

Internal Audit Department

O R A N G E C O U N T Y

EXHIBIT A

MONTHLY AUDIT ACTIVITY REPORT FOR MAY 2008 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda
June 24, 2008

Project No. 2707

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

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June 24, 2008

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of May 2008. An overview and a detailed briefing of each report are provided.

Also included is the Internal Audit Department FY 2008-09 Audit Plan and Risk Assessment Report which was approved by the Audit Oversight Committee on May 29, 2008.

As always, I'm available at your convenience to discuss any aspect of these items.

Respectfully submitted,


Dr. Peter Hughes, CPA

MONTHLY AUDIT ACTIVITY – May 2008
Status Report to the Board of Supervisors by IAD

THE FOLLOWING ITEMS ARE SUMMARIZED BELOW:

Exhibit

Audits:

- B. FY 2008-09 Audit Plan and Risk Assessment - The IAD performed a risk assessment for purposes of preparing the FY 08-09 Audit Plan. A comprehensive, interactive countywide risk assessment was conducted that included meetings with members of the Board of Supervisors and the County Executive Office to obtain their input on risks affecting their respective areas. For the departments/agencies, we sent out Risk Assessment Questionnaires for input on risks and areas of audits to assist management in their business operations. We additionally reviewed all department/agency Business Plans; compiled financial information for business processes in each department/agency; and reviewed prior audit coverage by Internal Audit and audits performed by County external auditors.
- C. OC Public Works – Review of Lease Revenue for River View Golf Course. River View Golf paid the proper amount of rent to the County with one minor exception. No material or significant issues noted. We identified 8 control findings related to compliance with the lease agreement or improvements to internal controls.
- D. OC Public Works – Review of Concession Revenue for David L. Baker Golf Course. American Golf Corporation paid the proper amount of rent to the County with one minor exception. No material or significant issues noted. We identified 13 control findings related to compliance with the concession agreement or improvements to internal controls.

Exhibit

Monthly Computer Assisted Audits of Vendor Payments (CAATs):

- E. Auditor Controller – Duplicate Payments to Vendors – May 2008: We analyzed **19,532** vendor invoices paid in April 2008 amounting to about **\$87 million** and found **99.998%** of the invoices were only paid once. Of the \$87 million vendor invoices, we identified **10** duplicate payments made to vendors totaling **\$1,850**

Exhibit

Training:

- F. Control Self-Assessment – California Counties Audit Chief's Committee, Southern California Training. At the request of the California Counties Audit Chief's Committee Southern California four members of the Internal Audit Department (IAD) conducted Control Self-Assessment (CSA) training for approximately 60 attendees. The training included an introduction to the different types of CSA, methods used by IAD, and a CSA workshop demonstration.

MONTHLY AUDIT ACTIVITY – May 2008
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Detailed Breakout

MATERIAL FINDING:

	Department and Description	Comments
		None issued during May 2008.

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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.	<p><u>TITLE:</u> Fiscal Year 2008-09 Audit Plan and Risk Assessment</p> <p><u>Report No.:</u> 2701</p> <p><u>Approved by AOC:</u> May 29, 2008</p>	<p>Scope: The IAD performed a risk assessment for purposes of preparing the FY 08-09 Audit Plan. A comprehensive, interactive countywide risk assessment was conducted that included meetings with members of the Board of Supervisors and the County Executive Office to obtain their input on risks affecting their respective areas. For the departments/agencies, we sent out Risk Assessment Questionnaires for input on risks and areas of audits to assist management in their business operations. We additionally reviewed all department/agency Business Plans; compiled financial information for business processes in each department/agency (e.g., cash receipts, disbursements, payroll, budget); reviewed prior audit coverage by Internal Audit and audits performed by County external auditors. These risk assessment results were used in developing the annual Audit Plan for Internal Control Reviews, Information Technology audits, and Operational & Other Audits.</p> <p>Conclusion: We will provide audit coverage in 14 County Departments for such activities as Wire Transfers, CAPS+ and PTMS Internal Controls, Sheriff's Payroll, Contract Administration over Dana Point Harbor revitalization, OC Public Works' Interdepartmental Billings and DA grants.</p> <p>Our Audit Plan is based on 17,000 direct audit hours to be provided by 9 audit professionals and 3 Senior Audit Managers. These hours are allocated to the audit areas as follows: Internal Control Reviews (ICR): 5,730; Financial Audits and Mandates (FAM): 4,400; Information Technology (IT) Audits: 2,500; and Revenue Generating Lease (RGL) Audits: 2,350.</p>

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		<p>The plan also allocates an additional 2,020 hours for audit activities such as staffing the fraud hotline, reviewing cash losses, administering data collection of external audits, conducting training classes in County departments on practical internal control concepts and application, performing the annual risk assessment, HIPAA Administration, and compiling and presenting activity reports to the Board of Supervisors and Audit Oversight Committee. Also included in the 17,000 hours are 1,650 reserved hours to respond to Board directives for audit services.</p> <p>Background: Our Audit Plan is submitted, publicly discussed, reviewed and approved at the beginning of each fiscal year by the AOC. We are dedicated to completing as much of our plan as possible while continuing to be flexible and responsive to the Board of Supervisors' requests for audit services.</p> <p>Our Audit Plan has as its foundation the traditional internal audits of "hard-control areas" such as segregation of duties, limiting access to cash, accurate originating accounting entries and transactions and key reconciliations. Examples of such traditional audits in our Audit Plan include those audits included in the Financial Audits and Mandates (FAM), Internal Control Reviews (ICR), Information Technology Audits (IT), and Revenue Generating Leases (RGL) Audits. These audit reports contain opinions regarding the status of internal controls or the County's compliance with grant or other governing provisions. Our audit reports also include recommendations to management regarding improvements to specific accounting processes and internal controls in order to enhance or strengthen them. As part of our internal improvement process, we distribute a customer survey with each of our audit reports to allow customer evaluation and feedback.</p> <p>In our audits we also look for opportunities to improve the "efficiency and effectiveness" of operations (a category of performance auditing), and our reports where applicable, contain performance recommendations related to efficiency and effectiveness enhancements.</p>

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C.	DEPT: OC Public Works TITLE: Review of Lease Revenue for River View Golf Course <u>Audit No.:</u> 2736 ISSUED: May 23, 2008	<p>Scope: Review of lease revenue to determine whether the records of River View Golf adequately supported monthly rent paid to the County.</p> <p>Conclusion: River View Golf retained sufficient documentation to adequately support monthly rent paid to the County. No material weaknesses or significant issues were identified. However, we did identify additional potential rent owed of \$503 related to an inadvertent clerical error and 8 control findings related to compliance with the lease agreement or improvements to internal controls.</p> <p>Background: The County of Orange entered into a lease agreement with River View Golf, dated September 2, 1969, as amended and assigned, for the operation of a golf course, snack bar, pro shop and golf instruction located on the Santa Ana River Channel property in conjunction with adjacent land owned by the City of Santa Ana. For the year ended December 31, 2006, River View Golf reported gross receipts of approximately \$1.5 million to the County and paid \$81,000 in rent to the County.</p> <p>Type of Recommendations: Lease compliance or improvements to internal controls regarding: numbering range cards, automatically issuing cash register receipts, golf lesson documentation, segregation of duties risk, and golf pro items needing clarification.</p>

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D.	DEPT: OC Public Works TITLE: Review of Concession Revenue David L. Baker Golf Course <u>Audit No.:</u> 2738 ISSUED: May 20, 2008	<p>Scope: Review of concession revenue to determine whether the records of American Golf Corporation (American Golf) adequately supported monthly rent paid to the County.</p> <p>Conclusion: American Golf retained sufficient documentation to adequately support monthly rent paid to the County. No material weaknesses or significant issues were identified. However, we did identify additional potential rent owed of \$5,612 related to the improper reporting of non-alcoholic beverages and 13 control findings related to compliance with the lease agreement or improvements to internal controls.</p> <p>Background: The County of Orange entered into a concession agreement with American Golf dated April 30, 1987, as amended, for the operation of a golf course, driving range, snack bar, and pro shop located at the County's Mile Square Regional Park. For the year ended October 31, 2007, American Golf reported gross receipts of approximately \$2.8 million to the County and paid approximately \$413,000 in rent to the County.</p> <p>On October 30, 2007, American Golf notified OC Public Works of their intent to transfer operating rights to another course operator and requested the County's consent to assign the Agreement. As of May 9, 2008, OC Public Works is working on the consent which is subject to Board of Supervisor approval.</p> <p>Type of Recommendations: Concession compliance or improvements to internal controls regarding: reporting of non-alcoholic beverages, complimentary rounds of golf, barter transactions, reconciling daily starter sheets, segregation of duties risk, tournament and banquet documentation, reporting of gift certificates and event deposits, monthly report attestation, and clarifying reporting category for golf lessons.</p>

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E.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: Computer Assisted Audit Techniques - May 2008 <u>Audit No.:</u> 2713-K ISSUED: May 20, 2008	<p>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.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 19,532 vendor invoices paid in April 2008 amounting to about \$87 million and found 99.998% of the invoices were only paid once. Of the \$87 million vendor invoices we identified 10 duplicate payments made to vendors totaling \$1,850. The Auditor-Controller currently has a recovery rate from vendors of about 94% on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a human clerical error. <p>Based on the to-date recoveries of \$682,633 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.</p> <ul style="list-style-type: none"> • <u>Deleted Vendors:</u> No findings. <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 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 CEO/Purchasing 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>

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F.	<p>California Counties Audit Chief's Committee Southern California Training</p> <p><u>Training Title:</u> Control Self-Assessment</p> <p><u>Assignment No.:</u> 2700-43</p> <p><u>Presentation Date:</u> May 30, 2008</p>	<p>Scope: At the request of the California Counties Audit Chief's Committee Southern California four members of the Orange County Internal Audit Department (OC IAD) conducted Control Self-Assessment (CSA) training for approximately 60 Audit Chiefs and their staff. The training included an introduction to the different types of CSA, methods used by OC IAD, and a CSA workshop demonstration.</p> <p>Background: We have conducted over 100 CSA "auditor-facilitated" workshops Countywide in almost every single County department. The workshops were enthusiastically embraced by the entire County and proved to be the single most popular and highest rated service we provided. OC IAD is considered the CSA leader in the governmental sector and as such we are regularly sought for counsel by other counties and cities.</p>