OC Board of Supervisors'

Internal Audit Department

ORANGE COUNTY

EXHIBIT A

MONTHLY AUDIT ACTIVITY REPORT FOR OCTOBER 2009 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda
November 24, 2009

Project No. 2907-4

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

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ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

RISK BASED AUDITING
GAO & IIA Peer Review Compliant – 2001, 2004, 2007

2009 Association of Certified Fraud Examiners' Hubbard Award For the Most Outstanding Article of the Year

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 Dr. Peter Hughes, CPA

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RISK BASED AUDITING

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November 24, 2009

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of October 2009. 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

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

Executive Summary

Exhibit **AUDITS:**

B District Attorney: 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, 2009.

C. OC Public Works/Audit of Payroll Process: We found that controls are in place to ensure: (1) payroll is processed completely, accurately, timely, with appropriate supporting documentation and management approval; and (2) payroll is processed in an efficient and effective manner. We identified **(2) Control Findings** to enhance controls over payroll processing.

Exhibit **MONTHLY COMPUTER ASSISTED AUDITS OF VENDOR PAYMENTS (CAATS)**:

D. Auditor Controller and Human Resources – Duplicate Payments to Vendors and Other Routines – October 2009: We analyzed **11,321** vendor invoices paid in September 2009 amounting to about **$125 million** and found **99.95%** of the invoices were only paid once. Of the $125 million vendor invoices, we identified **6** duplicate payments made to vendors totaling $7,771. To date we have identified **$894,041** in duplicate vendor payments, of which **$833,658** has been recovered and is a noteworthy achievement by the Auditor-Controller's Office.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

New Audit Findings by Risk Category

	Description	Results
	Material Weaknesses Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.	**None** issued during October 2009. **None** issued since July 2009.
	Significant Findings Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.	**None** issued in October 2009. **None** issued since July 2009.
	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.	**(2)** issued in October 2009. **(81)** issued since July 2009.

Total Audit Findings for FY 2009-10: 81

For a copy of the complete audit report that contains the audit objective, scope, findings, recommendations, and management's response, contact the OC Internal Audit Department's website at http://www.ocgov.com/audit/

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NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	DEPT: District Attorney TITLE: Audit of Disability and Healthcare Insurance Fraud Program AUDIT NO: 2911 ISSUED: October 22, 2009	**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 2008/2009 fiscal year grant award totaled $519,177. Current year's expenditures exceeded total Grant revenue by $234,422. The excess of expenditures over revenues as of June 30, 2009 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**

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MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
C.	DEPT: OC Public Works TITLE: Internal Control Audit of OC Public Works Payroll Process AUDIT NO: 2925 ISSUED: October 28, 2009	**Scope:** Audit of internal controls over OC Public Works' Payroll Process, which included an evaluation of the accuracy and propriety of payroll; compliance with department and County policies; and evidence of process efficiencies and effectiveness. **Conclusion:** We found that controls are in place to ensure: (1) payroll is processed completely, accurately, timely, with appropriate supporting documentation and management approval; and (2) payroll is processed in an efficient and effective manner. We identified **(2) Control Findings** to enhance controls over payroll processing. **Background:** The OC Public Works Department employs approximately **975 employees**. Payroll Operations within the Finance and Department Services Division is responsible for processing payroll. Payroll Operations processes payroll on a bi-weekly basis using Virtual Timesheet Interface (VTI). During the audit period, total gross pay for Public Works employees was approximately **$80 million**. **Recommendations:** Ensure payroll reports are reviewed and signed by the Payroll Operations supervisor and retain copies; utilize the VTI *Timecard Audit Report* as a tool to monitor unauthorized changes to pay codes.

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D.	DEPT: Auditor-Controller Human Resources County Procurement Office TITLE: Computer Assisted Audit Techniques – October 2009 AUDIT NO: 2941-D ISSUED: October 30, 2009	**Scope:** The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 5 CAATs 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 11,321 vendor invoices paid in September 2009 amounting to about **$125 million** and found **99.95%** of the invoices were only paid once. Of the $125 million vendor invoices, we identified **6** duplicate payments made to vendors totaling $7,771. The Auditor-Controller currently has a recovery rate from vendors of about **94%** 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 **$833,658,** this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • Multiple Direct Deposits: No findings noted. • Employee Vendor Match: Analysis of employee-vendor activity at 6/30/09 is in process • Retiree/Extra Help Hours: As of 10/01/09, no working retirees have exceeded annual limits of 960 or 720 hours for FY 09-10. **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 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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