

Internal Audit Department

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

Internal Control Audit: OC COMMUNITY RESOURCES DISBURSEMENT APPROVAL PROCESS

For the Period September 1, 2010
through August 31, 2011

Key Control Audit

OC Community Resources (OCCR) disbursed \$83 million in expenditures from OC Animal Care, OC Community Services, OC Parks, OC Public Libraries, and OCCR Administrative Services.

Our audit found internal controls are adequate and effective to ensure disbursements are valid, supported, and comply with County and OCCR policy; the disbursement approval process is consistent with processes in A-C Claims & Disbursing; and OCCR's disbursement approval process is efficient and effective.

We identified **one (1) Significant Control Weakness** and **four (4) Control Findings** to improve controls regarding segregation of duties, payment processing timeframes, date stamping invoices, budgetary approval of invoices, and procedures for supervisory/management reviews of payments.

AUDIT NO: 1122
REPORT DATE: SEPTEMBER 18, 2012

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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

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Providing Facts and Perspectives Countywide

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1122 September 18, 2012

TO: Steve Franks, Director, OC Community Resources
Jan Grimes, Chief Deputy Auditor-Controller

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

SUBJECT: Internal Control Audit: OC Community Resources
Disbursement Approval Process

We have completed an Internal Control Audit of OC Community Resources Disbursement Approval Process for the period September 1, 2010 through August 31, 2011. We performed this audit in accordance with our *FY 2011-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a 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). Our **First Follow-Up Audit** will begin at six months from 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 begin at six months from the release of the first Follow-Up Audit 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.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, 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 audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with your staff so that 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. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 7.

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OC Community Resources
Disbursement Approval Process
Audit No. 1122*

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Audit No. 1122

September 18, 2012

TO: Steve Franks, Director, OC Community Resources
Jan Grimes, Chief Deputy Auditor-Controller

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

SUBJECT: Internal Control Audit: OC Community Resources
Disbursement Approval Process

Audit Highlight

OC Community Resources was created in March 2008 by the Board of Supervisors to provide greater access to residents and visitors who want to fully utilize the resources available in their communities. This was achieved by bringing the following four programs into one department:

- OC Animal Care
- OC Community Services
- OC Parks
- OC Public Libraries

Although services provided by the OCCR programs are distinct, allowing them to partner together benefits the public by improving the quality and efficiency of service provided to County residents and visitors.

OC Community Resources is structured to minimize bureaucracies and accelerate management action to operate in the most efficient, accountable, and responsive manner possible. In other words, OC Community Resources is committed to connecting people with resources.

From OCCR 2010 Business Plan

OBJECTIVES

In accordance with our *FY 2011-12 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an Internal Control Audit of OC Community Resources (OCCR) Disbursement Approval Process. Our audit included an evaluation of internal controls, testing compliance with OCCR, OCCR Accounting and County policies; and evaluating process efficiencies and effectiveness. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. The objectives of this audit were to:

1. Evaluate the adequacy of internal controls in OCCR and OCCR Accounting for processing and approving disbursements to ensure payments are valid, supported, comply with County and OCCR policy, and are consistent with the disbursement approval process in Auditor-Controller/Claims & Disbursing.
2. Determine if the disbursement approval process is efficient and effective (e.g., no backlogs, duplication of work, manual processes that could benefit from automation).

RESULTS

Objective #1: OCCR and OCCR Accounting have adequate and effective internal controls to ensure payments are valid, supported, and comply with County and OCCR policy. These controls are consistent with the disbursement approval process in Auditor-Controller/Claims & Disbursing.

We identified **one (1) Significant Control Weakness** concerning segregation of duties and **four (4) Control Findings** to enhance existing controls regarding payment processing timeframes, date-stamping invoices, budgetary approvals of invoices, and written procedures for supervisory and management reviews.

Objective #2: We found no backlogs or processes that could benefit from automation. No findings were identified under this objective.

OC Internal Auditor's Report



The following table summarizes our findings and recommendations for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

| Finding No. | Finding Classification (see Attachment A) | Finding and Page No. in Audit Report | Recommendation | Concurrence by Management? |
|-------------|---|---|--|----------------------------|
| 1. | Significant Control Weakness | Several OCCR managers have incompatible duties that allow them to <u>authorize</u> purchases, <u>receive</u> goods/services, and <u>approve</u> payments. (pg. 9) | Evaluate the assigned responsibilities and user security roles of the identified individuals with incompatible duties, and take measures to better segregate the duties. | Yes |
| 2. | Control Finding | In a sample of transactions tested, payment processing timeframes exceeded OCCR's 30 day policy, ranging between 35 and 64 days. (pg. 11) | OCCR and OCCR Accounting evaluate its invoice processing timeframe policy and ensure that current timeframe to process vendor invoices is in accordance with management's expectation. | Yes |
| 3. | Control Finding | In a sample of transactions tested, initiating payment documentation for four payments were missing a date-stamp. (pg. 11) | Ensure all initiating payment documentation is date-stamped upon receipt. | Yes |
| 4. | Control Finding | Non-DPA payments are not always reviewed and approved by program budget personnel. (pg. 13) | Evaluate the policy for budgetary reviews and approval of disbursements. | Yes |
| 5. | Control Finding | OCCR Accounting's written procedures should define requirements for supervisory/management approval of invoices exceeding established dollar thresholds. (pg. 14) | Develop written policies and procedures that define requirements of the supervisory/management approval process for the three dollar thresholds (\$100K, \$500K, and \$1M). | Yes |



BACKGROUND

OC Community Resources (OCCR) was established in March 2008 by the Board of Supervisors to provide greater access to residents and visitors who want to fully utilize the resources available in their communities. Its mission is "Connecting People and Resources." OCCR is able to achieve their mission by bringing together the following four programs:

1. OC Animal Care

Manages and operates the County's animal shelter whose mission is to protect the public against health threats; provides refuge, medical care and a second chance to unwanted and abused pets; and protects animals' rights for humane treatment.

2. OC Community Services

Facilitates the provision of services that enhance quality of life, including affordable housing opportunities for renters and homeowners; community revitalization; and services for special needs populations such as older adults, veterans, victims of domestic violence or hate crimes, the unemployed, and the homeless.

3. OC Parks

As a steward of natural and cultural resources, OC Parks manages and operates a system consisting of 12 urban regional parks, five wilderness parks, three nature preserves, nine beaches, portions of two harbors, 300 miles of recreational trails, and seven historical sites.

4. OC Public Libraries

Serves diverse communities through knowledgeable and friendly staff who are trained in the latest technologies and tools offered at the library branches and website. These services enable library patrons to explore resources for leisure, learning, business, and community interaction.

The four programs are supported by **OCCR Administrative Services**. The function is responsible for administrative support activities, which includes purchasing, facilities construction and maintenance, budget, accounting, human resources, information technology, organizational development, Agenda Staff Report coordination, and other support services.

OCCR Accounting is an Auditor-Controller Satellite Accounting Unit responsible for providing specialized accounting services to OCCR. OCCR Accounting is responsible for reviewing, approving, and processing disbursements on behalf of the Auditor-Controller. OCCR Accounting has two General Accounting/Disbursing Unit locations responsible for processing disbursements. Effective July 1, 2009, disbursements are processed via the upgraded financial system, CAPS+.

OCCR Disbursements

Between September 1, 2010 and August 31, 2011, OCCR disbursed the following amounts:

| Program | Amount* | Percentage |
|-------------------------|----------------------------|--------------------|
| OC Animal Care | \$ 1,408,968 | 2% |
| OC Community Services | 45,147,016 | 54% |
| OC Parks | 29,999,749 | 36% |
| OC Public Libraries | 5,894,516 | 7% |
| Administrative Services | 494,550 | 1% |
| Total | <u>\$82,944,799</u> | <u>100%</u> |

* Note: The above amounts do not include expenditures made for payroll, revolving funds or Section 8 housing assistance payments.



OCCR Disbursement Approval Process Overview

The disbursement approval process for invoices and payment requests is initiated in OCCR Accounting upon receipt of vendor invoices, claims and payment requests. OCCR uses a Contract Management System (CMS) to track the status of an invoice originating from a contract from receipt, through the disbursement approval process. CMS is also used to track the status and date of the check and when the check is disbursed. The disbursement approval process includes evaluating the propriety of the payment request by substantiating the following:

- a. The invoice/payment request complies with the terms of the applicable purchase order, contract, or Board resolution.
- b. The invoice/payment request is supported by basic payment documents.
- c. The amount of the payment and the name of the payee are correct.
- d. The goods/services received comply with the terms of the purchase order or contract.
- e. The quantities, prices, and calculations are accurate.
- f. All available payment discounts are taken.
- g. All applicable deductions are made to the proper account in the correct amount.
- h. Prompt payment requirements are followed if no discrepancies are noted.
- i. Monies for the payment are encumbered for the purpose intended.
- j. Duplicate payments are prevented by the County's accounting system by blocking previously processed invoice numbers from a respective vendor.

All disbursements are supported by basic payment documents, either hard copy or electronic records, which include purchase orders, contracts, receiving documents, invoices, and payment requests, showing sufficient information to adequately account for the disbursements. The documentation links all supporting records and enables an audit of the transactions and authorization of approving officials. Basic payment documents supporting disbursements are maintained in the County's Electronic Report Management and Imaging (ERMI) system.

OCCR Program Authorization of Goods/Services Received and Budget Approval

OCCR program personnel responsible for accepting or receiving goods or services furnish information to OCCR Accounting as to the identity, condition, and quantities of goods or services received. The OCCR program personnel responsible for accepting goods and services will acknowledge receipt of goods or services and forward it to OCCR Accounting. OCCR Accounting forwards the invoice along with acknowledgment of receipt to appropriate program personnel authorized to approve payment. OCCR program personnel will authorize and approve the document by signing it and forwarding it to the assigned staff member in OCCR Accounting. In certain instances, OCCR program personnel responsible for monitoring the budget will verify the availability of funds at the time and the accuracy of the expense account coding. The assigned staff member in the OCCR Accounting will verify that program authorization and approval are documented from authorized OCCR program personnel responsible for signing invoices.

Types of Disbursements

OCCR Accounting processes the following types of disbursements on behalf of OCCR:

1. **Non-PO Contract Invoices** are received from the four OCCR programs and are submitted to an Accounting Technician in OCCR Accounting's Accounts Payable Unit for payment processing. OCCR Accounting audits the invoices and processes them to ensure there is 'legal authority to pay' in accordance with terms and conditions of the contract. OCCR Accounting maintains contract folders that include copies of applicable documentation, such as Agenda Staff Reports and Minute Orders to enable them to audit compliance with terms and conditions of the contract. Invoices are reviewed and forwarded to authorized OCCR program staff for payment approval. Invoices are routed back to OCCR Accounting for input into CAPS+ for payment. Payment Vouchers are submitted to OCCR Accounting management for their review(s) and signature(s) as follows:



- a. Payments over \$100,000 require approval by a Supervisor or higher level.
- b. Payments over \$500,000 require approval by a Senior Accountant or high level.
- c. Payments over \$1 million require approval by an Accounting Administrative Manager II or higher level.
- d. All miscellaneous vendor payments require approval regardless of amount.

Upon approval of the Payment Voucher by OCCR Accounting management, payment information is sent to A-C Claims & Disbursing for issuance of the payment.

Use of CAPS+ for Processing Non-PO Contract Invoices. With the implementation of CAPS+, an automated workflow approval process was created for certain purchasing documents, such as Requisitions, Delivery Orders, Master Agreements, Contracts and Purchase Orders. However, certain payment documents (i.e. Payment Requests), Non-Encumbered Expenses, General Accounting Refunds, and On Demand Wire Payments do not have an automated workflow approval process. With CAPS+, the only established automated approval process document is the General Accounting Trust (GAT) payment. Therefore, regardless of the type of payment created within CAPS+; all reviews and approvals other than GAT payments are performed manually. The responsibility for CAPS+ administration is outside the scope of OCCR's and OCCR Accounting's responsibility.

2. **Master Agreement/Purchase Agreement Invoices** are received from vendors. OCCR Purchasing maintains a Contract Management System to track all Master Agreement expenditures/invoices. OCCR Accounting reviews the invoices to verify there is a 'three-way match' between requisition, invoice and packing slip/acknowledgment of receipt, audits the invoice for compliance with the contract, and ensures there is sufficient funding to cover the payment prior to submission to A-C Claims & Disbursing. Once OCCR Accounting reviews and OCCR program staff approve the invoice, the documentation is sent to A-C Claims & Disbursing for further payment processing and approval. **Note:** OCCR Accounting does not enter these payments into CAPS+. A-C Claims & Disbursing enters these types of payments into CAPS+ after conducting their disbursement approval review.

In an audit we conducted of the Health Care Agency's Disbursement Approval Process (Audit No. 1025) involving a Satellite Accounting Unit, we noted a duplication of work in which the Satellite Accounting Unit staff and central Auditor-Controller/Claims & Disbursing staff are performing the same payment review. The response to our finding and recommendation stated that Auditor-Controller management did not want to change the process or delegate approval authority to the Satellite Accounting Units due to staffing resources and a planned eProcurement system implementation ([see Objective #2 below](#)).

3. **One-Time Purchase Orders** are not routed to OCCR Accounting for processing and processed in the same manner as Master Agreement/Purchase Agreement invoices.



SCOPE AND METHODOLOGY

Our audit covered the period September 1, 2010 through August 31, 2011, and included only **OC Community Services, OC Parks, and OC Public Libraries**, which represent 97% of OCCR expenditures included within the audit population. Our scope and methodology included:

1. Evaluating the adequacy of internal controls in OCCR and OCCR Accounting to ensure the disbursements are accurate, valid, adequately supported, and comply with OCCR and County policy. We designed our audit to assess the adequacy of OCCR disbursement approval controls, including segregation of duties, invoice tracking, supervisory/management approvals, ensuring compliance with contract terms, payment processing timeframes, and completeness and accuracy in processing disbursements.
2. Determining if disbursements are reviewed and authorized by the initiating OCCR program and budget staff in compliance with OCCR policies and procedures.
3. Assessing policies, procedures and processes in OCCR Accounting to determine if they are consistent with disbursement approval process in Auditor-Controller Claims & Disbursing.
4. Evaluating the efficiency and effectiveness of the disbursement approval process, such as instances of backlogs, duplication of work, manual processes that could benefit from automation, and utilization of CAPS+ for processing of disbursements.

SCOPE EXCLUSIONS

Our audit scope did not include the controls, policies and processes in OC Animal Care and OCCR Administrative Services. We also did not evaluate controls, policies and procedures in the OCCR programs or budget, except for verifying that individuals designated as "authorized signers" in those areas were properly authorized on the County's Access Request Forms. We also did not evaluate any information technology or system controls involving CAPS+ (except for reviewing certain user roles in CAPS+ for segregation of duties) or OCCR's Contract Management System.

Management's Responsibilities for Internal Controls

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 an entity's internal control structure is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OCCR's and OCCR Accounting's continuing emphasis on control activities and self-assessment of control risks.

Inherent Limitations in Any System of Internal Control

Because of inherent limitations in any system of internal controls, 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 OCCR's and OCCR Accounting's operating procedures, accounting practices, and compliance with County policy.



Acknowledgment

We appreciate the courtesy extended to us by OC Community Resources, OCCR Accounting, and Auditor-Controller/Claims & Disbursing during our audit. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at 834-5899 or Michael Goodwin, Senior Audit Manager at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Robert J. Franz, Interim County Executive Officer
- Alisa Drakodaidis, Deputy County Executive Officer
- Ryan Drabek, Director, OC Animal Care
- Karen Roper, Director, OC Community Services
- Mark Denny, Director, OC Parks
- Helen Fried, County Librarian, OC Public Libraries
- Anna Peters, Director, OC Community Resources Administrative Services
- Denise Steckler, Director, A-C/Satellite Accounting Operations
- Victoria Ross, Interim Director, A-C/Central Accounting Operations
- Tonya Burnett, Senior Manager, OCCR Accounting
- Win Swe, Manager, OCCR Accounting
- Foreperson, Grand Jury
- Susan Novak, Clerk of the Board of Supervisors



Objective #1: Evaluate the adequacy of internal controls in OCCR and OCCR Accounting for processing and approving disbursements to ensure payments are valid, supported, comply with County and OCCR policy, and are consistent with disbursement approval process in A-C Claims & Disbursing.

AUDIT STEPS AND RESULTS

To accomplish this objective, we audited internal controls over OCCR and OCCR Accounting's disbursement approval process. We performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the disbursement approval process and controls with OCCR program and budget staff, and with OCCR Accounting staff and management responsible processing disbursements for the department on behalf of the Auditor-Controller.
- ✓ Evaluated the adequacy of OCCR and OCCR Accounting's disbursement approval written policies and procedures.
- ✓ Evaluated segregation of duties of OCCR and OCCR Accounting management who hold delegated authority to approve disbursements to ensure they do not have other incompatible duties.
- ✓ Evaluated internal controls by testing a sample of **56 disbursements totaling \$10.8M**. Disbursements were judgmentally selected from OC Community Services, OC Parks, and OC Libraries and included disbursements from contracts, price agreements, purchase orders, and miscellaneous payments.

CONCLUSION

We found controls and processes are adequate and effective to ensure payments are valid, supported, and comply with County and OCCR policy. We also found controls and processes are consistent with disbursement approval processes in Auditor-Controller Claims and Disbursing. We acknowledge OCCR and OCCR Accounting's efforts to combine four separate programs and maintain an effective system of internal controls over the disbursement process. We identified **one (1) Significant Control Weakness** and **four (4) Control Findings** where existing controls and processes should be improved. Our findings and recommendations for this objective are noted below:



Finding 1 – Segregation of Purchasing and Disbursement Approval Duties

Summary

Our audit found that 27 individuals in OCCR program management are delegated authority to approve purchasing, receiving, and accounts payable transactions based on the County's Access Request Forms (forms in CAPS+ which designate an employee's authorized responsibilities along with their authorized signature). Key duties such as custody of assets, authorization, record keeping, and reconciliation should be assigned to separate individuals to minimize the risk of loss, and not enable an employee the ability to purchase, receive and approve related payments. **(Significant Control Weakness)**

Details

Our review of selected CAPS+ Financial/Purchasing Access Request Forms (ARFs) disclosed that 27 program managers in OC Community Resources are delegated authority to approve purchasing transactions, receive goods/services, approve accounts payable transactions, and in some instances, also have authority to pick-up checks. Adequately segregated duties reduce opportunities to allow any individual to be in a position to both perpetrate and conceal errors or irregularities. It should be noted that the 27 individuals are directors and managers in OCCR Programs and Administrative Services, and not the managers in OCCR Accounting. We also found no exceptions in our testing involving transactions where duties were not segregated.

Manual and CAPS+ User Roles and Responsibilities. Duties are segregated in two ways: 1) Manual Controls (controls outside of CAPS+) where duties are assigned, authorized and documented in an ARF, Section K – *Authorization to Approve Manual Documents*. Boxes are checked showing the various duties the individuals are authorized to perform; and 2) CAPS+ User Security Roles are assigned to individuals allowing certain functions in CAPS+. These are also documented and approved in the ARF. For example, several of the OCCR program managers were assigned security roles for "PM_Non_DPA_MGR" and "PM_AWRD_FIN_MGR." These security roles allow these individuals to approve various purchasing transactions and documents.

We were informed that initially, as part of the OCCR encumbrance pilot program, the OCCR users were granted exceptions to these conflicting roles to allow them to facilitate the processing of the encumbrances. Now that the OCCR encumbrance pilot program has become permanent, these conflicting roles need to be re-evaluated and modified.

Although we did not note any exceptions in testing, individuals should not be authorized to perform these incompatible duties. We believe that OCCR should review the assigned responsibilities of the identified program managers and determine if they can better segregate purchasing, receiving and payment responsibilities.

Segregation of Duties Overview

To assist OCCR and OCCR Accounting in ensuring duties are adequately segregated, the following is an overview on segregation of duties.

Segregation of duties is one of the key concepts of internal control. It is one of the most effective internal controls in combating employee fraud. The concept of segregation of duties is to separate the following responsibilities in each business process:

- Custody/Receipt of assets
- Record keeping
- Authorization
- Reconciliation

Detailed Results, Findings, Recommendations and Management Responses



Ideally, no individual employee should handle more than one of the above noted functions in a process. When an organization separates these functions among its employees, it has implemented a strong internal control, which may deter and prevent employee fraud.

When duties cannot be segregated, compensating controls should be considered. Compensating controls can be preventative, detective, or monitoring controls by an independent, supervisory-level employee who does not have custody, record-keeping, authorization or reconciliation responsibilities for the process. The table below shows examples of compatible and non-compatible duties concerning purchasing and disbursement responsibilities:

| Responsibility | Responsibility 2 | Can Duties Be Performed By One Individual? |
|---|--|--|
| 1. Creates purchase requisitions | Pick-up or issue checks (Custody) | Yes |
| 2. Approves purchase requisitions (Authorization) | Pick-up or issue checks (Custody) | No – overlapping duties |
| 3. Approve purchase requisitions (Authorization) | Approve invoices/payment request forms, or interface payment log (Authorization) | Yes |
| 4. Receives goods/services and signs Receiver (Custody) | Approve invoices/payment request forms, or interface payment log (Authorization) | No – overlapping duties |
| 5. Receives goods/services and signs Receiver (Custody) | Pick-up or issue checks (Custody) | Yes |
| 6. Receives goods/services and signs Receiver (Custody) | Creates purchase requisitions | Yes |
| 7. Receives goods/services and signs Receiver (Custody) | Approves purchase requisitions (Authorization) | No – overlapping duties |
| 8. Approve invoices/payment request forms, or interface payment log (Authorization) | Pick-up or issue checks (Custody) | No – overlapping duties |
| 9. Approve invoices (Authorization) | Approve purchase requisitions (Authorization) | Yes |
| 10. Create Purchasing documents - MA, DO, PO, CT (Record-keeping) | Approve Purchasing documents MA, DO, PO, CT (Authorization) | No – overlapping duties. However, CAPS+ does not allow creator to approve own transactions |
| 11. Approve Purchasing documents- MA, DO, PO, CT (Authorization) | Pick-up or issue checks (Custody) | No – overlapping duties |

OCCR should evaluate the duties assigned to staff and management in the disbursement approval process and take measures to segregate the above duties to the extent possible. If duties cannot be segregated, compensating controls should be implemented.

Recommendation No. 1

OCCR evaluate the assigned responsibilities and user security roles of the 27 identified individuals with incompatible duties, and take measures to better segregate the duties for approving purchases, receiving goods/services, and approving accounts payable transactions. Once determined, OCCR should ensure the individual's CAPS+ Access Request Forms are updated accordingly.



OC Community Resources Management Response:

Concur. OC Community Resources has evaluated the duties assigned to staff and management in the disbursement approval process and has taken measures to segregate duties and is preparing to submit requests to reduce CAPS+ security roles for 12 staff and program managers resulting in a 44% reduction of role conflict. We expect to have CAPS+ changes implemented within 90 days. In addition, OCCR management will now annually produce and review a CAPS+ security role report to assure conflicts are minimized and aligned with business needs where necessary.

Findings 2 and 3 – Payment Processing Timeframes and Date Stamping of Invoices

Summary

OCCR's written policy is to **pay its invoices within 30 days of receiving a payable invoice**. In our testing of fifty-six (56) disbursements, there were thirteen (13) instances (23%) when the disbursement was processed and paid between 35 and 64 days after receipt of the invoice, and two (2) instances (4%) when surety deposits were refunded 35 and 194 days after the claim became due and payable. Our testing also found four invoices that were not date-stamped upon receipt, which signifies the start of the payment processing timeframe. **(Control Findings)**

Details

OCCR's written policy for invoice processing states: "It is OC Community Resources policy to pay vendor invoices within 30 days of receiving a payable invoice." In our test sample of 56 disbursements made between September 2010 and August 2011, we found the following:

- In 13 instances (23%), the disbursement was processed between 35 and 64 calendar days after the invoice was received.
- In two (2) instances (4%), a refund of a surety deposit was processed more between 35 and 194 calendar days after the premises were vacated.
- In four (4) instances (7%), invoices were not date-stamped upon receipt.

Once invoices, claims, or payment requests are received in either an OCCR program or OCCR Accounting, they are submitted to OCCR Accounting and are date-stamped, which starts the 30 calendar day payment processing timeframe. During that time, the Accounts Payable Unit in OCCR Accounting begins processing the invoice for payment. Certain invoices are input into the Contract Management System (CMS), which calculates the 30 day payment due date.

The supporting payment documents are sent to OCCR Programs for verification of the receipt of goods/services. In some cases, supporting payment documents receive approval from a program budget manager. Both approvals require manual signatures or email correspondence from authorized individuals. Once the supporting payment documents are approved in programs, they are sent back to OCCR Accounting, who perform their review and approval for payment. Depending on the type of disbursement, either OCCR Accounting or A-C Claims & Disbursing will input the disbursement into CAPS+, and the Disbursing Unit in A-C Claims & Disbursing verifies authorization to pay and issues the payment.

Based on our testing, we found the delays in payment processing timeframes were caused by:

- Delays in OCCR Accounting due to heavy workload
- Delivery Orders (DO) not approved in CAPS+ at time of payment. (In these instances, OCCR Purchasing did not input the DO into CAPS+ timely, and A-C General Ledger was timely in their approval of the DO.)
- OCCR Programs and/or Accounting requiring additional or missing information from vendor or program staff



The physical date stamping of invoices, claims, and payment requests is a critical aspect of processing disbursements. A date stamp provides evidence that OCCR has received payment documents. The date of receipt, physically stamped onto a payment document when received by OCCR, sets the target date for a payment. Date stamping is also used by OCCR to track the timeliness of disbursement processing and to monitor internal workflow.

Recommendation No. 2

OCCR and OCCR Accounting evaluate its payment processing timeframe policy and ensure that current timeframe to process payments is in accordance with management's expectation. Any payments exceeding the expected timeframe should be documented accordingly.

OC Community Resources Management Response:

Concur. We met with Auditor-Controller to evaluate our payment processing timeframe policy. Our goal remains to pay all invoices in no more than 30 days or as soon as possible after supporting documentation is available. All payments are documented within our Contract Management System and the Auditor-Controller's CAPS+ systems. Accounts payable aging reports are regularly generated and distributed to all OCCR senior and program management for review.

Auditor-Controller/OCCR Accounting Management Response:

Concur. We met with OCCR to evaluate the payment processing timeframe policy. We both agree that our goal is to pay all invoices as soon as possible, with our goal being no more than 30 days. However, although we both agree to the 30-day timeframe, we both recognize that inadequate supporting documentation, encumbrance issues, and staffing shortages can never be totally eliminated. Even in the best of circumstances, some payments will not be made within the 30-day timeframe. We would also like to note that any payments exceeding the 30-day timeframe are already documented in OCCR's Contract Management System. This system is used by OCCR staff to monitor and track pending payments.

Recommendation No. 3

OCCR Accounting ensure all vendor invoices, claims and payment requests are date-stamped upon receipt.

Auditor-Controller/OCCR Accounting Management Response:

Concur. OCCR Accounting staff has been reminded to date stamp all payment documents upon receipt.



Finding 4 – Disbursement Approval from OCCR Budget Personnel

Summary

Our testing of transactions found that the disbursement approval process has different budgetary reviews depending on the type of contract. DPA contracts are reviewed/approved by OCCR Budget, while non-DPA contracts obtain budget review/approval from either Program Directors or Program Managers. **(Control Finding)**

Details

We performed testing of internal controls by selecting **56 payments totaling \$10,885,683**. We found 22 of 56 payments totaling \$8,930,345 were approved by an authorized Program Manager or Director instead of OCCR Budget personnel. These 22 payments resulted from non-DPA contracts. Payments from DPA contracts are subject to a review by OCCR Budget personnel in accordance with OCCR policy.

Prior to receiving budget approval from the authorized Program Manager or Director, OCCR Accounting completes a three-way match between the requisition, receiving report, and invoice, and determining an expense code. The review of payments by OCCR Budget personnel also consists of completing a three-way match of the relevant supporting payment documents but includes verification of available budget and ensuring the accuracy of the expense code provided by OCCR Accounting for the payment. Program Managers and Directors may not perform the detailed budget review that OCCR Budget personnel can provide. OCCR should evaluate their current practice for requiring different budget reviews depending on the type of contract.

Recommendation No. 4

OCCR and OCCR Accounting evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types.

OC Community Resources Management Response:

Concur. We met with Auditor-Controller to evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types. Budgetary approvals already occur as a part of the pre-purchase and encumbrance process. Therefore, we determined that additional budgetary involvement is not required as part of the disbursement approval process and plan to now have Program Managers approve all DPA and non-DPA invoices. This shift to Program Manager approvals will take place as new approvals occur and will be fully transitioned within six months.

Auditor-Controller/OCCR Accounting Management Response:

Concur. We met with OCCR to evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types. Program Managers already approve non-DPA invoices. OCCR has tentatively decided to have Program Managers also approve DPA invoices (instead of Budget Analysts) and they are taking steps to implement this policy. Budgetary review occurs when the requisition is approved and/or the encumbrance document is approved.



Finding 5 – Enhancing Disbursement Approval Policies and Procedures

Summary

OCCR Accounting should expand its existing written policy and procedures to define the requirements for supervisory/management review and approval of invoices exceeding the \$100,000, \$500,000 and \$1,000,000 dollar thresholds and for miscellaneous vendor payments to help ensure their disbursement approval process is aligned with A-C Claims & Disbursing. **(Control Finding)**

Details

Disbursements over \$100,000 are reviewed to ensure there is legal authority to pay and disbursements are in accordance with OCCR and County policies and procedures. Because these payments are not workflowed in CAPS+, a manual supervisory/management approval and signature is also required as follows based on the amount:

- Payments over \$100,000 require approval by a Supervisor or higher level.
- Payments over \$500,000 require approval by a Sr. Accountant or higher level.
- Payments over \$1,000,000 require approval by an Administrative Manager II or higher level.
- All miscellaneous vendor payments require approval regardless of amount.

We noted that the written procedures describing the supervisory/management approval process in OCCR Accounting do not provide the specific tasks required in the supervisory/management review for the different dollar thresholds.

A-C Claims & Disbursing has *Procedure No. II.A.36 – Payment Voucher Over Limit and Miscellaneous Vendor Code Approvals*, revised in May 2012, that can be used as a guide for OCCR Accounting to provide the specific tasks required during the supervisory/management reviews.

Our testing of 56 payment transactions did not disclose any instances where manual supervisory/management reviews were not obtained.

Recommendation No. 5

OCCR Accounting enhance their written policies and procedures to define requirements of the supervisory/management review and approval process for the three dollar thresholds (\$100K, \$500K, and \$1M).

Auditor-Controller/OCCR Accounting Management Response:

Concur. Written procedures for non-DPA invoices have been revised to include threshold approval levels for \$100K, \$500K, \$1M, and \$25M invoices.



Objective #2: Determine if business processes are efficient and effective as related to the disbursement approval process (e.g., no backlogs, duplication of work, manual processes that can be automated).

AUDIT STEPS AND RESULTS

To accomplish this objective, we used auditor inquiry and observation to determine if OCCR's and OCCR Accounting's disbursement approval processes were efficient and effective. We also:

- ✓ Held meetings, conducted walkthroughs, and made auditor observations and inquiries of the disbursement approval process with OCCR and OCCR Accounting staff and management involved in the disbursement approval process.
- ✓ Evaluated OCCR and OCCR Accounting's written policies and procedures for processing and approving disbursements.
- ✓ Performed testing on a sample of disbursements to determine the effectiveness of disbursement approval processes and controls.

CONCLUSION

We did not note any instances of backlogs or manual processes that could be automated in OCCR's and OCCR Accounting's disbursement approval process. We did note an issue concerning duplication of work between OCCR Accounting and Auditor-Controller Claims & Disbursing when processing payments resulting from contracts by Deputy Purchasing Agents (DPAs). This was identified in two other audits of Satellite Accounting Units (Health Care Agency and OC Waste & Recycling). In their responses, the Auditor-Controller indicated they did not want to delegate these duties to the Satellite Accounting Units at this time due to several factors. Discussions with A-C Claims and Disbursing management indicated they have not changed their views on this matter.

As such, we have no recommendations under this objective.



ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

▶ **Critical Control Weaknesses:**

Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s) and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.

▶ **Control Findings:**

Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues 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.



ATTACHMENT B: OC Community Resources Management Responses



STEVE FRANKS
DIRECTOR
OC COMMUNITY RESOURCES

RYAN DRABEK
DIRECTOR
OC ANIMAL CARE

KAREN ROPER
DIRECTOR
OC COMMUNITY SERVICES

MARK DENNY
DIRECTOR
OC PARKS

HELEN FRIED
COUNTY LIBRARIAN
OC PUBLIC LIBRARIES

July 30, 2012

Dr. Peter Hughes, CPA, Director, Internal Audit
12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

RE: Draft Report on Internal Control Audit of OC Community Resources
Disbursement Approval Process

Dear Peter Hughes:

We are providing this letter in response to the Internal Control Audit No. 1122, Draft Report of OC Community Resources Disbursement Approval Process for the period September 1, 2010 through August 31, 2011. The audit resulted in one Significant Control Weakness and four Control Findings. The findings, recommendations, OC Community Resources (OCCR) and Auditor-Controller responses are noted below:

Finding 1 – Segregation of Purchasing and Disbursement Approval Duties

(Significant Control Weakness)

Our audit found that 27 individuals in OCCR program management are delegated authority to approve purchasing, receiving, and accounts payable transactions based on the County's Access Request Forms (forms in CAPS+ which designate an employee's authorized responsibilities along with their authorized signature). Key duties such as custody of assets, authorization, record keeping, and reconciliation should be assigned to separate individuals to minimize the risk of loss, and not enable an employee the ability to purchase, receive and approve related payments.

Recommendation No. 1

OCCR evaluate the assigned responsibilities and user security roles of the 27 identified individuals with incompatible duties, and take measures to better segregate the duties for approving purchases; receiving goods/services, and approving accounts payable transactions. Once determined, OCCR should ensure the individual's CAPS+ Access Request Forms are updated accordingly.

OC Community Resources Response:

Concur. OC Community Resources has evaluated the duties assigned to staff and management in the disbursement approval process and has taken measures to segregate duties and is preparing to submit requests to reduce CAPS+ security roles for 12 staff and program managers resulting in a 44% reduction of role conflict. We expect to have CAPS+ changes implemented within 90 days. In addition OCCR management will now annually produce and



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ATTACHMENT B: OC Community Resources Management Responses (continued)

DRAFT REPORT ON INTERNAL CONTROL AUDIT OF OC COMMUNITY RESOURCES DISBURSEMENT APPROVAL
PROCESS
PAGE 2 OF 3
JULY 30, 2012

review a CAPS+ security role report to assure conflicts are minimized and aligned with business needs where necessary.

Findings 2 and 3 – Payment Processing Timeframes and Date Stamping of Invoices (Control Findings)

OCCR's written policy is to pay its invoices within 30 days of receiving a payable invoice. In our testing of fifty-six (56) disbursements, there were thirteen (13) instances (23%) when the disbursement was processed and paid between 35 and 64 days after receipt of the invoice, and two (2) instances (4%) when surety deposits were refunded 35 and 194 days after the claim became due and payable. Our testing also found four invoices that were not date-stamped upon receipt, which signifies the start of the payment processing timeframe.

Recommendation No. 2

OCCR and OCCR Accounting evaluate its payment processing timeframe policy and ensure that current timeframe to process payments is in accordance with management's expectation. Any payments exceeding the expected timeframe should be documented accordingly.

OC Community Resources Response:

Concur. We met with Auditor-Controller to evaluate our payment processing timeframe policy. Our goal remains to pay all invoices in no more than 30 days or as soon as possible after supporting documentation is available. All payments are documented within our Contract Management System and the Auditor-Controller's CAPS+ systems. Accounts payable aging reports are regularly generated and distributed to all OCCR senior and program management for review.

Recommendation No. 3

OCCR Accounting ensure all vendor invoices, claims and payment request are date-stamped upon receipt.

Auditor-Controller/OCCR Accounting Management Response:

Response submitted by the Auditor Controller under separate cover.

Finding 4 – Disbursement Approval from OCCR Budget Personnel (Control Finding)

Our testing of transactions found that the disbursement approval process has different budgetary reviews depending on the type of contract. DPA contracts are reviewed/approved by OCCR Budget, while non-DPA contracts obtain budget review/approval from either Program Directors or Program Managers.

Recommendation No. 4

OCCR and OCCR Accounting evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types

OC Community Resources Response:

Concur. We met with Auditor-Controller to evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types. Budgetary approvals already occur as a part of the pre-purchase and encumbrance process. Therefore, we determined that additional budgetary involvement is not required as part of the



ATTACHMENT B: OC Community Resources Management Responses (continued)

DRAFT REPORT ON INTERNAL CONTROL AUDIT OF OC COMMUNITY RESOURCES DISBURSEMENT APPROVAL
PROCESS
PAGE 3 OF 3
JULY 30, 2012

disbursement approval process and plan to now have Program Managers approve all DPA and non-DPA invoices. This shift to Program Manager approvals will take place as new approvals occur and will be fully transitioned within six months.

Finding 5 – Enhancing Disbursement Approval Policies and Procedures (Control Finding)

OCCR Accounting should expand its existing written policy and procedures to define the requirements for supervisory/management review and approval of invoices exceeding the \$100,000, \$500,000 and \$1,000,000 dollar thresholds and for miscellaneous vendor payments to help ensure their disbursement approval process is aligned with A-C Claims & Disbursing.

Recommendation No. 5

OCCR and OCCR Accounting evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types.

OCCR Accounting Management Response:

Response submitted by the Auditor Controller under separate cover.

Concur:


FOR BOB FRANZ

Bob Franz, Interim CEO
County Executive Office

9/13/12

Date



Steve Franks, Director
OC Community Resources

9/14/12

Date

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT C: Auditor-Controller/OCCR Accounting Management Responses



**ORANGE COUNTY
AUDITOR-CONTROLLER**

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AUDITOR-CONTROLLER

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STEVEN P. RODERMUND
PROGRAM MANAGER
CAPS+ PROGRAM MANAGEMENT OFFICE

RECEIVED
INTERNAL AUDIT DEPARTMENT
2012 AUG 22 AM 11:57

August 20, 2012

TO: Peter Hughes, Director, Internal Audit Department
SUBJECT: Response to Internal Control Audit of OC Community Resources Disbursement Approval Process

We reviewed the draft audit report prepared by the Internal Audit Department covering the Internal Control Audit of the OC Community Resources Disbursement Approval Process for the period September 1, 2010 through August 31, 2011.

We concur with the recommendations made in the draft audit report that relate to OCCR Accounting. Our responses to those recommendations are attached.

Please call Tonya Burnett, OCCR Accounting Manager, at (714) 480-2848 if you have any questions regarding our responses.

Jan Grimes
Chief Deputy Auditor-Controller

Attachment

- cc: Steve Franks, Director, OC Community Resources
Ryan Drabek, Director, OC Animal Care
Karen Roper, Director, OC Community Services
Mark Denny, Director, OC Parks
Helen Fried, County Librarian, OC Public Libraries
Anna Peters, Director, OC Community Resources Administrative Services
Denise Steckler, Director, A/C Central Accounting Operations
Tonya Burnett, Senior Manager, OCCR Accounting
Win Swe, Manager, OCCR Accounting/Accounts Payable
Victoria Ross, Senior Manager, A/C Claims and Disbursing



ATTACHMENT C: Auditor-Controller/OCCR Accounting Management Responses (continued)

**INTERNAL CONTROL AUDIT:
OC COMMUNITY RESOURCES
DISBURSEMENT APPROVAL PROCESS
AUDIT NO. 1122**

FOR THE PERIOD SEPTEMBER 1, 2010 THROUGH AUGUST 31, 2011

AUDITOR-CONTROLLER/OCCR ACCOUNTING MANAGEMENT RESPONSES

Finding No. 2

In a sample of transactions tested, payment processing timeframes exceeded OCCR's 30 day policy, ranging between 35 and 64 days.

Recommendation No. 2

OCCR and OCCR Accounting evaluate its payment processing timeframe policy and ensure that current timeframe to process payments is in accordance with management's expectation. Any payments exceeding the expected timeframe should be documented accordingly.

Auditor-Controller/OCCR Accounting Management Response:

Concur. We met with OCCR to evaluate payment processing timeframe policy. We both agree that our goal is to pay all invoices as soon as possible, with our goal being no more than 30 days. However, although we both agree on the 30-day timeframe, we both recognize that inadequate supporting documentation, encumbrance issues, and staffing shortages can never be totally eliminated. Even in the best of circumstances, some payments will not be made within the 30-day timeframe. We would also like to note that any payments exceeding the 30-day timeframe are already documented in OCCR's Contract Management System. This system is used by OCCR staff to monitor and track pending payments.

Finding No. 3

In a sample of transactions tested, initiating payment documentation for four payments were missing a date-stamp.



ATTACHMENT C: Auditor-Controller/OCCR Accounting Management Responses (continued)

Recommendation No. 3

OCCR Accounting ensure all vendor invoices, claims and payment request are date-stamped upon receipt.

Auditor-Controller/OCCR Accounting Management Response:

Concur. OCCR Accounting staff has been reminded to date stamp all payment documents upon receipt.

Finding No. 4

Non-DPA payments are not always reviewed and approved by program budget personnel.

Recommendation No. 4

OCCR and OCCR Accounting evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types.

Auditor-Controller/OCCR Accounting Management Response:

Concur. We met with OCCR to evaluate the policy for budgetary review and approval of disbursements to determine if it should be consistent for all disbursement types. Program Managers already approve non-DPA invoices. OCCR has tentatively decided to have Program Managers also approve DPA invoices (instead of Budget Analysts) and they are taking steps to implement this policy. Budgetary review occurs when the requisition is approved and/or the encumbrance document is approved.

Finding No. 5

OCCR Accounting's written procedures should define requirements for supervisory/management approval of invoices exceeding established dollar thresholds.

Recommendation No. 5

OCCR Accounting enhance their written policies and procedures to define requirements of the supervisory/management review and approval process for the three dollar thresholds (\$100K, \$500K, and \$1M).

Auditor-Controller/OCCR Accounting Management Response:



ATTACHMENT C: Auditor-Controller/OCCR Accounting Management Responses (continued)

Concur. Written procedures for non-DPA invoices have been revised to include threshold approval levels for \$100K, \$500K, \$1M, and \$25M invoices.