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# MONTHLY AUDIT ACTIVITY REPORT FOR JANUARY 2010 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda February 9, 2010

Project No. 2907-7

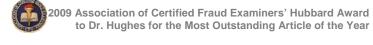
# by Dr. Peter Hughes, MBA, CPA Director of Internal Audit

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#### **RISK BASED AUDITING**

GAO & IIA Peer Review Compliant - 2001, 2004, 2007





## Letter from Dr. Peter Hughes, CPA





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RISK BASED AUDITING



February 9, 2010

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of January 2010. 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.

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### **Executive Summary**

#### **ACTIVITY**:

Peer Review Services to San Bernardino County – The County of Orange Internal Audit Department (IAD) completed an external quality assessment (QA or peer review) of the County of San Bernardino's Internal Audit Section (IAS) as prescribed by The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards) and as required by California Government Code, Section 1236. This peer review was conducted as part of the California Counties Audit Chief Committee peer review program, in which both Orange County and San Bernardino County are participants.

#### Exhibit AUDITS:

- B <u>Fraud Hotline Activity</u> In this period (July 1, 2009 through December 31, 2009) we received 46 new complaints of improper activities, of which 14 were opened for investigation, and 19 cases were closed. The allegations in 3 of the 19 cases that were closed during the period were substantiated, and appropriate corrective action was taken.
- C CAPS+ Audit Alert No. 5 Analysis of Purchasing Document Approvals
  The CAPS Steering Committee (CSC) requested Internal Audit's feedback
  as to whether all CAPS+ Purchasing documents should have a separate
  creator and approver enforced by the system. The reason for having a
  separate person approve is to help ensure the accuracy and validity of the
  transaction in CAPS+, which is the official system of record.

Based on our analysis, Internal Audit recommends that all CAPS+ purchasing documents be required to have a separate creator and approver enforced by the system. We identified **five (5)** recommendations for consideration by the CSC and/or County Procurement Office (CPO). The CSC and CPO **concurred with all five (5)** of our recommendations.

# Exhibit Monthly Performance Report of CAATS (Computer Assisted Audit Techniques):

D. Auditor Controller, Human Resources and County Executive Office/Purchasing – Duplicate Vendor Payments and Other Periodic Routines – January 2010: We analyzed 17,502 vendor invoices paid in December 2009 amounting to about \$180 million and found 100% of the invoices were only paid once. Of the \$180 million vendor invoices, we identified no duplicate payments made to vendors. To date we have identified \$896,826 in duplicate vendor payments, of which \$845,560 has been recovered and is a noteworthy achievement by the Auditor-Controller's Office.

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### **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 January 2010. None issued since 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 January 2010.  1 issued since 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 January 2010. 98 issued since July 2009.

Total Audit Findings for FY 2009-10: 99

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### **Detailed Report**

#### **NON-MATERIAL FINDINGS**

Description	Comments
TITLE: Peer Review Services to the County of San Bernardino as part of the California Counties Audit Chief's Association Peer Review Program  Date: January 2010	Type of Services Provided: The County of Orange Internal Audit Department (IAD) completed an external quality assessment (QA or peer review) of the County of San Bernardino's Internal Audit Section (IAS) as prescribed by The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards) and as required by California Government Code, Section 1236. The principal objectives of the QA were to assess the IAS' conformance to IIA's Standards, evaluate the IAS' effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of County of San Bernardino's management), and identify opportunities to enhance its management and work processes, as well as its value to the County of San Bernardino. We conducted the peer review between September 1, 2009 and November 30, 2009, for internal audit operations of July 1, 2007 through June 30, 2009.
	Background: This peer review was conducted as part of the California Counties Audit Chief Committee peer review program, in which both Orange County and San Bernardino County are participants. In this program, the counties internal audit departments agree to conduct peer reviews of other participants, but a county can not conduct a peer review of a county and have that same county conduct their peer review. The County of Riverside conducted our peer review in 2007 and Orange County IAD is scheduled for another peer review for the period ending June 30, 2010, which will be conducted by the County of San Diego.

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### **Detailed Report**

	Description	Comments
B.	TITLE: OC Fraud Hotline Activity  AUDIT NO: 2903	<b>Scope:</b> 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 July 1, 2009 through December 31, 2009.
	ISSUED: January 11, 2010	<b>Conclusion:</b> We received 46 new complaints of improper activities, of which 14 were opened for investigation, and 19 cases were closed. The allegations in 3 of the 19 cases that were closed during the period were substantiated, and appropriate corrective action was taken.
		<b>Background:</b> 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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### **Detailed Report**

	Description	Comments
C.	DEPT: CAPS+ Steering Committee	<b>Scope:</b> The CAPS Steering Committee (CSC) requested Internal Audit's feedback on the CAPS Program Management Office proposal that all CAPS+ Purchasing documents have a separate creator and approver enforced by the CAPS+ system. Our scope was limited to analysis of this issue.
	TITLE: CAPS+ Audit Alert No. 5, Response to Request for Analysis of Purchasing Document Approvals, as of November 20, 2009	<b>Conclusion:</b> Based on our analysis, Internal Audit recommends that all CAPS+ purchasing documents be required to have a separate creator and approver enforced by the system. We identified <b>five (5)</b> recommendations for consideration by the CSC and the County Procurement Office (CPO). The CSC and/or CPO <b>concurred with all five (5)</b> of our recommendations.
	AUDIT NO: 2943-1	<b>Background:</b> Prior to CAPS+, not all purchasing contracts were entered into the CAPS system. A strategic objective for the CAPS+ implementation was to ensure all contracts are recorded into CAPS+.
	ISSUED: January 14, 2009	At the time of the CSC request, about <b>62%</b> of the CAPS+ purchasing documents representing <b>89%</b> of the dollar amounts were created and approved by a separate person (Deputy Purchasing Agent). The reason for having a separate person approve is to help ensure the accuracy and validity of the transaction in CAPS+, which is now the official system of record.
		Uniform processing and system enforced rules for all CAPS+ documents is desirable. In addition, accuracy of the CAPS+ purchasing documents is important as they are relied upon later in the process when the Auditor-Controller makes the contract payments/disbursements.
		<b>Type of Recommendations:</b> Enforce separate creator and approver of CAPS+ purchasing documents; periodic verification of CAPS+ DPA users; periodic analysis of CAPS+ procurement data; standard contract clause referral to OC Fraud Hotline; and analysis of linking CAPS+ requisition and purchasing documents.

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### **Detailed Report**

	Description	Comments
D.	DEPT: Auditor-Controller Human Resources County Executive Office/ Purchasing  TITLE: Monthly Performance Report of CAATS (Computer Assisted Audit Techniques) – January 2010  AUDIT NO: 2941-G	<b>Scope:</b> The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 4 CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary.
		Conclusion:  • <u>Duplicate Payments to Vendors</u> : We analyzed 17,502 vendor invoices paid in December 2009 amounting to about \$180 million and found 100% of the invoices were only paid once. Of the \$180 million vendor invoices, we identified <b>no</b> duplicate
		payments made to vendors. The Auditor-Controller currently has a recovery rate from vendors of about <b>94%</b> 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 <b>\$845,560</b> , this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.
		Payroll Direct Deposits: No findings noted.
	ISSUED: January 19, 2010	• Employee Vendor Match: In November 2009, we identified <b>7</b> potential employee-vendor matches. These matches were provided to Human Resources for evaluation as to whether any employee vendor conflicts exist. Their review is in process.
		• Retiree/Extra Help Hours: As of 1/6/10, no working retirees exceeded the annual limits of 960 or 720 hours for FY 09-10, as mandated by Government Code Sections 31680.6 and 31641.04.
		<b>Background:</b> 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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