

Internal Audit Department

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

FIRST FOLLOW-UP INTERNAL CONTROL AUDIT:

OC PUBLIC WORKS DISBURSEMENT APPROVAL PROCESS

AS OF APRIL 30, 2014

Our First Follow-Up Audit found that OC Public Works partially implemented the one (1) recommendation from our original audit dated October 8, 2013.

During the original audit period, OC Public Works disbursed approximately \$160 million for services and supplies.

AUDIT NO: 1223-F1
(REFERENCE 1339)
(ORIGINAL AUDIT NO. 1223)

REPORT DATE: JUNE 30, 2014

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Michael Goodwin, CPA, CIA
Senior Internal Auditor: Susan Nestor, CPA, CIA

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1223-F1 June 30, 2014

TO: Shane L. Silsby, Director
OC Public Works

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

SUBJECT: First Follow-Up Internal Control Audit:
OC Public Works Disbursement Approval
Process, Original Audit No. 1223, Issued
October 8, 2013

We have completed a First Follow-Up Audit of OC Public Works Disbursement Approval Process. Our audit was limited to reviewing, as of April 30, 2014, actions taken to implement the **one (1) recommendation** from our original audit report dated October 8, 2013. We conducted this First Follow-Up Audit in accordance with the *FY 13-14 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. Our First Follow-Up Audit found OC Public Works **partially implemented the one (1) recommendation** from our original audit report. A Second Follow-Up Audit will be conducted approximately six months from the date of this report.

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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OC Public Works Disbursement Approval Process
Audit No. 1223-F1***

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OC Internal Auditor's Report



Audit No. 1223-F1

June 30, 2014

TO: Shane L. Silsby, Director
OC Public Works

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

SUBJECT: First Follow-Up Internal Control Audit: OC Public Works Disbursement Approval Process, Original Audit No. 1223, Issued October 8, 2013

Scope of Review

We have completed a First Follow-Up Audit of Public Works Disbursement Approval Process. Our audit was limited to reviewing actions taken, as of April 30, 2014, to implement the **one (1) recommendation** from our original audit report.

Background

We conducted an Internal Control Audit of OC Public Works (OCPW) Disbursement Approval Process, which included an evaluation of OCPW and OCPW Accounting internal controls over processing and approving disbursements, a determination of compliance with OCPW, OCPW Accounting and County policies and procedures; and an evaluation of the efficiency and effectiveness of OCPW's disbursement approval process. During the original audit period, OCPW disbursed approximately \$160 million for Services and Supplies. The original audit identified **one (1) Control Finding** resulting in **one (1) recommendation** to improve controls regarding payment processing timeframes.

In addition, on August 5, 2013, OCPW notified Internal Audit that a **contract monetary limit was exceeded by \$185,000** during the third term of an aggregate contract. As a result of the overrun, OCPW requested Internal Audit's assistance to review corrective actions taken to help prevent future contract overruns. We had no recommendations in regard to the actions taken; however, we determined we would provide further review of this area in our follow-up audit. See "Contract Management Enhancements" on page 2 for more information.

Results

Based on our First Follow-Up Audit, the following is the implementation status of the one (1) recommendation:

1. Payment Processing Timeframes. (Control Finding)

OCPW Accounts Payable ensure that invoices are processed within the 30-45 day timeframe. In instances when invoice processing is delayed, reasons should be noted in the contract payment file.

Current Status: Partially Implemented.

Our First Follow-Up Audit found that OCPW Procurement held staff meetings in January and February 2014 and included discussions about our audit recommendation to document reasons for delays in invoice processing timeframes. We tested a sample of five (5) disbursements (a total of 14 invoices) between January and April 2014 which exceeded the 45-day processing time frame. We reviewed the Expediter contract payment files and found that (1) one file contained documentation noting reasons for processing delays; however, there was no documentation noting reasons for the delay in the other four (4) files tested. The delays that were not documented ranged between 49 days to 166 days.

OC Internal Auditor's Report



Because OCPW Procurement Services informed staff of the audit recommendation, and our testing disclosed only one of five instances where reasons for the delay were documented at the time of the payment, we consider this recommendation partially implemented.

OCPW Planned Action:

Effective July 1, 2014, OCPW Accounts Payable (AP) staff will be transferred to the Auditor-Controller Department and become A/C employees. OCPW Accounting AP managers will implement an aging schedule to track payment delays and ensure the reasons for the delays are noted in the appropriate files. The status of payments will also be relayed to the OCPW Accounting manager via monthly status reports. We will also work with staff to remind them of the importance of documenting delays in the contract files.

Contract Management Enhancements

During our fieldwork in the original audit, OCPW brought to our attention a contract where the monetary limit was exceeded by \$185,000. This was an aggregate contract with OC Facilities Operations and Operations & Maintenance for plumbing equipment, fixtures and supplies. We also found that OCPW had subsequently implemented corrective actions to prevent future contract overruns, including using the Mainstar system to track authorized purchases against contracts, and by encumbering funds up front instead of at the time of the invoice payment. OCPW IT was also planning on developing an application for real time monitoring of contract balances. Because the corrective actions appeared reasonable, we had no recommendations in the original audit on this issue.

Our First Follow-Up Audit found OCPW is currently using the Mainstar system to monitor remaining contract balances and provides a "low balance alert" feature. **No additional contract overruns have occurred since this control was implemented.**

We were informed that OCPW is in the process of a major reorganization. The proposed development of a mobile solution application, as discussed in our original audit report, will be reevaluated after the reorganization is finalized. In the interim, additional contract monitoring processes have been added to support OCPW's Maintstar system to ensure contract compliance and prevent overruns.

We appreciate the assistance extended to us by OC Public Works personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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