

# MONTHLY AUDIT ACTIVITY REPORT FOR FEBRUARY 2009 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda  
March 24, 2009

Project No. 2807-10

by Dr. Peter Hughes, MBA, CPA  
County Internal Auditor

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

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# Letter from Dr. Peter Hughes



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## **RISK BASED AUDITING**



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March 24, 2009

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of February 2009. 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 – February 2009**  
Status Report to the Board of Supervisors by IAD

**THE FOLLOWING ITEMS ARE SUMMARIZED BELOW:**

Exhibit      AUDITS:

- B.      CEO/Information Technology:  
CEO/IT administered **387 contracts totaling \$109 million** during FY 2007/08 **including 25 sole source contracts** totaling \$8 million. In addition, CEO/IT made over **\$17 million in contract payments** during that period. We audited the CEO/IT's Contract Administration and Related Contract Payments. We identified **one (1) Significant Issue and seven (7) Control Findings** to strengthen existing controls and processes.

Exhibit      MONTHLY COMPUTER ASSISTED AUDITS OF VENDOR PAYMENTS (CAATs):

- C.      Auditor Controller – Duplicate Payments to Vendors – February 2009: We analyzed **14,594** vendor invoices paid in January 2009 amounting to about **\$75 million** and found **99.99%** of the invoices were only paid once. Of the \$75 million vendor invoices, we identified **two** duplicate payments made to vendors amounting to **\$3,991**. To date we have identified **\$776,138** in duplicate vendor payments, of which **\$752,794** has been recovered which is a noteworthy achievement by the Auditor-Controller's Office.

Exhibit      FOLLOW UP AUDITS:

- D.      Auditor-Controller:  
The Claims & Disbursing Unit in A-C Central Operations processes vendor payments for departments/agencies and is a centralized, core business process. Vendor payments are made for Board-approved contracts, price agreements, purchase orders, and miscellaneous vendor invoices for goods and services received in the County. **During Fiscal Year 2006/07, A-C Claims & Disbursing processed 68,559 vendor payments totaling over \$1.6 billion.** We audited the controls over these disbursements. Our first Follow-Up Audit noted **(4)** recommendations were **implemented**; **(1)** recommendation was **in process**; **(1)** recommendation was **not implemented**; and **(1)** recommendation was **closed**. Claims & Disbursing is taking action to fully implement the remaining recommendations.

- E.      Sheriff-Coroner:  
On November 7, 2007, the Audit Oversight Committee directed the Internal Audit Department to conduct an audit of expenditures incurred by the Sheriff Administration. During FY 2006-07, there were **\$30,523 in Cal Card expenditures** incurred on behalf of Sheriff Administration. Neither the Sheriff-Coroner, Undersheriff, nor the Assistant Sheriffs were Cal Card cardholders during that time. Our first Follow-Up Audit noted satisfactory corrective action was taken on the **1** recommendation to monitor cardholder 30-day purchase limits. **As such, this represents the final close-out of the original audit.**

**MONTHLY AUDIT ACTIVITY – February 2009**  
Status Report to the Board of Supervisors by IAD

E. CEO/County Procurement Office:

An **Audit Alert** was issued resulting from our audit of Sheriff Administration's purchasing card (Cal Card) expenditures where we found six instances when cardholders exceeded the 30-day purchase limit of \$15,000. Our first Follow Up Audit noted satisfactory corrective action was taken on the 1 recommendation. **As such, this represents the final close-out of the Audit Alert.**

F. Sheriff-Coroner:

On January 15, 2008, the County Board of Supervisors directed the Internal Audit Department to perform an informational review of the vendor, DMJM H&N, during Board discussion of the Sheriff-Coroner Architect-Engineering contract (\$2.4 million) with DMJM H&N for the James A. Musick jail expansion master plan. Our First Follow-Up Audit indicated that the Sheriff-Coroner **took satisfactory corrective action to fully implement all nine (9) recommendations.** The nine (9) recommendations identified ways that the Sheriff-Coroner could strengthen processes and controls to help ensure the integrity of their A-E contract management processes.

**MONTHLY AUDIT ACTIVITY – February 2009**  
Status Report to the Board of Supervisors by IAD

**Detailed Breakout  
New Audit Findings by Risk Category**

	<b>Description</b>	<b>Results</b>
	Material Findings	<b>None</b> issued during February 2009.
	Significant Findings	<b>1</b> issued in February 2009.
	Control Findings	<b>7</b> issued in February 2009.

Board Date: March 24, 2009

Exhibit A, Page 5 of 11

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 – February 2009**  
 Status Report to the Board of Supervisors by IAD

**NON-MATERIAL FINDINGS**

Exhibit	Description	Comments
B.	DEPT: CEO/Information Technology  TITLE: Audit of Internal Controls on Contract Administration and Related Contract Payments  AUDIT NO: 2827  ISSUED: February 11, 2009	<p><b>Scope:</b> Audit of internal controls and processes over CEO/IT's contract administration and contract payments for the year ending June 30, 2008 to determine if contracts are administered effectively to prevent overruns; contract payments are valid, supported and allowable per contract terms; sole source contracts are in compliance with Contract Policy Manual requirements; and processes are efficient and effective.</p> <p><b>Conclusion:</b> We found overall internal controls and processes are in place to: (1) ensure contracts are monitored effectively to prevent contract overruns; (2) contract payments are valid, supported, allowable, and processed completely, accurately and timely in accordance with County and CEO/Information Technology's policies and procedures; (3) Sole Source contracts generally contained appropriate justification and management authorization; and (4) business processes were efficient and effective. We identified <b>one (1) Significant Issue</b> concerning sole source contracts and <b>seven (7) Control Findings</b> resulting in <b>eight (8) recommendations</b> to strengthen existing controls and processes over contract administration and contract payments.</p> <p><b>Background:</b> CEO/IT administered <b>387 contracts totaling \$109 million</b> during FY 2007/08 <b>including 25 sole source contracts</b> totaling \$8 million. In addition, CEO/IT made over <b>\$17 million in contract payments</b> during that period.</p> <p><b>Type of Recommendations:</b> Consult with CEO/Purchasing on whether two sole source contracts require Board of Supervisor approval; establish a process to have CEO/IT Contracts review all sole source requests; establish a written policy describing responsibility for contract monitoring; ensure all commodities received at the Data Center warehouse are verified and documented upon receipt; ensure applicable supporting documents are obtained and reviewed prior to payment approval; keep Authorized Signature Lists current; ensure the accuracy of contract file payment records; process all contract payments through CEO/IT Finance.</p>

**MONTHLY AUDIT ACTIVITY – February 2009**  
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
E.	<p>DEPT:                      Auditor-Controller                      Human Resources                      County Procurement Office</p> <p>TITLE: Computer Assisted Audit                      Techniques – February 2009</p> <p>AUDIT NO: 2844-H</p> <p>ISSUED: February 27, 2009</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 14,594 vendor invoices paid in January 2009 amounting to about <b>\$75 million</b> and found <b>99.99%</b> of the invoices were only paid once. Of the \$75 million vendor invoices, we identified <b>two</b> duplicate payments made to vendors amounting to <b>\$3,991</b>. The Auditor-Controller currently has a recovery rate from vendors of about <b>97%</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>\$752,794</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>

**MONTHLY AUDIT ACTIVITY – February 2009**  
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
D.	<p>DEPT: Auditor-Controller</p> <p>TITLE: First Follow Up Audit, Internal Control Review of Claims &amp; Disbursing's Vendor Payment Process</p> <p>AUDIT NO: 2829-H</p> <p>ISSUED: February 11, 2009</p>	<p><b>Scope:</b> First Follow Up Audit of A-C Claims &amp; Disbursing's Vendor Payment Process to determine the implementation status of <b>(7) recommendations</b> made in our original audit report dated April 2, 2008. <b>No material or significant issues were identified in that audit.</b></p> <p><b>Conclusion:</b> Our Follow-Up Audit indicated that A-C Claims &amp; Disbursing took satisfactory corrective action to fully implement <b>(4)</b> recommendations. For the remaining recommendations, <b>(1)</b> is in process; <b>(1)</b> is not implemented; and <b>(1)</b> is closed. Claims &amp; Disbursing is in process of implementing the remaining recommendations.</p> <p><b>Background:</b> The Claims &amp; Disbursing Unit in A-C Central Operations processes vendor payments for departments/agencies and is a centralized, core business process. Vendor payments are made for Board-approved contracts, price agreements, purchase orders, and miscellaneous vendor invoices for goods and services received in the County. <b>During Fiscal Year 2006/07, A-C Claims&amp; Disbursing processed 68,559 vendor payments totaling over \$1.6 billion.</b></p> <p><b>Type of Recommendations:</b> Ensure vendor discounts are identified and taken when applicable; ensure sales taxes are charged and detected on all applicable purchases; continue efforts in processing invoices within their internal goal of 10 business days; ensure supervisory reviews of Vendor Table Update Requests are performed timely; provide additional supervision and training over Claims &amp; Disbursing's Quality Assurance Audits and Stratification Reviews.</p>

Board Date: March 24, 2009

Exhibit A, Page 8 of 11

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**MONTHLY AUDIT ACTIVITY – February 2009**  
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
E.	<p>DEPT: Sheriff-Coroner</p> <p>TITLE: Final Close-Out of First Follow Up Audit of Compliance of Sheriff- Coroner Administration Purchasing Card (Cal Card) Expenditures (Original Audit No. 2766-2)</p> <p>AUDIT NO: 2829-I</p> <p>ISSUED: February 11, 2009</p>	<p><b>Scope:</b> <b>Final Close-Out</b> First Follow-Up Audit of Sheriff-Coroner Administration's purchasing card (Cal Card) expenditures for the fiscal year ending June 30, 2007 to determine the implementation status of <b>(1)</b> recommendation made in our original report dated April 29, 2008 concerning cardholders that exceeded their 30-day purchase limit. <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 the 1 recommendation.</b> We commend the personnel in Sheriff-Coroner Financial/Administrative Services for their responsiveness in addressing our recommendation. Tracking mechanisms have been instituted to ensure cardholders do not exceed their 30-day purchase limits. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>Background:</b> On November 7, 2007, the Audit Oversight Committee directed the Internal Audit Department to conduct an audit of expenditures incurred by the Sheriff Administration. During FY 2006-07, there were <b>\$30,523 in Cal Card expenditures</b> incurred on behalf of Sheriff Administration. Neither the Sheriff-Coroner, Undersheriff, nor the Assistant Sheriffs were Cal Card cardholders during that time.</p> <p><b>Type of Recommendation:</b> Sheriff-Coroner Department establish a process to track 30-day purchase limits of cardholders, and to notify cardholders that exceed the purchase limits for appropriate remediation.</p>

**MONTHLY AUDIT ACTIVITY – February 2009**  
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Exhibit	Description	Comments
F.	<p>DEPT: CEO/County Procurement Office</p> <p>TITLE: Final Close-Out of First Follow Up Audit of CEO/Purchasing Division Audit Alert – County Cal Card Program (Original Audit No. 2766-3)</p> <p>AUDIT NO: 2829-K</p> <p>ISSUED: February 11, 2009</p>	<p><b>Scope:</b> <b>Final Close-Out</b> First Follow-Up of an <b>Audit Alert</b> to County Executive Office/Purchasing concerning an issue identified in our audit of Sheriff Administration’s purchasing card (Cal Card) expenditures. Our Audit Alert identified <b>(1) recommendation</b> to investigate with US Bank that system controls are in place and operating as intended to decline purchases by cardholders that exceed purchase limits.</p> <p><b>Conclusion:</b> Our Follow-Up Audit found that CEO/Purchasing (now the County Procurement Office) took satisfactory corrective action with US Bank to implement the recommendation concerning cardholder 30-day purchase limits. Bank controls are in place to decline purchases exceeding the cardholder limits. However, limits could be exceeded in instances when there are prior pending charges that get posted. Cardholders who approach their 30–day limits need to monitor pending charges to not exceed their purchase limits.</p> <p><b>Background:</b> Our original audit of Sheriff Administration’s purchasing card (Cal Card) expenditures found six instances where cardholders exceeded the 30-day purchase limit of \$15,000. <i>The County of Orange Cal Card Policies and Procedures Section V. – Purchase Authorization</i> states that the issuing bank (U.S. Bank) established a “purchase authorization process” which ensures that the purchase is within the monthly purchase limit and single purchase limit established for that card. The policy states “If the purchase exceeds the monthly or single transaction limit...the purchase will be declined.”</p> <p><b>Type of Recommendation:</b> CEO/Purchasing work with US Bank to ensure cardholder purchase limits cannot be exceeded.</p>

**MONTHLY AUDIT ACTIVITY – February 2009**  
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
G.	<p>DEPT: Sheriff-Coroner</p> <p>TITLE: Final Close-Out of First Follow Up Audit of DMJM H&amp;N Contracts and A-E Contract Management Process (Original Audit No. 2768)</p> <p>AUDIT NO: 2829-J</p> <p>ISSUED: February 11, 2009</p>	<p><b>Scope:</b> Final Close-Out of First Follow-Up Audit of Sheriff-Coroner DMJM H&amp;N Contracts and A-E Contract Management Process. Our audit was limited to reviewing, as of December 31, 2008, actions taken to implement the nine recommendations made in our original audit report dated August 27, 2008.</p> <p><b>Conclusion:</b> Our Follow-Up Audit indicated that the Sheriff-Coroner took satisfactory corrective action to fully implement all <b>nine (9)</b> recommendations. The nine (9) recommendations identified ways that the Sheriff-Coroner could enhance processes and controls to help ensure the integrity of their A-E contract management processes.</p> <p><b>Background:</b> On January 15, 2008, the County Board of Supervisors directed the Internal Audit Department to perform an informational review of the vendor, DMJM H&amp;N, during Board discussion of the Sheriff-Coroner Architect-Engineering contract (\$2.4 million) with DMJM H&amp;N for the James A. Musick jail expansion master plan. In response to the Board's request and correspondence with Chairman John M.W. Moorlach's Office, we developed agreed-upon procedures and audited the Sheriff-Coroner 10 contracts with DMJM H&amp;N and the Architect-Engineering (A-E) contract management process for internal controls, compliance with County and Sheriff-Coroner policies and to recommend opportunities to implement best practices.</p> <p><b>Type of Recommendation:</b> Project managers prepare a formal record of negotiation, and maintain an event log for A-E contract files; establish a consistent written methodology for calculating evaluation committee scores; determine the appropriate methodology for scoring A-E firms; implement a quality review process to ensure the accuracy of A-E evaluation scores; require that each evaluation committee member sign a no conflict of interest document, and that they will abide by evaluation committee rules; evaluation committee include a representative from the user division; and a copy of the record of negotiation be provided to the Board of Supervisors.</p>

Board Date: March 24, 2009

Exhibit A, Page 11 of 11

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