

Internal Audit Department

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

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

Presented on Board Agenda
January 26, 2010

Project No. 2907-6

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
to Dr. Hughes 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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January 26, 2010

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of December 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,

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

Exhibit

AUDITS:

- B Sheriff-Coroner – Internal Control Audit of Payroll Process. We found that: (1) controls are in place to ensure payroll is processed completely, accurately, and timely; (2) STS IT general controls are in place but need improvement; and (3) the current payroll process requires extensive manual inputting of employee hours into STS, and further automation of the process would significantly reduce payroll data input time. The Sheriff-Coroner is evaluating the costs/benefits of their planned STS upgrade with implementing the countywide VTI system. We identified **(8) Control Findings** to establish additional controls over the payroll process.
- C District Attorney – Audit of Workers' Compensation Insurance Fraud Program: 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 Workers Compensation Insurance Fraud Program, for Fiscal Year Ending June 30, 2009.
- D District Attorney – Audit of Automobile Insurance Fraud Program: 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 Automobile Insurance Fraud Program, for Fiscal Year Ending June 30, 2009.

Exhibit

MONTHLY PERFORMANCE REPORT OF CAATS (COMPUTER ASSISTED AUDIT TECHNIQUES):

- E. Auditor Controller, Human Resources and County Executive Office/Purchasing – Duplicate Vendor Payments and Other Periodic Routines – December 2009: We analyzed **11,589** vendor invoices paid in November 2009 amounting to about **\$154 million** and found **99.95%** of the invoices were only paid once. Of the \$154 million vendor invoices, we identified **6** duplicate payments made to vendors totaling **\$7,693**. To date we have identified **\$896,826** in duplicate vendor payments, of which **\$845,560** 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
	<p>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.</p>	<p>None issued during December 2009. None issued since July 2009.</p>
	<p>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.</p>	<p>None issued in December 2009. 1 issued since July 2009.</p>
	<p>Control Findings 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>8 issued in December 2009. 93 issued since July 2009.</p>

Total Audit Findings for FY 2009-10: 94

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	<p>DEPT: Sheriff-Coroner</p> <p>TITLE: Internal Control Audit of Payroll Process</p> <p>AUDIT NO: 2825</p> <p>ISSUED: December 2, 2009</p>	<p>Scope: Audit of internal controls over the Sheriff-Coroner Payroll Process, which included an evaluation of the accuracy and propriety of payroll; compliance with department and County payroll policies; review of information technology (IT) general controls over the Sheriff Timekeeping System (STS); and evidence of process efficiencies and effectiveness.</p> <p>Conclusion: We found that: (1) controls are in place to ensure payroll is processed completely, accurately, and timely; (2) STS IT general controls are in place but need improvement; and (3) the current payroll process requires extensive manual inputting of employee hours into STS, and further automation of the process would significantly reduce payroll data input time. The Sheriff-Coroner is evaluating the costs/benefits of their planned STS upgrade with implementing the countywide VTI system to reduce payroll processing time. We identified (8) Control Findings to establish additional controls over the payroll process.</p> <p>Background: During the year ending April 30, 2009, the Sheriff-Coroner paid over \$491 million in payroll using an in-house developed Sheriff Timekeeping System (STS) rather than the Virtual Timecard Interface (VTI) system used Countywide. At the onset of the audit, the Sheriff-Coroner was planning to upgrade STS. However, as a result of the audit, the Sheriff-Coroner concurred with our recommendation to evaluate the cost/benefits of the STS upgrade compared to implementing VTI.</p> <p>Type of Recommendations: Require employees to “certify” their reported payroll hours; require additional approvals in instances where authorized signers are approving their own timesheets and/or are approving time for off-site employees; enhance STS controls over password policy, access controls; automatic lockouts and time-out features, change management, activity logs and audit trails, and data back-up procedures; evaluate the costs/benefits of the STS upgrade to implementing VTI.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
C.	<p>DEPT: District Attorney</p> <p>TITLE: Audit of Workers' Compensation Insurance Fraud Program</p> <p>AUDIT NO: 2910</p> <p>ISSUED: December 10, 2009</p>	<p>Scope: We audited the District Attorney (DA) Office's financial statement for the 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.</p> <p>Conclusion: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>Background: The grant is funded by the California Department of Insurance, and the 2008/2009 fiscal year grant revenues totaled \$2,265,285. Expenditures totaled \$2,315,194 resulting in an excess of expenditures over revenues of \$47,544, which was absorbed by the DA office.</p> <p>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.</p> <p>Type of Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
D.	<p>DEPT: District Attorney</p> <p>TITLE: Audit of Automobile Insurance Fraud Program</p> <p>AUDIT NO: 2910</p> <p>ISSUED: December 10, 2009</p>	<p>Scope: We audited the District Attorney (DA) Office's financial statement for the 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.</p> <p>Conclusion: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>Background: The grant is funded by the California Department of Insurance, and the 2008/2009 fiscal year grant revenues totaled \$920,903. Expenditures totaled \$1,313,838 resulting in an excess of expenditures over revenues of \$392,935, which was absorbed by the DA office.</p> <p>Type of Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
E.	<p>DEPT: Auditor-Controller Human Resources County Executive Office/ Purchasing</p> <p>TITLE: Monthly Performance Report of CAATS (Computer Assisted Audit Techniques) – December 2009</p> <p>AUDIT NO: 2941-F</p> <p>ISSUED: December 28, 2009</p>	<p>Scope: 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.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 11,589 vendor invoices paid in November 2009 amounting to about \$154 million and found 99.95% of the invoices were only paid once. Of the \$154 million vendor invoices, we identified 6 duplicate payments made to vendors totaling \$7,693. The Auditor-Controller currently has a recovery rate from vendors of about 95% on these duplicate payments. <p>Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$845,560, 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"> • <u>Payroll Direct Deposits:</u> No findings noted. • <u>Employee Vendor Match:</u> In November 2009, we identified 7 potential employee-vendor matches. These matches were provided to Human Resources for evaluation as to whether any employee vendor conflicts exist. Their review is in process. • <u>Retiree/Extra Help Hours:</u> As of 11/30/09, no working retirees have exceeded annual mandated limits of 960 or 720 hours for FY 09-10. <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 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>