

Internal Audit Department

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

AUGUST 2011 AUDITS BY IAD MONTHLY INTERNAL AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda
September 20, 2011

- **Control Self-Assessment & Process Improvement by the Treasurer-Tax Collector:** We facilitated two workshops in May 2011 at the request of the newly-elected Treasurer-Tax Collector to help assess the department's effectiveness in meeting business and control objectives.
- **Internal Control Audit of Health Care Agency Fee Generated Revenue:** Our audit found HCA has a well-structured and documented fee development process with effective internal controls. **One (1) Control Finding** was made to clarify County revenue policy requirements for submitting updated fee studies to the Board of Supervisors.
- **Internal Control Audit of County Counsel Revolving Fund Process:** Our audit found internal controls are effective to ensure revolving funds are adequately safeguarded; transactions are processed in accordance with County policy, and transactions are properly authorized, recorded completely and accurately, and processed timely. We identified **three (3) Control Findings** to enhance existing processes and controls.
- **Monthly CAAT Reveals 99.98% of Vendors Payments Were Only Paid Once. New CAAT for County employees as IHSS providers in progress.**
- **First Follow-Up of Revenue Generating Lease Audit of OC Dana Point Harbor/Dana Point Yacht Club:** Our First Follow-Up Audit found that OCDPH and DPYC fully implemented eight (8) recommendations; one (1) recommendation is partially implemented; one (1) recommendation is in process; and five (5) recommendations have been closed.
- **Second and Final Close-Out Follow-Up Audit on Countywide Fee Development Monitoring Process:** Our Second Follow-Up Audit found that the Auditor-Controller and County Executive Office fully implemented the remaining three (3) recommendations from the original audit.


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



Assistance in assembling this report provided by:
Eli Littner, Deputy Director, CPA, CIA, CFE, CFS, CISA
Alan Marcum, Senior Audit Manager, MBA, CPA, CIA, CFE
Michael Goodwin, Senior Audit Manager, CPA, CIA
Autumn McKinney, Senior Audit Manager, CPA, CIA, CGFM, CISA

Project No. 1107-2

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010

 Member of **AICPA** 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



Dr. Peter Hughes, CPA
DIRECTOR
PH.D., MBA,
CCEP, CITP, CIA, CFE, CFF

E-Mail:
peter.hughes@iad.ocgov.com

Eli Littner, CPA
DEPUTY DIRECTOR
CIA, CFE, CFS, CISA

Michael J. Goodwin, CPA
SENIOR AUDIT MANAGER
CIA

Alan Marcum, CPA
SENIOR AUDIT MANAGER
MBA, CIA, CFE

Autumn McKinney, CPA
SENIOR AUDIT MANAGER
CIA, CISA, CGFM

Hall of Finance & Records

12 CIVIC CENTER PLAZA,
ROOM 232
SANTA ANA, CA 92701

www.ocgov.com/audit

(714) 834-5475
(714) 834-2880 Fax

RISK BASED AUDITING



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September 20, 2011

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of August 2011. 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 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.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit

- B. **Control Self-Assessment – Process Improvement:**
The Internal Audit Department facilitated two CSA-PI workshops in the Treasurer-Tax Collector's Office at the request of the newly-elected Treasurer-Tax Collector. The two workshops were conducted in May 2011. CSA-PI is not an audit; rather, it is a consulting service that assists County departments in conducting their own internal assessment of the effectiveness of their controls and business processes. T-TC executive management is taking the CSA-PI process very seriously and has been diligent in taking action to address issues raised in the two workshops.
- C. **Internal Control Audit of Health Care Agency Fee Generated Revenue**
Our audit found internal controls over HCA's fee development process are effective and exemplary in the fact they have a well-structured and documented process that can be considered a best practice for other County departments and agencies. During the audit period, HCA generated approximately **\$18 million in revenue** from Board-approved, cost-recovery fees that are charged to the public for licenses, permits, franchises, and other charges for County services. We identified **one (1) Control Finding** to clarify County revenue policy requirements for submitting updated fee studies to the Board of Supervisors.
- D. **Internal Control Audit of County Counsel Revolving Fund Process**
Our audit found internal controls are in place to ensure revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized and recorded completely, accurately and processed timely. We identified **three (3) Control Findings** to enhance existing revolving funds process and controls with regards to the resolution of long-outstanding reconciling items on bank reconciliations, fund reconciliations were not being performed by an individual with no other revolving funds duties, and the efficiency of the bank reconciliation process. County Counsel agreed with all three (3) findings and recommendations and is working to implement corrective actions.

Exhibit

- MONTHLY RESULTS OF CONTINUOUS AUDITING USING CAATS (COMPUTER ASSISTED AUDIT TECHNIQUES):**
- E. **Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – August 2011:**
We analyzed **13,041** vendor invoices paid in July 2011 amounting to about **\$337 million** and found **99.98%** of the invoices were only paid once. Of the \$337 million vendor invoices, we identified **three (3)** duplicate payments totaling \$443. To date we have identified **\$980,675** in duplicate vendor payments, of which **\$954,858** has been recovered and is a noteworthy achievement by the County. We also have a **New CAAT** for County employees as IHSS providers in progress.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit

Follow-Up Reports:

- F. First Follow-Up Revenue Generating Lease Audit of OC Dana Point Harbor Dana Point Yacht Club. OC Dana Point Harbor and Dana Point Yacht Club fully implemented eight (8) recommendations; one (1) recommendation is partially implemented; one (1) recommendation is in process; and five (5) recommendations have been closed from the original audit.

During the original audit period, Dana Point Yacht Club reported \$1.5 million in gross receipts and paid \$82,000 in rent to the County. For the period of June 30, 1998 (lease assignment) through November 31, 2012 (lease expiration date), the lease is estimated to generate over \$1 million in rent to the County.

- G. Second and Final Close-Out Follow-Up Audit of Countywide Fee Development Monitoring Process. Our Second Follow-Up Audit found the Auditor-Controller and County Executive Office fully implemented the **three (3) recommendations** remaining from our First Follow-Up Audit, dated December 15, 2010, where we found the Auditor-Controller, County Executive Office, and Clerk of the Board had fully implemented six (6) recommendations from the original audit. The County Executive Office, Auditor-Controller and Clerk of the Board provide oversight of department/agency fee studies and fee requests submitted to the Board of Supervisors for approval. Fee revenue during the original audit period totaled **\$461 million**.

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 August 2011.</p> <p>No material weakness in internal control issued during August 2011.</p> <p>0 total recommendations issued since July 2011.</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 August 2011.</p> <p>0 total recommendations issued since July 2011.</p>
	<p>Control Findings Audit findings concerning <u>internal controls, compliance issues, or 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>Four (4) control findings issued during August 2011.</p> <p>Four (4) total recommendations issued since July 2011.</p>

Total Audit Recommendations for FY 2011-12: 4

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
B.	<p>TITLE: Control Self-Assessment & Process Improvement by the Treasurer-Tax Collector</p> <p>DEPT: Treasurer-Tax Collector</p> <p>Report No: 1054</p> <p>Issued: August 5, 2011</p>	<p>Scope: In May 2011, the Internal Audit Department facilitated two CSA-PI workshops in the Treasurer-Tax Collector’s Office at the request of the newly-elected Treasurer-Tax Collector because of several changes in executive management over the past five years. CSA-PI is not an audit; rather, it is an audit technique within the broad framework of internal audit that measures areas that traditional audit techniques are not designed to measure, such as trust, morale and corporate culture.</p> <p>Conclusion: After completion of the two CSA-PI workshops, each team worked with management to prepare an internal action plan which addressed the higher-priority issues brought forward during the workshops. We received a copy of the action plan from the workshops, which included items that had been initiated or planned. The few issues raised were typical of an organization that experienced significant changes in executive management (four department heads in a five year period) and that is undergoing a new business system implementation. No internal control concerns were raised in the workshops that warranted further attention by Internal Audit.</p> <p>Background: CSA-PI workshops have three fundamental purposes. First, the workshops provide the teams with a formal process for self-evaluation. This process addresses strengths and obstacles that impact the teams’ ability to achieve their objectives and to decide upon appropriate action. Secondly, a summary of results of the workshops provides a basis for upper management to evaluate the control environment within a department. Lastly, the CSA-PI process encourages continuous application of the workshop principles and dynamics in the workplace by developing action plans to address concerns and build upon strengths identified in the workshops. The Internal Audit Department serves only as workshop facilitators and not as auditors. This process is based on the consensus of <u>impressions, comments, opinions, and perspectives of the workshop teams</u> and is not “audited or validated” in the traditional sense by Internal Audit.</p> <p>Type of Recommendations: No recommendations are made for CSA-PI as it is a non-audit consultant service.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
C.	<p>TITLE: Internal Control Audit of Health Care Agency Fee Generated Revenue</p> <p>DEPT: Health Care Agency</p> <p>Report No: 1024</p> <p>Issued: August 30, 2011</p>	<p>Scope: We audited the Health Care Agency's Fee Generated Revenue to evaluate the adequacy of internal controls over fee studies and fee development processes for establishing cost-recovery fees charged to the public for Licenses, Permits and Franchises and Charges for Services that are subject to Board of Supervisors approval; to evaluate compliance with County Accounting Manual procedures for preparing fee studies; and to determine if the fee establishment process is efficient and effective.</p> <p>Conclusion: Our audit found internal controls over HCA's fee generated revenue are adequate, effective, and exemplary in the fact they have a well-structured and documented fee development process that can be considered a best practice for other County departments and agencies. However, HCA's ability to adjust certain fees to recover its program costs has been impacted by the economic downturn and a County political environment that is sensitive to raising fees for providing County services. We identified one (1) Control Finding to clarify County revenue policy requirements for submitting updated fee studies to the Board of Supervisors. HCA management agreed with the finding and recommendation.</p> <p>Background: HCA's Financial and Program Support Services Division and Revenue Unit are responsible for fee development and preparing fee studies of HCA cost-recovery fees subject to approval by the Board of Supervisors. During the audit period, HCA had fourteen (14) fee studies that require Board approval and received fee generated revenue totaling \$18 million.</p> <p>Recommendation: HCA consult with the Auditor-Controller and County Counsel to clarify County revenue policy requirements for submitting updated fee studies to the Board of Supervisors.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
D.	<p>TITLE: Internal Control Audit of County Counsel Revolving Fund Process</p> <p>DEPT: County Counsel</p> <p>Report No: 1055</p> <p>Issued: August 23, 2011</p>	<p>Scope: This audit evaluated the Public Defender's internal controls to ensure revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized, recorded completely, accurately and processed timely.</p> <p>Conclusion: Our audit found internal controls are in place to ensure revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized and recorded completely, accurately and timely. We identified three (3) Control Findings to enhance existing revolving funds process and controls with regards to the resolution of long-outstanding reconciling items on bank reconciliations, fund reconciliations were not being performed by an individual with no other revolving funds duties, and the efficiency of the bank reconciliation process. County Counsel agreed with all three (3) findings and recommendations and is working to implement corrective actions.</p> <p>Background: The County Counsel has one revolving fund, which is maintained at the Department Administration Services. The authorized amount of the revolving fund is \$8,000, which includes \$142.50 in cash. This fund is used for the purposes of departmental petty cash expenditures, e.g., delivery fees.</p> <p>Type of Recommendations: Establish a policy to define the time limit and responsibilities to follow-up on long outstanding checks; assign the fund reconciliation duties to an individual with no other revolving fund duties; and revise the current bank reconciliation process to use the same date for bank balance and check register balance, to increase efficiency.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
E.	<p>DEPT: Auditor-Controller Human Resources CEO/County Procurement Office Social Services Agency</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – August 2011</p> <p>AUDIT NO: 1139-B</p> <p>ISSUED: August 31, 2011</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, annually, or as necessary.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 13,041 vendor invoices paid in July 2011 amounting to about \$337 million and found 99.98% of the invoices were only paid once. Of the \$337 million vendor invoices, we identified three (3) duplicate payments totaling \$443. The County currently has a recovery rate from vendors of about 97% 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 \$954,858, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be performed at 9/30/11. • <u>Retiree/Extra Help Hours:</u> As of July 28, 2011, no individuals have exceeded the annual limits for FY 11-12. • <u>Multiple Payroll Direct Deposits:</u> No findings noted. • <u>In Home Supportive Services (NEW):</u> This data analysis was requested by the Board of Supervisors via HRD. As of 6/30/11, we identified 92 County employees who are IHSS providers. 31 out of the 92 are SSA employees. Our results have been submitted to SSA and HRD for further evaluation. Also utilizing the IHSS provider data, we were able to perform some additional data analysis (beyond the BOS original request). We identified 49 SSA employees that share the same address with an IHSS provider, some instances of providers with <i>potentially</i> multiple clients, some instances of multiple IHSS providers with the same address, and a potentially large number of IHSS providers at two mobile home parks.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
	<p>CONTINUED,</p> <p>DEPT: Auditor-Controller Human Resources County Procurement Office Social Services Agency</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – August 2011</p>	<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 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.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
F.	<p>TITLE: First Follow-Up of Revenue Generating Lease Audit of Dana Point Yacht Club</p> <p>DEPTS: OC Dana Point Harbor</p> <p>AUDIT NO: 2937-E (Original Audit No. 2839)</p> <p>Issued: August 5, 2011</p>	<p>Scope: We have completed a First Follow-Up Audit of the Revenue Generating Lease Audit of the Dana Point Yacht Club. Our audit was limited to reviewing, as of June 30, 2011, actions taken to implement the fifteen (15) recommendations from our original audit.</p> <p>Conclusion: Our First Follow-Up Audit found that OC DPH and Dana Point Yacht Club fully implemented eight (8) recommendations; one (1) recommendation is partially implemented; one (1) recommendation is in process; and five (5) recommendations have been closed.</p> <p>Background: The County entered into a lease agreement with Dana Point Yacht Club (DPYC), originally dated November 24, 1982, as amended and assigned to DPYC on June 30, 1998, for the operation of a yacht club with public banquet facilities located at the Dana Point Harbor. Operations include food and beverage services and boating, social, and youth programs and educational activities. For the period of June 30, 1998 through November 31, 2012 (lease expiration), this lease is estimated to generate over \$1 million in rent to the County.</p> <p>Type of Recommendations: Rent owed, record improvements, and/or lease compliance regarding: rent owed for non-member surcharge and miscellaneous service fees; rent recovery reduces catering gross receipts, certain catering charges for member events not reported as gross receipts; minor rent categories need clarification; membership fees exempt from percentage rent; missing POS system transaction numbers; retention of daily food handwritten tickets and periodic comparison to POS cashiering system reports; missing merchandise handwritten receipts and untimely recording; participant listings for sailing lesson and cruise/race applications are not retained; customer signed catering contracts; and untimely submission of financial statements.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
G.	<p>TITLE: Second and Final Close-Out Follow-Up Audit of Countywide Fee Development Monitoring Process</p> <p>DEPTS: Auditor-Controller, County Executive Office, Clerk of the Board</p> <p>AUDIT NO: 1131-A (Original Audit No. 2922)</p> <p>Issued: August 4, 2011</p>	<p>Scope: We conducted a Second Follow-Up Audit of the Internal Control Audit for the Countywide Fee Development Monitoring Process. Our audit was limited to reviewing, as of July 31, 2011, actions taken to implement the three (3) recommendations remaining from our First Follow-Up audit report dated December 15, 2010 (Audit No. 1033-B).</p> <p>Conclusion: Our Second Follow-Up Audit indicated the Auditor-Controller and County Executive Office fully implemented the remaining three (3) recommendations. As such, this report represents the final close-out of the original audit.</p> <p>Background: The County Executive Office/County Budget Office, Auditor-Controller Cost, Revenue & Budget, and Clerk of the Board have monitoring and oversight responsibilities over department/agency fee requests submitted for Board of Supervisors' approval. Their oversight responsibilities include ensuring that proposed revenues are related to the services provided and do not exceed the estimated costs of providing the services. During the original audit, County departments/agencies generated \$461 million in revenue from non-property tax sources (primarily for licenses, permits, franchises and charges for services) by charging fees to cover the cost of services provided to the public.</p> <p>Type of Recommendations: The recommendations pertained to CEO and A-C monitoring and oversight of department/agency fee requests; proper completion of Fee Checklist Forms; compliance with County fee development policies and procedures; adhering to requirements for Agenda Staff Report (ASR) submission; enhancing fee policy for preparing department/agency fee requests and the impact on fee studies in unstable economic times; and maintaining a comprehensive master listing of County Fees.</p>