O C Board of Supervisors'
1st District - Janet Nguyen, Chair
2nd District - John M.W. Moorlach
3rd District - Bill Campbell, Vice-Chair
4th District – Shawn Nelson
5th District - Patricia C. Bates

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

EXHIBIT A

AUGUST 2010 AUDITS BY IAD

MONTHLY AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda
September 28, 2010

- Revenue Generating Lease Audit: JWA/Budget Rent A Car Systems, Inc. ($1.6 million rent paid to JWA annually). We found their records adequately supported monthly rent paid to JWA
- Monthly CAATs: IAD found one (1) duplicate payment amounting to $786 out of 10,415 invoices paid to vendors in July 2010.
- First Follow-Up Audit of County of Orange Retiree Medical Plan-Annual Required County Contributions (Employer contributions totaled $18,460,729) - We found that the County Executive Office fully implemented four (4) of the five (5) recommendations and has partially implemented one (1) recommendation from our original audit report.
- Final Close-Out First Follow-Up Sheriff-Coroner Payroll Process – ($491 million paid in payroll) We found that the Sheriff-Coroner fully implemented all eight (8) recommendations from our original audit report.

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

Assistance in assembling this report provided by:
Eli Littner, Deputy Director, CPA, CIA, CFE, CFS, CISA
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Project No. 1007-2

RISK BASED AUDITING
GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010

Member of AICPA — American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

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 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

OC Fraud Hotline
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September 28, 2010

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of August 2010.

For each audit report we provide 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,

Dr. Peter Hughes, CPA

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

Executive Summary

Exhibit **Reports**:

B. John Wayne Airport – Revenue Generating Lease Audit of Budget Rent A Car Systems, Inc.

We found that Budget Rent A Car Systems, Inc.'s records adequately supported gross receipts and rent owed was properly paid to JWA.

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 2010:

We analyzed **10,415** vendor invoices paid in July 2010 amounting to about **$340 million** and found **99.99%** of the invoices were only paid once.

Of the $340 million vendor invoices, we identified **one (1)** duplicate payment totaling $788 made to vendors. To date we have identified **$949,668** in duplicate vendor payments, of which **$904,864** has been recovered and is a noteworthy achievement by the County.

Exhibit **Follow-Up Reports**:

D. First Follow-Up Audit of County of Orange Retiree Medical Plan Annual Required County Contributions – The scope of the First Follow-Up Audit was to determine the implementation status of the five (5) recommendations, one Significant Issue and four Control Findings made in our original audit report dated November 17, 2009. We found that the County Executive Office fully implemented four (4) recommendations and has partially implemented one (1) recommendation from our original audit report.

E. Final Close-Out First Follow-Up Internal Control Audit of Sheriff-Coroner Payroll Process – Sheriff-Coroner Payroll Operations processed approximately $491 million in employee payroll during the original audit period between May 1, 2008 and April 30, 2009 using the in-house developed Sheriff Timekeeping System (STS). The original audit report contained eight **(8) recommendations**.

Our First Follow-Up found the Sheriff-Coroner fully implemented all **eight (8) recommendations**. As such, this report represents the final close-out of the original audit.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

New Audit Findings by Risk Category

	Description	Results
	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.	**None** issued during August 2010. **None** issued since July 2010.
	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.	**None** issued during August 2010. **None** issued since July 2010.
	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.	**1 (one)** issued during August 2010. **1 (one)** issued since July 2010.

Total Audit Findings for FY 2010-11: 1

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

NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B	TITLE: **Revenue Generating Lease Audit of Budget Rent A Car Systems, Inc.** DEPT: John Wayne Airport AUDIT NO: 2931 Issued: August 31, 2010	**Scope:** Revenue Generating Lease Audit to determine whether Budget Rent A Car Systems, Inc.'s records adequately supported monthly rent paid to the County. During the 12-month audit period, Hudson Group reported approximately **$10.4 million** in total gross receipts and paid the County approximately **$1.6 million** in rent. **Conclusion:** We found that Budget Rent A Car Systems, Inc.'s records adequately supported monthly rent paid to the County and rent owed was properly paid. **Background:** The County entered into a lease agreement Budget Rent A Car Systems, Inc., dated December 15, 2000, as amended, for the operation of an on-airport car rental agency at the John Wayne Airport terminal. During the 12-month audit period, Budget Rent A Car Systems, Inc. reported approximately $10.4 million in gross receipts and paid the County approximately $1.6 million in rent. Over its approximate twelve (12) year term, as amended, this lease agreement is estimated to generate over **$17 million** in rent to the County. **Recommendation:** Administrative fees to customers for the tracking and recovery of significantly overdue vehicles should be reported to the County as gross receipts subject to percentage rent.

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	DEPT: Auditor-Controller Human Resources County Procurement Office TITLE: **Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – July 2010** AUDIT NO: 1041- A ISSUED: July 28, 2010	**Scope:** The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform four (4) on-going CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary **Conclusion:** • Duplicate Payments to Vendors: We analyzed 10,415 vendor invoices paid in July 2010 amounting to about **$340 million** and found **99.99%** of the invoices were only paid once. Of the $340 million vendor invoices, we identified **one (1)** duplicate payment totaling $786 made to vendors. The County currently has a recovery rate from vendors of about **95%** 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 **$904,864,** this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • Employee Vendor Match: For the period 6/30/09 – 3/31/10 we identified 13 potential employee-vendor matches. These matches were provided to HRD for evaluation as to whether any employee vendor conflicts exist. As of 8/27/10, HRD determined that 13 were not a conflict. For the current quarter 6/30/10, no matches were identified. All potential employee/vendor matches identified to date have been researched and resolved to HRD's satisfaction. • Retiree/Extra Help Hours: During FY 09-10, we identified two working retirees exceeding annual limits of 960 or 720 hours mandated by Government Code Sections 31680.6 and 31641.04. The excess was 4 hours each, which is less than one pay period. • Multiple Payroll Direct Deposits: No findings noted.

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
	CONTINUED, DEPT: Auditor-Controller Human Resources County Procurement Office TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – July 2010	**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 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.

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
D	TITLE: **First Follow-Up Audit of County of Orange Retiree Medical Plan – Annual Required County Contributions** DEPT: County Executive Office AUDIT NO: 2917-B Issued: August 2, 2010	**Scope:** First Follow-Up Audit of County of Orange Retiree Medical Plan – Annual Required County Contributions to determine the implementation status of the five (5) recommendations, one **Significant Issue** and four **Control Findings** made in our original audit report. **Conclusion:** Our Follow-Up Audit indicated that the County Executive Office fully implemented four (4) recommendations and has partially implemented one (1) recommendation from our original audit report dated November 17, 2009. **Background:** The County of Orange Retiree Medical Plan assists eligible Orange County (OC) retired employees, retired employees of other public agencies that participate in the Plan, and their spouses and dependents, in maintaining health coverage after retirement. Employer contributions totaled $18,460,729 from July 4, 2008 through December 4, 2008. **Type of Recommendations:** The **Significant Issue** – the reconciliation method used to update the Retiree Medical Trust Fund from the OCERS Statement was flawed and resulted in an error of $213,847.92 in recording interest income. The **Control Findings** were in the following areas: timeliness in reconciling and recording financial information; documented supervisory reviews; and written procedures.

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
E	TITLE: **Final Close-Out First Follow-Up Internal Control Audit of Sheriff-Coroner Payroll Process** DEPT: Sheriff-Coroner AUDIT NO: 2927-F Issued: August 12, 2010	**Scope:** First Follow-Up Audit of the Sheriff-Coroner Payroll Process to determine the implementation status of the eight (8) recommendations made in our original audit report issued on December 2, 2009. **Conclusion:** Our First Follow-Up found the Sheriff-Coroner fully implemented all **eight (8) recommendations**. As such, this report represents the final close-out of the original audit. We commend the Sheriff-Coroner for their timeliness and responsiveness in taking corrective actions on our audit recommendations. **Background:** The original audit evaluated the payroll process starting with the daily submission of over 4,000 manual timesheets (Daily Sign-In Sheets) from 105 pay locations to Payroll Operations, from which timekeeping data is input into the Sheriff Timekeeping System (STS), to the uploading of payroll information to Auditor-Controller Central Payroll. The Sheriff-Coroner does not utilize the Virtual Timecard Interface (VTI) automated timecard recording system used Countywide and was instead planning to upgrade STS. The audit evaluated for proper segregation of duties; supervisory or management authorization of employee hours; existence of supporting documentation for payroll changes; and reconciliations between STS and CAPS+ to ensure completeness. **Recommendations:** The audit identified eight findings and recommendations to enhance the payroll process and general IT controls over STS, including a recommendation to study the cost/benefit of implementing VTI. Recommendations included requiring employee certification of payroll hours; additional approval when authorized signers are approving their own time; enhancing STS controls in the areas of password policy, access, automatic lockouts, change management, activity logs and audit trails, and data back-up.

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/