# IAD'S MONTHLY ACTIVITY REPORT

# SEPTEMBER 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)

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 J. Goodwin, Senior Audit Manager, CPA, CIA Autumn McKinney, Senior Audit Manager, CPA, CIA, CGFM, CISA

Board Date: October 30, 2007 Exhibit A, Page 1 of 8

#### **County of Orange BOARD OF SUPERVISORS'**

#### INTERNAL AUDIT DEPARTMENT

#### **Integrity Objectivity** Independence



Providing Facts and Perspectives Countywide

#### OFFICE OF THE DIRECTOR

**DR. PETER HUGHES** PH.D., MBA, CPA,

Certified Compliance & Ethics Professional (CCEP)

> Certified Information Technology Professional (CITP) Certified Internal Auditor (CIA) Certified Fraud Examiner (CFE)

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

ELI LITTNER

DEPUTY DIRECTOR CPA, CIA, CFE Certified Fraud Specialist (CFS), Certified Information Systems Auditor (CISA)

> MICHAEL J. GOODWIN SENIOR AUDIT MANAGER CPA, CIA

ALAN MARCUM

SENIOR AUDIT MANAGER MBA, CPA, CIA, CFE

AUTUMN MCKINNEY SENIOR AUDIT MANAGER CPA, CIA, CISA Certified Government Financial Manager (CGFM)

HALL OF FINANCE & RECORDS 400 CIVIC CENTER DRIVE WEST **BUILDING 12, ROOM 232** SANTA ANA, CA 92701

www.ocgov.com/audit

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

OC FRAUD HOTLINE (714) 834-3608

October 15, 2007

Honorable Board of Supervisors,

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

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

Board Date: October 30, 2007 Exhibit A, Page 2 of 8

Status Report to the Board of Supervisors by IAD

#### **SEPTEMBER AUDIT ACTIVITY:**

#### THE FOLLOWING PROJECTS ARE SUMMARIZED BELOW:

#### Exhibit We completed 2 Audits:

- B. <u>John Wayne Airport:</u> Review of lease revenue of Atlantic Aviation. No material or significant issues noted. We identified 7 control findings related to compliance with the lease agreement or improvements to internal controls.
- C. <u>District Attorney:</u> We found the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for the District Attorney's Office Audit of Disability and Healthcare Insurance Fraud Program grant, for Fiscal Year Ending June 30, 2007.
- Exhibit We issued 1 Report of Monthly Computer Assisted Audits of Vendor Payments (CAATs):
  - D. <u>Auditor Controller Duplicate Payments to Vendors September 2007:</u>
    We identified 6 duplicate payments made to vendors, totaling \$1,496 or .0016% of the \$92 million of vendor invoices processed during August 2007 that are being pursued by the Auditor-Controller.

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

E. <u>Integrated Waste Management Department</u>: <u>Second and Final Close-Out Follow-Up Audit of Limited Review of Controls and Implementation of Fee Collection and Accounts Receivable Systems.</u> Corrective actions were taken on all 6 remaining recommendations

Board Date: October 30, 2007 Exhibit A, Page 3 of 8

Status Report to the Board of Supervisors by IAD

#### **Detailed Breakout**

#### **MATERIAL FINDING:**

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

Board Date: October 30, 2007 Exhibit A, Page 4 of 8

Status Report to the Board of Supervisors by IAD

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

Exhibit	Description	Comments
В.	DEPT: John Wayne Airport  TITLE: Review of Lease Revenue Newport FBO Two LLC. DBA Atlantic Aviation FBO  Audit No.: 2644	SCOPE: Review of lease revenue to determine whether the records of Atlantic Aviation adequately supported gross receipts reported to the County.  CONCLUSION: We found that Atlantic Aviation retained sufficient documentation to adequately support monthly gross receipts reported to the County. No material weaknesses or significant issues were identified. However, we did identify 7 control findings related to compliance with the lease agreement or improvements to internal controls.
	ISSUED: September 21, 2007	BACKGROUND: The County of Orange entered into a lease agreement with Atlantic Aviation, dated October 24, 1994, for conducting a fixed base operation to serve general aviation at John Wayne Airport. For the year ended March 31, 2007, Atlantic Aviation reported approximately 4.3 million gallons of delivered fuel and lubricant and \$377,183 in gross receipts from rental cars, and it paid the County approximately \$298,500 in fees.  Type of Recommendations: Lease compliance regarding: sublease with Go Rent-A-Van, other fees charged by Go Rent-A-Van not reported as gross receipts, discounts reduce Go Rent-A-Van gross receipts, The Hertz Corporation's commissions to Atlantic Aviation not reported as gross receipts, and the security deposit amount should be updated.

Board Date: October 30, 2007 Exhibit A, Page 5 of 8

Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
C.	DEPT: District Attorney  TITLE: Audit of Disability and Health Care Insurance Fraud Program  Audit No.: 2710  ISSUED: September 20, 2007	Scope: We audited the District Attorney (DA) Office's financial statement for the Disability and Health Care Insurance Fraud Program grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.  CONCLUSION: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.  BACKGROUND: The grant is funded by the California Department of Insurance, and the 2006/2007 fiscal year grant award totaled \$662,791.  The grant agreement requires that the DA obtain an annual audit of the financial statement. The DA has the option of outsourcing the audit to an outside CPA firm or requesting that the County Internal Audit Department conduct the audit.  Type of Recommendations: None

Board Date: October 30, 2007 Exhibit A, Page 6 of 8

Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
D.	DEPT: Auditor-Controller Human Resources CEO/Purchasing  TITLE: Computer Assisted Audit Techniques September 2007  Audit No.: 2713-C  ISSUED: September 21, 2007	<ul> <li>SCOPE: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 5 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary.</li> <li>CONCLUSION: <ul> <li>Duplicate Payments to Vendors: We identified 6 duplicate payments made to vendors, totaling 1,496 or .0016% of the \$92 million of vendor invoices processed during August 2007. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 16,063 invoices paid in August 2007 amounting to \$92,309,798. The Auditor-Controller currently has a recovery rate of about 84% on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error.</li> </ul> </li> </ul>
		Based on the to-date recoveries of \$592,408 from the duplicate vendor payment routine, these CAAT routines have paid for themselves and are returning monies to the County that may otherwise be lost.  • Deleted Vendors: No findings.  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 A-C, HR, or CEO/Purchasing 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.

Board Date: October 30, 2007 Exhibit A, Page 7 of 8

Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
E. DE Ma TITI Fol Rev Imp Col Rec	EPT: Integrated Waste anagement Department  TLE: Final Close-Out Second ollow-Up Audit of Limited eview of Controls and aplementation of Land Fee ollection and Accounts exceivable System  adit No. 2626  SUED: September 20, 2007	SCOPE: Second and Final Close-Out Follow-Up Audit of the Limited Review of Controls and Implementation of the IWMD's Landfill Fee Collection and Accounts Receivable Systems to determine the implementation status of 6 recommendations not fully implemented at the time of our first Follow-Up Audit, dated January 26, 2006.  CONCLUSION: We are pleased to report that satisfactory corrective action taken on the 6 remaining recommendations. As such, this report represents the final close-out of the original audit.  BACKGROUND: The original audit reviewed whether appropriate controls were present in IWMD's new landfill fee collection and accounts receivable systems in the areas of access controls, system audit logs, and other system controls as specified in IWMD's system requirements documentation. Additionally, we reviewed the last phase (implementation) of the system development life cycle for these new systems.  Type of Recommendations: The original audit had 15 recommendations in the areas of: user account privileges, application controls, systems audit logs and monitoring, access controls, policies and procedures and system documentation, information systems disaster recovery plan, and documented system development lifecycle methodology.

Board Date: October 30, 2007 Exhibit A, Page 8 of 8