

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

FINAL CLOSE-OUT

FIRST FOLLOW-UP PURCHASING CARD AUDIT USING COMPUTER- ASSISTED AUDIT TECHNIQUES (CAATS):

COUNTY EXECUTIVE OFFICE/ COUNTY PROCUREMENT OFFICE

AS OF DECEMBER 16, 2014

Our First Follow-Up Audit found County Procurement Office implemented two (2) recommendations from our original audit report dated June 30, 2014.

Our original audit analyzed 310 purchasing card accounts with 22,754 transactions for the year ended December 31, 2013 totaling \$7.3 million in the areas of card management, merchant management, transactions analysis, and segregation of duties.

AUDIT NO: 1350-A-F1
(REFERENCE 1447)

REPORT DATE: DECEMBER 30, 2014

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Assistant Director/Senior Audit Manager: Michael Goodwin, CPA, CIA
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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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 OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1350-A-F1 December 30, 2014

TO: Michael B. Giancola, County Executive Officer
Rob Richardson, County Procurement Officer

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **First and Final Close-Out** Follow-Up Purchasing Card Audit Using Computer-Assisted Audit Techniques (CAATs): County Executive Office/County Procurement Office
Original Audit No. 1350-A, Issued June 30, 2014

We have completed a First Follow-Up Audit of Purchasing Cards Using Computer-Assisted Audit Techniques (CAATs). Our audit was limited to reviewing, as of December 16, 2014, actions taken to implement the **two (2) recommendations** from our original audit report dated June 30, 2014. We conducted this First Follow-Up Audit in accordance with the *FY 14-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the two (2) recommendations, **this report represents the final close-out of the original audit.**

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month 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 BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 2.

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Computer-Assisted Audit Techniques (CAATs):
County Executive Office/County Procurement Office
Audit No. 1350-A-F1***

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OC Internal Auditor's Report



Audit No. 1350A-F1

December 30, 2014

TO: Michael B. Giancola, County Executive Officer
Rob Richardson, County Procurement Officer

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: **First and Final Close-Out** Follow-Up Purchasing Card Audit Using Computer-Assisted Audit Techniques (CAATs): County Executive Office/County Procurement Office, Original Audit No. 1350-A, Issued June 30, 2014

Scope of Review

We have completed a First Follow-Up Audit of Purchasing Card Audit Using Computer-Assisted Audit Techniques (CAATs). Our audit was limited to reviewing actions taken, as of December 16, 2014, to implement the **two (2) recommendations** from our original audit report.

Background

Our original audit analyzed 310 open purchase card accounts with 22,754 transactions for the year ended December 31, 2013, amounting to about \$7.3 million in the areas of card management, merchant management, transaction analysis, and segregation of duties. The original audit identified **two (2) Control Findings** to address the identified transactions and update and finalize the purchasing and travel card policy and procedures.

Continuous auditing using CAATs is a change to the traditional audit approach. CAATs differ from our traditional audits in that CAATs can query **100%** of a data universe whereas the traditional audits typically test but a **sample** of transactions from the population. CAATs are automated queries applied to large amounts of electronic data searching for specified characteristics. We use a proprietary, best practice and industry recognized software product (ACL) to help us in this process. Often there is additional research needed to validate exceptions that is only known at the department level. Internal Audit attempts to validate and resolve exceptions; however, most of the resulting exceptions are forwarded to the appropriate department for validation and/or resolution. Depending on the department's review, the exceptions may or may not be a finding.

For the exceptions and findings noted in our audit, we forwarded the exceptions to the **County Procurement Office (CPO)** for further research, which involves contacting departments/agencies and/or clarifying existing Purchasing Card policies and procedures.

Note: Effective January 23, 2014, the CPO implemented a separate purchasing card program for all travel and food related purchases whereby certain purchases would not be allowable on standard purchasing cards. Our audit of calendar year 2013 purchasing cards included both travel and food related purchases since the new program was implemented after our audit period. In addition, we have made arrangements with the CPO to provide them the CAAT routines so they can monitor purchasing cards as part of their administration of the Purchasing Card program.

Results

Our First Follow-Up Audit indicated the County Procurement Office **implemented the two (2) recommendations. As such, this report represents the final close-out of the original audit.** Based on our First Follow-Up Audit, the following is the implementation status of the two (2) original recommendations:



1. **Transactions Exceeding Single Purchase Limit of \$5,000 (Control Finding)**

CPO should take measures in accordance with Purchasing Card policy to further research and address the identified exceptions involving single transaction limits, and make appropriate notification to Cardholders and their Approving Officials based on the outcome.

Current Status: Implemented. Our original audit identified two accounts where individual purchases made on the same day and with the same merchant (when combined) exceeded the purchasing card single purchase limit of \$5,000. Internal Audit provided the audit exceptions to the County Procurement Office (CPO) to research further if transactions were potentially split to circumvent the single purchase limit.

The CPO met with both departments in an effort to better understand the perceived split transactions. Upon conducting additional research it was determined by the CPO the Cardholders and Approving Officials did not violate Cal Card policies or County Procurement policies. CPO staff met with the purchasing card administrators for the two accounts and worked with them to ensure an understanding of the policy requirements. Because the CPO conducted further research on the two exceptions involving single transaction limits, we consider this recommendation implemented.

2. **Purchasing Card Policies and Procedures in Draft Form (Control Finding)**

CPO should update and finalize the Purchasing Card policy and procedures to include travel, policy enhancements, and disciplinary steps to be taken in the event of non-compliance.

Current Status: Implemented. Our original audit found that the *Purchasing Card Policies & Procedures 2012 User Guide*, dated June 19, 2012, was in draft form and did not include policy for the travel card or the policy enhancements recommended for analysis in our prior Purchasing Card CAAT audit. On October 8, 2014 the County Procurement Office updated the Purchasing Card Policies and Procedures. Our review of the updated policies and procedures found that they addressed the travel card requirements and policy enhancements that included disciplinary steps to be taken in the event of non-compliance. The *Purchasing Card Policies & Procedures 2014 User Guide* is available on the CPO's intranet. Because the CPO finalized the purchasing card policies and procedures, we consider this recommendation implemented.

We appreciate the assistance extended to us by County Procurement Office personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Assistant Director/Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
Frank Kim, Chief Financial Officer
Mark Denny, Chief Operating Officer
Melva Gipson, Policy and Asset Manager, County Procurement Office
Nina Badalamenti, Cal-Card Program Administrator, County Procurement Office
Victoria Ross, Director, Central Accounting Operations, Auditor-Controller
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