OC Board of Supervisors'

Internal Audit Department

ORANGE COUNTY

EXHIBIT A

MONTHLY AUDIT ACTIVITY REPORT FOR NOVEMBER 2009 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda
December 15, 2009

Project No. 2907-5

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

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ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

RISK BASED AUDITING
GAO & IIA Peer Review Compliant – 2001, 2004, 2007

2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year

2008 Association of Local Government Auditors' Bronze Website Award

2005 Institute of Internal Auditors' Award 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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December 15, 2009

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of November 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,

Dr. Peter Hughes, CPA

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

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit **AUDITS:**

B County Executive Office: We audited certain records and documents for Fiscal Year 2008-2009 to determine if the County of Orange was properly funding the Trust established for the **Retiree Medical Plan**. We found that the County correctly applied the actuarial recommendation to properly fund the Retiree Medical Plan for Fiscal Year 2008-2009. **Employer contributions totaled $18,460,729** from July 4, 2008 through December 4, 2008. We identified one **(1) Significant Issue** and four **(4) Control Findings** to enhance existing controls and processes over the administration of the Retiree Medical Trust. The **Significant Issue** – the reconciliation method used to update the Retiree Medical Trust Fund from the OCERS Statement was flawed and resulted in an error of $213,847.92 in recording interest income. The **Control Findings** were in the following areas: timeliness in reconciling and recording financial information; documented supervisory reviews; and written procedures.

Exhibit **MONTHLY PERFORMANCE REPORT OF CAATS (COMPUTER ASSISTED AUDIT TECHNIQUES)**:

C. Auditor Controller, Human Resources and County Executive Office/Purchasing – Duplicate Vendor Payments and Other Periodic Routines – November 2009: We analyzed **12,080** vendor invoices paid in October 2009 amounting to about **$154 million** and found **99.95%** of the invoices were only paid once. Of the $154 million vendor invoices, we identified **6** duplicate payments made to vendors totaling $12,944. To date we have identified **$906,985** in duplicate vendor payments, of which **$833,658** has been recovered and is a noteworthy achievement by the Auditor-Controller's Office.

Exhibit **FOLLOW UP AUDITS**

D. First and Final Close-Out Follow-Up Audit of Internal Controls: County Executive Office/Information Technology Contract Administration and Related Contract Payments (Original Audit No. 2827, Issued February 11, 2009) Our **First** Follow-Up Audit of CEO/IT found that all **eight (8)** recommendations from our original audit report were fully implemented. As such, **this report represents the final close-out of the original audit**.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

New Audit Findings by Risk Category

	Description	Results
	Material Weaknesses Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.	**None** issued during November 2009. **None** issued since July 2009.
	Significant Findings Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.	**1** issued in November 2009. **1** issued since July 2009.
	Control Findings Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues 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.	**4** issued in November 2009. **85** issued since July 2009.

Total Audit Findings for FY 2009-10: 86

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 INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	DEPT: County Executive Office TITLE: County of Orange Retiree Medical Plan – Annual Required County Contributions AUDIT NO: 2813 ISSUED: November 17, 2009	**Scope:** We audited certain records and documents for Fiscal Year 2008-2009 to determine if the County of Orange was properly funding the Trust established for the Retiree Medical Plan. **Conclusion:** We found that the County correctly applied the actuarial recommendation to properly fund the Retiree Medical Plan for Fiscal Year 2008-2009. Employer contributions totaled $18,460,729 from July 4, 2008 through December 4, 2008. **Background:** The County of Orange Retiree Medical Plan assists eligible Orange County (OC) retired employees, retired employees of other public agencies that participate in the Plan, and their spouses and dependents, in maintaining health coverage after retirement. **Type of Recommendations:** We identified one **(1)** **Significant Issue** and four **(4)** **Control Findings** to enhance existing controls and processes over the administration of the Retiree Medical Trust. The **Significant Issue** – the reconciliation method used to update the Retiree Medical Trust Fund from the OCERS Statement was flawed and resulted in an error of $213,847.92 in recording interest income. The **Control Findings** were in the following areas: timeliness in reconciling and recording financial information; documented supervisory reviews; and written procedures.

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 INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
C.	DEPT: Auditor-Controller Human Resources County Executive Office/ Purchasing TITLE: Monthly Performance Report of CAATS (Computer Assisted Audit Techniques) – November 2009 AUDIT NO: 2941-E ISSUED: November 20, 2009	**Scope:** The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 4 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary. **Conclusion:** • Duplicate Payments to Vendors: We analyzed 12,080 vendor invoices paid in October 2009 amounting to about **$154 million** and found **99.95%** of the invoices were only paid once. Of the $154 million vendor invoices, we identified **6** duplicate payments made to vendors totaling **$12,944**. The Auditor-Controller currently has a recovery rate from vendors of about **93%** 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 **$833,658,** this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • Payroll Direct Deposits: No findings noted. • Employee Vendor Match: In November 2009, we identified **7** potential employee-vendor matches. These matches have been provided to Human Resources for further evaluation as to whether any employee vendor conflicts exist. • Retiree/Extra Help Hours: As of 10/31/09, no working retirees have exceeded annual limits of 960 or 720 hours for FY 09-10. **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 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.

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MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
D	DEPT: County Executive Office/ Information Technology TITLE: Contract Administration and Related Contract Payments, (Original Audit No. 2827, Issued February 11, 2009) AUDIT NO: 2927-A ISSUED: November 5, 2009	**Scope:** First and Final Close-Out Follow-Up Audit of contract administration and related contract payments processed in CEO/Information Technology (CEO/IT) to determine the implementation status of **eight (8)** recommendations made in our original audit report. No material weaknesses were identified in the audit; however we noted one (1) Significant Issue and seven (7) Control Findings. **Conclusion:** Our First Follow-Up Audit indicated that CEO/IT fully implemented all **eight (8)** of the recommendations. We commend CEO/IT on their responsiveness in implementing our recommendations. **As such, this represents the final close-out of the original audit.** **Background:** 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. **Type of Recommendations:** Consult with CEO/Purchasing on whether two sole source contracts require Board of Supervisor approval (Significant Issue); 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.

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