

Internal Audit Department

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

EXHIBIT A

FEBRUARY 2013 AUDITS BY IAD

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Presented on the Board of Supervisors' Agenda

March 19, 2013

AOC Special Request Review of County's Purchase of Real Property Using Clerk-Recorder Special Review Fund 12D. Our audit found that the County's acquisition of real property for about \$2.1 million located at 433 Civic Center Drive West appears to be a **permissible** use of Fund 12D monies, pursuant to Government Code 27361, as long as the property is used to store the appropriate records: specifically, recorded real property documents. If the property is used to store any other records, then Fund 12D should be reimbursed proportionately. We did identify **two (2) Critical Control Weaknesses**, **two (2) Significant Control Weaknesses**, and **two (2) Control Findings** with the overarching goal of improving Countywide processes and the quality of information provided to the Board of Supervisors and CEO for their decision making.

Information Technology Audit of Social Services Agency Computer General Controls. The audited IT general controls were found **adequate** in the areas of security-related personnel policies; user access and physical access controls; system development and change control; segregation of duties within the IT function; and disaster recovery/business continuity.

Results of Continuous Auditing Using CAATS for January 2013. Reveals 99% of vendor invoices were paid correctly.

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

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Project No. 1209-8

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



OC Fraud Hotline
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March 19, 2013

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of February 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. AOC Special Request Review of County's Purchase of Real Property Using Clerk-Recorder Special Revenue Fund 12D: Our audit found that the County's acquisition of real property for about \$2.1 million located at 433 Civic Center Drive West appears to be a permissible use of Fund 12D monies, pursuant to Government Code 27361, as long as the property is used to store the appropriate records: specifically, recorded real property documents. If the property is used to store any other records, then Fund 12D should be reimbursed proportionately. We did identify **two (2) Critical Control Weaknesses**, **two (2) Significant Control Weaknesses**, and **two (2) Control Findings** with the overarching goal of improving Countywide processes and the quality of information provided to the Board of Supervisors and CEO for their decision making.
- C. Information Technology Audit of Social Service Agency Computer General Control: The Social Services Agency (SSA) administers a **budget of \$747 million and a staff of 3,800**. SSA also has fiduciary responsibility for approximately **\$2.3 billion in expenditures** paid directly by the State to clients and service providers. 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. **The audited IT general controls were found to be adequate**. We identified six (6) Control Findings for performing annual security assessments, and improving user access and physical access to SSA's computing resources.

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 2013: We analyzed **16,462** vendor invoices paid in December 2012 amounting to about **\$138 million** and found **99%** of the invoices were paid correctly. Of the \$138 million in vendor invoices, we identified **one (1)** duplicate payment made to a vendor totaling \$65. To date we have identified **\$1,020,478** in duplicate vendor payments, of which **\$995,084 or 98%** has been recovered and is a noteworthy achievement by the County.

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>Two (2) critical control weaknesses issued during February 2013. One (1) material weakness issued during February 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>Two (2) significant control weaknesses issued during February 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>Eight (8) control findings issued during February 2013.</p> <p>Thirty-four (34) total recommendations issued since July 2012.</p>

Total Audit Recommendations for FY 2012-13: 53

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
B.	<p>DEPT: Clerk-Recorder County Executive Office</p> <p>TITLE: AOC Special Request Review of County's Purchase of Real Property Using Clerk-Recorder Special Revenue Fund 12D</p> <p>AUDIT NO: 1159-A</p> <p>ISSUED: February 21, 2013</p>	<p>Scope: As directed by the Audit Oversight Committee at its March 15, 2012 meeting, the objective of our review was to determine whether the County's acquisition of real property for about \$2.1 million located at 433 Civic Center Drive West, Santa Ana, in March 2008 was a permissible use of the Special Revenue Fund 12D monies pursuant to Government Code 27361.</p> <p>Conclusion: Our audit found that the County's acquisition of real property for about \$2.1 million located at 433 Civic Center Drive West appears to be a permissible use of Fund 12D monies, pursuant to Government Code 27361, as long as the property is used to store the appropriate records: specifically, recorded real property documents. If the property is used to store any other records, then Fund 12D should be reimbursed proportionately. We did identify two (2) Critical Control Weaknesses, two (2) Significant Control Weaknesses, and two (2) Control Findings with the overarching goal of improving Countywide processes and the quality of information provided to the Board of Supervisors and CEO for their decision making.</p> <p>Background: The Clerk-Recorder's Fund 12D is a Special Revenue Fund containing monies that have a restricted purpose, as specified by Government Code 27361. Use of the monies is restricted "...solely to support, maintain, improve, and provide for the full operation for modernized creation, retention, and retrieval of information in each county's system of recorded documents."</p> <p>Recommendations: CEO work with Corporate Real Estate to develop "standard questionnaires" for all real property acquisitions and leases; CEO ensure the real property acquisition and lease questionnaires developed clearly identify and explain funding sources including the funding restrictions and compliance with those restrictions; CEO work with the Clerk-Recorder Department and Corporate Real Estate to prepare a written plan for the subject property that will be included in the County's Civic Center Master Plan; CEO work with Corporate Real Estate to develop a written policy that clearly defines and establishes Corporate Real Estate's responsibilities and authorities for all County real estate matters; Clerk-Recorder Department request County Counsel input on the propriety of future large dollar uses of Fund 12D restricted monies; and the Clerk-Recorder Department remove any "non-compliant" records currently being stored at the subject property.</p>

Board Date: March 19, 2013

Exhibit A, Page 5 of 7

For a copy of the complete audit report that contains the audit objective, scope, findings, recommendations, and management's response, see the OC Internal Audit Department's website at <http://www.ocgov.com/audit/>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
C.	<p>DEPT: Social Services Agency</p> <p>TITLE: Information Technology Audit of Social Services Agency Computer General Controls</p> <p>AUDIT NO: 1142</p> <p>ISSUED: February 19, 2013</p>	<p>Scope: Our audit evaluated selected general controls and policies/procedures over the administration and use of SSA’s computing resources over: 1) the adequacy of SSA’s security-related personnel policies; 2) the adequacy of general user access and physical access controls for from unauthorized personnel and environmental hazards; 3) the adequacy of systems development and change control policies and procedures; 4) the adequacy of segregation of duties within the IT organization; and 5) the adequacy of policies and procedures, over disaster recovery/business continuity.</p> <p>Conclusion: The audited IT general controls were found adequate. We identified six (6) Control Findings for performing annual security assessments, and improving user access and physical access to SSA’s computing resources.</p> <p>Background: SSA administers a budget of \$747 million and a staff of 3,800. SSA also has fiduciary responsibility for approximately \$2.3 billion in expenditures paid directly by the State to clients and service providers. 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>Recommendations: Ensure system security reviews are performed annually; implement procedures to notify SSA IT of separated users; retain user access request forms for all active users; consider installing surveillance camera at computing resources facility; replace computer room combo lock with a County card reader; change network complexity setting to “enabled.”</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

	Description	Results
D.	<p>DEPT: Auditor-Controller Human Resources CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – January 2013</p> <p>AUDIT NO: 1238-G</p> <p>ISSUED: February 19, 2012</p>	<p>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 or quarterly.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 16,462 vendor invoices paid in December 2012 amounting to about \$138 million and found 99% of the invoices were only paid once. We identified one (1) duplicate payment made to a vendor totaling \$65. The County currently has a recovery rate from vendors of about 98% 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 \$995,084, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • <u>Employee Vendor Match:</u> This routine is performed on a quarterly basis. All employee-vendor matches identified to date have been resolved to Human Resources Services' (HRS) satisfaction. We performed an analysis of employee and vendor addresses and phone numbers at quarter-end December 31, 2012 and identified no (0) potential employee-vendor conflicts. • <u>Retiree/Extra Help Hours:</u> As of January 10, 2013, no OC working retirees exceeded the annual hourly limits for FY 12-13. • <u>Multiple Payroll Direct Deposits:</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 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>