District - John M.W.

2nd

2

0

EXHIBIT A

MARCH 2010 AUDITS BY IAD

MONTHLY AUDIT ACTIVITY REPORT

Presented on Board Agenda April 20, 2010

- Countywide Pension Practices Overall 99.62% (778 out of 781) of the retirees did not receive questionable promotions and salary increases. We found two additional questionable instances of unusually high "End-of-Career" promotions and salary increases similar to the one instance identified by the Grand Jury.
- CAATs IAD found no duplicate payments made to vendors out of 10,143 invoices paid in February 2010 (amounting to about \$164 million).
- Auditor-Controller Accounts Receivable/Collections Process - IT Results (Over \$200 million in accounts receivable processed annually). All six (6) remaining IT recommendations were implemented.
- JWA/Parking Concepts Inc. (\$35.5 million in gross receipts remitted annually). All fourteen (14) recommendations were implemented.

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

Assistance in assembling this report provided by:
Eli Littner, Deputy Director, CPA, CISA
Alan Marcum, Senior Audit Manager, MBA, CPA
Michael Goodwin, Senior Audit Manager, CPA, CIA
Autumn McKinney, Senior Audit Manager, CPA, CISA

Project No. 2907-9

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Hughes for the Most Outstanding Article of the Year





Letter from Dr. Peter Hughes, CPA





Dr. Peter Hughes
DIRECTOR
PH.D., MBA, CPA,
CCEP, CITP, CIA, CFE

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

Eli Littner
DEPUTY DIRECTOR
CPA, CIA, CFE, CFS, 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, CGFM

Hall of Finance & Records

12 CIVIC CENTER PLAZA, ROOM 232 SANTA ANA, CA 92701 www.ocgov.com/audit

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

RISK BASED AUDITING

GAO & IIA Peer Review Compliant 2001, 2004, 2007



April 20, 2010

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of March 2010. 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.

Board Date: April 20, 2010 Exhibit A, Page 2 of 10

Executive Summary

Exhibit AUDITS

B. Human Resources Department – Audit of Countywide Pension Practices: Overall 99.62% (778 out of 781) of the retirees did not receive questionable promotions and salary increases. In addition, all promotions and salary increases for the 36 retirees subject to our audit complied with the County policies and procedures and possessed all required documentation, approval and support. However, we found two additional questionable instances of unusually high "End-of-Career" promotions and salary increases similar to the one instance identified by the Grand Jury.

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 – March 2010: We analyzed 10,143 vendor invoices paid in February 2010 amounting to about \$164 million and found 100% of the invoices were only paid once.

Of the \$164 million vendor invoices, we identified **no** duplicate payments made to vendors. To date we have identified **\$939,653** in duplicate vendor payments, of which **\$845,560** has been recovered and is a noteworthy achievement by the County.

Exhibit FOLLOW UP AUDITS:

D. <u>Auditor-Controller:</u> Over \$200 MILLION IN RECEIVABLES PROCESSED ANNUALLY. Information Technology Results for Audit of Auditor-Controller Accounts Receivable/ Collection Process – **Second and Final Close-Out** Follow-Up Audit, Original Audit No. 2428-B, Issued August 11, 2005.

Our Second Follow-Up Audit found that all remaining six (6) IT recommendations were fully implemented from our original audit containing thirty-seven (37) IT recommendations. Thirty-one (31) IT recommendations were previously implemented or closed in the First Follow-Up Audit. As such, this report represents the final close-out of the original audit.

Board Date: April 20, 2010 Exhibit A, Page 3 of 10

Executive Summary

E. <u>John Wayne Airport – Parking Concepts, Inc.</u> \$35.5 MILLION IN GROSS RECEIPTS REMITTED ANNUALLY. First and Final Close-Out Follow-Up Audit of Parking Concepts, Inc.,

Our First Follow-Up Audit found that all **fourteen (14)** IT recommendations were fully implemented from our original audit. As such, **this report represents the final close-out of the original audit**.

Board Date: November 24, 2009 Exhibit A, Page 4 of 16

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 March 2010. 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.	None issued in March 2010. 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.	3 issued in March 2010. 101 issued since July 2009.

Total Audit Findings for FY 2009-10: 102

Board Date: April 20, 2010 Exhibit A, Page 5 of 10

Detailed Report

NON-MATERIAL FINDINGS

	Description	Comments
B.	DEPT: Human Resources Dept TITLE:	Scope: We audited retirees who received cumulative salary increases greater than 10% in total for the three years prior to their retirement in order to identify if "questionable personnel actions" took place that increased or spiked the employee's pension. These selection criteria resulted in a review of 36 retirees (4.6%) out of a total of 781 retirees.
	Audit of Countywide Pension Practices AUDIT NO: 2913	Conclusion: We found two additional questionable instances of unusually high "End-of-Career" promotions and salary increases similar to the one instance identified by the Grand Jury. Overall 99.62% (778 out of 781) of the retirees did not receive questionable promotions and salary increases. In addition, all promotions and salary increases for the 36 retirees subject to our audit complied with the County policies and procedures and possessed all required documentation, approval and support.
	ISSUED: March 26, 2010	Background: The Orange County Grand Jury in their report titled <i>The Guardian of Last Resort on the Public Administrator/Public Guardian</i> , dated May 6, 2009 identified "questionable pension practices" where an employee received a promotion and salary increase of 57% within one year of retirement. The Grand Jury cited that the one year promotion is costing the taxpayers of Orange County an additional \$1,453,100 in lifetime pension benefits. The Grand Jury recommended that the County Internal Audit Department conduct an in-depth review of Orange County Human Resources (OCHR) personnel records to determine if additional instances of "questionable pension practices" (pension spiking) exist. The Annual Audit Plan for fiscal year 2009-2010, including the Audit of Countywide Pension Practices, was approved by the Audit Oversight Committee on May 27, 2009.
		Recommendations: Our recommendations to address the questionable instances of unusually high "End-of-Career" promotions and salary increases is to require the approval of the Board of Supervisors for all proposed salary increases in excess of 15%. In addition, Orange County Human Resources should strengthen controls over monitoring salary increases.

Board Date: April 20, 2010 Exhibit A, Page 6 of 10

Detailed Report

	Description	Comments
C.	DEPT: Auditor-Controller Human Resources County Executive Office/ Purchasing TITLE: Monthly Performance Report of CAATS (Computer	Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 4 on-going CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary. We are also in the process of performing a new routine for <u>employee delinquent receivables</u> (started in February 2010). Upon completion, we will evaluate the merits of continuing this routine periodically.
	Assisted Audit Techniques) – March 2010 AUDIT NO: 2941-I	 Conclusion: <u>Duplicate Payments to Vendors</u>: We analyzed 10,143 vendor invoices paid in February 2010 amounting to about \$164 million and found 100% of the invoices were only paid once. Of the \$164 million vendor invoices, we identified no duplicate payments made to vendors. The County currently has a recovery rate from vendors of about 94% on these duplicate payments.
	ISSUED: March 30, 2010	Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$845,560 , this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.
		Multiple Payroll Direct Deposits: No findings noted.
		• Employee Vendor Match: In 11/09 and 1/10, we identified a total of 12 potential employee-vendor matches. These matches were provided to HR for evaluation as to whether any employee vendor conflicts exist. As of 3/22/10, HR determined that 6 were <u>not</u> a conflict. Their review is in process for the remaining 6 matches.
		• Retiree/Extra Help Hours: As of 3/04/10, no working retirees exceeded the annual limits of 960 or 720 hours for FY 09-10, as mandated by Government Code Sections 31680.6 and 31641.04.
		• Employee Delinquent Receivables - Centralized Receivables: We are awaiting data from the A-C/CUBS system in order to perform our analysis. We reported the results from our analysis of delinquent property taxes last month (February 2010).

Board Date: April 20, 2010

Exhibit A, Page 7 of 10

Detailed Report

De	scription	Comments
CONTINUE	Ο,	
	Resources executive Office/	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 Auditor-Controller, Human Resources, or County Procurement Office for
Report of CA	thly Performance AATS (Computer dit Techniques) –	their review and concurrence, and subsequent correction/recovery. We also work these departments to identify internal control enhancements with the purpos preventing future occurrences of the type of findings identified by the CAATs.
AUDIT NO:	2941-l	
ISSUED: M	arch 30, 2010	

Board Date: April 20, 2010 Exhibit A, Page 8 of 10

Detailed Report

	Description	Comments
D	DEPT: Auditor-Controller TITLE: Second and Final Close-Out Follow-Up – IT Results for Audit of \$200M Accounts Receivable/Collections Process AUDIT NO: 2849 Original Audit No. 2428-B, Issued August 11, 2005 ISSUED: March 18, 2010	Scope: Second and Final Follow-Up Audit - Review of Accounts Receivable/Collection Processes – Information Technology Results to determine the implementation status of the (six) 6 IT recommendations remaining from our original audit containing thirty-seven (37) IT recommendations. Thirty-one (31) IT recommendations were implemented or closed in our First Follow-Up Audit dated August 5, 2008. No material or significant issues were identified in the original audit report. Conclusion: Our Second Follow-Up Audit found the remaining six (6) IT recommendations were fully implemented. As such, this report represents the final close-out of the original audit. Background: The Auditor-Controller (A-C) is the Chief Accounting Officer for the County and oversees its central accounting systems, including the Accounts Receivable and Collections Section. The Accounts Receivable Unit processes approximately \$200 million in receivables annually. The A-C utilizes the Columbia Ultimate Business Systems' Revenue Plus Collector System. This system, known as CUBS, serves as the subsidiary accounts receivable ledger. As such, the initial recording and subsequent collection of receivables are recorded in CUBS. Our integrated audit scope covered the initial recording of accounts receivable; and the collection and write-off of delinquent accounts. This report covered the selected IT controls (general and application controls) supporting these processes and are discussed in the original audit report No. 2428-B. Recommendations: Recommendations were made in the areas of logical access, security monitoring, security related personnel practices and user account management, business continuity management – IT Division, physical security, business continuity plan – Accounts Receivable/Collections, security program planning and management, information resource classification, software development methodology, application security, and data validation features.

Board Date: April 20, 2010 Exhibit A, Page 9 of 10

Detailed Report

	Description	Comments
E.	DEPT: John Wayne Airport	Scope: First and Final Follow-Up Audit – JWA/Parking Concepts, Inc. to determine the implementation status of fourteen (14) recommendations from our original audit dated August 6, 2009. No material or significant issues were identified in the original audit report.
	TITLE: First and Final Close-Out Follow-Up – Parking Concepts Inc.	Conclusion: Our First Follow-Up Audit found the all fourteen (14) recommendations were fully implemented. As such, this report represents the final close-out of the original audit.
	AUDIT NO: 2937-A Original Audit No. 2732, Issued August 6, 2009 ISSUED: March 31, 2010	Background: The County entered into an operating agreement with Parking Concepts, Inc., dated July 29, 2003, as amended, for the management and operation of the parking facilities located at JWA. The facilities include three parking structures and two surface lots. Parking Concepts, Inc. collects and remits all gross receipts (parking revenue) to the County. PCI is paid an operating fee based on fixed hourly rates for hours worked by specified labor classifications. Approximately \$35.5 million in gross receipts are remitted annually to JWA and \$4 million in operating fees are paid annually.
		Recommendations: Record keeping, internal control, and/or operating agreement compliance improvements regarding: operating fees are billed based on scheduled hours, not actual hours worked; labor reports may not reflect actual labor activity; one job code is used for two billable supervisory categories; allocating maintenance positions to supervisor positions; allocating chief auditor position to shift supervisor position; some employee's job codes are not current; employee timecard documentation is not adequate; late employee timecards; fees billed to JWA are not adjusted when substitutions occur; and payment of audit costs.

Board Date: April 20, 2010 Exhibit A, Page 10 of 10