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EXHIBIT A

MAY 2012 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda June 26, 2012

- Audit Plan and Risk Assessment for Fiscal Year 2012-13. (Approved by AOC on 5/2/12). We present our audit coverage planned for FY 12/13 based on our comprehensive risk assessment of all County departments.
- Annual Audit of Treasurer's Investment Compliance for Year Ended December 31, 2010. The Orange County Treasurer complied, in all material respects, for the year ended December 31, 2010. We did not identify any deficiencies in internal control that we consider to be material weaknesses or a significant deficiency. However, we identified areas where compliance and internal controls over compliance could be improved.
- Internal Control Audit of Sheriff-Coroner Inmate Welfare Fund and Selected Jail Commissary Processes. Our audit found that internal controls and processes over Inmate Welfare Fund receipts and disbursements are effective and adequate to ensure funds are used in accordance with California Penal Code Section 4025.
- Monthly CAAT Reveals 100% of Vendor Invoices Were Only Paid Once.
- Final Close-Out First Follow-Up Internal Control Audit of Sheriff-Coroner and Health Care Agency Contract Administration of U.S. Immigration and Customs Enforcement. Our First Follow-Up found the Sheriff-Coroner and Health Care Agency fully implemented the two (2) recommendations from our original audit. This represents the final close-out of the original audit.
- First Follow-Up Internal Control Audit of County Counsel Revolving Fund Process. Our First Follow-Up Audit indicated County Counsel fully implemented the three (3) recommendations from our original audit. This represents the final close-out of the original audit.
- Final Close-Out First Follow Up Internal Control Audit of Public Defender Revolving Fund Process. Our First Follow-Up Audit indicated the Public Defender fully implemented the two (2) recommendations from our original audit. This represents the final close-out of the original audit.

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

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Project No. 1107-11

RISK BASED AUDITING

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

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







Letter from Dr. Peter Hughes, CPA





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RISK BASED AUDITING



June 26, 2012

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of May 2012. Included in this report is the FY 12-13 Annual Audit Plan and Risk Assessment approved by the Audit Oversight Committee on May 2, 2012. 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,

Dr. Peter Hughes, CPA

Board Date: June 26, 2012 Exhibit A, Page 2 of 13

Executive Summary

Exhibit Audit Reports:

- B. The Internal Audit Department's Annual Audit Plan and Risk Assessment for Fiscal Year 2012-2013: I am pleased to present the approved FY 2012-13 Audit Plan and Risk Assessment. This comprehensive report details our plan for audits in the upcoming fiscal year and incorporates the results of our extensive risk assessment. Per Resolution No. 95-271, the Board directed the Audit Oversight Committee (AOC) to act in an oversight capacity to the Internal Audit Department and to approve the Annual Audit Plan. The AOC reviewed and approved the FY 12-13 Audit Plan and Risk Assessment on May 2, 2012, with the following additions: 1) Follow-Up of CAFR Management Letter item regarding status of County disaster recovery program and business continuity plan; 2) to make the planned audit of Reverse Pension Pickup a priority to start in FY12/13; and 3) a First Follow-Up Audit of the Probation Department GPS Bracelet Administration to be completed in current fiscal year. Accordingly, I am presenting our FY 12-13 Audit Plan and Risk Assessment as part of my required Monthly Internal Audit Activity Status Report.
- C. Annual Audit of Treasurer's Investment Compliance for Year Ended December 31, 2010: In our opinion, the Orange County Treasurer complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2010. We did not identify any deficiencies in internal control that we consider to be material weaknesses or a significant deficiency. However, we identified areas where compliance and internal controls over compliance could be improved.
- D. Internal Control Audit of Sheriff-Coroner Inmate Welfare Fund and Selected Jail Commissary Processes: Our audit found that internal controls and processes over Inmate Welfare Fund receipts and disbursements are effective and adequate to ensure funds are used in accordance with California Penal Code Section 4025, as well as County and Sheriff-Coroner policies and procedures. During the audit, the Inmate Welfare Fund had \$3.5 million in revenues and \$4.4 million in expenditures. However, we identified areas where the administration and monitoring of the Inmate Welfare and Jail Commissary Funds can be improved.

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Executive Summary

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 – May 2012</u>: We analyzed **16,906** vendor invoices paid in April 2012 amounting to about **\$264 million** and found **100%** of the invoices were only paid once. Of the \$264 million in vendor invoices, we identified **no** duplicate payments made to vendors. To date we have identified **\$983,595** in duplicate vendor payments, of which **\$970,101** or **99%** has been recovered and is a noteworthy achievement by the County.

Exhibit Follow-Up Audit Reports

- F. Final Close-Out First Follow-Up Internal Control Audit of Sheriff-Coroner and Health Care Agency Contract Administration of U.S. Immigration and Customs Enforcement: Our First Follow-Up indicated that the Sheriff-Coroner and Health Care Agency fully implemented the two (2) recommendations from our original audit. As such, this represents the first and final close-out of the original audit.
- G. <u>Final Close-Out First Follow-Up Internal Control Audit of County Counsel Revolving Fund Process:</u> Our First Follow-Up Audit indicated County Counsel fully implemented the three (3) recommendations from our original audit. As such, this represents the first and final close-out of the original audit.
- H. Final Close-Out First Follow-Up Internal Control Audit of Public Defender Revolving Fund Process: Our First Follow-Up Audit indicated the Public Defender fully implemented the two (2) recommendations from our original audit. As such, this represents the first and final close-out of the original audit.

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Detailed Report

New Audit Findings & Recommendations by Risk Category

Description	Results
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. * Material Weaknesses is used for an audit conducted under AICPA Attestation Standards.	No critical control weaknesses issued during May 2012. No material weaknesses in internal control issued during May 2012. Seven (7) total recommendations issued since July 2011.
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.	Four (4) significant control weaknesses issued during May 2012. Twenty-six (26) total recommendations issued since July 2011.
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.	Seven (7) control findings issued during May 2012. Fifty-six (56) total recommendations issued since July 2011.

Total Audit Recommendations for FY 2011-12: 89

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Detailed Report

	Description	Results
В.	DEPT: Internal Audit Department	Scope: I am pleased to present the Annual Fiscal Year 2012-13 Audit Plan and Risk Assessment. This comprehensive report details our plan for audits in the upcoming fiscal year and incorporates the results of our extensive risk assessment. Per
	TITLE: FY 12-13 Annual Audit Plan and Risk Assessment	Resolution No. 95-271, the Board directed the Audit Oversight Committee (AOC) to act in an oversight capacity to the Internal Audit Department and to approve the Annual Audit Plan. The AOC reviewed and approved the FY 2012-13 Audit Plan and Risk Assessment on May 2, 2012, with the following additions: 1) Follow-Up of CAFR Management Letter item regarding status of County disaster recovery program and
	AUDIT NO: 1101 APPROVED by the Audit	business continuity plan; 2) to make the planned audit of Reverse Pension Pickup a priority to start in FY12/13; and 3) a First Follow-Up Audit of the Probation Department GPS Bracelet Administration to be completed in current fiscal year. Accordingly, I am presenting it to the Board of Supervisors as part of my required Monthly Internal Audit Activity Status Report.
	Oversight Committee: May 2, 2012	Background: Government Auditing Standards and the Institute of Internal Auditors' Standards require the chief audit executive to establish a risk-based approach to determine the priorities for internal audit activities. The Internal Audit Department has completed a Risk Assessment as a means to help identify, measure, and prioritize potential audits based on the level of risk to the County and to prepare the FY 2012-13 Audit Plan. There are several approaches to defining an audit universe (all areas subject to risk assessment and audits). We defined the County audit universe as 22 departments/agencies (excluding Internal Audit and the Office of the Performance Auditor) and the following seven business processes/cycles:
		Cash Receipts & Receivables Cash Disbursements & Payables Fee-Generated Revenue Purchasing and Contracts Revolving Funds Payroll Fiduciary Funds
		We also conduct an annual comprehensive Information Technology (IT) risk assessment that identifies and provides risk ratings for the County's major IT systems.

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Detailed Report

	Description	Results
C.	DEPT: Treasurer Tax-Collector	Scope: We have examined the Orange County Treasurer's compliance with the California Government Code Sections 27130 through 27137 and related provisions of the Orange County Investment Policy Statement (IPS) for the Money Market and the Extended
	TITLE: Annual Audit of Treasurer's Investment Compliance for Year Ended December 31,	Funds for the year ended December 31, 2010. In addition, we examined compliance with certain requirements contained within the Resolution for the Establishment of the Treasury Oversight Committee, Bylaws and Rules of Procedures of the Treasury Oversight Committee, and County policies and procedures.
	2010 REPORT NO: 1013	Our examination was made in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA), and accordingly included examining on a test basis, evidence about the Orange County Treasurer's compliance with those requirements and performing such other procedures as
	ISSUED: May 7, 2012	considered necessary in the circumstances. Our examination includes consideration of internal control over compliance as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control.
		Conclusion: In our opinion, the Orange County Treasurer complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2010.
		Background: The Internal Audit Department was directed by the Board of Supervisors to conduct the required annual audit to determine the degree the Treasurer has complied with both the California Government Code and the Orange County Treasurer IPS approved by the Board of Supervisors. The primary purpose of this audit is to provide reasonable assurance to the Board of Supervisors that the Treasurer has purchased only those high quality and safe investments that have been authorized by policy. As the public stewards of over \$7 billion of taxpayers' monies, compliance with the IPS is of the highest priority for the Board of Supervisors.

Board Date: June 26, 2012

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Detailed Report

	Results
We we	/pe of Recommendations: de did not identify any deficiencies in internal control that we consider to be material eaknesses or a significant deficiency. However, we identified the following areas here compliance and internal controls over compliance could be improved: Amendments to the Treasury Oversight Committee Bylaws and Rules of Procedures were not forwarded to the Board of Supervisors for approval in a timely manner. Treasurer-Tax Collector Review of Qualified Institutions was not Complete and Approved In a Timely Manner. Investment Policy Statement is Less Restrictive than Government Code Section 53601(h).

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Detailed Report

	Description	Results
D.	DEPT: Sheriff-Coroner	Scope: We audited internal controls and processes over the administration and use of the Inmate Welfare Fund. Specifically, we audited fund receipts and disbursements to ensure they are valid, supported, timely, and made in accordance with California Penal Code Section 4025, and with County and Sheriff-Coroner policies and procedures. In
	TITLE: Internal Control Audit of Inmate Welfare Fund and	addition, we audited selected controls and processes over Jail Commissary funds and operations because profits from the Jail Commissary are a revenue source for the Inmate Welfare Fund.
	Selected Jail Commissary Processes	Conclusion: Our audit found that internal controls and processes over Inmate Welfare Fund receipts and disbursements are effective and adequate to ensure funds are used in accordance with California Penal Code Section 4025, as well as County and Sheriff-
	REPORT NO: 1123 ISSUED: May 16, 2012	Coroner policies and procedures. Our audit disclosed issues concerning the administration and monitoring of the Inmate Welfare and Jail Commissary Funds, particularly concerning a trend of declining fund balances available. We identified four (4) Significant Control Weaknesses and three (3) Control Findings to improve the
	1000ED. Way 10, 2012	administration of the Inmate Welfare and Jail Commissary Funds.
		Background: Under California Penal Code Section 4025, the Inmate Welfare Fund is mandated to provide services essential for the benefit, welfare, and educational needs of inmates confined in detention facilities. The Sheriff-Coroner's Inmate Services Division administers the Inmate Welfare Fund and the Jail Commissary operations. Disbursements from the Inmate Welfare Fund are used to provide inmate support services, and educational, vocational, and recreational programs to foster rehabilitation and reduce recidivism. As of June 30, 2011, the Inmate Welfare Fund had \$3.5 million in revenues and \$4.4 million in expenditures.
		Type of Recommendations : Evaluate the inmate cash receipting process regarding recording and reconciling inmate trust accounts; take steps to address the declining fund balances in the Inmate Welfare and Jail Commissary Funds, evaluate the methodology of determining prices of commissary items, evaluate the segregation of duties for jail commissary physical inventories, and evaluate revising jail commissary order forms.

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Detailed Report

	Description	Results
E.	DEPT: Auditor-Controller Human Resources CEO/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 or quarterly.
	TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – May 2012	 Conclusion: Duplicate Payments to Vendors: We analyzed 16,906 vendor invoices paid in April 2012 amounting to about \$264 million and found 100% of the invoices were only paid once. Of the \$264 million vendor invoices, we identified no 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 \$970,101, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.
	AUDIT NO: 1139-K	Employee Vendor Match: No activity this month. Next analysis will be at the 6/30/12 quarter end.
	ISSUED: May 18, 2012	 <u>Retiree/Extra Help Hours</u>: As of April 19, 2012, no individuals have exceeded the annual hourly limits for FY 11-12. <u>Multiple Payroll Direct Deposits</u>: 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 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

	Description	Results
F.	DEPT: Sheriff-Coroner Health Care Agency	Scope: We have completed a First Follow-Up Audit of the Sheriff-Coroner and Health Care Agency Contract Administration – U.S. Immigration and Customs Enforcement (ICE). Our audit was limited to reviewing, as of May 18, 2012, actions taken to implement two (2) recommendations from our original audit.
	TITLE: Final Close-Out First Follow- Up Internal Control Audit of Contract Administration of U.S. Immigration and	Conclusion: Our First Follow-Up Audit indicated the Sheriff-Coroner and Health Care Agency fully implemented both recommendations. As such, this report represents the final close-out of the original audit.
	Customs Enforcement AUDIT NO: 1130-L ISSUED: May 24, 2012 (Original Audit No. 1126, issued 11/3/11)	Background: Our original audit evaluated internal controls over contract administration and billing processes in the Sheriff-Coroner and the Health Care Agency for the ICE Inter-Government Service Agreement. Two recommendations were made in the audit pertaining to written policies and procedures and supervisory reviews. During the original audit period, the Sheriff-Coroner and Health Care Agency billed ICE approximately \$27.2 million for detention services and prescription medication reimbursement. Recommendations: Sheriff-Coroner and Health Care Agency enhance their written procedures for preparing monthly invoices for ICE detention services and prescription drug reimbursement; Health Care Agency strengthen its internal review process to ensure claimed prescription drug costs comply with the ICE Agreement.

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Detailed Report

Description	Results
DEPT: County Counsel TITLE:	Scope: We have completed a First Follow-Up Audit of internal controls over the County Counsel Revolving Fund process. Our audit was limited to reviewing actions taken, as of March 31, 2012, to implement the three (3) recommendations in our original audit report.
First Follow-Up Internal Control Audit of County Counsel Revolving Fund Process	Conclusion: Our First Follow-Up Audit indicated County Counsel fully implemented the three (3) recommendations from our original audit. As such, this represents the first and final close-out of the original audit.
AUDIT NO: 1130-I ISSUED: May 10, 2012 (Original Audit No. 1055, issued 08/23/11)	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. Recommendations: None.
	DEPT: County Counsel TITLE: First Follow-Up Internal Control Audit of County Counsel Revolving Fund Process AUDIT NO: 1130-I ISSUED: May 10, 2012

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Detailed Report

	Description	Results
H.	DEPT: Public Defender	Scope: We have completed a First Follow-Up Audit of the Public Defender Revolving Fund process and internal controls. Our audit was limited to reviewing actions taken, as of March 31, 2012 to implement the two (2) recommendations in our original audit report.
	TITLE: Final Close-Out First Follow- Up Internal Control Audit of Public Defender Revolving Fund Process	Conclusion: Our First Follow-Up Audit indicated the Public Defender fully implemented the two (2) recommendations from our original audit. As such, this represents the first and final close-out of the original audit.
	AUDIT NO: 1130-F ISSUED: May 16, 2012 (Original Audit No. 1053,	Background: The Public Defender maintains three revolving funds: a regular revolving fund in the amount of \$50,000, a Special Use Revolving Fund in the amount of \$250,000 and a Delta Special Revenue Fund in the amount of \$5,000. During the audit period, the Public Defender incurred approximately \$1.5 million in revolving fund expenditures. Recommendations: None.
	issued 06/16/11)	

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