

Internal Audit Department

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

EXHIBIT A

SEPTEMBER 2011 AUDITS BY IAD MONTHLY INTERNAL AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda
October 25, 2011

- **Internal Control Audit of Health Care Agency/Contract Development and Management Payment Approval and Fiscal Monitoring:** Our audit found internal controls over Contract Development and Management's payment approval and fiscal monitoring processes are adequate with some exceptions noted. **Nine (9) Control Findings** were made to improve the payment approval and fiscal monitoring processes.
- **Monthly CAAT Reveals 100% of Vendors Payments Were Only Paid Once.** New CAAT for County employees as IHSS providers is in progress.

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Director of Internal Audit

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Project No. 1107-2

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

October 25, 2011

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of September 2011. 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,


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. **Internal Control Audit of Health Care Agency Contract Development and Management Payment Approval and Fiscal Monitoring**

We audited HCA Contract Development and Management to evaluate the adequacy of internal controls for approving contract payments and fiscal monitoring of HCA contractors conducted by external audit firms. Our audit found internal controls over HCA/CDM's payment approval and fiscal monitoring processes are adequate, with some exceptions. We identified **nine (9) Control Findings** to improve controls with regards to processing and approving invoices for payment and for enhancing the fiscal monitoring process. During FY10-11, HCA/CDM administered **496 human services contracts** and approved **\$198 million in contract payments**.

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 – September 2011:** We analyzed **13,383** vendor invoices paid in August 2011 amounting to about **\$234 million** and found **100%** of the invoices were only paid once. Of the \$234 million vendor invoices, we identified **no** duplicate payments. To date we have identified **\$980,675** in duplicate vendor payments, of which **\$954,858** has been recovered and is a noteworthy achievement by the County. We also have a **New CAAT** for County employees as IHSS providers that is in progress.

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 September 2011.</p> <p>No material weakness in internal control issued during September 2011.</p> <p>0 total recommendations issued since July 2011.</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 September 2011.</p> <p>0 total recommendations issued since July 2011.</p>
	<p>Control Findings Audit findings concerning <u>internal controls, compliance issues, or 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>Nine (9) control findings issued during September 2011.</p> <p>Thirteen (13) total recommendations issued since July 2011.</p>

Total Audit Recommendations for FY 2011-12: 13

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
B.	<p>TITLE: Internal Control Audit of Contract Development and Management Payment Approval and Fiscal Monitoring</p> <p>DEPT: Health Care Agency</p> <p>Report No: 1030</p> <p>Issued: September 15, 2011</p>	<p>Scope: We conducted an Internal Control Audit of the Health Care Agency Contract Development and Management Payment Approval and Fiscal Monitoring processes. Our audit included an evaluation of internal controls, testing compliance with HCA/CDM and County policies; and evaluating process efficiencies and effectiveness.</p> <p>Conclusion: Our audit found internal controls over HCA/CDM’s payment approval and fiscal monitoring processes are adequate, with some exceptions, and provide reasonable assurance that contract payments are valid, supported, authorized, timely, and comply with contract terms and with County and HCA/CDM policies, and that that fiscal monitoring audits are performed by external audit firms to help ensure the propriety of program expenditures. We identified nine (9) Control Findings to enhance controls over the payment approval and fiscal monitoring processes.</p> <p>Background: Contract Development and Management is responsible for developing, soliciting, negotiating, and administering human services contracts. During FY10-11, CDM administered 496 human services contracts totaling \$271 million. These human services contracts include public health, behavioral health, and medical and institutional health services. Contract providers include hospitals, clinics, educational institutions, and both for-profit and non-profit community based programs. CDM is responsible for reviewing and approving contractor invoices, which totaled over \$198 million. CDM also administers the solicitation and coordination of external audit firms to conduct fiscal monitoring audits of HCA contractors. Fiscal monitoring is an important process to ensure contractors are expending County funds in accordance with contract terms and help to detect misuse of funds.</p> <p>Recommendations: Establish dollar thresholds for authorizing payments; perform supervisory reviews of high dollar payments; verify authorized contractor signatures; update written policies and procedures; enhance the fiscal monitoring process in regard to use of audit tracking logs and the timeliness of fiscal monitoring reviews. HCA/CDM management agreed with all of the findings and recommendations.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
C.	<p>DEPT: Auditor-Controller Human Resources CEO/County Procurement Office Social Services Agency</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – September 2011</p> <p>AUDIT NO: 1139-C</p> <p>ISSUED: August 31, 2011</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, annually, or as necessary.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 13,383 vendor invoices paid in August 2011 amounting to about \$234 million and found 100% of the invoices were only paid once. Of the \$234 million vendor invoices, we identified no duplicate payments. The County currently has a recovery rate from vendors of about 97% 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 \$954,858, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction. Our next analysis will be performed at 9/30/11. • <u>Retiree/Extra Help Hours:</u> As of August 25, 2011, no individuals have exceeded the annual hourly limits for FY 11-12. • <u>Multiple Payroll Direct Deposits:</u> No findings noted. • <u>In Home Supportive Services (NEW):</u> This data analysis was requested by the Board of Supervisors via HRD. As of 6/30/11, we identified 92 County employees who are IHSS providers. 31 out of the 92 are SSA employees. SSA determined that 21 of the 92 were resolved in a prior analysis by SSA. Of the remaining 71, HRD determined no conflict existed for 14 employees. This leaves 57 still under review by SSA. Also utilizing the IHSS provider data, we were able to perform some additional data analysis (beyond the BOS original request) such as SSA employees sharing the same address as an IHSS provider and multiple IHSS providers with the same address. See the full CAAT report for details of the additional data analysis.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
	<p>CONTINUED,</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) – August 2011</p>	<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>