

Internal Audit Department

O R A N G E C O U N T Y L a r g e s t i n t h e U S A

EXHIBIT A

APRIL 2013 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda May 21, 2013

Internal Control Audit of John Wayne Airport Change Order Process for the Airport Improvement Program. Our audit found that internal controls were adequate and effective to ensure 1,451 change orders totaling \$58 million were accurate, valid, supported, properly recorded, and authorized; complied with County and JWA policies and procedures; and JWA's change order process was efficient and effective. However, we identified five (5) Control Findings.

Information Technology Audit of the District Attorney Computer General Controls. Our audit of selected District Attorney computer general controls found them to be adequate and supported.

First Follow-Up Special Request Audit of Countywide Employee Cash Advances. We found that seventeen (17) of our original twenty-four (24) recommendations were fully implemented.

Second Follow-Up Financial & Internal Control Audit of Treasury Cost Allocations to Pool Participants. We found the Treasurer-Tax Collector and County Executive Office are in-process of implementing six (6) recommendations from our original audit containing thirteen (13) recommendations.

Final Close-Out Second Follow-Up Internal Control Audit of OC Public Works Countywide Fleet Management. We found that OC Public Works implemented five (5) recommendations and is in process of implementing two (2) recommendations following policy direction from the County Executive Office.

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

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Project No. 1209-10

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



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May 21, 2013

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of April 2013. 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 of these items.

Respectfully submitted,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit Audit Reports

- B. Internal Control Audit of John Wayne Airport Change Order Process for the Airport Improvement Program: Our audit found that internal controls were adequate and effective to ensure 1,451 change orders totaling \$58 million were accurate, valid, supported, properly recorded, and authorized; complied with County and JWA policies and procedures; and JWA's change order process was efficient and effective. However, we identified five (5) Control Findings to improve internal controls and compliance with policies and procedures.
- C. Information Technology Audit of the District Attorney Computer General Controls: **IT general controls were found adequate**, including: 1) security-related policies and procedures; 2) user access and physical access general controls policies and procedures; 3) configuration management policies and procedures, including change management; 4) segregation of duties within the IT function; and 5) disaster recovery/business continuity policies and procedures. Our audit identified one **(1) Control Finding** regarding business continuity plan documentation.

Exhibit Follow-Up Audit Reports

- D. First Follow-Up Special Request Audit of Countywide Employee Cash Advances: Our First Follow-Up Audit found that **seventeen (17) of our original twenty-four (24) recommendations were fully implemented.**
- E. Second Follow-Up Financial & Internal Control Audit of Treasury Cost Allocations to Pool Participants: Our Second Follow-Up Audit found the Treasurer-Tax Collector and County Executive Office are in-process of **implementing six (6) recommendations** from our original audit containing thirteen (13) recommendations.
- F. Final Close-Out Second Follow-Up Internal Control Audit of OC Public Works Countywide Fleet Management: Our Second Follow-Up Audit found that OC Public Works **implemented five (5) recommendations** and is **in process of implementing two (2) recommendations.** Because this is our final follow-up audit, the recommendations not fully implemented will be reported to the Audit Oversight Committee in a quarterly status report.
- G. Final Close-Out Second Follow-Up Internal Control Audit of OC Public Works County Fuel Card Administration: Our Second Follow-Up Audit found that OC Public Works **implemented two (2) recommendations and one (1) recommendation is in process/closed** for purpose of follow-up. Because the recommendations have been implemented and/or closed for follow-up, **this report represents the final close-out of the original audit.**

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 April 2013. No material weakness issued during April 2013.</p> <p>Four (4) total recommendations issued since July 2012.</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 April 2013.</p> <p>Fifteen (15) total recommendations issued since July 2012.</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>Six (6) control findings issued during April 2013.</p> <p>Forty-five (45) total recommendations issued since July 2012.</p>

Total Audit Recommendations for FY 2012-13: 64

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
B.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Internal Control Audit of John Wayne Airport Change Order Process for the Airport Improvement Program</p> <p>AUDIT NO: 1125</p> <p>ISSUED: April 2, 2013</p>	<p>Scope: We audited John Wayne Airport's change order process for the Airport Improvement Program to evaluate internal controls for processing and approving change orders; to determine compliance with County and contract requirements; and evaluate the efficiency and effectiveness of JWA's change order process.</p> <p>Conclusion: Our audit found that internal controls were adequate and effective to ensure 1,451 change orders totaling \$58 million were accurate, valid, supported, properly recorded, and authorized; complied with County and JWA policies and procedures; and JWA's change order process was efficient and effective.</p> <p>Background: The Airport Improvement Program at John Wayne Airport (JWA) was one of the County's largest public works projects and its budget totaled \$543 million. The Airport Improvement Program created additional terminal area capacity in the form of aircraft gates, hold rooms, concessions, passenger/baggage screening capabilities, and additional parking. It also helped redistribute traffic between Terminals A, B, and C, to balance operations throughout the terminal complex. A key objective of the Airport Improvement Program was to ensure the new facilities are designed and developed to create a single, seamless environment for passengers. In calendar year 2011, JWA ranked 43rd for the number of passenger boarding at US airports.</p> <p>Recommendations: We recommend that John Wayne Airport ensure that the Memorandum (Record) of Negotiations contain sufficient information that someone not connected with the change order can understand the process for negotiating the agreed-upon cost; ensure disputes with the outside technical advisor are thoroughly documented and detailed explanations are provided as to why a change order is issued that conflicts with the field representative's opinion; consider reconciling the change order log maintained in Skire Unifier with JWA Accounting's change order log; revise their internal policy and procedure, ADS P&P B-14-0, Architect-Engineer Agreement Changes to remove the step that the Project Manager prepares an independent cost estimate for each change order unless mandated by law or sponsor agreement; and ensure change orders are supported with a Memorandum (Record) of Negotiation.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
C.	<p>DEPT: District Attorney</p> <p>TITLE: Information Technology Audit of District Attorney Computer General Controls</p> <p>AUDIT NO: 1143</p> <p>ISSUED: April 29, 2013</p>	<p>Scope: We audited selected computer general controls over the administration and use of the District Attorney’s computing resources. General controls are the structure, policies, and procedures that apply to an entity’s overall computer operations. If general controls are weak, they severely diminish the reliability of controls associated with individual applications.</p> <p>Conclusion: Our audit found that general controls were found adequate, including:</p> <ol style="list-style-type: none"> 1) Adequate security-related policies and procedures have been developed including security awareness and other security-related personnel policies; 2) Adequate user access and physical access general controls policies and procedures were present to provide reasonable assurance that computer resources are protected from unauthorized personnel; 3) Adequate configuration management policies and procedures, including change management, have been developed; 4) Adequate segregation of duties exists within the IT function; and 5) Adequate policies and procedures for disaster recovery/business continuity have been substantially developed to help mitigate service interruptions. <p>Our audit identified one (1) Control Finding regarding business continuity plan documentation.</p> <p>Background: DA Information Technology utilizes a number of key systems including the following State and Countywide systems:</p> <ul style="list-style-type: none"> o CMS – Case Management System: Used to track all criminal cases prosecuted; o BILL – DNA Collection: Used to track volunteers who have supplied a DNA sample; o DNA: Used for crime scene DNA case tracking and DNA evidence tracking; and o EDC – Electronic Directions for Complaints: Used by the County police agencies to upload Request for Complaints and supporting documentation. <p>Recommendation: Further development of business continuity plan documents.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
D.	<p>DEPT: Countywide</p> <p>TITLE: First Follow-Up Special Request Audit of Countywide Employee Cash Advances</p> <p>AUDIT NO: 1218-B (Original Audit No. 1056)</p> <p>ISSUED: April 3, 2013</p>	<p>Scope: We have completed a First Follow-Up Audit of Countywide Employee Cash Advances. Our audit was limited to reviewing, as of August 31, 2012, actions taken to implement twenty-four (24) recommendations from our original audit.</p> <p>Conclusion: Our First Follow-Up Audit found that seventeen (17) of our original twenty-four (24) recommendations were fully implemented.</p> <p>Background: Our original audit evaluated internal controls and processes over the claiming of employee cash advances to determine compliance with related County Accounting Manual (CAM) procedures (C-7 Revolving Cash Funds and C-1 Cash Advances – Revolving Funds), County Travel Policies, and Internal Revenue Service (IRS) Regulations. During the original audit period, seven (7) County departments and agencies had 222 outstanding travel cash advances made to employees totaling \$97,489.</p> <p>Recommendations: We identified ten (10) Significant Control Weaknesses and fourteen (14) Control Findings resulting in twenty-four (24) Recommendations where internal controls and processes need improvement regarding compliance with County policies, CAMs, and IRS regulations, and written procedures need enhancement related to the processing of travel cash advances.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
E.	<p>DEPT: Treasurer Tax Collector</p> <p>TITLE: Second Follow-Up Financial & Internal Control Audit of Treasury Cost Allocations to Pool Participants</p> <p>AUDIT NO: 1219-B (Original Audit No. 2915)</p> <p>ISSUED: April 16, 2013</p>	<p>Scope: We have completed a Second Follow-Up Audit of Treasury Cost Allocations to Pool Participants. Our audit was limited to reviewing, as of March 20, 2013, actions taken to implement the six (6) recommendations remaining from our First Follow-Up Audit report dated August 28, 2012.</p> <p>Conclusion: Our Second Follow-Up Audit found the Treasurer-Tax Collector and County Executive Office are in-process of implementing six (6) recommendations from our original audit containing thirteen (13) recommendations. Previously, six (6) recommendations were implemented and one (1) was closed.</p> <p>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.</p> <p>Recommendations: The following recommendations remain open from our original audit: We recommended that the Treasurer-Tax Collector: develop, complete or update policies and procedures to be followed for the annual cost allocation process; 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; and ensure that the annual cost allocation study is prepared within six months following the year-end close. We also 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.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
F.	<p>DEPT: OC Public Works</p> <p>TITLE: Final Close-Out Second Follow-Up Internal Control Audit of OC Public Works Countywide Fleet Management</p> <p>AUDIT NO: 1228-E (Original Audit. 1028)</p> <p>ISSUED: April 19, 2013</p>	<p>Scope: We conducted a Second Follow-Up Audit of OC Public Works – Countywide Fleet Management. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the seven (7) recommendations remaining from our First Follow-Up Audit report dated June 27, 2012.</p> <p>Conclusion: Our Second Follow-Up Audit found that OC Public Works implemented five (5) recommendations and is in process of implementing two (2) recommendations following policy direction from the County Executive Office. Policy direction is needed on OC Public Works’ countywide responsibility and oversight of fleet management.</p> <p>Background: Board Resolution No. 89-1302, and subsequent revisions to the resolution, designated the Director of OC Public Works (OCPW) responsibility for administering and enforcing County vehicle assignments and related functions, including the enforcement of existing rules and regulations. OCPW/OC Fleet Services performs only <u>limited</u> fleet management services for County agencies and departments and maintains fleet inventory records. During our audit, OC Fleet Services’ fleet inventory consisted of 2,477 vehicles assigned to County agencies/departments, 42 pool vehicles available to County employees, and 390 equipment/component assets.</p> <p>Recommendations: Partner with County Executive Office to evaluate existing Board policy and explore other options and alternatives to ensure Board policy is aligned with actual fleet management practices; establish Countywide policies and procedures for County fleet management; establish a process to ensure OC Fleet Services is notified of all fleet purchases by departments/agencies; reconcile department capital inventory records to County fleet records; establish a policy on take-home County vehicles; establish policies and procedures over fleet replacement, retirement, disposal, auctioning and surplus; and update procedures over pool vehicles.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
F.	<p>DEPT: OC Public Works</p> <p>TITLE: Final Close-Out Second Follow-Up Internal Control Audit of OC Public Works County Fuel Card Administration</p> <p>AUDIT NO: 1228-F (Original Audit. 1029)</p> <p>ISSUED: April 19, 2013</p>	<p>Scope: We conducted a Second Follow-Up Audit of OC Public Works – County Fuel Card Administration. Our audit was limited to reviewing, as of December 31, 2012, actions taken to implement the three (3) recommendations remaining from our First Follow-Up Audit report dated June 27, 2012.</p> <p>Conclusion: Our Second Follow-Up Audit found that OC Public Works implemented two (2) recommendations and one (1) recommendation is in process/closed for purpose of follow-up. Because the recommendations have been implemented and/or closed for follow-up, this report represents the final close-out of the original audit.</p> <p>Background: OC Fleet Services is responsible for the administration of County Fuel Access Cards and Voyager Fleet Cards assigned to County employees and vehicles for purposes of fueling and making other purchases relating to County business. OC Fleet Services oversees fuel card set-up, activation, issuance, modification, deactivation, and provides monthly fuel usage and billing reports to departments/agencies. OC Fleet Services also maintains records of fuel cards assigned to employees and vehicles. During our audit period, over \$3.8 million was spent using County Fuel Access Cards and Voyager Fleet Cards, with the largest users departments being the Sheriff-Coroner and OC Public Works. There were approximately 4,700 active Fuel Access Cards and 1,000 active Voyager Fleet Cards during the audit period.</p> <p>Recommendations: Establish a process to periodically review and update County Fuel Access Card and Voyager Fleet Card records to ensure they are assigned to in-service vehicles and current employees; develop written policies and procedures for OC Fleet Services' roles and responsibilities for administering fuel cards; establish and communicate procedures to departments/agencies for fuel purchases and to utilize County fueling stations whenever reasonably possible to obtain cost savings; implement a systematic way of maintaining fuel card documents in OC Fleet Services.</p>