



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: John Wayne Airport Cash Disbursements & Payables

For The Year Ended December 31, 2021

Audit No. 2013

Report Date: June 19, 2023

Number of Recommendations

0

Critical Control
Weaknesses

0

Significant Control
Weaknesses

1

Control Finding

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 Cash Disbursements & Payables

June 19, 2023

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an internal control audit of John Wayne Airport's (JWA) cash disbursements and payables process for the year ended December 31, 2021.
RESULTS	<ul style="list-style-type: none"> JWA'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. JWA's disbursements and payables process is generally efficient.
RISK IDENTIFIED	As a result of our finding, a potential risk is delays in processing vendor payments.
NUMBER OF RECOMMENDATIONS	An opportunity for enhancing internal control includes ensuring the timely payment of invoices.
0	CRITICAL CONTROL WEAKNESSES
0	SIGNIFICANT CONTROL WEAKNESSES
1	CONTROL FINDING

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



INTERNAL AUDIT DEPARTMENT

Audit No. 2013

June 19, 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 Cash Disbursements & Payables

We have completed an internal control audit of John Wayne Airport's (JWA) cash disbursements and payables process for the year ended December 31, 2021. 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.

JWA concurred with our recommendation and the Internal Audit Department considers management's response appropriate to the recommendation 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 JWA 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
County Executive Office Distribution
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:

- ✓ Documented internal policy and procedures regarding disbursements process and payables.
- ✓ Invoices are reviewed and verified for key elements, such as matching vendor name with the master agreement and calculating total price and quantities.
- ✓ Documented delivery of goods/services in OC Expediter using an Acknowledgment of Receipts form.
- ✓ Staff maintain internal spreadsheets to monitor contract expenditures.
- ✓ Invoices are assigned to staff based on payment type, e.g., DPA and non-DPA.
- ✓ Supporting documentation is maintained to justify the processing of payments.
- ✓ An authorized individual approves payments prior to disbursement.
- ✓ Disbursements are supported by payment documentation and maintained in CAPS+.

FINDING NO. 1

Timely Payments of Invoices

JWA is not consistently paying invoices timely (within 30 days).

We analyzed all transactions within the audit period (5,110 transactions) to verify timeliness of payments from invoice received date to check issuance date and found 44% were not paid within 30 days, as illustrated below.

# of Days	# of Invoices	% of Total
0-30 Days	2,878	56%
31-60 Days	1,533	30%
61-90 Days	432	9%
91+ Days	267	5%
Total	5,110	100%

CATEGORY

Control Finding



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RISK	Late payments can affect vendors' ability to continue to conduct business with the County, which could result in procurement inefficiencies. Late payments may also subject the County to payment penalties.
RECOMMENDATION	JWA management ensure invoices are paid timely (within 30 days).
MANAGEMENT RESPONSE	Concur. JWA concurs with the finding and recommendation. If the invoice is disputed and requires additional time, the approving official will notify the vendor in writing and keep a record of why the invoice is disputed. If the invoice review is not completed, the Accounting Unit will send a reminder to the unit manager responsible for approving the invoice before the 30-day timeframe. The notifications will become part of the Airport's payment records in the Expediter notes to justify beyond 30-day payment. Second, the Airport will remind staff with invoice approval responsibilities to complete their review expeditiously. Lastly, JWA acknowledges the responsibility to pay undisputed invoices promptly. However, JWA may exceed the 30-day invoice receipt timeframe by scheduling payments according to their due date and not within 30 days of receiving the invoice.

AUDIT TEAM	Michael Dean, CPA, CIA, CISA Zan Zaman, CPA, CIA, CISA Gianne Morgan, CIA, CISA Stephany Franco Alejandra Luna Thuy Luu	Senior IT Audit Manager IT Audit Manager IT Audit Manager Senior Auditor Senior Auditor Staff Specialist
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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 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 JWA's cash disbursement and payables process for the period January 1, 2021 through December 31, 2021. 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 revolving funds 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 JWA with a similar scope within the last ten years.</p>



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BACKGROUND

John Wayne Airport (JWA), owned and operated by the County of Orange, is the only commercial service airport in Orange County, California.

JWA Accounting staff receive invoices by either mail or email. Accounting staff manually enter invoice information into a County system to route, monitor, and document an acknowledgement of receipts (AOR) for goods and services received. After the AOR is approved, Accounting audits the invoice against the contract, if applicable, and prepares the payment with necessary signatures. Finally, Accounting creates a payment request document and verifies that all the information was correctly generated into the countywide accounting system. For the year ended December 31, 2021, JWA disbursed the following amounts:

Reporting Description	Amount	% of Total
Facilities Management	29,386,821	31%
Maintenance Division	25,676,625	27%
Finance Administration	20,541,537	21%
Operations Administration	19,089,912	20%
Public Affairs	857,330	1%
Airport Director	477,545	1%
Business Development Admin	139,808	0%
Total	96,169,578	100%

Source: CAPS+ Data Warehouse



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PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2022-23 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	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.
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 the 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 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 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: FINDING TYPE 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>



APPENDIX C: JOHN WAYNE AIRPORT MANAGEMENT RESPONSE

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JOHN WAYNE
AIRPORT
ORANGE COUNTY

June 9, 2023

Mr. Aggie Alonso, CPA, CIA, CRMA
Director, Internal Audit Department
County of Orange
County Administration South
601 North Ross Street, Suite 528
Santa Ana, CA 92701

Dear Mr. Alonso,

John Wayne Airport (JWA) welcomes the opportunity to respond to the draft audit report. We appreciate the time and effort the County's Internal Audit Department and its staff dedicated to conducting this important audit.

JWA fully recognizes the critical importance of internal controls over cash disbursements and payables. JWA concurs with the one recommendation noted in the draft audit report. Below you will find a more detailed response to the recommendation.

Recommendation 1

JWA management ensure invoices are paid timely (within 30 days).

JWA Response

JWA concurs with the finding and recommendation. If the invoice is disputed and requires additional time, the approving official will notify the vendor in writing and keep a record of why the invoice is disputed. If the invoice review is not completed, the Accounting Unit will send a reminder to the unit manager responsible for approving the invoice before the 30-day timeframe. The notifications will become part of the Airport's payment records in the Expediter notes to justify beyond 30-day payment. Second, the Airport will remind staff with invoice approval responsibilities to complete their review expeditiously. Lastly, JWA acknowledges the responsibility to pay undisputed invoices promptly. However, JWA may exceed the 30-day invoice receipt timeframe by scheduling payments according to their due date and not within 30 days of receiving the invoice.




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We hope this information is responsive to your request. Please do not hesitate to contact me directly if you have questions or require additional information.

Sincerely,

DocuSigned by:

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Charlene V. Reynolds
Airport Director
John Wayne Airport, Orange County

cc: Komal Kumar, Interim Assistant Airport Director, John Wayne Airport
Hector Gomez, Interim Deputy Airport Director, JWA Finance Administration
Vivian Canton, Manager, JWA Accounting
Kenneth Wong, Manager, JWA Quality Assurance and Compliance

