

Internal Audit Department

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

EXHIBIT A

DECEMBER 2013 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda January 28, 2014

District Attorney Financial Statement Audit of DA's Workers' Compensation Insurance Fraud Program. We found that the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2013.

District Attorney Financial Statement Audit of DA's Disability and Healthcare Insurance Fraud Program. We found that the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2013.

District Attorney Financial Statement Audit of DA's Automobile Insurance Fraud Program. We found that the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2013.

District Attorney Financial Statement Audit of DA's Organized Automobile Fraud Activity Interdiction Program. We found that the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2013.

Health Care Agency Audit of Environmental Health Division FY 2013-14 Fee Study. We found that cost estimations and fee calculations were mathematically accurate, supported by source documentation, and the fee study methodology was conducted in accordance with County and HCA policies and procedures.

Results of Continuous Auditing Using CAATS for December 2013. Reveals 100% of vendor invoices processed in November were paid only once. We identified no potential duplicate payments made to vendors.

John Wayne Airport Final Close-Out First Follow-Up Internal Control Audit of Change Order Process for the Airport Improvement Program. Our First Follow-Up Audit found that John Wayne Airport fully implemented all seven (7) recommendations from our original report dated April 2, 2013.

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

Assistance in assembling this report provided by:
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Project No. 1309-6

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. 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

Letter from Dr. Peter Hughes, CPA



Dr. Peter Hughes, CPA
DIRECTOR

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RISK BASED AUDITING



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January 28, 2014

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of December 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,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit

Audit Project:

- B. **District Attorney Financial Statement Audit of DA's Workers' Compensation Insurance Fraud Program:** We found that the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2013.
- C. **District Attorney Financial Statement Audit of DA's Disability and Healthcare Insurance Fraud Program:** We found that the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2013.
- D. **District Attorney Financial Statement Audit of DA's Automobile Insurance Fraud Program:** We found that the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2013.
- E. **District Attorney Financial Statement Audit of DA's Organized Automobile Fraud Activity Interdiction Program:** We found that the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2013.
- F. **Health Care Agency Audit of Environmental Health Division FY 2013-14 Fee Study:** We found that cost estimations and fee calculations were mathematically accurate, supported by source documentation, and the fee study methodology was conducted in accordance with County and HCA policies and procedures. The total Environmental Health fee-based program cost estimated by the FY 2013-14 fee study is **\$24.4 million**. There are approximately **220 fees** in the fee-supported programs, and this fee study is a three-year study covering FYs 2013-14, 14-15 and 15-16.

Exhibit

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

- G. **Auditor-Controller, Human Resource Services, and County Procurement Office –Duplicate Vendor Payments and Other Periodic Routines – November 2013:** We analyzed **19,824** vendor invoices paid in November 2013 amounting to about **\$150 million** and found **100%** of the invoices were paid correctly. Of the \$150 million in vendor invoices, we identified **no potential duplicate payments** made to vendors. To date we have identified **\$1,025,809** in duplicate vendor payments, of which **\$1,013,713 or 99%** has been recovered.

Exhibit

Follow-Up Audit Project:

- H. **John Wayne Airport – Final Close-Out and First Follow-Up Internal Control Audit of John Wayne Airport Improvement Program:** Our First Follow-Up Audit found that John Wayne Airport fully implemented all **seven (7) recommendations** from our original report dated April 2, 2013.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

New Audit Findings & Recommendations by Risk Category

Description	Results
<p>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.</p> <p>* Material Weaknesses is used for an audit conducted under AICPA Attestation Standards.</p>	<p>No critical control weaknesses issued during December 2013. No material weakness issued during December 2013.</p> <p>Twenty-five (25) total recommendations issued since July 2013.</p>
<p>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.</p>	<p>No significant control weaknesses issued during December 2013.</p> <p>Three (3) total recommendations issued since July 2013.</p>
<p>Control Findings Audit findings concerning <u>internal controls</u>, <u>compliance issues</u>, or <u>efficiency/effectiveness issues</u> 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.</p>	<p>No control findings issued during December 2013.</p> <p>Twelve (12) total recommendations issued since July 2013.</p>

Total Audit Recommendations for FY 2013-14: 40

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
B	<p>DEPT: District Attorney</p> <p>TITLE: Financial Statement Audit of DA's Workers' Compensation Insurance Fraud Program for the Fiscal Year Ended June 30, 2013</p> <p>AUDIT NO: 1310</p> <p>ISSUED: December 26, 2013</p>	<p>Scope: We audited the District Attorney Office's financial statement for the Grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.</p> <p>Conclusion: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>Background: The grant is funded by the California Department of Insurance (CDI), total fiscal year grant revenues for FY 2012-13 was \$3,588,116. Expenditures totaled \$3,933,666, resulting in net expenditures in excess of revenues of \$345,550, which cannot be applied toward future year's grant revenues. Therefore, the excess expenditures will be absorbed by the OCDA.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
C.	<p>DEPT: District Attorney</p> <p>TITLE: Financial Statement Audit of DA's Disability and Healthcare Insurance Fraud Program for the Fiscal Year Ended June 30, 3013</p> <p>AUDIT NO: 1311</p> <p>ISSUED: December 17, 2013</p>	<p>Scope: We audited the District Attorney (DA) Office's financial statement for the Grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.</p> <p>Conclusion: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>Background: The grant is funded by the California Department of Insurance, and the 2012/2013 fiscal year grant revenues totaled \$581,535. Expenditures totaled \$601,752 resulting in excess of expenditures over revenues of \$20,217, which cannot be applied toward future year's grant revenues. Therefore, the excess expenditures will be absorbed by the OCDA.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
D.	<p>DEPT: District Attorney</p> <p>TITLE: Financial Statement Audit of DA's Automobile Insurance Fraud Program for the Fiscal Year Ended June 30, 2013</p> <p>AUDIT NO: 1312</p> <p>ISSUED: December 10, 2013</p>	<p>Scope: We audited the District Attorney Office's financial statement for the Grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.</p> <p>Conclusion: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>Background: The grant is funded by the California Department of Insurance, and the 2012/2013 fiscal year grant revenues totaled \$1,343,746. Expenditures totaled \$1,366,567 resulting in excess of expenditures over revenues of \$22,821, which cannot be applied toward future year's grant revenues. Therefore, the excess expenditures will be absorbed by the OCDA.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
E.	<p>DEPT: District Attorney</p> <p>TITLE: Financial Statement Audit of DA's Organized Automobile Fraud Activity Interdiction Program for Fiscal Year Ended June 30, 2013</p> <p>AUDIT NO: 1313</p> <p>ISSUED: December 26, 2013</p>	<p>Scope: We audited the District Attorney Office's financial statement for the Grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.</p> <p>Conclusion: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>Background: The grant is funded by the California Department of Insurance, and the 2012/2013 fiscal year grant revenues totaled \$544,409. Expenditures totaled \$548,685 resulting in excess of expenditures over revenues of \$4,276, which cannot be applied toward future year's grant revenues. Therefore, the excess expenditures will be absorbed by the OCDA.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
F.	<p>DEPT: Health Care Agency</p> <p>TITLE: Audit of Environmental Health Division FY13-14 Fee Study</p> <p>AUDIT NO: 1327</p> <p>ISSUED: December 16, 2013</p>	<p>Scope: At the request of the Health Care Agency (HCA), Internal Audit Department conducted an audit of the Environmental Health FY 2013-14 Fee Study. Our audit included review of the fee study for compliance with the County policies for full cost recovery, for mathematical accuracy and to ensure the fee study is supported by source documentation.</p> <p>Conclusion: We found that cost estimations included direct and indirect cost components in compliance with the County policies for full cost recovery. We found that recommended fee calculations were set at full cost, except for certain fees that were recommended by HCA to be below full cost for FY 2013-14. In those instances, excess prior year revenues are being proposed to reduce the impact of certain significant fee increases. We found that cost estimations and fee calculations were mathematically accurate and were supported by source documentation. We found the fee study methodology was in accordance with County and HCA policies and procedures.</p> <p>Background: The Environmental Health fees are divided into four main programs: Food & Pool, Hazardous Materials Management (including Medical Waste), Solid Waste, and Water Quality. There are approximately 220 fees in the fee-supported programs, and the fee schedules are subject to approval by the Board of Supervisors. This fee study is a three-year study covering FYs 2013-14, 14-15 and 15-16. The costs of services are estimated based on prior year actual costs, with certain adjustments, and the fees are then calculated based on the projected estimated costs. HCA's Revenue Unit prepared schedules detailing cost estimation and proposed fee calculations for the three-year period.</p> <p>Recommendation: HCA will disclose on the Fee Checklist and Agenda Staff Report that certain fees have been recommended at below full cost based on HCA's authority granted by the Board of Supervisors on June 2, 2009, which allows HCA to carry over any excess Environmental Health fee revenue, and to use the excess fee revenue to offset future EH fee-related expenditures.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
F.	<p>DEPT: Auditor-Controller Human Resource Services CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – December 2013</p> <p>AUDIT NO: 1349-F</p> <p>ISSUED: December 16, 2013</p>	<p>Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform four (4) on-going CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly or quarterly.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 19,824 vendor invoices paid in November 2013 amounting to about \$150 million and found 100% of the invoices were only paid once. We identified no potential duplicate payments made to vendors. 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 \$1,013,713 this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> Our analysis for the quarter-ended September 30, 2013, identified one (1) potential employee-vendor conflict. After further evaluation, it was determined that this employee-vendor match did not represent a conflict. The next analysis will be conducted for the quarter-ended December 31, 2013. • <u>Retiree/Extra Help Hours:</u> As of November 18, 2013, no OC working retirees exceeded the annual hourly limits for FY 13-14. • <u>Payroll Direct Deposits:</u> No findings resulted from the payroll direct deposits routine. <p>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.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
G.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Final Close-Out and First Follow-Up Internal Control Audit of JWA Change Order Process for the Airport Improvement Program</p> <p>AUDIT NO: 1125-FI (Ref. 1339) Original Audit No. 1125</p> <p>ISSUED: December 09, 2013</p>	<p>Scope: We have completed a First Follow-Up Audit of John Wayne Airport Change Order Process for the Airport Improvement Program. Our audit was limited to reviewing actions taken, as of October 31, 2013, to implement the seven (7) recommendations from our original audit report.</p> <p>Conclusion: Our First Follow-Up Audit found that John Wayne Airport fully implemented all seven (7) recommendations from our original report dated April 2, 2013.</p> <p>Background: The Airport Improvement Program at John Wayne Airport (JWA) was one of the County's largest public works projects and its budget totaled \$543 million. The Airport Improvement Program created additional terminal area capacity in the form of aircraft gates, hold rooms, concessions, passenger/baggage screening capabilities, and additional parking. It also helped redistribute traffic between Terminals A, B, and C, to balance operations throughout the terminal complex. A key objective of the Airport Improvement Program was to ensure the new facilities are designed and developed to create a single, seamless environment for passengers. In calendar year 2011, JWA ranked 43rd for the number of passenger boarding at US airports.</p> <p>Recommendations: None</p>