



# INTERNAL AUDIT DEPARTMENT



**Internal Control Audit: County Executive Office Special Revenue Fund 13Y**

**For the Calendar Year Ended December 31, 2022**

**Audit No. 2018  
Report Date: September 21, 2023**

## Number of Recommendations

**0**

**Critical Control Weaknesses**

**0**

**Significant Control Weaknesses**

**1**

**Control Finding**

## OC Board of Supervisors

CHAIRMAN DONALD P. WAGNER  
3rd DISTRICT

VICE CHAIRMAN ANDREW DO  
1st DISTRICT

SUPERVISOR VICENTE SARMIENTO  
2nd DISTRICT

SUPERVISOR DOUG CHAFFEE  
4th DISTRICT

SUPERVISOR KATRINA FOLEY  
5th DISTRICT



# INTERNAL AUDIT DEPARTMENT

Internal Control Audit:  
County Executive Office Special Revenue Fund 13Y

September 21, 2023

## AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of the County Executive Office's (CEO) special revenue fund process for Fund 13Y and a limited review of documentation for all fiduciary and special revenue funds administered by the CEO for the Calendar Year ended December 31, 2022.
RESULTS	<ul style="list-style-type: none"> <li>CEO's internal control over Special Revenue Fund 13Y was generally effective to ensure sources and uses of funds are proper and in compliance with County and departmental policies and procedures.</li> <li>CEO's special revenue fund process for Fund 13Y was generally efficient.</li> </ul>
RISKS IDENTIFIED	As a result of our finding, a potential risk is misunderstanding or not communicating the rights, responsibilities, and/or authorized uses for funds.
NUMBER OF RECOMMENDATIONS	Opportunity for enhancing internal control is ensuring all fiduciary and special revenue funds are fully supported with complete written documentation.
0	CRITICAL CONTROL WEAKNESSES
0	SIGNIFICANT CONTROL WEAKNESSES
1	CONTROL FINDING

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to (714) 834-3608.



## INTERNAL AUDIT DEPARTMENT

---

Audit No. 2018

September 21, 2023

To: Frank Kim  
County Executive Officer

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

 Digitally signed by Agripino Alonso  
Date: 2023.09.21 09:09:17 -07'00'

Subject: Internal Control Audit: County Executive Office Special Revenue Fund 13Y

---

We have completed an internal control audit of County Executive Office (CEO) special revenue fund process for Fund 13Y for the Calendar Year ended December 31, 2022. 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.

CEO concurred with our recommendation and the Internal Audit Department considers management's response appropriate to the recommendation 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 CEO personnel during our audit. If you have any questions regarding our audit, please contact me at (714) 834-5442 or Senior IT Audit Manager Michael Dean at (714) 834-4101.

### Attachments

#### Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- County Executive Office Distribution
- Robin Stieler, Clerk of the Board
- Foreperson, Grand Jury
- Eide Bailly LLP, County External Auditor

# INTERNAL AUDIT DEPARTMENT

## RESULTS

<b>BUSINESS PROCESS &amp; INTERNAL CONTROL STRENGTHS</b>	<p>Business process and internal control strengths noted during our audit include:</p> <ul style="list-style-type: none"> <li>✓ Written documentation is maintained on the purposes and uses of the special revenue fund.</li> <li>✓ CEO has departmental policies and procedures related to Fund 13Y disbursements and reconciliations.</li> <li>✓ Receipting, depositing, disbursing, and monitoring functions are adequately segregated.</li> <li>✓ CEO reviews reimbursement claims against detailed expenditure reports prior to approving disbursements.</li> <li>✓ Subsidiary records and the general ledger are maintained and reconciled monthly.</li> <li>✓ Reconciliations are signed and dated by the preparer and reviewer.</li> </ul>
--	---

<b>FINDING No. 1</b>	<p><b>Fund Documentation</b></p> <p>We noted 15 of 42 (36%) funds were not adequately supported with Chart of Account (COFA) documentation in the current required format.</p> <p>For example, we noted documentation to establish older funds did not contain required elements such as nature of revenue sources, nature of financing uses, and expiration dates. It should be noted that these funds were established prior to the current COFA requirements.</p>
<b>CATEGORY</b>	<p><b>Control Finding</b></p>
<b>RISK</b>	<p>Absence of complete written fund documentation may increase the risk of misunderstanding or not appropriately communicating the rights, responsibilities, and authorized uses for funds.</p>
<b>RECOMMENDATION</b>	<p>CEO management ensure that all fiduciary and special revenue funds are fully supported with complete written documentation in compliance with County policy.</p>
<b>MANAGEMENT RESPONSE</b>	<p><b>Concur.</b> The County Executive Office (CEO) will update the Chart of Account (COFA) documentation for the 15 funds identified to include the required elements, as well as through the 2023 Strategic Financial Plan, the CEO will work with County departments in the update of COFA information for any other funds that are missing the needed components. The estimated completion is the end of calendar year 2023.</p>



# INTERNAL AUDIT DEPARTMENT

---

<b>AUDIT TEAM</b>	Michael Dean, CPA, CIA, CISA Gianne Morgan, CIA, CISA Alejandra Luna Thuy Luu	Senior IT Audit Manager IT Audit Manager Senior Auditor Staff Specialist
-------------------	--	---



# INTERNAL AUDIT DEPARTMENT

## APPENDIX A: ADDITIONAL INFORMATION

<b>OBJECTIVES</b>	<p>Our audit objectives were to:</p> <ol style="list-style-type: none"> <li>1. Evaluate the effectiveness of internal control over Special Revenue Fund 13Y to ensure sources and uses of funds are proper and in compliance with County and departmental policies and procedures.</li> <li>2. Review the special revenue fund process for efficiency.</li> </ol>
<b>SCOPE &amp; METHODOLOGY</b>	<p>Our audit scope was limited to internal controls over CEO's special revenue fund process for Fund 13Y and a limited review of documentation for all fiduciary and special revenue funds administered by CEO for the Calendar Year ended December 31, 2022. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
<b>EXCLUSIONS</b>	<p>Our audit scope did not include a review of information technology controls for any systems used in the administration of the special revenue funds.</p>
<b>PRIOR AUDIT COVERAGE</b>	<p>We issued an audit report for CEO with a similar scope on June 12, 2017, Audit No. 1519 Countywide Audit of Fiduciary Funds: County Executive Office for the Period July 1, 2014, through June 30, 2015. In addition, we issued an audit report for HCA on June 9, 2015, Audit No. 1420 Internal Control &amp; Compliance Audit: Health Care Agency Mental Health Services Special Revenue Fund 13Y for the year ended December 31, 2014.</p>



# INTERNAL AUDIT DEPARTMENT

---

**BACKGROUND**

The County Executive Office (CEO) provides oversight of Fund 13Y and is responsible for the disbursement and monitoring of funds. Actual expenditures are made and claimed by the Health Care Agency (HCA) for reimbursement through the fund.

In November 2004, California voters approved Proposition 63, the Mental Health Services Act (MHSA). MHSA provides counties with a source of funding for expanded county mental health programs. The overall goal of the expanded county mental health programs is to reduce the long-term adverse impact of untreated mental illness and provide a comprehensive system of care for the target population through the various MHSA programs, e.g., Prevention and Early Intervention (PEI), Innovation, Community Services and Support (CSS) evidence-based programs and practices.

In February 2006, Fund 13Y was established as a special revenue fund for the administration and use of MHSA funds with HCA as the controlling department. Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditure for specified purposes.

Effective July 2018, Fund 13Y controlling department changed to the CEO in order to ensure proper level of oversight of the fund.

For the Calendar Year ended December 31, 2022, Fund 13Y had approximately \$226 million in revenue and \$215 million in expenditures.

---



# INTERNAL AUDIT DEPARTMENT

<b>PURPOSE &amp; AUTHORITY</b>	We performed this audit in accordance with the FY 2021-22 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
<b>PROFESSIONAL STANDARDS</b>	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.
<b>FOLLOW-UP PROCESS</b>	<p>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.</p> <p>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.</p> <p>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.</p>
<b>MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL</b>	In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments shall establish effective internal controls as department management is responsible for internal control. Department management shall also continuously assess and strengthen internal control by evaluating internal control systems and promptly correcting weaknesses when detected." The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
<b>INTERNAL CONTROL LIMITATIONS</b>	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: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>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 <b>Critical Control Weaknesses</b> brought to its attention immediately.</p>	<p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. <b>Significant Control Weaknesses</b> require prompt corrective actions.</p>	<p>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. <b>Control Findings</b> are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



## INTERNAL AUDIT DEPARTMENT

## APPENDIX C: COUNTY EXECUTIVE OFFICE MANAGEMENT RESPONSE



*County Executive Office*  
Memorandum

September 15, 2023

To: Aggie Alonso, CPA, CIA, CRMA  
Director, Internal Audit

From: Michelle Aguirre, Chief Financial Officer

Subject: Response to Draft Report for Audit No. 2018

Digitally signed by Michelle Aguirre  
DN: cn=Michelle Aguirre, o=Chief Financial Officer,  
ou=County of Orange, email=Michelle.Aguirre@coo.ca.gov,  
c=US, ou=CA  
Date: 2023.09.15 12:45:33 -0700

The County Executive Office has reviewed the Draft Report associated with the Internal Control Audit: County Executive Office Special Revenue Fund 13Y process for the calendar year ended December 31, 2022, and is in concurrence with the recommendation provided by the Internal Audit Department. Included below is County Executive Office's response to the recommendation.

**Recommendation** - CEO management ensure that all fiduciary and special revenue funds are fully supported with complete written documentation in compliance with County policy.

**Response** - Concur. The County Executive Office (CEO) will update the Chart of Account (COFA) documentation for the 15 funds identified to include the required elements, as well as through the 2023 Strategic Financial Plan, the CEO will work with County departments in the update of COFA information for any other funds that are missing the needed components. The estimated completion is the end of calendar year 2023.

Thank you.

