

Internal Audit Department

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

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

Presented on Board Agenda
September 29, 2009

Project No. 2907-2

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

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 ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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Letter from Dr. Peter Hughes, CPA



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RISK BASED AUDITING



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September 29, 2009

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of August 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. Internal Audit Department: Internal Auditor's Annual Report for Fiscal Year Ending June 30, 2009. This annual Internal Auditor's report details the year's accomplishments and activities. We've had another productive year. We provided audit coverage, presence or services to **seventeen of the County's twenty-three departments and agencies**. We completed **five (5) compliance/special request audits** directed by the Board of Supervisors and Audit Oversight Committee; **forty-six (46) financial, operational, internal control, lease, and information technology audits**; and **(201) other support/reporting** activities.
- C. John Wayne Airport – Parking Concepts, Inc.: We found that Parking Concepts Inc.'s records adequately supported gross receipts collected and remitted to JWA. However, their fees billed to JWA were not adequately supported. This is primarily because Parking Concepts Inc.'s employee timecards and labor distribution reports do not reflect the actual job code worked by the employee when the employee substitutes or backfills for another position category. Gross receipts collected and remitted to JWA during the 12-month audit period were approximately **\$35.5 million**, and operating fees paid to Parking Concepts Inc. were approximately **\$4 million**.
- D. John Wayne Airport – JCDecaux Airport, Inc.: We found that JCDecaux Airport Inc.'s records adequately supported gross receipts and rent owed was properly paid. Gross receipts reported during the 12-month audit period were approximately **\$2.8 million** and rent paid to the County was approximately **\$1.7 million**. Over its 5-year term, this lease agreement is estimated to generate over **\$7 million** in rent to the County.
- E. John Wayne Airport – Host International, Inc.: We found that Host International Inc.'s records adequately supported gross receipts and rent owed was properly paid. Gross receipts reported during the 12-month audit period were approximately **\$16 million** and rent paid to the County was approximately **\$2.5 million**. From the lease inception date of April 1990 through March 2009, the County has received approximately **\$23 million** in rent.

Exhibit

MONTHLY COMPUTER ASSISTED AUDITS OF VENDOR PAYMENTS (CAATs):

- F. Auditor Controller and Human Resources – Duplicate Payments to Vendors and Other Routines – August 2009: We analyzed **6,708** vendor invoices paid in July 2009 amounting to about **\$317 million** and found **99.85%** of the invoices were only paid once. Of the \$317 million vendor invoices, we identified **10** duplicate payments made to vendors totaling

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

\$29,441. To date we have identified **\$870,519** in duplicate vendor payments, of which **\$825,518** has been recovered and is a noteworthy achievement by the Auditor-Controller's Office.

Other Routines: As of August 25, 2009, no working retirees exceeded the annual limits for FY 09-10.

Also, in March 2009 we identified **23** potential employee/vendor address matches that were submitted to Human Resources for their review. As of July 28, 2009, Human Resources determined that **1** was not a valid match and **22** were not a conflict of interest. This closes out our work for the 23 potential matches.

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 August 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 August 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>(19) issued in August 2009.</p>

Total Audit Findings for FY 2009-10: 24

NON-MATERIAL FINDINGS

Board Date: September 29, 2009

Exhibit A, Page 5 of 10

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/>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
B.	<p>TITLE:</p> <p>Internal Auditor's Annual Report Fiscal Year 2008-2009</p> <p>ISSUED: August 27, 2009</p>	<p>This year we completed a demanding audit plan that included an evaluation of the CAFR financial statement footnote disclosure and review process involving funds of over \$8 billion. We also started our county-wide audit of wire transfers/electronic fund transfers involving the Auditor-Controller, Treasurer-Tax Collector and various departments/agencies which include over \$22 billion in electronic disbursements. We finished several audits of "core business processes" involving contract administration and contract payments (OC Dana Point Harbor Revitalization, CEO/Information Technology); interdepartmental billings (OC Public Works Transportation), and administrative claims for Federal/State reimbursement (Probation Title VI-E). Total expenditures addressed in these audits were over \$227 million.</p> <p>Background: We provided audit coverage, presence or services to seventeen of the County's twenty-three departments and agencies. We completed five (5) compliance/special request audits directed by the Board of Supervisors and Audit Oversight Committee; forty-six (46) financial, operational, internal control, lease, and information technology audits; and (201) other support/reporting activities.</p> <p>The 201 support/reporting activities noted above include 36 quarterly and monthly reports to the Board and AOC that supports giving them timely and critical detailed information to act on in their decision making process and to enable them to oversee the effectiveness of the internal audit department. Also included are 40 IT Projects consisting of monthly computer assisted auditing technique (CAAT) reports of payroll and vendor payments and periodic Audit Alerts issued for the CAPS+ and PTMS implementations. We performed our annual Risk assessment of 23 departments/agencies, five (5) Board Offices, and one (1) comprehensive risk assessment for IT. Lastly, we reported on 96 Fraud Hotline incidents during FY08/09, which was a 150% increase from the prior year. This report was presented to the Audit Oversight Committee at its quarterly meeting on September 2, 2009.</p>

Board Date: September 29, 2009

Exhibit A, Page 6 of 10

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/>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
C.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Revenue Generating Operating Agreement Audit of Parking Concepts, Inc.</p> <p>AUDIT NO: 2732</p> <p>ISSUED: August 6, 2009</p>	<p>Scope: Revenue generating operating agreement audit to determine whether the records of Parking Concepts Inc. (PCI) adequately supported gross receipts collected and remitted to the County, and operating fees paid to PCI. Gross receipts collected and remitted to the County during the 12-month audit period were approximately \$35.5 million, and operating fees paid to PCI were approximately \$4 million.</p> <p>Conclusion: We found that Parking Concepts Inc.'s records adequately supported gross receipts collected and remitted to the County. However, their operating fees billed to the County were not adequately supported. This is primarily because Parking Concepts Inc.'s employee timecards and labor distribution reports do not reflect the actual job code worked by the employee when the employee substitutes or backfills for another position category. We identified fourteen (14) control findings where record keeping should be enhanced to support the operating fees billed to the County.</p> <p>Background: The County entered into an operating agreement with Parking Concepts, Inc., dated July 29, 2003, as amended, for the management and operation of the parking facilities located at JWA. The facilities include three parking structures and two surface lots. Parking Concepts, Inc. collects and remits all gross receipts (parking revenue) to the County. PCI is paid an operating fee based on fixed hourly rates for hours worked by specified labor classifications.</p> <p>Recommendations: Record keeping and/or lease compliance improvements regarding: operating fees are billed based on scheduled hours, not actual hours worked; labor reports may not reflect actual labor activity; one job code is used for two billable supervisory categories; allocating maintenance positions to supervisor positions; allocating clerical positions to supervisor positions; allocating chief auditor position to shift supervisor position; some employee's job codes are not current; employee timecard documentation is not adequate; late employee timecards; fees billed to JWA are not adjusted when substitutions occur; and payment of audit costs.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
D.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Revenue Generating Lease Audit of JC Decaux Airport, Inc.</p> <p>AUDIT NO: 2834</p> <p>ISSUED: August 25, 2009</p>	<p>Scope: Revenue generating lease audit to determine whether the records of JCDecaux Airport Inc. adequately supported monthly rent paid to the County. During the 12-month audit period, JCDecaux Airport Inc. generated gross receipts of approximately \$2.8 million and paid rent of approximately \$1.7 million to the County.</p> <p>Conclusion: We found that JCDecaux Airport Inc. retained sufficient documentation to adequately support monthly rent paid to the County. We identified two (2) control findings related to compliance with the lease agreement.</p> <p>Background: The County entered into a lease agreement with JCDecaux Airport, Inc., dated November 1, 2004, for the operation and management of an advertising program at the JWA terminal. Over its 5-year term, this lease agreement is estimated to generate over \$7 million in rent to the County.</p> <p>Recommendations: Lease compliance regarding additional minor rent owed for the phone board technical charges.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
E.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Revenue Generating Lease Audit of Host International, Inc.</p> <p>AUDIT NO: 2833</p> <p>ISSUED: August 27, 2009</p>	<p>Scope: Revenue generating lease audit to determine whether the records of Host International Inc. adequately supported monthly rent paid to the County. During the 12-month audit period, Host International Inc. generated gross receipts of approximately \$16 million and paid rent of approximately \$2.5 million to the County.</p> <p>Conclusion: We found that Host International Inc. retained sufficient documentation to adequately support monthly rent paid to the County. We identified three (3) control findings related to recordkeeping and/or compliance with the lease agreement.</p> <p>Background: The County entered into a lease agreement with Host International, Inc. (Host), dated April 6, 1990, for the operation of the central food and beverage concession located at JWA. Currently, Host operates 11 food locations at JWA including 1 sit-down restaurant/bar, 1 bakery/café, 2 bars/lounges, 3 Starbucks concessions, 2 snack bars, and 2 Wolfgang Puck kiosks. The agreement expired on June 30, 2008 and currently Host is on a month-to-month tenancy. From the agreement inception date of April 1990 through March 2009, the County has received approximately \$23 million in rent.</p> <p>Recommendations: Record keeping, internal control, and/or lease compliance improvements regarding: retention of daily balancing documentation, cash register grand total accumulator differences, and clarification of reporting category for merchandise sales.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
F.	<p>DEPT: Auditor-Controller Human Resources County Procurement Office</p> <p>TITLE: Computer Assisted Audit Techniques – August 2009</p> <p>AUDIT NO: 2941-B</p> <p>ISSUED: August 31, 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 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 6,708 vendor invoices paid in July 2009 amounting to about \$317 million and found 99.85% of the invoices were only paid once. Of the \$317 million vendor invoices, we identified 10 duplicate payments made to vendors totaling \$29,441. The Auditor-Controller currently has a recovery rate from vendors of about 98% 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 \$825,518, 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>Multiple Direct Deposits:</u> No findings noted. • <u>Employee Vendor Match:</u> In March 2009, 23 potential employee/vendor matches were submitted to HR for evaluation. As of 7/28/09, HR determined 1 was not a valid match and 22 were not a conflict of interest. This closes out our work for the 23 matches. • <u>Retiree/Extra Help Hours:</u> As of 8/25/09, no working retirees have exceeded annual limits for FY 09-10. • <u>Deleted Vendors:</u> No findings noted. <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>