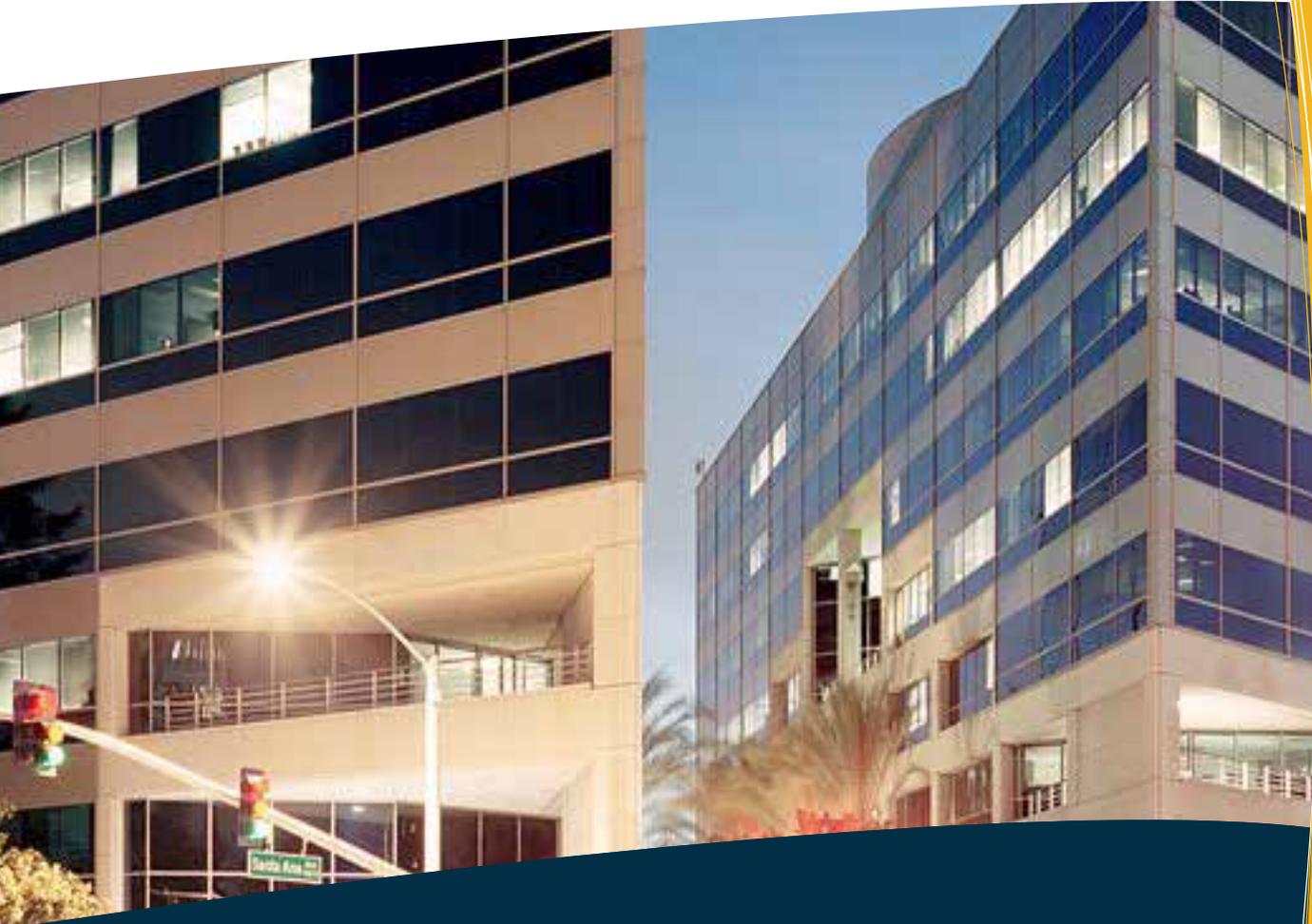




# Orange County Auditor-Controller Internal Audit



Internal Control Audit:  
Countywide Audit of  
County Business Travel and Meeting Policy -  
OC Public Works

For the Six Months Ended  
December 31, 2016

Audit Number 1626-B  
Report Date: February 7, 2018



O R A N G E C O U N T Y  
**AUDITOR-CONTROLLER**  
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**ERIC H. WOOLERY, CPA**  
AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1626-B**

**February 7, 2018**

**TO:** Shane Silsby, Director  
OC Public Works

**SUBJECT:** Internal Control Audit:  
Countywide Audit of County Business Travel and Meeting Policy – OC Public Works

We have completed our audit of internal controls of OC Public Works' (OCPW) expenditures governed by the County Business Travel and Meeting Policy for the six months ended December 31, 2016. Our final report is attached for your review.

An **Audit Status Report** is submitted quarterly to the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS) detailing any critical and significant audit findings released in reports during the prior quarter 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 AOC and BOS.

Additionally, we will request your department to complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

A handwritten signature in blue ink that reads "Eric H. Woolery".

Eric H. Woolery, CPA  
Auditor-Controller

**Attachments**

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Frank Kim, County Executive Officer
- Becky Juliano, Deputy Director of Administrative Services, OCPW
- Tonya Riley, Director of Satellite Accounting Operations, Auditor-Controller
- Howard Thomas, Accounting Manager III, Auditor-Controller/OCPW Accounting Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board of Supervisors
- Macias Gini & O'Connell LLP, County External Auditor



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Countywide Audit of County Business Travel and Meeting Policy –  
OC Public Works  
Audit No. 1626-B*

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# Internal Auditor's Report

**Audit No. 1626-B**

**February 7, 2018**

TO: Shane Silsby, Director  
OC Public Works

FROM: Eric Woolery, CPA  
Auditor-Controller

SUBJECT: Internal Control Audit:  
Countywide Audit of County Business Travel and Meeting Policy –  
OC Public Works

## OBJECTIVES

As part of a Countywide Audit of the County Business Travel and Meeting Policy, we have completed our audit of internal controls of OC Public Works' (OCPW) expenditures governed by the County Business Travel and Meeting Policy for the six months ended December 31, 2016. We performed this audit in accordance with the FY 2016-17 Audit Plan and Risk Assessment developed by the Auditor-Controller/Internal Audit Division and approved by the Audit Oversight Committee (AOC) and Board of Supervisors (BOS). 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. Our audit objectives were to:

1. Evaluate operational effectiveness of internal control for expenditures governed by the County Business Travel and Meeting Policy (Travel Policy) to ensure expenditures are complete, accurate, and valid.
2. Determine if expenditures are made in compliance with the County policy.
3. Review travel and meeting expenditure business processes for efficiency improvement.

## RESULTS

### Objective No. 1:

We found that internal control is generally effective to ensure expenditures governed by the Travel Policy are complete, accurate, and valid.

### Objective No. 2:

We found that expenditures are generally made in compliance with County policy; however, we noted **one (1) Control Finding** regarding cancellation of supporting documentation (**Finding No. 1**).

### Objective No. 3:

We found that business processes are generally efficient as related to the process of incurring travel and meeting expenditures.

## BACKGROUND

OCPW's mission is "to protect and enrich the community through efficient delivery and maintenance of public works infrastructure, planning, and development services."



# Internal Auditor's Report

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OCPW is divided into 11 organizational units:

1. **Director's Office** – oversees and works with all department service areas on the strategic direction and operational efficiencies of the department.
2. **Administrative Services** – leads the financial, administrative, and information technology operations.
3. **OC Construction** – delivers construction management services for capital improvement projects for the County of Orange, such as flood control facilities, new roadways, and road improvements.
4. **OC Development Services** – oversees the planning and development entitlement requirements of projects within the County's unincorporated areas.
5. **OC Environmental Resources** – protects public health and safety, environmental quality, consumer value, and business competitiveness throughout Orange County.
6. **OC Facilities Design & Construction Management** – provides professional architectural and engineering-related services in support of capital projects and programs for various County agencies.
7. **OC Facilities Maintenance & Central Utility Facility** – ensures the efficient and innovative operation and maintenance of County facilities that enable various County agencies to better serve the public.
8. **OC Fleet Services** – delivers high-quality vehicle management services to all County agencies and departments.
9. **OC Operations & Maintenance** – ensures that roads, bridges, flood channels, dams, water retention basins, and other County facilities are constantly maintained so these resources are safe and operating effectively.
10. **OC Infrastructure Programs** – leads the engineering programming, project and policy development, design and project management of road projects in unincorporated County areas and flood control projects.
11. **OC Survey** – provides innovative surveying and mapping services that support the public's land-use needs and the design and construction of land development projects.

## **County Business Travel and Meeting Policy**

On January 26, 2016, the Board of Supervisors approved Resolution 16-010, the "County Business Travel and Meeting Policy" to ensure the County's resources are spent in a manner that maximizes and provides full accountability of those resources, and provides for reasonable and equitable reimbursement of expenses incurred by individuals while on County business travel.

## **Payment/Reimbursement Methods**

Business Travel and Meeting expenditures are made and claimed through a variety of payment types:

- **Revolving Cash Fund/Petty Cash** – Expenditures paid by cash or check for supplies, travel, and certain services.



# Internal Auditor’s Report

- **Revolving Cash Fund/Travel Cash Advances** – Cash advances made prior to travel and for reimbursement of travel expenses incurred.
- **Mileage & Other Expense Claims** – Employee incurs travel costs, submits reimbursement claim, and is reimbursed through payroll.
- **County Cal-Cards** – Credit card transactions using department funds for business related purchases.
- **Procurement & Contracted Services** – Contract with travel company for department travel needs.

## Accounting for County Business Travel and Meeting Expenditures

These expenditures are recorded in various object codes in the County’s General Ledger. The object code, title, and amount recorded for the six months ended December 31, 2016, are listed below:

**Table 1. OCPW Business Travel & Meeting Expenditures**

Object Code	Title	Total Expenditures
2400	Special Departmental Expense	\$1,810,498
2600	Transportation and Travel – General	15,112
2601	Private Auto Mileage	59,754
2700	Transportation and Travel – Mtgs & Conferences	111,287
0900	Food (used for business meetings)	4,565
<b>TOTAL</b>		<b>\$2,001,216</b>

Source: CAPS+ Data Warehouse

## Prior Audit Activity

We have not issued any audit reports for OCPW with a similar scope within the last ten years.

## SCOPE AND METHODOLOGY

Our audit scope was limited to internal control over Travel Policy expenditures for the six months ended December 31, 2016. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions. In addition, we performed various computer-assisted audit (CAAT) routines with travel card data obtained from the County’s Cal-Card Vendor, US Bank, to identify: (1) potential duplicate payments, (2) potential inappropriate payments (e.g., weekend or holiday transactions), (3) employee/cardholder matches, and (4) exceeded purchase limits.

## Scope Exclusions

Our audit scope did not include a review of controls over the OC Expediter system.

## FOLLOW-UP PROCESS

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the AOC and the BOS. Our **First Follow-Up Audit** will generally begin at six months from the official release of the report.



# Internal Auditor's Report

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A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list.

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **Second Follow-Up Audit** will generally begin at six months from the release of the first Follow-Up Audit report, by which time **all** audit recommendations are expected to be addressed and implemented. We bring to the AOC's attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. Such open issues will appear on the AOC agenda at their next scheduled meeting for discussion.

We have attached a **Follow-Up Audit Report Form**. Your department should complete this template as our audit recommendations are implemented. When we perform our first Follow-Up Audit approximately six months from the date of this report, we will need to obtain the completed form to facilitate our review.

## **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 an entity's internal control structure are 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 OC Public Works' continuing emphasis on control activities and self-assessment of control risks.

## **Inherent Limitations in Any System of Internal Control**

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 OC Public Works' operating procedures, accounting practices, and compliance with County policy.

The Auditor-Controller/Internal Audit Division is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations.

## **ACKNOWLEDGEMENT**

We appreciate the courtesy extended to us by the personnel at OC Public Works during our audit. If you have any questions regarding our audit, please contact me at (714) 834-2450 or Scott Suzuki, Assistant Director, at (714) 834-5509.



# Detailed Findings, Recommendations, and Management Responses

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## Business Process and Internal Control Strengths

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

- ✓ OCPW maintains a departmental policy and procedure regarding travel. The policy and procedure provide step-by-step directions on requesting and processing travel related expenditures.
- ✓ All OCPW Cal-Card holders have pre-set single purchase and 30-day purchase limits.
- ✓ Travel expenditures are approved via requisition before an expenditure is made.
- ✓ Procedures exist to obtain approval of travel and reimbursement of related expenditures. Expenditures for business meeting meals are pre-approved by the department head on a "Request for Food Purchase" document.
- ✓ OCPW maintains a log of all travel related charges and reviews the log when processing mileage claims for travel. This helps prevent duplicate payments from occurring.
- ✓ Travel meal per diem rates are verified against GSA rates by date and location to ensure the first and last day of travel is claimed at 75% of the per diem rate.
- ✓ OCPW now uses the Auditor-Controller's automated mileage claim application.
- ✓ OCPW maintains internal records documenting County business travel and related expenses.

The following area is where we believe business travel and meeting expenditure process and internal control should be enhanced:

### Finding No. 1 – Supporting Documentation Was Not Canceled (Control Finding)

Supporting documentation for travel expenditures was not properly canceled (marked as "paid").

Failure to cancel supporting documentation increases the risk of duplicate payments occurring as the original invoice could be submitted more than once.

County Accounting Manual C1 – *Revolving Cash Fund* requires supporting documents to be canceled when the expenditure is made.

#### Recommendation No. 1:

We recommend OC Public Works ensure supporting documentation for travel expenditures is properly canceled (marked as "paid").

#### OC Public Works Management Response:

**Concur.** OCPW will procure a "PAID" stamp and update its Revolving Fund procedures to include cancellation of supporting documentation.



# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit findings and recommendations, we will classify audit report items into three distinct categories:

<b>Critical Control Weaknesses</b>	<b>Significant Control Weaknesses</b>	<b>Control Findings</b>
<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 <b>Critical Control Weaknesses</b> 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. <b>Significant Control Weaknesses</b> 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. <b>Control Findings</b> are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>



# Detailed Findings, Recommendations, and Management Responses

## ATTACHMENT B: OC Public Works Management Response



January 2, 2018

**To:** Ms. Toni Smart, CPA, Director  
Auditor-Controller Internal Audit Division  
12 Civic Center Plaza, Room 200  
Santa Ana, CA 92701

**Subject:** Response to Draft Report – Audit No. 1626-B, Internal Control Audit: Countywide Audit of County Business Travel and Meeting Policy

Dear Ms. Smart:

OC Public Works has received and reviewed in draft form, the Internal Audit Department's audit of internal controls of OC Public Works' (OCPW) expenditures governed by the County Business Travel and Meeting Policy for the six months ended December 31, 2016.

OC Public Works hereby provides the following responses to the Internal Audit Department's Recommendations.

**Finding No. 1 – Supporting Documentation Was Not Canceled (Control Finding)**

Recommendation No. 1: We recommend OC Public Works ensure supporting documentation for travel expenditures is properly canceled (marked as "paid").

OC Public Works Management Response: Concur. OCPW will procure a "PAID" stamp and update its Revolving Fund procedures to include cancellation of supporting documentation.

Thank you and should you have any questions, please contact Becky Juliano at OC Public Works at 714-667-3287.

Sincerely,

Signature: \_\_\_\_\_

*Shane L. Silsby*  
Shane L. Silsby  
Director, OC Public Works

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# Detailed Findings, Recommendations, and Management Responses

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## ATTACHMENT B: OC Public Works Management Response

cc: Eric Woolery, Auditor-Controller  
Lilly Simmering, Deputy Chief Operating Officer  
Vicki Quiram, Assistant Director, OCPW  
Becky Juliano, Deputy Director, Administrative Services, OCPW  
Tam Vu, Audit Coordinator, Finance Services, OCPW  
Tonya Riley, Director, Satellite Accounting Operations, A-C  
Howard Thomas, Accounting Manager, OCPW Accounting