

Internal Audit Department

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

EXHIBIT A

NOVEMBER 2013 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda December 17, 2013

Auditor-Controller Cash and Investment Reconciliation Compliance Report. In our opinion, the Orange County Auditor-Controller complied with California Government Code Section 26905, in all material respects, for the quarter ended September 30, 2013.

Purchasing Card Audit Using CAATs. Our CAAT routines generated exceptions resulting in three (3) Control Findings that required further research by the County Procurement Office. The County Procurement Office immediately researched each of the findings and provided satisfactory explanations that address each of the auditor's concerns in the report.

OC Public Works Computer General Controls. Our audit of selected OC Public Works' computer general controls found them to be adequate and supported.

Annual Fraud Hotline Report for the period July 1, 2012 to June 30, 2013. 178 new allegations: 57-actionable; 103-referred out; 18-insufficient information, 54-employee misconduct; 3-contractor misconduct. 47-closed and 14-substantiated.

Results of Continuous Auditing Using CAATS for November 2013. Reveals 100% of vendor invoices processed in October were paid only once. We identified no potential duplicate payments made to vendors.

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

Assistance in assembling this report provided by:
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Project No. 1309-5

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



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



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RISK BASED AUDITING



OC Fraud Hotline
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December 17, 2013

Honorable Board of Supervisors,

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

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit

Audit Project:

- B. **Auditor-Controller Cash and Investment Reconciliation Compliance Report:**
In our opinion, the Orange County Auditor-Controller complied with the requirements of California Government Code Section 26905, in all material respects, for the quarter ended September 30, 2013.
- C. **Purchasing Card Audit Using CAATS:** We analyzed **260 open purchasing card accounts** with **21,247 transactions** for the year ended December 31, 2012, amounting to about **\$7.5 million** in the areas of card management, merchant management, transaction analysis, and segregation of duties. Our CAAT routines generated exceptions resulting in **three (3) Control Findings** that required further research by the County Procurement Office (CPO). The CPO researched each of the findings and provided satisfactory explanations that address the auditor's concerns for each of the items noted in this report.
- D. **Annual Fraud Hotline Report for the period July 1, 2012 to June 30, 2013:**
We received 178 new complaints of alleged improper activities, of which 57 were actionable calls; 103 were referred calls; and 18 calls did not contain sufficient information for an investigation. Of the 57 actionable calls, 54 dealt with employee misconduct; and 3 calls dealt with contractor misconduct. The allegations in 14 of the 47 cases closed were substantiated. The individual cases dealt with: non-compliance with County contracting policy, hostile work environment – discrimination; improper journaling of wage expenses; improper disposal of County property; unprofessional conduct toward the public; time abuse; employee conflict of interest; non-compliance with EEO Policy; improper segregation of financial duties; improper billing by vendors; and non-compliance with department policies. In all cases, appropriate corrective action was taken.
- E. **OC Public Works Computer General Controls: IT general controls were found adequate** including: 1) security-related policies and procedures; 2) user access and physical access general controls policies and procedures; 3) configuration management policies and procedures, including change management; 4) segregation of duties within the IT function; and 5) disaster recovery/business continuity policies and procedures. No audit findings were identified.

Exhibit

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

- F. **Auditor-Controller, Human Resource Services, and County Procurement Office –Duplicate Vendor Payments and Other Periodic Routines – October 2013:** We analyzed **18,078** vendor invoices paid in October 2013 amounting to about **\$242 million** and found **100%** of the invoices were paid correctly. Of the \$242 million in vendor invoices, we identified **no potential duplicate payments** made to vendors. To date we have identified **\$1,025,809** in duplicate vendor payments, of which **\$1,013,713 or 99%** has been recovered.

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 November 2013. No material weakness issued during November 2013.</p> <p>Twenty-five (25) total recommendations issued since July 2013.</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 November 2013.</p> <p>Three (3) total recommendations issued since July 2013.</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>Three (3) control findings issued during November 2013.</p> <p>Twelve (12) total recommendations issued since July 2013.</p>

Total Audit Recommendations for FY 2013-14: 40

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
B	<p>DEPT: Auditor-Controller</p> <p>TITLE: Cash and Investment Reconciliation Compliance for the Quarter Ended September 30, 2013</p> <p>AUDIT NO: 1315-B</p> <p>ISSUED: November 26, 2013</p>	<p>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 complied with the requirements of California Government Code Section 26905, 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-Controller.</p> <p>Conclusion: In our opinion, the Orange County Auditor-Controller complied, in all material respects, with the California Government Code Section 26905 for the quarter ended September 30, 2013.</p> <p>Background: The Internal Audit Department was requested by the Auditor-Controller's Office to conduct the required quarterly audit to provide an opinion whether the Orange County Auditor-Controller has complied with the requirements of California Government Code Section 26905 for the quarter-ended September 30, 2013. Cash and investments per the Treasurer's official records were \$6.1 billion (cost basis) at September 30, 2013.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
C.	<p>DEPT: County Executive Office/ County Procurement Office</p> <p>TITLE: Purchasing Card Audit Using CAATs</p> <p>AUDIT NO: 1239</p> <p>ISSUED: November 26, 2013</p>	<p>Scope: Using Computer-Assisted Audit Techniques (CAATs), we audited 100% of the County's 260 purchasing card accounts and 21,247 purchasing card transactions totaling \$7.5 million for the year ended December 31, 2012. We audited accounts and transactions in areas of card management, merchant management, transaction analysis, and segregation of duties.</p> <p>Conclusion: Our CAAT routines generated exceptions that required further research by the County Procurement Office and County departments to determine if they are valid exceptions. We identified three (3) Control Findings for the County Procurement Office to research regarding card management, policies and procedures, single purchase limits, credit limits, merchant restrictions, and duplicate transactions. The County Procurement Office immediately researched each of the findings and provided satisfactory explanations that upon review by Internal Audit appeared to address each of the auditor's concerns noted in this report.</p> <p>Background: The Purchasing Card program was implemented to streamline the County's purchasing process for small dollar purchases. The Purchasing Card is a VISA credit card issued by U.S. Bank. Purchasing cards are issued to authorized County employees designated as cardholders by their Department Head or designee. Using Purchasing Cards eliminates the purchase orders required to make small dollar purchases and streamlines the accounts payable process by making only one monthly payment to the bank that previously required payments to multiple vendors. The County also issues travel cards issued by U.S. Bank for the purpose of making travel related bookings and purchases on behalf of agencies and departments.</p> <p>Recommendations: We identified control findings regarding policies and procedures over card management; merchant management and for transactions potentially not in compliance with Purchasing Card policy.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
D.	<p>DEPT: Internal Audit Department</p> <p>TITLE: Annual Fraud Hotline Activity Report for the period July 1, 2012 to June 30, 2013</p> <p>AUDIT NO: 1303-A</p> <p>ISSUED: November 15, 2013</p>	<p>Scope: We have completed our annual report concerning the operation of the Orange County Fraud Hotline. The Bylaws of the Orange County Audit Oversight Committee delegates to the Internal Audit Department fraud policy activities, which includes the operation of the Fraud Hotline. This report is for the period of July 1, 2012 through June 30, 2013.</p> <p>Conclusion: We received 178 new complaints of alleged improper activities, of which 57 were actionable calls; 103 were referred calls; and 18 calls did not contain sufficient information for an investigation. Of the 57 actionable calls, 54 dealt with employee misconduct; and 3 calls dealt with contractor misconduct. The allegations in 14 of the 47 cases closed were substantiated. The individual cases dealt with: non-compliance with County contracting policy, hostile work environment – discrimination; improper journaling of wage expenses; improper disposal of County property; unprofessional conduct toward the public; time abuse; employee conflict of interest; non-compliance with EEO Policy; improper segregation of financial duties; improper billing by vendors; and non-compliance with department policies. In all cases, appropriate corrective action was taken.</p> <p>Background: The OCIAD established and operates the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. The Hotline is monitored live for calls twenty-four hours a day, seven days a week by contracted Hotline service professionals. Callers can leave anonymous information or identify themselves. Hotline reporting can also be made through OCIAD’s web page on the internet or by regular mail.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
E.	<p>DEPT: OC Public Works</p> <p>TITLE: Information Technology Audit: OC Public Works Computer General Controls</p> <p>AUDIT NO: 1354</p> <p>ISSUED: November 26, 2013</p>	<p>Scope: We audited selected computer general controls over the administration and use of OC Public Works' computing resources. General controls are the structure, policies, and procedures that apply to an entity's overall computer operations. If general controls are weak, they severely diminish the reliability of controls associated with individual applications.</p> <p>Conclusion: Our audit found that general controls were found adequate, including:</p> <ol style="list-style-type: none"> 1) Adequate security-related policies and procedures have been developed including security awareness and other security-related personnel policies; 2) Adequate user access and physical access general controls policies and procedures were present to provide reasonable assurance that computer resources are protected from unauthorized personnel; 3) Adequate configuration management policies and procedures, including change management, have been developed; 4) Adequate segregation of duties exists within the IT function; and 5) Adequate policies and procedures for disaster recovery/business continuity have been substantially developed to help mitigate service interruptions. <p>No reportable audit findings were identified.</p> <p>Background: OCPW Information Technology Services is managed by an IT Manager, who reports to the Administrative Services Director. The OCPW Information Technology department consists of thirty-three (33) staff providing the following functions: Network Services, Application Development & Support, Planning, Analysis & Review, and Desktop Services. OC Public Works (OCPW) has a budget of \$464 million and a staff of 974 including executive managers and administrative and support staff.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
F.	<p>DEPT: Auditor-Controller Human Resource Services CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – November 2013</p> <p>AUDIT NO: 1349-E</p> <p>ISSUED: November 19, 2013</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 or quarterly.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 18,078 vendor invoices paid in October 2013 amounting to about \$242 million and found 100% of the invoices were only paid once. We identified no potential duplicate payments made to vendors. The County currently has a recovery rate from vendors of about 99% 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 \$1,013,713 this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> Our analysis for the quarter-ended September 30, 2013, identified one (1) potential employee-vendor conflict. After further evaluation, it was determined that this employee-vendor match did not represent a conflict. • <u>Retiree/Extra Help Hours:</u> As of October 17, 2013, no OC working retirees exceeded the annual hourly limits for FY 13-14. • <u>Payroll Direct Deposits:</u> No findings resulted from the payroll direct deposits routine. <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 Resource Services, 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>