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MONTHLY AUDIT ACTIVITY REPORT FOR APRIL 2009 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda May 19, 2009

Project No. 2807-14

by Dr. Peter Hughes, MBA, CPA County Internal Auditor

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Letter from Dr. Peter Hughes





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RISK BASED AUDITING



May 19, 2009

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of April 2009. Each report has an overview and a detailed briefing for your review.

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

Respectfully submitted,

Dr. Peter Hughes, CPA

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

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Executive Summary

Exhibit AUDITS:

- B. Treasurer Tax Collector: Audit of Tax Redemption Officer Records and Accounts: Pursuant to Section 4108.5 of the Revenue and Taxation Code, we have completed an audit of the Treasurer-Tax Collector's Office Redemption Section. We found that the elected Orange County Treasurer-Tax Collector properly calculated and collected over \$241 million in delinquent property taxes, interest, and penalties for the three years ending June 30, 2008. We identified one Significant Issue and six Control Findings. The Significant Issue relates to supervisory review and timely resolution of items in the suspense account.
- C. <u>California Counties Audit Chiefs' Committee:</u> Dr. Hughes and Eli Littner provided an informative training presentation on Peer Reviews to approximately 45 attendees of the California Counties Audit Chiefs' Committee. Government code and the audit profession require that audits be audited at least every 3 or 5 years. The audit is called a peer review or quality assessment. The training provided the attendees a practical and tangible approach to conducting a peer review.

Exhibit Monthly Computer Assisted Audits of Vendor Payments (CAATs):

D. <u>Auditor Controller and Human Resources – Duplicate Payments to Vendors and Other Routines – April 2009:</u> We analyzed **17,879** vendor invoices paid in March 2009 amounting to about **\$118 million** and found **99.98%** of the invoices were only paid once. Of the \$118 million vendor invoices, we identified **three (3)** duplicate payments made to vendors amounting to **\$5,862**. To date we have identified **\$812,044** in duplicate vendor payments, of which **\$754,036** has been recovered which is a noteworthy achievement by the Auditor-Controller's Office.

Other Routines: In March 2009, we identified **23** potential employee/vendor address matches that were submitted to Human Resources for their review. Their review is in process. In addition, we identified no findings from our duplicate deposit, deleted vendor, and working retiree routines.

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Executive Summary

Exhibit FOLLOW UP AUDITS:

- E. <u>John Wayne Airport/GAT Airline Ground Support</u>: Final Close-Out First Follow-Up Review of License Revenue for GAT Airline Ground Support (GAT). GAT provides baggage handling, aircraft towing/parking, and interior aircraft cleaning to Delta Airlines, its customer at JWA. Over a five year period, the license is estimated to generate over \$750,000 in fees to JWA. We are pleased to report that John Wayne Airport and GAT successfully implemented corrective action to address all six (6) recommendations related to additional fees and audit costs owed. As such, this report represents the final close-out of the original audit.
- F. OC Community Resources/OC Parks/Sunset Aquatic Marina: Final Close-Out First Follow-Up Review of Lease Revenue for Sunset Aquatic Marina. Sunset Aquatic Marina operates a marina, boat launch, dry boat storage, and marine repair facility. This amended lease of about 44 years (beginning December 1994) is estimated to generate over \$29 million in rent to OC Parks. We are pleased to report that OC Community Resources/OC Parks and Sunset Aquatic Marina successfully implemented corrective action to address all three (3) recommendations related to compliance with the lease agreement and/or improving internal controls. As such, this report represents the final close-out of the original audit.

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Detailed Report

New Audit Findings by Risk Category

Description	Results
Material Weaknesses Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.	None issued during April 2009. None issued since July 2008.
Significant Findings Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.	One issued in April 2009. (2) issued since July 2008.
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.	(6) issued in April 2009. (83) issued since July 2008.

Total Audit Findings for 2008-09: 85

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Detailed Report

NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	DEPT: Treasurer Tax Collector TITLE: Audit of Tax Redemption Officer	Scope: Pursuant to Section 4108.5 of the Revenue and Taxation Code, we have completed an audit of the Treasurer-Tax Collector's Office Redemption Section as of June 30, 2008. The objective of our audit was to evaluate the reliability and integrity of financial and operational tax redemption records and to determine compliance with laws and regulations governing redemption activities. We did not review the property tax apportionment process performed by the Auditor-Controller's Office or the computer information systems used by the Redemption Section.
	Records and Accounts AUDIT NO: 2812 ISSUED: April 16, 2009	Conclusion: We found that the elected Orange County Treasurer-Tax Collector properly calculated and collected over \$241 million in delinquent property taxes, interest and penalties for the three years ending June 30, 2008. We identified one Significant Issue (finding) and six lesser Control Findings regarding the tax redemption process.
		Background: The Treasurer-Tax Collector (TTC) performs the duties of Tax Redemption Officer through the Redemption Section of his Department. These duties, as defined by Part 7 of the Revenue and Taxation Code, include maintaining abstracts of delinquent secured and supplemental taxes; calculating and collecting interest and penalties on delinquent taxes; verifying specific conditions have been met before property is redeemed by property owners; and issuing certificates for redeemed property. The total dollar volume of redemption taxes and penalties collected during the three years ending June 30, 2008 was approximately \$204.3 million for secured taxes and \$36.8 million for supplemental taxes.
		Type of Recommendations: The Significant Issue was regarding supervisory review and timely resolution of items in the suspense account. The six Control Findings are related to the following: monitoring of processed penalty cancellations; retention of taxpayer installment plan agreement sheets and the stated time of redemption under installment plans; proper segregation of duties and timely review of account reconciliations; and the timeliness of the TTC accounting statement of monies collected to the Auditor-Controller.

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Detailed Report

Exhibit	Description	Comments
C.	ORG: California Counties Audit Chiefs' Committee	Training: On April 24, 2009, Dr. Hughes and Eli Littner provided an informative training presentation on Peer Reviews to members of the California Counties Audit Chiefs' Committee.
	TITLE: Peer Review Training – Seven Steps to an Effective Peer Review REPORT NO: 2807-16	Background: California government code and professional auditing standards require that auditors be audited at least every 3 or 5 years. The audit is called a peer review or quality assessment. The peer reviews on the OC Internal Audit Department were conducted under both the US Government Accountability Office (GAO) standards and the Institute of Internal Auditors (IIA) standards. In each of the past three reviews, the OC Internal Audit Department was found to be fully compliant.
	DATE: April 24, 2009	The OC Internal Audit Department participates in the California Counties Audit Chiefs' Committee reciprocal peer review program. Under this program, the OC Internal Audit Department will conduct a peer review in exchange for a peer review. The OC Internal Audit Department last received a peer review by the County of Riverside in 2007 and is scheduled to receive the next peer review in 2010. In exchange for these reviews, the OC Internal Audit Department plans to conduct a peer review of the County of San Bernardino later this year. Participation in this reciprocal program was approved by the Audit Oversight Committee in 2007.

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Detailed Report

Exhibit	Description	Comments
D.	DEPT: Auditor-Controller Human Resources County Procurement Office	Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 5 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary.
	TITLE: Computer Assisted Audit Techniques – April 2009 AUDIT NO: 2844-J	 Conclusion: Duplicate Payments to Vendors: We analyzed 17,879 vendor invoices paid in March 2009 amounting to about \$118 million and found 99.98% of the invoices were only paid once. Of the \$118 million vendor invoices, we identified three (3) duplicate payments made to vendors amounting to \$5,862. The Auditor-Controller currently has a recovery rate from vendors of about 94% on these duplicate payments.
	ISSUED: April 28, 2009	Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$752,036, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.
		 Multiple Direct Deposits: No findings noted. Employee Vendor Match: In March 2009, 23 potential employee/vendor matches submitted to Human Resources for further evaluation. Their review is in process. Retiree/Extra Help Hours: As of 4/15/09, no working retirees exceeded annual limits. Deleted Vendors: No findings noted.
		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 but 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 A-C, HR, 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

Exhibit	Description	Comments
E.	DEPT: John Wayne Airport TITLE: Final Close-Out First Follow-Up Audit of Review of License Revenue for GAT Airline Ground Support (Original Audit No. 2734) AUDIT NO: 2840-C ISSUED: April 22, 2009	Scope: Final Close-Out of First Follow-Up Review of License Revenue to determine to determine the implementation status of six (6) recommendations made in our original audit report, dated July 24, 2008. No material or significant issues were identified in the original audit report. Over a five year period, the license is estimated to generate over \$750,000 in fees to JWA. Conclusion: We are pleased to report that satisfactory corrective action has been taken for the six (6) audit recommendations. We commend the personnel at JWA and GAT Airline Ground Support for their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit. Background: The County of Orange entered into a license agreement with GAT Airline Ground Support, Inc. (GAT) dated August 19, 2004, as amended and assigned, for the non-exclusive right to conduct and operate commercial aviation ramp services, in-flight food catering service, wash and wax operations, interior aircraft cleaning, and other contract ground services at JWA. For the year ended July 31, 2007, GAT generated approximately \$1.4 million in gross receipts and paid the County approximately \$140,000 in fees. Type of Recommendations: Compliance with license agreement resulting in additional fees of \$51,163 and audit costs of \$4,800 owed related to interior aircraft cleaning and a 10% surcharge to its customers.

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Detailed Report

Exhibit	Description	Comments
F.	DEPT: OC Community Resources/ OC Parks TITLE:	Scope: Final Close-Out of First Follow-Up Review of Lease Revenue to determine to determine the implementation status of three (3) recommendations made in our original audit report, dated August 14, 2008. No material or significant issues were identified in the original audit report. This amended lease of about 44 years (beginning December 1994) is estimated to generate over \$29 million in rent to OC Parks.
	Final Close-Out First Follow Up Audit of Review of Lease Revenue for Sunset Aquatic Park, Ltd., dba Sunset Aquatic Marina (Original Audit No. 2740)	Conclusion: We are pleased to report that satisfactory corrective action has been taken for the three (3) audit recommendations. We commend the personnel at OC Community Resources/OC Parks and Sunset Aquatic Marina for their responsiveness in addressing our recommendations. As such, this report represents the final closeout of the original audit.
	AUDIT NO: 2840-E ISSUED: April 22, 2009	Background: The County of Orange entered into an amended and restated lease agreement with Sunset Aquatic Park, Ltd, also known as Sunset Aquatic Marina dated December 20, 1994, for the operation of a marina, boat launch, dry boat storage, and marine repair facility located in Seal Beach. The marine repair facility is operated by Sunset Aquatic Marine Center, Ltd., a sublessee of Sunset Aquatic Park. During the 12 months ended August 31, 2007, Sunset Aquatic Marina generated approximately \$4.2 million in gross receipts and paid the County approximately \$717,000 in rent.
		Type of Recommendations: Lease compliance and/or internal control improvements regarding annual lease rent calculation, misclassification of sublessee gross receipts, and non-resettable counter for boat launch parking.

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