

# 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

## JANUARY 2011 AUDITS BY IAD MONTHLY AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda  
February 8, 2011

- **Monthly CAAT Reveals 99.93% of Vendors Payments Are Only Paid Once:** We found ten (10) duplicate payments for \$2,049 out of 13,729 vendor invoices paid in December 2010.

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

Assistance in assembling this report provided by:  
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Project No. 1007-7

**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



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

February 8, 2011

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of January 2011. Because of reporting deadline changes, any audit reports issued after January 15, 2011 will be presented in the Monthly Report for February 2011. For each 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

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Exhibit            **MONTHLY RESULTS OF CONTINUOUS AUDITING USING CAATS (COMPUTER ASSISTED AUDIT TECHNIQUES):**

- B.            Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – December 2010:  
We analyzed **13,729** vendor invoices paid in December 2010 amounting to about **\$146 million** and found **99.93%** of the invoices were only paid once. Of the \$146 million vendor invoices, we identified **ten (10)** duplicate payments totaling **\$2,049** made to vendors. To date we have identified **\$974,288** in duplicate vendor payments, of which **\$904,864** has been recovered and is a noteworthy achievement by the County.

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

### New Audit Findings 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>Description Change:</b> change the use of the word "material" to describe our most "serious" audit finding and replacing it with the word "critical". This change is due to the potential confusion it could generate to readers who are used to the word and the very different definition of "material" being used in connection with audited financial statements prepared by VTD, our external auditors. From this point forward we will use the word "critical" on all internal audits to identify our most serious audit findings and only use the word "material" and the definition required by the AICPA in those audits we conduct following the AICPA or Yellow Book standards.</p> <p><b>None</b> issued during January 2011.  <b>None</b> issued since July 2010.</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>None</b> issued during January 2011.  <b>Two (2)</b> issued since July 2010.</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>None</b> issued during January 2011.  <b>Forty-seven (47)</b> issued since July 2010.</p>

**Total Audit Findings for FY 2010-11: 52**

Board Date: February 8, 2011

Exhibit A, Page 4 of 6

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/>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
B	<p>DEPT: Auditor-Controller Human Resources County Procurement Office</p> <p>TITLE: <b>Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – December 2010</b></p> <p>AUDIT NO: 1041-H</p> <p>ISSUED: January 14, 2011</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, annually, or as necessary</p> <p><b>Conclusion:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors</u>: We analyzed 13,729 vendor invoices paid in December 2010 amounting to about <b>\$146 million</b> and found <b>99.93%</b> of the invoices were only paid once. Of the \$146 million vendor invoices, we identified <b>ten (10)</b> duplicate payments totaling <b>\$2,049</b> made to vendors. The County currently has a recovery rate from vendors of about <b>93%</b> on these duplicate payments.</li> </ul> <p>Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of <b>\$904,864</b>, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.</p> <ul style="list-style-type: none"> <li>• <u>Employee Vendor Match</u>: At quarter-end 12/31/10, no potential employee/vendor matches were identified.</li> <li>• <u>Retiree/Extra Help Hours</u>: As of December 22, 2010, no individuals have exceeded the annual limits for FY 10-11.</li> <li>• <u>Multiple Payroll Direct Deposits</u>: No findings noted.</li> </ul>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
	<p><b>CONTINUED,</b></p> <p>DEPT:                      Auditor-Controller                      Human Resources                      County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – December 2010</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 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 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>