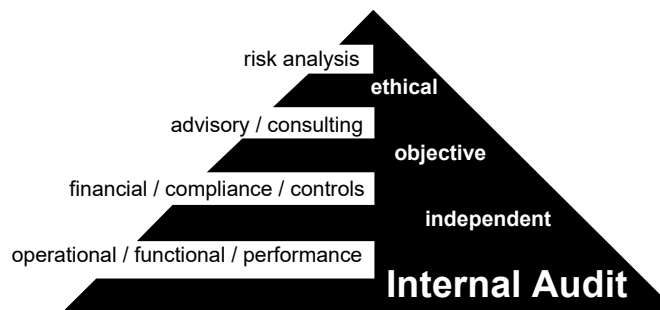# ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

Accounts Payable Operations

Internal Audit Report No. 23-504

January 15, 2024

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ORANGE COUNTY TRANSPORTATION AUTHORITY
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Table of Contents

Conclusion

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of Accounts Payable (AP) Operations. Based on the audit, controls to ensure payments are processed in compliance with policies and procedures are generally adequate; however, two recommendations have been made to improve system controls and to ensure consistent enforcement of the Payment Request Policy (PR Policy).

Background

The AP section of the Accounting and Financial Reporting Department within the Finance and Administration Division is responsible for processing all payments on behalf of OCTA. AP is staffed with a section manager and four accounting specialists. AP staff review invoices for accuracy, reasonableness of documentation, compliance with applicable policies and procedures, and proper signature authority. AP staff are also responsible for vendor file maintenance within the Central Square Finance Enterprise System.

During the period January 1, 2022, through June 30, 2023, AP staff processed a total of 14,820 payments, of which 12,326 (about 83 percent) were conventional check payments and 2,494 (about 17 percent) were electronic payments (such as e-payables, wire transfers, and Automated Clearing House transactions). About 80 percent of the payments made were to vendors under contract and 20 percent were for small dollar disbursements or other routine disbursements, such as utility payments, travel reimbursements, and right-of-way property acquisitions.

Payments are subject to AP policies and procedures, including the AP Invoice Review Policy, Vendor Payment Policy, Payment Authorization Policy, PR Policy, and the Check Signature Policy. The PR Policy outlines rules for payments made without an underlying purchase order, contract, cooperative agreement, or travel expense report, such as payroll taxes, judgements and settlements, utility payments, refunds, real estate purchases, and membership dues. The PR Policy also allows for exceptions for payments approved by an Executive Director or higher.

Central Square System

AP utilizes the Central Square Finance Enterprise System (accounting system) to perform vendor file maintenance and process payments. Access to the accounting system is controlled and requires a supervisor or manager to submit a Computer Access Request (CAR) form to an accounting system administrator for user access to be granted. Accounting system administrators have the ability to set up users, change a user's system rights, or inactivate a user, as needed.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Accounts Payable Operations
January 15, 2024

Objectives, Scope, and Methodology

The <u>objectives</u> were to determine compliance with relevant policies and procedures and assess the adequacy of related controls.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.[1] The components and principles that were evaluated as part of this audit are:

- Control Activities

  - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
  - OCTA selects and develops general control activities over technology to support the achievement of objectives.

The <u>methodology</u> consisted of testing compliance with selected requirements within AP policies and procedures. Internal Audit utilized data analytics software to identify transactions with characteristics indicating possible duplicate payments, fraudulent payments, or payments in violation of policy limitations. From the transactions identified through data analysis, Internal Audit judgmentally or haphazardly selected a sample of transactions for inspection of supporting documentation. Bias used in judgmental sample selections included transaction amount, description, vendor type, or other characteristics indicative of duplicate, fraudulent, or non-compliant payments. Since samples were non-statistical, any conclusions are limited to the sample items tested. Through interview and inspection of accounting system access reports, Internal Audit also evaluated controls over accounting system access and segregation of duties.

The <u>scope</u> was limited to payments processed from January 1, 2022, through June 30, 2023. The scope included OCTA's vendor master file as of July 25, 2023, and OCTA's employee master file as of July 20, 2023. The scope also included accounting system administrators as of July 27, 2023, and monitoring activities of accounting system users performed in July 2023. The scope did not include transactions related to payroll garnishments, purchasing cards, or corporate credit cards since these transactions are covered in separate audits.

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[1] See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at http://www.gao.gov/products/GAO-14-704G, for more information.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Accounts Payable Operations
January 15, 2024

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Comments, Recommendations, and Management Responses

Segregation of Duties and Accounting System Access Rights

There is no control in place to prevent the same user from creating or editing a vendor in the accounting system and processing a payment to that vendor. Further, controls to grant and periodically monitor accounting system access for appropriateness should be strengthened.

Internal Audit identified 2,156 payments that were processed by an accounting system user who had also created, or last edited, the record of the vendor to whom the payment was made. This included both AP staff and Cofiroute USA, LLC (Cofiroute), staff that process refunds for 91 Express Lanes customers. While further analysis of the payment details and testing of a sample of payments to underlying support did not identify any improper payments, it is best practice to segregate vendor creation/edit from payment processing.

In addition, controls over accounting system access are insufficient, as follows:

- A CAR form is required to create a new user in the system; however, these forms are not retained on file. After a user is created, system administrators accept informal requests (e.g. email, phone call, etc.) to change user access rights and do not retain the requests. As such, there is no record of approval for system access assignments.
- A report of system user access rights is provided to the Department Manager of Accounting and Financial Reporting for annual review; however, the report is insufficient to determine the appropriateness of assigned access rights because it does not reflect the level of rights assigned to each user. Users should be assigned the minimum necessary access level needed to perform their job duties.
- There are currently six individuals assigned system administrator rights, allowing these individuals to set up new users, change user access rights, setup and edit vendors, process payments, etc. While system administrators are required to ensure system and user maintenance, the number of administrators should be limited.

Recommendation 1:

Internal Audit recommends the following:

1. Management should segregate the ability to create and/or edit vendors from the ability to process payments in the accounting system.
2. A properly authorized CAR form should be required for all user access requests, including user access change requests, and should be retained on file.
3. The annual review of accounting system users should be enhanced to provide the reviewer with sufficient information regarding each user's roles and responsibilities along with their system rights.

4. The number of users with administrative rights should be limited. In instances where administrative rights are assigned on a temporary basis, monitoring procedures should be developed to ensure that administrative rights are removed promptly when no longer needed.

Management Response:

Management agrees with the recommendations. AP staff's capability to create and/or edit vendors in the accounting system will be removed. This responsibility will now be delegated to staff outside of the AP section. Cofiroute staff's capability to create and/or edit vendors in accounting system has been removed since December 2023.

The Accounting Department will collaborate with the Information Systems Department and create a new policy to strengthen controls over accounting system access. A CAR form will be required for all user access requests, including changes to existing access. This form will be completed and stored for documentation purposes. The annual review of accounting system users will be enhanced to provide clear documentation of each user's roles and responsibilities. The number of users with administrative rights will be reduced. Additionally, a procedural framework will be established to promptly remove administrative rights when access is no longer required.

Payment Request Violations

Internal Audit identified 17 invoices paid using a PR form that did not comply with the PR Policy.

The PR Policy allows for one-time payments, or a series of payments, of $2,500 or less. The policy lists exceptions for payments above the $2,500 threshold that do not require a formal contract, such as utility bills, payroll disbursements, real estate purchases, membership dues, subscriptions, etc. Exceptions to this policy require approval from an Executive Director, Deputy Chief Executive Officer, or Chief Executive Officer.

In addition, Internal Audit identified three instances in which payment to a vendor under contract was incorrectly processed using a PR form; as a result, the payments were not applied against the vendor's contract balance.

Recommendation 2:

Internal Audit recommends management review and update the PR Policy, as necessary, and consider updating the PR form to include a checklist and details as to the types of allowable payments. Project managers should be reminded of the proper use of PRs and AP staff should not process exceptions without proper approval.

Management Response:

Management agrees with the recommendation. The PR Policy will be updated to enhance clarity, raise the threshold amount, and potentially encompass additional items that do not require a formal contract. Additionally, revisions to the PR form will be implemented to ensure project managers utilize the form in accordance with the PR Policy. To reinforce compliance, AP staff has been informed not to process exceptions without appropriate approval.