



INTERNAL AUDIT DEPARTMENT



Internal Control Audit: Auditor-Controller Claims

For the Year Ended December 31, 2018

Audit No. 1811

Report Date: December 30, 2019

Number of Recommendations

0

Critical Control Weaknesses

0

Significant Control Weaknesses

2

Control Findings

OC Board of Supervisors

Chairwoman Lisa A. Bartlett
5th District

Vice Chair Michelle Steel
2nd District

Supervisor Andrew Do
1st District

Supervisor Donald P. Wagner
3rd District

Supervisor Doug Chaffee
4th District



INTERNAL AUDIT DEPARTMENT

Internal Control Audit:
Auditor-Controller Claims

December 30, 2019

AUDIT HIGHLIGHTS

SCOPE OF WORK	Perform an Internal Control Audit of the Auditor-Controller's (A-C) Claims process for the year ended December 31, 2018.						
RESULTS	<ul style="list-style-type: none"> We concluded the A-C's internal control over the claims process is generally effective to ensure claims are properly reviewed, complete, valid, and accurate. We concluded that the claims process is generally efficient. 						
RISKS IDENTIFIED	<p>As a result of our findings, potential risks include:</p> <ul style="list-style-type: none"> Inconsistent processing of invoices. Reduced ability to track and monitor invoices. 						
<p>NUMBER OF RECOMMENDATIONS</p> <table border="1"> <tr> <td data-bbox="99 1220 201 1325">0</td> <td data-bbox="201 1220 391 1325">CRITICAL CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1325 201 1430">0</td> <td data-bbox="201 1325 391 1430">SIGNIFICANT CONTROL WEAKNESSES</td> </tr> <tr> <td data-bbox="99 1430 201 1524">2</td> <td data-bbox="201 1430 391 1524">CONTROL FINDINGS</td> </tr> </table>	0	CRITICAL CONTROL WEAKNESSES	0	SIGNIFICANT CONTROL WEAKNESSES	2	CONTROL FINDINGS	<p>Opportunities for enhancing internal control include:</p> <ul style="list-style-type: none"> Ensuring departments are informed of the payments and refund policy and procedures for consistent claims processing. Integrating new technology to make the accounts payable process more efficient.
0	CRITICAL CONTROL WEAKNESSES						
0	SIGNIFICANT CONTROL WEAKNESSES						
2	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. 1811

December 30, 2019

To: Frank Davies, CPA
Auditor-Controller

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

Subject: Internal Control Audit: Auditor-Controller Claims

We have completed an Internal Control Audit of the Auditor-Controller's (A-C) Claims process for the year ended December 31, 2018. 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.

A-C concurred with all of our recommendations and the Internal Audit Department considers A-C's management 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 A-C's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

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

INTERNAL AUDIT DEPARTMENT

RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS	<p>Business process and internal control strengths noted during our audit include:</p> <ul style="list-style-type: none"> ✓ Written internal policy and procedures for the invoice review and verification process. ✓ Invoices are reviewed and verified for key elements, such as ensuring proper department approval and matching vendor name with Master Agreement. ✓ Supervisory review and approvals are in place for certain dollar thresholds. ✓ Invoices and departments are assigned to properly trained staff. ✓ Tools (Payment Transmittal Support Documentation) are provided to ensure reviews are properly documented. ✓ A-C Claims periodically issues Claims and Compliance Bulletins to inform County departments of pertinent information.
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FINDING NO. 1	<p>Policy and Procedures</p> <p>A-C maintains a procedure for Accounts Payable, Payments and Refunds on the CAPS+ Learning Center website. However, A-C Claims does not provide formalized departmental training regarding the procedure, and the procedure has not been widely distributed to departments. In addition, there is no County Accounting Manual (CAM) for claims/accounts payable.</p>
CATEGORY	Control Finding
RISK	<p>Not distributing policy and procedures or providing training to departments could result in inconsistent processing of invoices.</p>
RECOMMENDATION	<p>Auditor-Controller:</p> <ul style="list-style-type: none"> A. Inform departments of the Accounts Payable, Payments and Refunds procedure. B. Consider providing departmental training regarding the Accounts Payable, Payments and Refunds procedure, live or on-line via Eureka. C. Consider creating a CAM for the claims/accounts payable process.



INTERNAL AUDIT DEPARTMENT

MANAGEMENT RESPONSE	Concur. A-C Claims will formalize the departmental policy and procedure and add it as part of the County Accounting Manual. We will subsequently distribute it to County departments for reference and will explore options for possible Accounts Payable training (i.e. workshop or roundtable) to discuss the formalized policy with County departments.
FINDING NO. 2	Invoice Processing Efficiencies Departments send hardcopy vendor invoices to A-C Reception, which then date stamps the invoices upon receipt. The receipt stamp date is used to track invoices, but is not entered into CAPS+ until after the invoices are processed by Claims, which averages about 10 business days after initial receipt by the A-C. It is difficult to determine the status of the invoice (received, processed, etc.) because it is not electronically workflowed. As a result, invoices cannot be electronically tracked by staff, supervisors, and client departments. In addition, the invoice received date and Accounts Payable received date in the system are subject to potential data entry errors.
CATEGORY	Control Finding
RISK	Using a manual process decreases the ability to track and monitor invoices and increases the risk of data entry errors on received dates.
RECOMMENDATION	A-C consider developing or procuring an accounts payable processing system that will make the Accounts Payable process more efficient. For example, the application could provide: <ul style="list-style-type: none">• Scanning of invoices and supporting documentation to start the invoice automation process earlier.• Extracting of key information from scanned documents to remove manual entry.• Invoice workflow at the department level to eliminate manual movement.• Real-time tracking of the invoice approval progress to provide inventory control.



INTERNAL AUDIT DEPARTMENT

MANAGEMENT RESPONSE

Concur. CAPS+ is the County's official system of record which includes an invoice module that has not been activated due to various factors including costs for modifications. A-C Claims and A-C Information Technology teams have already been exploring possible options for enhancements to the accounts payable process. This includes an existing pilot program already in place with the Sheriffs and Probation Departments. Both teams will continue to explore additional options that could potentially reduce manual entry and provide electronic tracking of invoices. Any new systems, once identified, are subject to available budget appropriations.

AUDIT TEAM

Scott Suzuki, CPA, CIA, CISA
Michael Dean, CPA, CIA, CISA
Zan Zaman, CPA, CIA
Stephany Pantigoso

Assistant Director
Senior Audit Manager
Audit Manager
Senior Auditor



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 the claims process to ensure payments are properly reviewed, complete, valid, and accurate.2. Review the claims process for efficiency.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to internal control over the A-C Claims process for the year ended December 31, 2018. Our methodology included inquiry, observation, and examination of documentation.</p> <p>In addition, A-C Claims requested we complete a flowchart for the claims process. See Appendix B.</p>
EXCLUSIONS	<p>Our audit scope did not include a review of Mileage and Other Expense Claims or the Educational & Professional Reimbursement Program. We did not verify receipt of goods nor did we review any activities performed by the Disbursing unit or Satellite Accounting Operations Division.</p>
PRIOR AUDIT COVERAGE	<p>An audit with similar scope, Internal Control Audit: Auditor-Controller Claims & Disbursing's Vendor Payment Process, Audit No. 2720-4, was issued on April 2, 2008.</p>
BACKGROUND	<p>The Claims & Disbursing Unit (A-C Claims) within the Central Accounting Operations Division reviews payments that are statutorily required or authorized in contracts approved by the Board of Supervisors or by the County's Purchasing Agent (or authorized Deputy Purchasing Agents). These payments are for a variety of goods and services that are necessary to the County's functioning.</p> <p>A-C Claims reviews invoices from all departments excluding those with A-C Satellite Accounting staff, i.e., A-C Claims does not review departmental invoices from Health Care Agency, OC Waste & Recycling, OC Community Resources, OC Public Works (with exception of transportation and construction invoices), and John Wayne Airport.</p> <p>A-C Claims processes, reviews, and approves various types of invoices, such as commodity encumbrance corrections, general accounting expenses, and payment requests. See Appendix B for the Auditor-Controller Invoice Process for Payment Request Document.</p> <p>During the audit period, total disbursements for A-C were approximately \$2.8 billion.</p>
PURPOSE & AUTHORITY	<p>We performed this audit in accordance with the Annual Risk Assessment & Audit Plan for FY 2018-19 approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).</p>



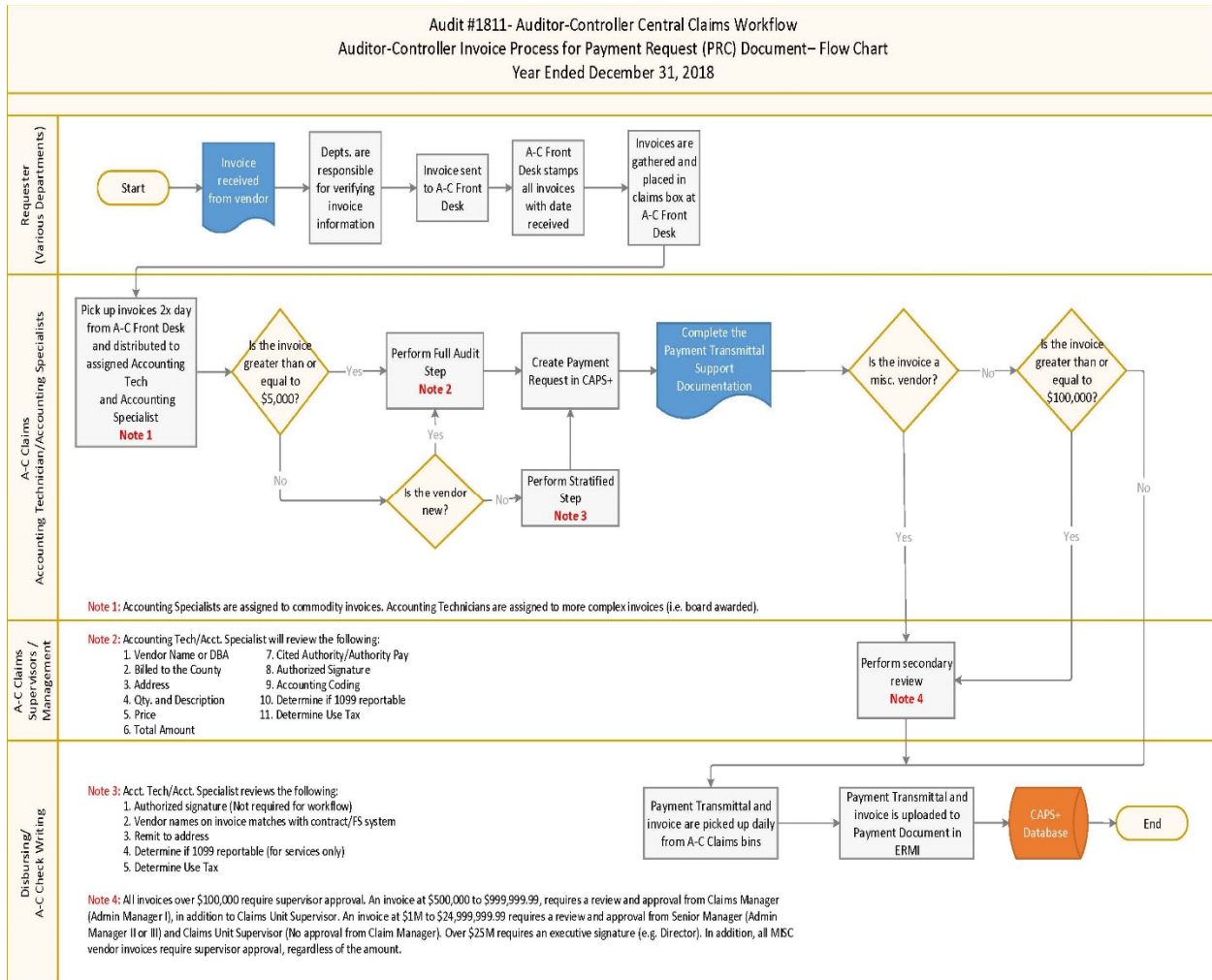
INTERNAL AUDIT DEPARTMENT

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 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 controls 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.



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APPENDIX B: AUDITOR-CONTROLLER INVOICE PROCESS FOR PRC – FLOWCHART



APPENDIX C: 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 D: AUDITOR-CONTROLLER MANAGEMENT RESPONSE



OFFICE OF THE
ORANGE COUNTY AUDITOR-CONTROLLER

FRANK DAVIES, CPA
AUDITOR-CONTROLLER

December 20, 2019

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

RE: Audit No. 1811 Internal Control Audit: Auditor-Controller Claims

We have reviewed the audit report from your office dated November 12, 2019 relating to our Claims process for the year ended December 31, 2018. Below are Auditor-Controller's responses to the audit findings and recommendations.

Finding No. 1 - Policy and Procedures (Control Finding)

A-C maintains a procedure for Accounts Payable, Payments and Refunds on the CAPS+ Learning Center website. However, A-C Claims does not provide formalized departmental training regarding the procedure and the procedure has not been widely distributed to departments. In addition, there is no County Accounting Manual (CAM) for claims/accounts payable.

County Accounting Manual S-2 Internal Control Systems Section 3.4 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:

A-C should:

- A. Inform departments of the Accounts Payable, Payments and Refunds procedure.
- B. Consider providing departmental training regarding the Accounts Payable, Payments and Refunds procedure, live or on-line via Eureka.
- C. Consider creating a CAM for the claims/accounts payable process.

Auditor-Controller Management Response:

Concur. A-C Claims will formalize the departmental policy and procedure and add it as part of the County Accounting Manual. We will subsequently distribute it to County departments for reference and will explore options for possible Accounts Payable training (i.e. workshop or roundtable) to discuss the formalized policy with County departments.

1770 N. BROADWAY • SANTA ANA, CALIFORNIA 92706
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Audit No. 1811 Management Responses
December 20, 2019
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Finding No. 2 - Invoice Processing Efficiencies (Control Finding):

Departments send hardcopy vendor invoices to A-C Reception, which then date stamps the invoices upon receipt. The receipt stamp date is used to track invoices but is not entered into CAPS+ until after the invoices are processed by Claims, which averages about 10 business days after initial receipt by the A-C. It is difficult to determine the status of the invoice (received, processed, etc.) because it is not electronically workflowed. As a result, invoices cannot be electronically tracked by staff, supervisors, and client departments. In addition, the invoice received date and Accounts Payable received date in the system are subject to potential data entry errors.

Recommendation No. 2:

A-C should consider developing or procuring an accounts payable processing system that will make the Accounts Payable process more efficient. For example, the application could provide:

- Scanning of invoices and supporting documentation to start the invoice automation process earlier.
- Extracting key information from scanned documents to remove manual entry.
- Invoice workflow at the department level to eliminate manual movement.
- Real-time tracking of the invoice approval progress to provide inventory control.

Auditor-Controller Management Response:

Concur. CAPS+ is the County's official system of record which includes an invoice module that has not been activated due to various factors including costs for modifications. A-C Claims and A-C Information Technology teams have already been exploring possible options for enhancements to the accounts payable process. This includes an existing pilot program already in place with the Sheriff's and Probation Departments. Both teams will continue to explore additional options that could potentially reduce manual entry and provide electronic tracking of invoices. Any new systems, once identified, are subject to available budget appropriations.

If you have any questions or require additional information, please contact Jennifer Han at (714) 834-2466 or JC Squires at (714) 834-5521.

Sincerely,



Frank Davies, CPA
Auditor-Controller

cc: Salvador Lopez, Interim Chief Deputy Auditor-Controller
JC Squires, Director, Central Accounting Operations
Jennifer Han, Claims & Compliance Manager
Scott Suzuki, Assistant Director, Internal Audit Department