OC Board of Supervisors'

Internal Audit Department

ORANGE COUNTY

EXHIBIT A

MONTHLY AUDIT ACTIVITY REPORT FOR JULY 2009 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda
August 25, 2009

Project No. 2907-1

by Dr. Peter Hughes, MBA, CPA
County Internal Auditor

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ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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

2008 Association of Local Government Auditors' Bronze Website Award

2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach

Letter from Dr. Peter Hughes, CPA

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RISK BASED AUDITING

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August 25, 2009

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of July 2009. Each report has 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.

Executive Summary

Exhibit **AUDITS:**

B. Revenue Generating Lease Audit – OCCR/OC Parks - Mile Square Golf Course: We found that Mile Square Golf Course's records adequately supported gross receipts and rent owed was properly paid. Gross receipts reported during our 17-month audit period were approximately **$13.7 million** and rent paid to the County was approximately **$3.2 million**. Over its 40-year life, this lease agreement is estimated to generate over **$90 million** in rent to the County.

C. Revenue Generating License Audit – OCCR/OC Parks - California Junior Lifeguard Programs, Inc.: We found that California Junior Lifeguard Program Inc.'s records adequately supported gross receipts and fees owed were properly paid for the Sunset Beach and Salt Creek Beach licenses. Gross receipts reported during our 12-month audit period were approximately **$471,000 million** and rent paid to the County was approximately **$71,000**. Over their two and three year terms, these two license agreements are estimated to generate fees of $210,000 to the County.

D. OC Fraud Hotline Activity: In this period (January 1, 2009 through June 30, 2009) we received 33 new complaints of improper activities, of which 11 were opened for investigation, and 11cases were closed. The allegations in 3 of the 11 cases that were closed during the period were substantiated, and appropriate corrective action was taken.

Exhibit **MONTHLY COMPUTER ASSISTED AUDITS OF VENDOR PAYMENTS (CAATS)**:

E. Auditor Controller and Human Resources – Duplicate Payments to Vendors and Other Routines – July 2009: We analyzed **20,242** vendor invoices paid in June 2009 amounting to about **$122 million** and found **99.9%** of the invoices were only paid once. Of the $122 million vendor invoices, we identified **28** duplicate payments made to vendors. To date we have identified **$841,078** in duplicate vendor payments, of which **$793,358** has been recovered and is a noteworthy achievement by the Auditor-Controller's Office.

Other Routines: As of June 30, 2009, **12** working retirees exceeded the annual limits for FY 08-09. The excess hours ranged from 9 hours to 61.5 hours, which is less than 1 pay period.

Also, we identified **23** potential employee/vendor address matches that were submitted to Human Resources for their review in April 2009. As of July 22, 2009, Human Resources determined that **1** was not a valid match and **12** were not a conflict. Their review of the remaining **10** matches is in process.

Executive Summary

Exhibit **FOLLOW UP AUDITS**:

F. OC Public Works – Review of Operating Agreement - Parking Concepts, Inc. (Original Audit No. 2590): **Final Close-Out Second** Follow-Up Audit of Review of Operating Agreement for Parking Concepts, Inc. (PCI). During the original 12-month audit period, PCI remitted approximately **$6.7 million** in gross receipts to the County. We are pleased to report that OC Public Works and PCI satisfactorily implemented or addressed all **three (3)** remaining recommendations from the **first** follow-up audit. **As such, this report represents the final close-out of the original audit.**

G. Auditor-Controller – Internal Control Review of Auditor-Controller Claims and Disbursing's Vendor Payment Process (Original Audit No. 2720-4): Final Close-Out **Second** Follow-Up Audit of vendor payments **($1.6 billion in FY06/07)** processed and paid by Auditor-Controller Claims & Disbursing. We are pleased to report that the Auditor-Controller fully implemented the remaining **two (2)** recommendations from our original audit report containing **seven (7)** recommendations. **Five (5)** of the recommendations were implemented in the First Follow-Up Audit in February 2009. **As such, this report represents the final close-out of the original audit.**

H. OC Public Works – Lease Revenue Review of River View Golf Course (Original Audit No. 2736) **Final Close-Out First** Follow-Up Audit of Review of Lease Revenue for River View Golf Course. Over its approximate 56 year term, this lease agreement is estimated to generate over **$3.3 million** in rent to the County. We are pleased to report that OC Public Works and River View Golf Course satisfactorily implemented or addressed all **eight (8)** recommendations from the original audit report. **As such, this report represents the final close-out of the original audit.**

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

New Audit Findings by Risk Category

	Description	Results
	Material Weaknesses Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.	**None** issued during July 2009.
	Significant Findings Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.	**None** issued in July 2009.
	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.	**(5)** issued in July 2009.

Total Audit Findings for FY 2009-10: 5

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

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	DEPT: OC Community Resources/ OC Parks TITLE: Revenue Generating Lease Audit of Mile Square Golf Course AUDIT NO: 2739 ISSUED: July 9, 2009	**Scope:** Revenue generating lease audit to determine whether the records of Mile Square Golf Course adequately supported monthly rent paid to the County. During the 17-month audit period, Mile Square Golf Course generated gross receipts of approximately **$13.7 million** and paid rent of approximately **$3.2 million** to the County. **Conclusion:** We found that Mile Square Golf Course retained sufficient documentation to adequately support monthly rent paid to the County. We identified **five (5) control findings** where record keeping, internal controls, and/or compliance with the lease agreement could be improved. **Background:** The County entered into a lease agreement with Mile Square Golf Course, dated June 18, 1999, for the operation of a 36-hole golf course facility, driving range, clubhouse, restaurant with banquet facilities, and pro-shop. Over its 40-year life, this lease agreement is estimated to generate over **$90 million** in rent to the County. **Recommendations:** Record keeping, internal control, and/or lease compliance improvements regarding: bookkeeping and reporting errors, complimentary rounds of golf, reconciling gift certificate/gift card activity, driving range tokens, and mobile cash registers.

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C.	DEPT: OC Community Resources/ OC Parks TITLE: Revenue Generating License Audit of California Junior Lifeguard Programs, Inc. AUDIT NO: 2835 ISSUED: July 14, 2009	**Scope:** Revenue generating license audit to determine whether the records of California Junior Lifeguard Programs, Inc. adequately supported monthly fees paid to the County. During the 12-month audit period, California Junior Lifeguard Programs, Inc. generated gross receipts of approximately **$471,000** and paid fees of approximately **$71,000** to the County. **Conclusion:** We found that California Junior Lifeguard Programs, Inc. retained sufficient documentation to adequately support monthly rent paid to the County. **Background:** The County entered into two license agreements with California Junior Lifeguard Programs, Inc., dated February 6, 2007 and February 6, 2008, for the operation of junior lifeguard summer day camp programs located at Sunset Beach and at Salt Creek Beach. Over their two and three year terms, these two license agreements are estimated to generate fees of **$210,000** to the County. **Recommendations:** None.

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D.	DEPT: Internal Audit Department TITLE: OC Fraud Hotline Activity AUDIT NO: 2903 ISSUED: July 22, 2009	**Scope:** We have completed our 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 January 1, 2009 through June 30, 2009. **Conclusion:** We received 33 new complaints of improper activities, of which 11 were opened for investigation, and 11 cases were closed. The allegations in 3 of the 11 cases that were closed during the period were substantiated, and appropriate corrective action was taken. **Background:** The OCIAD originally established and runs 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. IAD staff monitors the telephone during business hours and contracted Hotline service professionals monitor the telephone during non-business hours. Callers can leave anonymous information or identify themselves. Hotline reporting can also be made through our web page on the internet. **Type of Recommendations: None**

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E.	DEPT: Auditor-Controller Human Resources County Procurement Office TITLE: Computer Assisted Audit Techniques – July 2009 AUDIT NO: 2941-A ISSUED: June 30, 2009	**Scope:** The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 5 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary. **Conclusion:** • Duplicate Payments to Vendors: We analyzed 20,242 vendor invoices paid in June 2009 amounting to about **$122 million** and found **99.9%** of the invoices were only paid once. Of the $122 million vendor invoices, we identified **28** duplicate payments made to vendors. The Auditor-Controller 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 **$793,358,** this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • Multiple Direct Deposits: No findings noted. • Employee Vendor Match: In March 2009, **23** potential employee/vendor matches were submitted to HR for evaluation. As of 7/22/09, HR determined **1** was not a valid match and **12** were not a conflict. Their review of the remaining **10** matches is in process. • Retiree/Extra Help Hours: As of 6/30/09, **12** working retirees exceeded annual limits for FY 08-09. The excess hours ranged from 9 hours to 61.5 hours (less than 1 pay period). • Deleted Vendors: 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 but 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 A-C, HR, 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.

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F.	DEPT: OC Public Works TITLE: Final Close-Out **Second** Follow-Up Audit of Review of Operating Agreement of Parking Concepts, Inc. (Original Audit No. 2590) AUDIT NO: 2840-F ISSUED: July 20, 2009	**Scope:** Final Close-Out **Second** Follow Up Audit of Review of Operating Agreement of Parking Concepts Inc. (PCI) to determine the implementation status of **three (3)** recommendations remaining from our **first** follow-up audit report, dated July 24, 2008. During the original 12-month audit period ending February 28, 2006, PCI remitted approximately **$6.7 million** in gross receipts to the County for the two operating agreements. **Conclusion: We are pleased to report that satisfactory corrective action has been taken for all three (3) remaining audit recommendations.** We commend the personnel at OC Public Works and PCI for their responsiveness in addressing our recommendations. **As such, this report represents the final close-out of the original audit.** **Background:** The County of Orange entered into two operating agreements with PCI dated May 23, 2000 and June 4, 2002, for the operation of the Santa Ana Civic Center Parking Facilities (6 lots) and the Manchester Avenue Complex Parking Facilities (3 lots). During the original 12-month audit period ending February 28, 2006, PCI remitted approximately **$6.7 million** in gross receipts to the County. **Type of Recommendations:** The three remaining recommendations were for lease compliance and/or internal control improvements regarding: reconciliation of daily tickets issued/collected; documenting reasons for missing tickets; and documentation for key cards authorized.

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G.	DEPT: Auditor-Controller TITLE: Final Close-Out Second Follow Up Audit of Claims and Disbursing's Vendor Payment Process (Original Audit No. 2720-4) AUDIT NO: 2928-A ISSUED: July 22, 2009	**Scope:** Final Close-Out Second Follow-Up Audit of vendor payments processed by Auditor-Controller Claims & Disbursing to determine the implementation status of two **(2)** remaining recommendations from our First Follow-Up Audit dated February 11, 2009. In the original audit, we identified **seven (7)** recommendations, and **five (5)** recommendations were implemented at the time of our First Follow-Up Audit. **Conclusion:** Our Second Follow-Up Audit indicated that the Auditor-Controller fully implemented the **two (2)** remaining recommendations concerning Claims & Disbursing's supervisory reviews of vendor tables and quality assurance audits. **As such, this report represents the final close-out of the original audit.** **Background:** The Claims & Disbursing Unit in A-C Central Operations processes vendor payments for departments/agencies and is a centralized, core business process. Vendor payments are made for Board-approved contracts, price agreements, purchase orders, and miscellaneous vendor invoices for goods and services received in the County. **During Fiscal Year 06/07, Claims& Disbursing processed 68,559 vendor payments totaling over $1.6 billion**. **Type of Recommendations:** Ensure vendor discounts are identified and taken when applicable; ensure sales taxes are charged and detected on all applicable purchases; continue efforts in processing invoices within their internal goal of 10 business days; ensure supervisory reviews of Vendor Table Update Requests are performed timely; provide additional supervision and training over Claims & Disbursing's Quality Assurance Audits and Stratification Reviews.

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H.	DEPT: OC Public Works TITLE: Final Close-Out First Follow Up Audit of Review of Lease Revenue of River View Golf Course (Original Audit No. 2736) AUDIT NO: 2840-G ISSUED: July 10, 2009	**Scope:** Final Close-Out **First** Follow-Up Audit of Review of Lease Revenue of River View Golf Course to determine the implementation status of **eight (8)** recommendations made in our original audit report, dated May 23, 2008. During the 2006 calendar year, River View Golf Course generated approximately **$1.5 million** in gross receipts and paid the County approximately **$81,000** in rent. **Conclusion: We are pleased to report that satisfactory corrective action has been taken for all eight (8) audit recommendations.** We commend the personnel at OC Public Works and River View Golf Course for their responsiveness in addressing our recommendations. **As such, this report represents the final close-out of the original audit.** **Background:** The 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 Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana. Over its approximate 56 year term, this lease agreement is estimated to generate over **$3.3 million** in rent to the County. **Type of Recommendations:** Lease compliance or improvements to internal controls regarding: numbering range cards, automatically issuing cash register receipts, golf lesson documentation, segregation of duties risk, and golf pro items needing clarification. .

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