressing the timeliness for updating account codes into Fleet Focus. Any manual adjustments should be limited to change requests received subsequent to the billing cycle.

### **OC Public Works/Transportation Management Response:**

Please see the attached document from the Auditor-Controller.



## **Auditor-Controller Management Response:**

Concur. The untimely updating to account coding in these instances was due to the user department contacting someone other than the staff person responsible for updating account coding in Fleet Focus. Tasks in Accounting Services have been reassigned to help ensure that account coding updates are made in a timely manner. Most user departments contact the journal voucher preparer for account coding changes. This person is now responsible for coordinating change requests to ensure they are completed in a timely manner. It should be noted that in these two incidents, the account coding changes were to job codes and ORGs, and the proper fund was billed.

## **Finding No. 14 – Threshold for Review of Asset Management Billing Variances**

**(Control Finding)** The Accounting Manager reviews the total Asset Management fees billed and evaluates if there are any variances greater than \$2,000 from prior month's billing. This threshold amount appears to be high because it equals approximately 134 vehicle changes (net) and is unlikely to trigger a review by Accounting. When there is a variance greater than \$2,000, Accounting requires assistance from Transportation to investigate and verify the changes in asset management fees.

We believe that effectiveness would be enhanced if Transportation prepares a schedule or a reconciliation of monthly asset management changes and provides it to Accounting to help in their review. This could be accomplished by taking the prior month's total equipment plus any new equipment added, less equipment retired during the month and comparing against the number of assets billed for the month. See Finding No. 2 above.

## **Recommendation No. 14**

OCPW/Transportation and Accounting Services jointly establish a process and responsibilities for reconciling changes in asset inventory to assist in Accounting's review of the monthly Asset Management Fee billings.

## **OC Public Works/Transportation Management Response:**

Please see the attached document from the Auditor-Controller.

## **Auditor-Controller Management Response:**

Concur. Accounting will initiate a meeting with Transportation by September 30, 2009, to discuss the requirements of a monthly report that identifies vehicles with status changes and a process to reconcile Asset Management billing variances month to month.

## **Finding No. 15 – Utilizing Flagship Billing System to Calculate Monthly Depreciation Expense (Control Finding)**

OC Public Works/Transportation uses the Flagship Billing System to calculate the billing of asset management fees, parts, fuel, and pool rental services. However, the monthly depreciation expense billing is calculated in Transportation Billing System. OC Public Works/Information Technology downloads fixed asset data from CAPS into the Transportation Billing System to calculate the monthly depreciation expense billing.





We were informed that the Flagship Billing System could be programmed to calculate depreciation expenses. If the depreciation expenses are calculated by the Flagship Billing System, some support costs might be reduced by eliminating the Transportation Billing system. Also, internal controls could be enhanced by assigning the responsibilities to process depreciation expense billing from Information Technology to Transportation as duties in the Information Technology Division should be focused on system support and maintenance.

### **Recommendation No. 15**

OCPW should research the feasibility of using the Flagship Billing System to calculate the monthly depreciation expense billing.

### **OC Public Works/Transportation Management Response:**

Concur. Our current billing module, Flagship, is ready to perform the depreciation billings. The change of responsibility from ITS to Fleet Services has been discussed, and all parties (ITS, Accounting, Fixed Assets and Fleet Services) are willing to move forward in this endeavor after the CAPS+ implementation. Fleet Services will initiate a meeting with the involved parties by October 2009, to discuss the requirements needed to make the change.



## ATTACHMENT A: Report Item Classifications

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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 concerning internal controls, compliance issues, or efficiency/effectiveness issues 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.



## ATTACHMENT B: OC Public Works/Transportation Management Responses



RECEIVED  
INTERNAL AUDIT DEPARTMENT  
2009 SEP 25 AM 11:00

Jess A Carbajal, Interim Director  
300 N. Flower Street  
Santa Ana, CA  
P.O. Box 4048  
Santa Ana, CA 92702-4048  
Telephone: (714) 834-2300  
Fax: (714) 834-5188

### memo

**DATE:** September 24, 2009  
**TO:** Peter Hughes, Ph.D., CPA, Director  
Internal Audit Department  
**FROM:** Jess A. Carbajal, Interim Director   
**SUBJECT:** Response to OC Public Works/Transportation Interdepartmental Billing Process,  
Audit No. 2823

I am pleased to provide OC Public Works' response to the Internal Audit Department's Draft Report on the OC Public Works/ Transportation Interdepartmental Billing Process. Our response has been reviewed and approved by the County Executive Office.

While there were no material weaknesses or significant issues, we will work to implement the Internal Audit Department's recommendations as indicated in our following responses.

Please note that the Auditor-Controller Management Responses are attached as a separate document.

I would like to express my appreciation for the professionalism of the Internal Audit Department staff that conducted this audit.

Should you have any questions regarding OC Public Works' responses to the Internal Audit Department's recommendations, or require additional information on these items, please contact Larry Stansifer, Administrative Manager, OC Facilities at (714) 834-3051. OC Fleet Services, formerly referred to as Transportation, is implementing the Department's response.

Thank you.

Attachment

c: Alisa Drakodaidis, Deputy CEO  
Dori Malloy, Director, OC Public Works/OC Facilities  
Carlos Bustamante, Director, OC Public Works/Administration  
Mary Fitzgerald, Manager, OC Public Works/Accounting Services  
Bill Castro, Director, A-C Satellite Accounting Operations  
Tony Bernard, Manager, OC Public Works/Administration/Purchasing  
Eli Littner, Deputy Director, Internal Audit Department  
Mike Goodwin, Sr. Audit Manager, Internal Audit  
Bill Douglas, Division Manager, OCPW/Fleet Services  
Terry Collins, Contracts/Project Manager, OCPW/Fleet Services  
Fred Neroni, Division Manager, OCPW/Information Technology Services



## ATTACHMENT B: OC Public Works/Transportation Management Responses (continued)

Transportation Interdepartmental Billing Process, Audit No. 2823  
Page 1 of 4

### **OC Public Works Responses to the Internal Audit Department's Draft Report: OC Public Works/Transportation Interdepartmental Billing Process, Audit No. 2823**

#### **Recommendation No. 1**

OC Public Works/Transportation consult with the Flagship Billing System vendor for adjusting the sales tax calculation to eliminate the rounding discrepancies.

#### **OC Public Works/Fleet Services Response:**

Concur. The sales tax calculation discrepancy is rooted in Fleet Focus, the fleet management software. We are working with Flagship (the billing module vendor) to develop a calculation to offset the difference in the CAPS to Fleet Focus calculations to remedy the variance.

#### **Recommendation No. 2**

OC Public Works/Transportation establish a process to reconcile the fleet inventory changes to the monthly asset management fees and evaluate the need to credit the over-billed amount to the Social Services Agency.

#### **OC Public Works/Fleet Services Response:**

Concur. Finding No. 2 was remedied prior to the audit. The audit uncovered the discrepancy that was detected previously by our internal review, but the credit of \$105 was not yet addressed at the time of the audit. Transportation has remedied the inaccuracy to ensure our internal billing does not incorrectly bill Internal Service Fund agencies the Asset Management Fee (AMF). This was resolved by changing the billing module in Flagship to search for not only disposition date, but for any vehicle that has a disposition notation (D) in front of the unit number. Now the Flagship billing program searches for any unit number that does not have a D in front of the unit number to bill the AMF.

#### **Recommendation No. 3**

OC Public Works/Accounting ensure a process is in place to agree Transportation billing reports to the JVs posted and/or invoices billed to departments/agencies, and to identify and resolve all differences to ensure accuracy and completeness of billings.

#### **OC Public Works/Fleet Services Response:**

Concur. Transportation agrees that discrepancies were found between the amounts in Transportation billing reports and the amounts actually billed by OCPW Accounting, and reviews of the billing reports and Journal Vouchers (JVs) did not detect these discrepancies. OCPW Accounting will ensure that the JVs they produce match the amounts on the billing reports they receive from Transportation.

#### **Auditor-Controller Management Response:**

Please see the attached document from the Auditor-Controller.



## ATTACHMENT B: OC Public Works/Transportation Management Responses (continued)

Transportation Interdepartmental Billing Process, Audit No. 2823  
Page 2 of 4

### **Recommendation No. 4**

OC Public Works/Transportation ensure all reconciliations are being prepared and reviewed timely, and that reconciling differences are resolved and posted accordingly.

#### **OC Public Works/Fleet Services Response:**

Concur. Fleet Services, in collaboration with Information Technology Services (ITS), has developed a process to download and create reconciliation and variance reports. Reconciliations were completed prior to the end of the fiscal year and Fleet Services is now on schedule to perform these duties on a monthly basis.

### **Recommendation No. 5**

No recommendation needed as sufficient corrective action was taken.

**OC Public Works/Fleet Services Response:** Not required.

### **Recommendation No. 6**

OCPW/Information Technology should ensure the appropriate OCPW/Transportation staff are included in the email notifications of employee changes from OCPW/Human Resources to help ensure user accounts are disabled in a timely manner.

#### **OC Public Works/Information Technology Management Response:**

Concur. ITS will initiate a new procedure to ensure the appropriate Fleet Services staff is advised in a timely manner via email notification when user accounts are disabled. This process will be utilized for all functions within the department, as OCPW/Human Resources will include both ITS and the affected OC Public Works division when a user account modification is performed.

### **Recommendation No. 7**

No recommendation needed as sufficient corrective action was taken.

**OC Public Works/Information Technology Management Response:** Not required.

### **Recommendation No. 8**

We recommend that OCPW Information Technology improve its written policies and procedures to create a complete and cohesive set of policies and procedures for ITS security management.

#### **OC Public Works/Information Technology Management Response:**

Concur. ITS recognizes the need to improve and consolidate all ITS security management policies into a unified set of policies and procedures. ITS will create an information portal and integrate the policies and procedures for simple access and review by ITS and management staff.



## ATTACHMENT B: OC Public Works/Transportation Management Responses (continued)

Transportation Interdepartmental Billing Process, Audit No. 2823  
Page 3 of 4

### **Recommendation No. 9**

OCPW should modify its purchasing and software acquisition policies to require OCPW/Information Technology involvement in software and hardware acquisitions.

#### **OC Public Works/Information Technology Management Response:**

Concur. OC Public Works will create a written policy and procedure that will require all technology procurements to be approved by ITS, along with ITS's direct involvement in the acquisition, implementation, and administration of all technology contracts, including third party, as well as all hardware/software platform procurements.

### **Recommendation No. 10**

OCPW/Information Technology continue to document and test its disaster recovery/business continuity plan as part of the CEO/Information Technology countywide disaster recovery plan initiative.

#### **OC Public Works/Information Technology Management Response:**

Concur. ITS will continue to work with CEO/IT and the CIO to perform Business Impact Analyses, create Business Continuity Plans, and perform disaster recovery testing of those plans. An out-of-state comprehensive web site is available and contains all the OC Public Works continuity plans for access as needed. In addition, the Business Continuity progression is a recurrent process and will be reviewed annually and adjusted as business priorities change.

### **Recommendation No. 11**

OCPW/Transportation evaluate assigning the duties to reconcile the "In Fleet not CAPS" reports to accounts payable for possible use in monitoring timeliness of vendor payments.

#### **OC Public Works/Fleet Services Response:**

Concur. Fleet Services agrees that monitoring timeliness of vendor payments has no impact on the internal billing process. Vendor invoices are sent to Auditor-Controller, where they are time-stamped upon receipt. Monitoring timeliness of vendor payments is an Auditor-Controller function.

### **Recommendation No. 12**

OCPW/Transportation and Accounting Services establish a process by which availability of the billing reports on the Portal is communicated to Accounting Services; and the approval of the billing reports to post onto ERMI is communicated to Transportation.

#### **Auditor-Controller Management Response:**

Please see the attached document from the Auditor-Controller.



## ATTACHMENT B: OC Public Works/Transportation Management Responses (continued)

Transportation Interdepartmental Billing Process, Audit No. 2823  
Page 4 of 4

### **Recommendation No. 13**

OCPW/Accounting Services establish a procedure addressing the timeliness for updating account code into Fleet Focus. Any manual adjustments should be limited to change requests received subsequent to the billing cycle.

#### **Auditor-Controller Management Response:**

Please see the attached document from the Auditor-Controller.

### **Recommendation No. 14**

OCPW/Transportation and Accounting Services jointly establish a process and responsibilities for reconciling changes in asset inventory to assist in Accounting's review of the monthly Asset Management Fee billings.

#### **Auditor-Controller Management Response:**

Please see the attached document from the Auditor-Controller.

### **Recommendation No. 15**

OCPW should research the feasibility of using the Flagship Billing System to calculate the monthly depreciation expense billing.

#### **OC Public Works/Fleet Services Response:**

Concur. Our current billing module, Flagship, is ready to perform the depreciation billings. The change of responsibility from ITS to Fleet Services has been discussed, and all parties (ITS, Accounting, Fixed Assets and Fleet Services) are willing to move forward in this endeavor after the CAPS+ implementation. Fleet Services will initiate a meeting with the parties involved by October 2009, to discuss the requirements needed to make the change.





## ATTACHMENT C: Auditor/Controller Management Responses



DAVID E. SUNDBROM, CPA  
AUDITOR-CONTROLLER

### AUDITOR-CONTROLLER COUNTY OF ORANGE

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SHAUN M. SKELLY  
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CENTRAL OPERATIONS

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ASSISTANT AUDITOR-CONTROLLER  
SATELLITE ACCOUNTING OPERATIONS

PHILLIP T. DAIGNEAU  
ASSISTANT AUDITOR-CONTROLLER  
INFORMATION TECHNOLOGY

September 3, 2009

TO: Jess Carbajal, Interim Director  
OC Public Works

SUBJECT: Response to Internal Control Audit of OC Public Works/Transportation  
Interdepartmental Billing Process, Audit No. 2823

RECEIVED  
INTERNAL AUDIT DEPARTMENT  
2009 SEP -8 PM 4: 26

We reviewed the draft audit report prepared by the Internal Audit Department covering the audit of internal controls over the OC Public Works/Transportation Interdepartmental Billing Process for the year ending September 30, 2008.

We concur with the recommendations made in the draft audit report that relates to Orange County Public Works (OCPW) Accounting. Our responses to these recommendations are attached.

Please call Mary Fitzgerald, OCPW Accounting Manager, at (714) 834-5338 if you have any questions regarding this letter.

Thank you.

David E. Sundstrom  
Auditor-Controller

DES:lr  
Attachment

cc: Peter Hughes, Director, Internal Audit Department  
Shaun Skelly, Senior Director, Accounting & Technology, Auditor-Controller  
Bill Castro, Director of Satellite Accounting Operations, Auditor-Controller  
Mary Fitzgerald, Manager, OCPW Accounting



## ATTACHMENT C: Auditor/Controller Management Responses (continued)

### Internal Audit Department Internal Control Review of OC Public Works/Transportation Interdepartmental Billing Process

#### **Finding No. 3 – Supervisory Reviews of Interdepartmental Billings**

**(Control Finding)** We noted discrepancies between the Transportation billing reports and the Journal Vouchers (JV) prepared for interdepartmental billing during certain months of the audit period as follows:

- **Parts Billing:** The JV amount for parts in the July 2008 billing was \$39.33 less than the Transportation billing report. Also, the JV amount for parts in the October 2007 billing was \$418.41 more than the Transportation billing report.
- **Pool Billing:** The JV posted and billed for January 2008 was \$155 less than the amount billed on the Transportation billing report.

Supervisory reviews of the billing reports and JVs were performed in OCPW Accounting, but the errors were not detected. The review process should include agreeing amounts on the Transportation billing reports to the amounts posted on the JV and/or invoices.

#### **Recommendation No. 3**

OC Public Works/Accounting ensure a process is in place to agree Transportation billing reports to the JVs posted and/or invoices billed to departments/agencies, and to identify and resolve all differences to ensure accuracy and completeness of billings.

#### **Auditor-Controller Management Response:**

Concur. The January and July 2008 discrepancies occurred when two entities (Courts and LAFCO) switched from the monthly JV billing process to billing via a manual invoice. We will work with Transportation to better identify users that need to be manually invoiced rather than billed through the JV process in Fleet Focus/Flagship and on the billing reports.

The October 2007 billing was the first one processed using the new Flagship billing system. During this implementation month, there were some inconsistencies in how oil and oil filters were billed that led to an immaterial difference in the parts billing. In subsequent months, a process to address these inconsistencies was developed and implemented.

It should be noted that neither situation described above has occurred again.

As further described in our response to Recommendation No. 12 below, we will include a requirement on the checklist to document the reconciliation of the Transportation billing report to the JV and manual invoices to ensure proper amounts are being charged.

#### **Finding No. 12 – Communication Between Transportation and Accounting**

**(Control Finding)** Transportation processes and prepares the interdepartmental billings on a monthly basis. Upon completion, Transportation posts the billing reports on the Fleet/Fuel Focus and Flagship Maintenance Portal (Portal) for review and approval by Accounting Services. There is no notification given to inform the Accounting Services Manager that the reports are ready for review. As a result, the Accounting Manager has to periodically check the Portal for availability of the reports.



## ATTACHMENT C: Auditor/Controller Management Responses (continued)

Internal Audit Department Internal Control Review of OC Public Works/Transportation  
Interdepartmental Billing Process  
September 3, 2009  
Page 2

Additionally, once the Accounting Manager performs the final review and approval of the billing reports, Accounting staff prepare four journal vouchers (asset management, parts, fuel, and pool) to post the charges on CAPS. The Accounting Manager notifies Transportation of the approval and to upload the billing reports to ERM for user agencies/departments to view. We were informed the Accounting Manager did not consistently notify Transportation when billings were approved in Accounting.

Communications between Transportation and Accounting Services should be enhanced, such as implementing an email notification, to improve the efficiency of the billing process and avoid potential delays in billing.

**Recommendation No. 12**

OCPW/Transportation and Accounting Services establish a process by which availability of the billing reports on the Portal is communicated to Accounting Services; and the approval of the billing reports to post onto ERM is communicated to Transportation.

**Auditor-Controller Management Response:**

Concur. We will develop a checklist that includes each billing report (parts, pool, etc.), and staff will document on the list when each report has been reviewed and the related JV or manual invoice has been processed. We will include a final step on the checklist to inform Transportation that the billings are completed so they can place the billing reports in ERM for department's to review. This checklist will be completed concurrent with staff's review and will be signed off by a supervisor. We will begin to use this checklist effective with the July 2009 billing reports.

We worked with OCPW/Information Technology and have already implemented a system to notify us when billing reports are posted to the Portal.

**Finding No. 13 – Timeliness of Account Code Updates in Fleet Focus**

**(Control Finding)** Transportation billings are processed based on account codes established in Fleet Focus. Accounting Services is responsible for adding/updating account codes in Fleet Focus per the user department/agency's request. Accounting can also make manual account code changes based upon requests received subsequent to the billing cycle when processing the JV.

We noted two (2) instances where account codes were invalid or changes were requested but were not updated into Fleet Focus timely. Instead, Accounting made the corrections manually for several months when processing the JVs for these two accounts. Inputting account codes timely into Fleet Focus will minimize the manual corrections needed by Accounting.



## ATTACHMENT C: Auditor/Controller Management Responses (continued)

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**Recommendation No. 13**

OCPW/Accounting Services establish a procedure addressing the timeliness for updating account code into Fleet Focus. Any manual adjustments should be limited to change requests received subsequent to the billing cycle.

**Auditor-Controller Management Response:**

Concur. The untimely updating of account coding in these instances was due to the user department contacting someone other than the staff person responsible for updating account coding in Fleet Focus. Tasks in Accounting Services have been reassigned to help ensure that account coding updates are made in a timely manner. Most user departments contact the journal voucher preparer for account coding changes. This person is now responsible for coordinating change requests to ensure they are completed in a timely manner. It should be noted that in these two instances, the account coding changes were to job codes and ORGs, and the proper fund was billed.

**Finding No. 14 – Threshold for Review of Asset Management Billing Variances**

**(Control Finding)** The Accounting Manager reviews the total Asset Management fees billed and evaluates if there are any variances greater than \$2,000 from prior month's billing. This threshold amount appears to be high because it equals approximately 134 vehicle changes (net) and is unlikely to trigger a review by Accounting. When there is a variance greater than \$2,000, Accounting requires assistance from Transportation to investigate and verify the changes in asset management fees.

We believe that effectiveness would be enhanced if Transportation prepares a schedule or a reconciliation of monthly asset management changes and provides it to Accounting to help in their review. This could be accomplished by taking the prior month's total equipment plus any new equipment added, less equipment retired during the month and comparing against the number of assets billed for the month. See Finding No. 2 above.

**Recommendation No. 14**

OCPW/Transportation and Accounting Services jointly establish a process and responsibilities for reconciling changes in asset inventory to assist in Accounting's review of the monthly Asset Management Fee billings.

**Auditor-Controller Management Response:**

Concur. Accounting will initiate a meeting with Transportation by September 30, 2009, to discuss the requirements of a monthly report that identifies vehicles with status changes and a process to reconcile Asset Management billing variances from month to month.