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EXHIBIT A

SEPTEMBER 2010 AUDITS BY IAD

MONTHLY AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda October 19, 2010

- Internal Audit Receives "Highest Rating" from Independent Peer Reviewer - The County of San Diego's Auditor and Controller's Office conducted an external quality assessment (peer review) of Orange County's Internal Audit Department as prescribed by the Institute of Internal Auditor's (IIA) Professional Practices Framework and as required by California Government Code, Section 1236.
- Internal Audit Achieves all 14 Key Performance Indicators For the fiscal year 2009/2010 we achieved all 14 of our Key Performance Indicators (KPI) as noted in our Balanced Scorecard, and met or exceeded all 17 of the Association of Local Government Auditors (ALGA) Best Practice Benchmarks
- Audit Reveals Revenue Generating Lease Records in Good Shape:
 OC Dana Point Harbor Dolphin Safari, Inc. (\$137,000 rent paid to OCDPH annually). We found their records adequately supported monthly rent paid.
- Monthly CAAT Reveals Vendor Payments Proper and Accurate: We found three (3) duplicate payments amounting to \$1,090 out of 12,906 invoices paid to vendors in August 2010.
- Follow-Up Audit of OC Public Works Finds Improvements in Controls We found that OC Public Works Transportation (Fleet Services with
 over \$22 million in interdepartmental billings) fully implemented eleven
 (11) of the thirteen (13) recommendations; partially implemented one
 (1) recommendation; and is in process of implementing one (1)
 recommendation from our original audit.

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

Assistance in assembling this report provided by:
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Project No. 1007-3

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



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Hughes for the Most Outstanding Article of the Year

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



October 19, 2010

Honorable Board of Supervisors,

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

For each audit report we provide an overview and a detailed briefing for your review.

Also included in this report is the Quality Assurance/ Peer Review of the Internal Audit Department (Exhibit B). The Peer Review was the fourth external assessment conducted of my department since I joined in 1999. The assessment was conducted by the County of San Diego. We received the "highest possible rating" from our Peer Reviewers. This rating means we fully complied with all relevant Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and we conform to the reporting standards issued by the Government Accountability Office. This is a noteworthy achievement and is a significant accomplishment for any internal audit department.

As always, I'm available at your convenience to discuss any aspect of these items.

Respectfully submitted,

Dr. Peter Hughes, CPA

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Executive Summary

Exhibit Reports:

- B. Internal Audit Receives "Highest Rating" from Independent Peer Reviewer
 The County of San Diego's Auditor and Controller's Office conducted an
 external quality assessment (peer review) of Orange County's Internal
 Audit Department as prescribed by the Institute of Internal Auditor's (IIA)
 Professional Practices Framework and as required by California
 Government Code, Section 1236. The Peer Reviewer issued a "clean"
 opinion and noted the OC Internal Audit Department demonstrates the
 commitment to the highest level of quality and professionalism.
- C. <u>Internal Audit Achieves all 14 Key Performance Indicators.</u> We are pleased to report that for the fiscal year 2009/2010 we achieved all 14 of our Key Performance Indicators (KPI) as noted in our Balanced Scorecard, and met or exceeded all 17 of the Association of Local Government Auditors (ALGA) Best Practice benchmarks as confirmed by the County of San Diego, Office of Audits & Advisory Services as part of the Quality Assessment/Peer Review noted above.
- D. <u>OC Dana Point Harbor Revenue Generating Lease Audit of Dolphin</u> Safari, Inc.

We found that Dolphin Safari, Inc.'s records adequately supported gross receipts and rent owed was properly paid to OCDPH. Gross receipts reported during the 12-month audit period was about \$823,000 and rent paid to the County was about \$137,000. Over its five (5) year term, this lease agreement is estimated to generate about \$788,000 in rent to OCDPH. This was the first audit of this lease.

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

E. <u>Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – September 2010:</u>

We analyzed **12,906** vendor invoices paid in August 2010 amounting to about **\$207** million and found **99.98%** of the invoices were only paid once.

Of the \$207 million vendor invoices, we identified **three (3)** duplicate payments totaling **\$1,090** made to vendors. To date we have identified **\$950,758** in duplicate vendor payments, of which **\$904,864** has been recovered and is a noteworthy achievement by the County.

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Executive Summary

Exhibit Follow-Up Reports:

F. First Follow-Up Internal Control Audit of OC Public Works/Transportation Interdepartmental Billing Process — The scope of the First Follow-Up Audit was to determine the implementation status of the **thirteen (13) recommendations**, all Control Findings, made in our original audit report dated September 29, 2009. We found that OC Public Works Transportation (Fleet Services) fully implemented eleven (11) recommendations; partially implemented one (1) recommendation; and is in process of implementing one (1) recommendation.

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Detailed Report

New Audit Findings by Risk Category

Description	Results
Material Control Weaknesses A serious audit finding or a combination of Significant Control Weaknesses 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 Control Weaknesses" brought to their attention immediately.	None issued during September 2010. None issued since July 2010.
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.	None issued during September 2010. None issued since July 2010.
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.	(3) issued during September 2010. (4) issued since July 2010.

Total Audit Findings for FY 2010-11: 4

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Detailed Report

NON-MATERIAL FINDINGS

Exhibit	Description	Comments
В	TITLE: Quality Assessment/Peer Review of the Internal Audit Department by County of San Diego	Scope: Conduct an external quality assessment (peer review) of the OC Internal Audit Department (OCIAD), for the period July 1, 2007 through June 30, 20010, as prescribed by the Institute of Internal Auditor's (IIA) Professional Practices Framework and as required by California Government Code, Section 1236.
	DEPT: Internal Audit Department Issued: September 8, 2010	Conclusion: IAD Received the highest rating possible. This means that OCIAD fully complied with all 102 Standards of the IIA's International Standards for the Professional Practice of Internal Auditing. The opinion means policies; procedures and practices were in place to implement the standards and requirements necessary for ensuring the independence, objectivity and proficiency of the OCIAD function. Additionally, the OCIAD system of quality control is adequately designed and complied with the Standards issued by the Government Accountability Office (GAO).
		Background: The Audit Oversight Committee in May 2007 requested that peer reviews be conducted by a true peer. The IAD participates in the California Counties Audit Chief's Association Peer Review Program. These services were provided at no cost by the County of San Diego and in turn, the OC IAD will conduct a peer review of different California County. The last peer reviews were conducted in 2007, 2004 and 2001.

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Detailed Report

Exhibit	Description	Comments
С	TITLE: IAD's Balanced Scorecard Independently Validated by County of San Diego DEPT: Internal Audit Department AUDIT NO: 1007-1 Issued: September 8, 2010	Scope: The Internal Audit Department established and measured 14 Key Performance Indicators (KPI) in order to continuously improve our strategic performance and results for the Board of Supervisors and the County. We adopted the four perspectives of a Balanced Scorecard as our departmental framework for performance measurement and had the report and results validated by the County of San Diego, Office of Audits & Advisory Services. Conclusion: The Internal Audit Department achieved all 14 Key Performance Indicators (KPI) and met or exceeded all 17 of the Association of Local Government Auditors "Best Practices." Background: We measure our performance through these indicators in order to continuously monitor and improve our audit services to the Board of Supervisors (BOS). The Balanced Scorecard approach helps highlight our efforts in a way that is easy for the public to understand and helps us balance our long and short term goals. We have a wide range of highly specialized accounting and auditing skills and professional certifications to ensure we possess the necessary technical expertise to conduct all financial or control audits for the County's 22 different businesses/departments. We pride ourselves in having assembled a team of CPAs and Certified Internal Auditors that can compete with any outside accounting firm in both costs and abilities. Recommendations: None.

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Detailed Report

D TITLE: Revenue Generating Lease Audit of Dolphin Safari Inc. Scope: Revenue Generating Lease Audit to determine whether Dolphin records adequately supported monthly rent paid to the County. During	
Audit of Dolphin Safari, Inc. DEPT: OC Dana Point Harbor AUDIT NO: 2936 Issued: September 15, 2010 Background: The County of Orange entered into an Agreement with Inc., dated July 18, 2007, for the operation of vessel charters are merchandise, food, and beverages located at OC Dana Point Harbor. County Recommendations: Improving records and minor amounts of rent oconsistent source documentation for recording open charters; clarifica sales; and minor rent owed for DVD sales and employee purchases.	ng the 12-month tal gross receipts is the first audit of uately supported the identified three amounts of rent in Dolphin Safari, and the sale of Over the five (5) to the owed regarding:

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Detailed Report

Exhibit	Description	Comments
E	DEPT: Auditor-Controller Human Resources County Procurement Office	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, annually, or as necessary
	TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – September 2010	 Conclusion: Duplicate Payments to Vendors: We analyzed 12,906 vendor invoices paid in August 2010 amounting to about \$207 million and found 99.98% of the invoices were only paid once. Of the \$207 million vendor invoices, we identified three (3) duplicate payments totaling \$1,090 made to vendors. The County currently has a recovery rate from vendors of about 95% on these duplicate payments.
	AUDIT NO: 1041-C ISSUED: September 21, 2010	Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$904,864, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • Employee Vendor Match: All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be for the quarter ended 9/30/10. • Retiree/Extra Help Hours: As of September 9, 2010, no individuals have exceeded the annual limits for FY 10-11. • Multiple Payroll Direct Deposits: No findings noted.

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Detailed Report

Exhibit	Description	Comments
Exhibit	Description CONTINUED, DEPT: Auditor-Controller Human Resources County Procurement Office TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – September 2010	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 Auditor-Controller, Human Resources, 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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Detailed Report

Exhibit	Description	Comments
F	TITLE: First Follow-Up Internal Control Audit of Transportation Interdepartmental Billing	Scope: First Follow-Up Internal Control Audit of OC Public Works Transportation (now Fleet Services) to determine the implementation status of the thirteen (13) recommendations made in our original audit report. No material weaknesses or significant issues were noted in the audit.
	Process DEPT: OC Public Works	Conclusion: Our First Follow-Up found that OC Public Works Transportation fully implemented eleven (11) recommendations; partially implemented one (1) recommendation, and is in process of implementing one (1) recommendation. OCPW concurs with the two remaining recommendations and is taking corrective action to fully implement them by our Second Follow-Up Audit.
	AUDIT NO: 2927-D Issued: September 22, 2010	Background: Transportation (also referred as Fleet Services) is under OC Facilities, and provides fleet vehicle services, equipment, and maintenance to County departments/agencies. For the year ending September 30, 2008, County departments/agencies were billed over \$22 million for asset management, parts, labor, fuel, vehicle pool rental and depreciation costs on a newly implemented Flagship Billing System and other supporting information systems.
		Type of Recommendations: Consult with Flagship vendor for adjusting sales tax calculation to eliminate discrepancies; reconcile fleet inventory changes to asset management fees; agree billing reports to JVs and/or invoices billed to departments/agencies; ensure reconciliations are prepared/reviewed timely*; ensure appropriate Transportation staff are included in notifications of employee changes; improve written policies/procedures for IT security management; modify purchasing and software acquisition policies; document and test disaster recovery/business continuity plan*; evaluate re-assigning report reconciling duties; establish process to communicate availability of billing reports to Accounting; establish procedure for updating account codes timely into Fleet Focus; establish responsibilities for reconciling changes in asset inventory; research using Flagship to calculate the monthly depreciation expense billings. (* indicates recommendations not fully implemented)

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