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EXHIBIT A

JANUARY 2012 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda **February 28, 2012**

- Special Request Audit: Countywide Audit of Employee Cash Advances, As of April 30, 2011: At April 30, 2011, seven (7) County departments and agencies had 222 outstanding travel cash advances made to employees totaling \$97,489. Of that amount, 126 advances totaling \$55,857 were outstanding more than five (5) working days after the end of travel and 31 advances totaling \$10,551 were outstanding more than 60 days and may be subject to IRS withholding. As of August 31, 2011, all 222 advances outstanding at April 30, 2011 were claimed and finalized.
- Control Self-Assessment/Process Improvement by the Public Administrator/Public Guardian. We facilitated two workshops in October 2011 at the request of the Public Administrator and the newly-appointed Public Guardian/Assistant Public Administrator to help assess the department's effectiveness in meeting business and control objectives.
- Monthly CAAT Reveals 99.99% of Vendor Invoices Were Only Paid Once. Additional analysis of multiple IHSS providers sharing same address was completed. The instances of potentially 4 and 5 providers sharing the same address have been researched and no improprieties were identified by SSA.

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

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

Project No. 1107-7

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







Letter from Dr. Peter Hughes, CPA





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RISK BASED AUDITING



February 28, 2012

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of January 2012. 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 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.

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Executive Summary

Exhibit Audit Reports:

- B. Special Request Audit: Countywide Audit of Employee Cash Advances, As of April 30, 2011: At April 30, 2011, seven (7) County departments and agencies had 222 outstanding travel cash advances made to employees totaling \$97,489. Of that amount, 126 advances totaling \$55,857 were outstanding more than five (5) working days after the end of travel and 31 advances totaling \$10,551 were outstanding more than 60 days and may be subject to IRS withholding. As of August 31, 2011, all 222 advances outstanding at April 30, 2011 were claimed and finalized.
- C. Control Self-Assessment/Process Improvement by the Public Administrator-Public Guardian: The Internal Audit Department facilitated two CSA-PI workshops in PA/PG at the request of the Public Administrator and the newly-appointed Public Guardian/Assistant Public Administrator. The two workshops were conducted in October 2011. CSA-PI is not an audit; rather, it is a consulting service that assists County departments in conducting their own internal assessment of the effectiveness of their controls and business processes. PA/PG management is taking the CSA-PI process very seriously and has been diligent in taking action to address issues raised in the two workshops.

Exhibit Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques):

D. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – January 2012: We analyzed **18,511** vendor invoices paid in December 2011 amounting to about **\$311** million and found **99.99%** of the invoices were only paid once. Of the \$311 million vendor invoices, we identified **two** duplicate payments made to vendors for \$1,200. To date we have identified **\$982,770** in duplicate vendor payments, of which **\$967,863** or **99%** has been recovered and is a noteworthy achievement by the County.

Additionally, we completed additional analysis of IHSS providers sharing the same address. We identified 33 instances of IHSS providers who are sharing the same address with three or more providers. SSA reviewed those instances where there are four and five providers with the same address and determined there were "no improprieties." This closes out our work on this additional analysis.

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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 January 2012. No material weaknesses in internal control issued during January 2012. Seven (7) total recommendations issued since July 2011.
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.	Ten (10) significant control weaknesses issued during January 2012. Sixteen (16) total recommendations issued since July 2011.
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.	Fourteen (14) control findings issued during January 2012. Forty-seven (47) total recommendations issued since July 2011.

Total Audit Recommendations for FY 2011-12: 70

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Detailed Report

	Description	Results
В.	Special Request Audit: Countywide Audit of Employee Cash Advances As of April 30, 2011	Scope: Our audit evaluated internal controls and processes over the claiming of employee cash advances to determine compliance with related County Accounting Manual (CAM) procedures, County Travel Policies, and Internal Revenue Service (IRS) Regulations.
	DEPT: Countywide	To determine the total amount of outstanding cash advances at April 30, 2011, we conducted a survey of all County departments and agencies (25 departments/agencies). We requested that all County departments and agencies report the type and total amount of outstanding cash advances as of April 30, 2011.
	Report No: 1056	Conclusion: At April 30, 2011, seven (7) County departments and agencies had 222 outstanding travel cash advances made to employees totaling \$97,489. Of that amount, 126 advances totaling \$55,857 were outstanding more than five (5) working days after the end of travel and 31 advances totaling \$10,551 were outstanding more
	Issued: January 27, 2012	than 60 days and may be subject to IRS withholding. As of August 31, 2011, all 222 advances outstanding at April 30, 2011 were claimed and finalized.
		Background: Employee cash advances are made only for travel-related expenses. Travel cash advances are issued from the revolving funds used for petty cash disbursements established for each County department/agency, according to the provisions of County of Orange Accounting Manual (CAM) Procedures C-7 Revolving Cash Funds and C-1 Cash Advances – Revolving Funds. Travel cash advances are further subject to the criteria and requirements established in the County Business Travel and Reimbursement of Related Expenses Policy (County Administrative Procedure 017-02), the Expense and Reimbursement Policy for Elected Officials (BOS Resolution 05-265), and IRS Regulations (Title 26, Chapter I, Part 1, Section 62-2).
		Type of 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.

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Detailed Report

	Description	Results
C.	TITLE: Control Self Assessment/ Process Improvement	Scope: In October 2011, the Internal Audit Department facilitated two CSA-PI workshops in PA/PG at the request of the Public Administrator and newly-appointed Public Guardian/Assistant Public Administrator. CSA-PI is not an audit; rather, it is an audit technique that measures areas that traditional audit techniques are not designed to measure, such as trust, morale and corporate culture.
	DEPT: Public Administrator/Public Guardian Report No: 1150	Conclusion: After completion of the two workshops, each team worked with management to prepare an action plan which addressed the higher-priority issues brought forward during the workshops. We received a copy of the action plan, which included items that had been initiated or planned. Issues that were raised in the workshops included the need for better defined roles and responsibilities; improved communication between management and staff; assessment of workloads; clarification of work priorities; and updated and comprehensive policies and procedures for select duties. The results of the workshops were discussed with the County Executive Office.
	Issued: January 12, 2012	PA/PG executive management is taking the CSA-PI process very seriously and has been diligent in taking action to address issues raised in the workshops. Background: CSA-PI workshops have three fundamental purposes. First, the workshops provide the teams with a formal process for self-evaluation. This process addresses strengths and obstacles that impact the teams' ability to achieve their objectives and to decide upon appropriate action. Secondly, a summary of the workshop results provides a basis for upper management to evaluate the control environment within a department. Lastly, the CSA-PI process encourages continuous application of the workshop principles and dynamics in the workplace by developing action plans to address concerns and build upon strengths identified in the workshops. The Internal Audit Department serves only as workshop facilitators and not as auditors. This process is based on the consensus of impressions, comments, opinions, and perspectives of the workshop teams and is not "audited or validated" in the traditional sense by Internal Audit. Type of Recommendations: No recommendations are made for CSA-PI as it is a non-audit consultant service.

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Detailed Report

	Description	Results
D.	DEPT: Auditor-Controller Human Resources CEO/County Procurement Office Social Services Agency TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – January 2011 AUDIT NO: 1139-G	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 18,511 vendor invoices paid in December 2011 amounting to about \$311 million and found 99.99% of the invoices were only paid once. Of the \$311 million vendor invoices, we identified two duplicate payment made to vendors for \$1,200. 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 \$967,863, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • Employee Vendor Match: At 12/31/11, we identified two (2) potential employee-vendor conflicts in the employee-vendor matches we reviewed. These two matches have been submitted to Human Resources Department (HRD) for further evaluation. • Retiree/Extra Help Hours: As of December 29, 2011, no individuals have exceeded
	ISSUED: January 30, 2012	 Retiree/Extra Help Hours: As of December 29, 2011, no individuals have exceeded the annual hourly limits for FY 11-12. Multiple Payroll Direct Deposits: No findings noted. In Home Supportive Services - Additional Analysis: As reported in our August 2011 CAAT report (1139-B), we identified 33 instances of IHSS providers who are sharing the same address with three or more providers. SSA has completed their review of those instances where there are four and five providers with the same address and determined there were "no improprieties." As SSA has completed their review, this item will be removed from next month's CAAT report. This closes out our work on this analysis.

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Detailed Report

Description	Results
CONTINUED, DEPT: Auditor-Controller Human Resources County Procurement Office Social Services Agency TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – December 2011	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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