



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: County Executive Office Cash Disbursements & Payables

For the Period of September 1, 2019
Through May 31, 2022

Audit No. 2012
Report Date: February 14, 2023

Number of Recommendations

0

**Critical Control
Weaknesses**

0

**Significant Control
Weaknesses**

3

Control Findings

OC Board of Supervisors

CHAIRMAN DONALD P. WAGNER
3rd DISTRICT

VICE CHAIRMAN ANDREW DO
1st DISTRICT

SUPERVISOR VICENTE SARMIENTO
2nd DISTRICT

SUPERVISOR DOUG CHAFFEE
4th DISTRICT

SUPERVISOR KATRINA FOLEY
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
County Executive Office Cash Disbursements & Payables

February 14, 2023

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of the County Executive Office (CEO) cash disbursements and payables process for the period September 1, 2019 through May 31, 2022.
RESULTS	<ul style="list-style-type: none">• CEO's internal control over the cash disbursements and payables process was generally effective to ensure transactions are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with County and departmental policy.• CEO's disbursements and payables process is generally efficient.
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none">• Reduced transparency and ability to track and monitor invoices.• Inconsistent processing of invoices resulting in errors and inefficiencies.• Inaccurate information used for monitoring, resulting in late payments and fees.
NUMBER OF RECOMMENDATIONS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none">• Integrating OC Expediter and electronic workflows to the accounts payable process.• Enhancing internal policy and procedures.• Date-stamping invoices upon receipt.
0 CRITICAL CONTROL WEAKNESSES	
0 SIGNIFICANT CONTROL WEAKNESSES	
3 CONTROL FINDINGS	

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



INTERNAL AUDIT DEPARTMENT

Audit No. 2012

February 14, 2023

To: Frank Kim
County Executive Officer

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

Subject: Internal Control Audit: County Executive Office Cash Disbursements & Payables

We have completed an internal control audit of County Executive Office (CEO) cash disbursements and payables process for the period September 1, 2019 through May 31, 2022. Details of our results and recommendations immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

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

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

We appreciate the courtesy extended to us by CEO personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Senior Audit Manager Michael Dean at 714.834.4101.

Attachments

Other recipients of this report:

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

INTERNAL AUDIT DEPARTMENT

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

Business process and internal control strengths noted during our audit include:

- ✓ Invoices are reviewed and verified for key elements, such as matching vendor name with master agreement and calculating total price and quantities.
- ✓ Acknowledgment of receipts are used to confirm goods/services received.
- ✓ An authorized individual approves payments prior to disbursement.
- ✓ Disbursements are supported by payment documentation and maintained in CAPS+.
- ✓ Vendor profile modifications, such as changes in mailing addresses, are processed separately by the Auditor-Controller.



INTERNAL AUDIT DEPARTMENT

FINDING NO. 1	Invoice Processing Enhancements <p>CEO primarily uses a manual process to route, track, obtain confirmation of goods and services, and submit invoices to the Auditor-Controller (A-C) for payment processing.</p> <p>Based on method of receipt, invoices are routed through various avenues for confirmation of goods and services and approval (e.g., via OC Expediter, email, or hand-delivery). Hard copies of invoices with wet signatures are submitted to A-C for processing, except for urgent invoices, which are submitted electronically.</p> <p>Our transaction testing noted the following issues:</p> <ul style="list-style-type: none">• CEO Fiscal Services maintains internal vendor invoice logs (i.e., Excel files) to track invoices. These logs are updated manually. We noted seven out of 12 (58%) logs reviewed had incorrect, outdated, or missing information.• Five out of 12 (42%) invoices reviewed contained processing delays. Although the delays were primarily due to unsatisfactory invoices and did not lead to late payments, these delays were not formally documented.• Documentation of payment approval for one invoice was not retained. <p>While CEO uses OC Expediter for certain processes (e.g., procurement requisitions), they would benefit from additional application of the online requisition system for the accounts payable process. In addition, CEO could benefit by submitting all claim requests electronically to A-C. It would eliminate the various routing methods and associated manual processes, while enhancing monitoring capabilities, accuracy, documentation, internal transparency, and remote work feasibility.</p> <p>Accordingly, OC Expediter would provide a centralized online location for supporting documentation, documenting delays or other miscellaneous details (e.g., will-call checks, advance payments), and an audit trail of the invoice approval process. As a result, staff members can collaborate to quickly resolve issues and ensure timely payments to vendors.</p>
CATEGORY	Control Finding
RISK	Using a manual process can reduce internal transparency and the ability to track and monitor invoices. It can also increase the risk of manual data entry errors, duplicate payments, and delays in the approval process.



INTERNAL AUDIT DEPARTMENT

RECOMMENDATION	<p>CEO management consider:</p> <p>A. Using an online requisition system, such as OC Expediter, to route, track, and obtain confirmation of goods and services for all invoices or seek other options to enhance monitoring, accuracy, documentation, transparency, and remote work feasibility.</p> <p>B. Submitting all invoices electronically to A-C for payment processing.</p>
MANAGEMENT RESPONSE	<p>Concur. The County Executive Office has considered using an online requisition system, such as OC Expediter, to route, track, and obtain confirmation of goods and services for all invoices to enhance monitoring, accuracy, documentation, transparency, and remote feasibility, as well as submitting all invoices electronically to Auditor-Controller for payment processing. Both recommended actions have been partially implemented effective November 1, 2022. Full implementation of these processes is estimated to occur the end of Calendar Year 2023.</p>

FINDING NO. 2	<p>Internal Policy and Procedures</p> <p>While CEO has documented internal policy and procedures for its disbursement process, they do not include details on current practices or key aspects of the process.</p> <p>Specifically, there was no written policy governing the following:</p> <ul style="list-style-type: none">• Transfer of accountability for will-call checks. In addition, the documentation of transfer of accountability for the one will-call check reviewed was not consistent with the practice described by management.• Advance payments. We were informed advance payments were recorded on vendor invoice logs. However, three advance payments were not recorded.• Periodic review and update of staff assignment list. We noted an assignment list documenting each team member's responsibility (e.g., types of invoices/vendors) was not retained during the audit period. CEO stated a list was previously maintained but has not been updated due to consistent shifts in tasks resulting from ongoing reorganization. Although our transaction testing did not note any related payment issues, assignment changes should be promptly documented and communicated to all affected staff.
CATEGORY	Control Finding



INTERNAL AUDIT DEPARTMENT

RISK	Not documenting current procedures can lead to inconsistent practices and a lack of accountability. This can increase the risk of errors and inefficiencies.
RECOMMENDATION	CEO management ensure its written policy and procedures over the cash disbursements and payables process are updated to include guidance regarding the following: <ul style="list-style-type: none">• Transfer of accountability for will-call checks.• Advance payments.• Periodic review and update of a detailed staff assignment list.
MANAGEMENT RESPONSE	Concur. The County Executive Office will update its written policy and procedures over the cash disbursements and payables process to include guidance regarding the transfer of accountability for will-call checks, advance payments, as well as periodic review and update of a detailed staff assignment list. The estimated implementation date is February 28, 2023.

FINDING NO. 3	Date Stamping of Invoices <p>CEO does not consistently date-stamp invoices upon receipt.</p> <p>Our testing noted eleven out of 12 (92%) invoices were not date-stamped upon receipt. Although CEO Fiscal Services documents the date received on its internal vendor invoice logs, it is not included with the payment packet submitted to the A-C for payment disbursement. As a result, the invoice received date is recorded incorrectly in the County's accounting system.</p> <p>Date-stamping invoices upon receipt is a best practice that provides a credible record denoting the start of the payment processing timeframe.</p>
CATEGORY	Control Finding
RISK	Not date-stamping invoices upon receipt results in inaccurate information for payment monitoring and can lead to late payments and fees.
RECOMMENDATION	CEO management ensure all vendor invoices are date-stamped upon receipt.
MANAGEMENT RESPONSE	Concur. Effective November 1, 2022, the County Executive Office has implemented the date-stamp or handwritten date on all vendor invoices upon receipt.



INTERNAL AUDIT DEPARTMENT

AUDIT TEAM	Michael Dean, CPA, CIA, CISA	Senior Audit Manager
	Gianne Morgan, CIA, CISA	Audit Manager
	Alejandra Hernandez	Senior Auditor
	Stephany Pantigoso	Senior Auditor
	Mari Elias, DPA	Administrative Services Manager



INTERNAL AUDIT DEPARTMENT

APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objectives were to:</p> <ol style="list-style-type: none">1. Evaluate the effectiveness of internal control over cash disbursements and payables to ensure transactions are accurate, adequately supported, processed timely, properly recorded, and authorized in compliance with County and departmental policy.2. Review the cash disbursements and payables process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over CEO's cash disbursement and payables process for the period September 1, 2019 through May 31, 2022. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of:</p> <ul style="list-style-type: none">• Mileage and Other Expense Reimbursements or the Educational & Professional Reimbursement Program.• Disbursements made for the revolving fund and payroll.• Inventory counts to verify receipt of goods.• Activities performed by Auditor-Controller Central Accounting.
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for CEO with a similar scope within the last ten years.</p>



INTERNAL AUDIT DEPARTMENT

BACKGROUND

The County Executive Office (CEO) supports and implements Board of Supervisors (Board) policy and direction, ensures effective service delivery, and identifies and responds to needs.

CEO reviews payments that are statutorily required or authorized in contracts approved by the Board or by the County Procurement Office (or authorized Deputy Purchasing Agents). Approved payment packets, including the payment request form or invoice, supporting documentation, and department disbursement authorization, are submitted to the Auditor Controller's office for further review, recording, and payment disbursement.

For the year ended May 31, 2022, CEO disbursed the following amounts:

Reporting Description	Amount	% of Total
Finance	\$738,208,044	67%
Human Resource Services	295,616,472	27%
Information Technology	63,308,151	6%
Real Estate	3,698,746	0%
Government & Community Relations	1,622,341	0%
Operations	1,750	0%
Total	1,102,455,504	100%

Source: CAPS+ Data Warehouse



INTERNAL AUDIT DEPARTMENT

PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2021-22 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>A Follow-Up Audit Report Form is attached and is required to be returned to the Internal Audit Department approximately six months from the date of this report in order to facilitate the follow-up audit process.</p>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.



INTERNAL AUDIT DEPARTMENT

APPENDIX B: FINDING TYPE CLASSIFICATION

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



APPENDIX C: COUNTY EXECUTIVE OFFICE MANAGEMENT RESPONSE



County of Orange

County Executive Office

December 1, 2022

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

RE: Response to Draft Report

Dear Mr. Alonso,

The County Executive Office has reviewed the Draft Report associated with the Internal Control Audit: County Executive Office Cash Disbursements & Payables process for the period of September 1, 2019 to May 31, 2022 and is in concurrence with all recommendations provided by the Internal Audit Department. Included below are County Executive Office's responses to the recommendations.

Recommendation:

- A. Using an online requisition system, such as OC Expediter, to route, track, and obtain confirmation of goods and services for all invoices or seek other options to enhance monitoring, accuracy, documentation, transparency, and remote work feasibility.
- B. Submitting all invoices electronically to A-C for payment processing.

Response - Concur. The County Executive Office has considered using an online requisition system, such as OC Expediter, to route, track, and obtain confirmation of goods and services for all invoices to enhance monitoring, accuracy, documentation, transparency, and remote feasibility, as well as submitting all invoices electronically to Auditor-Controller for payment processing. Both recommended actions have been partially implemented effective November 1, 2022. Full implementation of these processes is estimated to occur the end of Calendar Year 2023.

Recommendation - CEO management ensure its written policy and procedures over the cash disbursements and payables process are updated to include guidance regarding the following:

- Transfer of accountability for will-call checks.
- Advance payments.
- Periodic review and update of a detailed staff assignment list.

400 West Civic Center Drive, 5th Floor, Santa Ana, CA 92701 • County Administration North • Phone (714) 834-2345 • www.ocgov.com



INTERNAL AUDIT DEPARTMENT

Page 2

Response - Concur. The County Executive Office will update its written policy and procedures over the cash disbursements and payables process to include guidance regarding the transfer of accountability for will-call checks, advance payments, as well as periodic review and update of a detailed staff assignment list. The estimated implementation date is February 28, 2023.

Recommendation - CEO management ensure all vendor invoices are date-stamped upon receipt.

Response - Concur. Effective November 1, 2022, the County Executive Office has implemented the date-stamp or handwritten date on all vendor invoices upon receipt.

Thank you.
Sincerely,



Michelle Aguirre
Chief Financial Officer

MA: SCW

400 West Civic Center Drive, 5th Floor, Santa Ana, CA 92701 • County Administration North • Phone (714) 834-2345 • www.ocgov.com

