

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 WASTE & RECYCLING – DISBURSEMENT APPROVAL PROCESS

For the Period November 1, 2009
through November 30, 2010

During the audit period, OC Waste & Recycling (OCWR) disbursed over \$54 million in expenditures for commodities and services. OCWR Accounting Services, OCWR Budget Services and Auditor-Controller Claims & Disbursing process and approve all disbursements for the department.

We audited the OC Waste & Recycling Disbursement Approval Process to evaluate internal controls used for approving and processing disbursements (e.g., payments to vendors for commodities and services), and to determine if the disbursement approval process is efficient, effective, and aligned with the disbursement approval process in Auditor-Controller Claims & Disbursing.

Our audit found internal controls are in place to ensure disbursements are valid, supported, authorized, timely, and comply with County and OCWR policy and procedures; the disbursement approval process is efficient, effective and is aligned with the disbursement approval process in Auditor-Controller Claims & Disbursing. We identified **two (2) Control Findings** concerning duplication of work in the disbursement approval process performed by OCWR Accounting Services and Auditor-Controller Claims & Disbursing, and for maintaining an audit trail in CAPS+ for changes made to payment requests.

AUDIT NO: 1027

REPORT DATE: MAY 23, 2011

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Deputy Director: Eli Littner, CPA, CIA

Senior Audit Manager: Michael Goodwin, CPA, CIA

Senior Auditor: Abdul Khan, 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



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 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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Transmittal Letter



Audit No. 1027 May 23, 2011

TO: Michael Giancola, Director, OC Waste & Recycling
David Sundstrom, Auditor-Controller

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

SUBJECT: Internal Control Audit: OC Waste & Recycling
Disbursement Approval Process

We have completed an Internal Control Audit of the OC Waste & Recycling Disbursement Approval Process for the period November 1, 2009 through November 30, 2010. We performed this audit in accordance with our *FY 2010-11 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and 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 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 document to facilitate our review.

Each month I submit an **Audit Status Report** to the BOS where I detail any critical 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 recommendations. 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 4.

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Disbursement Approval Process
Audit No. 1027*

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Audit No. 1027

May 23, 2011

TO: Michael Giancola, Director, OC Waste & Recycling
David Sundstrom, Auditor-Controller

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

SUBJECT: Internal Control Audit: OC Waste & Recycling -
Disbursement Approval Process

Audit Highlight

Successes

OCWR Accounting Services' Accounts Payable Unit is authorized to approve OCWR's disbursements (payments for commodities and services) on behalf of Auditor-Controller Claims & Disbursing. During the audit period, OCWR made over **\$54 million in disbursements**.

We found internal controls are in place to ensure disbursements are valid, supported, authorized, timely, and comply with County and OC Waste & Recycling Policy and Procedures.

We also found the OCWR disbursement approval process is aligned with disbursement approval policy in Auditor-Controller Claims & Disbursing; and the disbursement approval process is efficient and effective.

We identified **two (2) Control Findings** for consideration concerning duplication of work performed in OCWR Accounting and A-C Claims & Disbursing and maintaining an audit trail in CAPS+ for changes made to payment requests.

OBJECTIVES

In accordance with our *FY 2010-11 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 the OC Waste & Recycling Disbursement Approval Process. Our audit included reviewing policies, procedures and processes for reviewing and approving disbursements to ensure the payments are valid, supported, timely, comply with County and OC Waste & Recycling (OCWR) policy, and are consistent with disbursement approval policies in Auditor-Controller (A-C) Claims & Disbursing. Our audit was conducted in conformance with professional standards established by the Institute of Internal Auditors. The three objectives of this audit were to:

1. Evaluate internal controls used for approving and processing disbursements to ensure the payments are valid, supported, authorized, timely, and comply with County and OCWR policies and procedures.
2. Evaluate OCWR Accounting Services' disbursement approval process to determine if it is aligned with disbursement approval processes in A-C Claims & Disbursing.
3. Determine if OCWR's disbursement approval process is efficient and effective (e.g., backlogs, duplication of work, or manual processes that could be automated).

RESULTS

Objective #1: We found OCWR and OCWR Accounting Services have internal controls in place for approving and processing disbursements to ensure payments are valid, supported, authorized, timely, and comply with County and OCWR policies and procedures.

Objective #2: OCWR/Accounting Services' disbursement approval process is aligned with the disbursement approval process in A-C Claims & Disbursing to ensure consistency in procedures.

Objective #3: We found no backlogs, duplication of work, or processes that could benefit from automation pertaining to OCWR/Accounting's disbursement approval process. We identified **two (2) Control Findings** for consideration concerning duplication of work noted in the disbursement approval processes performed in OCWR/Accounting and Auditor-Controller Claims & Disbursing, and maintaining an audit trail in CAPS+ for changes made during supervisory/management reviews of payment requests.



See further discussion in the *Detailed Findings, Recommendations and Management Responses* section of this report. See *Attachment A* for a description of Report Item Classifications.

Note: We commend OCWR and OCWR Accounting Services for their disbursement approval process, controls, and written policies and procedures noted during our audit, including their use of an Invoice Tracking System and Contract Monitoring Worksheets; procedures for supervisory/management reviews of all disbursements regardless of dollar amounts; and documented approvals obtained from OCWR divisions and Budget Services.

BACKGROUND

OC Waste & Recycling (OCWR) operates a network of three active landfills and four household hazardous waste collection centers. OCWR core services are to provide solid waste disposal, manage former County waste disposal sites, coordinate countywide waste-related programs, and provide unincorporated area collection and recycling services on behalf of 34 cities and over three million residents. OCWR is divided into five divisions: Business Services, Government & Community Relations, North Region Landfill Operations, Central Region Landfill Operations, and South Region Landfill Operations.

Under Business Services is **OCWR Accounting Services** (OCWR Accounting) comprised of Auditor-Controller employees who provide accounting services and support to OCWR. Disbursements are processed by the Accounts Payable & Payroll Unit in OCWR Accounting. Also under Business Services is **Budget Services** (OCWR Budget) who are responsible for reviewing disbursements prior to sending them to Auditor-Controller Claims & Disbursing for payment.

OCWR Disbursement Approval Process

All invoices are initially received in OCWR Accounting, date stamped, and entered in an Access Database Invoice Tracking System used to track and control the processing of invoices. Invoices are then sent to each respective OCWR Division for review and approval. OCWR Accounting keeps copies of the invoices for reference and follow-up. Upon return from the OCWR Divisions, invoices are date stamped and reviewed by OCWR Accounting staff for compliance with contract terms and conditions. *Contract Worksheets* are maintained in each file and are updated to reflect the payment request amount. Any changes made by OCWR Accounting are documented and the respective OCWR Division is notified of the change. After OCWR Accounting's review, invoices are submitted to OCWR Budget for review and approval. Upon return from OCWR Budget, invoices are reviewed and processed by OCWR Accounting. Payment requests are forwarded to Auditor-Controller Claims & Disbursing for further processing and/or issuance of the payment.

During the audit period, OCWR processed approximately **\$54 million in disbursements** as categorized by five types of disbursements processed by OCWR Accounting:

- 1. Negotiated Contracts.** Invoices for Negotiated Contracts are for professional services/consulting and construction contracts. Disbursements are reviewed and approved in OCWR Accounting and then forwarded to A-C Check Writing for payment. During our audit period, Negotiated Contract payments totaled **\$10,168,833**.
- 2. Price Agreements.** Invoices for Price Agreements are for recurring purchases of commodities and services. Disbursements are first processed in OCWR Accounting and then forwarded to A-C Claims & Disbursing for additional review and final approval for payment. During our audit period, Price Agreement payments totaled **\$22,099,316**.



3. **Purchase Orders.** Invoices for Purchase Orders are for one-time purchase of commodities and services. Disbursements are reviewed and approved in OCWR Accounting and then forwarded to A-C Check Writing for payment. During our audit period, payments from Purchase Orders totaled **\$3,228,990**.
4. **Request for Checks.** Request for Checks are prepared for recurring or one time payments for seminars and registration fees, permit fees, postage, etc. Disbursements are reviewed and approved in OCWR Accounting and then forwarded to A-C Check Writing for payment. During our audit period, Request for Check payments totaled **\$3,807,138**.
5. **Wire Transfers.** Wire Transfers are used when an electronic payment is required, usually at the request of the recipient. Disbursements are reviewed and approved in OCWR Accounting and then forwarded to A-C Check Writing. During our audit period, payments made by wire transfer totaled **\$15,336,108**.

Use of CAPS+ for Processing OCWR Disbursements

With the implementation of CAPS+, an automated workflow approval process was created for certain purchasing documents, such as Requisitions, Delivery Order, Master Agreements, Contracts, and Purchase Orders. However, we noted a majority of payment documents (i.e. Payment Requests and related documents), Non-Encumbered Expenses, General Accounting Refunds, and On Demand Wire Payments do not have an automated workflow approval process. With CAPS+, the only established automated approval process document is the General Accounting Trust (GAT) payment. Therefore, regardless of the type of payment created within CAPS+; all reviews and approvals other than GAT payments are performed manually. The CAPS+ Implementation Team is responsible for administration of CAPS+ and is outside the scope of OCWR Accounting's responsibility.

SCOPE AND METHODOLOGY

Our audit covered the period November 1, 2009 through November 30, 2010 and included the following:

- Reviewed OCWR, OCWR Accounting, and County policies and procedures for reviewing, processing and approving disbursements.
- Evaluated controls and processes starting with receipt of invoices in OCWR Accounting; the review and approval in OCWR Divisions; the review and approval in performed in OCWR Accounting and Budget Services, and the input of disbursement transactions in CAPS+, where payment requests are submitted to A-C Claims & Disbursing for further processing and/or payment.
- Evaluated and compared disbursement approval processes in OCWR Accounting and Auditor-Controller Claims & Disbursing to see if policies and procedures for reviewing and approving payment requests (e.g. segregation of duties, supervisory/management review thresholds) are aligned and consistent.
- Inquiry and observation of the OCWR disbursement approval process, and testing **fifty (50) disbursements totaling \$9.5 million** (about 18% of total expenditures) to assess the adequacy of internal controls over these processes.
- Evaluated the effectiveness and efficiency of OCWR's disbursement approval process, such as backlogs, duplication of work or processes that could benefit from automation.



SCOPE EXCLUSIONS

Our audit scope did not include the following:

- Review of internal controls over processing disbursements in A-C Claims & Disbursing.
- Review of internal controls over OCWR's purchasing or contract administration processes in Management Services, Purchasing Services or Landfill Operations.
- Review of internal controls in the OCWR Divisions concerning their roles in reviewing and approving disbursements, except for verification that individuals designated as "authorized signers" were properly authorized as such on OCWR's Access Request Forms.

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 OCWR's and OCWR 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 the OCWR's and OCWR Accounting's operating procedures, accounting practices, and compliance with County policy.

Acknowledgment

We appreciate the courtesy extended to us by the OCWR and OCWR Accounting Services during our audit. If we can be of further assistance, please contact me directly; or Eli Littner, Deputy Director at 834-5899; 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
Thomas G. Mauk, County Executive Officer
Alisa Drakodaidis, Deputy CEO, OC Infrastructure
Dylan Wright, Deputy Director, OC Waste & Recycling
Alan Yuki, Manager, Budget Services, OC Waste & Recycling
Shaun Skelly, Chief Deputy Auditor-Controller
Mike Montijo, Manager, Accounting Services, OC Waste & Recycling
Jan Grimes, Director, Auditor-Controller/Central Accounting Operations
Victoria Ross, Senior Manager, A-C Claims & Disbursing
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

Detailed Results, Findings, Recommendations and Management Responses



Objective #1: Evaluate internal controls used for approving and processing disbursements to ensure the payments are valid, supported, authorized, timely, and comply with County and OCWR policies and procedures.

Results: We found OCWR and OCWR Accounting Services have internal controls in place for approving and processing disbursements to ensure payments are valid, supported, authorized, timely, and comply with County and OCWR policies and procedures.

Our test work verified the following controls were in place for a sample of invoices from negotiated contracts, price agreements, purchase orders, requests for checks, and wire transfers:

- Invoices are date-stamped upon receipt; an Invoice Tracking Number was assigned; and invoices contained date, original invoice number, contract number, and were addressed to “County of Orange” or “OC Waste & Recycling.”
- Invoices are approved by authorized personnel in the end user OCWR divisions.
- Invoices are agreed to contract terms and conditions and receipt of commodities/services was verified.
- Invoices are audited by Accounting Staff and reviewed by an Accounting Supervisor.
- Invoices are authorized by an OCWR Budget Manager.
- Invoices are processed completely and accurately in CAPS+.
- Payment Request Transmittals are prepared accurately and completely by Accounting Staff and approved by an Accounting Supervisor.
- Invoices are processed timely (between 30 to 45 days) and exceptions are documented.
- Invoice Tracking Access Database and Contract Monitoring Worksheets are completed accurately and were up to date.

No exceptions were noted during our testing. **Therefore, we have no Findings or Recommendations under this objective.**

Detailed Results, Findings, Recommendations and Management Responses



Objective #2: Evaluate OCWR Accounting Services' disbursement approval process to determine if it is aligned with disbursement approval processes in A-C Claims & Disbursing.

Results: OCWR/Accounting Services' disbursement approval process is aligned with the disbursement approval process in A-C Claims & Disbursing to ensure consistency in procedures.

We obtained and reviewed Auditor-Controller Claims & Disbursing's Invoice Processing Procedures for Price Agreements and Purchase Orders used in their disbursement approval process. We compared those procedures with OCWR/Accounting's Policy and Procedures for Price Agreements, Purchase Orders, Negotiated Contracts, Requests for Checks and Wire Transfers and noted the policy and procedures for reviewing and approving disbursements are similar. These include the detailed steps to audit each of the disbursement types.

One difference noted between OCWR Accounting and A-C Claims & Disbursing are the dollar thresholds used for requiring additional supervisory/management reviews and approval. As noted below, OCWR Accounting's procedures require supervisory/management approvals on all invoices regardless of dollar amounts; whereas A-C Claims & Disbursing only requires supervisory/management reviews on invoices exceeding \$100,000.

In A-C Claims and Disbursing, the dollar thresholds are:

- Payments exceeding \$100,000 require approval by a Supervisor.
- Payments exceeding \$500,000 require approval by an Accounts Payable (A/P) Manager.
- Payments exceeding \$1,000,000 require approval by the Disbursements Manager.

In OCWR Accounting, the dollar thresholds are:

- Payments of \$.01 to \$500,000 require approval by an A/P Supervisor or A/P Manager.
- Payments of \$500,001 to \$999,999 require approval by A/P Supervisor and A/P Manager.
- Payments at or exceeding \$1,000,000 require approval by the A/P Supervisor, A/P Manager, and the Accounting Manager.

Overall, we noted the OCWR disbursement approval process has well documented policies and procedures that are consistently performed on all disbursements, which includes verification and authorization of the receipt of commodities/services in accordance with contract terms by the end user OCWR divisions and OCWR Budget.

No significant exceptions were noted during our review and comparison of disbursement approval processes. **Therefore, we have no Findings or Recommendations under this objective.**

Detailed Results, Findings, Recommendations and Management Responses



Objective #3: Determine if OCWR's disbursement approval process is efficient and effective (e.g., backlogs, duplication of work, or manual processes that could be automated).

Results: We found no backlogs, duplication of work, or processes that could benefit from automation pertaining to OCWR/Accounting's disbursement approval process. We identified **two (2) Control Findings** for consideration concerning duplication of work noted in the disbursement approval processes performed in OCWR/Accounting and Auditor-Controller Claims & Disbursing, and maintaining an audit trail in CAPS+ for changes made during supervisory/management reviews of payment requests as discussed below:

Finding 1 – Duplication of Work in OC Waste & Recycling and Auditor-Controller Claims & Disbursing

Summary

Our audit noted that OCWR Accounting reviews and approves invoices for Price Agreements and Purchase Orders prior to sending them to A-C Claims & Disbursing for further payment processing. A-C Claims & Disbursing performs the same reviews that OCWR Accounting performs resulting in duplication of work. With the implementation of CAPS+, it is feasible that OCWR Accounting and other Satellite Accounting Offices can perform on-site disbursement processing, approval and input of these payments into CAPS+ rather than the work being duplicated in A-C Claims & Disbursing. **(Control Finding – Efficiency/Effectiveness)**

Details

Currently, A-C Claims & Disbursing is responsible for processing, reviewing, approving, and inputting payments into CAPS+ for OCWR's Price Agreement and Purchase Order invoices that are initiated by OCWR Deputy Purchasing Agents (DPAs). This is the policy for all A-C Satellite Accounting Offices. This process was established for DPA agreements because they could be shared among various departments/agencies and was at the time, more effective to have them centralized. With the implementation of CAPS+, decentralization of these types of disbursements is feasible for Satellite Accounting Offices because master agreement/contract information is accessible to departments/agencies.

We were informed that A-C Claims & Disbursing had once considered delegating this responsibility to Satellite Accounting Offices, but did not pursue it due to other work priorities. A-C Claims & Disbursing is willing to evaluate this issue again and should discuss the proposed change of responsibilities with OCWR Accounting and other Satellite Accounting Offices prior to delegating these duties for impact on their workload and staffing resources.

Recommendation No. 1

Auditor-Controller Claims & Disbursing evaluate the feasibility of delegating disbursement approval responsibility for DPA agreements and purchase orders to OCWR Accounting (and to other Satellite Accounting Offices) given the availability of such information in CAPS+.

Auditor-Controller/OCWR Accounting Services Management Response:

Concur. OCWR Accounting will work with Auditor-Controller Claims and Disbursing to evaluate the feasibility of this recommendation in order to promote efficiency and establish consistent practice for Auditor-Controller Satellite Accounting units. Auditor-Controller Claims and Disbursing received a similar finding during their Internal Audit No. 2821 and are currently evaluating this process. OCWR Accounting does not currently approve disbursements for DPA agreements and could not absorb this additional work with current staffing levels. OCWR Accounting and A/C Central Claims will determine the feasibility of delegating disbursement approval responsibility and the results will be reported to Auditor-Controller management by October 1, 2011.

Detailed Results, Findings, Recommendations and Management Responses



Finding 2 – Audit Trail for Changes Made During Payment Processing

Summary

An audit trail in CAPS+ is not maintained for changes made to payment documents during the supervisory/management review when the supervisor/manager inputs and submits the changes. This is because the process is not workflowed and CAPS+ does not generate an audit trail (e.g. maintain the original document). CAPS+ only documents that a payment request was created and modified by another individual (in this case the supervisor/manager). To mitigate the lack of system audit trails, OCWR Accounting has procedures in place requiring the supervisor/manager to return the payment document that has an error to the Accounting Technician for correction, and the correction is documented on a hard copy Payment Request Transmittal form. Workflowing this process would enable system-generated audit trails in CAPS+. **Note:** The CAPS+ Implementation Team is responsible for administration of CAPS+ and is outside the scope of OCWR Accounting's responsibility. **(Control Finding - Efficiency/Effectiveness)**

Details

Typically, an Accounting Technician "validates" the payment request transaction in CAPS+ and does not "submit" it because a supervisory/management review is required. A supervisor/manager reviews the documents in CAPS+ and if no changes are needed, "submits" the transaction for payment. However, if a change is warranted to the payment document, the OCWR Accounting supervisor/manager returns the payment document to the Accounting Technician who makes the necessary changes and inputs the correction into CAPS+. The supervisor/manager then reviews the revised document in CAPS+ and "submits" the payment document for disbursement. A hard copy of the corrected payment request is maintained in these instances. However, CAPS+ does not generate an audit trail (e.g. maintain the original document) and only documents that it was created and modified by another individual (in this case the supervisor/manager). This is how the CAPS+ system was configured and implemented.

Because the process is not workflowed, CAPS+ does not provide any visibility to the changes that were made from the first time it was created and the last time it was updated unless a payment document is "submitted." CAPS+ does have the ability to create a modified payment document only when changes are made to "submitted" documents. CAPS+ potentially could be modified to workflow the payment request process which would then establish an audit trail of modified documents.

To ensure CAPS+ maintains an audit trail of changes made to payment requests, an evaluation should be made to see if the process could be workflowed regarding the supervisory/management review. If that is not feasible, then the creator of the requests should input and submit the transaction in CAPS+. Any subsequent modifications will create a revised payment document and an audit trail of the changes made. Auditor-Controller Claims & Disbursing indicated this is the preferable method to use because the payment request process is not currently workflowed.

Recommendation No. 2

Auditor-Controller and OCWR Accounting evaluate the feasibility of establishing a workflow process in CAPS+ for the payment review and approval process. If this is not feasible, then OCWR Accounting should consider having the Accounting Technicians "submit" all payment documents as the creator to ensure an audit trail is maintained within CAPS+ for revisions made during the supervisory/management review.

Auditor-Controller/OCWR Accounting Services Management Response:

Concur. The addition of an established workflow in CAPS+ would provide the recommended audit trail for payment document changes but is not considered to be a cost effective option at this time. OCWR Accounting will discuss the issue with A/C Central Claims and make a determination whether to continue with current procedures or make changes to the process, and report the results to Auditor-Controller management by October 1, 2011.



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:**

Serious audit findings or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s) and/or business goals. Management is expected to address Critical Control Weaknesses brought to their attention immediately.

▶ **Significant Control Weaknesses:**

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.

▶ **Control Findings:**

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.

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT B: Auditor-Controller/OCWR Accounting Services Management Responses



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CAPS+ PROGRAM MANAGEMENT OFFICE

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May 18, 2011

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

SUBJECT: Response to Internal Control Audit: OC Waste & Recycling Disbursement Approval Process, Audit No. 1027

The Auditor-Controller's Department has received the Internal Control Audit of the OC Waste & Recycling Disbursement Approval Process for the period of November 1, 2009 through November 30, 2010, Audit No. 1027. As requested, the following narrative summarizes the two (2) control findings and responses from Auditor-Controller/OCWR Accounting Services Management.

Finding 1 – Duplication of Work in OC Waste & Recycling and Auditor-Controller Claims and Disbursing

Recommendation No. 1:

Auditor-Controller Claims and Disbursing evaluate the feasibility of delegating disbursement approval responsibility for DPA agreements and purchase orders to OCWR Accounting (and to other Satellite Accounting Offices) given the availability of such information in CAPS+.

Auditor-Controller/OCWR Accounting Services Management Response:

Concur. OCWR Accounting will work with Auditor-Controller Claims and Disbursing to evaluate the feasibility of this recommendation in order to promote efficiency and establish consistent practice for Auditor-Controller Satellite Accounting units. Auditor-Controller Claims and Disbursing received a similar finding during their Internal Audit No. 2821 and are currently evaluating this process. OCWR Accounting does not currently approve disbursements for DPA agreements and could not absorb this additional work with current staffing levels. OCWR Accounting and A/C Central Claims will determine the feasibility of delegating disbursement approval responsibility and the results will be reported to Auditor-Controller management by October 1, 2011.



ATTACHMENT B: Auditor-Controller/OCWR Accounting Services Management Response (continued)

Dr. Peter Hughes, CPA, Director Internal Audit Department
May 18, 2011
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Finding 2 – Audit Trail for Changes Made During Payment Processing

Recommendation No. 2:

Auditor-Controller and OCWR Accounting evaluate the feasibility of establishing a workflow process in CAPS+ for the payment review and approval process. If this is not feasible, then OCWR Accounting should consider having the Accounting Technicians “submit” all payment documents as the creator to ensure an audit trail is maintained within CAPS+ for revisions made during the supervisory/management review.

Auditor-Controller/OCWR Accounting Services Management Response:

Concur. The addition of an established workflow in CAPS+ would provide the recommended audit trail for payment document changes but is not considered to be a cost effective option at this time. OCWR Accounting will discuss the issue with A/C Central Claims and make a determination whether to continue with the current procedures or make changes to the process, and report the results to Auditor-Controller management by October 1, 2011.

The Auditor-Controller’s Department appreciates the collaborative approach taken by Internal Audit in finalizing the report and in providing assistance in understanding the findings noted. Should you have any further questions, please contact Mike Montijo, OCWR Accounting Manager, at 834-4173.

Thank you.

David E. Sundstrom
Auditor-Controller

DS:mm

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