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EXHIBIT A

NOVEMBER 2012 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda December 11, 2012

Audit of the Source of Funding for the OCEA Pension Enhancements for Fiscal Years 2008-09, 2009-10, 2010-11. We completed an audit of the source of funding for the 2004 Orange County Employees' Association (OCEA) pension enhancements (the 2.7% @ age 55 benefit formula) for Fiscal Years 2008-09, 2009-10, & 2010-11. We found that OCEA members themselves and <u>not</u> the County fully and accurately paid for the cost of the pension enhancements of \$101.2 million.

Audit Alert – Opportunity to Clarify County Revenue Policy Concerning Oversight Responsibility, Full-Cost Recovery and Fee Checklists. This Audit Alert addresses issues identified during our audits of department/agency fee generated revenue where we audit for compliance with the County Revenue Policy established by the Auditor-Controller. The issues we identified result from varying interpretations of the County Revenue Policy. We identified four (4) Control Findings and recommendations to assist the Auditor-Controller in its next revision of the County Revenue Policy.

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

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Project No. 1209-5

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







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



December 11, 2012

Honorable Board of Supervisors,

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

Board Date: December 11, 2012 Exhibit A, Page 2 of 6

Executive Summary

Exhibit Audit Reports

- B. Financial Audit of Source of Funding for the OCEA Pension Enhancements: We completed an audit of the source of funding for the 2004 Orange County Employees' Association (OCEA) pension enhancements (the 2.7% @ age 55 benefit formula) for Fiscal Years 2008-09, 2009-10, & 2010-11. We found that OCEA members themselves and <u>not</u> the County fully and accurately paid for the cost of the pension enhancements of **\$101.2 million**.
- C. Audit Alert Opportunity to Clarify County Revenue Policy Concerning Oversight Responsibility, Full-Cost Recovery and Fee Checklists: This Audit Alert addresses issues identified during our audits of department/agency fee generated revenue where we audit for compliance with the County Revenue Policy. The issues we identified result from varying interpretations of the requirements of County Accounting Manual Procedure R-3 Revenue Policy, Requirements & Responsibilities (County Revenue Policy). We raise these points to provide an opportunity for the Auditor-Controller to further clarify the County Revenue Policy when the County Accounting Manual procedures undergo their next revision. We identified four (4) Control Findings and recommendations to clarify County Revenue Policy requirements and reduce policy confusion.

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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 November 2012. No material weaknesses issued during November 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.	No significant control weaknesses issued during November 2012. Twelve (12) 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.	Four (4) control findings issued during November 2012. Twenty (20) total recommendations issued since July 2012.

Total Audit Recommendations for FY 2012-13: 33

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Detailed Report

	Description	Results
В.	DEPT: County Executive Office	Scope: We completed an audit of the source of funding for the 2004 Orange County Employees' Association (OCEA) pension enhancements (the 2.7% @ age 55 benefit formula). The objective of the audit was to determine if OCEA members' additional retirement contributions and related health insurance cost savings under the OCEA
	TITLE: Financial Audit of the Source of Funding for the OCEA Pension	contracts of 2004 fully and accurately covered the cost of the pension enhancements for Fiscal Years 2008-09, 2009-10, & 2010-11.
	Enhancements for Fiscal Years 2008-09, 2009-10, 2010-11	Conclusion: We found that OCEA members themselves and <u>not</u> the County fully and accurately paid for the cost of the pension enhancements of \$101.2 million (2.7% @ age 55 benefit formula) as agreed upon in their 2004 Memorandum of Understanding for Fiscal Years 2008-09, 2009-10, & 2010-11. The \$101.2 million paid included
	AUDIT NO: 1216 ISSUED: November 8, 2012	additional employee contributions of \$67.6 million and health insurance cost savings of \$33.6 million. The health insurance cost savings resulted from the labor organizations agreeing to changes of health benefits (increased co-payments, higher deductible and increased employee payroll deductions) effective January 1, 2005.
	ISSUED. November 6, 2012	Background: On August 24, 2004, the Orange County Board of Supervisors adopted Resolution No. 2004-247 to implement a 2.7% @ age 55 retirement formula for General Members of the Orange County Employees Retirement System (OCERS) retiring on or after July 1, 2005. It is an enhanced retirement plan for the OCERS General Members. Through negotiations with the labor organizations, the bargaining units agreed that pension enhancement will be without any additional cost to the County. In addition, they agreed to make additional employee contributions to the retirement system and health benefit changes (increased co-payments, higher deductible and increased employee payroll deductions). The combination of the additional employee contributions and health insurance cost savings are to cover the annual cost of implementing the enhanced retirement benefits. Recommendations: None

Board Date: December 11, 2012

Detailed Report

	Description	Results
C.	DEPT: Auditor-Controller	Scope: Internal Audit conducts audits of fee generated revenue in County departments/agencies to evaluate internal controls for establishing cost-recovery fees charged to the public for Licenses, Permits, and Franchises and Charges for Services
	TITLE: Audit Alert – Opportunity to Clarify County Revenue Policy	that are submitted to the Board of Supervisors for approval. Our audits also evaluate compliance with County Accounting Manual (CAM) Procedure R-3 – Revenue Policy, Requirements & Responsibilities, referred to as the County Revenue Policy.
	Concerning Oversight Responsibility, Full-Cost Recovery and Fee Checklists	Conclusion: Based on the fee generated audits conducted in the Health Care Agency (Audit No. 1024), OC Waste & Recycling (Audit No. 1023), and OC Public Works (Audit No. 1022), we found each had varying degrees of compliance with CAM Procedure R-3 requirements, specifically with conducting annual fee studies, ensuring full-cost recovery, and use of Fee Checklist forms. We identified four (4) Control Findings to
	AUDIT NO: 1250	clarify County Revenue Policy requirements and reduce policy confusion.
	ISSUED: November 20, 2012	Background: The purpose of an Audit Alert is to promptly bring to the management's attention important potential issues for their immediate assessment and, if necessary, corrective action. The process incorporates an accelerated management response timeline to ensure the timely completion and dissemination of audit issues. Beginning in FY 09-10, at the direction of the Board of Supervisors, the Internal Audit Department began conducting fee generated revenue audits in departments/agencies to evaluate fee development processes.
		Recommendations : 1) Ensure the Board's current expectation of the level of Auditor-Controller's review of department fee studies are in alignment with the current policy of performing a limited review. The Auditor-Controller should also determine whether BOS Res. 78-1691 is still in effect and revise CAM R-3, if necessary, to reflect the appropriate oversight and authority; 2) Consider the Health Care Agency's proposed policy changes in their next revision of the County Accounting Manual procedures; 3) Update CAM R-3 to include guidelines for Fee Checklist form preparation; and 4)
		Ensure procedures include criteria to ensure the data and justification contained in the department fee requests and related ASRs appear reasonable and in compliance with CAM R-3.

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