INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
OC Public Works'
Facilities Operations & Custodial Billing

For the Year Ended June 30, 2018

Audit No. 1734
Report Date: September 19, 2019

Number of Recommendations

0 **Critical Control Weaknesses**

0 **Significant Control Weaknesses**

3 **Control Findings**

OC Board of Supervisors

Chairwoman Lisa A. Bartlett	Vice Chair Michelle Steel	Supervisor Andrew Do	Supervisor Donald P. Wagner	Supervisor Doug Chaffee
5th District	2nd District	1st District	3rd District	4th District

INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
OC Public Works' Facilities Operations & Custodial Billing

September 19, 2019

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of OC Public Works' (OCPW) billing of facilities operations and custodial services to County departments for the year ended June 30, 2018.
RESULTS	• We concluded that OCPW's internal control over the billing process for facilities operations and custodial services was generally effective to ensure billing transactions are complete, accurate, valid, and processed timely in the County's financial system. • We concluded that the billing process was generally efficient as related to the billing of public works services to County departments.
RISKS IDENTIFIED	As a result of our findings, potential risks include: • Inaccurate recovery of costs from County departments. • Unauthorized access or changes to work request systems. • Processing delays in work request systems.
NUMBER OF RECOMMENDATIONS **0** CRITICAL CONTROL WEAKNESSES **0** SIGNIFICANT CONTROL WEAKNESSES **3** CONTROL FINDINGS	Opportunities for enhancing internal control include: • Performing periodic review and update of indirect cost rates. • Creating written policy and procedures for billing rate evaluation. • Performing periodic user access review for appropriateness. • Enhancing system password policy configuration.

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608

AUDIT NO. 1734

INTERNAL AUDIT DEPARTMENT

Audit No. 1734

September 19, 2019

To: Shane Silsby, Director
           OC Public Works

From: Aggie Alonso, CPA, CIA, CRMA
           Internal Audit Department Director

Subject: Internal Control Audit: OC Public Works' Facilities Operations & Custodial Billing

---

We have completed an Internal Control Audit of OC Public Works' (OCPW) facilities operations and custodial billing for the year ended June 30, 2018. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

OCPW concurred with all of our recommendations, and the Internal Audit Department considers OCPW's management response appropriate to the recommendations in this report.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by OCPW's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:
   Members, Board of Supervisors
   Members, Audit Oversight Committee
   CEO Distribution
   OC Public Works Distribution
   Auditor-Controller Satellite Accounting Operations Distribution
   Foreperson, Grand Jury
   Robin Stieler, Clerk of the Board of Supervisors
   Eide Bailly LLP, County External Auditor

INTERNAL AUDIT DEPARTMENT

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS	Business process and internal control strengths noted during our audit include: ✓ Facilities Operations (FACOPS) and Custodial billings are initiated via a work order request submitted by other County departments on the online application, OC Facilities Work Request System (FM Application), which is accessible on the County intranet. ✓ Account coding is automatically populated based on information entered into the work order request. ✓ Work orders are automatically routed for approval. ✓ The FM Application is synced with MaintStar, the work order management system used to track and input the details and costs of the work order. ✓ Designated FACOPS staff, such as shop supervisors, monitor all work orders in MaintStar. ✓ Most work order purchases for parts/materials are tracked in MaintStar and go through a process, which provides an authorization workflow and designates a unique authorization number for each purchase. This ensures all purchases are approved, traceable, and that payments are accurate. ✓ Costs entered into MaintStar, excluding labor, are synced with CAPS+ every 24 hours. ✓ All work orders are automatically assigned a system-generated job number to track purchases. ✓ Bi-weekly sync cycles in CAPS+ automatically run to appropriately charge departments any costs that hit the job number. ✓ Labor costs are entered in VTI using the work order job numbers. VTI is synced with CAPS+.

INTERNAL AUDIT DEPARTMENT

FINDING NO. 1	**Billing Rate Administration** OCPW has not updated cost overhead rates recently due to a re-organization that occurred in FY 2015-16. Some old unit codes were still in use, which would cause an inaccurate rate update. Overhead cost rates, which are included in job billings, are based on a percentage of productive labor. These rates were last updated in FY 2012-2013. OCPW stated these rates may be updated this fiscal year. Although OCPW has a process in place to ensure billable rates are evaluated for propriety on a regular basis, written policy and procedures (P&Ps) have not been established. The written P&Ps should identify the frequency of revising the existing rate and to ensure: • The final decision to revise the fees or rates is communicated timely and properly after they are officially approved. • The allocation basis is verified and updated timely. • Costs are allocated equitably and consistently.
CATEGORY	**Control Finding**
RISK	Increased risk of inaccurate recovery of costs.
RECOMMENDATION	OCPW conduct a periodic review of indirect rates and update rates, as needed, and establish written policy and procedures that address the evaluation, frequency, and timeliness of revision, communication, and calculation methods of billing rates.
MANAGEMENT RESPONSE	**Concur** with finding. OCPW will establish written policy and procedures for overhead rates that will address the evaluation, frequency, and timeliness of revision, communication, and calculation methods of billing rates by January 31, 2020. OCPW will then conduct a periodic review of indirect rates and update rates as outlined in the policy and procedures.

INTERNAL AUDIT DEPARTMENT

FINDING NO. 2	**Work Order Management System User Access** We identified five instances of inappropriate system access in the OC Facilities Work Request System (FM Application) and MaintStar. Work requests submitted via the FM Application are routed to the department's designated approver before they are sent to OCPW for processing. Department approvers are delegated authority by their Department Head to approve work orders and are granted the user role, "WebAuth," by the FM Application administrator upon request and approval. This role allows the user to review and approve work order requests for their designated Authorization Group, which are assigned by Fund/Budget. OCPW maintains a report of all current FM Authorizers. We identified one user with such access who was assigned to a department, but had not worked for the department for several years and no longer required access. In addition, OCPW uses a work order management system called MaintStar to track and input the details and costs of work orders, such as status updates, labor, parts purchases, etc. The level of access rights to these systems is restricted by unique user group role assigned to the user ID. Of 11 user accounts tested, we identified four (36%) assigned to employees (two accounts with user group role FAC_USERs and two FAC_PWRUSERs) who have either transferred or separated from OCPW and still maintained access in MaintStar.
CATEGORY	**Control Finding**
RISK	Given the heightened risk associated with cybersecurity, not disabling inactive accounts increases the risk of unauthorized access. In addition, this can also cause delays in processing work requests if they are routed to incorrect personnel.
RECOMMENDATION	OCPW perform a formal management user-access certification review for appropriateness to ensure access is restricted to individuals with a direct business need and access no longer required is disabled.
MANAGEMENT RESPONSE	**Concur** with finding. OCPW Client Services/Portfolio Management Team has begun reviewing the user registry. We have deactivated several user profiles that were no longer needed. A review will be made quarterly going forward, under the direction of the Administrative Manager leading the PMT group. Additionally, the FM Application and MaintStar will be replaced by the AssetWorks system in late spring of 2020. The new system will have a modernized account management feature that will be administered by OCIT.

INTERNAL AUDIT DEPARTMENT

FINDING NO. 3	**Password Configuration Policy for Work Order Systems** The FM Application and MaintStar do not have robust password configuration controls such as minimum password length, password complexity (e.g., alpha, numeric, length, and special character requirements) and password periodic expirations. User access to the FM Application and MaintStar requires an authorized unique user ID and password. The level of access rights to these systems are restricted by unique user group role assigned to the user ID.
CATEGORY	**Control Finding**
RISK	Inadequate password policy configurations increases the risk of unauthorized access to these systems.
RECOMMENDATION	OCPW implement or enable password policy features in the FM Application and MaintStar so that the work order systems conform to the County's password policy, where technically feasible, and seek a feature that requires automated mandatory password changes in any future upgrade or replacement of MaintStar.
MANAGEMENT RESPONSE	**Concur** with finding. The FM Application and MaintStar will be replaced in the spring of 2020 by the AssetWorks system. The new system will feature a modernized user ID and password module that is consistent with the most recent protocols in use by OCIT. Active guidance on password selection and quarterly renewal will be provided to the users by the AssetWorks system.

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA	Assistant Director
	Michael Dean, CPA, CIA, CISA	Senior Audit Manager
	Gianne Acosta, CIA	Audit Manager
	Zan Zaman, CPA, CIA	Audit Manager

INTERNAL AUDIT DEPARTMENT

APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	Our audit objectives were to: 1. Evaluate effectiveness of internal controls over the billing process to ensure billing of public works to County departments is complete (recorded/reported), accurate, valid (authorized), and processed timely in the County's financial system. 2. Review the billing process for efficiency.
SCOPE & METHODOLOGY	Our audit scope was limited to internal control over OCPW's Facilities Operations (FACOPS) and Custodial billing of services to County departments for the year ended June 30, 2018. Our methodology included inquiry, observation, examination of relevant documentation, and testing of transactions.
EXCLUSIONS	Our audit scope did not include a review of services OCPW bills other county departments for including, Utility, Fleet Services, Central Utility Facility, Design and Construction, or Program 10 billings. Additionally, we did not review controls over Auditor-Controller information systems used to process billing transactions (e.g. CAPS+).
PRIOR AUDIT COVERAGE	We have not issued any audit reports for OCPW with a similar scope within the last ten years.
BACKGROUND	OCPW's FACOPS and Custodial billings are charged to other County departments and consist of various repairs and maintenance done at County facilities, including custodial services. These services are provided by OC Facilities Maintenance & Central Utility Facility. During the audit period, total FACOPS and Custodial billings were approximately **$9.8 million**.

INTERNAL AUDIT DEPARTMENT

PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2018-19 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.
	The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.
	A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	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 by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating internal controls is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, 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 the department's operating procedures, accounting practices, and compliance with County policy.

INTERNAL AUDIT DEPARTMENT

APPENDIX B: REPORT ITEM CLASSIFICATION		
Critical Control Weakness	**Significant Control Weakness**	**Control Finding**
These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address **Critical Control Weaknesses** brought to its attention immediately.	These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. **Significant Control Weaknesses** require prompt corrective actions.	These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. **Control Findings** are expected to be addressed within our follow-up process of six months, but no later than twelve months.

APPENDIX C: OC PUBLIC WORKS MANAGEMENT RESPONSE

OCPublicWorks
Integrity, Accountability, Service, Trust
Shane L. Silsby, Director

Memorandum

DATE: August 14, 2019

TO: Aggie Alonso, CPA, CIA, CRMA, Internal Audit Department Director

FROM: Shane L. Silsby, Director of OC Public Works

SUBJECT: Response to Draft Report – Audit No. 1734, OC Public Works Facilities Operations & Custodial Billing

OC Public Works has received and reviewed in draft form, the Internal Audit Department's audit of internal controls of OC Public Works' (OCPW) Facilities Operations & Custodial Billing for the year ended June 30, 2018.

OC Public Works hereby provides the following responses to the Internal Audit Department's Recommendations:

Finding No. 1 – Billing Rate Administration (Control Finding)

RECOMMENDATION OCPW conduct a periodic review of indirect rates and update rates, as needed, and establish written policy and procedures that address the evaluation, frequency, and timeliness of revision, communication, and calculation methods of billing rates.

OC Public Works Management Response: Concur with finding. OCPW will establish written policy and procedures for overhead rates that will address the evaluation, frequency, and timeliness of revision, communication, and calculation methods of billing rates by January 31, 2020. OCPW will then conduct a periodic review of indirect rates and update rates as outlined in the policy and procedures.

Finding No. 2 – Work Order Management System User Access (Control Finding)

RECOMMENDATION OCPW perform a formal management user-access certification review for appropriateness to ensure access is restricted to individuals with a direct business need and access no longer required is disabled.

OC Public Works Management Response: Concur with finding. OCPW Client Services/Portfolio Management Team has begun reviewing the user registry. We have deactivated several user profiles that were no longer needed. A review will be made quarterly going forward, under the direction of the Administrative Manager leading the PMT group. Additionally, the FM Application and MaintStar will be replaced by the AssetWorks system in late spring of 2020. The new system will have a modernized account management feature that will be administered by OCIT.

300 N. Flower Street, Santa Ana, CA 92703
P.O. Box 4048, Santa Ana, CA 92702-4048

www.ocpublicworks.com
714.667.8800 | Info@OCPW.ocgov.com

Finding No. 3 – Password Configuration Policy for Work Order Systems (Control Finding)

RECOMMENDATION OCPW implement or enable password policy features in the FM Application and MaintStar so that the work order systems conform to the County's password policy, where technically feasible, and seek a feature that requires automated mandatory password changes in any future upgrade or replacement of MaintStar.

OC Public Works Management Response: Concur with finding. The FM Application and MaintStar will be replaced in the spring of 2020 by the AssetWorks system. The new system will feature a modernized user ID and password module that is consistent with the most recent protocols in use by OCIT. Active guidance on password selection and quarterly renewal will be provided to the users by the AssetWorks system.

Should you have any questions, please contact Julie Lyons, OC Public Works Deputy Director of Administrative Services, at 714-667-3287 or via email at Julie.Lyons@ocpw.ocgov.com.

cc: Salvador Lopez, Acting Auditor-Controller
     Lala Ragen, Assistant Deputy Chief Operating Officer, County Executive Office
     Julie Lyons, Deputy Director, Administrative Services, OCPW
     Tam Vu, Audit Coordinator, Finance Services, OCPW
     Howard Thomas, Accounting Manager, OCPW Accounting

Page **2**