



INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

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Award for Recognition of Commitment to
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FIRST FOLLOW-UP AUDIT OF COUNTY EXECUTIVE OFFICE PURCHASING DIVISION ADMINISTRATION OF CAL CARD PROGRAM (ORIGINAL AUDIT NO. 2533)

As of May 31, 2007

AUDIT NUMBER: 2636-J

REPORT DATE: JULY 23, 2007

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
Senior Audit Manager:	Michael Goodwin, CPA, CIA
Audit Manager:	Michael Dean, CPA, CIA

**First Follow-Up Audit of
CEO/Purchasing
Administration of Cal Card Program**

Original Audit No. 2533

As of May 31, 2007

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
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Perspectives Countywide*

OFFICE OF THE DIRECTOR

DR. PETER HUGHES

PH.D., MBA, CPA,
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
DEPUTY DIRECTOR**

CPA, CIA, CFE,
Certified Fraud Specialist (CFS),
Certified Information Systems Auditor (CISA)

**MICHAEL J. GOODWIN
SENIOR AUDIT MANAGER**

CPA, CIA

**ALAN MARCUM
SENIOR AUDIT MANAGER**

MBA, CPA, CIA, CFE

**AUTUMN MCKINNEY
SENIOR AUDIT MANAGER**

CPA, CIA, CISA
Certified Government Financial Manager
(CGFM)

**HALL OF FINANCE & RECORDS
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701**

www.ocgov.com/audit

(714) 834-5475
(714) 834-2880 Fax

**OC FRAUD HOTLINE
(714) 834-3608**

Transmittal Letter

Audit No. 2636-J

July 23, 2007

TO: Thomas G. Mauk
County Executive Officer

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

SUBJECT: First Follow-Up Audit of CEO/Purchasing
Administration of Cal Card Program,
Original Audit No. 2533, Issued November 30, 2006

We have completed a First Follow-Up Audit of internal controls and processes over the County's Cal Card program (also referred to as purchasing cards) as administered by the County Executive Office Purchasing Division (CEO/Purchasing). Our audit was limited to reviewing, as of May 31, 2007, actions taken to implement the nine recommendations in our audit report dated November 30, 2006. The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter.

Please note, we have a more 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 now begin at six months upon 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 now begin at 12 months from the release of the original 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.

Because there are four recommendations pending implementation, we have attached a Second Follow-Up Audit Report Form. CEO/Purchasing management should complete this template as our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

Each month I submit an **Audit Status Report** to the 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 Follow-Up Audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with CEO/Purchasing so 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.

Attachment

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Robert J. Franz, Deputy CEO/Chief Financial Officer
- Ron Vienna, County Purchasing Agent, CEO/Purchasing
- Jon Humann, eProcurement Business Solutions Manager, CEO/Purchasing
- Maria Robles, Cal Card Coordinator, CEO/Purchasing
- Victor Chavez, Professional Education and Training Manager, CEO/Purchasing
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT
INTERNAL AUDITOR'S REPORT

Audit No. 2636-J

July 23, 2007

TO: Thomas G. Mauk
County Executive Officer

SUBJECT: First Follow-Up Audit of CEO/Purchasing
Administration of Cal Card Program,
Original Audit No. 2533, Issued November 30, 2006

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The original audit report contained nine (9) recommendations. Our Follow-Up Audit indicated five (5) recommendations have been fully implemented, two (2) recommendations were in process of implementation, and two (2) recommendations have not been implemented

We believe the remaining four (4) recommendations are still appropriate and further efforts should be made to fully implement them. The recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the November 30, 2006 report is shown in parentheses after each heading. See *Attachment A* for a description of Report Item Classifications.

Training (Recommendation No. 4)

Recommendation No. 4: We recommend CEO/Purchasing establish a Cal Card training process for departments/agencies new to the Cal Card Program. **(Control Finding)**

Current Status: **In Process.** CEO/Purchasing had not yet developed a Cal Card Training process due to staffing changes and vacancies. CEO/Purchasing recently hired a "Professional Education and Training Manager" who is in process of developing a Cal Card training module.

CEO/Purchasing Planned Action: Because the County is transitioning to U.S. Bank's Total Systems platform, U.S. Bank will be training CEO/Purchasing in the near future on the Cal-Card program transition. CEO/Purchasing will then subsequently train all department/agency Approving Officials and Billing Officials on program updates and changes.

Department/Agency Approving Officials will be responsible for training their respective cardholders. This training will also be provided to any departments new to the Cal-Card program.

Departmental Compliance Reviews (Recommendation No. 5)

Recommendation No. 5: We recommend CEO/Purchasing consider performing periodic compliance reviews of departments/agencies participating in the Cal Card program. (**Control Finding**)

Current Status: In Process. CEO/Purchasing has determined that they will conduct periodic compliance reviews of Cal-Cards. However, they have not yet performed compliance reviews due to staffing changes and vacancies.

CEO/Purchasing Planned Action: CEO/Purchasing recently hired a “Compliance Manager” to develop a Cal Card compliance monitoring plan. The Compliance Manager will first develop a compliance review plan for purchasing. Upon completion, a compliance review plan specifically designed for the Cal Card program will be developed.

Reconciliations – Segregation of Duties (Recommendation No. 6)

Recommendation No. 6: We recommend CEO/Purchasing assign the duty of researching and resolving items noted for further follow-up on the *New Card Report* and *Cardholder Alter List* reconciliations to someone without other Cal Card duties. (**Control Finding**)

Current Status: Not Implemented. The Cal Card Coordinator is still responsible for researching and resolving reconciling items on the *New Card Report* and *Cardholder Alter List* reconciliations. We believe this process would be enhanced by having someone without Cal-Card duties investigate and resolve reconciling items.

CEO/Purchasing Planned Action: CEO/Purchasing has recently hired staff to assist with the reconciliation process. The reconciliation duties will be re-assigned as follows:

- Prepares reconciliations – Cal Card Coordinator.
- Researches/resolves reconciling items – Staff Specialist (with no other primary Cal Card duties).
- Supervisory review of reconciliations – Training and Compliance Manager.

Reconciliations – Timely Identification of Reconciling Items (Recommendation No. 8)

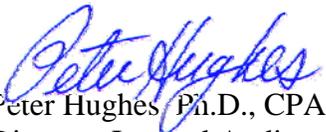
Recommendation No. 8: We recommend CEO/Purchasing ensure items noted for further research on the reconciliations of the *Cardholder Alter List* and *New Card Report* are resolved timely. (**Control Finding**)

Current Status: Not Implemented. We reviewed the *Cardholder Alter List* and *New Card Report* reconciliations for the quarters ended 12/31/06 and 3/31/07, and noted there were several items on the *Cardholder Alter List* reconciliations that still were not resolved as of June 2007.

CEO/Purchasing Planned Action: CEO/Purchasing has recently hired staff to assist with the reconciliation process. The reconciliation duties will be re-assigned as indicated in Recommendation No. 6 above. Reconciling items will be researched and resolved in a timely manner on a quarterly basis.



We appreciate the courtesy and cooperation extended to us by the personnel of CEO/Purchasing during our Follow-Up Audit. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.



Peter Hughes, Ph.D., CPA
Director, Internal Audit

Attachment A – Report Item Classifications

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Robert J. Franz, Deputy CEO/Chief Financial Officer
Ron Vienna, County Purchasing Agent, CEO/Purchasing
Jon Humann, eProcurement Business Solutions Manager, CEO/Purchasing
Maria Robles, Cal Card Coordinator, CEO/Purchasing
Victor Chavez, Professional Education and Training Manager, CEO/Purchasing
Foreperson, Grand Jury
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ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we 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 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.

