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EXHIBIT A

JANUARY 2013 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda February 26, 2013

Internal Control Audit of Social Services Agency Contract Payments and Fiscal Monitoring. Audit finds controls and processes are adequate and provide assurance that contract payments are authorized, valid, timely, and comply with contract terms. Fiscal monitoring audits are performed on contractors to ensure propriety of contract and program expenditures.

Quarterly Audit of TTC Reconciliation. In our opinion, except for one material noncompliance exception, the Orange County Auditor-Controller complied, in all material respects, with the California Government Code Section 26905 for the guarter ended September 30, 2012. The material noncompliance or deviation from the requirements dealt with the incomplete reconciliation of cash and investment accounts to the official records of the Treasurer.

Second and Final Close-Out Follow-Up Audit: OC Waste & Recycling Fee Generated Revenue. OC Waste & Recycling fully implemented one (1) recommendation remaining from our original audit containing three (3) recommendations.

Second and Final Close-Out Follow-Up Audit: Health Care Agency Contract Development and Management Payment Approval and Fiscal Monitoring. Health Care Agency/Contract Development and Management fully implemented the two (2) recommendations remaining from our original audit containing nine (9) recommendations.

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

> > Project No. 1209-7

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







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 DIRECTORPh.D., MBA, CCEP, CITP, CIA, CFE, CFF, CGMA

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RISK BASED AUDITING



February 26, 2013

Honorable Board of Supervisors,

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

Dr. Peter Hughes, CPA

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Executive Summary

Exhibit Audit Reports

- B. Internal Control Audit of Social Services Agency Contract Payments and Fiscal Monitoring: Social Services Agency/Contract and Grant Services administered 341 human services contracts totaling \$85 million, and processed \$39 million in contract payments during FY 2011-12. Our audit found internal controls over the contract payment process are adequate and provide assurance that payments are authorized, valid, timely, and comply with contract terms and with County and SSA policies. Our audit found fiscal monitoring audits are performed by external audit firms to help ensure the propriety of contract and program expenditures; however, a two-year lag exists in performing the external audits.
- C. Quarterly Audit of Auditor-Controller's Cash and Investment Reconciliation Compliance: In our opinion, except for the material noncompliance exception noted, the Orange County Auditor-Controller complied, in all material respects, with the California Government Code Section 26905 for the quarter ended September 30, 2012. The material noncompliance or deviation from the requirements dealt with the incomplete reconciliation of cash and investment accounts to the official records of the Treasurer. The Auditor-Controller's reconciliation did not include approximately \$57 million in Specific Investments and other reconciling items in the Treasurer's official records.

Exhibit Follow-Up Audit Reports:

- D. <u>Second and Final Close Out Follow-Up Audit of OC Waste & Recycling Fee Generated Revenue.</u> Our Second Follow-Up Audit indicated that OC Waste & Recycling **fully implemented the one (1) recommendation** remaining from our First Follow-Up Audit. Previously, two (2) recommendations were implemented in the First Follow-Up Audit. As such, this report represents the **final close-out of the original audit**.
- E. Second and Final Close Out Follow-Up Audit of Health Care Agency Contract Development and Management Payment Approval and Fiscal Monitoring. Our Second Follow-Up Audit indicated that HCA/CDM fully implemented the two (2) recommendations remaining from our First Follow-Up Audit. Previously, seven (7) recommendations were implemented in the First Follow-Up Audit. As such, this report represents the final close-out of the original audit.

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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 January 2013. One (1) material weakness issued during January 2013. Two (2) total recommendations 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.	One (1) significant control weakness issued during January 2013. Thirteen (13) 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.	Two (2) control findings issued during January 2013. Twenty-six (26) total recommendations issued since July 2012.

Total Audit Recommendations for FY 2012-13: 41

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Detailed Report

	Description	Results
B.	DEPT: Social Services Agency	Scope: We audited Social Services Agency Contract and Grant Services (SSA/CGS) to evaluate the adequacy of internal controls for approving contract payments to ensure they are valid, supported, authorized, timely, and comply with contract terms and with County and SSA policies. We also evaluated the fiscal monitoring process
	TITLE: Internal Control Audit of Social Services Agency Contract	administered in SSA/CGS and performed by external audit firms, and evaluated efficiency and effectiveness of the contract payment and fiscal monitoring processes.
	Payment and Fiscal Monitoring	Conclusion: Our audit found internal controls are adequate to ensure contract payments are valid, supported, authorized, timely, and comply with contract terms and with County and SSA policies. We also found fiscal monitoring audits are performed to
	AUDIT NO: 1224	ensure the propriety of program expenditures; however, over a two-year lag time exists in conducting the fiscal monitoring audits. We identified one (1) Significant Control
	ISSUED: January 9, 2013	Weakness and two (2) Control Findings.
		Background: Social Services Agency/Contract and Grant Services administered 341 human services contracts totaling \$85 million, and processed \$39 million in contract payments during FY 2011-12. These human services contracts are for Adult Services and Assistance Programs, Children and Family Services, and Family Self-Sufficiency Services, many of which contain multiple funding sources and distinctly different programs. SSA/Contract and Grant Services also administers the solicitation and coordination of external audit firms to conduct fiscal monitoring of SSA contractors. Annual external independent audits are conducted on the contract providers to ensure contract and fiscal compliance. During FY 2011-12, 39 contract and fiscal compliance audits were completed.
		Recommendations: Enhance processes and controls by establishing written policies and procedures over contract payments and fiscal monitoring; documenting delays in payment processing timeframes; and addressing the two-year time lag in conducting fiscal monitoring audits of contractors.

Board Date: February 26, 2013

Detailed Report

	Description	Results
C.	DEPT: Auditor-Controller TITLE: Quarterly Audit of Auditor- Controller's Cash and Investment Reconciliation Compliance for the Quarter Ended September 20, 2012.	Scope: The primary purpose of this audit is to provide an opinion about whether the Orange County Auditor-Controller's monthly reconciliations of cash and investment accounts were performed in accordance with aforementioned requirements to determine that the amounts in those accounts as stated on the books of the Treasurer are in agreement with the amounts in those accounts as stated on the books of the Auditor. Conclusion: Our examination disclosed one material noncompliance or deviation from the California Government Code Section 26905 during the quarter ended September 30, 2012. The material noncompliance or deviation from the requirements dealt with the incomplete reconciliation of cash and investment accounts to the official records of the Treasurer. The Auditor-Controller's reconciliation did not include approximately \$57
	AUDIT NO: 1249-A	million in Specific Investments and other reconciling items in the Treasurer's official records.
	ISSUED: January 15, 2013	In our opinion, except for the material noncompliance exception noted above, the Orange County Auditor-Controller complied, in all material respects, with the California Government Code Section 26905 for the quarter ended September 30, 2012.
		Background: The Internal Audit Department was requested by the Auditor-Controller's Office to conduct the required quarterly audit to determine that the Orange County Auditor-Controller has complied with the requirements of California Government Code Section 26905 for the quarter-ended September 30, 2012. Cash and investments per the Treasurer's official records were \$5.8 billion (cost basis) at September 30, 2012.
		Recommendation: We recommend that the Auditor-Controller reconcile the cash and investment accounts from the A-C General Ledger records to the Treasurer's Quantum General Ledger records on a monthly basis in compliance with GC 26905.

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Detailed Report

	Description	Results
D.	DEPT: OC Waste & Recycling	Scope: We completed a Second and Final Follow-Up Audit of OC Waste & Recycling Fee Generated Revenue. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the one (1) recommendation remaining from our First Follow-Up Audit report dated June 25, 2012.
	TITLE: Second and Final Follow-Up Internal Control Audit of OC Waste & Recycling Fee Generated Revenue	Conclusion: Our Second Follow-Up Audit indicated that OCWR implemented the one (1) recommendation remaining from our First Follow-Up Audit. As such, we consider the original audit closed for follow-up purposes.
	AUDIT NO: 1228-D (Original Audit No. 1023) ISSUED: January 9, 2013	Background: OCWR's fee-generated revenue is derived from Waste Disposal Agreements, Importation Agreements, Posted Rates, and Franchise Rates, Deferred Payment Program Fees, and Miscellaneous Fees. During our audit period, OC Waste & Recycling generated \$87 million in revenue from negotiated contract rates in Waste Disposal and Importation Agreements and \$6 million in posted rate landfill user fees and applicable surcharges.
	recels. dandary 6, 2016	Recommendations: Establish written policies and procedures describing the fee development process; ensure compliance with County Revenue policy and procedures, specifically with maintaining documentation showing that fees were reviewed for cost-recovery and the consistent use of Fee Checklist forms; and evaluate the process for establishing the Standard Charge per Ton and determine if it should be developed in accordance with requirements of the County revenue policy.

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Detailed Report

	Description	Results
E.		Scope: We completed a Second and Final Follow-Up Audit of Health Care Agency Contract Development and Management Payment Approval and Fiscal Monitoring. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the two (2) recommendations remaining from our First Follow-Up Audit report dated June 25, 2012. Conclusion: Our Second Follow-Up Audit indicated that HCA/CDM implemented the two (2) recommendations remaining from our First Follow-Up Audit. As such, we consider the original audit closed for follow-up purposes.
	Monitoring AUDIT NO: 1228-C (Original Audit No. 1030) ISSUED: January 15, 2013	Background: Contract Development and Management is responsible for developing, soliciting, negotiating, and administering human services contracts. During FY10-11, CDM administered 496 human services contracts totaling \$271 million. These human services contracts include public health, behavioral health, and medical and institutional health services. Contract providers include hospitals, clinics, educational institutions, and both for-profit and non-profit community based programs. CDM is responsible for reviewing and approving contractor invoices, which totaled over \$198 million. CDM also administers the solicitation and coordination of external audit firms to conduct fiscal monitoring audits of HCA contractors. Fiscal monitoring is an important process to ensure contractors are expending County funds in accordance with contract terms and help to detect misuse of funds. Recommendations: Establish dollar thresholds for authorizing payments; perform supervisory reviews of high dollar payments; verify authorized contractor signatures; update written policies and procedures; enhance the fiscal monitoring process in regard to use of audit tracking logs and the timeliness of fiscal monitoring reviews.

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