

Internal Audit Department

O R A N G E C O U N T Y

FIRST FOLLOW-UP AUDIT:

INTERNAL CONTROL REVIEW OF AUDITOR-CONTROLLER CLAIMS & DISBURSING'S VENDOR PAYMENT PROCESS

ORIGINAL AUDIT No. 2720-4

AS OF JANUARY 16, 2009

The original audit report contained seven (7) recommendations. Our Follow-Up Audit indicated that A-C Claims & Disbursing took satisfactory corrective action to implement four (4) of the recommendations. For the remaining recommendations, one (1) is in process; one (1) is not implemented; and one (1) is closed. A-C Claims & Disbursing processed and paid over \$1.6 billion in vendor payments during the original audit in Fiscal Year 2006-07.

AUDIT No: 2829-H

REPORT DATE: FEBRUARY 11, 2009

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Transmittal Letter



Audit No. 2829-H February 11, 2009

TO: David E. Sundstrom
Auditor-Controller

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

SUBJECT: First Follow-Up Audit: Internal Control
Review of Auditor-Controller Claims &
Disbursing's Vendor Payment Process
Original Audit No. 2720-4,
Issued April 2, 2008

We have completed a First Follow-Up Audit of Auditor-Controller Claims & Disbursing's Vendor Payment Process. Our audit was limited to reviewing, as of January 16, 2009, actions taken to implement seven (7) recommendations made in our original audit report.

The results of our Follow-Up Audit are discussed in the **OC Internal Auditor's Executive Report** following this transmittal letter. Because there are two recommendations pending implementation, we have attached a *Second Follow-Up Audit Report Form*. Auditor-Controller Claims & Disbursing should complete this template when our audit recommendations are implemented. When we perform our Second Follow-Up Audit, we will need to obtain the completed document to facilitate our review.

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.

Attachment

Other recipients of this report listed on the OC Internal Auditor's Executive Report on page 4.

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Internal Control Review of
Auditor-Controller Claims & Disbursing's
Vendor Payment Process
(Original Audit No. 2720-4)
Audit No 2829-H***

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OC Internal Auditor's Executive Report



Audit No. 2829-H

February 11, 2009

TO: David E. Sundstrom
Auditor-Controller

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

SUBJECT: First Follow-Up Audit: Internal Control Review of Auditor-Controller Claims & Disbursing's Vendor Payment Process, Original Audit No. 2720-4, Issued April 2, 2008

Scope of Review

We have completed a First Follow-Up Audit of Auditor-Controller Claims & Disbursing's (A-C Claims) Vendor Payment Process. Our audit was limited to reviewing actions taken as of January 16, 2009 to implement the seven recommendations made in our original audit report.

Background

Vendor payments are made on behalf of departments/agencies for Board-approved contracts, price agreements, purchase orders, and miscellaneous vendor invoices for County goods and services. A-C Claims reviews department/agency vendor invoices for proper authorization and supporting documents, and approves them for payment. They also maintain the County's Vendor Payment Table and perform internal Quality Assurance Audits and Stratification Reviews to ensure vendor payments are processed consistently, completely and accurately. A-C Claims processed approximately 68,559 vendor payments totaling over \$1.6 billion during Fiscal Year 2006-07.

Results

The original audit report contained seven (7) recommendations. Our Follow-Up Audit indicated that A-C Claims & Disbursing took satisfactory corrective action to fully implement four (4) of the recommendations. For the remaining recommendations, one (1) is in process; one (1) is not implemented; and one (1) is closed. We believe the remaining recommendations are still appropriate and further efforts should be made to fully implement them. All of the original recommendations are noted below along with a comment on its status. The item numbers from the April 2, 2008 report are shown in parentheses.



1. **Recommendation No. 1 - Vendor Discounts Not Taken**
(Control Finding)

Auditor-Controller Claims & Disbursing ensure vendor discounts are identified and taken when applicable.

Current Status: **Implemented.** A-C Claims held a staff meeting to discuss their payment audit procedures including identifying and taking vendor discounts. A-C Claims' procedures were updated to include vendor discounts. Our testing of 20 vendor payments and subsequent review of another 15 payments did not disclose any payments with vendor discounts. Because action was taken to ensure vendor discounts are taken and we saw no exceptions in our testing, we consider this recommendation implemented.

2. **Recommendation No. 2 – Underpayment of Sales Taxes**
(Control Finding)

Auditor-Controller Claims & Disbursing ensure sales taxes are charged and detected on all applicable purchases. On the exceptions noted above, Claims & Disbursing should take appropriate action with the State Board of Equalization concerning payment of sales tax due.

Current Status: **Implemented.** A-C Claims held a staff meeting to discuss their payment audit procedures including detecting and reporting sales tax. Our testing of 20 vendor payments found 6 payments where applicable sales tax was accurately paid and reported (the other 14 payments did not have sales tax). A-C Claims also took appropriate action with the State Board of Equalization concerning the under-reported \$763.49 sales tax noted in the original audit. Therefore, we consider this recommendation implemented.

3. **Recommendation No. 3 – Payment Processing Timeframes**
(Control Finding)

Auditor-Controller Claims & Disbursing continue efforts in processing invoices within their internal goal and ensure all payment requests are date-stamped upon receipt.

Current Status: **Implemented.** A-C Claims' goal is to process vendor payments within 10 working days or 15 calendar days upon receipt of invoices from departments/agencies. Our testing of 20 vendor payments found 15 payments (75%) were processed within 10-15 days. This percentage is close to what we found in the original audit where 74% of 88 payments tested were processed in the stated timeframes. Having a 74-75% achievement is more or less what A-C Claims expects, although they indicated they strive for all payments to be timely. The date-stamping of department/agency invoices is now performed by the A-C Administrative Section where all invoices are now received along with other incoming mail. Our testing found that date-stamping is being accomplished. Therefore, we consider this recommendation implemented.



4. Recommendation No. 4 – Vendor Payment Table – Taxpayer Identification Number (Control Finding)

Auditor-Controller Claims & Disbursing ensure all vendor code additions have a signed *W-9* form containing required taxpayer identification information.

Current Status: Implemented. A reminder was provided to Compliance staff about the need for the *W-9* form containing taxpayer identification numbers. A-C Claims' procedures now require all vendor table requests to have a *W-9* form prior to receiving an active vendor code "X." We tested 10 vendor table updates and found that all had the required *W-9* forms included. Therefore, we consider this recommendation implemented.

5. Recommendation No. 5 – Vendor Payment Table – Supervisory Review (Control Finding)

Auditor-Controller Claims & Disbursing ensure supervisory reviews of Vendor Table Update Requests are performed timely.

Current Status: Not Implemented. As of December 2008, there was an estimated backlog of 500-600 vendor updates requiring supervisory reviews to ensure the propriety of the updates. A-C Claims' Compliance Unit has a vacant position, and because of current budget constraints, there is no timeline when they will fill that position. As a result, an extensive supervisory review backlog exists and no overtime is being authorized to address the backlog. Therefore, we consider this recommendation not implemented.

Planned Action from Management: A-C Claims plans to work on the backlog as time permits. A General Ledger accountant has been assigned part-time to help with the backlog of Vendor Table updates.

As part of the CAPS+ Upgrade for the Accounts Payable module, vendor table updates by A-C Claims will be automatically reviewed by a supervisor within the CAPS system. A-C Claims will initiate the change/update; then a second reviewer will ensure compliance with A-C Claims' Compliance Unit Vendor Table Update procedures. A third review will activate the vendor update. The CAPS+ Upgrade of accounts payable is currently being tested and implementation is expected to go live on July 1, 2009.

6. Recommendation No. 6 – Accuracy of Quality Assurance Audits (Control Finding)

Auditor-Controller Claims & Disbursing takes measures to ensure Quality Assurance audits are accurately performed, which could be accomplished through additional training and/or supervisory reviews.



Current Status: In Process. We reviewed documentation regarding the Compliance Unit's staff meeting in October 2008 to discuss the Quality Assurance (QA) audit process and steps. We were informed that QA audits are currently being conducted by staff and are expected to be completed by the end of February 2009, with finalization in March 2009. Because there were no QA audits completed since the original audit, and they are currently being conducted, we consider this recommendation in process.

Planned Action from Management: A-C Claims is currently conducting a QA audit and expect to complete it in March 2009. A-C Claims will review the results and provide feedback to staff.

7. **Recommendation No. 7 - Accuracy of Stratification Reviews** (Control Finding)

Auditor-Controller Claims & Disbursing takes measures to ensure Stratification Reviews are accurately performed, which could be accomplished through additional training and/or supervisory reviews.

Current Status: Closed. A staff meeting was conducted to discuss the stratification reviews and some revisions were made to the existing Stratification Claims Compliance form. The last stratification review conducted was in April 2007, which was addressed in our original audit. The goal of the stratification review is to determine an invoice threshold amount that will necessitate a more detailed review of invoices. The last stratification review concluded that there was no need to revise the threshold amount of \$1,000.

Due to the current budget cuts and staff vacancy in the Compliance Unit, A-C Claims is not planning on conducting a stratification review in the near future. According to A-C Claims, the QA audits take priority over the stratification reviews based on the results of the last stratification audit. Because management has made this determination based on available budget and resources, we consider this recommendation closed.

We appreciate the cooperation extended to us by Auditor-Controller Claims & Disbursing during our Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Michael Goodwin, Senior Audit Manager at 834-6066.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

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Members, Audit Oversight Committee
Shaun Skelly, Senior Director, A-C/Accounting and Technology
Jan Grimes, Director, A-C/Central Accounting Operations
Robert Leblow, Senior Manager, A-C/Claims & Disbursing
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