



January 8, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Corporate Credit Cards, Internal Audit Report No. 20-504

Overview

The Internal Audit Department has completed an audit of corporate credit cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures, are generally adequate; however, one recommendation has been made to clarify requirements for obtaining and documenting approvals.

Recommendation

Direct staff to implement one recommendation provided in Corporate Credit Cards, Internal Audit Report No. 20-504.

Background

Corporate credit cards are issued to members of Orange County Transportation Authority (OCTA) management to facilitate payment of travel and business expenses. Expenses may also be paid by the employee and submitted for reimbursement through the Accounts Payable Department. OCTA maintains a written Corporate Credit Card Policy (Policy), outlining proper use of the cards and responsibilities for preparing and submitting monthly reconciliations of card activity.

Discussion

Policies for approval of business meal and event table expenditures do not specify when approvals must be obtained or how approvals are to be documented. The Internal Audit Department (Internal Audit) recommended

management update policies to provide additional guidance. Management agreed and indicated that updates will be made in early January 2020.

Summary

Internal Audit has completed an audit of corporate credit cards and has offered one recommendation for improvement.

Attachment

- A. Corporate Credit Cards, Internal Audit Report No. 20-504

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Corporate Credit Cards

Internal Audit Report No. 20-504

December 23, 2019



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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Corporate Credit Cards
December 23, 2019**

Table of Contents

Conclusion	1
Background	1
Objectives, Scope, and Methodology	1
Audit Comment, Recommendation, and Management Response.....	3
Policy Approval Requirements Should be Clarified.....	3

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Corporate Credit Cards
December 23, 2019**

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of corporate credit cards. Based on the audit, controls to ensure transactions are valid, authorized, and in compliance with policies and procedures, are generally adequate; however, one recommendation has been made to clarify policies for obtaining and documenting approvals.

Background

Corporate credit cards are issued to members of Orange County Transportation Authority (OCTA) management to allow for payment of travel and business expenses. Expenses may also be paid by the employee and submitted for reimbursement through the Accounts Payable Department (Accounts Payable). OCTA maintains a written Corporate Credit Card Policy (Policy), outlining proper use of the cards and responsibilities for preparing and submitting monthly reconciliations of card activity. Cardholders are also required to acknowledge receipt of OCTA's Code of Conduct every two years.

OCTA administrative staff assist cardholders in assembling monthly reconciliations of corporate card activity and in preparing expense reimbursement packages. Monthly reconciliation packages, with supporting receipts, are submitted to the Deputy Chief Executive Officer (DCEO), or his designee, for review and approval. The DCEO submits his package to the Chief Executive Officer (CEO) for review and approval. Monthly reconciliation packages must be submitted to the Accounts Payable for processing within 28 days of the statement date.

Objectives, Scope, and Methodology

The objective was to identify and test controls over corporate credit cards and to test card activity for compliance with OCTA policies.

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:

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
Corporate Credit Cards
December 23, 2019**

- Control Environment
 - The organization demonstrates a commitment to integrity and ethical values.
 - Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- Risk Assessment
 - The organization considers the potential for fraud in assessing risks to the achievement of objectives.
- Control Activities
 - The organization deploys control activities through policies that establish what is expected and in procedures that put policies into action.
- Monitoring Activities
 - The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

The scope of the audit included credit card statements and related activity during the period January 14 through September 14, 2019.

The methodology consisted of testing cardholder bi-annual acknowledgement of OCTA's Code of Conduct; identification and testing of controls over corporate card statement reconciliations; and testing corporate card transactions for compliance with the Policy, the Business Expense Policy (BE Policy), and the Travel Policy. Also, testing was performed to ensure corporate credit card expenses were not duplicated in expense reimbursement requests submitted during the same period.

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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Corporate Credit Cards
December 23, 2019**

Audit Comment, Recommendation, and Management Response

Policy Approval Requirements Should be Clarified

Policies outlining requirements for approval of business meals and purchase of event tables should be clarified to specify how and when approvals are to be obtained and documented. Forms used to document approvals should be referenced in the related policy.

The BE Policy indicates that the purchase of complete tables at events is discouraged and requires the approval of the CEO or DCEO, but does not outline requirements for evidencing such approval. Similarly, the Travel Policy addresses business meal expenses and outlines requirements for documenting the meal purpose and attendees, etc. and recommends preapproval. Testing found that business meals are documented on a Business Meal Expense form; however, pre-approval is not typically obtained, and the Travel Policy makes no reference to the form.

Recommendation 1:

Management should update policies to provide additional guidance for obtaining and documenting approvals.

Management Response:

Management agrees with the recommendation and will clarify the procedures for the approval of business meals and purchase of complete tables. The Travel Policy will be amended to remove the recommendation to obtain preapproval for business meals, however reimbursements for business meals will still require approval as outlined in the Policy. The BE Policy will be modified to include a procedure that will require written authorization from the CEO or DCEO prior to the purchase of a complete table. The procedure will also clarify the acceptable forms of written authorization, such as interoffice memo, email, etc. Management anticipates implementing the changes in early January 2020.