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FINAL CLOSE-OUT SECOND FOLLOW-UP AUDIT:

INTERNAL CONTROL REVIEW OF AUDITOR-CONTROLLER CLAIMS AND DISBURSING'S VENDOR PAYMENT PROCESS

ORIGINAL AUDIT No. 2720-4

As of July 16, 2009

Our Second Follow-Up Audit found that Auditor-Controller Claims & Disbursing fully implemented the remaining two (2) recommendations from our original audit report containing seven (7) recommendations. Five (5) of the recommendations were implemented in our First Follow-Up Audit dated February 11, 2009. Claims & Disbursing processed and paid over \$1.6 billion in vendor payments during the original audit period in FY 2006-07.

AUDIT NO: 2928-A REPORT DATE: JULY 22, 2009

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Deputy Director: Eli Littner, CPA, CIA
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CInternal Audit Department

RISK BASED AUDITING

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









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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Letter from Dr. Peter Hughes, CPA



Transmittal Letter



Audit No. 2928-A July 22, 2009

TO: David E. Sundstrom Auditor-Controller

FROM: Dr. Peter Hughes, CPA

County Internal Auditor

SUBJECT: Second and Final Close-Out Follow-Up

Audit: Internal Control Review of

Auditor-Controller Claims & Disbursing's Vendor Payment Process. Original Audit

No. 2720-4, Issued April 2, 2008

We have completed a Second Follow-Up Audit of internal controls over the Auditor-Controller Claims & Disbursing's Vendor Payment Process. Our audit was limited to reviewing, as of July 16, 2009 actions taken to implement two (2) recommendations remaining from our First Follow-Up Audit dated February 11, 2009 (Audit No. 2829-H). We conducted this Second Follow-Up Audit in accordance with the FY 08-09 Audit Plan and Risk Assessment approved by the Audit Oversight Committee and Board of Supervisors.

The results of our Second Follow-Up Audit are discussed in the **County Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the two remaining audit recommendations, **this report represents the close-out of the original audit.**

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

Other recipients of this report are listed on the County Internal Auditor's Report on page 4.

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As of July 16, 2009

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Audit No. 2928-A July 22, 2009

TO: David E. Sundstrom

Auditor-Controller

FROM: Dr. Peter Hughes, CPA

County Internal Auditor

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

Auditor-Controller Claims & Disbursing's Vendor Payment Process,

e Hughes

Original Audit No. 2720-4, Issued April 2, 2008

Scope of Review

We have completed a Second Follow-Up Audit of the Auditor-Controller Claims & Disbursing's Vendor Payment Process. Our audit was limited to reviewing actions taken as of July 16, 2009 to implement the two (2) remaining recommendations from our First Follow-Up Audit reported dated February 11, 2009, Audit No. 2829-H.

Background

The original audit evaluated controls over Claims & Disbursing's processing of \$1.6 billion in vendor payments during the audit period. The original audit identified seven (7) recommendations involving vendor discounts; payment of sales taxes; payment processing timeframes; controls over vendor payment table; and audits performed by Claims' Compliance Unit for quality assurance. Four (4) recommendations were implemented and one (1) recommendation was closed in our First Follow-Up Audit.

Results

Our Second Follow-Up Audit indicated that Claims & Disbursing fully implemented the two (2) remaining recommendations. As such, this report represents the final close-out of the original audit. Based on the two Follow-Up Audits we conducted, the following is the implementation status of the seven original recommendations:

1. Vendor Discounts Not Taken (Control Finding)

Auditor-Controller Claims & Disbursing ensure vendor discounts are identified and taken when applicable.

Implemented. (First Follow-Up Audit) A-C Claims & Disbursing held a staff meeting to discuss their payment audit procedures including identifying and taking vendor discounts. Procedures were also updated to include vendor discounts. Our testing of 20 vendor payments and subsequent review of another 15 payments did not disclose any payments with vendor discounts. Because action was taken to ensure vendor discounts are taken and no exceptions were noted in our testing, we consider this recommendation implemented.



2. <u>Underpayment of Sales Taxes</u> (Control Finding)

Auditor-Controller Claims & Disbursing ensure sales taxes are charged and detected on all applicable purchases. On the exceptions noted above, Claims & Disbursing should take appropriate action with the State Board of Equalization concerning payment of sales tax due.

Implemented. (First Follow-Up Audit) A-C Claims & Disbursing held a staff meeting to discuss their payment audit procedures including detecting and reporting sales tax. Our testing of 20 vendor payments found 6 payments where applicable sales tax was accurately paid and reported (the other 14 payments did not have sales tax). A-C Claims & Disbursing also took appropriate action with the State Board of Equalization concerning the under-reported \$763.49 sales tax noted in the original audit. Therefore, we consider this recommendation implemented.

3. Payment Processing Timeframes (Control Finding)

Auditor-Controller Claims & Disbursing continue efforts in processing invoices within their internal goal and ensure all payment requests are date-stamped upon receipt.

Implemented. (First Follow-Up Audit) A-C Claims and Disbursing's goal is to process vendor payments within 10 working days or 15 calendar days upon receipt of invoices from departments/agencies. Our testing of 20 vendor payments found 15 payments (75%) were processed within 10-15 days. This percentage is close to what we found in the original audit where 74% of 88 payments tested were processed in the stated timeframes. Having a 74-75% achievement is more or less what A-C Claims expects, although they indicated they strive for all payments to be timely. The date-stamping of department/agency invoices is now performed by the A-C Administrative Section where all invoices are now received along with other incoming mail. Our testing found that date-stamping is being accomplished. Therefore, we consider this recommendation implemented.

4. Vendor Payment Table – Taxpayer Identification Number (Control Finding)

Auditor-Controller Claims & Disbursing ensure all vendor code additions have a signed *W-9* form containing required taxpayer identification information.

Implemented. (First Follow-Up Audit) A reminder was provided to Compliance staff about the need for the *W-9* form containing taxpayer identification numbers. A-C Claims & Disbursing procedures now require all vendor table requests to have a *W-9* form prior to receiving an active vendor code "X." We tested 10 vendor table updates and found that all had the required *W-9* forms included. Therefore, we consider this recommendation implemented.

5. Vendor Payment Table – Supervisory Review (Control Finding)

Auditor-Controller Claims & Disbursing ensure supervisory reviews of Vendor Table Update Requests are performed timely.



Current Status: <u>Implemented/Closed.</u> At the time of our First Follow-Up Audit, the Compliance Unit had an estimated backlog of 500-600 vendor updates requiring supervisory reviews. Our Second Follow-Up Audit found that the backlog of vendor updates requiring supervisory review was processed and all reviews were completed with the assistance of a part-time accountant from A-C General Ledger.

Note: As part of the CAPS+ Upgrade for the Accounts Payable module that went into effect on July 1, 2009; vendor table reviews and approvals (additions, changes and/or deletions) are no longer performed by A-C Claims & Disbursing. A-C General Ledger now maintains the vendor table. Effective July 1st, staff from A-C Claims & Disbursing's Compliance Unit and/or departmental Deputy Purchasing Agents enters the vendor request or vendor change data into CAPS+. Through a workflow process, A-C General Ledger reviews and approves vendor requests in the system. Because A-C Claims & Disbursing completed the backlog of supervisory reviews for vendor table updates and no longer has responsibility for maintaining the vendor table, we consider this recommendation as implemented and closed.

6. Accuracy of Quality Assurance Audits (Control Finding)

Auditor-Controller Claims & Disbursing takes measures to ensure Quality Assurance audits are accurately performed, which could be accomplished through additional training and/or supervisory reviews.

Current Status: **Implemented.** In our First Follow-Up Audit, the Quality Assurance (QA) audits were in process and were expected to be finalized in March 2009. Our Second Follow-Up Audit noted the QA audits were completed in May 2009 covering the period July 1, 2007 through June 30, 2008, and consisted of thirty-one (31) payments processed by Central Claims Unit and out-stationed Auditor-Controller Units. Two Accounting Technicians performed the QA audits and were reminded about completing the QA forms and how to properly document their findings. A supervisor in Claims & Disbursing's Compliance Unit reviews all exceptions noted in the QA audits to ensure the audits are performed accurately and for proper resolution of any exception. Because Claims & Disbursing took measures to ensure the accuracy of QA audits, we consider this recommendation implemented.

7. Accuracy of Stratification Reviews (Control Finding)

Auditor-Controller Claims & Disbursing takes measures to ensure Stratification Reviews are accurately performed, which could be accomplished through additional training and/or supervisory reviews.

Closed. (First Follow-Up Audit) Due to the current budget cuts and staff vacancy in the Compliance Unit, A-C Claims is not planning on conducting a stratification review in the near future. According to A-C Claims & Disbursing, the QA audits take priority over the stratification reviews. Because management has made this determination based on available budget and resources, we consider this recommendation closed.



We appreciate the cooperation and assistance extended to us by the personnel of Auditor-Controller Claims & Disbursing during our Second Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Shaun Skelly, Senior Director, A-C Accounting & Technology
Jan Grimes, Director, A-C Central Accounting Operations
Bob Leblow, Senior Manager, A-C Claims & Disbursing
Salvador Lopez, Manager, A-C Claims & Disbursing
Nancy Ishida, Manager, A-C Internal Audit & Staff Services
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisor