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## FIRST FOLLOW-UP AUDIT

## **INTERNAL CONTROL AUDIT:**

# OC Public Works/Transportation Interdepartmental Billing Process

### **ORIGINAL AUDIT No. 2823**

AS OF SEPTEMBER 13, 2010

Our First Follow-Up Audit found OC Public Works/Transportation fully implemented eleven (11) recommendations; partially implemented one (1) recommendation, and one (1) recommendation was in process of implementation. These recommendations were from our original audit report dated September 29, 2009. Transportation's interdepartmental billing process billed over \$22 million in asset management, parts, labor, fuel, vehicle pool rental and depreciation costs during the original audit period between October 1, 2007 and September 30, 2008.

AUDIT NO: 2927-D REPORT DATE: SEPTEMBER 22, 2010

Director: Dr. Peter Hughes, MBA, CPA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Senior IT Audit Manager: Autumn McKinney, CPA, CIA, CISA
Audit Manager: Winnie Keung, CPA, CIA
IT Audit Manager: Wilson Crider, CPA, CISA

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

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2008 Association of Local Government Auditors' Bronze Website Award





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**RISK BASED AUDITING** 

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE

**Director** Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)

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

Eli Littner CPA, CIA, CFE, CFS, CISA

Deputy Director Certified Fraud Specialist (CFS)

Certified Information Systems Auditor (CISA)

Michael Goodwin CPA, CIA

Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE

Senior Audit Manager

Autumn McKinney CPA, CIA, CISA, CGFM

Senior Audit Manager 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

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OC Fraud Hotline (714) 834-3608

### Letter from Dr. Peter Hughes, CPA



#### **Transmittal Letter**



Audit No. 2927-D September 22, 2010

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

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

**SUBJECT:** First Follow-Up Internal Control Audit:

OC Public Works/Transportation Interdepartmental Billing Process,

Original Audit No. 2823, Issued September 29, 2009

We have completed a First Follow-Up Audit of the Internal Control Audit for OC Public Works/Transportation (OCPW/Transportation) interdepartmental billing process. Our audit was limited to reviewing, as of September 13, 2010, actions taken to implement the thirteen (13) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the FY 09-10 Audit Plan and Risk Assessment approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the OC Internal Auditor's Report following this transmittal letter. Our First Follow-Up Audit found that OCPW fully implemented eleven (11) recommendations; one (1) recommendation was partially implemented, and one (1) recommendation was in process of implementation. OCPW management is committed to addressing the remaining recommendations by the Second Follow-Up Audit in approximately six months from this report date.

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 7.

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Audit No. 2927-D September 22, 2010

TO: Jess A. Carbajal, Director

**OC Public Works** 

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

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

OC Public Works/Transportation – Interdepartmental Billing Process,

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Original Audit No. 2823, Issued September 29, 2009

#### **Scope of Review**

We have completed a First Follow-Up Audit of the Internal Control Audit for OC Public Works/Transportation (OCPW/Transportation) – Interdepartmental Billing Process. Our audit was limited to reviewing, as of September 13, 2010 actions taken to implement the **thirteen** (13) recommendations from our original audit report.

#### **Background**

Our original audit evaluated internal controls over OCPW/Transportation (currently Transportation Fleet Management Services) interdepartmental billings for the period October 1, 2007 through September 30, 2008. We evaluated transactions captured in the Fleet Focus System; the billable data extracted into the Flagship Billing System, and billings to departments/agencies generated by 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, and the feasibility of consolidating depreciation billing into the Flagship Billing System. During the audit period, OCPW/Transportation's interdepartmental billing process billed **over \$22 million** in asset management, parts, labor, fuel, vehicle pool rental and depreciation costs to County departments.

#### Results

Our First Follow-Up Audit indicated that OCPW/Transportation fully implemented eleven (11) recommendations; one (1) recommendation was partially implemented, and one (1) recommendation was in process of implementation. Based on the First Follow-Up Audit we conducted, the following is the implementation status of the fifteen findings and resulting thirteen recommendations:

#### 1. <u>Variances in Reconciliations Between Flagship and CAPS</u> (Control Finding)

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

<u>Current Status:</u> Implemented. OCPW requested Flagship to modify the billing module to eliminate the sale tax calculations rounding error, and this was completed in August, 2010.



We compared two CAPS+ Reconciliation Reports of the same period but with two different run dates (one prior to the modification and the other post modification). We noted that reconciling items pertaining to sales tax rounding errors, which were originally included on the pre-modification reports, were eliminated after the modification. Therefore, we consider this recommendation implemented.

#### 2. <u>Billing Error on Disposed Vehicle</u> (Control Finding)

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.

<u>Current Status:</u> **Implemented.** We noted that a Journal Voucher dated 5/12/09 was prepared to refund the \$120 asset management fee to SSA that was overbilled for the months March 2008 ~ September 2008, and December 2008. This has resolved the issue of the overbilling to SSA.

OCPW/Transportation modified the system query and billing codes for processing asset management fee billings to improve accuracy of the billings. Also, Transportation now generates a new report ~ EX - Asset Changes from Prior Month. This report identifies asset management billing changes from the previous month. Effective with the July 2010 billing, OCPW/Transportation implemented a procedure requiring the OC Fleet Operations Manager to verify the vehicles not being billed in the current month to the Auction List to detect overbilling of a "not in service" asset prior to submitting the billing report to OCPW/Accounting Services for review.

We reviewed the August 2010, *EX- Asset Changes from Prior Month* report and supporting documents and found the reconciliation was performed. Because a new process was established to reconcile the fleet inventory changes to the monthly asset management fee billings, we consider this recommendation implemented.

#### 3. Supervisory Reviews of Interdepartmental Billings (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCPW/Accounting modified the monthly billing report review and approval process. The current process includes a *Transportation Checklist* to document OCPW/Accounting's review and approval at various stages of the billing process. Also, this checklist includes a column for preparing and reviewing invoice billing to ensure completeness. We reviewed the January and February 2010 *Transportation Checklists* and found OCPW/Accounting's reviews were documented. In addition, we agreed the January and February 2010 CAPS+ JVs, prepared to post the transactions onto the County books, with Transportation's billing reports for asset management fees, parts, fuel and pool costs, and found no exceptions. Because a process was established to agree the Transportation billing reports to supporting invoices and JVs, we consider this recommendation implemented.



### 4. Reconciliations Between Fleet Focus and CAPS (Control Finding)

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

<u>Current Status:</u> **Partially Implemented.** We were informed that reconciliations were being performed monthly; however, due to recent personnel changes, other work priorities, and a technical issue with obtaining report data timely from CAPS+, the reconciliations (*In CAPS+ not Fleet* and *Reconciliations*) have not been prepared since November 2009. Since our original audit, procedures were modified to request a Help Desk Ticket from OCPW/Information Technology (OCPW/IT) for CAPS+ data to be downloaded and made available for reconciliation. Also, OCPW has submitted an unfreeze position request to fill a vacant position, whose duties will include performing the reconciliations. Although OCPW/Transportation took action to address our recommendation, the reconciliations were not prepared regularly; therefore, we consider this recommendation partially implemented.

#### **OCPW/Transportation Planned Action:**

The receipt of CAPS+ data from OCPW/IT has not been timely. OC Fleet Services staff now prepares a Helpdesk Ticket with OCPW/IT each month requesting that the CAPS+ data be downloaded and made available to OC Fleet Services staff for reconciliation. The current method to request this information by phone and email was discontinued. By utilizing the Helpdesk Ticket process, our requests will be prioritized, scheduled and followed-up by OCPW/IT management. We also have a Staff Specialist position that has been unfrozen and we are in the process of filling it. It is our plan to have the Staff Specialist perform the monthly reconciliation.

#### 5. Fuel Reconciliation Percentage Variance Calculations are Incorrect

**(Control Finding)** Our original audit noted that the percentage variance reported in the monthly Fuel Reconciliations was incorrect due to an error in the formula. Because Transportation took satisfactory corrective action to correct the formula when we first identified the error, no recommendation was needed during the original audit.

Current Status: Not subject for review.

#### 6. <u>Timely Removal of Separated User Access</u> (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCPW/Human Resources and OCPW/IT implemented a notification process utilizing the OCPW Help Desk service requests to notify OCPW/IT of separated and transferred employees. OCPW/IT now notifies the appropriate Section Manager (if the employee has access to a 3<sup>rd</sup> party application) after the employee's user account has been disabled. For OCPW/Transportation, the email notification will be sent to the Division Manager and Administrative Manager. We reviewed an example of a Help Desk service request notification and related emails. We also obtained the monthly OCPW/Human Resources separation reports for three months.



Based on our review, it appears the notification process is working as intended and we consider this recommendation implemented.

## 7. Fleet Focus, Flagship Billing, and Transportation Billing Application Modifications and Problem Reporting are Not Included in OCPW IT Problem Reporting (Control Finding)

During the original audit, change requests and problems for the Fleet Focus System, Flagship Billing System, and the Transportation Billing System were <u>not</u> captured in the OCPW/Information Technology's centralized problem reporting system. During the original audit, OCPW/Information Technology implemented a new problem reporting system (Footprints) to track all system incidents. Any system issues for the Flagship Billing System, Fleet Focus System, and Transportation Billing System are now included in the centralized problem report system. Because satisfactory corrective action was taken during the original audit, no recommendation was needed.

<u>Current Status:</u> Not subject for review.

#### 8. IT Security Management Practices (Control Finding)

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

<u>Current Status:</u> **Implemented.** OCPW/Information Technology Services has completed the creation of a set of IT Security management policies and procedures and incorporated them into one document, IT Security Management Document. In addition, the document has been posted on the OCPW Web Portal for review by all department staff members. We obtained a copy of the IT Security Management Document and noted it addresses the following: Incident Response, Remote Access, Periodic Review of User Access (including the new process for alerting IT Services of employee terminations), Removing User Access, Data Center Visitor Access, Periodic Reviews of Security Violations and Security Training Activities. Based on our review, we consider this recommendation implemented.

#### 9. OCPW IT Involvement in Acquiring Third Party Software/Hardware

**(Control Finding)** OCPW should modify its purchasing and software acquisition policies to require OCPW/Information Technology involvement in software and hardware acquisitions.

<u>Current Status:</u> **Implemented.** OCPW/Information Technology has completed a written policy addressing their involvement in all technology procurements. The policy can be accessed on the OCPW home web portal page. We obtained and reviewed the OCPW Policy and Procedure No. 1.1.212 and verified it was available on the portal. Based on our review, we consider this recommendation implemented.

#### 10. Disaster Recovery/Business Continuity Plans Not Complete (Control Finding)

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.



<u>Current Status:</u> **In Process.** OCPW/Transportation's Business Impact Analysis (BIA) was completed and submitted in November 2009 and is currently available on the RecoverOC website. We obtained and reviewed the Business Continuity Plan for OCPW/Transportation and noted that it was not complete. Completed plans are due by December 31, 2010 as part of the entire BIA Refresh project currently underway through the direction of CEO/Information Technology and in coordination with the Countywide Business Continuity Working Group and Business Continuity Steering Committee. OCPW staff attend the monthly Business Continuity meetings to monitor and coordinate the ongoing Business Continuity Program. Based on our review, we consider this recommendation in process.

**OCPW/Information Technology Planned Action:** As stated above, the Business Continuity Plan for OCPW (including Transportation) is due to be completed by December 31, 2010.

#### 11. <u>Transfer of Reconciliation Duties to Accounts Payable</u> (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCPW Fleet Services determined that monitoring timeliness of vendor payments has minimal impact on the interdepartmental billing process. Vendor invoices are sent to the Auditor-Controller, where they are timestamped upon receipt and monitored for timeliness. As such, OCPW/Transportation has discontinued reconciling the "*In Fleet not CAPS*" report. Therefore, we consider this recommendation implemented.

#### 12. Communication Between Transportation and Accounting (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCPW/Transportation and OCPW/Accounting Services have established a process to inform each other of the availability of billing reports on the Portal, and OCPW/Accounting Services' approval of the billing reports. This notification is done by email and has improved communications between the two groups for processing interdepartmental billings. Based on the actions taken, we consider this recommendation implemented.

#### 13. Timeliness of Account Code Updates in Fleet Focus (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCPW/Accounting Services implemented a new process and assigned staff to receive account code change requests from agencies and to update the changes into Fleet Focus. This enables them to ensure all account code changes are communicated to the appropriate staff and has improved timeliness.



We reviewed the Flagship JV download and CAPS+ JV for the January 2010 Asset Management billing and identified all account code changes made manually on the CAPS+ JV. Then, we traced the manual adjustments to the subsequent billing to ensure account coding changes were updated onto the system timely and were reflected in the next billing cycle. No exceptions were noted. The recurring manual adjustments resulted from asset management fees for some units being allocated on a predetermined percentage, requiring a manual adjustment to record the actual charges. We determined these manual adjustments were necessary and reasonable to meet their business objectives. Because we found that account codes are updated into Fleet Focus timely and manual adjustments are limited, we consider this recommendation implemented.

#### 14. Threshold for Review of Asset Management Billing Variances (Control Finding)

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.

<u>Current Status:</u> **Implemented.** OCPW/Accounting Services requested OCPW/Transportation to generate a report to identify variances on the Asset Management Billing from the prior month. As a result, OCPW/Transportation provides a new report - *EX-Asset Changes from Prior Month Report* to OCPW/Accounting Services that itemizes the Asset Management Fee Billing changes from the prior month. OCPW/Accounting Services reconciles the changes in the monthly billing with the *EX-Asset Changes from Prior Month Report*.

Based on our review of the January and February 2010 *EX-Asset Changes from Prior Month* Reports and the Asset Management Billing Report, we concluded that OCPW/Transportation and OCPW/Accounting Services jointly established a process and responsibilities for reconciling changes in asset inventory to assist in OCPW/Accounting's review of the monthly Asset Management Fee billings. Therefore, we consider this recommendation implemented.

## 15. <u>Utilizing Flagship Billing System to Calculate Monthly Depreciation Expense</u> (Control Finding) OCPW should research the feasibility of using the Flagship Billing System to calculate the monthly depreciation expense billing.

<u>Current Status:</u> **Implemented.** We found that OCPW/Transportation implemented and began using the Flagship Billing System to calculate the monthly deprecation expense billing effective May 2010. Therefore, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of OCPW/Transportation, OCPW/Information Technology, and OCPW/Accounting Services during our First 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, or Autumn McKinney, Senior Audit Manager at 834-6106.



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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