# IAD'S MONTHLY ACTIVITY REPORT

# **JULY 2007**

TO THE

### **BOARD OF SUPERVISORS**

2005 Recipient of the Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality & Outreach

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.



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

Certified Compliance and Ethics Professional (CCEP) Certified Information Technology Professional (CITP) Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE)

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#### County of Orange BOARD OF SUPERVISORS'

#### INTERNAL AUDIT DEPARTMENT

# Integrity Objectivity Independence



Providing Facts and Perspectives Countywide

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August 06, 2007

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report of all audits completed for the month of July. Included are an overview and a detailed briefing of each report.

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

Respectfully submitted,

Dr. Peter Hughes

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Status Report to the Board of Supervisors by IAD

#### JULY AUDIT ACTIVITY:

## WE FINISHED 4 PROJECTS FOR THIS MONTH AS SUMMARIZED BELOW:

#### Exhibit We completed 3 Audits:

- B. <u>Sheriff-Coroner Contract Administration and Cash Disbursements:</u>
  Internal Control Review of processes and controls over Sheriff-Coroner contract administration and related cash disbursements. We identified **4 Significant Issues** and **8 Control Findings** to improve existing controls.
- C. Resources and Development Management Department Strawberry Farms Golf Club: Special Purpose Review of Strawberry Farms Golf Club. Based on the limited procedures performed, and the results of our prior audits performed in 2003 through 2006, nothing came to our attention to indicate that additional amounts of rent are owed to the County.
- D. <u>Internal Audit Department</u>: We have completed our report concerning the operation of the Orange County Fraud Hotline. This report is for the period of October 1, 2006 through June 30, 2007. The report includes background information on the Hotline including the establishment, purpose, and the processing of Hotline calls and a statistical summary of Hotline activities for the period.

#### Exhibit We completed 1 Follow-Up Audit:

E. <u>County Executive Office Purchasing Division – Administration of Cal Card Program</u>:

The original report contained **9** recommendations. Our first Follow-Up Audit found that 5 recommendations were fully implemented; 2 recommendations were in process of implementation; and 2 recommendations have not been implemented. CEO/Purchasing is working toward implementing the remaining **2** recommendations.

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#### **Detailed Breakout**

#### **MATERIAL FINDING:**

<b>Department and Description</b>	Comments
	None issued during July 2007.
	Trone issued during July 2007.

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

Exhibit	Description	Comments
B.	DEPT: Sheriff-Coroner  TITLE: Internal Control Review of Contract Administration and Cash Disbursements  Audit No. 2664  ISSUED: July 26, 2007	Scope: Audit of controls and processes over contract administration and cash disbursements at Facilities Operations and South Operations to determine if contracts are properly monitored to prevent overruns; if contract expenditures are properly supported, reviewed and approved; if contract payments are processed timely and accurately; and if business processes are efficient and effective.  CONCLUSION: Controls and processes over contract monitoring were in place in Facilities Operations. South Operations' contract administration processes were found to need improvements. Contractor payments were processed in accordance with management's authorization. We identified 4 significant issues and 8 control findings resulting in 12 recommendations to improve controls and processes. No material weaknesses were identified.  BACKGROUND: As of December 2006, Facilities Operations administered 57 Price Agreements totaling approximately \$2.8 million. South Operations had 25 active Price Agreements totaling approximately \$4 million and 25 Purchase Orders totaling approximately \$242,245.  TYPE OF RECOMMENDATIONS: Ensure invoices and supporting documents are validated to terms of Price Agreements; document mgmt. review & approval of invoices; retain shipping documents; document exceptions in invoice processing times; establish contract administration procedures and tracking mechanisms At So. Operations; segregate contracting from other purchasing duties; ensure compliance with County procedures for use of revolving funds for contracted services.

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<b>Exhibit</b>	Description	Comments
C.	DEPT: Resources and Development Management Department  TITLE: Special Purpose Review of Strawberry Farms Golf Club  Audit No.: 2761  ISSUED: July 31, 2007	SCOPE: Special purpose review of Strawberry Farms Golf Club (SFGC). The purpose of our review was to perform a high level review of SFGC's accounting records to determine whether SFGC owed the County material amounts of rent prior to the assignment of the lease agreement.  CONCLUSION: Based on the limited procedures performed as listed in the final report, and the results of our prior audits performed in 2003 through 2006, nothing came to our attention to indicate that additional amounts of rent are owed to the County.  BACKGROUND: The County of Orange and the Irvine Ranch Water District entered into a lease agreement with Sand Canyon LLC, a California limited liability company, dated November 8, 1996, as amended. The lease agreement is primarily to maintain and operate an eighteen-hole golf course, driving range, and pro-shop. The facilities are named the Strawberry Farms Golf Club. Sand Canyon has requested an assignment of the lease agreement to a new owner. RDMD requested us to perform a special purpose review before the lease agreement was assigned.  Type of Recommendation: None.

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Exhibit	Description	Comments
D.	DEPT: County Executive Office  TITLE: First Follow-Up Audit of County Executive Office Purchasing Division – Administration of Cal Card Program  Audit No.: 2636-J  ISSUED: July 23, 2007	SCOPE: 1st Follow-Up Audit of CEO/Purchasing's administration of the County's purchasing card program to determine the implementation status of 9 recommendations made in our original audit report, dated November 30, 2006. No material or significant issues were identified in the original audit report.  CONCLUSION: We found 5 recommendations have been fully implemented; 2 recommendations were in process of implementation; and 2 recommendations have not been implemented. CEO/Purchasing is taking corrective action to address the remaining 4 recommendations.  BACKGROUND: CEO/Purchasing is the County's Program Coordinator and is responsible for overall program management, such as establishing Cal Card policy and procedures, administering card issuances, terminations and account changes, and training new departments/agencies that elect to participate in the program. As of June 30, 2006, 24 departments/agencies were enrolled in the County's Cal Card program with 192 active cardholders.  Type of Recommendations: Establish policy for timeframes in reporting card deactivations; ensure card deactivation requests are processed timely; maintain a list of all County cardholders and approving officials; establish a formal training process; consider performing department compliance reviews; segregate duties for reconciling County records to U.S. bank reports for new cards and card alters; perform timely reconciliations that are reviewed by a supervisor; retain documentation supporting card deactivations; finalize standard forms for inclusion on the County Intranet.

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Exhibit	Description	Comments
Exhibit E.	Description  DEPT: Internal Audit Department  TITLE: Orange County Fraud Hotline Activity for the Period October 1, 2006 through June 30, 2007  Audit No. 2603  ISSUED: July 12, 2007	SCOPE: We have completed our report concerning the operation of the Orange County Fraud Hotline. This report is for the period of October 1, 2006 through June 30, 2007. The report includes background information on the Hotline including the establishment, purpose, and the processing of Hotline calls and a statistical summary of Hotline activities for the period.  CONCLUSION: The Internal Audit Department received 29 calls during the period. During the period 7 cases were finalized and closed. For 7 cases that were finalized and closed, the allegations were not-substantiated.  BACKGROUND: The Orange County Internal Audit Department (IAD) established and runs the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. The establishment of a Hotline is a best business practice for both private and governmental entities. The Hotline is intended for County employees, vendors, and the public to report suspected fraud, misuse of County resources by vendors, contractors, or County employees. Violations of County policy are also reported. Fraud is an intentional act that results in the misstatement of financial records or theft of the County's assets. The misuse of County resources would include for example the use of a County computer to run an outside business. In instances when non-County callers use the Hotline, their complaints are also processed.  Type of Recommendations: Not Applicable

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