

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

## EXHIBIT A

### APRIL 2012 AUDITS BY IAD MONTHLY INTERNAL AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda  
May 22, 2012

- **Special Request Audit – Performance Measure Validation of CEO/Human Resources Department – Employee Benefits, Vendor – Kaiser Permanent** The objectives of this audit were to determine if Kaiser is accurately reporting its performance measure results and develop an audit approach for the Human Resources Department to conduct future audits of benefits vendors to determine that the vendors are accurately reporting their performance measure results. We tested five out of Kaiser's twenty-three 2010 reported performance measures and found that they were accurately reported and supported.
- **Control Self-Assessment/Process Improvement by the Human Resources Department.** We facilitated three workshops in February and March 2012 at the direction of the Board of Supervisors on November 8, 2011, to help assess the department's effectiveness in meeting business and control objectives.
- **Monthly CAAT Reveals 99.99% of Vendor Invoices Were Only Paid Once.**
- **First Follow-Up Internal Control Audit of HCA Fee Generating Revenue.** The Health Care Agency is in process of implementing the one (1) recommendation from our original audit.

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

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Project No. 1107-10

#### 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

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



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



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

# Letter from Dr. Peter Hughes, CPA



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## **RISK BASED AUDITING**



**OC Fraud Hotline**  
(714) 834-3608

May 22, 2012

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of April 2012. 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,

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 INTERNAL AUDIT ACTIVITY STATUS REPORT

## Executive Summary

### Exhibit

#### Audit Reports:

- B. Special Request Audit – Performance Measure Validation of County Executive Office - Human Resources Department/Employee Benefits, Vendor – Kaiser Permanente The objectives of this audit were to determine if Kaiser is accurately reporting its performance measure results and develop an audit approach for the Human Resources Department to conduct future audits of benefits vendors to determine that the vendors are accurately reporting their performance measure results. We tested five out of Kaiser's twenty-three 2010 reported performance measures and found that they were accurately reported and supported.
- C. Control Self-Assessment/Process Improvement (CSA-PI) by the Human Resources Department: As directed by the Board of Supervisors on November 8, 2011, the Internal Audit Department facilitated three CSA-PI workshops in HRD that included all 36 HRD staff and management. The three workshops were conducted in February and March, 2012. CSA-PI is not an audit; rather, it is a consulting service that assists County departments in conducting their own internal assessment of the effectiveness of their controls and business processes. HRD management is taking the CSA-PI process very seriously and has been diligent in taking action to address issues raised in the three workshops.

### Exhibit

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

- D. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – April 2012: We analyzed **26,725** vendor invoices paid in March 2012 amounting to about **\$175 million** and found **99.99%** of the invoices were only paid once. Of the \$175 million vendor invoices, we identified **one** duplicate payment made to vendors for \$300. To date we have identified **\$983,595** in duplicate vendor payments, of which **\$970,101 or 99%** has been recovered and is a noteworthy achievement by the County.

### Exhibit

#### Follow-Up Audit Reports

- E. First Follow-Up Internal Control Audit of Health Care Agency Fee Generated Revenue. Our First Follow-Up Audit found Health Care Agency in process of implementing the one (1) recommendation made in our original audit report dated August 30, 2011. During the original audit, Health Care Agency generated approximately **\$18.7 million in revenue** from Board-approved, cost-recovery fees that are charged to the public for providing County services.

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

### New Audit Findings & Recommendations by Risk Category

	Description	Results
	<p><b>Critical Control Weaknesses</b> 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.</p> <p>* <b>Material Weaknesses</b> is used for an audit conducted under AICPA Attestation Standards.</p>	<p><b>No critical control weaknesses</b> issued during April 2012. <b>No material weaknesses in internal control</b> issued during April 2012.</p> <p><b>Seven (7) total recommendations</b> issued since July 2011.</p>
	<p><b>Significant Control Weaknesses</b> 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.</p>	<p><b>No significant control weaknesses</b> issued during April 2012.</p> <p><b>Twenty-two (22) total recommendations</b> issued since July 2011.</p>
	<p><b>Control Findings</b> Audit findings concerning <u>internal controls</u>, <u>compliance issues</u>, or <u>efficiency/effectiveness issues</u> 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.</p>	<p><b>No control findings</b> issued during April 2012.</p> <p><b>Forty-nine (49) total recommendations</b> issued since July 2011.</p>

**Total Audit Recommendations for FY 2011-12: 78**

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

	Description	Results
B.	<p>DEPT: County Executive Office - Human Resources Department Employee Benefits</p> <p>TITLE: <b>Special Request Performance Measure Validation Audit of Employee Benefits Vendor Kaiser Permanent</b></p> <p>AUDIT NO: 1155</p> <p>ISSUED: April 11, 2012</p>	<p><b>Scope:</b> The objectives of this audit were to determine if Kaiser is accurately reporting its performance measure results and develop an audit approach for the Human Resources Department to conduct future audits of benefits vendors to determine that the vendors are accurately reporting their performance measure results.</p> <p><b>Conclusion:</b> We tested five out of Kaiser's twenty-three 2010 reported performance measures and found that they were accurately reported and supported.</p> <p><b>Background:</b> The contract with Kaiser contains a set of performance measures in the areas of member service, member satisfaction, account management and quality of care. Each of the twenty-three (23) performance measures is assigned a performance level, and a penalty percent that Kaiser pays the County if the performance level is not achieved. The annual premium for Kaiser in 2010 was \$42,319,069. The total amount of the annual premium at risk because it is based on Kaiser's achievement of their performance measures is \$846,381 or 2 percent. The penalty percent range for each performance measure is from .08% to .1% of the annual premium or \$33,855 to \$42,319 in dollars.</p> <p><b>Recommendations:</b> None.</p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

	Description	Results
C.	<p>DEPT: Human Resources Department</p> <p>TITLE: <b>Control Self-Assessment &amp; Process Improvement By The Human Resources Department</b></p> <p>REPORT NO: 1156</p> <p>ISSUED: April 30, 2012</p>	<p><b>Scope:</b> In February and March 2012, the Internal Audit Department facilitated three CSA-PI workshops in the Human Resources Department (HRD) at the direction of the Board of Supervisors on November 8, 2011. CSA-PI is not an audit; rather, it is an audit technique that measures areas that traditional audit techniques are not designed to measure, such as trust, morale and corporate culture.</p> <p><b>Conclusion:</b> After completion of the three workshops that included all 36 HRD staff and management, a team was established to work with management to prepare an action plan that will address the higher-priority issues brought forward during the three workshops. Strengths and successes that were raised in the workshops included the skills, knowledge and experience of staff; dedication by staff who enjoy their work; and strong teamwork within the HRD divisions. Concerns and challenges identified in the workshops included lack of communication/teamwork between HRD divisions and from HRD management; resources and staff turnover; lack of succession planning; and perceived favoritism, equity issues. The results of the workshops were discussed with the County Executive Office. HRD management is taking the CSA-PI process very seriously and has been diligent in taking action to address issues raised in the workshops.</p> <p><b>Background:</b> CSA-PI workshops have three fundamental purposes. First, the workshops provide the teams with a formal process for self-evaluation. This process addresses strengths and obstacles that impact the teams' ability to achieve their objectives and to decide upon appropriate action. Secondly, a summary of the workshop results provides a basis for upper management to evaluate the control environment within a department. Lastly, the CSA-PI process encourages continuous application of the workshop principles and dynamics in the workplace by developing action plans to address concerns and build upon strengths identified in the workshops. The Internal Audit Department serves only as workshop facilitators and not as auditors. This process is based on the consensus of <u>impressions, comments, opinions, and perspectives of the workshop teams</u> and is not "audited or validated" in the traditional sense by Internal Audit.</p> <p><b>Type of Recommendations:</b> No recommendations are made for CSA-PI.</p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

	Description	Results
D.	<p>DEPT: Auditor-Controller Human Resources CEO/County Procurement Office</p> <p>TITLE: <b>Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – April 2012</b></p> <p>AUDIT NO: 1139-J</p> <p>ISSUED: April 30, 2012</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 four (4) on-going CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly or quarterly.</p> <p><b>Conclusion:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors:</u> We analyzed 26,725 vendor invoices paid in March 2012 amounting to about <b>\$175 million</b> and found <b>99.99%</b> of the invoices were only paid once. Of the \$175 million vendor invoices, we identified <b>one</b> duplicate payment made to vendors for \$300. The County currently has a recovery rate from vendors of about <b>99%</b> 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 <b>\$970,101</b>, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.</li> <li>• <u>Employee Vendor Match:</u> We performed an analysis of 39,402 employee and 15,801 vendor addresses and phone numbers at 3/31/12. We reviewed the potential employee-vendor matches identified and none appeared to be a conflict.</li> <li>• <u>Retiree/Extra Help Hours:</u> As of April 5, 2012, no individuals have exceeded the annual hourly limits for FY 11-12.</li> <li>• <u>Multiple Payroll Direct Deposits:</u> No findings noted.</li> </ul>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

	Description	Results
	<p><b>CONTINUED,</b></p> <p>DEPT:                      Auditor-Controller                      Human Resources                      County Procurement Office                      Social Services Agency</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – April 2012</p>	<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 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.</p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

	Description	Results
E.	<p>DEPT: Health Care Agency</p> <p>TITLE: <b>First Follow-Up Internal Control Audit of Fee Generated Revenue</b></p> <p>AUDIT NO: 1130-G</p> <p>ISSUED: April 2, 2012</p> <p>(Original Audit No. 1024, issued 08/30/11)</p>	<p><b>Scope:</b> We have completed a First Follow-Up Audit of Health Care Agency Fee Generated Revenue. Our audit was limited to reviewing, as of March 13, 2012, actions taken to implement the <b>one (1) recommendation</b> from our original audit. No critical or significant control weaknesses were identified in the original audit.</p> <p><b>Conclusion:</b> Our First Follow-Up Audit indicated the Health Care Agency (HCA) is in process of implementing the one recommendation. We found that HCA took appropriate action to address the recommendation and are working with the Auditor-Controller, County Executive Office and County Counsel on revisions to the County's revenue policy.</p> <p><b>Background:</b> HCA's Financial and Program Support Services Division and Revenue Unit are responsible for fee development and preparing fee studies of HCA cost-recovery fees subject to approval by the Board of Supervisors. During the audit period, HCA had <b>fourteen (14) fee studies</b> that require Board approval and received <b>fee generated revenue totaling \$18 million</b>. Our audit found internal controls over HCA's fee generated revenue are adequate, effective, and exemplary in the fact they have a well-structured and documented fee development process that can be considered a best practice for other County departments and agencies. However, HCA's ability to adjust certain fees to recover its program costs has been impacted by the economic downturn and a County political environment that is sensitive to raising fees for providing County services.</p> <p><b>Recommendations:</b> HCA consult with the Auditor-Controller and County Counsel to clarify County revenue policy requirements for submitting updated fee studies to the Board of Supervisors.</p>