

# MONTHLY AUDIT ACTIVITY REPORT FOR JUNE 2009 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda  
July 28, 2009

Project No. 2807-18

by Dr. Peter Hughes, MBA, CPA  
**County Internal Auditor**

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 **ORANGE COUNTY BOARD OF SUPERVISORS'**  
**Internal Audit Department**

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# Letter from Dr. Peter Hughes, CPA



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## RISK BASED AUDITING



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July 28, 2009

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of June 2009. Each report has 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.*

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Executive Summary

Exhibit      **AUDITS:**

- B.      Revenue Generating Lease Audit - OCPW - Bella's Kitchen:  
We found that Bella's Kitchen's records adequately supported gross receipts and rent owed was properly paid, except for inadequate records for locker fees and rent overpaid on sales tax. Annual gross receipts reported during our audit period were approximately **\$869,000** and annual rent paid to the County was approximately **\$87,000**. Over its ten-year life, this lease agreement is estimated to generate over **\$700,000** in rent to the County.

Exhibit      **MONTHLY COMPUTER ASSISTED AUDITS OF VENDOR PAYMENTS (CAATs):**

- C.      Auditor Controller and Human Resources – Duplicate Payments to Vendors and Other Routines – June 2009: We analyzed **12,364** vendor invoices paid in May 2009 amounting to about **\$75 million** and found **100%** of the invoices were only paid once. Of the \$75 million vendor invoices, we identified no duplicate payments made to vendors. To date we have identified **\$811,418** in duplicate vendor payments, of which **\$793,358** has been recovered and is a noteworthy achievement by the Auditor-Controller's Office.

Other Routines: As of June 15, 2009, **4** working retirees have exceeded the annual limits for FY 08-09. The excess hours ranged from 3 hours to 16.5 hours, which is less than 1 pay period.

Also, we identified **23** potential employee/vendor address matches that were submitted to Human Resources for their review in April 2009. As of June 10, 2009, Human Resources determined that 1 was not a valid match and 6 were not a conflict. Their review of the remaining 16 matches is in process.

Exhibit      **FOLLOW UP AUDITS:**

- D.      Treasurer-Tax Collector Internal Control Review of Interest Apportionment Process (Original Audit No. 2634): Final Close-Out **Second** Follow-Up Audit of Treasurer's process of apportioning over **\$317 million** of interest earnings to the County's investment pool participants. We are pleased to report that the Treasurer-Tax Collector fully implemented the remaining **two (2)** recommendations from our original audit report containing **ten (10)** recommendations. **Eight (8)** of the recommendations were implemented in the First Follow-Up Audit in October 2008. **As such, this report represents the final close-out of the original audit.**

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Executive Summary

- E. Sheriff Administration Revolving Fund Expenditures and Travel Expenditures Reimbursed Through Payroll (Original Audit No. 2766-1): Final Close-Out **Second** Follow-Up Audit of travel expenditures (\$120,319) incurred by Sheriff-Coroner Administration and processed in Auditor-Controller Claims & Disbursing. Our original audit recommended the Auditor-Controller increase their reviews of Sheriff-Coroner travel expenditures submitted as revolving fund/travel cash advances. We are pleased to report that the Auditor-Controller fully implemented the remaining **one (1)** recommendation from our original audit report containing **three (3)** recommendations. **Two (2)** of the recommendations were implemented in the First Follow-Up Audit in November 2008. **As such, this report represents the final close-out of the original audit.**
- F. CEO/Public Finance Accounting: Internal Control Review of Cash Receipts, Cash Disbursements, & Selected Department/Trust Funds (Original Audit No. 2722) **First** Follow-Up Audit of CEO/Public Finance Accounting where Auditor-Controller employees provide accounting support for over **65 funds** and processed over **\$500 million cash receipts** and **\$541 million cash disbursements** during FY 2006-07. Funds include construction and debt service for Assessment Districts and Community Facilities Districts; pension obligation funds; OC Development Agency funds; and Tobacco Settlement funds. CEO/Public Finance Accounting fully implemented **six (6)** of **eight (8)** recommendations. For the remaining recommendations, **one (1)** was partially implemented and **one (1)** is in process. A Second Follow-Up Audit will be conducted on the remaining recommendations.
- G. Clerk-Recorder Internal Control Review of South County Branch Office Cash Receipts Process (Original Audit No. 2723): Final Close-Out **First** Follow-Up Audit of cash receipting controls where **\$927,458 in cash receipts** were collected and processed. The Clerk-Recorder's branch office provides the same services as the Civic Center office including examining and recording real estate documents notary services; providing copies of birth, death, and marriage certificates; and filing fictitious business name statements. We are pleased to report that the Clerk-Recorder implemented all **six (6)** of the recommendations from our original audit. **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 Weaknesses</b>                      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.</p>	<p><b>None</b> issued during May 2009.</p> <p><b>None</b> issued since July 2008.</p>
	<p><b>Significant Findings</b>                      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.</p>	<p><b>None</b> issued in May 2009.</p> <p><b>(2)</b> issued since July 2008.</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>5</b> issued in June 2009.</p> <p><b>(93)</b> issued since July 2008.</p>

**Total Audit Findings for 2008-09: 95**

Board Date: July 28, 2009

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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

### NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	<p>DEPT: OC Public Works</p> <p>TITLE: Revenue Generating Lease Audit of Bella's Kitchen</p> <p>AUDIT NO: 2838</p> <p>ISSUED: June 5, 2009</p>	<p><b>Scope:</b> Revenue generating lease audit to determine whether the records of Bella's Kitchen adequately supported monthly rent paid to the County. During the 12-month audit period, Bella's Kitchen generated gross receipts of <b>\$869,000</b> and paid rent of <b>\$87,000</b> to the County.</p> <p><b>Conclusion:</b> We found that Bella's Kitchen retained sufficient documentation to adequately support monthly rent paid to the County, except for inadequate records for locker fees and rent overpaid on sales tax. We identified <b>five (5)</b> control findings related to record keeping and rent overpaid.</p> <p><b>Background:</b> The County entered into a lease agreement with Joe D'Angelo, a sole proprietor, dba Bella's Kitchen, dated May 5, 2004, for the operation of a food service establishment located in the Manchester Office Building at Lamoreaux Justice Center in the City of Orange. Over its ten-year life, this lease agreement is estimated to generate over <b>\$700,000</b> in rent to the County.</p> <p><b>Recommendations:</b> Lease compliance and/or record keeping improvements regarding: locker fees, rent overpaid on sales tax, serially numbered gift certificates, serially numbered catering invoices, and supporting documentation for voids.</p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
C.	<p>DEPT: Auditor-Controller Human Resources County Procurement Office</p> <p>TITLE: Computer Assisted Audit Techniques – June 2009</p> <p>AUDIT NO: 2844-L</p> <p>ISSUED: June 30, 2009</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 5 CAATs 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 12,364 vendor invoices paid in May 2009 amounting to about <b>\$75 million</b> and found <b>100%</b> of the invoices were only paid once. Of the \$75 million vendor invoices, we identified no duplicate payments made to vendors. The Auditor-Controller currently has a recovery rate from vendors of about <b>98%</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>\$793,358</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>Multiple Direct Deposits:</u> No findings noted.</li> <li>• <u>Employee Vendor Match:</u> In March 2009, 23 potential employee/vendor matches were submitted to HR for evaluation. As of 6/10/09, HR determined 1 was not a valid match and 6 were not a conflict. Their review of the remaining 16 matches is in process.</li> <li>• <u>Retiree/Extra Help Hours:</u> As of 6/15/09, <b>4</b> working retirees exceeded annual limits.</li> <li>• <u>Deleted Vendors:</u> No findings noted.</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 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 A-C, HR, 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>

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# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
D.	<p>DEPT: Treasurer Tax Collector</p> <p>TITLE: Final Close-Out Second Follow-Up Audit of Internal Control Review of Interest Apportionment Process (Original Audit No. 2634)</p> <p>AUDIT NO: 2830-B</p> <p>ISSUED: June 24, 2009</p>	<p><b>Scope:</b> <b>Final Close-Out</b> Second Follow Up Audit of the Treasurer-Tax Collector's interest apportionment process to determine the implementation status of <b>two (2)</b> recommendations remaining from our First Follow-Up Audit dated October 22, 2008. The original audit identified <b>ten (10)</b> recommendations, and <b>eight (8)</b> recommendations were implemented at the time of our First Follow-Up Audit.</p> <p><b>Conclusion:</b> Our Second Follow-Up Audit found that the Treasurer-Tax Collector implemented the two (2) remaining recommendations concerning authorized uses and disclosure practices concerning the interest apportionment Fund 691. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>Background:</b> The Treasurer-Tax Collector is responsible for the receipt, custody, deposit, investment, and recording of the <b>\$6.1 billion investment pools</b> for the County, school districts and special districts. Interest earnings on investments held in these pools are allocated to individual funds monthly. Treasurer-Tax Collector accounting processed <b>\$317 million in interest apportionments</b> during the audit period. Interest apportionment is considered an important and critical County process because of the amount earned and apportioned and the relationship of the process with the County bankruptcy.</p> <p><b>Type of Recommendations:</b> Treasurer-Tax Collector prepare timely interest receivable reconciliations; ensure all reconciling items are identified, supported and resolved; establish procedures to ensure accuracy of interest apportionment worksheets; evaluate the process of for paying and disclosing of purchased interest; ensure a monthly proof of earnings is performed; establish written policies; continue cross-training of critical position; implement spreadsheet controls to safeguard data.</p>

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# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
E.	<p>DEPT: Sheriff-Coroner</p> <p>TITLE: Final Close-Out Second Follow Up Audit of Sheriff Administration Revolving Fund Expenditures and Travel Expenditures Reimbursed through Payroll (Original Audit No. 2766-1)</p> <p>AUDIT NO: 2830-C</p> <p>ISSUED: June 17, 2009</p>	<p><b>Scope:</b> <b>Final Close-Out</b> Second Follow-Up Audit of Sheriff Administration travel expenditures processed by Auditor-Controller Claims &amp; Disbursing to determine the implementation status of <b>one (1)</b> remaining recommendation from our First Follow-Up Audit dated November 18, 2008. In the original audit, we identified <b>three (3)</b> recommendations, and <b>two (2)</b> recommendations were implemented at the time of our First Follow-Up Audit.</p> <p><b>Conclusion:</b> Our Second Follow-Up Audit indicated that the Auditor-Controller fully implemented the <b>one (1)</b> remaining recommendation concerning Claims &amp; Disbursing's frequency of reviews of Sheriff-Coroner travel expenditures reimbursed as revolving fund/travel cash advances. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>Background:</b> The Audit Oversight Committee directed the Internal Audit Department to conduct an audit of expenditures incurred by the Sheriff Administration. The AOC expressed a desire to check the integrity of key accounts, funds and expenditures under the direction of Sheriff Administration in response to allegations of public corruption charges against the former Sheriff-Coroner. During FY 2006-07, Sheriff Administration incurred <b>\$120,319</b> in travel expenditures.</p> <p><b>Type of Recommendations:</b> Sheriff-Coroner Department and Auditor-Controller Claims &amp; Disbursing jointly work towards determining the most effective and practical method for reimbursement of travel expenditures using travel cash advances; A-C Claims &amp; Disbursing increase the frequency of reviews of Sheriff-Coroner Mileage claims submitted through revolving funds; Sheriff-Coroner ensure travel cash advance claims are submitted within the required 5-day timeframe.</p>

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# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
F.	<p>DEPT: CEO/Public Finance Accounting</p> <p>TITLE: Final Close-Out First Follow Up Audit of Cash Receipts, Cash Disbursements &amp; Selected Department/Trust Funds (Original Audit No. 2722)</p> <p>AUDIT NO: 2829-M</p> <p>ISSUED: June 3, 2009</p>	<p><b>Scope:</b> First Follow-Up Audit of cash receipts, disbursements and trust funds processed in CEO/Public Finance Accounting to determine the implementation status of <b>eight (8)</b> recommendations made in our original audit report. No material weaknesses or significant issues were identified in the audit.</p> <p><b>Conclusion:</b> Our First Follow-Up Audit indicated that CEO/Public Finance Accounting fully implemented <b>six (6)</b> of the recommendations. For the remaining recommendations, <b>one (1) is partially implemented</b> concerning NDAPP interest payments, and <b>one (1) is in process</b> concerning interest payment clauses in school district contracts. Management is taking corrective action to implement the remaining recommendations. A Second Follow-Up Audit is planned for December 2009.</p> <p><b>Background:</b> CEO/Public Finance is responsible for managing the County's public debt programs including Construction and Debt Service funds; pension obligation funds; Orange County Development Agency funds; the Orange County Special Financing Authority (Teeter) fund, and the Orange County Tobacco Settlement fund. The County's Auditor-Controller provides accounting services to CEO/Public Finance. During Fiscal Year 2006/07, CEO/Public Finance Accounting <b>received over \$500 million in cash receipts and paid over \$541 million in cash disbursements.</b></p> <p><b>Type of Recommendations:</b> Perform documented supervisory reviews and approvals of Deposit Orders, initial collection records and key supporting documents; perform reconciliations of staff charges to trustee accounts; ensure timely deposits of funds (CEO/Administration); revise the <i>Payment Review and Approval</i> form to include additional information; update cash disbursement written procedures; evaluate timing of annual NDAPP payments to minimize interest expense; research other school district agreements regarding requirements for interest payments.</p>

# MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

## Detailed Report

Exhibit	Description	Comments
G.	<p>DEPT: Clerk-Recorder</p> <p>TITLE: Final Close-Out First Follow Up Audit of Internal Control Review of South County Branch Office Cash Receipts Process (Original Audit No. 2723)</p> <p>AUDIT NO: 2829-N</p> <p>ISSUED: June 16, 2009</p>	<p><b>Scope:</b> <b>Final Close-Out</b> First Follow-Up of Clerk-Recorder's South County Branch Office cash receipts process to determine the implementation status of <b>six (6)</b> recommendations made in our original audit dated August 28, 2008. No material weaknesses or significant issues were identified in the audit.</p> <p><b>Conclusion:</b> We are pleased to report that the <b>six (6)</b> recommendations were fully implemented. <b>As such, this represents the final close-out of the original audit.</b></p> <p><b>Background:</b> The Clerk-Recorder opened the South County Branch Office in February 2006 to provide South County residents a more convenient location for obtaining Clerk-Recorder services. The branch office provides similar services as the Civic Center office including examining and recording real estate documents notary services; providing copies of birth, death, and marriage certificates; and files fictitious business name statements. During the audit period, <b>total cash receipts processed at the South County Branch Office were \$927,458.</b></p> <p><b>Type of Recommendations:</b> Implement a procedure to identify mail receipts transferred from the Civic Center Office to South County Branch Office for processing; document transfer of accountability when exchanging mail receipts between locations; and ensure the mail receipts are processed; perform documented physical inventories of Bank Note Paper and handwritten cash receipt forms; ensure proper transfer of accountability and voiding of Bank Note Paper; partner with Auditor-Controller Information Technology to develop a process for transmitting Deposit Order information via an electronic file that will replace the current manual process.</p>

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