



Orange County Auditor-Controller Internal Audit



Internal Control Audit:
Countywide Audit of
County Business Travel and Meeting Policy -
Assessor

For the Fiscal Year Ended
June 30, 2017

Audit Number 1626-C
Report Date: June 26, 2018



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
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Orange County Auditor-Controller

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

Audit No. 1626-C

June 26, 2018

TO: Claude Parrish
Assessor

SUBJECT: Internal Control Audit:
Countywide Audit of County Business Travel and Meeting Policy –
Assessor

We have completed our audit of internal control of Assessor expenditures governed by the County Business Travel and Meeting Policy for the fiscal year ended June 30, 2017. 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
- Neil Shah, Management Services & Roll Support Manager, Assessor
- Yvonne Herrell, Administrative Manager II, Assessor
- Kristen Woodward, Executive Secretary, Assessor
- Foreperson, Grand Jury
- Robin Stieler, Clerk of the Board
- Vavrinek, Trine, Day & Co., LLP, County External Auditor



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Countywide Audit of County Business Travel and Meeting Policy –
Assessor
Audit No. 1626-C***

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Internal Auditor's Report

Audit No. 1626-C

June 26, 2018

TO: Claude Parrish
Assessor

FROM: Eric H. Woolery, CPA
Auditor-Controller

SUBJECT: Internal Control Audit:
Countywide Audit of County Business Travel and Meeting Policy –
Assessor

OBJECTIVES

As part of a Countywide Audit of the County Business Travel and Meeting Policy, we have completed our audit of internal control of Assessor expenditures governed by the County Business Travel and Meeting Policy for the fiscal year ended June 30, 2017. We performed this audit in accordance with the FY 2017-18 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) to assist management in evaluating and enhancing internal control and the effectiveness and efficiency of the selected areas under audit. Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International 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 whether 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 that expenditures governed by the Travel Policy are complete, accurate, and valid; however, we noted the following:

Two (2) Control Findings

No policy and procedures for business travel and meeting administration

Finding No. 1

Inadequate duties segregation for the revolving cash fund

Finding No. 2

Objective No. 2

We found that expenditures are generally made in compliance with County policy; however, we noted the following:

Two (2) Control Findings

Non-compliant timing of Mileage and Other Expenses Claim form submittal

Finding No. 3

Supporting documentation not canceled

Finding No. 4



Internal Auditor’s Report

RESULTS (CON’T)

Objective No. 3

We found that business processes are generally efficient as related to the process of incurring travel and meeting expenditures; however, we noted the following:

One (1) Control Finding

Automated purchase requisitions

Finding No. 5

BACKGROUND

The mission of the Assessor is “to serve the citizens of Orange County by valuing all legally assessable property with uniformity and impartiality, producing property tax assessment rolls in accordance with the laws of the State of California, helping property owners to understand their property valuations, and providing accurate information in a timely and courteous manner.”

The Assessor’s office is comprised of the following units:

1. **Business Property** - Audits and appraises business personal property and assesses all trade fixtures, leased equipment, boats and aircraft with taxable situs in Orange County.
2. **Real Property** - Appraises real property, new construction and re-assessable changes in ownership, and maintains records on all real property parcels including residential, commercial, rural, industrial and special use properties.
3. **Roll Support** - Reviews and maintains recorded documents evidencing a change in ownership of real property, prepares Assessor parcel maps and processes homeowner, veteran and institutional exemptions.
4. **Quality Assurance** - Provides appraisal methodologies, procedures, training and quality control for roll production, audit and appraisal staff.
5. **Computer Systems** - Provides programming and data processing services, system security and technical services to support the development of the Assessment Rolls of Value.
6. **Management Services** - Provides fiscal management, process integration, contract administration, procurement and personnel services, general department administration and public service support to the public and other government agencies.

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:



Internal Auditor's Report

- **Revolving Cash Fund/Petty Cash** - Expenditures paid by cash or check for supplies, travel, and certain services.
- **Revolving Cash Fund/Travel Cash Advances** - Cash advances made prior to travel and for reimbursement of incurred travel expenses.
- **Mileage & Other Expenses 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, along with other non-travel expenditures (e.g., in 2400 special departmental expense), in the County's General Ledger. The object code, title, and amount recorded for the fiscal year ended June 30, 2017 are listed below:

Object Code	Title	Total Expenditures
2400	Special Departmental Expense	\$41,326
2601	Private Auto Mileage	86,803
2700	Transportation and Travel – Mtgs & Conferences	103,203

Source: CAPS+ Data Warehouse

Prior Audit Activity

We have not issued any audit reports for the Assessor 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 fiscal year ended June 30, 2017. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions. In addition, we performed various computer-assisted audit techniques (CAAT) with Cal-Card data obtained from the County's vendor, US Bank, to identify: (1) potential duplicate payments, (2) potential inappropriate payments (payments made on weekends and holidays), (3) employee/cardholder matches, and (4) exceeded purchase limits.

Scope Exclusions

Our audit scope did not include a review of controls over information systems used to process travel transactions.

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. 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.



Internal Auditor's Report

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 the Assessor's 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 Assessor's 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 the Assessor during our audit. If you have any questions regarding our audit, please contact me directly at (714) 834-2456, or Scott Suzuki, Director of Internal Audit, at (714) 834-5509.



Detailed Findings, Recommendations, and Management Responses

Business Process and Internal Control Strengths

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

- ✓ All Assessor Cal-Card holders have pre-set single purchase and 30-day purchase limits.
- ✓ Travel expenditures are approved via requisition before an expenditure is made.
- ✓ Practices exist to obtain approval of travel and reimbursement of related expenditures.
- ✓ Travel per diem rates are verified against GSA rates by date and location.
- ✓ A log is maintained to track all travel-related expenditures by requisition number.
- ✓ Assessor maintains internal records documenting County business travel and related expenses.

The following areas are where we believe business travel and meeting expenditure processes and internal control should be enhanced:

Finding No. 1 – No Policy and Procedures for Business Travel and Meeting Administration (Control Finding)

Assessor does not have detailed internal policy and procedures describing the steps to be taken for processing business travel and meeting expenditures.

Not having departmental policy and procedures could result in inconsistent processing of business travel and meeting transactions or departmental management directives not being followed.

Assessor follows pertinent County policies, such as the County Business Travel and Meeting Policy (Travel Policy), revolving fund policies and procedures established by the Auditor-Controller (A-C) in the County Accounting Manual (CAM), Cal-Card Policies and Procedures, and the Contract Policy Manual; however, these policies are general and do not list all the specific steps for staff to take when incurring and processing travel expenditures.

CAM S-2 Internal Control Systems 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:

We recommend the Assessor develop detailed policies and procedures regarding business travel and meeting expenditures.

Assessor Management Response:

We were using the county policies (effective 12/92, revised 6/93, 2/02). As suggested, the Assessor Department is creating a policy specific to the Assessor Department. The Assessor Department was not outside of compliance, we were following the general county policy referenced above. We concur. We are in the process of creating the Assessor office detailed internal policy and procedures describing the steps to be taken for processing business travel and meeting expenditures and expect to complete it by July 31, 2018.



Detailed Findings, Recommendations, and Management Responses

Finding No. 2 – Inadequate Duties Segregation for the Revolving Cash Fund (Control Finding)

For five of eight (63%) revolving fund transactions tested, the check signer also approved the Revolving Fund reimbursement claim. For one of five (20%) cash advance transactions tested, the check signer also approved the cash advance.

Failure to segregate the duties of approval and check signing increases the risk of inappropriate payments being made.

CAM C-7 Revolving Cash Funds, Section 2.2.1 states, “purchases or cash advances from the revolving cash fund must be approved by an authorized person who does not have revolving fund custodian, check signer, or reconciliation duties.”

Recommendation No. 2:

We recommend the Assessor ensure revolving fund purchases are approved by an authorized person who does not have revolving fund custodian, check signer, or reconciliation duties.

Assessor Management Response:

This is in reference to the Assessor Department petty cash fund. By having implemented the recommendations we have segregated the duties of approval and check signing by having the Assessor approving all requisitions and Revolving Fund reimbursement claims rather than the check signer.

Finding No. 3 – Non-Compliant Timing of Mileage and Other Expenses Claim Form Submittal (Control Finding)

Several employees accumulated and submitted more than one Mileage and Other Expenses (MOE) claim form which is against the Travel Policy that allows no more than one claim to be filed per month per employee. In addition, we found two MOE claim forms were not submitted to the A-C within six months as required by the Travel Policy.

Failure to submit MOE claim forms timely results in the County being less aware of its outstanding liabilities. In addition, this can result in the accumulation of numerous claim items that can become more cumbersome to review.

Recommendation No. 3:

We recommend the Assessor ensure its staff submit MOE claim forms only once a month as required. We also recommend the Assessor ensure Mileage and Other Expenses Claim forms are properly approved and submitted within six months as required.

Assessor Management Response:

Instead of employees submitting random expense claims during a month, we have taken steps to ensure that mileage and other expense claims are filed only once a month per employee. The Assessor now approves all mileage and other expense claims to ensure that multiple claims are not filed by the employee on a monthly basis.



Detailed Findings, Recommendations, and Management Responses

Finding No. 4 – Supporting Documentation Not Canceled (Control Finding)

Supporting documentation for travel expenditures from the revolving cash fund 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 an expenditure is made.

Recommendation No. 4:

We recommend Assessor ensure supporting documentation for travel expenditures is properly canceled (marked as “paid”).

Assessor Management Response:

We concur concerning the one item found in the petty cash reimbursement process. We will mark all supporting documentation for travel expenditures from the revolving fund as “paid”.

Finding No. 5 – Automated Purchase Requisitions (Control Finding)

Before travel occurs, a manual travel requisition form is initiated by the traveler and approved by the Program/Division Manager, with final approval provided by the Assessor. Many departments have implemented the County’s automated requisition system referred to as OC Expediter, which could replace manual requisitions. OC Expediter is a routing-based requisition software tool and an invoice tracking system that is used to process and approve requisitions, as well as monitor available or remaining contract balances to avoid contract overruns. The Assessor has considered, but has not yet implemented OC Expediter.

Automating the purchase requisition preparation and approval processes would help minimize errors, expedite the requisition process, and would leave a transaction audit trail that would document and retain each transaction’s activity.

Recommendation No. 5:

We recommend Assessor implement an automated purchase requisition system, such as OC Expediter.

Assessor Management Response

We do not agree with this recommendation. Based on an analysis conducted by us we have concluded it is time-consuming and the cost of implementing an automated purchase requisition system far exceeds its benefits.



Detailed Findings, Recommendations, and Management Responses

Internal Audit's Evaluation of Assessor Management Responses

Internal Audit considers the Assessor's management responses appropriate to our recommendations. While concurrence was not explicitly stated for Recommendation Nos. 2 and 3, the Assessors' response indicates corrective action to be taken which satisfies the intent of our recommendations. Additionally, while the Assessor stated they did not concur with Recommendation No. 5, they did conduct analysis of OC Expediter which also meets the intent of our recommendation.



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:

Critical Control Weaknesses	Significant Control Weaknesses	Control Findings
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.	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.	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.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Assessor Management Response

CIVIC CENTER PLAZA, BUILDING 11
625 N ROSS STREET, ROOM 142
P.O. BOX 628
SANTA ANA, CA 92702-0628



ESTABLISHED 1889

OFFICE OF THE ASSESSOR

CLAUDE PARRISH
COUNTY ASSESSOR

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June 8, 2018

Eric Woolery, CPA
Auditor-Controller
12 Civic Center Plaza, Room 200
Santa Ana, CA 92701

Re: Countywide Audit of County Business Travel and Meeting Policy - Assessor

Dear Eric Woolery,

This is in response to your April 10, 2018, letter in which you provided a draft of your audit of my office expenditures governed by the County Business Travel and Meeting Policy for the year ended June 30, 2017. Your recommendations and my responses are outlined below.

Finding No. 1 – No Policy and Procedures for Business Travel and Meeting Administration (Control Finding)

We were using the county policies (effective 12/92, revised 6/93, 2/02). As suggested, the Assessor Department is creating a policy specific to the Assessor Department. The Assessor Department was not outside of compliance, we were following the general county policy referenced above. We concur. We are in the process of creating the Assessor office detailed internal policy and procedures describing the steps to be taken for processing business travel and meeting expenditures and expect to complete it by July 31, 2018.

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Instead of employees submitting random expense claims during a month, we have taken steps to ensure that mileage and other expense claims are filed only once a month per employee. The Assessor now approves all mileage and other expense claims to ensure that multiple claims are not filed by the employee on a monthly basis.



Detailed Findings, Recommendations, and Management Responses

ATTACHMENT B: Assessor Management Response

Countywide Audit of County Business Travel and Meeting Policy - Assessor
Page 2 of 2

Finding No. 4 – Supporting Documentation Not Canceled (Control Finding)

We concur concerning the one item found in the petty cash reimbursement process. We will mark all supporting documentation for travel expenditures from the revolving cash fund as “paid”.

Finding No. 5 – Automated Purchase Requisitions (Control Finding)

We do not agree with this recommendation. Based on an analysis conducted by us we have concluded it is time-consuming and the cost of implementing an automated purchase requisition system far exceeds its benefits.

Please contact me at 834-2734 if you need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Claude Parrish".

CLAUDE PARRISH
Orange County Assessor