

Internal Audit Department

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

EXHIBIT A

MAY 2013 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda June 25, 2013

Internal Audit Department Annual Audit Plan and Risk Assessment for Fiscal Year 2013-14. (Approved by AOC on 5/22/13). We present our planned audit coverage based on a comprehensive risk assessment of County departments.

Results of Continuous Auditing Using CAATS for April 2013. Reveals 100% of vendor invoices were paid correctly.

Results of Continuous Auditing Using CAATS for May 2013. Reveals 99.9% of vendor invoices were paid correctly. We identified one (1) potential duplicate payment for \$237.

Final Close-Out Second Follow-Up Audit of Annual Treasurer's Investment Compliance for the Year Ended 12/31/09. Our Second Follow-Up Audit found that of the two remaining recommendations, the Treasurer implemented one (1) recommendation and one (1) recommendation was closed.

Final Close-Out First Follow-Up Audit of Treasurer's Investment Compliance for the Year Ended 12/31/10. Our First Follow-Up Audit found the Treasurer fully implemented all four (4) recommendations from our original audit report.

Final Close-Out First Follow-Up Audit of Tax Redemption Officer Records and Accounts for the Three Years Ended 06/30/11. Our First Follow-Up Audit found the Treasurer-Tax Collector fully implemented all three (3) recommendations from our original audit report.

Final Close-Out Second Follow-Up Internal Control Audit of the Probation Department GPS Electronic Monitoring Programs. Our Second Follow-Up Audit found that Probation implemented six (6) recommendations. Two (2) recommendations were implemented in our First Follow-Up Audit. This report represents the final close-out of the original audit.

First Follow-Up Internal Control Audit of OC Community Resources Disbursement Approval Process. Our First Follow-Up Audit found OC Community Resources implemented four (4) recommendations and one (1) recommendation was in process.

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

Assistance in assembling this report provided by:
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Project No. 1209-9

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

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



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RISK BASED AUDITING



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June 25, 2013

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of May 2013. Included in this report is the FY 13-14 Annual Audit Plan and Risk Assessment approved by the Audit Oversight Committee on May 22, 2013. 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,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit

Audit Project:

- B. Internal Audit Department Annual Audit Plan and Risk Assessment for Fiscal Year 2013-14. I am pleased to present the approved FY 2013-14 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 13-14 Audit Plan and Risk Assessment on May 22, 2013. Accordingly, I am presenting our FY 13-14 Audit Plan and Risk Assessment as part of my required Monthly Internal Audit Activity Status Report.

Exhibit

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

- C. Auditor-Controller, Human Resource Services, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – April 2013: We analyzed **36,913** vendor invoices paid in March 2013 amounting to about **\$188 million** and found **100%** of the invoices were paid correctly. Of the \$188 million in vendor invoices, we identified no duplicate payments. To date we have identified **\$1,020,917** in duplicate vendor payments, of which **\$1,011,706 or 99%** has been recovered and is a noteworthy achievement by the County.
- D. Auditor-Controller, Human Resource Services, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – May 2013: We analyzed **20,923** vendor invoices paid in April 2013 amounting to about **\$227 million** and found **99.99%** of the invoices were paid correctly. Of the \$227 million in vendor invoices, we identified **one (1)** duplicate payment made to a vendor totaling **\$237**. To date we have identified **\$1,021,154** in duplicate vendor payments, of which **\$1,011,706 or 99%** has been recovered.

Exhibit

Follow-Up Audit Reports:

- E. Final Close-Out Second Follow-Up Audit of Treasurer's Investment Compliance for the Year Ended 12/31/09: Our Second Follow-Up Audit found that of the two remaining recommendations, the Treasurer **implemented one (1) recommendation and one (1) recommendation was closed because it is no longer applicable.**
- F. Final Close-Out First Follow-Up Audit of Treasurer's Investment Compliance for the Year Ended 12/31/10: Our First Follow-Up Audit found the Treasurer **fully implemented all four (4) recommendations** from our original audit report.
- G. Final Close-Out First Follow-Up Audit of Tax Redemption Officer Records and Accounts for the Three Years Ended 06/30/11: Our First Follow-Up Audit found the Treasurer-Tax Collector fully implemented all three (3) recommendations from our original audit report dated October 17, 2012.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

- H. Final Close-Out Second Follow-Up Internal Control Audit of Probation Department GPS Electronic Monitoring Programs: Our Second Follow-Up Audit found that the Probation Department **implemented the six (6) recommendations** from the original audit. Previously, two (2) recommendations were implemented in our First Follow-Up Audit. As such, this report represents the **final close-out** of the original audit.

- I. First Follow-Up Internal Control Audit of OC Community Resources Disbursement Approval Process: Our First Follow-Up Audit found OC Community Resources and OCCR Accounting **fully implemented four (4) recommendations and one (1) recommendation was in process.**

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 May 2013. No material weakness issued during May 2013.</p> <p>Four (4) total recommendations issued since July 2012.</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 May 2013.</p> <p>Fifteen (15) total recommendations issued since July 2012.</p>
<p>Control Findings Audit findings concerning <u>internal controls</u>, <u>compliance issues</u>, or <u>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>No control findings issued during May 2013.</p> <p>Forty-five (45) total recommendations issued since July 2012.</p>

Total Audit Recommendations for FY 2012-13: 64

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results								
B.	<p>DEPT: Internal Audit Department</p> <p>TITLE: Annual Audit Plan and Risk Assessment for Fiscal Year 2013-14</p> <p>AUDIT REF: 1201</p> <p>APPROVED: The Audit Oversight Committee approved the Audit Plan on May 22, 2013, Item 5.</p>	<p>SCOPE: I am pleased to present the Annual Fiscal Year 2013-14 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 2013-14 Audit Plan and Risk Assessment on May 22, 2013. Accordingly, I am presenting it to the Board of Supervisors as part of my required Monthly Internal Audit Activity Status Report.</p> <p>CONCLUSION: 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 2013-14 Audit Plan. 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:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Cash Receipts & Receivables</td> <td style="text-align: center;">Cash Disbursements & Payables</td> </tr> <tr> <td style="text-align: center;">Fee-Generated Revenue</td> <td style="text-align: center;">Purchasing and Contracts</td> </tr> <tr> <td style="text-align: center;">Revolving Funds</td> <td style="text-align: center;">Payroll</td> </tr> <tr> <td style="text-align: center;">Fiduciary Funds</td> <td></td> </tr> </table> <p>We also conduct an annual comprehensive Information Technology (IT) risk assessment that identifies and provides risk ratings for the County's major IT systems.</p>	Cash Receipts & Receivables	Cash Disbursements & Payables	Fee-Generated Revenue	Purchasing and Contracts	Revolving Funds	Payroll	Fiduciary Funds	
Cash Receipts & Receivables	Cash Disbursements & Payables									
Fee-Generated Revenue	Purchasing and Contracts									
Revolving Funds	Payroll									
Fiduciary Funds										

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
C.	<p>DEPT: Auditor-Controller Human Resource Services CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – April 2013</p> <p>AUDIT NO: 1238-J</p> <p>ISSUED: May 22, 2013</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 or quarterly.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 36,913 vendor invoices paid in March 2013 amounting to about \$188 million and found 100% of the invoices were only paid once. We identified no (0) 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 \$1,011,706, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> This routine is performed on a quarterly basis. The analysis for the quarter ended March 31, 2013 is currently in progress. The results of our analysis will be included in next month's report. All employee-vendor matches identified to date have been resolved to Human Resources Services' (HRS) satisfaction. • <u>Retiree/Extra Help Hours:</u> As of April 4, 2013, one (1) OC working retiree exceeded the annual hourly limits for FY 12-13. • <u>Multiple Payroll Direct Deposits:</u> No findings were noted. <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 Resource Services, 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
D.	<p>DEPT: Auditor-Controller Human Resource Services CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – May 2013</p> <p>AUDIT NO: 1238-K</p> <p>ISSUED: May 29, 2013</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 or quarterly.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 20,923 vendor invoices paid in April 2013 amounting to about \$227 million and found 99.99% of the invoices were only paid once. We identified one (1) duplicate payment made to vendors totaling \$237. 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 \$1,011,706 this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> This routine is performed on a quarterly basis. We performed an analysis of employee and vendor addresses and phone numbers at quarter-ended March 31, 2013 and identified two (2) potential employee-vendor conflicts. The two items have been submitted to Human Resource Services for further evaluation. • <u>Retiree/Extra Help Hours:</u> As of May 2, 2013, one (1) OC working retiree exceeded the annual hourly limits for FY 12-13. • <u>Multiple Payroll Direct Deposits:</u> No findings noted. <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 Resource Services, 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
E.	<p>DEPT: Treasurer Tax Collector</p> <p>TITLE: Final Close-Out Second Follow-Up Audit of Treasurer's Investment Compliance for the Year Ended 12/31/09</p> <p>AUDIT NO: 1219-A (Original Audit No. 2953) (First Follow Up Audit No. 1118-B)</p> <p>ISSUED: May 14, 2013</p>	<p>Scope: We have completed a Second and Final Follow-Up Audit of Treasurer's Investment Compliance for the year ended December 31, 2009. Our audit was limited to reviewing, as of March 31, 2013, actions taken to implement the two (2) recommendations remaining from our First Follow-Up Audit report dated February 28, 2012.</p> <p>Conclusions: Our Second Follow-Up Audit indicated the Treasurer implemented one (1) recommendation and one (1) recommendation was closed because it is no longer applicable. As such, we consider the original audit closed for follow-up purposes.</p> <p>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 the audit was 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.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
F.	<p>DEPT: Treasurer Tax Collector</p> <p>TITLE: Final Close-Out First Follow-Up Audit of Treasurer's Investment Compliance for the Year Ended 12/31/10</p> <p>AUDIT NO: 1218-C (Original Audit No. 1013)</p> <p>ISSUED: May 23, 2013</p>	<p>Scope: We have completed a First Follow-Up Audit of Treasurer's Investment Compliance for the year ended December 31, 2010. Our audit was limited to reviewing, as of March 31, 2013, actions taken to implement the four (4) recommendations from our original audit report dated May 7, 2012.</p> <p>Conclusions: Our First Follow-Up Audit found the Treasurer fully implemented all four (4) recommendations from our original audit report.</p> <p>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 the audit was 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.</p> <p>Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
G.	<p>DEPT: Treasurer Tax Collector</p> <p>TITLE: Final Close-Out First Follow-Up Audit of Tax Redemption Officer Records and Accounts for the Three Years Ended 06/30/11</p> <p>AUDIT NO: 1218-D (Original Audit No. 1113)</p> <p>ISSUED: May 9, 2013</p>	<p>Scope: We have completed a First and Final Follow-Up Audit of Tax Redemption Officer Records and Accounts for the three years ended June 30, 2011. Our audit was limited to reviewing actions taken, as of April 30, 2013, to implement the three (3) recommendations from our original audit report dated October 17, 2012.</p> <p>Conclusion: Our First Follow-Up Audit found the Treasurer-Tax Collector fully implemented all three (3) recommendations from our original audit report dated October 17, 2012.</p> <p>Background: In accordance with our FY 2011/2012 Audit Plan and Risk Assessment approved by the Audit Oversight Committee and Board of Supervisors, we conducted an audit of the Treasurer Tax-Collector Redemption Section pursuant to Section 4108.5 of the California Revenue and Taxation Code (Revenue and Taxation Code) for the purpose of evaluating the reliability and integrity of financial and operational tax redemption records and compliance with laws and regulations governing redemption activities. The Revenue and Taxation Code requires an audit at least once every three years of the records and accounts of the Tax-Collector relating to the performance of his/her duties as the Tax Redemption Officer.</p> <p>Recommendations: We recommend that the Treasurer-Tax Collector: (1) ensures that the duties of approving penalty cancellations and reviewing processed and approved penalty cancellations are segregated; (2) maintain a signature list that includes sample signatures of staff authorized to approve penalty cancellations to be used by the reviewer of processed and approved penalty cancellations; and (3) update its redemption account reconciliation procedure.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
H.	<p>DEPT: Probation Department</p> <p>TITLE: Final Close-Out Second Follow-Up Internal Control Audit of Probation Department GPS Electronic Monitoring Programs</p> <p>AUDIT NO: 1228-G (Original Audit No. 1127) (First Follow Up Audit No. 1130-K)</p> <p>ISSUED: May 23, 2013</p>	<p>Scope: We have completed a Second and Final Close-Out Follow-Up Audit of Probation Department GPS Electronic Monitoring Programs. Our audit was limited to reviewing actions taken, as of May 15, 2013, to implement the six (6) recommendations remaining from our First Follow-Up Audit report dated August 29, 2012.</p> <p>Conclusion: Our Second Follow-Up Audit found that the Probation Department fully implemented the six (6) recommendations from the original audit. Previously, two (2) recommendations were implemented in our First Follow-Up Audit. As such, this report represents the final close-out of the original audit.</p> <p>Background: Probation has two GPS Programs: the Supervised Electronic Confinement (SEC)/Home Detention Program and the Continuous Electronic Monitoring (CEM) Program. Probation uses a contractor, Sentinel Offender Services, LLC to provide the SEC program. The contractor charges the clients and pays Probation to cover Probation's program administration and staffing costs. For the CEM Program, Probation staff performs the enrollment, orientation and GPS monitoring services in the Manchester Office Building. A contractor, Satellite Tracking of People, LLC provides up to 300 GPS tracking devices and monitoring software to Probation.</p> <p>Recommendations: Ensure accurate determination of monthly SEC billings; make periodic determinations of SEC program fees/costs; address untimely contractor payments; ensure monitoring of contractor compliance and verification of program participants, and perform supervisory reviews of annual reconciliations of staffing costs.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
I.	<p>DEPT: OC Community Resources</p> <p>TITLE: First Follow-Up Internal Control Audit of OC Community Resources Disbursement Approval Process</p> <p>AUDIT NO: 1227-B (Original Audit No. 2953)</p> <p>ISSUED: May 30, 2013</p>	<p>Scope: We have completed a First Follow-Up Audit of OC Community Resources (OCCR) Disbursement Approval Process. Our audit was limited to reviewing actions taken, as of May 8, 2013, to implement the five (5) recommendations from our original audit report dated September 18, 2012.</p> <p>Conclusion: Our First Follow-Up Audit found OC Community Resources and OCCR Accounting fully implemented four (4) recommendations and one (1) recommendation was in process of implementation.</p> <p>Background: OCCR was created in March 2008 to provide greater access to residents and visitors who want to fully utilize the resources available in their communities. This was achieved by bringing four programs into one department: OC Animal Care, OC Community Services, OC Parks, and OC Public Libraries. The four programs are supported by OCCR's Administrative Services which includes OCCR Accounting. OCCR Accounting is responsible for reviewing, approving, and processing disbursements for the OCCR programs on behalf of the Auditor-Controller. Between September 1, 2010 and August 31, 2011, OCCR disbursed \$83 million in expenditures from its four programs.</p> <p>Recommendations: Evaluate assigned responsibilities and user security roles of 27 individuals that have incompatible purchasing and disbursement approval duties, enhance existing processes and controls regarding payment processing timeframes, date stamping invoices, budgetary approval of invoices, and written procedures for supervisory/management reviews.</p>