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EXHIBIT A

FEBRUARY 2011 AUDITS BY IAD

MONTHLY AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda March 22, 2011

- Internal Control Audit of the Treasurer-Tax Collector \$5.3 Billion Tax Collection and Cash Receipt Process finds controls are in place over tax collections and cash receipts; however, significant improvements are needed over penalty cancellations charged for late property tax payments.
- Fraud Hotline Activity From July 1, 2010 through December 31, 2010), we received 77 new complaints of alleged improper activities, of which 16 were actionable calls; 57 were referred calls; and 4 calls did not contain sufficient information for an investigation. The allegations in 4 of the 18 cases closed were substantiated. In all cases, appropriate corrective action was taken.
- Monthly CAAT Reveals 100% of Vendors Payments Are Only Paid Once: We found no duplicate payments out of 29,331 vendor invoices paid in January 2011.
- Final Close-Out Second Follow-Up Internal Control Audit of OC Public Works/Transportation Interdepartmental Billing Process: Our Second Follow-Up Audit found OC Public Works/Transportation implemented the two (2) recommendations remaining from our original audit.
- First Follow-Up Internal Control Audit of Countywide Fee Development Monitoring Process We found six (6) recommendations fully implemented; one (1) recommendation partially implemented; one (1) recommendation not implemented from our original audit; and made one (1) new recommendation.
- Final Close-Out First Follow-Up Audit Evaluation of Auditor-Controller CAFR Footnote Disclosure Process: Our First and Final Follow-Up Audit found four (4) recommendations fully implemented and two (2) recommendations closed from our original audit.

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

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Project No. 1007-8

RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government







Letter from Dr. Peter Hughes, CPA





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RISK BASED AUDITING



March 22, 2011

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the period of January 19, 2011 through February 28, 2011. For each audit report we provide 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.

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Executive Summary

Exhibit Reports:

- B. Treasurer-Tax Collector Internal Control Audit of \$5.3 Billion Tax Collection and Cash Receipt Processes: We found controls were adequate to ensure tax collections and cash receipts were received, recorded, deposited, and reconciled timely, completely and accurately. We also found controls were adequate over all other types of tax payment methods, such as payments received via mail payments, credit card payments, internet payments, electronic fund transfers, and bank payments. However, significant improvements are required in the controls and process over penalty cancellations charged for late payments of property taxes.
- C. <u>Fraud Hotline Activity</u> In this period (July 1, 2010 through December 31, 2010) we received 77 new complaints of alleged improper activities, of which 16 were actionable calls; 57 were referred calls; and 4 calls did not contain sufficient information/other for an investigation. The allegations in 4 of the 18 cases closed were substantiated. In all cases, appropriate corrective action was taken.

Exhibit Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques):

D. <u>Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – January 2011</u>: We analyzed **29,331** vendor invoices paid in January 2011 amounting to about **\$188 million** and found **100%** of the invoices were only paid once. To date we have identified **\$974,288** in duplicate vendor payments, of which **\$904,864** has been recovered and is a noteworthy achievement by the County.

Exhibit Follow-Up Reports:

- E. Final Close-Out Second Follow-Up Internal Control Audit of OC Public Works/Transportation Interdepartmental Billing Process: Our Second Follow-Up Audit indicated that OCPW/Transportation implemented the remaining two (2) recommendations. As such, this represents the final close-out of the original audit.
- F. First Follow-Up Audit Internal Control Audit of Countywide Fee Development Monitoring Process: Our First Follow-Up Audit found the County Executive Office, Auditor-Controller and Clerk of the Board fully implemented six (6) recommendations, partially implemented one (1) recommendation, and have not implemented one (1) recommendation from our original audit. In addition, we made a **new recommendation** regarding the potential impact of Proposition 26.
- G. Final Close-Out First Follow-Up Audit Evaluation of Auditor-Controller CAFR Footnote Disclosure Process: Our First and Final Follow-Up Audit found four (4) recommendations fully implemented and two (2) recommendations closed from our original audit. As such, this represents the final close-out of the original audit.

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Detailed Report

New Audit Findings by Risk Category

Description	Results
Critical Control Weaknesses A serious audit finding or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s) and/or business goals. Management is expected to address "Critical Control Weaknesses" brought to their attention immediately.	None issued during February 2011. None issued since July 2010.
Significant Control Weaknesses Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.	Five (5) issued during February 2011. Seven (7) issued since July 2010.
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.	Nine (9) issued during February 2011. Fifty-nine (59) issued since July 2010.

Total Audit Findings for FY 2010-11: 66

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Detailed Report

Exhibit	Description	Comments
В	TITLE: Internal Control Audit of \$5.3 Billion Tax Collection and Cash Receipt Processes DEPT:	Scope: As directed by the Board of Supervisors on March 16, 2010, we conducted a Internal Control Audit of the Treasurer-Tax Collector's tax collection and cash receiprocesses, including an evaluation of controls over the receipting, recording, depositing and reconciling of property tax payments; penalty cancellations and tax refunds safeguarding of receipts until deposited; issues concerning a bankruptcy interest fundarking validations, and fee calculations; and process efficiency and effectiveness.
	Treasurer-Tax Collector Audit No: 2954	Conclusion: We found controls were adequate to ensure tax collections and cash receipts were received, recorded, deposited, and reconciled timely, completely and accurately for all types of tax payments, such as over-the-counter, mail payments, credit card payments, internet payments, electronic fund transfers, and bank payments.
	Issued: February 15, 2011	We found that significant improvements are required over penalty cancellations charged for late payments of property taxes. We identified five (5) Significant Control Weaknesses and two (2) Control Findings to improve controls over penalty cancellations; one (1) Control Finding for accountability over "trouble checks;" two (2) Control Findings for efficiency/effectiveness issues; and three (3) Control Findings concerning a bankruptcy interest fund, parking expenditures, and fee calculations.
		Background: The Treasurer-Tax Collector Cashiering Section receives and processes over-the-counter tax payments. The Remittance Processing Section processes tax payments made by mail. Other tax payment methods include credit card payments, electronic fund transfers, Automatic Clearinghouse (ACH) debits, and payments from banks for tax receivables and mortgage impound accounts. For FY 2008-09, about \$5.3 billion in tax collections and cash receipts were received and processed.
		Type of Recommendations : Improve controls over penalty cancellations regarding authorization, ATS controls, supervisory reviews, audit trails, and management reports to validate penalty cancellations are compliant with Revenue & Taxation Code; improve accountability over trouble checks; address issues concerning a bankruptcy interest fund, parking expenditures, and fee calculations; and address efficiency/effectiveness issues concerning operating hours and acceptance of partial/short tax payments.

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Detailed Report

Exhibit	Description	Comments
C	Description TITLE: OC Fraud Hotline Activity DEPT: OC Internal Audit Dept Audit No: 1003-B Issued: January 21, 2011	Scope: We have completed our report concerning the operation of the Orange County Fraud Hotline. The Bylaws of the Orange County Audit Oversight Committee delegates to the Internal Audit Department fraud policy activities, which includes the operation of the Fraud Hotline. This report is for the period of July 1, 2010 through December 31, 2010. Conclusion: We received 77 new complaints of alleged improper activities, of which 16 were actionable calls; 57 were referred calls; and 4 calls did not contain sufficient information/other for an investigation. Of the 16 actionable calls, 15 dealt with employee misconduct and 1 dealt with contractor misconduct. The allegations in 4 of the 18 cases closed were substantiated, the individual cases dealt with: the use of County equipment for non-business purposes; time abuse; and violation of Government Code. In all cases, appropriate corrective action was taken. Background: The OCIAD originally established and runs the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. The Hotline is monitored live for calls twenty-four hours a day, seven days a week. IAD staff monitors the telephone during business hours and contracted Hotline service professionals monitor the telephone during non-business hours. Callers can leave anonymous
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		Type of Recommendations: None

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Detailed Report

Exhibit	Description	Comments
D	Description DEPT: Auditor-Controller Human Resources County Procurement Office TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – February 2011 AUDIT NO: 1041-I	Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform four (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 Conclusion: • Duplicate Payments to Vendors: We analyzed 29,331 vendor invoices paid in January 2011 amounting to about \$188 million and found 100% of the invoices were only paid once. The County 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 \$904,864, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.
	ISSUED: February 25, 2011	Employee Vendor Match: All potential employee/vendor matches identified to date have been researched and resolved to Human Resource Department's satisfaction. Our next analysis will be performed at 12/31/10.
		 <u>Retiree/Extra Help Hours</u>: As of January 20, 2011, no individuals have exceeded the annual limits for FY 10-11.
		Multiple Payroll Direct Deposits: No findings noted.

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Detailed Report

Exhibit	Description	Comments
EXIIIDIL	CONTINUED, DEPT: Auditor-Controller Human Resources County Procurement Office TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – February 2011	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 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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Detailed Report

Exhibit	Description	Comments
E	TITLE: Final Close-out Second Follow-Up Internal Control Audit of Transportation Interdepartmental Billing Process DEPT: OC Public Works	Scope: Our audit was limited to reviewing, as of January 31, 2011 actions taken to implement the two (2) recommendations remaining from our First Follow-Up audit report dated September 22, 2010 (Audit No. 2927-D). Conclusion: Our Second Follow-Up Audit indicated that OCPW/Transportation implemented the remaining two (2) recommendations. As such, this represents the final close-out of the original audit. Background: Our original audit evaluated internal controls over OCPW/Transportation (currently OC Fleet Services) interdepartmental billings for the period October 1, 2007
	AUDIT NO: 1034-B (original audit no. 2823) Issued: February 8, 2011	through September 30, 2008. We evaluated transactions captured in the Fleet Focus System; the billable data extracted into the Flagship Billing System, and billings to departments/agencies generated by journal voucher for the following four components: Asset Management, Parts, Fuel, and Vehicle Pool. We evaluated user access to rates and account codes in the Flagship Billing System and the Fleet Focus System. We also performed a high-level review of IT general controls for OCPW as it relates to the Flagship Billing System, and the feasibility of consolidating depreciation billing into the Flagship Billing System. During the audit period, OCPW/Transportation's interdepartmental billing process billed over \$22 million in asset management, parts, labor, fuel, vehicle pool rental and depreciation costs to County departments. Type of Recommendations: None.

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Detailed Report

Exhibit	Description	Comments
F	TITLE: First Follow-Up Internal Control Audit of Countywide Fee Development Monitoring Process	Scope: We have completed a First Follow-Up Audit of the Internal Control Audit of the Countywide Fee Development Monitoring Process. Our audit was limited to reviewing, as of December 15, 2010, actions taken to implement eight (8) recommendations from our original audit.
	DEPT: County Executive Office Auditor-Controller Clerk of the Board	Conclusion: Our First Follow-Up Audit found the County Executive Office, Auditor-Controller and Clerk of the Board fully implemented six (6) recommendations, partially implemented one (1) recommendation, and have not implemented one (1) recommendation from our original audit report dated April 20, 2010. During the First Follow-Up Audit, a new issue came to our attention and we have developed a new recommendation regarding the potential impact of Proposition 26 on the Countywide Fee Development Monitoring Process.
	AUDIT NO: 1033-B (original audit no. 2922) Issued: January 25, 2011	Background: We conducted an internal control audit of the Countywide Fee Development Monitoring Process, which included an evaluation of monitoring and oversight controls; compliance with department and County policies; and evidence of process efficiencies and effectiveness. The County Executive Office/County Budget Office (CEO), Auditor-Controller Cost, Revenue & Budget (A-C), and Clerk of the Board (COB) have monitoring and oversight responsibilities over department/agency fee requests submitted for Board of Supervisors' approval. Their oversight responsibilities include ensuring that proposed revenues are related to the services provided and do not exceed the estimated costs of providing the services. Type of Recommendations: During the First Follow-Up Audit, a new issue came to our attention and we have developed a new recommendation regarding the potential impact of Proposition 26 on the County's Fee Development Monitoring Process, and to incorporate any resulting policy changes impacting the fee setting process into County procedures.

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Detailed Report

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