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EXHIBIT A

AUGUST 2012 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda **September 25, 2012**

2011 Audit Oversight Committee Annual Report. On behalf of the Audit Oversight Committee (AOC), we are pleased to present the 2011 AOC Annual Report. The annual report is provided in accordance with six required reporting elements in compliance with the AOC Charter.

Monthly CAAT. Reveals 100% of vendor invoices were only paid once. We also identified one (1) potential employee-vendor conflict that departmental HR staff determined did involve a conflict of interest (primarily in appearance) and corrective action was taken by the department. This matter was resolved to the Human Resources Department's satisfaction.

First Follow-Up Audit of Treasury Cost Allocations to Pool Participants. Our First Follow-Up Audit found the Treasurer-Tax Collector and County Executive Office fully implemented six (6) recommendations, six (6) recommendations are in-process of implementation, and one (1) recommendation was closed from our original audit report dated October 31, 2011.

First Follow-Up Audit of Probation Department GPS Electronic Monitoring Programs. The Probation Department implemented two recommendations and six recommendations are in process from our original audit dated March 7, 2012.

Dr. Peter Hughes, MBA, CPA, CIA, CFE, CFF, CITP, CCEP, CGMA **Director of Internal Audit**

Assistance in assembling this report provided by: Eli Littner, Deputy Director, CPA, CIA, CFE, CFS, CISA Michael Goodwin, Senior Audit Manager, CPA, CIA Alan Marcum, Senior Audit Manager, MBA, CPA, CIA, CFE Autumn McKinney, Senior Audit Manager, CPA, CIA, CGFM, CISA

Project No. 1209-2

RISK BASED AUDITING

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

AICPA 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







Letter from Dr. Peter Hughes, CPA





Dr. Peter Hughes, CPA
DIRECTOR
Ph.D., MBA, CCEP, CITP, CIA,
CFE, CFF, CGMA

E-Mail: peter.hughes@iad.ocgov.com

Eli Littner, CPA
DEPUTY DIRECTOR
CIA, CFE, CFS, CISA

Michael J. Goodwin, CPA SENIOR AUDIT MANAGER CIA

*Alan Marcum, CPA*SENIOR AUDIT MANAGER
MBA, CIA, CFE

Autumn McKinney, CPA SENIOR AUDIT MANAGER CIA, CISA, CGFM

Hall of Finance & Records

12 CIVIC CENTER PLAZA, ROOM 232 SANTA ANA, CA 92701

www.ocgov.com/audit

(714) 834-5475 (714) 834-2880 Fax

RISK BASED AUDITING



September 25, 2012

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of August 2012. For each internal audit report we provide an overview and a detailed briefing for your review.

On behalf of the Audit Oversight Committee (AOC), we are pleased to present the 2011 AOC Annual Report. The annual report provides an overview of the AOC activities for the year. The AOC reviewed and approved the annual report on August 9, 2012.

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

Respectfully submitted,

Dr. Peter Hughes, CPA

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Executive Summary

Exhibit Audit Reports

B. <u>Audit Oversight Committee 2011 Annual Report:</u> The Audit Oversight Committee (AOC) Charter requires an annual report to the Board of Supervisors of AOC activities. The annual report is provided in accordance with six required reporting elements. The AOC approved the report at its meeting on August 9, 2012.

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 — August 2012: We analyzed 9,160 vendor invoices paid in July 2012 amounting to about \$294 million and found 100% of the invoices were only paid once. Of the \$294 million in vendor invoices, we identified no duplicate payments made to vendors. To date we have identified \$983,910 in duplicate vendor payments, of which \$973,068 or 99% has been recovered and is a noteworthy achievement by the County. We also identified one (1) potential employee-vendor conflict that departmental HR staff determined did involve a conflict of interest (primarily in appearance) and corrective action was taken by the department. This matter was resolved to the Human Resources Department's satisfaction.

Exhibit Follow-up Audits

- D. <u>First Follow-Up Audit of Probation GPS Electronic Monitoring Programs.</u> Our First Follow-Up Audit found that Probation Department fully implemented two (2) recommendations, and six (6) recommendations are in process from our original audit report dated March 7, 2012. Probation has two types of GPS Electronic Monitoring Programs: Supervised Electronic Confinement (SEC)/Home Detention Program administered by a contractor, and Continuous Electronic Monitoring (CEM) Program internally administered by Probation.
- E. <u>First Follow-Up Audit of Treasury Cost Allocations to Pool Participants</u>: In our First Follow-Up Audit we found the TTC and CEO fully implemented six (6) recommendations, six (6) recommendations are in-process of implementation, and one (1) recommendation was closed from our original audit report.

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Detailed Report

New Audit Findings & Recommendations by Risk Category

Description	Results
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. * Material Weaknesses is used for an audit conducted under AICPA Attestation Standards.	No critical control weaknesses issued during August 2012. No material weaknesses issued during July 2012. (0) Total recommendations issued since July 2012.
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.	No significant control weaknesses issued during August 2012. (0) total recommendations issued since July 2012.
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.	No control findings issued during August 2012. (0) total recommendations issued since July 2012.

Total Audit Recommendations for FY 2012-13: 0

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Detailed Report

	Description	Results
В.	TITLE: Audit Oversight Committee 2011 Annual Report Approved by AOC: August 9, 2012	Background: The Board of Supervisors adopted the Audit Oversight Committee's (AOC) Charter on December 14, 2010. A component of that charter requires an annual report to the Board of Supervisors of AOC activities (Section 7.1). Results: The AOC met and approved the annual report at its meeting on August 9, 2012. The Internal Audit Department on behalf of the AOC is pleased to present the Audit Oversight Committee's 2011 Annual Report. The report is provided in accordance with the following six required reporting elements: 1) The report summarizes the AOC activities undertaken and the results of its review. 2) The report assures the AOC has discussed the financial statements with both management and the independent auditors. 3) The report states the AOC reviewed the County Management's Representation Letter submitted annually to the external auditors. 4) The report provides the AOC's assessment of the capacity and performance of the internal audit function. 5) The report documents any significant concerns the AOC may have in relation to the County's risk management, controls and accountability process. 6) The report provides any other information or documentation that the AOC deems important to best convey a fair and complete picture of its activity and results and the context within which this ought to be viewed.

Board Date: September 25, 2012

Detailed Report

	Description	Results
C.	DEPT: Auditor-Controller Human Resources CEO/County Procurement	Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform four (4) ongoing CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly or quarterly.
	Office	 Conclusion: Duplicate Payments to Vendors: We analyzed 9,160 vendor invoices paid in July
	TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – August 2012	2012 amounting to about \$294 million and found 100% of the invoices were only paid once. Of the \$294 million vendor invoices, we identified no duplicate payments made to vendors. The County currently has a recovery rate from vendors of about 99% 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 \$973,068 , this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.
	AUDIT NO: 1238-B	Employee Vendor Match: At June 30, 2012, one (1) potential employee-vendor conflict was identified in the employee-vendor matches we reviewed. As of August 28, 2012, departmental HR staff determined this matter did involve a conflict of
	ISSUED: August 30, 2012	 interest (primarily in appearance) and corrective action was taken by the department. This matter was resolved to the Human Resources Department's satisfaction. Retiree/Extra Help Hours: As of August 9, 2012, no individuals exceeded the annual hourly limits for FY 12-13. Multiple Payroll Direct Deposits: No findings noted.
		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.

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Detailed Report

Probation Department Probation Department GPS Electronic Monitoring Programs. Our audit was limited to reviewing, as of July 31, 2012, actions taken to implement eight (8) recommendations from our original audit. We identified six (6) Significant Control Weaknesses and two (2) Control Findings to improve administration of the SEC/Home Detention Program. Conclusion: Our First Follow-Up Audit indicated Probation fully implemented two (2) recommendations and six (6) recommendations are in process. Background: Probation has two GPS Programs: the Supervised Electronic Confinement (SEC)/Home Detention Program and the Continuous Electronic Monitoring (CEM) Program. Probation uses a contractor, Sentinel Offender Services LLC to provide the SEC program. The contractor charges the clients and pay		Description	Results
11, Sentinel paid Probation \$690,372. For the CEM Program, Probation staff perform the enrollment, orientation and GPS monitoring services in the Manchester Office Building. A contractor, Satellite Tracking of People, LLC provides up to 300 GPS tracking devices and monitoring software to Probation at a daily rate of \$4.25. For FY 10-11, the contractor was paid \$361,613. In May 2012, Probation renewed the Sentine Offenders Services Agreement for the (SEC)/Home Detention Program. Recommendations: Ensure accurate determination of monthly SEC billings; make periodic determinations of SEC program fees/costs; address untimely contractor payments; ensure monitoring of contractor compliance and verification of program.	D.	DEPT: Probation Department TITLE: First Follow Up Internal Control Audit of GPS Electronic Monitoring Programs AUDIT NO: 1130-K	Scope: We have completed a First Follow-Up Audit of internal controls over the Probation Department's GPS Electronic Monitoring Programs. Our audit was limited to reviewing, as of July 31, 2012, actions taken to implement eight (8) recommendations from our original audit. We identified six (6) Significant Control Weaknesses and two (2) Control Findings to improve administration of the SEC/Home Detention Program. Conclusion: Our First Follow-Up Audit indicated Probation fully implemented two (2) recommendations and six (6) recommendations are in process. Background: Probation has two GPS Programs: the Supervised Electronic Confinement (SEC)/Home Detention Program and the Continuous Electronic Monitoring (CEM) Program. Probation uses a contractor, Sentinel Offender Services, LLC to provide the SEC program. The contractor charges the clients and pays Probation to cover Probation's program administration and staffing costs. For FY 10-11, Sentinel paid Probation \$690,372. For the CEM Program, Probation staff performs the enrollment, orientation and GPS monitoring services in the Manchester Office Building. A contractor, Satellite Tracking of People, LLC provides up to 300 GPS tracking devices and monitoring software to Probation at a daily rate of \$4.25. For FY 10-11, the contractor was paid \$361,613. In May 2012, Probation renewed the Sentinel

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Detailed Report

	Description	Results
E.	DEPT: Treasurer-Tax Collector County Executive Office TITLE: First Follow-Up Financial and Internal Audit of Cost	Scope: We have completed a First Follow-Up Audit of Treasury Cost Allocations to Pool Participants. Our audit was limited to reviewing, as of August 8, 2012, actions taken to implement 13 recommendations from our original audit, No. 2915, dated October 31, 2011. In our original Audit of the Treasurer-Tax Collector and County Executive Office we identified six (6) Critical Control Weaknesses, five (5) Significant Control Weaknesses, and two (2) Control Findings where controls and processes needed to be improved. Management agreed with all 13 recommendations.
	Allocations to Pool Participants	Conclusion: In our First Follow-Up Audit we found the TTC and CEO fully implemented six (6) recommendations, six (6) recommendations are in-process of implementation, and one (1) recommendation was closed from our original audit report.
	AUDIT NO: 1118-C (Original Audit No. 2915)	Background: The California Government Code Section 27013 allows the Treasurer to deduct administrative costs before distributing interest or income dividends to shareholders in County Treasury pools. Such cost reimbursement is required to be paid into the County General Fund. During our audit period, the Treasurer-Tax Collector allocated (charged) \$6.3 million of administrative costs to pool participants for services. Over a decade, these charges total in excess of \$60 million .
		Recommendations: No additional recommendations were made during our Follow-Up Audit. The original recommendations remained as follows:
		We recommended that the Treasurer-Tax Collector: review and initial to authorize the annual cost allocation study; submit the cost allocation study to the Treasury Oversight Committee (TOC) for their review as required by the Investment Policy Statement (IPS); and TOC review the requirements of the County's IPS and clarify the nature and extent of the review and whether or not the TOC's approval is warranted; develop, complete or update policies and procedures to be followed for the annual cost allocation process;

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Detailed Report

Description	Results
CONTINUED, DEPT: Treasurer Tax Collector County Executive Office TITLE: Financial & Internal Control Audit of Treasury Cost Allocation of Pool Participants	Review the process used to establish the amount (percent) of effort spent on treasury and tax collection activities and determine if a more specific methodology would be more appropriate; allocate all cash shortage expenses to the tax collection work function; make the needed adjustments to the pool participant accounts for over/undercharge of administrative costs; ensure that the annual cost allocation study is prepared within six months following the year-end close; ensure more complete and adequate explanation and justification for business related travel in the documentation submitted with the reimbursement request so as to enable a meaningful third party review; and ensure that the annual cost allocation studies for Fiscal Years 2009/2010 and 2010/2011 are adjusted to account for the reassignment of investment authority. We recommended that the County Executive Office: evaluate the business travel policies and procedures and consider the benefits of the inclusion of thresholds or references to existing federal and state per diem rates as guidance and as a basis point for determining reasonable, necessary and business related; evaluate the business travel policies and Cal Card policies and procedures and assess whether the method of paying for lodging expenses should be consistent; and evaluate the business travel policies and clarify whether the Auditor-Controller's review of travel expense claims is limited to verification of the department/agency head's signature for authorization as stated in Section 18.1.1 or meant to be an independent assessment of whether claims are adequately justified, necessary and reasonable per submitted documentation, as stated in Section 18.5.

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