



Orange County Auditor-Controller Internal Audit



Internal Control Audit:
Countywide Audit of
County Business Travel and Meeting Policy -
County Executive Office

For the Six Months Ended
December 31, 2016

Audit Number 1626-A
Report Date: February 7, 2018



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
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Orange County Auditor-Controller

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1626-A

February 7, 2018

TO: Frank Kim
County Executive Officer

SUBJECT: Internal Control Audit:
Countywide Audit of County Business Travel and Meeting Policy –
County Executive Office

We have completed our audit of internal control for County Executive Office (CEO) expenditures governed by the County Business Travel and Meeting Policy for the six months ended December 31, 2016. Our final report is attached for your review.

An **Audit Status Report** is submitted quarterly to the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS) detailing any critical and significant audit findings released in reports during the prior quarter 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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

A handwritten signature in blue ink that reads "Eric H. Woolery".

Eric H. Woolery, CPA
Auditor-Controller

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Selina Chan-Wychgel, Administrative Manager, CEO
- Thuy Vu-Le, Administrative Manager, CEO/OCIT
- Julie Konkol, Administrative Manager CEO/OCIT
- Bryan Berea, Administrative Manager, CEO/Risk Management
- Elaine Renner, Administrative Manager, CEO/Risk Management
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



Table of Contents

*Internal Control Audit:
Countywide Audit of County Business Travel and Meeting Policy –
County Executive Office
Audit No. 1626-A*

For the Six Months Ended December 31, 2016

Transmittal Letter	i
Internal Auditor's Report	
OBJECTIVES	1
RESULTS	1
BACKGROUND	2
SCOPE AND METHODOLOGY	4
FOLLOW-UP PROCESS	4
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	4
Detailed Findings, Recommendations, and Management Responses	
Business Process and Internal Control Strengths	6
Finding No. 1 – No Policy and Procedures For Business Travel and Meeting Administration (Control Finding)	6
Finding No. 2 – Certain Department Head Claims Not Approved by the CEO (Control Finding)	7
Finding No. 3 – Policy Regarding Mileage and Other Expenses Claim Form Submission (Control Finding)	7
ATTACHMENT A: Report Item Classifications	9
ATTACHMENT B: CEO Management Responses	10



Internal Auditor’s Report

Audit No. 1626-A

February 7, 2018

TO: Frank Kim
County Executive Officer

FROM: Eric H. Woolery, CPA
Auditor-Controller

SUBJECT: Internal Control Audit:
Countywide Audit of County Business Travel and Meeting Policy –
County Executive Office

OBJECTIVES

As part of a Countywide Audit of the County Business Travel and Meeting Policy, we have completed our audit of internal control of County Executive Office’s (CEO) expenditures governed by the County Business Travel and Meeting Policy for the six months ended December 31, 2016. We performed this audit in accordance with the FY 2016-17 Audit Plan and Risk Assessment developed by the Auditor-Controller/Internal Audit Division and approved by the Audit Oversight Committee (AOC) and Board of Supervisors (BOS) to assist management in evaluating and enhancing internal controls and the effectiveness and efficiency of the selected areas under audit. 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. Our audit objectives were to:

1. Evaluate operational effectiveness of internal control for expenditures governed by the County Business Travel and Meeting Policy (Travel Policy) to ensure expenditures are complete, accurate, and valid.
2. Determine if expenditures are made in compliance with the County policy.
3. Review travel and meeting expenditure business processes for efficiency improvement.

RESULTS

Objective No. 1

We found that internal control is generally effective to ensure that expenditures governed by the Travel Policy are complete, accurate, and valid; however, we noted the following:

One (1) Control Finding

No policies and procedures for business travel and meeting administration

Finding No. 1



Internal Auditor’s Report

RESULTS (CON’T)

Objective No. 2

We found that expenditures are generally made in compliance with County policy; however, we noted the following:

Two (2) Control Findings

Certain department head claims not approved by the CEO

Finding No. 2

Policy regarding Mileage and Other Expenses Claim Form submission

Finding No. 3

Objective No. 3

We found that business processes are generally efficient as related to the process of incurring travel and meeting expenditures.

BACKGROUND

The County’s mission is “making Orange County a safe, healthy, and fulfilling place to live, work, and play, today and for generations to come, by providing outstanding, cost-effective regional public services.”

The CEO’s office is divided into six organizational units:

1. **Human Resource Services** – Human Resource Services’ mission is to attract, retain, and develop a highly-skilled and competent workforce so that County agencies/departments can provide outstanding services to their customers.
2. **Information Technology** – the Office of Information Technology, referred to as “OCIT”, provides IT solutions across County agencies/departments for voice communications, network and Internet access, as well as data center services. Key areas of focus include implementation of a converged voice and data network, further implementation of a managed services support model, and the establishment of countywide collaboration goals.
3. **Finance Office** – the Chief Financial Officer provides departments and the public with timely information to assure financial accuracy, accountability, and justification. This unit works to ensure the financial stability of the County by managing functions in an efficient, cost-effective, and responsive manner. The County Budget Office, the Procurement Office, the Public Finance Division, and Risk Management are sections within the Finance Office.
4. **Real Estate** – provides real estate analysis, land development services, leasing representation, and lease management services to County agencies/departments. Real Estate ensures the County has appropriate facilities to meet changing demands and that all County real estate assets are carefully inventoried. Real Estate is comprised of four groups which are directed by the Chief Real Estate Officer.
5. **Chief Operating Office** – the Chief Operating Officer provides direct supervision over all appointed department heads and budget/administrative review over all other departments. Important goals include allowing the CEO increased time to provide more direct service to the Board of Supervisors and focus on policy making, allowing consistency in direction to all agencies/departments, developing coordinated strategies to implement County goals, and helping to ensure compliance with all local, state, and federal regulations.



Internal Auditor’s Report

- 6. **Care Coordination** – works with cities and community-based organizations to strengthen regional capacity and multi-city, multi-sector investments to prevent and address homelessness, coordinate public and private resources to meet the needs of the homeless population, and promote integration of services throughout the community that improve the countywide response to homelessness.

County Business Travel and Meeting Policy

On January 26, 2016, the Board of Supervisors approved Resolution 16-010, the “County Business Travel and Meeting Policy” to ensure the County’s resources are spent in a manner that maximizes and provides full accountability of those resources, and provides for reasonable and equitable reimbursement of expenses incurred by individuals while on County business travel.

Payment/Reimbursement Methods

Business Travel and Meeting expenditures are made and claimed through a variety of payment types:

- **Revolving Cash Fund/Petty Cash** – Expenditures paid by cash or check for supplies, travel, and certain services.
- **Revolving Cash Fund/Travel Cash Advances** – Cash advances made prior to travel and for reimbursement of incurred travel expenses.
- **Mileage & Other Expenses Claims** – Employee incurs travel costs, submits reimbursement claim, and is reimbursed through payroll.
- **County Cal-Cards** – Credit card transactions using department funds for business related purchases.
- **Procurement & Contracted Services** – Contract with travel company for department travel needs.

Accounting for County Business Travel and Meeting Expenditures

These expenditures are recorded in various object codes in the County’s General Ledger. The object codes are listed below, with their respective title, and the amount recorded in these object codes for the six months ended December 31, 2016:

Object Code	Title	Total Expenditures
2400	Special Departmental Expense	\$150,989
2600	Transportation and Travel – General	\$24,974
2601	Private Auto Mileage	\$17,768
2700	Transportation and Travel – Mtgs & Conferences	\$76,766
0900	Food (used for business meetings)	\$8,651
TOTAL		\$279,148

Source: CAPS+ Data Warehouse

Prior Audit Activity

We have not issued any audit reports for the CEO with a similar scope within the last ten years.



Internal Auditor's Report

SCOPE AND METHODOLOGY

Our audit scope was limited to internal control over Travel Policy expenditures for the six months ended December 31, 2016. Our methodology included inquiry, observation, and examination of documentation, and testing of relevant transactions. In addition, we performed various computer-assisted audit (CAAT) routines with travel card data obtained from the County's Cal-Card Vendor, US Bank, to identify: (1) potential duplicate payments, (2) potential inappropriate payments (payments made on weekends and holidays), (3) employee/cardholder matches, and (4) exceeded purchase limits.

Scope Exclusions

Our audit scope did not include a review of controls over the OC Expediter system.

FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the AOC and the BOS. Our **First Follow-Up Audit** will generally 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 generally 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. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues will appear on the AOC 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 form to facilitate our review.

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 an entity's internal control structure are 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 the County Executive Office's continuing emphasis on control activities and self-assessment of control risks.



Internal Auditor's Report

Inherent Limitations in Any System of Internal Control

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 County Executive Office's operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller/Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by the personnel at the County Executive Office during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-2450 or Scott Suzuki, Assistant Director, at (714) 834-5509.



Detailed Findings, Recommendations, and Management Responses

Business Process and Internal Control Strengths

Process and internal control strengths noted during our audit include:

- ✓ Certain units within the CEO's office (OCIT and CEO/Risk Management) maintain internal policies and procedures regarding travel. The policies and procedures provide step-by-step directions on requesting and processing travel-related expenditures.
- ✓ All CEO Cal-Card holders have pre-set single purchase and 30-day purchase limits.
- ✓ Travel expenditures are approved via requisition before an expenditure is made.
- ✓ Procedures exist to obtain approval of travel and reimbursement of related expenditures. Expenditures for business meeting meals are pre-approved on a "Business Meeting Policy Certification" form.
- ✓ Travel meal per diem rates are verified against GSA rates by date and location.
- ✓ CEO maintains internal records documenting County business travel and related expenses.

The following areas are where we believe business travel and meeting expenditure processes and controls should be enhanced:

Finding No. 1 – No Policy and Procedures For Business Travel and Meeting Administration (Control Finding)

Certain areas of CEO do not have detailed internal policy and procedures describing the steps to be taken for processing business travel and meeting expenditures.

Not having departmental policy and procedures could result in inconsistent processing of business travel and meeting transactions or departmental management directives not being followed.

CEO follows pertinent County policies, such as the County Business Travel and Meeting Policy (Travel Policy), revolving fund policies and procedures established by the Auditor-Controller in the County Accounting Manual (CAM), Cal-Card Policies and Procedures, and the Contract Policy Manual; however, these policies are general and do not list all the specific steps for staff to take when incurring and processing travel expenditures. Furthermore, while CEO/OCIT and CEO/Risk Management maintain an internal procedure, other areas within CEO do not.

CAM S-2 Internal Control Systems states, "all departments/agencies should have an established system of policies and procedures to be followed in the performance of duties and functions."

Recommendation No. 1:

We recommend CEO develop detailed policies and procedures regarding business travel and meeting expenditures that all areas of CEO can utilize.



Detailed Findings, Recommendations, and Management Responses

CEO Management Response:

Concur. The CEO is currently in the process of developing detailed policies and procedures in regards to business travel and meeting expenditures that will be utilized by all Divisions within the CEO's Office.

Finding No. 2 – Certain Department Head Claims Not Approved by the CEO (Control Finding)

During our countywide audit, we found that department head expense claims were not consistently submitted to the CEO for approval as required by policy.

Not obtaining CEO approval of non-elected department head expense claims increases the risk of expense claims being improperly processed and is against County policy.

Section F.1.a of the Travel Policy states, "non-elected department heads shall obtain approvals from the County Executive Officer or designee, or Chief Operating Officer, or designee" for expense claims.

Recommendation No. 2:

We recommend the CEO enforce the requirement for CEO or designee (or Chief Operating Officer or designee) approval of expense claims.

CEO Management Response:

Concur. The County Executive Officer has reviewed and approved some non-elected Department Heads' claims prior to submission to the Auditor-Controller's Office for review and payment, in which other non-elected Department Heads' claims have not been forwarded to the CEO's Office for proper review/approval, as outlined in the County Business Travel and Meeting Policy. Therefore, the CEO's Office will be enforcing this requirement in that Department Heads must obtain approval from either the County Executive Officer or designee or Chief Operating Officer or designee in advance of submitting the claims to the Auditor-Controller's Office for processing.

Finding No. 3 – Policy Regarding Mileage and Other Expenses Claim Form Submission (Control Finding)

The Travel Policy is not clear regarding the timeframe Mileage and Other Expenses Claim forms must be submitted to the Auditor-Controller.

Section F.3.a.2 and 3 of the Travel Policy states "expense claims for travel must be properly approved and submitted to the Auditor-Controller within 60 days after the expenses were paid or incurred. Any travel costs advanced or paid for and not substantiated within 120 days after the expense was paid or incurred shall be returned to the County."

Section F.3.b of the Travel Policy states, "such claims should not be filed more than once per month, and under no circumstances will payment be disbursed for claims submitted to the Auditor-Controller beyond six months from the end of the travel event or expense incurrence."



Detailed Findings, Recommendations, and Management Responses

Many departments are unclear as to when Mileage and Other Expenses Claim forms need to be submitted.

Recommendation No. 3:

We recommend CEO modify the Travel Policy to clarify the timeframe in which Mileage and Other Expenses Claim forms must be submitted to the Auditor-Controller.

CEO Management Response:

Concur. The CEO's Office will be modifying the current County Business Travel and Meeting Policy to clarify that Cash Advances must be approved/submitted to the Auditor-Controller's Office within 60 days after the expenses were paid or incurred and Mileage & Other Expenses Claims must be filed within six months from the end of the travel event or expense incurrence.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT A: Report Item Classifications

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

Critical Control Weaknesses	Significant Control Weaknesses	Control Findings
<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 Critical Control Weaknesses 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. Significant Control Weaknesses 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. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: CEO Management Responses



County of Orange

County Executive Office

December 4, 2017

Ms. Toni Smart, CPA, Director
12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Dear Ms. Smart,

The Auditor-Controller Internal Audit Division has completed the audit of internal control of County Executive Office (CEO) expenditures governed by the County Business Travel and Meeting Policy for the six months ended December 31, 2016 (Audit No. 1626-A) and have provided a draft report, which includes three separate findings and recommendations in resolving the noted items. The CEO's Office has reviewed the Internal Auditor's Report, Detailed Findings and Recommendations and concurs with the recommendations provided in the report. As requested, below are responses of corrective actions in progress and planned for Findings 1, 2 and 3.

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Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: CEO Management Responses (cont.)

Audit of CEO Countywide Audit of County Business Travel and Meeting Policy Process - Audit No. 1626-A
December 4, 2017
Page 2

CAM S-2 Internal Control Systems states, "all departments/agencies should have an established system of policies and procedures to be followed in the performance of duties and functions."

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CEO Management Response:

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Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: CEO Management Responses (cont.)

Audit of CEO Countywide Audit of County Business Travel and Meeting Policy Process - Audit No. 1626-A
December 4, 2017
Page 3

Finding No. 3 – Policy Regarding Mileage and Other Expenses Claim Form Submission (Control Finding)

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CEO Management Response:

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Please contact Selina Chan-Wychgel of my staff should you have any questions or require further information.

Sincerely,

Frank Kim
County Executive Officer