



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: John Wayne Airport Purchasing & Contracts

For the Period of October 1, 2020
Through September 30, 2021

Audit No. 2115
Report Date: March 30, 2023

Number of Recommendations

0

Critical Control
Weakness

0

Significant Control
Weakness

0

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:
John Wayne Airport Purchasing & Contracts

March 30, 2023

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of John Wayne Airport's (JWA) purchasing and contracts process for the period of October 1, 2020 through September 30, 2021.
RESULTS	<ul style="list-style-type: none">We concluded that JWA's internal control over the purchasing and contracts process is generally effective to ensure requisitions and purchase of goods and services are executed in accordance with management's directives; adequately supported; and properly authorized and recorded.We concluded that JWA's purchasing and contracts process is generally efficient.
RISKS IDENTIFIED	Not applicable as there were no findings requiring corrective action.
NUMBER OF RECOMMENDATIONS	Our audit did not reveal any opportunities for enhancing internal control related to the business process and scope reviewed.
0	CRITICAL CONTROL WEAKNESSES
0	SIGNIFICANT CONTROL WEAKNESSES
0	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. 2115

March 30, 2023

To: Charlene Reynolds
John Wayne Airport Director

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

Subject: Internal Control Audit: John Wayne Airport Purchasing & Contracts

We have completed an internal control audit of John Wayne Airport's (JWA) purchasing and contracts process for the period of October 1, 2020 through September 30, 2021. Details of our results immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

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 JWA's personnel during our audit. If you have any questions regarding our audit, please contact me at (714) 834-5442 or Michael Dean at (714) 834-4101.

Attachments

Other recipients of this report:

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

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RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS

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

- ✓ JWA's public website promotes vendor diversity by including a Contract Opportunities webpage with links to the County's Online Bidding System registration, current bid postings, current construction projects, and other contractor resources.
- ✓ JWA internal procedures include a Reference section with links to guidance materials issued by JWA and the County Procurement Office (CPO).
- ✓ The entire purchasing cycle is documented on the County's internal requisitioning system. The system captures requisition-related approvals and actions from Program, Budget, and Purchasing staff, including the assigned Deputy Purchasing Agent (DPA).
- ✓ User access to the requisitioning system is granted based on staff roles and is monitored by conducting semi-annual audits of all roles.
- ✓ Emergency requests require an Emergency Justification Memo signed by the Airport Director, Assistant Airport Director, or the division's Deputy Airport Director and must be submitted to Procurement within ten (10) business days from the request date.
- ✓ DPAs follow solicitation procedures according to procurement types and maintain documentation electronically as required per CPO.
- ✓ Encumbrances are reviewed semi-annually to determine whether balances are needed or should be closed out.
- ✓ The Procurement Manager attends Procurement Council meetings to learn about CPO's policy and procedure updates and shares accordingly with the Procurement team.
- ✓ JWA participates in CPO's Annual Compliance Review to ensure compliance with issued policies and directives.
- ✓ JWA procurement documents are now routed and signed electronically using Adobe Acrobat Pro.
- ✓ JWA's Operations division conducts training and drills to prepare airport divisions in the event of an emergency. These business continuity plans include actions needed by Procurement staff.



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FINDINGS	No findings were identified in this audit.
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AUDIT TEAM	Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA, CISA Gianne Morgan, CIA, CISA Gabriela Cabrera Stephany P. Franco Mari Elias, DPA	Senior Audit Manager Audit Manager Audit Manager Senior Auditor Senior Auditor Administrative Services Manager
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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 the purchasing and contracts process to ensure requisitions and purchase of goods and services are executed in accordance with management's directives; adequately supported and properly authorized; and properly recorded.2. Review the purchasing process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over JWA's purchasing and contracts process for the period of October 1, 2020 through September 30, 2021. Our methodology included virtual inquiry and observation, as well as physical examination of documentation.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of administration over Health and Human Service contracts; leases, which are managed by CEO Real Estate; or Public Works and Architecture & Engineering contracts, which are managed by OC Public Works. In addition, our scope did not include a review of CAPS+ or other IT systems or user access controls.</p>
PRIOR AUDIT COVERAGE	<p>We have not issued any audit reports for JWA with a similar scope within the last ten years.</p>



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BACKGROUND

JWA's operations are carried out by seven divisions including the Finance Administration Division. Within Finance Administration, the Purchasing team is responsible for contract administration.

During the audit period, JWA recorded contracts totaling an order amount of approximately **\$71M**. These contracts were solicited using methods such as Request for Proposals, Invitation for Bids, and Cooperative Purchasing. Approximately \$1.6M (4%) of contracts recorded were solicited using a sole source or emergency procurement method.

Contract Policy Manual and Procurement Procedures Manual

The County Contract Policy Manual (CPM) was adopted by the Board of Supervisors on March 27, 2007. It provides general procurement policy and standards that govern the conduct of the County's procurement activities and of personnel engaged in these activities. The 2021 CPM, which was effective July 1, 2021, was used as the criteria for this audit.

The County Procurement Procedures Manual (PPM) was published by the County Procurement Office on July 1, 2021. The manual establishes rules and procedures related to the management of the procurement process for commodities and services, and is intended to encourage uniform procedures based on current legislation and internal policy. We considered applicable procedures for this audit.

Purchasing Systems

JWA utilizes the County Purchasing system for day-to-day purchasing activities. The common name of the system has been omitted from this report for information security purposes.



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PURPOSE & AUTHORITY	We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2021-22 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>This audit does not contain any recommendations; therefore, a follow-up audit will not be performed.</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 shall establish effective internal controls as department management is responsible for internal control. Department management shall also continuously assess and strengthen internal control by evaluating internal control systems and promptly correcting weaknesses when detected." The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
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.



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APPENDIX B: REPORT ITEM CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address 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>

