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# MONTHLY AUDIT ACTIVITY REPORT FOR OCTOBER 2008 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda November 25, 2008

Project No. 2807-7

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

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2008 Association of Local Government Auditors' Bronze Website Award

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

# **Letter from Director Peter Hughes**





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Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of October 2008. 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



Board Date: November 25, 2008 Exhibit A, Page 2 of 10

Status Report to the Board of Supervisors by IAD

#### THE FOLLOWING ITEMS ARE SUMMARIZED BELOW:

#### Exhibit **Audits**:

- B. OC Public Works Lake Forest Golf and Practice Center: Review of Revenue Generating Lease. Lake Forest Golf and Practice Center paid the proper amount of rent to the County. No material weaknesses or significant issues noted. We identified 10 control findings related to compliance with the lease agreement and/or improvements in internal controls.
- C. <u>District Attorney:</u> We found the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for the District Attorney's Office Audit of Disability and Healthcare Insurance Fraud Program grant, for Fiscal Year Ending June 30, 2008.

#### Exhibit Monthly Computer Assisted Audits of Vendor Payments (CAATs):

D. <u>Auditor Controller – Duplicate Payments to Vendors – October 2008:</u> We analyzed **15,768** vendor invoices paid in September 2008 amounting to about **\$89 million** and found **99.99%** of the invoices were only paid once. Of the \$89 million vendor invoices, we identified **15** duplicate payments made to vendors totaling **\$10,386.** Additionally, we identified **18** working retirees who exceeded annual hour limits during FY 07-08.

#### Exhibit Follow Up Audits:

- E OC Community Resources: Final Close-Out First Follow Up Audit of Housing Choice Program Payments (Original Audit 2724). Satisfactory corrective action was taken on all 8 recommendations and 1 Audit Alert for CEO/Information Technology. As such, this represents the final close-out of the original audit.
- F. <u>Auditor-Controller:</u> Final Close-Out First Follow-Up Audit of the Auditor-Controller Claims & Disbursing Issues Concerning Employee SSNs (Original Audit No. 2720-3). Satisfactory corrective action was taken on all 4 recommendations. As such, this represents the final close-out of the original audit.
- G. <u>Treasurer Tax Collector</u>: First Follow-Up Audit of Internal Control Review of Treasurer-Tax Collector's Interest Apportionment Process (Original Audit No. 2634). We found that **8** recommendations were **fully implemented** and **2** recommendations were **partially implemented**. Management has committed to fully implementing the remaining recommendations.

Board Date: November 25, 2008 Exhibit A, Page 3 of 10

Status Report to the Board of Supervisors by IAD

# **Detailed Breakout**

#### **MATERIAL FINDING:**

Department a	nd Description	Comments
		None issued during October 2009
		None issued during October 2008.

Board Date: November 25, 2008 Exhibit A, Page 4 of 10

Status Report to the Board of Supervisors by IAD

#### **NON-MATERIAL FINDINGS**

Exhibit	Description	Comments
B.	DEPT: OC Public Works	<b>Scope:</b> Review of lease revenue to determine whether the records of Lake Forest Golf and Practice Center adequately supported monthly rent paid to the County.
	TITLE: Review of Lease Revenue for Lake Forest Golf and Practice Center	<b>Conclusion:</b> Lake Forest Golf and Practice Center retained sufficient documentation to adequately support monthly rent paid to the County. No material weaknesses or significant issues were identified. However, we did identify10 control findings related to compliance with the lease agreement and/or improvements in internal controls.
	AUDIT NO: 2737  ISSUED: October 7, 2008	<b>Background:</b> The County of Orange Flood Control District (County) entered into a lease agreement (Agreement) with American Golf Corporation, a California Corporation (American Golf) dated January 31, 1990, as amended, for the operation of a 9-hole golf course, driving range, snack bar, pro shop and golf instruction located at the El Toro Retarding Basin in conjunction with adjacent land owned by the City of Lake Forest. During the 12-month audit period ending March 31, 2008, American Golf generated approximately \$2 million in gross receipts at the Lake Forest Golf and Practice Center and paid the County approximately \$148,000 in rent. American Golf also pays rent to the City of Lake Forest for the adjacent property.
		<b>Type of Recommendation:</b> Lease compliance and/or internal control improvements regarding enhanced controls for range cards sales; enhanced controls for barbeque sales; reasonableness and business purpose of complimentary golf rounds; misclassification of chipping fees; third party golf camps/lessons; allocation of green fees for online tee reservations; reporting of So Cal Golfer Club membership sales; reporting fair market value of barter transactions; and reporting of national and local charitable donations.

Board Date: November 25, 2008 Exhibit A, Page 5 of 10

Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
C.	DEPT: District Attorney  TITLE: Report on Audit of the Disability and Healthcare Insurance Fraud Program  AUDIT NO: 2810  ISSUED: October 28, 2008	Scope: We audited the District Attorney (DA) Office's financial statement for the Disability and Health Care Insurance Fraud Program grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.  Conclusion: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we did not identify any significant deficiencies or material weaknesses in the District Attorney's internal control over financial reporting.  Background: The grant is funded by the California Department of Insurance, and the 2007/2008 fiscal year grant award totaled \$662,791. In addition, there were approved carry-over funds from June 30, 2007 of \$8,671, bringing the total Grant revenue to \$671,462 as of June 30, 2008. Current year's expenditures exceeded total Grant revenue by \$65,406. The excess of expenditures over revenues as of June 30, 2008 cannot be applied toward future years' grant revenue. Therefore, the excess expenditures will be absorbed by the District Attorney.  The grant agreement requires that the DA obtain an annual audit of the financial statement. The DA has the option of outsourcing the audit to an outside CPA firm or requesting that the County Internal Audit Department conduct the audit.  Type of Recommendations: None

Board Date: November 25, 2008 Exhibit A, Page 6 of 10

Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
D.	DEPT: Auditor-Controller Human Resources	<b>Scope:</b> The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 4 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary.
	County Procurement Office  TITLE: Computer Assisted Audit Techniques - October 2008	<ul> <li>Conclusion:         <ul> <li>Duplicate Payments to Vendors:</li> <li>We analyzed 15,768 vendor invoices paid in September 2008 amounting to about \$89 million and found 99.99% of the invoices were only paid once. Of the \$89 million vendor invoices we identified 10 duplicate payments made to vendors totaling \$10,386. The Auditor-Controller currently has a recovery rate from vendors of about 97% or these duplicate payments.</li> </ul> </li> </ul>
	AUDIT NO: 2844-D ISSUED: October 29, 2008	Our prior research has indicated that the duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$736,800 from the duplicate vendor payment routine, these CAAT routines have paid for themselves and are returning monies to the County that may otherwise be lost.
		Working Retirees: We identified 18 working retirees who exceeded annual hour limits during FY 07-08. The excess hours ranged from 1 hour to 96 hours. Six of the 18 working retirees also exceeded hour limits in the prior FY 06-07. As a comparison, 31 retirees exceeded annual limits in FY 06-07.
		For FY 08-09, Human Resources worked with the Auditor-Controller to implement a modification to the Virtual Timekeeping Interface (VTI) system which will automatically issue warnings to working retirees and their supervisors when a retiree is within 60 hours of approaching the mandated limits.
		Deleted Vendors: No findings.
		<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 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 A-C, HR, 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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Board Date: November 25, 2008 Exhibit A, Page 7 of 10

Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
E.	DEPT: OC Community Resources	Scope: First Follow-Up Audit of OC Community Resources – Housing Choice Program Payments to determine the implementation status of 8 recommendations and 1 Audit Alert to CEO/Information Technology made in our original audit report, dated January 17, 2008. No material issues were identified in the original audit report.
	TITLE: Final Close-Out First Follow Up Audit of Housing Choice Program Payments (Original Audit 2724)  AUDIT NO: 2829-A	Conclusion: We are pleased to report that satisfactory corrective action was taken on all 8 recommendations and 1 Audit Alert. We commend the personnel at OC Community Resources and CEO/Information Technology for their responsiveness in addressing our recommendations. As such, this report represents the final closeout of the original audit.
	ISSUED: October 21, 2008	<b>Background:</b> The Housing Assistance section of OC Community Resources functions as the Orange County Housing Authority (OCHA), which makes housing subsidy disbursements for the Housing Choice Voucher Program. OCHA has provided <b>rental assistance to more than 9,400 households</b> in the Housing Choice Voucher Program. For the year ended June 30, 2007, OCHA made approximately <b>\$89 million</b> in Housing Choice Voucher Program payments.
		<b>Type of Recommendations:</b> Request reimbursement of seven duplicate payments; evaluate procedures for detecting duplicate payments; ensure Positive Pay Exception Reports are signed by processor and have a documented supervisory review; segregate check custody and reconciling duties; ensure tenant files contain all required documents; establish an IT risk assessment, and security and business continuity plan. In addition, an " <b>Audit Alert</b> " was issued to the Deputy CEO/Chief Information Officer concerning vulnerability in system security that was immediately mitigated and corrected.

Board Date: November 25, 2008 Exhibit A, Page 8 of 10

Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
F.	DEPT: Auditor-Controller  TITLE: Final Close-Out First Follow-Up Audit of the Auditor-Controller Claims & Disbursing – Issues Concerning Employee SSNs (Original Audit No. 2720-3)  AUDIT NO: 2829-D  ISSUED: October 29, 2008	Scope: First Follow-Up Audit of issues concerning employee Social Security numbers, resulting from our audit of Auditor-Controller Claims & Disbursing processes, to determine the implementation status of 4 recommendations made in our original audit report, dated January 29, 2008. No material or significant issues were identified in the original audit report.  Conclusion: We are pleased to report that satisfactory corrective action was taken on all 4 recommendations. We commend the personnel at A-C/Information Technology and CEO/Information Technology for their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit.  Background: We conducted audits in A-C Claims & Disbursing and issued a series of reports including audits of the Educational and Professional Reimbursement process, Mileage & Other Expenses claim reimbursement process, and Vendor Payments. During the course of our audits, we noted the use of employee Social Security Numbers (SSNs) in various documents, processes and systems, which resulted in issuance of a separate audit report specifically addressing these concerns.  Type of Recommendations: CEO/IT consult with County Counsel to evaluate the adequacy of contract language and safeguards concerning data entry services involving employee SSNs; Auditor-Controller and CEO/IT jointly identify alternatives for eliminating or restricting employee SSNs in CAPS; restrict SSNs on payroll documents according to Labor Code requirements; obtain assurance on eliminating use of employee SSNs in the CAPS+ Upgrade Project.

Board Date: November 25, 2008 Exhibit A, Page 9 of 10

Status Report to the Board of Supervisors by IAD

Board Date: November 25, 2008 Exhibit A, Page 10 of 10