

# 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

## SEPTEMBER 2013 AUDITS BY IAD MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT Presented on the Board of Supervisors' Agenda October 22, 2013

**Results of Continuous Auditing Using CAATS for July 2013.** Reveals 100% of vendor invoices were paid correctly. We identified no potential duplicate payments made to vendors.

**Results of Continuous Auditing Using CAATS for August 2013.** Reveals 100% of vendor invoices were paid correctly. We identified no potential duplicate payments made to vendors.

**Revenue Generating Lease Audit of John Wayne Airport/Vanguard Car Rental USA, LLC:** We found that Vanguard's records adequately supported reported gross receipts and rent owed was properly paid to the County.

**Quarterly Audits of Auditor-Controller's Cash and Investment Reconciliation Compliance:** In our opinion, the Orange County Auditor-Controller complied with California Government Code Section 26905, in all material respects, for the quarter ended June 30, 2013.

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

Assistance in assembling this report provided by:  
**Michael Goodwin, Assistant Director/Senior Audit Manager, CPA, CIA**  
**Alan Marcum, Senior Audit Manager, MBA, CPA, CIA, CFE**

**Project No. 1309-3**

### 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



**Dr. Peter Hughes, CPA**  
**DIRECTOR**

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(714) 834-5475  
(714) 834-2880 Fax

## **RISK BASED AUDITING**



**OC Fraud Hotline**  
(714) 834-3608

October 22, 2013

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of September 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 Project:**

- B. **Revenue Generating Lease Audit of John Wayne Airport/Vanguard Car Rental USA, LLC:** We found that Vanguard's records adequately supported reported gross receipts and rent owed was properly paid to the County.
- C. **Quarterly Audit of the Auditor- Controller's Cash and Investment Reconciliation Compliance:** In our opinion, the Orange County Auditor-Controller complied with the requirements of California Government Code Section 26905, in all material respects, for the quarter ended June 30, 2013.

### Exhibit

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

- D. **Auditor-Controller, Human Resource Services, and County Procurement Office –Duplicate Vendor Payments and Other Periodic Routines – August 2013:** We analyzed **12,064** vendor invoices paid in July 2013 amounting to about **\$258 million** and found **100%** of the invoices were paid correctly. Of the \$258 million in vendor invoices, we identified no potential duplicate payments made to vendors. To date we have identified **\$1,025,702** in duplicate vendor payments, of which **\$1,011,943 or 99%** has been recovered.
- E. **Auditor-Controller, Human Resource Services, and County Procurement Office –Duplicate Vendor Payments and Other Periodic Routines – September 2013:** We analyzed **16,532** vendor invoices paid in August 2013 amounting to about **\$248 million** and found **100%** of the invoices were paid correctly. Of the \$248 million in vendor invoices, we identified no potential duplicate payments made to vendors. To date we have identified **\$1,025,702** in duplicate vendor payments, of which **\$1,011,943 or 99%** has been recovered.

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

### New Audit Findings & Recommendations by Risk Category

	Description	Results
	<p><b>Critical Control Weaknesses</b> 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>* <b>Material Weaknesses</b> is used for an audit conducted under AICPA Attestation Standards.</p>	<p><b>No critical control weaknesses</b> issued during September 2013. <b>No material weakness</b> issued during September 2013.</p> <p><b>No (0) total recommendations</b> issued since July 2013.</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>No significant control weaknesses</b> issued during September 2013.</p> <p><b>No (0) total recommendations</b> issued since July 2013.</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>No (0) control findings</b> issued during September 2013.</p> <p><b>Three (3) total recommendations</b> issued since July 2013.</p>

**Total Audit Recommendations for FY 2013-14: 3**

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

	Description	Results
B	<p>DEPT: John Wayne Airport</p> <p>TITLE: <b>Revenue Generating Lease Audit of John Wayne Airport/ Vanguard Car Rental USA, LLC</b></p> <p>AUDIT NO: 1230</p> <p>ISSUED: September 4, 2013</p>	<p><b>Scope:</b> We have performed an audit of certain records and documents of Vanguard Car Rental USA, LLC to ensure gross receipts are complete and rent is properly paid as defined by the lease agreement.</p> <p><b>Conclusion:</b> We found that Vanguard's records adequately supported reported gross receipts and rent owed was properly paid to the County.</p> <p><b>Background:</b> Vanguard Car Rental USA, LLC (Vanguard), a wholly-owned subsidiary of Enterprise Holdings, Inc., operates Alamo Rent-A-Car and National Car Rental on-site at John Wayne Airport (JWA). The lease agreement expired in June 2012 but is continuing on a month-to-month basis. Rent is paid based on a percentage of gross receipts. Gross receipts generated from the lease during the audit period were approximately \$28 million and rent paid to the County was about \$2.8 million.</p> <p><b>Recommendations:</b> None</p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

	Description	Results
C.	<p>DEPT: Auditor-Controller</p> <p>TITLE: <b>Quarterly Examination of the Auditor-Controller's Cash and Investment Reconciliation Compliance</b></p> <p><b>For the Quarter Ended June 30, 2013</b></p> <p>AUDIT NO: 1315-A</p> <p>ISSUED: September 13, 2013</p>	<p><b>Scope:</b> The primary purpose of this audit is to provide an opinion about whether the Orange County Auditor-Controller's monthly reconciliations of cash and investment accounts complied with the requirements of California Government Code Section 26905, to determine that the amounts in those accounts as stated on the books of the Treasurer are in agreement with the amounts in those accounts as stated on the books of the Auditor.</p> <p><b>Conclusion:</b> In our opinion, the Orange County Auditor-Controller complied, in all material respects, with the California Government Code Section 26905 for the quarter ended June 30, 2013.</p> <p><b>Background:</b> The Internal Audit Department was requested by the Auditor-Controller's Office to conduct the required quarterly audit to provide an opinion whether the Orange County Auditor-Controller has complied with the requirements of California Government Code Section 26905 for the quarter-ended June 30, 2013. Cash and investments per the Treasurer's official records were <b>\$6.5 billion</b> (cost basis) at June 30, 2013.</p> <p><b>Recommendations:</b> None</p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

	Description	Results
D.	<p>DEPT: Auditor-Controller Human Resource Services CEO/County Procurement Office</p> <p>TITLE: <b>Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – August 2013</b></p> <p>AUDIT NO: 1349-B</p> <p>ISSUED: September 4, 2013</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) ongoing CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly or quarterly.</p> <p><b>Conclusion:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors:</u> We analyzed 12,064 vendor invoices paid in July 2013 amounting to about <b>\$258 million</b> and found <b>100%</b> of the invoices were only paid once. We identified no potential duplicate payments made to vendors. The County currently has a recovery rate from vendors of about <b>99%</b> 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 <b>\$1,011,943</b> this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.</li> <li>• <u>Employee Vendor Match:</u> Our analysis for the quarter-ended June 30, 2013, found <b>no employee-vendor conflicts</b>. In addition, the one (1) employee-vendor match identified in our March 31, 2013 analysis was determined not to be a conflict.</li> <li>• <u>Retiree/Extra Help Hours:</u> As of July 25, 2013, <b>no OC working retirees exceeded the annual hourly limits for FY 13-14.</b></li> <li>• <u>Payroll Direct Deposits:</u> No findings resulted from the payroll direct deposits routine.</li> </ul> <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 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 Resource Services, 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

	Description	Results
E.	<p>DEPT: Auditor-Controller Human Resource Services CEO/County Procurement Office</p> <p>TITLE: <b>Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – September 2013</b></p> <p>AUDIT NO: 1349-C</p> <p>ISSUED: September 23, 2013</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) ongoing CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly or quarterly.</p> <p><b>Conclusion:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors:</u> We analyzed 16,532 vendor invoices paid in August 2013 amounting to about <b>\$248 million</b> and found <b>100%</b> of the invoices were only paid once. We identified <b>no potential duplicate payments</b> made to vendors. The County currently has a recovery rate from vendors of about <b>99%</b> 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 <b>\$1,011,943</b> this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.</li> <li>• <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. The next analysis will be performed at September 30, 2013.</li> <li>• <u>Retiree/Extra Help Hours:</u> As of August 22, 2013, <b>no OC working retirees exceeded the annual hourly limits for FY 13-14.</b></li> <li>• <u>Payroll Direct Deposits:</u> No findings resulted from the payroll direct deposits routine.</li> </ul> <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 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 Resource Services, 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>