

# Internal Audit Department

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

## EXHIBIT A

### DECEMBER 2010 AUDITS BY IAD MONTHLY AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda  
January 25, 2010

- Financial Statement Audit of the **OC District Attorney Office's Workers' Compensation Insurance Fraud Program** finds the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2010.
- Financial Statement Audit of the **OC District Attorney Office's Automobile Insurance Fraud Program** finds the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2010.
- Financial Statement Audit of the **OC District Attorney Office's Organized Automobile Fraud Activity Interdiction Program** finds the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for Fiscal Year Ending June 30, 2010.
- **Audit Alert: CEO Office** We identified an opportunity for the CEO to better clarify working relationships with former employees (working retiree vs. contractor) and enhance the related Countywide policies.
- **Monthly CAAT Reveals 99.99% of Vendors Payments Are Only Paid Once:** We found one (1) duplicate payments for \$10,874 out of 16,843 vendor invoices paid in November 2010.
- **Final Close-Out First Follow-Up Audit of CEO/Risk Management Workers' Compensation and Liability & Property Claim Disbursements:** Our First Follow-Up Audit found all seven (7) recommendations were satisfactorily implemented.

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

Assistance in assembling this report provided by:  
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Project No. 1007-6

**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-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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January 25, 2010

Honorable Board of Supervisors,

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

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

#### Reports:

- B. District Attorney  
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 grant, for Fiscal Year Ending June 30, 2010.
- C. District Attorney  
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 grant, for Fiscal Year Ending June 30, 2010.
- D. District Attorney  
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 Organized Automobile Fraud Activity Interdiction Program grant, for Fiscal Year Ending June 30, 2010.
- E. AUDIT ALERT: County Executive Office  
This **Audit Alert** addresses a possible issue involving a former retired employee in a County department hired as both a contractor and working retiree within the same year (no overlapping service dates). While the one exception highlighted is in itself non-consequential, we raise this issue to assist in future situations of a similar nature and provide an opportunity for the CEO to further clarify working retiree-contractor relationships and reduce policy confusion in the County departments.

### Exhibit

#### MONTHLY RESULTS OF CONTINUOUS AUDITING USING CAATS (COMPUTER ASSISTED AUDIT TECHNIQUES):

- F. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – December 2010:  
We analyzed **16,843** vendor invoices paid in November 2010 amounting to about **\$146 million** and found **99.99%** of the invoices were only paid once. Of the \$146 million vendor invoices, we identified **one (1)** duplicate payment for **\$10,874** made to vendors. To date we have identified **\$973,609** in duplicate vendor payments, of which **\$904,864** has been recovered and is a noteworthy achievement by the County.

### Exhibit

#### Follow-Up Reports:

- G. Final Close-Out First Follow-Up Internal Control Audit of CEO/Risk Management Workers' Compensation and Liability & Property Claim Disbursements:  
Our First Follow-Up Audit found all **seven (7)** recommendations were satisfactorily implemented. 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
	<p><b>Material Control Weaknesses</b>                      A serious audit finding or a combination of Significant Control Weaknesses that represent material exceptions to the audit objective(s) and/or business goals. Management is expected to address "Material Control Weaknesses" brought to their attention immediately.</p>	<p><b>None</b> issued during December 2010.  <b>None</b> issued since July 2010.</p>
	<p><b>Significant Control Weaknesses</b>                      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><b>None</b> issued during December 2010.  <b>Two (2)</b> issued since July 2010.</p>
	<p><b>Control Findings</b>                      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><b>Three (3)</b> issued during December 2010.  <b>Forty-seven (47)</b> issued since July 2010.</p>

**Total Audit Findings for FY 2010-11: 52**

Board Date: January 25, 2011

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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><b>TITLE:</b>  <b>Audit of Workers' Compensation Insurance Fraud Program</b></p> <p><b>DEPT:</b>  District Attorney</p> <p>Audit No: 1009</p> <p>Issued: December 16, 2010</p>	<p><b>Scope:</b> 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><b>Conclusion:</b> 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><b>Background:</b> The grant is funded by the California Department of Insurance, and the 2009/2010 fiscal year grant revenues totaled \$3,123,154. Expenditures totaled \$3,288,645 resulting in an excess of expenditures over revenues of \$165,491, 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><b>Type of Recommendations: None</b></p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
C	<p><b>TITLE:</b> <b>Audit of Automobile Insurance Fraud Program</b></p> <p><b>DEPT:</b> District Attorney</p> <p>Audit No: 1011</p> <p>Issued: December 13, 2010</p>	<p><b>Scope:</b> 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><b>Conclusion:</b> 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><b>Background:</b> The grant is funded by the California Department of Insurance, and the 2009/2010 fiscal year grant revenues totaled \$1,974,825. Expenditures totaled \$1,959,289 resulting in carry-over funds of \$15,536 for the 2010/11 fiscal year.</p> <p><b>Type of Recommendations: None</b></p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
D	<p><b>TITLE:</b>  <b>Audit of Organized Automobile Fraud Activity Interdiction Program</b></p> <p><b>DEPT:</b>  District Attorney</p> <p>Audit No: 1012</p> <p>Issued: December 13, 2010</p>	<p><b>Scope:</b> 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><b>Conclusion:</b> 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><b>Background:</b> The grant is funded by the California Department of Insurance, and the 2009/2010 fiscal year grant revenues totaled \$700,000. Expenditures totaled \$565,684 resulting in carry-over funds of \$134,316 for the 2010/11 fiscal year.</p> <p><b>Type of Recommendations: None</b></p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
E	<p><b>TITLE:</b>  <b>AUDIT ALERT: Opportunity to Clarify Classifications of Former Employees Hired as Working Retirees or Contractors</b></p> <p><b>DEPT:</b>                      County Executive Office</p> <p>Audit No: 1041-E</p> <p>Issued: December 21, 2010</p>	<p><b>Scope:</b> During our quarterly Computer Assisted Audit Technique (CAAT) reviewing for possible employee-vendor conflicts of interest, we identified an issue that was not a conflict of interest, but instead a possible conflict with the County Procurement Manual threshold (\$50,000) for BOS approval of sole source contracts due to a former employee hired as both a contractor and working retiree within the same year (no overlapping service dates). While this one exception is in itself non-consequential, we performed further review and research to determine whether retiree-contractor relationships needed further clarification within the County</p> <p><b>Conclusion:</b> An opportunity does exist for the CEO to better clarify working relationships with former retired employees (working retiree vs. contractor) and enhance related policies to assist the County department in future situations of a similar nature. We identified <b>three (3) recommendations</b> to better clarify working relationships with former employees and reduce policy confusion.</p> <p><b>Background:</b> The purpose of an Audit Alert is to promptly bring to the management's attention important potential issues for their immediate assessment and, if necessary, corrective action. The process incorporates an accelerated management response timeline to ensure the timely completion and dissemination of audit issues. An Audit Alert is not subject to the same rigor and formality of a traditional report in that we have not fully developed the issues and have not verified the accuracy of all information.</p> <p><b>Recommendations:</b> CEO develop a Countywide written policy/directive for hiring former employees as sole source contractors including a requirement to obtain CFO written approval before awarding sole source contracts less than \$50,000 to former or retired employees; the policy should require departments to consider the cumulative amount of sole source contracts with former employees within a three-year period (regardless of how the scope of work is differentiated) when determining whether the contracts exceed the \$50,000 threshold for BOS approval; and the policy should also require departments to coordinate between their human resource and purchasing staff when hiring former employees to ensure that former employees do not switch back and forth between the working retiree and sole source contractor classifications.</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: <b>Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – November 2010</b></p> <p>AUDIT NO: 1041-G</p> <p>ISSUED: December 23, 2010</p>	<p><b>Scope:</b> 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</p> <p><b>Conclusion:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors</u>: We analyzed 16,843 vendor invoices paid in November 2010 amounting to about <b>\$146 million</b> and found <b>99.99%</b> of the invoices were only paid once. Of the \$146 million vendor invoices, we identified <b>one (1)</b> duplicate payment for <b>\$10,874</b> made to vendors. The County currently has a recovery rate from vendors of about <b>94%</b> on these duplicate payments.</li> </ul> <p>Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of <b>\$904,864</b>, 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"> <li>• <u>Employee Vendor Match</u>: All potential employee/vendor matches identified to date have been researched and resolved to Human Resource Department's satisfaction. Our next analysis will be performed at 12/31/10.</li> <li>• <u>Retiree/Extra Help Hours</u>: As of November 23, 2010, no individuals have exceeded the annual limits for FY 10-11.</li> <li>• <u>Multiple Payroll Direct Deposits</u>: No findings noted.</li> </ul>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
	<p><b>CONTINUED,</b></p> <p>DEPT:                      Auditor-Controller                      Human Resources                      County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – November 2010</p>	<p><b>Background:</b>                      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.</p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
G	<p><b>TITLE:</b>  <b>Final Close-out First Follow-Up Internal Control Audit of Workers' Compensation and Liability &amp; Property Claim Disbursements</b></p> <p><b>DEPT:</b>                      CEO/Risk Management</p> <p><b>AUDIT NO:</b> 1033-A                      (original audit no. 2921)</p> <p><b>Issued:</b> December 28, 2010</p>	<p><b>Scope:</b>                      We have completed a First Follow-Up Audit of the Internal Control Audit for the CEO/Risk Management Workers' Compensation and Liability &amp; Property Claim Disbursements. Our audit was limited to reviewing, as of November 30, 2010, actions taken to implement the <b>seven (7) recommendations</b> from our original audit report.</p> <p><b>Conclusion:</b>                      Our First Follow-Up Audit indicated the CEO/Risk Management fully implemented all seven (7) recommendations. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>Background:</b>                      We conducted an Internal Control Audit of claim disbursements in CEO/Risk Management for the Workers' Compensation and Liability &amp; Property programs, which included an evaluation of the adequacy and integrity of internal controls; compliance with department and County policy, and evidence of process efficiencies and effectiveness.</p> <p><b>Type of Recommendations:</b>                      The original audit identified <b>two (2) Significant Issues</b> and <b>five (5) Control Findings</b> resulting in seven (7) recommendations pertaining to reimbursements of negotiated discounts and penalty payments by the County's third-party claims administrator; contracted managed care services; audits of the third-party claims administrator; confidentiality and monetary authority limits over liability &amp; property invoices; and differences in amounts reported between the third-party administrator and County payroll reports. During the original audit, approximately <b>\$26 million</b> was disbursed for Workers' Compensation claims, and <b>\$8 million</b> in Liability &amp; Property claim settlements and expenses.</p>