

# MONTHLY AUDIT ACTIVITY REPORT FOR DECEMBER 2008 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda  
January 27, 2009

Project No. 2807-9

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

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 ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**



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# Letter from Director Peter Hughes



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January 27, 2009

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of December 2008. Each report has 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,

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

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

**MONTHLY AUDIT ACTIVITY – December 2008**  
Status Report to the Board of Supervisors by IAD

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**THE FOLLOWING ITEMS ARE SUMMARIZED BELOW:**

Exhibit      **Audits:**

- B.      District Attorney – Audit of Workers’ Compensation Insurance Fraud Program: 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 Workers Compensation Insurance Fraud Program, for Fiscal Year Ending June 30, 2008.
  
- C.      District Attorney – Audit of Automobile Insurance Fraud Program: 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 Automobile Insurance Fraud Program, for Fiscal Year Ending June 30, 2008.
  
- D.      District Attorney – Audit of Spousal Abuser Prosecution Program: We found the financial statement presents fairly, in all material respects, the approved budget, expenditures, and costs claimed and accepted for the District Attorney’s Office Audit of Spousal Abuser Prosecution Program, for Fiscal Year Ending June 30, 2008.

Exhibit      **Monthly Computer Assisted Audits of Vendor Payments (CAATs):**

- E.      Auditor Controller – Duplicate Payments to Vendors – December 2008: We analyzed **12,716** vendor invoices paid in November 2008 amounting to about **\$87 million** and found **99.99%** of the invoices were only paid once. Of the \$106 million vendor invoices, we identified **three** duplicate payments made to vendors amounting to **\$5,053**. Given the complexity and volume, this is a noteworthy achievement by the Auditor-Controller’s office.

Exhibit      **Follow Up Audits:**

- F.      Auditor-Controller: **Final Close-Out** First Follow-Up Audit of Claims & Disbursing’s Mileage and Other Expenses Reimbursement Process (Original Audit No. 2720-2). Satisfactory corrective action was taken on all **3** recommendations. **As such, this represents the final close-out of the original audit.**
  
- G.      OC Public Works: **Final Close-Out** Second Follow-Up Audit of Facilities Operations Contract Administration and Cash Disbursements (Original Audit No. 2632). Satisfactory corrective action was taken on **2** recommendations remaining from our First Follow-Up Audit, in which **3** recommendations had been implemented (Audit No. 2727-A). **As such, this represents the final close-out of the original audit.**

**MONTHLY AUDIT ACTIVITY – December 2008**  
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**Detailed Breakout**

**MATERIAL FINDING:**

	Department and Description	Comments
		None issued during December 2008.

Board Date: January 27, 2009

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For a copy of the complete audit report that contains the audit objective, scope, findings, recommendations, and management's response, contact the OC Internal Audit Department's website at <http://www.ocgov.com/audit/>

**MONTHLY AUDIT ACTIVITY – December 2008**  
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**NON-MATERIAL FINDINGS**

Exhibit	Description	Comments
B.	DEPT: District Attorney  TITLE: Audit of Workers' Compensation Insurance Fraud Program  AUDIT NO: 2809  ISSUED: December 17, 2008	<p><b>Scope:</b> We audited the District Attorney (DA) Office's financial statement for the 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.</p> <p><b>Conclusion:</b> 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.</p> <p><b>Background:</b> The grant is funded by the California Department of Insurance, and the 2007/2008 fiscal year grant award totaled \$2,599,926 (2007/2008 grant amount of \$1,850,000 plus prior year carry-over of \$749,926). Expenditures totaled \$2,634,261 resulting in an excess of expenditures over funding of \$34,335, which was absorbed by the DA office.</p> <p>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.</p> <p><b>Type of Recommendations: None</b></p>

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Exhibit	Description	Comments
C.	DEPT: District Attorney  TITLE: Audit of Automobile Insurance Fraud Program  AUDIT NO: 2809  ISSUED: December 17, 2008	<p><b>Scope:</b> We audited the District Attorney (DA) Office’s financial statement for the 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.</p> <p><b>Conclusion:</b> 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.</p> <p><b>Background:</b> The grant is funded by the California Department of Insurance, and the 2007/2008 fiscal year grant award totaled \$1,157,949 (2007/2008 grant amount of \$908,653 plus prior year carry-over of \$249,296). Expenditures totaled \$1,223,038 resulting in an excess of expenditures over funding of \$65,089, which was absorbed by the DA office.</p> <p><b>Type of Recommendations: None</b></p>

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 scope, findings, recommendations, and management’s response,  
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**MONTHLY AUDIT ACTIVITY – December 2008**  
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Exhibit	Description	Comments
D.	DEPT: District Attorney  TITLE: Audit of Spousal Abuser Prosecution Program  AUDIT NO: 2808  ISSUED: December 30, 2008	<p><b>Scope:</b> We audited the District Attorney (DA) Office's financial statements for the Grant to determine that budgeted amounts, expenditures, and costs claimed and accepted 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.</p> <p><b>Conclusion:</b> In our opinion, the financial statements presents fairly, in all material respects, the approved budget, cumulative expenditures, and allowable costs. 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.</p> <p><b>Background:</b> The grant is funded by the California Department of Justice, and the 2007/2008 fiscal year grant award totaled \$101,620. The grant requires the DA to provide a 20% (\$20,324) in-kind match, which is funded from the County General Fund.</p> <p><b>Type of Recommendations: None</b></p>

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Exhibit	Description	Comments
E.	<p>DEPT:                      Auditor-Controller                      Human Resources                      County Procurement Office</p> <p>TITLE: Computer Assisted Audit                      Techniques - December 2008</p> <p>AUDIT NO: 2844-F</p> <p>ISSUED: December 16, 2008</p>	<p><b>Scope:</b> 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.</p> <p><b>Conclusion:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors:</u> We analyzed 12,716 vendor invoices paid in November 2008 amounting to about <b>\$87 million</b> and found <b>99.99%</b> of the invoices were only paid once. Of the \$87 million vendor invoices, we identified <b>three</b> duplicate payments made to vendors amounting to <b>\$5,053</b>. The Auditor-Controller currently has a recovery rate from vendors of about <b>98%</b> on these duplicate payments.</li> </ul> <p>Our prior research has indicated that the duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of <b>\$750,269</b> 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.</p> <ul style="list-style-type: none"> <li>• <u>Multiple Direct Deposits:</u> No findings.</li> <li>• <u>Deleted Vendors:</u> No findings.</li> </ul> <p><b>Background:</b> 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 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>

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Exhibit	Description	Comments
F.	DEPT: Auditor-Controller  TITLE: First Follow-Up Audit of Claims & Disbursing's Mileage and Other Expenses Reimbursement Process (Original Audit 2720-2)  AUDIT NO: 2829-G  ISSUED: December 23, 2008	<p><b>Scope:</b> <b>First</b> Follow-Up Audit of Auditor-Controller/Claims &amp; Disbursing's Mileage and Other Expenses reimbursement process to determine the implementation status of <b>3</b> recommendations made in our original audit report dated April 30, 2008. <b>No material or significant issues were identified in that audit.</b></p> <p><b>Conclusion:</b> <b>We are pleased to report that satisfactory corrective action was taken on all 3 recommendations.</b> We commend the personnel in Claims &amp; Disbursing for their responsiveness in addressing our recommendations. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>Background:</b> The Claims &amp; Disbursing Unit within the A-C Central Operations provides payroll and claims processing for all County departments and agencies, including processing employee mileage and other expense claim reimbursements. For the year ending June 30, 2007, Claims and Disbursing processed employee Mileage and Other Expenses claims totaling <b>\$5,244,184.</b></p> <p><b>Type of Recommendations:</b> 1) Establish policies and procedures to ensure taxable mileage and other expenses claimed through the cash advance process are identified and reported as taxable reimbursements; 2) provide periodic refresher training to staff on the County's Travel Policy to ensure all claims have supporting documentation as required by the policy and procedures; and 3) revise the Mileage and Other Expense Claims form to include a certification that alcoholic beverages were not included.</p>

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**MONTHLY AUDIT ACTIVITY – December 2008**  
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G.	<p>DEPT: OC Public Works</p> <p>TITLE: Second Follow-Up Audit of Facilities Operations Contract Administration and Cash Disbursements (Original Audit 2632)</p> <p>AUDIT NO: 2830-A</p> <p>ISSUED: December 31, 2008</p>	<p><b>Scope:</b> <b>Second</b> Follow-Up Audit of OC Public Works Facilities Operations contract administration and cash disbursement processes to determine the implementation status of <b>2</b> recommendations remaining from our First Follow-Up Audit (Audit 2727-A) dated April 21, 2008. In that follow-up, Facilities Operations had implemented 3 of 5 recommendations made in our original audit report dated April 30, 2008. <b>No material or significant issues were identified in the original audit.</b></p> <p><b>Conclusion:</b> Our Second Follow-Up Audit found that satisfactory corrective action was taken on the <b>2</b> remaining recommendations. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>Background:</b> OC Public Works Facilities Operations (referred to as “OC Facilities” since the reorganization of RDMD) provides support services to County departments/agencies by operating and maintaining facilities and managing capital projects. Facilities Operations administers and/or participates in administering several Standing Contracts, Purchase Order Contracts and Board-Approved Contracts. During the original audit, Facilities Operations was involved with about <b>1,300 contracts totaling \$19.7 million.</b></p> <p><b>Type of Recommendations:</b> 1) Enhance policy over Change Orders to ensure timely processing and approval in accordance with project completion; 2) enhance policy over Notices of Completion to ensure timely processing and approval in accordance with project completion; 3) prepare supporting documents for Change Order time extension requests; 4) ensure periodic verification of contracts services prior to payment of invoices; and 5) evaluate invoice processing timeframes to ensure timely payments rae made to vendors.</p>