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# **FINAL CLOSE-OUT** SECOND FOLLOW-UP AUDIT

# **INTERNAL CONTROL AUDIT:**

# **OC Public Works/Transportation** INTERDEPARTMENTAL BILLING PROCESS

# ORIGINAL AUDIT No. 2823

**AS OF JANUARY 31, 2011** 

Our Second Follow-Up Audit found OC Public Works/Transportation implemented recommendations remaining from our original audit containing fifteen (15) findings and thirteen (13) Eleven (11) recommendations recommendations. were implemented in our First Follow-Up Audit report September 22, 2010. 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: 1034-B REPORT DATE: FEBRUARY 8, 2011

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

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

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





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



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

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OC Fraud Hotline (714) 834-3608

# Letter from Dr. Peter Hughes, CPA



### **Transmittal Letter**



Audit No. 1034-B February 8, 2011

TO: Jess Carbajal, Director OC Public Works

**FROM:** Dr. Peter Hughes, CPA, Director

Internal Audit Department

**SUBJECT:** Second and Final Close-Out Follow-Up

Internal Control Audit: OC Public

Works/Transportation - Interdepartmental Billing Process, Original Audit No. 2823,

Issued September 29, 2009

We have completed a Second Follow-Up Audit of the Internal Control Audit for OC Public Works/Transportation (OCPW/Transportation – currently OC Fleet Services) interdepartmental billing process. Our audit was limited to reviewing, as of January 31, 2011, actions taken to implement **two (2) recommendations** remaining from our First Follow-Up Audit report dated September 22, 2010 where **eleven (11) of the thirteen (13) recommendations** were implemented from our original audit. We conducted this Second Follow-Up Audit in accordance with the *FY 10-11 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. Because our Second Follow-Up Audit found that OCPW implemented the remaining two (2) recommendations, this represents the final close-out of the original audit.

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

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

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Audit No. 1034-B February 8, 2011

TO: Jess Carbajal, Director

**OC Public Works** 

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: Second and Final Close-Out Follow-Up Audit of Internal Control Audit:

OC Public Works/Transportation – Interdepartmental Billing Process,

te Hughes

Original Audit No. 2823, Issued September 29, 2009

### **Scope of Review**

We have completed a Second 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 January 31, 2011 actions taken to implement the **two (2) recommendations** remaining from our First Follow-Up audit report dated September 22, 2010 (Audit No. 2927-D).

# Background

Our original audit evaluated internal controls over OCPW/Transportation (currently OC Fleet 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 Second Follow-Up Audit indicated that OCPW/Transportation implemented the remaining two (2) recommendations. As such, this represents the final close-out of the original audit. Based on our two Follow-Up Audits, the following is the implementation status of the fifteen findings and resulting thirteen recommendations:

1. Variances in Reconciliations Between Flagship and CAPS (Control Finding)

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



**Implemented (First Follow-Up Audit).** 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.

Implemented (First Follow-Up Audit). We noted that a Journal Voucher dated May 12, 2009 was prepared to refund the \$120 asset management fee to SSA. OCPW/Transportation modified the system query and billing codes for processing asset management fee billings to improve accuracy of the billings. 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.

Implemented (First Follow-Up Audit). OCPW/Accounting modified the monthly billing report review and approval process. We obtained and reviewed the January and February 2010 *Transportation Checklists* and found OCPW/Accounting's reviews were documented. In addition, we obtained and agreed the January and February 2010 CAPS+ JVs, prepared to post the transactions onto 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 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> Implemented (Second Follow-Up Audit). We noted that OCPW/Transportation implemented a new process where a Helpdesk Ticket is submitted to OCPW/Information Technology (IT) each month to request CAPS+ data be downloaded and made available. This process ensures the data is available timely to generate *CAPS – In CAPS not Fleet* report for reconciliation.

A Staff Specialist position was filled and the reconciliation duties have been assigned to that position. The enhanced reconciliation process includes research of outstanding items by warehouse personnel. All reconciling items are documented on a spreadsheet with the respective research and resolution. We reviewed the completed October, November and December 2010 reconciliations and noted all reconciling items have been identified and being resolved. Because the reconciliations were completed and procedures are in place to ensure the reconciliations are performed and reviewed timely, we consider this recommendation implemented.

### 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.

### 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.

**Implemented (First Follow-Up Audit).** OCPW/Human Resources and OCPW/IT have implemented a notification process utilizing the OCPW Help Desk service requests to notify OCPW/IT of separated and transferred employees. OCPW/IT will then notify the appropriate Section Manager (if the employee has access to a 3<sup>rd</sup> party application) after the employee's OCPW user account has been disabled. For OCPW/Transportation, the email notification will be sent to the Division Manager and Administrative Manager. 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.



### 8. <u>IT Security Management Practices</u> (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.

Implemented (First Follow-Up Audit). 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.

**Implemented (First Follow-Up Audit).** OCPW/IT 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> Implemented/Closed. OCPW/Transportation continues to participate with the CEO/Information Technology Business Continuity Project (BCP). All BCP documents are available at the Prepare OC website. We reviewed the latest documents for the BCP Refresh Phase 1 for OCPW (includes Transportation) and noted OCPW is 33% complete. Phase 1 is scheduled to be completed by February 28, 2011. The BCP Refresh project currently underway is at the direction of the CEO/Information Technology and in coordination with the Countywide Business Continuity Working Group and Business Continuity Steering Committee. OCPW staff attends the monthly Business Continuity meetings to monitor and coordinate the ongoing OCPW business continuity activities.

Since OCPW continues to participate and make progress with the County's BCP, we consider this recommendation to be sufficiently implemented and will close the recommendation for follow-up purposes.



# 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.

**Implemented (First Follow-Up Audit).** OCPW/Transportation determined that monitoring timeliness of vendor payments has minimal impact no impact on the interdepartmental billing process. Vendor invoices are sent to Auditor-Controller, where they are time-stamped upon receipt and monitored for timeliness. As such, 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; and the approval of the billing reports to post onto ERMI is communicated to Transportation.

**Implemented (First Follow-Up Audit).** OCPW/Transportation and OCPW/Accounting Services 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. <u>Timeliness of Account Code Updates in Fleet Focus</u> (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.

**Implemented (First Follow-Up Audit).** OCPW/Accounting Services implemented a 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 January 2010 Asset Management billing and identified all account code changes manually made onto 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. 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.



**Implemented (First Follow-Up Audit).** 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 Accounting Services that itemizes the Asset Management Fee Billing changes from the prior month. 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's Transportation and Accounting Services jointly established a process and responsibilities for reconciling changes in asset inventory to assist in 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.

**Implemented (First Follow-Up Audit).** 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, OC Fleet Services and Information Technology during our Second 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 IT Audit Manager at 834-6106.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
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