⋖

~

0

#### **EXHIBIT A**

### **NOVEMBER 2011 AUDITS BY IAD**

#### MONTHLY INTERNAL AUDIT ACTIVITY REPORT

# Presented on Board of Supervisors' Agenda December 13, 2011

- Internal Control Audit of Sheriff-Coroner/Health Care Agency US
  Immigration & Customs Enforcement (ICE) Contract Administration.
  We found that internal controls and processes in the Sheriff-Coroner and
  the Health Care Agency are adequate and effective to ensure proper
  billings to ICE and compliance with all requirements of the ICE Agreement.
- Special Request Follow Up Audit of Management Letters & Single Audit Report by County External Auditors Vavrinek, Trine, Day & Co We found that for the eighteen (18) recommendations, the County departments and agencies took satisfactory corrective action to fully implement thirteen (13) recommendations; two (2) recommendations have been partially implemented, and three (3) recommendations are currently in process.
- OC Internal Audit Department Internal Quality Assurance Self-Assessment (IQASA) The "Valuable Outcome" from the results of this IQASA Questionnaire is that staff and auditors reported that the Internal Audit Department scored 90% or better or an A in nine of the ten categories and a B for one of them. The scores for each of the ten categories clearly reveal that department personnel are committed to providing professional, objective and unbiased audits to the Board of Supervisors. In addition, the scores revealed that there is an outstanding level of teamwork, leadership and effective supervision on audit projects.
- Monthly CAAT Reveals 100% of Vendors Payments Were Only Paid Once.

#### Dr. Peter Hughes, MBA, CPA, CIA, CFE, CFF, CITP, CCEP Director of Internal Audit

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

### Project No. 1107-5

#### **RISK BASED AUDITING**

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

AICPA

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

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management







## Letter from Dr. Peter Hughes, CPA





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

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

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

Michael J. Goodwin, CPA SENIOR AUDIT MANAGER CIA

*Alan Marcum, CPA*SENIOR AUDIT MANAGER
MBA, CIA, CFE

**Autumn McKinney, CPA** SENIOR AUDIT MANAGER 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



December 13, 2011

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of November 2011. For each internal 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.

Board Date: December 13, 2011 Exhibit A, Page 2 of 9

#### **Executive Summary**

#### **Exhibit** Audit Reports:

- B. Internal Control Audit of Sheriff-Coroner/Health Care Agency US Immigration & Customs Enforcement Contract Administration: Our audit found internal controls and processes are adequate and effective in the Sheriff-Coroner and Health Care Agency to ensure proper billings to ICE and on-going compliance with all requirements in the ICE Agreement. We utilized a Business Process Maturity Model to evaluate compliance with all ICE Agreement requirements. We assessed the contract administration processes at the highest level, Stage 5 Strategically Managed, indicating their established processes have well defined criteria and standards that are clearly documented, adhered to, and communicated. We identified two (2) Control Findings to enhance existing controls in the Sheriff-Coroner and Health Care Agency.
- C. Special Request Follow Up Audit of County of Orange Management Letters & Single Audit Report by External Auditors Vavrinek, Trine, Day & Co.: We found that for the eighteen (18) recommendations, the County departments and agencies took satisfactory corrective action to fully implement thirteen (13) recommendations; two (2) recommendations have been partially implemented, and three (3) recommendations are currently in process.
- D. Internal Audit Department Internal Quality Assurance Self-Assessment (IQASA) The "Valuable Outcome" from the results of this IQASA Questionnaire is that staff and auditors reported that the Internal Audit Department scored 90% or better or an A in nine of the ten categories and a B for one of them. The scores for each of the ten categories clearly reveal that the department personnel are committed to providing professional, objective and unbiased audits to the Board of Supervisors. In addition, the scores revealed that there is an outstanding level of teamwork, leadership and effective supervision on the audit projects.

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

E. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – November 2011: We analyzed 13,679 vendor invoices paid in October 2011 amounting to about \$175 million and found 100% of the invoices were only paid once. Of the \$175 million vendor invoices, we identified no duplicate payments. To date we have identified \$980,675 in duplicate vendor payments, of which \$966,160 or 99% has been recovered and is a noteworthy achievement by the County. We also have a New CAAT for County employees as IHSS providers that is in progress with an updated status.

Board Date: December 13, 2011 Exhibit A, Page 3 of 9

#### **Detailed Report**

### **New Audit Findings & Recommendations 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.  * Material Weaknesses is used for an audit conducted under AICPA Attestation Standards.	No critical control weaknesses issued during November 2011.  No material weaknesses in internal control issued during November 2011.  Seven (7) total recommendations issued since July 2011.
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.	No significant control weaknesses issued during November 2011.  Six (6) total recommendations issued since July 2011.
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.	Two (2) control findings issued during November 2011.  Thirty-three (33) total recommendations issued since July 2011.

Total Audit Recommendations for FY 2011-12: 46

Board Date: December 13, 2011 Exhibit A, Page 4 of 9

### **Detailed Report**

	Description	Results
В.	TITLE: Internal Control Audit of US Immigration & Customs Enforcement (ICE) Contract Administration	<b>Scope:</b> We audited contract administration and billing processes in the Sheriff-Coroner and the Health Care Agency for the U.S. Immigration and Customs Enforcement (ICE) Inter-Government Service Agreement. Specifically, we evaluated the adequacy of internal controls over billing processes for detention and medical services; used a <i>Business Process Maturity Model</i> to evaluate the integrity of processes to ensure ongoing compliance with all ICE Agreement requirements, and determined if ICE billing and contract administration processes are efficient and effective.
	DEPT: Sheriff-Coroner Health Care Agency	<b>Conclusion:</b> Our audit found internal controls and processes in the Sheriff-Coroner and Health Care Agency are adequate and effective to ensure proper billings to ICE and on-going compliance with standards and requirements in the ICE Agreement. Using a <i>Business Process Maturity Model</i> , we assessed the processes for ensuring
	Report No: 1126  Issued: November 3, 2011	compliance with all contract requirements are at the highest level, <b>Stage 5</b> - <b>Strategically Managed</b> , indicating their established process has well defined criteria and standards that are clearly documented, adhered to, and communicated. The process has comprehensive performance measures to monitor and ensure consistent and predictable results. We identified <b>two (2) Control Findings</b> to enhance existing controls in the Sheriff-Coroner and the Health Care Agency.
		<b>Background</b> : Over a five year term of the ICE Agreement, this contract is estimated to generate approximately \$150 million in revenue to the County. During the 12-month audit period, the Sheriff-Coroner and Health Care Agency billed \$27.2 million for detention services and prescription medication reimbursement. The ICE Agreement provides for a total of <b>838 beds</b> to be used for ICE detainees in the Theo Lacy Facility in Orange and in the James A. Musick Facility in Irvine.
		<b>Recommendations</b> : Sheriff-Coroner to enhance its written policies and procedures for preparing monthly billings to ICE; Health Care Agency to strengthen its internal review process for reimbursement of prescription medications.

Board Date: December 13, 2011 Exhibit A, Page 5 of 9

### **Detailed Report**

	Description	Results
C.	TITLE: Special Request Follow Up Audit of Management Letters & Single Audit Report for Year Ended 06/30/10  Audit Issued by County External Auditors – Vavrinek, Trine, Day & Co.  DEPT: Auditor-Controller Health Care Agency OC Community Resources OC Waste & Recycle Probation Department Sheriff-Coroner Social Services Agency  Report No: 1116  Issued: November 9, 2011	Scope: At the request of the Audit Oversight Committee, we conducted a follow-up audit of recommendations contained in the FY 2009-10 County Management Letters and the Single Audit Report issued by the County's external auditor, Vavrinek, Trine, Day & Co., LLP (VTD). Our audit was limited to reviewing, as of August 19, 2011, actions taken by County departments/agencies to implement eighteen (18) recommendations made in the County Management Letters and the Single Audit Report.  Conclusion: We found that County departments and agencies took satisfactory corrective action to fully implement thirteen (13) recommendations; two (2) recommendations have been partially implemented, and three (3) recommendations are currently in process.  Background: The Management Letters contained two (2) current year observations related to internal controls over financial reporting and over compliance with federal programs. The Single Audit Report contained one (1) recommendation on internal control over financial reporting and fifteen (15) recommendations over compliance with certain major programs.  Type of Recommendations: None

Board Date: December 13, 2011 Exhibit A, Page 6 of 9

### **Detailed Report**

	Description	Results
D.	TITLE: Internal Quality Assurance Self-Assessment (IQASA)  DEPT:	<b>Scope</b> : The Internal Quality Assurance Self-Assessment Questionnaire was completed on September 26, 2011 by the Internal Audit Department in fulfillment of the Institute of Internal Auditor's (IIA's) Internal Assessment that requires a periodic self-assessment per Standard 1311. We took the format of our existing Control Self-Assessment (CSA) generic questionnaire that contained ten categories and 51 questions and revised the 51 questions to specifically assess the management and professionalism of the internal
	OC Internal Audit Department	audit department.
	Report No: 1154	Conclusion: The "Valuable Outcome" from the results of this IQASA Questionnaire is that staff and auditors reported that the Internal Audit Department scored 90% or better or an A in nine of the ten categories and a B for one of them. The scores for each of the ten categories clearly reveal that the department personnel are committed to
	Issued: November 8, 2011	providing professional, objective and unbiased audits to the Board of Supervisors. In addition, the scores revealed that there is an outstanding level of teamwork, leadership and effective supervision on the audit projects. Also, there was no internal control concerns were raised in the questionnaire or in department discussions that warranted further attention by the Internal Audit Department.
		<b>Background:</b> The Self-Assessment Questionnaire is designed as a "Best Practice" and was completed by all the auditors, staff and management in the department using an anonymous self-administered questionnaire. It was developed by our department as a template for any internal audit department in the private and governmental sectors to use.
		Recommendations: None

Board Date: December 13, 2011 Exhibit A, Page 7 of 9

### **Detailed Report**

	Description	Results
E.	DEPT: Auditor-Controller Human Resources CEO/County Procurement	<b>Scope:</b> 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.
	Office	Conclusion:
	TITLE:  Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – November 2011	• <u>Duplicate Payments to Vendors</u> : We analyzed 13679 vendor invoices paid in October 2011 amounting to about \$175 million and found 100% of the invoices were only paid once. Of the \$175 million vendor invoices, we identified no duplicate payments. The County currently has a recovery rate from vendors of about 99% 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 \$966,160, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.
	AUDIT NO: 1139-D	<ul> <li>Employee Vendor Match: We performed our analysis as of 9/30/11 and found no potential employee-vendor conflicts in the employee-vendor matches we reviewed. Our next analysis will be performed as of 12/31/11.</li> </ul>
	ISSUED: November 23, 2011	Retiree/Extra Help Hours: As of November 3, 2011, no individuals have exceeded the annual hourly limits for FY 11-12.
		Multiple Payroll Direct Deposits: No findings noted.
		• In Home Supportive Services (NEW): This data analysis was requested by the Board of Supervisors via HRD. As of 6/30/11, we identified 92 County employees who are IHSS providers. 31 out of the 92 are SSA employees. SSA determined that 21 of the 92 were resolved in a prior analysis by SSA. Of the remaining 71, HRD determined no conflict existed for 53 employees; 14 are being referred to the DA's Fraud Unit for further review as more research is needed to determine any potential fraud; and 4 are still under review by SSA. Also utilizing the IHSS provider data, we were able to perform some additional data analysis (beyond the BOS original request). See the full CAAT report for further details.

Board Date: December 13, 2011

Exhibit A, Page 8 of 9

### **Detailed Report**

Description	Results
Description  CONTINUED,  DEPT: Auditor-Controller Human Resources County Procurement Office Social Services Agency	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 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
TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – November 2011	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.

Board Date: December 13, 2011 Exhibit A, Page 9 of 9