

Internal Audit Department

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

EXHIBIT A

DECEMBER 2012 AUDITS BY IAD MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT Presented on the Board of Supervisors' Agenda January 29, 2013

Internal Control Audit of Health Care Agency Medical Billing Process.
Audit finds controls and processes are adequate to ensure medical billings are allowable, valid, and adequately supported. Information Technology application controls over the medical billing process are adequate in areas of user access, segregation of duties, system edit checks, system enforced holds/queues, and transactional audit trails.

Monthly Results of Continuous Auditing Using CAATS – November 2012. Reveals 99.99% of vendor invoices were only paid once.

Monthly Results of Continuous Auditing Using CAATS – December 2012. Reveals 100% of vendor invoices were only paid once.

First Follow-Up Revenue Generating Price Agreement – OC Community Resources/OC Parks, Parking Concepts Inc. OC Community Resources/OC Parks and Parking Concepts, Inc. (PCI) took satisfactory corrective action to implement twelve (12) recommendations, partially implement one (1) recommendation, one (1) recommendation is in process and one (1) recommendation has not been implemented, from our original audit dated October 7, 2011. The original audit contained fifteen (15) recommendations.

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

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Project No. 1209-6

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



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January 29, 2013

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of December 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 of these items.

Respectfully submitted,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit

Audit Reports

- B. Internal Control Audit of Health Care Agency Medical Billing Process: Our audit found internal controls over the Medical Billing Process are adequate to ensure the billings are allowable, valid, and adequately supported. Key controls such as pre-billing and post-payment reviews are in place to help detect incomplete or improper billings. Our audit also found IT application controls over the medical billing process are adequate in the areas of: (1) user access (password and account management), (2) segregation of duties, (3) system edit checks, (4) system enforced holds/queues, and (5) transactional audit trails. **HCA's annual medical billings totaled \$73 million** for services provided Behavioral Health, Public Health, and Medical and Institutional Health Services Programs.

Exhibit

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

- C. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – November 2012: We analyzed **14,486** vendor invoices paid in October 2012 amounting to about **\$224 million** and found **99.99%** of the invoices were only paid once. Of the \$224 million in vendor invoices, we identified **one** duplicate payment made to a vendor totaling \$5,013. To date we have identified **\$1,020,413** in duplicate vendor payments, of which **\$995,084 or 98%** has been recovered and is a noteworthy achievement by the County.
- D. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – December 2012: We analyzed **15,072** vendor invoices paid in November 2012 amounting to about **\$158 million** and found **100%** of the invoices were only paid once. Of the \$151 million in vendor invoices, we identified **no** duplicate payments made to vendors. To date we have identified **\$1,020,413** in duplicate vendor payments, of which **\$995,084 or 98%** has been recovered and is a noteworthy achievement by the County.

Exhibit

Follow-Up Audit Reports:

- E. First Follow-Up Revenue Generating Price Agreement Audit of OC Community Resources/OC Parks Parking Concepts, Inc. OC Community Resources/OC Parks and Parking Concepts, Inc. (PCI) took satisfactory corrective action to implement twelve (12) recommendations, partially implement one (1) recommendation, one (1) recommendation is in process and one (1) recommendation has not been implemented, from our original audit dated October 7, 2011. The original audit contained fifteen (15) recommendations.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

New Audit Findings & Recommendations by Risk Category

Description	Results
<p>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.</p> <p>* Material Weaknesses is used for an audit conducted under AICPA Attestation Standards.</p>	<p>No critical control weaknesses issued during December 2012. No material weaknesses issued during December 2012.</p> <p>One (1) total recommendation issued since July 2012.</p>
<p>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.</p>	<p>No significant control weaknesses issued during December 2012.</p> <p>Twelve (12) total recommendations issued since July 2012.</p>
<p>Control Findings 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>Four (4) control findings issued during December 2012.</p> <p>Twenty-four (24) total recommendations issued since July 2012.</p>

Total Audit Recommendations for FY 2012-13: 37

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
B.	<p>DEPT: Health Care Agency</p> <p>TITLE: Internal Control Audit of Health Care Agency Medical Billing Process</p> <p>AUDIT NO: 1018</p> <p>ISSUED: December 13, 2012</p>	<p>Scope: We audited the adequacy of manual and system controls over HCA's Medical Billing Process.</p> <p>Conclusion: Our audit found internal controls over the Medical Billing Process are adequate to ensure the billings are allowable, valid, and adequately supported. Key controls such as pre-billing and post-payment reviews are in place to help detect incomplete or improper billings. Our audit also found IT application controls over the medical billing process are adequate in the areas of: (1) user access (password and account management), (2) segregation of duties, (3) system edit checks, (4) system enforced holds/queues, and (5) transactional audit trails. Additionally, IT general controls as related to the medical billing systems (IRIS and Practice Expert) are adequate in the areas of: (1) change management and (2) backup and recovery. The Medical Billing Process is complex and involves an extensive coordination of efforts between clinics, medical billing, quality assurance, and system personnel. We commend HCA on their established controls and process.</p> <p>Background: During Fiscal Year 2010-11, HCA's annual medical billings totaled \$73 million for services provided under HCA's Behavioral Health, Public Health, and Medical and Institutional Health Services Programs. The submission of accurate bills for services rendered to Medicare, Medi-Cal, and any other health plan patient is essential and required by law. Legal sanctions can be imposed by State or Federal regulatory entities for improper billings and claims. The medical billing process starts with the registration/intake of clients through documenting the clinic services provided and submitting electronic billing documents to the State or Medicare.</p> <p>Recommendations: We identified four (4) Control Findings where HCA should continue efforts to complete business continuity planning documents; consider reducing the extent of its pre-billing and post-payment reviews; and evaluate generating management reports from the IRIS system for monitoring the effectiveness of the medical billing process.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
C.	<p>DEPT: Auditor-Controller Human Resources CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – November 2012</p> <p>AUDIT NO: 1238-E</p> <p>ISSUED: December 6, 2012</p>	<p>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 or quarterly.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 14,486 vendor invoices paid in October 2012 amounting to about \$224 million and found 99.99% of the invoices were only paid once. Of the \$224 million vendor invoices, we identified one duplicate payment made to vendors totaling \$5,013. The County currently has a recovery rate from vendors of about 98% 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 \$995,084, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> This routine is performed on a quarterly basis. As of September 30, 2012, two (2) potential employee-vendor conflicts were identified in the employee-vendor matches we reviewed. Departmental HR staff determined one matter did involve a possible conflict of interest and corrective actions were taken, and the other match was determined not to be a conflict. • <u>Retiree/Extra Help Hours:</u> As of November 1, 2012, no OC working retirees exceeded the annual hourly limits for FY 12-13. • <u>Multiple Payroll Direct Deposits:</u> No findings noted. <p>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 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
D.	<p>DEPT: Auditor-Controller Human Resources CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – December 2012</p> <p>AUDIT NO: 1238-F</p> <p>ISSUED: December 19, 2012</p>	<p>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 or quarterly.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 15,072 vendor invoices paid in November 2012 amounting to about \$158 million and found 100% of the invoices were only paid once. The County currently has a recovery rate from vendors of about 98% 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 \$995,084, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> This routine is performed on a quarterly basis. All employee-vendor matches identified to date have been resolved to Human Resources Services' (HRS) satisfaction. • <u>Retiree/Extra Help Hours:</u> As of November 29, 2012, no OC working retirees exceeded the annual hourly limits for FY 12-13. • <u>Multiple Payroll Direct Deposits:</u> No findings noted. <p>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 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: OC Community Resources/ OC Parks</p> <p>TITLE: First Follow-Up Audit - Revenue Generating Price Agreement Audit of OC Community Resources/OC Parks Parking Concepts, Inc.</p> <p>AUDIT NO: 1136-B (Original Audit No. 1052)</p> <p>ISSUED: December 12, 2012</p>	<p>Scope: We have completed our First Follow-Up Audit of Revenue Generating Price Agreement: OC Community Resources/OC Parks – Parking Concepts, Inc. Our audit was limited to reviewing, as of September 30, 2012, actions taken to implement fifteen (15) recommendations from our original audit.</p> <p>Conclusion: OC Community Resources/OC Parks and Parking Concepts, Inc. (PCI) took satisfactory corrective action to implement twelve (12) recommendations, partially implement one (1) recommendation, one (1) recommendation is in process and one (1) recommendation has not been implemented, from our original audit dated October 7, 2011.</p> <p>Background: Parking Concepts, Inc. (PCI) operates parking services at Orange County’s Regional Parks, Wilderness Parks, and Beaches. Revenue is paid to the County based on a percentage of gross receipts (parking fees) collected by PCI. During the 12-month audit period, PCI collected approximately \$3.1 million in gross receipts, of which the County received about \$1.8 million (59%) and PCI was paid about \$1.3 million (41%) as an operating fee. Over its three (3) year term, this price agreement is estimated to generate approximately \$5.2 million in revenue to the County.</p> <p>Recommendations: None</p>