

Internal Audit Department

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

Internal Control Audit:

OC PUBLIC WORKS DISBURSEMENT APPROVAL PROCESS

For the Period January 1, 2012
through December 31, 2012

Key Control Audit

OC Public Works (OCPW) disbursed approximately \$160 million for Services and Supplies during the audit period.

We audited OCPW's and OCPW Accounting's disbursement approval process to ensure payments are valid, supported, comply with County and OCPW policy, and for consistency with the disbursement approval process in Auditor-Controller/Claims & Disbursing. In addition, we audited OCPW's corrective actions to improve monitoring of contract budgets and expenditures following a self-reported contract overrun in OC Facilities that occurred in FY 12-13.

Our audit found controls and processes in place to ensure disbursements are valid, supported, and comply with County and OCPW policy. OCPW Accounting's disbursement approval process is consistent with processes in A-C Claims & Disbursing. OCPW initiated appropriate corrective actions that will help prevent future overspending on contracts. Our audit identified **one (1) Control Finding** to improve controls regarding payment processing timeframes.

AUDIT NO: 1223

REPORT DATE: OCTOBER 8, 2013

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



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 October 8, 2013

TO: Ignacio Ochoa, Interim Director
OC Public Works

Jan Grimes, Auditor-Controller

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

SUBJECT: Internal Control Audit: OC Public Works
Disbursement Approval Process

We have completed an Internal Control Audit of OC Public Works Disbursement Approval Process for the period January 1, 2012 through December 31, 2012. We performed this audit in accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors. Our final report is attached for your review.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). Our **First Follow-Up Audit** will 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.

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 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. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the 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 recommendation is 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.

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.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation. Additionally, we will request your department complete a **Customer Survey** of Audit Services. You will receive the survey shortly after the distribution of our final report.

ATTACHMENTS

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

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OC Public Works
Disbursement Approval Process
Audit No. 1223*

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Audit No. 1223

October 8, 2013

TO: Ignacio Ochoa, Interim Director, OC Public Works
Jan Grimes, Auditor-Controller

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

SUBJECT: Internal Control Audit: OC Public Works Disbursement
Approval Process

Audit Highlight

OCPW expenditures from January 2012 through December 2012 totaled **\$386,973,784**. Our audit only included expenditures categorized as "Services and Supplies," which totaled approximately \$160 million.

All disbursements are processed either by OCPW Accounting, an Auditor-Controller Satellite Accounting Unit, or OCPW's Procurement Services/Special Services Accounts Payable, depending on the type of contract. Our audit included both OCPW Accounting and OCPW Accounts Payable.

Our audit found processes in OCPW Accounting are consistent with disbursement approval processes in A-C Claims & Disbursing.

We identified **one (1) Control Finding** concerning payment processing timeframes in OCPW Accounts Payable where certain payments were paid in excess of 45 days from receipt of the invoice.

Appropriate corrective actions were taken to improve monitoring of contract budgets and expenditure tracking that will help prevent contract overruns.

OBJECTIVES

In accordance with our *FY 2012-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and the Board of Supervisors, the Internal Audit Department conducted an Internal Control Audit of OC Public Works (OCPW) Disbursement Approval Process. Our audit included an evaluation of internal controls, testing compliance with OCPW, OCPW Accounting and County policies; and evaluating process efficiencies and effectiveness. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. The objectives of this audit were to:

1. Evaluate internal controls in OCPW and OCPW Accounting for approving disbursements to ensure payments are valid, supported, comply with County and OCPW policy, and are consistent with the disbursement approval process in A-C/Claims & Disbursing.
2. Evaluate OCPW's corrective actions taken to improve monitoring of contract budgets and expenditures. OCPW reported a contract overrun and requested assistance to evaluate the adequacy of the corrective actions taken to prevent contract overruns.
3. Determine if the disbursement approval process is efficient and effective (e.g., no backlogs, duplication of work, manual processes that could benefit from automation).

RESULTS

Objective #1: Our audit found internal controls are in place to ensure payments are valid, supported, and comply with County and OCPW policy. These controls are consistent with the disbursement approval process in Auditor-Controller/Claims & Disbursing.

Objective #2: Our audit found OCPW took appropriate corrective actions to improve contract monitoring in OC Facilities by implementing systems that provide real-time information on contract budgets and expenditures that will help prevent overspending of contract monetary limits.

Objective #3: Our audit did not note any duplication of work or processes that could be automated. We identified **one (1) Control Finding** regarding payment processing timeframes in OCPW Accounts Payable that exceeded the timeframe expectation of 30-45 days.

OC Internal Auditor's Report



The following table summarizes our finding and recommendation for this audit. See further discussion in the *Detailed Results, Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Finding No.	Finding Classification (see Attachment A)	Finding and Page No. in Audit Report	Recommendation	Concurrence by Management?
1.	Control Finding	In 6 of 20 transactions tested (30%), payment processing times exceeded the County's expectation of paying invoices within 30-45 days. This timeframe is predicated by the California Government Code Prompt Payment Act requirement for payment within 45 days of invoice receipt. Processing times for some transactions ranged between 53 and 71 days. (pg.8)	OCPW Procurement Accounts Payable ensure that invoices are processed timely within the 30-45 day timeframe. In instances when invoice processing is delayed, reasons should be noted in the contract payment file as to the cause of the delay.	Yes



BACKGROUND

The primary mission of OC Public Works is to “ensure quality of service today and quality of life tomorrow.” OC Public Works accomplishes its mission and strategic objectives through a dedicated professional workforce that is organized in the following four major divisions:

1. OC Engineering
2. OC Facilities
3. OC Planning
4. Administrative Services

OCPW Accounting Services (OCPW Accounting) is an Auditor-Controller (A-C) Satellite Accounting Unit responsible for providing specialized accounting services to OCPW. Satellite Accounting Units are extensions of A-C Claims & Disbursing and should have aligned and consistent disbursement approval processes. OCPW Accounting is responsible for processing OCPW’s **non-PO (non-DPA) invoices** and for monitoring related contract expenditures and expiration dates. Non-PO invoices include construction progress payments and non-construction Board-awarded contract payments. OCPW Accounting reviews and approves invoices payment requests, and submits them to the A-C Claims & Disbursing for payment. OCPW Accounting staff are not DPAs and have no purchasing responsibilities in CAPS+.

OCPW Procurement Accounts Payable (OCPW AP) is responsible for auditing and processing **PO and CT invoices (DPA invoices)** and for monitoring related contract expenditures and expiration dates. PO disbursements include single invoices (“one and done”) and purchase order payments. CT disbursements are multiple, recurring payments made in accordance with a contract. Unlike payments processed in OCPW Accounting, invoices/payment requests processed in OCPW AP are sent to A-C Claims & Disbursing for additional review and approval before they are paid. Some staff in OCPW AP are DPAs and have purchasing responsibilities in CAPS+.

OCPW Expenditures. Total OCPW expenditures for the audit period from January 2012 through December 2012 totaled **\$386,973,784**. Our audit of disbursements only included expenditures categorized as “Services and Supplies,” which totaled approximately **\$160 million**.

Disbursement Process Overview. The disbursement approval process starts in OCPW Accounting or OCPW AP upon receipt of vendor invoices, claims and payment requests. When received, invoices are date-stamped and forwarded to the OCPW program or end user for verification of satisfactory receipt or performance of contracted goods/services. After approval by the program or end user, the invoices/payment requests are sent back to either OCPW Accounting or OCPW AP. To track the status of invoices/payment requests through the disbursement approval process, OCPW Accounting maintains *Invoice Logs* and OCPW AP uses the *Contract Invoice Management System (CIMS)* and the *Expediter* system to show invoice review/approval workflow and related comments. The disbursement approval process includes substantiating the following prior to payment approval:

- a. The invoice complies with the terms of the purchase order, contract, or Board resolution.
- b. The invoice/payment request is supported by basic payment documents.
- c. The goods or services were satisfactorily received or performed.
- d. The amount of the payment and the name of the payee are correct.
- e. The goods/services received comply with the terms of the purchase order or contract.
- f. The quantities, prices and calculations are accurate.
- g. If encumbered, verify the available encumbrance and/or contract amounts.

All disbursements are supported by payment documents, either hard copy or electronic records, which include purchase orders, contracts, receiving documents, invoices, and payment requests, showing sufficient information to support the disbursements. Basic payment support documents are maintained in the County’s Electronic Report Management and Imaging (ERMI) system.



SCOPE AND METHODOLOGY

Our audit covered the period January 1, 2012 through December 31, 2012, for disbursements processed in OCPW Accounting and OCPW Procurement Accounts Payable and included:

1. Evaluating internal controls in OCPW Accounting and OCPW procurement Accounts Payable to ensure the disbursements are accurate, valid, adequately supported, and comply with OCPW and County policy. We designed our audit to assess disbursement approval controls, including segregation of duties, invoice tracking, supervisory/management approvals, ensuring compliance with contract terms, payment processing timeframes, and completeness and accuracy in processing disbursements.
2. Testing a variety of disbursements types (e.g. PO, non-PO, CT payments, Board-awarded construction and non-construction payments) from various OCPW programs and divisions.
3. Determining if disbursements are reviewed and authorized by the initiating OCPW program or division and by OCPW budget staff in compliance with OCPW policies and procedures. Approval from the end users indicates that the goods and services were satisfactorily received or performed.
4. Assessing policies, procedures and processes in OCPW Accounting to determine if they are consistent with disbursement approval process in Auditor-Controller Claims & Disbursing.
5. Evaluating the efficiency and effectiveness of the disbursement approval process, such as instances of backlogs, duplication of work, manual processes that could benefit from automation, and utilization of CAPS+ for processing of disbursements.
6. Reviewing the adequacy of accounts payable procedures and expenditure tracking in OCPW/Accounts Payable, OC Facilities, Operations & Maintenance, and OC Fleet Services to detect and prevent future occurrences of exceeding contract monetary limits (contract overruns). OCPW reported a contract overrun of \$185,000 to Internal Audit after audit fieldwork was completed and requested assistance to examine OCPW's corrective actions.

SCOPE EXCLUSIONS

Our audit scope did not include the controls, policies and processes in A-C Claims and Disbursing. We also did not evaluate controls, policies and procedures in the OCPW programs or budget, except for verifying that individuals designated as "authorized signers" in those areas were properly authorized on the County's Access Request Forms to approve payments. We did not evaluate any information technology or system controls involving CAPS+ (except for reviewing certain user roles in CAPS+ for segregation of duties) or OCPW's Contract Invoice Management System. Our audit did not include disbursements for payroll, revolving funds or purchasing cards.

Management's Responsibilities for Internal Controls

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 is the Committee of Sponsoring Organizations (COSO) control framework. Our Internal Control Audit enhances and complements, but does not substitute for OCPW's and OCPW Accounting'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 controls, 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 OCPW's and OCPW Accounting's operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by OC Public Works and OCPW Accounting during our audit. If we can be of further assistance, please contact me directly or Michael Goodwin, Senior Audit Manager at 834-6066.

Attachments

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Michael B. Giancola, County Executive Officer
Mark Denny, Chief Operating Officer
Mary Fitzgerald, Director, Administrative Services, OCPW
Randi Dunlap, Manager, Policy and Compliance, CQA, OCPW
Ron Vienna, Manager, Procurement and Special Services, OCPW
Denise Steckler, Chief Deputy Auditor-Controller
Victoria Ross, Director, Central Accounting Operations, Auditor-Controller
Tonya Burnett, Director, Satellite Accounting Operations, Auditor-Controller
Howard Thomas, Section Manager, Accounting Services, OCPW
Paul Villanueva, Senior Manager, Claims & Disbursing, Auditor-Controller
Foreperson, Grand Jury
Susan Novak, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor



Objective #1: Evaluate internal controls in OCPW and OCPW Accounting for approving disbursements to ensure payments are valid, supported, comply with County and OCPW policy, and are consistent with disbursement approval process in A-C/Claims & Disbursing.

AUDIT STEPS AND RESULTS

To accomplish this objective, we audited internal controls over OCPW Accounting's and OCPW Procurement's disbursement approval process. We performed the following audit steps:

- ✓ Held meetings and conducted walkthroughs of the disbursement approval process and controls with OCPW Procurement and Budget staff, and with OCPW Accounting staff and management responsible for processing disbursements for the department on behalf of the Auditor-Controller.
- ✓ Evaluated the adequacy of OCPW Procurement and OCPW Accounting's disbursement approval written policies and procedures.
- ✓ Evaluated segregation of duties of OCPW Procurement and OCPW Accounting management who hold delegated authority to approve disbursements to ensure they do not have other incompatible duties.
- ✓ Evaluated internal controls by testing a sample of **40 disbursements totaling \$22.8M**. Twenty (20) disbursements were judgmentally selected from invoices processed by OCPW Accounting and twenty (20) from invoices processed by OCPW Procurement. For the 40 disbursements selected, we verified the operating effectiveness of the following controls:
 1. Invoice or payment request was date stamped upon receipt.
 2. Invoice/payment request contained proper date, identification and contract number.
 3. Invoice approved by authorized personnel in OCPW programs or end users.
 4. Invoice agrees to contract terms and conditions.
 5. Payments were properly approved by only authorized signers as designed on CAPS+ Access Request Forms.
 6. Budget approval was obtained for OCPW Accounting invoices.
 7. Invoices were processed completely and accurately in CAPS+.
 8. Payment Requests are prepared accurately, completely and are approved based on the established thresholds for supervisory/management review (OCPW Accounting).
 9. Invoice or payment requests were processed within 30-45 days and exceptions are documented.
 10. Duties for authorizing purchasing (requisition), receiving (receipt of goods/services), and payment documents (invoice/request for payment) are not overlapping.
- ✓ Evaluated the adequacy of accounts payable procedures and expenditure tracking in OCPW/Accounts Payable, OC Facilities, Operations & Maintenance, and OC Fleet Services to examine OCPW's corrective actions taken following a contract overrun of \$185,000 that OCPW self-reported to Internal Audit.

CONCLUSION

Our audit of internal controls and processes and our testing of 40 disbursements disclosed no exceptions, except for an issue with payment processing timeframes, indicating controls are in place to ensure payments are valid, supported, and comply with County and OCPW policy. We identified **one (1) Control Finding** regarding payment processing timeframes that we are reporting under **Objective No. 3** below. We also found controls and processes in OCPW Accounting are consistent with disbursement approval processes in Auditor-Controller Claims and Disbursing.

Detailed Results, Findings, Recommendations and Management Responses



Objective #2: Evaluate OCPW's corrective actions taken to improve monitoring of contract budgets and expenditures. OCPW reported a contract overrun and requested assistance to evaluate the adequacy of the corrective actions taken to prevent contract overruns.

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. The annual limit was exceeded in the third year, but the aggregate contract amount was not exceeded. OCPW requested Internal Audit's assistance to review corrective actions taken to help prevent future contract overruns.

In February 2010, OC Public Works issued an aggregate contract for plumbing equipment, fixtures and supplies to Ferguson Plumbing Inc., and Plumbing & Industrial Supply (MA-080-10012179) effective February 11, 2010 through February 10, 2011, renewable for four years:

CONTRACT MONETARY LIMITS:

1 st Year 2/11/10 – 2/10/11	\$426,550
2 nd Year 2/11/11 – 2/10/12	541,515 (Amended from \$426,550)
3 rd Year 2/11/12 – 2/10/13	426,550 (*Limit exceeded by \$185,000)
4 th Year 2/11/13 – 2/10/14	426,550
AGGREGATE TOTAL:	\$1,821,165

The aggregate contract was for OC Facilities and Operations & Maintenance (O&M). OCPW determined that the contract monetary limit for the third contract term was exceeded in OC Facilities by \$185,000 before the monetary limit could be increased through the contract amendment process. Because it was not detected before the monetary limit was exceeded, and additional funds were needed on the contract, OCPW prepared an Agenda Staff Report (ASR) for the Board of Supervisors on August 20, 2013 to request the funds and report the contract overrun.

The contract overrun was attributed to the following:

- The contract was "aggregate" with two vendors and two divisions (OC Facilities and O&M).
- Several units within OC Facilities and O&M ordered items off the aggregate contract.
- Funds were not encumbered in advance in OC Facilities and were not reported at a "unit" level.
- The contract balance shown in CAPS+ is not real-time.
- A real-time system to track expenditures did not exist.
- Existence of backordered items that had not been invoiced and were not in CAPS+.
- An inordinate amount of plumbing issues occurred.
- One vendor submitted a batch of year-old invoices.
- Contract monitoring in OC Facilities was impacted from retirements and several vacancies.
- In O&M and other divisions with aggregate contracts, 90-100% funds are encumbered up front.

As a result of the contract overspending, OCPW took the following corrective actions:

- As of May 2013, OC Facilities utilizes a 3rd party system called Mainstar which allows staff to track authorized purchases against contracts.
- Additionally, OCPW/IT has developed a reporting tool that allows real-time tracking of contract balances and expenditures. This tool indicates when expenditures have reached balance thresholds, defined by staff, for the authorized contract amount. Staff will follow procurement procedures to obtain additional funding if thresholds are exceeded.
- Mainstar has an invoice tracking feature.
- OC Facilities and ITS are preparing a Needs and Feasibility report for a mobile solution, to be developed in-house, which would allow field staff to access contract information and to submit purchase requisitions. These purchase requisitions will be processed by OC facilities staff and integrated with Mainstar and will provide real-time contract balance reductions.
- Funds are now encumbered up front rather than on an invoice-by-invoice basis. OC Facilities will estimate amounts quarterly to encumber against contracts.



Conclusion

OCPW has taken adequate corrective actions to improve budget monitoring and expenditure tracking that will help prevent future contract overruns when utilizing aggregate type contracts. Although we have no recommendations under this objective, we will look at this area in our **First Follow-Up Audit** to be conducted approximately six (6) months from this report date.

Objective #3: Determine if the disbursement approval process is efficient and effective (e.g., no backlogs, duplication of work, manual processes that can be automated).

AUDIT STEPS AND RESULTS

To accomplish this objective, we used auditor inquiry and observation to determine if OCPW's and OCPW Accounting's disbursement approval processes were efficient and effective. We also:

- ✓ Held meetings, conducted walkthroughs, and made auditor observations and inquiries of the disbursement approval process with OCPW and OCPW Accounting.
- ✓ Evaluated OCPW and OCPW Accounting policies/procedures for processing disbursements.
- ✓ Performed testing on a sample of disbursements to determine the effectiveness of disbursement approval processes and controls.

CONCLUSION

We did not note any instances of duplication of work or manual processes that could be automated in OCPW's and OCPW Accounting's disbursement approval process. However, our audit disclosed **one (1) Control Finding** regarding an issue with payment processing timeframes where certain payments exceeded the County's 30-45 day expected timeframe for payments from the receipt of the invoice. The finding is discussed below:

Finding 1 – Payment Processing Timeframes (Control Finding)

Summary

Our testing of twenty (20) disbursements processed by OCPW AP found six (6) instances (30%) when the disbursement was processed and paid between 53 and 71 days after receipt of the invoice. The expectation is to process payments with 30-45 days.

Details

OCPW AP projected that the invoice workflow processing time from receipt of invoice to manager approval and submission to the Auditor-Controller is approximately nine (9) days. The County's expectation is that invoices are processed and paid within 30-45 days of the receipt of invoice/payment request. This time frame is predicated on the California Prompt Payment Act in Government Code Section 927 where a 45-day timeframe is prescribed. Based on our testing, the six exceptions where payments exceeded 30-45 days were caused by:

- One invoice (\$43,521.70) was incorrect and required revision by the vendor (61 days).
- One invoice (\$14,377.90) needed a budget transfer prior to paying the invoice (56 days).
- One invoice (\$96,539.77) had issues with account coding (53 days).
- One invoice (\$104,498.94) was held until project completion (56 days).
- One invoice (\$14,637.09) was returned from the A-C for tax questions (71 days).
- One invoice (\$5,028.00) cause was unknown and reason was not documented (53 days).

While it can be expected that delays in processing will occur, it is not an unreasonable expectation that resolution occur and payment made within a 30-45 day time period. It appears that the delay time for the explanations noted above could be reduced if invoice issues were monitored and resolved in a timely manner.



Recommendation No. 1

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.

OCPW Management Response:

Concur. OC Public Works Accounts Payable staff will document in the contract payment file all instances where standard invoice processing timeframes (30-45 days) are exceeded and the associated reasons. In addition, OC Public Works Accounts Payable will implement an escalation procedure whereby the Accounts Payable Supervisor will be notified if an invoice/response has not been received from the field staff within 5 days.



ATTACHMENT A: Report Item Classifications

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

▶ **Critical Control Weaknesses:**

These are Audit Findings or a combination of Auditing 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 their attention immediately.

▶ **Significant Control Weaknesses:**

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.

▶ **Control Findings:**

These are Audit Findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.



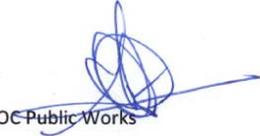
ATTACHMENT B: OC Public Works Management Response



Ignacio G. Ochoa, P.E., Interim Director
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Santa Ana, CA 92702-4048
Telephone: (714) 667-8800
Fax: (714) 967-0896

Memorandum

DATE: September 26, 2013
TO: Dr. Peter Hughes, Internal Audit Director
FROM: Ignacio G. Ochoa, P. E., Interim Director, OC Public Works
SUBJECT: Response to Audit No. 1223 – Disbursement Approval Process



I am pleased to provide OC Public Works' response to the Internal Audit Department's Draft Report on the OC Public Works Disbursement Approval Process, Audit No. 1223. Our response has been reviewed and approved by the County Executive Office.

We will work to implement the Internal Audit Department's recommendation as indicated in our response.

I would like to express my appreciation for the professionalism of the Internal Audit Department staff that conducted this audit.

Should you have any questions regarding OC Public Works' response to the recommendations, or require additional information on this item, please contact Mary Fitzgerald at 714-667-9701 or Ron Vienna at 714-667-4945.

Thank you.

Attachment

c: Mary Fitzgerald, Deputy Director, Administrative Services, OC Public Works
Ron Vienna, Manager, Administrative Services, OC Public Works
Randi Dunlap, Manager, Administrative Services, OC Public Works



ATTACHMENT B: OC Public Works Management Response (continued)

OC Public Works Disbursement Approval Process, Audit No. 1223
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OC Public Works Responses to the Internal Audit Department a Draft Report: OC Public Works Disbursement Approval Process, Audit No. 1223

Finding No. 1 – Payment Processing Timeframes

Summary

Our testing of twenty (20) disbursements processed by OC Public Works Accounts Payable found six (6) instances (30%) when the disbursement was processed and paid between 53 and 71 days after receipt of the invoice. The expectation is to process payments with 30-45 days.

Details

OC Public Works Accounts Payable projected that the invoice workflow processing time from receipt of invoice to manager approval and submission to the Auditor-Controller is approximately nine (9) days. The County's expectation is that invoices are processed and paid within 30-45 days of the receipt of invoice/payment request. This timeframe is predicated on the California Prompt Payment Act in Government Code Section 927 where a 45-day timeframe is prescribed. Based on our testing, the six exceptions where payments exceeded 30-45 days were caused by:

- One invoice (\$43,521.70) was incorrect and required revision by the vendor (61 days)
- One invoice (\$14,377.90) needed a budget transfer prior to paying the invoice (56 days)
- One invoice (\$96,539.77) had issues with account coding (53 days)
- One invoice (104,498.94) was held until project completion (56 days)
- One invoice (\$14,637.09) was returned from the A-C for tax questions (71 days)
- One invoice (\$5,028) cause was unknown and reason was not documented (53 days)

While it can be expected that delays in processing will occur, it is not an unreasonable expectation that resolution occur and payment made within 30-45 day time period. It appears that the delay time for the explanations noted above could be reduced if invoice issues were monitored and resolved in a timely manner.

Recommendation No. 1

OC Public Works Accounts Payable ensures 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.

OC Public Works Management Response:

Concur. OC Public Works Accounts Payable staff will document in the contract payment file all instances where standard invoice processing times (30-45 days) are exceeded and the associated reasons. In addition, OC Public Works Account Payable will implement an escalation procedure whereby the Accounts Payable Supervisor will be notified if an invoice/response has not been received from field staff within 5 days.