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EXHIBIT A

JUNE 2013 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda July 30, 2013

Revenue Generating Lease Audit of OC Dana Point Harbor/Dana Point Shipyard. We identified four (4) Control Findings.

Revenue Generating Lease Audit of OC Dana Point Harbor/Dana Point Jet Ski. We identified five (5) Control Findings.

Information Technology Audit of Child Support Services Computer General Controls. Our audit of selected District Attorney computer general controls found them to be adequate and supported.

Quarterly Audits of Auditor-Controller's Cash and Investment Reconciliation Compliance In our opinion, the Orange County Auditor-Controller complied with California Government Code Section 26905, in all material respects.

Revenue Generating Lease Audit of OC Community Resources/OC Parks/Strawberry Farms Golf Club We found that Strawberry Farms Golf Club's records adequately supported reported gross receipts and rent owed to the County was properly paid.

Results of Continuous Auditing Using CAATS for June 2013. Reveals 99.99% of vendor invoices were paid correctly. We identified one (1) potential duplicate payment for \$29.

Final Close-Out First Follow-Up Revenue Generating Lease Audit of OC Public Works River View Golf Course. Our First and Final Follow-Up Audit found that OC Public Works implemented one (1) recommendation and the one (1) remaining recommendation was closed for the purpose of follow-up.

Final Close-Out First Follow-Up Internal Control Audit of Health Care Agency Medical Billing Process. Our First Follow-Up Audit found the Health Care Agency fully implemented all four (4) recommendations from our original audit report.

First Follow-Up Internal Control Audit of OC Public Works Fee Generated Revenue. Our First Follow-Up Audit found OC Public Works implemented six (6) recommendations and four (4) recommendations are in implementation.

Dr. Peter Hughes, MBA, CPA, CIA, CFE, CFF, CITP, CCEP, CGMA **Director of Internal Audit**

Assistance in assembling this report provided by: Michael Goodwin, Assistant Director/Senior Audit Manager, CPA, CIA Alan Marcum, Senior Audit Manager, MBA, CPA, CIA, CFE

Project No. 1209-9

RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

AICPA

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





Commitment to Professional Excellence, Quality, and Outreach



Letter from Dr. Peter Hughes, CPA





Dr. Peter Hughes, CPA DIRECTORPh.D., MBA, CCEP, CITP, CIA, CFE, CFF, CGMA

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RISK BASED AUDITING



July 30, 2013

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of June 2013. For each internal audit report we provide an overview and a detailed briefing for your review.

As always, I'm available at your convenience to discuss any of these items.

Respectfully submitted,

Dr. Peter Hughes, CPA

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Executive Summary

Exhibit Audit Project:

- B. Revenue Generating Lease Audit of OC Dana Point Harbor/Dana Point Shipyard
 We found that DPS's records adequately supported reported gross receipts and
 rent owed was properly paid to the County, except we identified **four (4) Control Findings** related to the incomplete reporting of sublessee rent and fees;
 unreported contractor gross receipts; and the Statement of Profit and Loss was
 not reconciled to the Monthly Sales Report.
- C. Revenue Generating Lease Audit of OC Dana Point Harbor/Dana Point Jet Ski
 We found that Dana Point Jet Ski's records adequately supported reported gross
 receipts and rent owed to Dana Point Shipyard was properly paid except we
 identified five (5) Control Findings related to unreported rental loss charged for
 a damaged jet ski, pre-numbering forms and gift certificates, retaining supporting
 documentation for void and refunds, and submitting required financial
 statements.
- D. Information Technology Audit of Child Support Services Computer General Controls IT general controls were found adequate, including: 1) security-related policies and procedures; 2) user access and physical access general controls policies and procedures; 3) configuration management policies and procedures, including change management; 4) segregation of duties within the IT function; and 5) disaster recovery/business continuity policies and procedures. Our audit identified one (1) Control Finding regarding policies and procedures for securing vendor supplied accounts that we subsequently verified was addressed prior to the issuance of the report.
- E. Quarterly Audit of the Auditor- Controller's Cash and Investment Reconciliation Compliance In our opinion, the Orange County Auditor-Controller complied with the requirements of California Government Code Section 26905, in all material respects, for the quarter ended March 31, 2013.
- F. Revenue Generating Lease Audit of OC Community Resources/OC Parks Strawberry Farms We found that Strawberry Farms Golf Club's records adequately supported reported gross receipts and rent owed to the County was properly paid.

Exhibit Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques):

G. <u>Auditor-Controller, Human Resource Services, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – June 2013</u>: We analyzed **24,643** vendor invoices paid in May 2013 amounting to about **\$204 million** and found **99.99%** of the invoices were paid correctly. Of the \$204 million in vendor invoices, we identified **one (1)** duplicate payment made to a vendor totaling **\$29**. To date we have identified **\$1,021,183** in duplicate vendor payments, of which **\$1,011,706** or **99%** has been recovered.

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Executive Summary

Exhibit Follow-Up Audit Reports:

- H. Final Close-Out First Follow-Up Revenue Generating Lease Audit of OC Public Works River View Golf Course (Original Audit No. 1135): Our First and Final Follow-Up Audit found that OC Public Works implemented one (1) recommendation and the one (1) remaining recommendation was closed for the purpose of follow-up.
- I. Final Close-Out First Follow-Up Internal Control Audit of Health Care Agency Medical Billing Process (Original Audit No. 1018): Our First Follow-Up Audit found the Health Care Agency implemented all four (4) recommendations from our original audit report. As such, this report represents the final close-out of the original audit.
- J. First Follow-Up Internal Control Audit of OC Public Works Fee Generated Revenue: Our First Follow-Up Audit found OC Public Works implemented six (6) recommendations and four (4) recommendations are in process of implementation.

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Detailed Report

New Audit Findings & Recommendations by Risk Category

| Description | Results |
|---|--|
| Critical Control Weaknesses A serious audit finding 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. * Material Weaknesses is used for an audit conducted under AICPA Attestation Standards. | No critical control weaknesses issued during June 2013. No material weakness issued during June 2013. Four (4) total recommendations issued since July 2012. |
| 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. | No significant control weaknesses issued during June 2013. Fifteen (15) total recommendations issued since July 2012. |
| 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. | Ten (10) control findings issued during June 2013. Fifty-five (55) total recommendations issued since July 2012. |

Total Audit Recommendations for FY 2012-13: 74

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Detailed Report

| | Description | Results |
|----|---|--|
| В. | DEPT: OC Dana Point Harbor TITLE: | SCOPE: We have completed an audit of certain records and documents of Dana Point Shipyard (DPS) for the period of November 1, 2011 through July 31, 2012 to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement. |
| | Revenue Generating Lease Audit of Dana Point Shipyard AUDIT NO: 1232 ISSUED: June 10, 2013. | CONCLUSION: The Internal Audit Department found that DPS's records adequately supported reported gross receipts and rent owed was properly paid to the County, except we identified four (4) Control Findings related to the incomplete reporting of sublessee rent and fees; unreported contractor gross receipts; and the Statement of Profit and Loss was not reconciled to the Monthly Sales Report. BACKGROUND: Dana Point Shipyard (DPS) maintains and operates a complete marine-oriented boat repair yard, ship's chandlery and do-it-yourself boat repair facility |
| | | at Dana Point Harbor. Rent is paid based on a percentage of gross receipts. RECOMMENDATIONS: We recommended that OC Dana Point Harbor require DPS: report all rents received from sublessee as gross receipts to the County and pay appropriate percentage rent on these receipts; pay rent of \$9,535 to the County on base rent received from Dana Point Jet Ski (DPJS) during the audit period; pay rent of \$5,229 to the County on fees received from DPJS during the audit period; report compensation received by contractors for work performed for do-it-yourself customers on the shipyard premises as gross receipts to the County; and to reconcile the Statement of Profit and Loss to the Monthly Sales Report and report the appropriate gross receipts to the County. |

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Detailed Report

| | Description | Results |
|----|---|---|
| C. | DEPT: OC Dana Point Harbor TITLE: Revenue Generating Lease Audit of Dana Point Jet Ski | SCOPE: We have completed an audit of the underlying books and records of Dana Point Jet Ski (DPJS) for the period of November 1, 2011 through July 31, 2012 to ensure reported gross receipts are supported and rent is properly paid as defined by the lease and sublease agreements. |
| | AUDIT NO: 1233 ISSUED: June 10, 2013. | CONCLUSION : The Internal Audit Department found that Dana Point Jet Ski's records adequately supported reported gross receipts and rent owed to Dana Point Shipyard was properly paid except we identified five (5) Control Findings related to unreported rental loss charged for a damaged jet ski, pre-numbering forms and gift certificates, retaining supporting documentation for void and refunds, and submitting required financial statements. |
| | | BACKGROUND: Dana Point Jet Ski (DPJS) operates a jet ski and kayak center at Dana Point Harbor through a sublease under the lease agreement between County of Orange (County) and Dana Point Shipyard. DPJS reports gross receipts and pays rent to Dana Point Shipyard (DPS). DPS includes DPJS gross receipts in its gross receipts statement and reports the combined total to the County and pays percentage rent. |
| | | RECOMMENDATIONS: We recommended that OC Dana Point Harbor require DPJS: report the rental loss charged for damaged personal watercraft as gross receipts and pay rent owed; use sequentially pre-numbered gift certificates and maintain a log of issued and unissued gift certificates; sequentially pre-number business operational forms used in gross receipts activities; retain all supporting documents (cash register receipts) related to voided, refund or canceled transactions along with reasons noted; and submit financial statements and audited gross receipts statements in compliance with the lease agreement. |

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Detailed Report

| | Description | Results |
|----|--|--|
| D. | DEPT: Child Support Services TITLE: | SCOPE: We audited selected computer general controls over the administration and use of Child Support Services' computing resources. General controls are the structure, policies, and procedures that apply to an entity's overall computer operations. If general controls are weak, they severely diminish the reliability of controls associated with individual applications. |
| | Information Technology Audit of Child Support Services Computer General Controls AUDIT NO: 1251 ISSUED: June 20, 2013. | CONCLUSION: Our audit found that general controls were adequate, including: 1) Adequate security-related policies and procedures have been developed including security awareness and other security-related personnel policies; 2) Adequate user access and physical access general controls policies and procedures were present to provide reasonable assurance that computer resources are protected from unauthorized personnel; 3) Adequate configuration management policies and procedures, including change management, have been developed; 4) Adequate segregation of duties exists within the IT function; and 5) Adequate policies and procedures for disaster recovery/business continuity have been substantially developed to help mitigate service interruptions. Our audit identified one (1) Control Finding regarding policies and procedures for securing vendor supplied accounts that we subsequently verified was addressed prior to the issuance of the report. |
| | | BACKGROUND: CSS Information Technology utilizes a number of key systems including State and Countywide systems: CalWorks Information Network (CalWin) – State system supporting all major processing functions to administer California's public assistance programs. Child Support Enforcement (CSE) – State system database to facilitate the sharing of case management information between California counties and State Distribution Unit to centralize collection and distribution of child support funds. State Distribution Unit (SDU) – state system providing child support payment collection and distribution information. RECOMMENDATION: Develop written policies and procedures for securing vendor supplied accounts when using off-the-shelf products that come with pre-set settings and configuration. |

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Detailed Report

| | Description | Results |
|----|---|---|
| E. | DEPT: Auditor-Controller TITLE: Quarterly Audit of the Auditor-Controller's Cash and Investment Reconciliation Compliance for Quarter Ended March 31, 2013 AUDIT NO: 1249-C ISSUED: June 24, 2013. | Scope: The primary purpose of this audit is to provide an opinion about whether the Orange County Auditor-Controller's monthly reconciliations of cash and investment accounts complied with the requirements of California Government Code Section 26905, to determine that the amounts in those accounts as stated on the books of the Treasurer are in agreement with the amounts in those accounts as stated on the books of the Auditor. Conclusion: In our opinion, the Orange County Auditor-Controller complied, in all material respects, with the California Government Code Section 26905 for the quarter ended March 31, 2013. Background: The Internal Audit Department was requested by the Auditor-Controller's Office to conduct the required quarterly audit to provide an opinion whether the Orange County Auditor-Controller has complied with the requirements of California Government Code Section 26905 for the quarter-ended March 31, 2013. Cash and investments per the Treasurer's official records were \$6.3 billion (cost basis) at March 31, 2013. Recommendations: None |

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Detailed Report

| | Description | Results |
|----|--|---|
| F. | DEPT: OC Community Resources/ OC Parks | SCOPE: We audited the underlying books and records of the Strawberry Farms Golf Club, LLC (SFGC) for the period of January 1, 2012 through December 31, 2012 to ensure reported gross receipts are supported and rent is properly paid as defined by the lease agreement. |
| | TITLE: Revenue Generating Lease Audit of OC Parks/Strawberry Farms Golf Club | CONCLUSION : We found that Strawberry Farms Golf Club's records adequately supported reported gross receipts and rent owed to the County was properly paid. |
| | AUDIT NO: 1231 | BACKGROUND: Strawberry Farms Golf Club, LLC maintains and operates an eighteen-hole golf course, driving range and pro shop on a parcel owned by the County of Orange (County) within Mason Regional Park and an adjoining parcel surrounding the Sand Canyon Reservoir owned by the Irvine Ranch Water District (IRWD) under the lease agreement with the County. The County and IRWD have agreed to combine said |
| | ISSUED: June 27, 2013. | parcels for the purpose of the lease. The County manages this lease on behalf of IRWD, and the rent due from SFGC is allocated equally between the County and IRWD. |
| | | RECOMMENDATIONS: None |
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Detailed Report

| | Description | Results |
|----|---|---|
| G. | DEPT: Auditor-Controller Human Resource Services CEO/County Procurement | Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform four (4) ongoing CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly or quarterly. |
| | Office TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – June 2013 | Duplicate Payments to Vendors: We analyzed 24,643 vendor invoices paid in May 2013 amounting to about \$204 million and found 99.99% of the invoices were only paid once. We identified one (1) potential duplicate payment made to vendors totaling \$29. The County currently has a recovery rate from vendors of about 99% on these duplicate payments. Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$1,011,706 this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. |
| | AUDIT NO: 1238-L ISSUED: June 25, 2013 | Employee Vendor Match: For the quarter-ended March 31, 2013, two (2) employee-vendor conflicts were identified and submitted to Human Resource Services for further evaluation. As of June 17, 2013, departmental HR staff determined one matter did involve a possible conflict of interest and corrective action has been identified and will be taken. Departmental HR staff is currently reviewing the other matter and the results will be included in a future report. Retiree/Extra Help Hours: As of May 16, 2013, one (1) OC working retiree exceeded the annual hourly limits for FY 12-13. Payroll Direct Deposits: No findings resulted from the payroll direct deposits routine. |
| | | Background: The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test a sample of transactions from the population. The resulting matches identified by the CAATs are subjected to further review and analysis by the Internal Audit Department. We then forward any resulting findings to the Auditor-Controller, Human Resource Services, or County Procurement Office for their review and concurrence, and subsequent correction/recovery. We also work with these departments to identify internal control enhancements with the purpose of preventing future occurrences of the type of findings identified by the CAATs. |

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Detailed Report

| | Description | Results |
|----|---|---|
| H. | DEPT: OC Public Works | Scope: We have completed a First and Final Follow-Up of Revenue Generating Lease Audit of OC Public Works/River View Golf Course. Our audit was limited to reviewing, as of March 29, 2013, actions taken to implement the two (2) recommendations from our original audit report dated September 25, 2012. |
| | TITLE: Final Close-Out First Follow-Up Revenue Generating Lease of OC Public Works River View Golf Course | Conclusions: Our First Follow-Up Audit found that OC Public Works implemented one (1) recommendation and the one (1) remaining recommendation was closed for the purpose of follow-up. |
| | AUDIT NO: 1235-A (Original Audit No. 1135) | Background: We conducted the revenue generating lease audit to determine whether River View Golf Course's (River View) records adequately supported their monthly gross receipts reported to the County. During the original audit period, River View reported approximately \$1.76 million in gross receipts and paid rent to the County of about \$90,400. |
| | ISSUED: June 25, 2013 | Recommendations: None |
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Detailed Report

| | Description | Results |
|----|--|---|
| I. | DEPT: Health Care Agency TITLE: | Scope: We conducted a First Follow-Up Audit of the Health Care Agency Medical Billing Process. Our audit was limited to reviewing, as of June 15, 2013, actions taken to implement the four (4) recommendations from our original audit report dated December 13, 2012. |
| | Final Close-Out First Follow-Up Internal Control Audit of Health Care Agency Medical Billing Process | Conclusion: Our First Follow-Up Audit found that HCA implemented all four (4) recommendations. As such, this report represents the final close-out of the original audit. |
| | AUDIT NO: 1227-E (Original Audit No. 1018) ISSUED: June 28, 2013 | Background: During Fiscal Year 2010-11, HCA's annual medical billings totaled \$73 million for services provided under HCA's Behavioral Health, Public Health, and Medical and Institutional Health Services Programs. The submission of accurate bills for services rendered to Medicare, Medi-Cal, and any other health plan patient is essential and required by law. Legal sanctions can be imposed by State or Federal regulatory entities for improper billings and claims. The medical billing process starts with the registration/intake of clients through documenting the clinic services provided and submitting electronic billing documents to the State or Medicare. |
| | | Recommendations: The original audit identified four (4) Control Findings where HCA should continue efforts to complete business continuity planning documents; consider reducing the extent of its pre-billing and post-payment reviews; and evaluate generating management reports from the IRIS system for monitoring the effectiveness of the medical billing process. |
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Detailed Report

| | Description | Results |
|----|--|---|
| J. | DEPT: OC Public Works TITLE: First Follow-Up Internal Control | Scope: We conducted a First Follow-Up Audit of OC Public Works Fee Generated Revenue. Our audit was limited to reviewing, as of March 31, 2013, actions taken to implement the ten (10) recommendations from our original audit report dated September 7, 2012. The original audit identified one (1) Critical Control Weakness and nine (9) Significant Control Weaknesses to improve controls with regards to fee development processes, policies, procedures and compliance with County policy. |
| | Audit of Fee Generated Revenue | Several of the findings identified were the result of a lack of resources in OCPW Finance. |
| | AUDIT NO: 1227-C (Original Audit No. 1022) | Conclusion: Our First Follow-Up Audit found OC Public Works fully implemented six (6) recommendations and four (4) recommendations were in process of implementation. |
| | ISSUED: June 4, 2013 | Background: OC Public Works (OCPW) provides services related to flood protection, safe roads, community planning & development, facilities operations, regional water quality management, and agricultural commissioner. OCPW charges fees to the public for providing certain services in these areas. During FY 10-11, OCPW had \$11.5 million in fee generated revenue from eighty-eight Board-approved, cost-recovery fees from Licenses, Permits, Franchises, and Charges for Services to the public for providing County services. |
| | | Recommendations: In the original audit, recommendations were made regarding: no formal fee monitoring process; unidentified revenues in the County General Ledger; incomplete fee inventory listings, no documentation of management review/approval of fee studies; lack of written policies and procedures over the fee development process, and ensuring compliance with the County Revenue Policy in the areas of frequency of fee reviews and full cost recovery of fees. |
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