

Internal Audit Department

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

EXHIBIT A

JUNE 2011 AUDITS BY IAD MONTHLY INTERNAL AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda
July 26, 2011



- **Internal Control Audit of Public Defender Revolving Funds Process:** Our audit found internal controls are in place to ensure revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized and recorded completely, accurately and processed timely. We identified **two (2) Control Findings** to enhance existing revolving funds process and controls.
- **Monthly CAAT Reveals 100% of Vendors Payments Were Only Paid Once:** We found **no** duplicate payments in the 20,308 vendor invoices paid in May 2011.
- **Second and Final Close-Out Follow-Up Audit of County of Orange Retiree Medical Plan – Annual Required County Contributions:** Our Second and Final Follow-Up Audit indicated that the one (1) remaining recommendation was implemented.
- **First Follow-Up Audit of the Auditor-Controller's and Treasurer-Tax Collector's \$22 Billion Electronic Funds Transfer Processes:** Our First Follow-Up Audit indicated that six (6) recommendations were implemented or closed; seven (7) recommendations are in process; and two (2) recommendations are not implemented from our original audit.
- **First and Final Close-Out Follow-Up Audit of OC Dana Point Harbor Boat Slip Waitlist Administration:** Our First Follow-Up Audit indicated that the two (2) recommendations were implemented.

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

Assistance in assembling this report provided by:
Eli Littner, Deputy Director, CPA, CIA, CFE, CFS, CISA
Alan Marcum, Senior Audit Manager, MBA, CPA, CIA, CFE
Michael Goodwin, Senior Audit Manager, CPA, CIA
Autumn McKinney, Senior Audit Manager, CPA, CIA, CGFM, CISA

Project No. 1007-12

RISK BASED AUDITING
 GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010
 Member of 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

 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

PH.D., MBA,
CCEP, CITP, CIA, CFE, CFF

E-Mail:
peter.hughes@iad.ocgov.com

Eli Littner, CPA
DEPUTY DIRECTOR
CIA, CFE, CFS, CISA

Michael J. Goodwin, CPA
SENIOR AUDIT MANAGER
CIA

Alan Marcum, CPA
SENIOR AUDIT MANAGER
MBA, CIA, CFE

Autumn McKinney, CPA
SENIOR AUDIT MANAGER
CIA, CISA, CGFM

Hall of Finance & Records

12 CIVIC CENTER PLAZA,
ROOM 232
SANTA ANA, CA 92701

www.ocgov.com/audit

(714) 834-5475
(714) 834-2880 Fax

RISK BASED AUDITING



OC Fraud Hotline
(714) 834-3608

July 26, 2011

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of June 2011. 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 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.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit

Reports:

- B. Internal Control Audit of Public Defender Revolving Funds Process: Our audit found internal controls are in place to ensure revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized and recorded completely, accurately and processed timely. We identified **two (2) Control Findings** to enhance existing revolving funds process and controls with regards to the resolution of long-outstanding reconciling items on bank reconciliations and the need to increase the frequency of revolving fund replenishment requests.

Exhibit

MONTHLY RESULTS OF CONTINUOUS AUDITING USING CAATS (COMPUTER ASSISTED AUDIT TECHNIQUES):

- C. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – June 2011: We analyzed **20,308** vendor invoices paid in May 2011 amounting to about **\$216 million** and found **100%** of the invoices were only paid once. Of the \$216 million vendor invoices, we identified **no** duplicate payments. To date we have identified **\$979,804** in duplicate vendor payments, of which **\$941,848** has been recovered and is a noteworthy achievement by the County.

Exhibit

Follow-Up Reports:

- D. Second and Final Close-Out Follow-Up Audit of County of Orange Retiree Medical Plan – Annual Required County Contributions (Original Audit No. 2813): Our Second and Final Follow-Up Audit indicated that the one (1) remaining recommendation was fully implemented.
- E. First Follow-Up Audit of the Auditor-Controller's and Treasurer-Tax Collector's \$22 Billion Electronic Funds Transfer Processes: The original audit contained fifteen (15) recommendations. Our First Follow-Up Audit indicated that six (6) recommendations were implemented or closed; seven (7) recommendations are in process; and two (2) recommendations are not implemented.
- F. First and Final Close-Out Follow-Up Audit of OC Dana Point Harbor Boat Slip Waitlist Administration: The original audit contained two (2) recommendations. We found that the two (2) recommendations were implemented.

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 June 2011.</p> <p>No material weakness in internal control issued during June 2011.</p> <p>8 total recommendations issued since June 2010.</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 June 2011.</p> <p>18 total recommendations issued since July 2010.</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>2 control findings issued during June 2011.</p> <p>96 total recommendations issued since July 2010.</p>

Total Audit Recommendations for FY 2010-11: 122

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
B.	<p>TITLE: Internal Control Audit of Revolving Funds</p> <p>DEPT: Public Defender</p> <p>Audit No: 1053</p> <p>Issued: June 16, 2011</p>	<p>Scope: This audit evaluated the Public Defender's internal controls to ensure revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized, recorded completely, accurately and processed timely.</p> <p>Conclusion: Our audit found internal controls are in place to ensure revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized and recorded completely, accurately and processed timely. We identified two (2) Control Findings to enhance existing revolving funds process and controls with regards to the resolution of long-outstanding reconciling items on bank reconciliations and the need to increase the frequency of revolving fund replenishment requests.</p> <p>Background: The Public Defender maintains three revolving funds: a regular revolving fund in the amount of \$50,000, a Special Use Revolving Fund in the amount of \$250,000 and a Delta Special Revenue Fund in the amount of \$5,000. During the audit period, the Public Defender incurred approximately \$1.5 million in revolving fund expenditures.</p> <p>Type of Recommendations: We recommend the Public Defender ensure long-outstanding items on bank reconciliations are researched and resolved timely and that revolving fund replenishment requests are submitted for reimbursement on a regular basis.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
C.	<p>DEPT: Auditor-Controller Human Resources CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – June 2011</p> <p>AUDIT NO: 1041-M</p> <p>ISSUED: June 16, 2011</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, annually, or as necessary</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors</u>: We analyzed 20,308 vendor invoices paid in May 2011 amounting to about \$216 million and found 100% of the invoices were only paid once. Of the \$216 million vendor invoices, we identified no duplicate payments. The County currently has a recovery rate from vendors of about 94% on these duplicate payments. <p>Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$941,848, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.</p> <ul style="list-style-type: none"> • <u>Employee Vendor Match</u>: All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be performed at quarter-end June 30, 2011. • <u>Retiree/Extra Help Hours</u>: As of May 26, 2011, no individuals have exceeded the annual limits for FY 10-11. • <u>Multiple Payroll Direct Deposits</u>: No findings noted.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
	<p>CONTINUED,</p> <p>DEPT: Auditor-Controller Human Resources County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – June 2011</p>	<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 Resources, 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

Exhibit	Description	Comments
D.	<p>TITLE: Second and Final Close-out Follow-Up Audit of County of Orange Retiree Medical Plan- Annual Required County Contributions</p> <p>DEPT: County Executive Office</p> <p>AUDIT NO: 1017-B (original audit no. 2813)</p> <p>Issued: June 16, 2011</p>	<p>Scope: We have completed a Second and Final Follow-Up Audit of County of Orange Retiree Medical Plan – Annual Required County Contributions. Our audit was limited to reviewing, as of May 23, 2011, actions taken to implement the one (1) recommendation remaining from our First Follow-Up Audit report dated August 2, 2010 where four (4) recommendations were implemented from our original audit.</p> <p>Conclusion: Our Second and Final Follow-Up Audit indicated that the one (1) remaining recommendation was fully implemented.</p> <p>Background: We conducted an audit of certain records and documents for the period July 1, 2008 through January 31, 2009 to determine if the County of Orange was properly funding the Trust established for the Retiree Medical Plan for Fiscal Year 2008-2009. During the original audit period, employer contributions totaled \$18,460,729 from July 4, 2008 to December 4, 2008.</p> <p>Type of Recommendations: The Significant Issue – the reconciliation method used to update the Retiree Medical Trust Fund from the OCERS Statement was flawed and resulted in an error of \$213,847.92 in recording interest income. The Control Findings were in the following areas: timeliness in reconciling and recording financial information; documented supervisory reviews; and written procedures.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
E.	<p>TITLE: First Follow-Up Audit of the \$22 Billion Electronic Funds Transfer Processes</p> <p>DEPTS: Auditor-Controller, Treasurer-Tax Collector, CEO/Information Technology</p> <p>AUDIT NO: 1033-C (original audit no. 2821)</p> <p>Issued: June 29, 2011</p>	<p>Scope: We have completed a First Follow-Up Audit of internal controls over the Auditor-Controller's and Treasurer-Tax Collector's \$22 Billion Electronic Funds Transfer Processes. Our audit was limited to reviewing, as of May 15, 2011, actions taken to implement the fifteen (15) recommendations from our original audit.</p> <p>Conclusion: Our First Follow-Up Audit found the Auditor-Controller, Treasurer-Tax Collector, and CEO/Information Technology fully implemented or closed six (6) recommendations, seven (7) recommendations are in process, and two (2) recommendations have not been implemented.</p> <p>Background: EFTs consist of wire transfers and automated clearing house transactions initiated in the County departments/agencies and processed in the Auditor-Controller and the Treasurer-Tax Collector. Between March 2008 and March 2009, the Treasurer-Tax Collector processed about \$20 billion in EFTs using the Quantum and Commercial Electronic Office systems, and the Auditor-Controller processed about \$2 billion EFTs in the CAPS/CAPS+ system.</p> <p>Type of Recommendations: A-C Satellite Units verify payment approvals with authorized signature/access request forms; A-C Check Writing ensure <i>EFT/On Demand Wire Forms</i> contain authorized signatures; A-C Claims & Disbursing payment processors review data for accuracy/completeness; A-C evaluate if standardized policies/procedures for approving disbursements can be established; A-C evaluate if department <u>interfaces</u> should have review thresholds and require support documentation; Claims & Disbursing and Satellite Units ensure bank account codes/ABA numbers are correctly documented; T-TC remove "release" access in the CEO system for two manual approvers; T-TC improve Quantum account and password settings; A-C remove user accounts no longer needed to maintain CAPS+ hardware/software; CEO/IT remove administrative accounts for individuals no longer requiring access to the FTP server; CEO/IT limit FTP job accounts log-on capabilities; CEO/IT remove the global/generic FTP rule for network traffic through the external firewall; CEO/IT work with departments/agencies to consolidate external FTP activity; CEO/IT develop a Countywide policy for administration of FTP activity; and A-C Claims & Disbursing continue performing Quality Assurance Reviews and enhance the process to include low dollar payments and interface transactions.</p>

Board Date: July 26, 2011

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For a copy of the complete audit report that contains the audit objective, scope, findings, recommendations, and management's response, see the OC Internal Audit Department's website at <http://www.ocgov.com/audit/>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
F.	<p>TITLE: First and Final Close-Out Follow-Up Audit of Boat Slip Waitlist Administration</p> <p>DEPT: OC Dana Point Harbor</p> <p>AUDIT NO: 1033-D (original audit no. 1031)</p> <p>Issued: June 29, 2011</p>	<p>Scope: We have completed a First Follow-Up Audit of internal controls over OC Dana Point Harbor Boat Slip Waitlist Administration. Our audit was limited to reviewing, as of June 15, 2011, actions taken to implement the two (2) recommendations from our original audit.</p> <p>Conclusion: Our First Follow-Up Audit indicated OC Dana Point Harbor implemented the two (2) recommendations. As such, this represents the final close-out of the original audit.</p> <p>Background: Combined, the three marinas have a total of 2,915 boat slips and dry boat storage spaces that are available to the public for rent and for guest slips. Waitlists are maintained by East Marina, West Marina and Embarcadero Marina for applicants requesting boat slip and storage space rentals. During the audit period, there were 29 waitlists for vessels of various sizes with 3,378 applicants on the waitlists, and 404 boat slips and dry boat storage spaces were assigned.</p> <p>Type of Recommendations: OC Dana Point Harbor work with West Marina to ensure website waitlists are updated on a regular basis; OC Dana Point Harbor require West Marina and Embarcadero Marina to begin performing reviews of customer files similar to East Marina.</p>