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EXHIBIT A

SEPTEMBER 2012 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda October 30, 2012

OC Public Works Fee Generated Revenue. Our audit found internal controls over the administration of OCPW's fee development process need improvement. We identified one critical control weakness and nine significant control weaknesses to improve controls and processes.

OC Community Resources Disbursement Approval Process. Our audit found internal controls are adequate and effective over the disbursement approval process. We identified one significant control weakness and four control findings to further enhance existing processes and controls.

OC Public Works - River View Golf Course. Our audit found their records adequately supported monthly rent paid to the County. We identified two (2) control findings to further enhance documentation and controls.

Monthly CAAT. Reveals 99.98% of vendor invoices were only paid once.

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

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

Project No. 1209-3

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







Letter from Dr. Peter Hughes, CPA





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RISK BASED AUDITING



October 30, 2012

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of September 2012. 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 Reports

- B. OC Public Works Internal Control Audit of Fee Generated Revenue: Our audit evaluated the adequacy of internal controls over OCPW's fee development processes for establishing cost-recovery fees charged to the public that require approval from the Board of Supervisors. We also evaluated compliance with County revenue policy as prescribed in County Accounting Manual Procedures Nos. R-3 Revenue Policy, Requirements & Responsibilities, and B-2 Billing Rates and Indirect Costs. During FY 10-11, OCPW generated \$11.5 million in fee generated revenue from Board-approved, cost-recovery fees for providing County services. Our audit found that processes and controls need improvement. We identified one (1) critical control weakness and nine (9) significant control weaknesses to improve controls and processes.
- C. OC Community Resources Internal Control Audit of Disbursement Approval Process: Our audit evaluated the adequacy of internal controls in OCCR and OCCR Accounting for processing and approving disbursements to ensure payments are valid, supported, comply with County and OCCR policy, and are consistent with the disbursement approval process in Auditor-Controller/Claims & Disbursing. Between September 1, 2010 and August 31, 2011, OCCR disbursed \$83 million in expenditures. We identified one (1) Significant Control Weakness concerning segregation of duties and four (4) Control Findings to enhance existing processes and controls
- D. OC Public Works Revenue Generating Lease Audit of River View Golf Course: We found that River View Golf Course's records adequately supported gross receipts and rent owed was properly paid to the County. We identified two (2) control findings to 1) improve documentation and monitoring of extended periods of unplayable days that are exempt from percentage rent and 2) establish written agreements with the independent golf professionals.

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

E. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – September 2012: We analyzed 18,121 vendor invoices paid in August 2012 amounting to about \$229 million and found 99.98% of the invoices were only paid once. Of the \$229 million in vendor invoices, we identified two duplicate payments made to vendors totaling \$8,528. To date we have identified \$992,438 in duplicate vendor payments, of which \$973,068 or 98% has been recovered and is a noteworthy achievement by the County.

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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.	One (1) critical control weakness issued during September 2012. No material weaknesses issued during September 2012. One (1) total recommendation 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.	Ten (10) significant control weaknesses issued during September 2012. Ten (10) 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.	Six (6) control findings issued during September 2012. Six (6) total recommendations issued since July 2012.

Total Audit Recommendations for FY 2012-13: 17

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Detailed Report

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Detailed Report

	Description	Results
C.	DEPT: OC Community Resources	Scope: We conducted an audit of internal controls to evaluate the adequacy of internal controls in OCCR and OCCR Accounting for processing and approving disbursements to ensure payments are valid, supported, comply with County and OCCR policy, and are consistent with the disbursement approval process in Auditor-Controller/Claims &
	TITLE:	Disbursing.
	Internal Control Audit of OC Community Resources Disbursement Approval Process	Conclusion: Our audit found internal controls are adequate and effective to ensure disbursements are valid, supported, and comply with County and OCCR policy. OCCR Accounting's disbursement approval process is consistent with processes in Auditor-Controller Claims & Disbursing; and OCCR's disbursement approval process is efficient and effective with regards to having no backlogs or duplication of work within OCCR.
	AUDIT NO: 1122	We identified one (1) Significant Control Weakness concerning segregation of duties and four (4) Control Findings to enhance existing processes and controls
	ISSUED: September 18, 2012	Background: OCCR was created in March 2008 to provide greater access to residents and visitors who want to fully utilize the resources available in their communities. This was achieved by bringing four programs into one department: OC Animal Care, OC Community Services, OC Parks, and OC Public Libraries. The four programs are supported by OCCR's Administrative Services which includes OCCR Accounting. OCCR Accounting is responsible for reviewing, approving, and processing disbursements for the OCCR programs on behalf of the Auditor-Controller. Between September 1, 2010 and August 31, 2011, OCCR disbursed \$83 million in expenditures from its four programs.
		Recommendations: Enhance existing processes and controls regarding payment processing timeframes, date stamping invoices, budgetary approval of invoices, and written procedures for supervisory/management reviews.

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Detailed Report

	Description	Results
D.	DEPT: OC Public Works	Scope: Revenue Generating Lease Audit to determine whether River View Golf Course's records adequately supported monthly rent paid to the County.
	TITLE: Revenue Generating Lease Audit of OC Public Works River View Golf Course AUDIT NO: 1135 ISSUED: September 25, 2012	Conclusion: We found that River View Golf Course's records adequately supported monthly rent paid to the County and rent owed was properly paid. We identified two (2) control findings to further enhance documentation and controls. Background: The Orange County Flood Control District (County) entered into a lease agreement with River View Golf Course dated September 2, 1969, as amended and assigned, for the operation of a golf course, snack bar, pro shop and golf instruction located on the Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana. We audit the underlying books and records to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement. Recommendations: 1) Improve documentation and monitoring of days the golf course is deemed restricted or unplayable for extended periods due to overflow from the Santa Ana River (gross receipts for these days are exempt from percentage rent) and 2) establish written agreements with the independent golf professionals.

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Detailed Report

	Description	Results
E.	DEPT: Auditor-Controller Human Resources 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.
	TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – September 2012 AUDIT NO: 1238-C ISSUED: September 25, 2012	 Conclusion: Duplicate Payments to Vendors: We analyzed 18,121 vendor invoices paid in August 2012 amounting to about \$229 million and found 99.98% of the invoices were only paid once. Of the \$229 million vendor invoices, we identified two duplicate payments made to vendors totaling \$8,528. The County currently has a recovery rate from vendors of about 98% 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 \$973,068, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. Employee Vendor Match: This routine is performed on a quarterly basis. All employee-vendor matches identified to date have been resolved to Human Resources Department (HRD) satisfaction. The next analysis will be performed at September 30, 2012. Retiree/Extra Help Hours: As of September 6, 2012, no individuals exceeded the annual hourly limits for FY 12-13. Multiple Payroll Direct Deposits: 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 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
		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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