

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

## SECOND AND FINAL FOLLOW-UP INTERNAL CONTROL AUDIT:

### AUDITOR-CONTROLLER'S AND TREASURER-TAX COLLECTOR'S \$22 BILLION ELECTRONIC FUNDS TRANSFER PROCESSES

AS OF MAY 31, 2012

Our Second Follow-Up Audit found that the Auditor-Controller, Treasurer-Tax Collector, and CEO/Information Technology fully implemented or closed fourteen (14) recommendations and one (1) recommendation is in process from our original audit containing fifteen (15) recommendations.

Previously, six (6) recommendations were implemented or closed in our First Follow-Up Audit report dated June 29, 2011. For the one-year period of March 2008 through February 2009, the Auditor-Controller and Treasurer-Tax Collector processed over \$22 billion in EFT transactions.

AUDIT NO: 1131-B  
(ORIGINAL AUDIT NO. 2821)

REPORT DATE: JUNE 28, 2012

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Deputy Director: [Eli Littner, CPA, CIA](#)  
Senior Audit Manager: [Michael Goodwin, CPA, CIA](#)  
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#### RISK BASED AUDITING

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



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

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



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



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



ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

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

*Providing Facts and Perspectives Countywide*

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**OC Fraud Hotline (714) 834-3608**

# Letter from Dr. Peter Hughes, CPA

## Transmittal Letter



**Audit No. 1131-B June 28, 2012**

**TO:** Jan Grimes, Chief Deputy Auditor-Controller  
Shari L. Freidenrich, Treasurer-Tax Collector  
Mahesh Patel, Deputy CEO/CIO

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

**SUBJECT:** Second and Final Follow-Up Internal Control  
Audit: Auditor-Controller's and Treasurer-Tax  
Collector's \$22 Billion Electronic Funds  
Transfer Processes, Original Audit No. 2821,  
Issued October 14, 2010

We have completed a Second and Final Follow-Up Audit of internal controls over the Auditor-Controller's and Treasurer-Tax Collector's \$22 Billion Electronic Funds Transfer Processes. Our audit was limited to reviewing, as of May 31, 2012, actions taken to implement the **nine (9) recommendations** remaining from our First Follow-Up Audit issued on June 29, 2011. We conducted this Second Follow-Up Audit in accordance with the *FY 11-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found the Auditor-Controller, Treasurer-Tax Collector, and CEO/Information Technology **fully implemented or closed fourteen (14) recommendations, and one (1) recommendation is in process.** Previously, six (6) recommendations were implemented or closed during our First Follow-Up Audit. Please note this is our Second and Final Follow-Up Audit. The recommendations that have not been fully implemented by the Second Follow-Up Audit will be reported as such to the Audit Oversight Committee.

Each month I submit an **Audit Status Report** to the BOS where I detail any critical and significant control weaknesses 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 pages 6-7.

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Auditor Controller's and Treasurer-Tax Collector's  
\$22 Billion Electronic Funds Transfer Processes  
Audit No. 1131-B***

As of May 31, 2012

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# OC Internal Auditor's Report



**Audit No. 1131-B**

**June 28, 2012**

TO: Jan Grimes, Chief Deputy Auditor-Controller  
Shari L. Freidenrich, Treasurer-Tax Collector  
Mahesh Patel, Deputy CEO/CIO

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

SUBJECT: Second and Final Follow-Up Internal Control Audit: Auditor-Controller's and Treasurer-Tax Collector's \$22 Billion Electronic Funds Transfer Processes, Original Audit No. 2821, Issued October 14, 2010

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## Scope of Review

We have completed a Second and Final Follow-Up Internal Control Audit of the Auditor-Controller's and Treasurer-Tax Collector's Electronic Funds Transfer Processes. Our audit was limited to reviewing actions taken as of May 31, 2012 to implement the **nine (9) recommendations** remaining from our First Follow-Up Audit issued on June 29, 2011.

## Background

The original audit reviewed internal controls over the Auditor-Controller's (A-C) and Treasurer-Tax Collector's (T-TC) Electronic Funds Transfer (EFT) Processes, which included an evaluation of internal controls for:

- Establishing, authorizing, and processing electronic funds transfers completely and accurately in the A-C and T-TC;
- Segregation of duties in the Quantum and Commercial Electronic Office systems, including application controls related to user access profiles, system enforced dual authorizations, and password settings; and
- Access and transmission of A-C and T-TC EFT payment files transmitted to Wells Fargo Bank.
- In addition, we reviewed the processes for efficiencies and effectiveness.

For the one-year period of March 2008 through February 2009, the A-C and T-TC processed over **\$22 billion** in EFT transactions. The original audit identified fifteen (15) **Control Findings**.

## Results

Our Second Follow-Up Audit indicated the Auditor-Controller, Treasurer-Tax Collector and CEO/Information Technology **fully implemented or closed fourteen (14) recommendations, and one (1) recommendation is in process**. We believe the remaining recommendation is still appropriate and further efforts should be made to fully implement it.

Based on the two Follow-Up Audits we conducted, the following is the implementation status of the fifteen (15) original recommendations:



1. **Approval Signatures Not on Authorized List** (Control Finding)

Auditor-Controller ensure its Satellite Accounting Units verify the payment approval with the corresponding agency's authorized signature forms/access request forms prior to processing EFT payments.

Current Status: **Implemented (Second Follow-Up Audit).** Auditor-Controller Claims & Disbursing finalized its written procedures regarding *Access Request Forms (ARF) Authorized Signature Validation*. The procedures provide guidelines for staff to verify payment approval signatures. Satellite Accounting Units were sent the written procedures via an email in December 2011 reminding them to verify authorized signatures. We tested **fifteen (15) EFT transactions totaling over \$223 million**, and the related *On Demand Wire Forms* to determine if payment approval signatures were on the corresponding ARF, and found no exceptions. Because A-C Claims & Disbursing finalized and distributed the written policies and procedures to the Satellite Accounting Units and we found no exceptions in our testing, we consider this recommendation implemented.

2. **Missing Authorized Signatures on EFT/On Demand Wire Forms** (Control Finding)

Auditor-Controller Check Writing ensure that hard copy *EFT/On Demand Wire Forms* contain authorized signatures before releasing payments.

Current Status: **Implemented (Second Follow-Up Audit).** Auditor-Controller Claims & Disbursing finalized its written procedures regarding *On Demand Wires*, and provided them to A-C Check Writing Unit. Our testing of fifteen (15) EFT transactions and corresponding ARFs found no exceptions. Because A-C Claims & Disbursing finalized and distributed the written policies and procedures to the Check Writing Unit, and we found no exceptions in our test work, we consider this recommendation implemented.

3. **Data Entry Errors Not Detected** (Control Finding)

Auditor-Controller Claims & Disbursing ensure payment processors adequately review the data entered against supporting documentation, including vendor addresses, to ensure it is accurate and complete prior to processing payments.

Current Status: **Implemented (Second Follow-Up Audit).** Auditor-Controller Claims & Disbursing finalized its written procedures regarding *General Accounting Trust (GAT) Payments* and provided them to staff. In December 2011, the GAT workflow process was changed. Instead of work flowing to the A-C Disbursing Unit, all GATs are work flowing to the A-C Claims Unit for review of all miscellaneous trust payments. The CAPS+ GAT Job Aid was also updated to reflect this change. We tested **six (6) miscellaneous payments totaling over \$4 million** and noted no exceptions. Because A-C Claims & Disbursing finalized written policies and procedures to ensure payment processors review data against supporting documentation, and we found no exceptions in our test work, we consider this recommendation implemented.

4. **Payment Authorization Procedures Not Standardized** (Control Finding)

Auditor-Controller should evaluate if standardized policies and procedures for authorizing and approving disbursements can be established to ensure they are consistently applied both in A-C Claims & Disbursing and the A-C Satellite Accounting Units. The standardized procedures should include scope of the reviews and specific review criteria that can be incorporated into department/agency policy and procedures.



Current Status: **In Process (Second Follow-Up Audit).** Draft uniform policies and procedures for *Payment Voucher & On Demand Wire (ODW) – Over Limit and Miscellaneous Vendor Code Approvals* have been prepared, but not finalized or distributed to Satellite Accounting Units. In May 2012, a meeting was held with the Satellite Accounting Units to discuss threshold review levels. The Satellite Accounting Units are scheduled to respond on issues related to meeting these thresholds in June 2012. Additionally, a revised ODW form has been drafted. Because A-C Claims & Disbursing is in process of finalizing uniform policies and procedures, and has met with Satellite Accounting Units to ensure standardization of payment reviews and approvals, we consider this recommendation in process.

Planned Action:

The Auditor-Controller plans to review feedback provided by the Satellite Accounting Units. Based on the feedback and issues identified, Claims & Disbursing will finalize and distribute written policies and procedures to Satellite Accounting Units by October 31, 2012.

**5. Payment Authorization Procedures Not Standardized (Control Finding)**

Auditor-Controller should also evaluate whether disbursements processed as department interfaces should be subject to Auditor-Controller review and approval thresholds described above, and if support documentation should be required as part of the review process.

Current Status: **Implemented (Second Follow-Up Audit).** Auditor-Controller/Claims and Disbursing has contacted departments processing interfaces (e.g., A-C/Tax Unit, PA/PG, Superior Court, Sheriff-Coroner). The new policy is for Claims and Disbursing to receive back-up documentation for interface payments \$100,000 or greater. Many of the departments agreed to begin providing the required documentation. Because the Auditor-Controller contacted departments with interface payments and established a new procedure to obtain and review supporting documentation for interface payments exceeding \$100,000, we consider this recommendation implemented.

**6. Errors and Omissions of Bank Account Numbers (Control Finding)**

Auditor-Controller Claims & Disbursing Unit and Satellite Accounting offices ensure during their review that bank account codes and ABA numbers are correctly documented prior to approving EFTs.

Current Status: **Implemented (First Follow-Up Audit).** In order to ensure accuracy of the bank account codes and ABA numbers, all ODW forms are now required to have attached the vendor/payee wiring instructions for A-C Claims & Disbursing to release the wire. This new requirement was announced in the Auditor-Controller Claims and Disbursement Bulletin Issue 2011-01, dated April 15, 2011. Our testing of sixteen (16) EFT transactions found no exceptions concerning bank account codes and ABA numbers. Therefore, we consider this recommendation implemented.

**7. Remove CEO System EFT “Release” Role for EFT Manual Approvers**

**(Control Finding)** Treasurer-Tax Collector should remove the “release” access within the CEO system for the two manual approvers of EFTs.





Current Status: **Implemented (First Follow-Up Audit).** The Treasurer-Tax Collector has removed the “release” access for the two approvers. Therefore, we consider this recommendation implemented.

**8. More Restrictive Quantum Account and Password Settings (Control Finding)**

Treasurer-Tax Collector should restrict user log-on, implementing password filters to provide more password complexity, and setting the password uniqueness to twelve passwords.

Current Status: **Implemented (First Follow-Up Audit).** The Treasurer-Tax Collector changed the Quantum account and password settings to meet our recommendations, but did not restrict multiple user log-ons. After further research and testing, the Treasurer-Tax Collector determined that the multiple log-ons were needed to run the unattended batch scheduler jobs. They investigated purchasing additional software licenses to restrict the multiple log-ons, but found that it was not cost effective. We accept the Treasurer-Tax Collector's conclusion and consider this recommendation to be overall implemented.

**9. Remove Unnecessary CAPS+ Server Administrative Accounts**

**(Control Finding)** Auditor-Controller should remove any user accounts no longer needed to maintain the CAPS+ hardware/software.

Current Status: **Implemented (Second Follow-Up Audit).** The Auditor-Controller worked with the OC Enterprise Data Center to remove users that the Auditor-Controller identified as no longer needing access to the CAPS+ server. The unnecessary user access was removed as of June 11, 2012. During the follow-up audit we did not review the adequacy of the remaining access, but we reviewed that the accounts identified by the Auditor-Controller were addressed. The Auditor-Controller stated it will periodically review the list of accounts for users that no longer require access. Therefore, we consider this recommendation to be implemented.

**10. Remove Unnecessary OC Enterprise Data Center FTP Server Administrative Accounts (Control Finding)** CEO/IT should remove those administrative accounts for individuals no longer requiring access to the FTP server at the OC Enterprise Data Center.

Current Status: **Implemented (First Follow-Up Audit).** We reviewed user access to the OC Enterprise Data Center FTP server and determined the unnecessary accounts were deactivated. Therefore, we consider this recommendation implemented.

**11. Restrict OC Enterprise Data Center FTP Server Administrative Accounts**

**(Control Finding)** CEO/IT should limit the FTP job accounts' log-on capabilities: 1) to the console by removing the RDP (remote access) capabilities and 2) restricting access to specific hours when the account is used to transfer its file.

Current Status: **Implemented (First Follow-Up Audit).** We reviewed the administrative accounts and determined the following: accounts were limited to specific times in which they could log-on (for most accounts it's during business hours of 7 a.m. to 5 p.m.); the administrator account was removed from having remote access via RDP; the only group allowed remote access via RDP was the network administrators; and the remaining accounts are only able to log-on locally. Therefore, we consider this recommendation implemented.





- 12. Disallow Generic FTP External Firewall Rule (Control Finding)** CEO/IT should remove the global/generic FTP rule for network traffic through the external firewall. At a minimum, the banking related FTP activity should be the priority.

Current Status: **Closed (First Follow-Up Audit).** During the original audit, we recommended the removal of the FTP service because it was our understanding it was not necessary due to the CEO/IT file transfer software being used. Subsequent to the original audit, CEO/IT indicated that the FTP service is needed to support departments, vendors, and customers who are not using the CEO/IT file transfer software. To limit or restrict access to this FTP service, an authorized user ID and password must be approved and set-up prior to using the FTP service. Therefore, we consider this recommendation closed.

- 13. Consider Consolidation of County FTP Activity (Control Finding)**

CEO/IT should work with the applicable departments/agencies to consider consolidating external FTP activity to the OC Enterprise Data Center SFTP infrastructure.

Current Status: **Implemented (Second Follow-Up Audit).** CEO/IT has implemented a new enterprise Secure FTP (SFTP) and developed a process to incorporate County file transfers through the new SFTP. The project was divided into the below areas involving about 34 applications/agencies. The current status as of June 20, 2012 as reported by CEO/IT is presented below:

- Enterprise Infrastructure: **Completed.** SFTP infrastructure has been implemented.
- Banking Transactions - Wells Fargo: **Completed.** File transfers between the County and Wells Fargo have been migrated to the SFTP.
- Banking Transactions - Union Bank (HCS): CEO/IT will work with HCS and the bank to determine the timetable and protocol for transferring to the SFTP.
- CAPS+ Transactions: **Completed.** File transfers have been migrated to the SFTP.
- Scripted File Transfers: **Completed.** File transfers have been migrated to the SFTP.
- Non-Scripted and More Complex File Transfers (non-CAPS+): **Completed**, except for:
  - HCA Teleforms: Tentatively scheduled for completion by July 31, 2012.
  - Assessor ATS/PTMS: Tentatively scheduled to begin migration in August/September per meeting with ATS and PTMS.
  - Enterprise Onbase: Tentatively scheduled to begin within the next two weeks and completed by November 2012.
- Non-Scripted and Less Complex File Transfers: **Completed**, except for:
  - CEO/Pubserv: To be scheduled pending further research about legacy settings.
  - Balanced Scorecard: Not migrating. Application is scheduled to retired.
- Syslv1 server processes:
  - Clarity migration: Tentatively scheduled to be completed by Aug 31
  - HCA: Additional CAPS+ file transfers (not part of original CAPS+ transactions scope) to be scheduled pending research with HCA.

CEO/IT has invested a significant number of hours and has worked diligently with the related departments on this project. CEO/IT has substantially consolidated the external FTP activity, including the Wells Fargo bank file transfers and CAPS+ Transactions which were part of the original EFT audit scope. Therefore, we consider this recommendation implemented for follow-up audit purposes.



## 14. Develop Standardized Policy for County FTP Activity (Control Finding)

CEO/IT should also develop a single Countywide policy for administration of the FTP activity. The policy should consider including: standardized procedures/tools for administration of the FTP process; a requirement for CEO/IT (CISO) review of new FTP servers, maintenance of a centralized inventory of external FTP file transfers; maintenance of a single/centralized schedule for the FTP jobs; and identification of sensitive files.

Current Status: **In Process/Closed (Second Follow-Up Audit).** The CEO/IT has been working with the IT governance groups (OC-SWG, OC-TAG, and Technology Council) to develop a Countywide external FTP policy and procedure framework.

A draft policy was developed, but further revision and approval was postponed pending completion of the new SFTP infrastructure (see further details about the new SFTP in Recommendation No. 13 above). The draft policy addresses data classification, encryption, audit logs, external FTP administration and change management, and CIO review of policy exceptions (file transfers made outside the SFTP). It is estimated the final policy will be approved at the August 2012 Technology Council meeting. As CEO/IT is making progress toward a Countywide FTP policy, we consider this recommendation closed for follow-up audit purposes.

## 15. Importance of Quality Assurance Reviews (Control Finding)

Auditor-Controller Claims & Disbursing should continue performing annual Quality Assurance Reviews and enhance the review process to include lower dollar EFT payment requests and interface transactions to help detect any improper or non-compliant transactions.

Current Status: **Closed (Second Follow-Up Audit).** The Auditor-Controller agrees with the importance of Quality Assurance Reviews. However, due to the reduction of A-C Claims & Disbursing staff, quality assurance reviews/compliance reviews are not being completed. The last compliance review performed by the A-C Compliance Unit covered FY 2007/08.

In December 2011, a risk assessment was performed and the conclusion was that all available staffing resources are being used to process payments and perform daily operations. At this time, there is no staff assigned to support this function. Currently, the County Executive Office is reviewing an organizational restructuring of A-C Central Accounting Operations, which may help move towards performing these reviews. Because the Auditor-Controller determined its priority is to focus on higher risk payments and maintain an acceptable payment processing timeframe, and obtaining a position to conduct compliance reviews will be considered in an upcoming budget process or reorganization, we consider this recommendation closed for follow-up audit purposes.

We appreciate the assistance extended by the Auditor-Controller, Treasurer-Tax Collector, and CEO/Information Technology during our Follow-Up Audits. 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 IT Audit Manager at 834-6106.

# OC Internal Auditor's Report



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
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