

Internal Audit Department

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

Audit Plan and Risk Assessment FY 2015-16

Presented to the Board of Supervisors
June 23, 2015

Approved by the Audit Oversight Committee
May 7, 2015, Item 8

Report No. 1401

Risk Assessment Team

Dr. Peter Hughes, Director of Internal Audit
Michael Goodwin, Assistant Director
Autumn McKinney, Senior Audit Manager
Wilson Crider, IT Audit Manager
Michael Dean, Audit Manager
Carol Swe, Audit Manager
Renee Aragon, Administrative Manager

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



Member of 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. Peter 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



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

Dr. Peter Hughes **MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA**
Director of Internal Audit Certified Public Accountant (CPA)
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
Certified in Financial Forensics (CFF)
Chartered Global Management Accountant (CGMA)

E-mail: peter.hughes@iad.ocgov.com

Michael Goodwin
Assistant Director/
Senior Audit Manager

CPA, CIA

Alan Marcum
Senior Audit Manager

MBA, CPA, CIA, CFE

Autumn McKinney
Senior Audit Manager

CPA, CIA, CISA, CGFM

Certified Information Systems Auditor (CISA)
Certified Financial Government Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475

Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the
OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Report No. 1401 June 23, 2015

TO: Honorable Members, Board of Supervisors
Members, Audit Oversight Committee

FROM: Dr. Peter Hughes, CPA
Director of Internal Audit

SUBJECT: FY 2015-16 Audit Plan and
Risk Assessment

Per Resolution No. 95-271, the Board of Supervisors (Board) directed the Audit Oversight Committee (AOC) to act in an oversight capacity to the Internal Audit Department (IAD) and to approve the Annual Audit Plan.

For the 16th consecutive year as the Director of Internal Audit, I am pleased to present the *FY 2015-16 Audit Plan and Control Risk Assessment*. This comprehensive report details our plan for audits and reviews in the upcoming fiscal year.

The AOC reviewed and approved the *FY 2015-16 Audit Plan and Risk Assessment* on May 7, 2015. On June XX, 2015, the *FY 2015-16 Audit Plan and Risk Assessment* was presented to the Board of Supervisors.

In accordance with the Board's adopted Internal Audit Department Charter, "*The Internal Audit Department reserves resources to accommodate Board of Supervisors' requests. Individual Board members desiring specific audit projects shall place on the Board Agenda their proposal for review and approval by Board majority. The Director of Internal Audit reserves the right to determine how to best fit the Board directed review into the audit plan.*" Any revisions or changes to the audit plan throughout the year are made in IAD's Quarterly Status Report and presented to the AOC for approval.

We would like to acknowledge the professionalism and cooperation extended to us by the management of County agencies/departments during our Risk Assessment process. I look forward to another successful year of audit coverage and service to Orange County.

cc: Audit Oversight Committee Members
AOC Chairman, Mark Wille, CPA, Private Sector Member
AOC Vice-Chairman, Gary Caporicci, CPA, Private Sector Member
Supervisor Todd Spitzer, Chairman of the Board
Supervisor Lisa A. Bartlett, Vice-Chair of the Board
Eric Woolery, Auditor-Controller
Frank Kim, County Executive Officer
Peter Hughes, Interim Performance Audit Director (Non-Voting Member)
Dr. David Carlson, Private Sector Member
Sarah J. "Sally" Anderson, Private Sector Member



Table of Contents

Audit Plan and Risk Assessment FY 2015-16

TABLE OF CONTENTS

	<u>PAGE</u>
TRANSMITTAL LETTER	i
EXECUTIVE SUMMARY	1
MISSION STATEMENT.....	1
AUDIT PLAN HIGHLIGHTS & KEY AUDIT CATEGORIES	3
DEDICATION OF RESOURCES TO AUDIT- RELATED SERVICES.....	4
OC BOARD OF SUPERVISORS' INTERNAL AUDIT DEPARTMENT	5
FY 2015-16 AUDIT PLAN	5
DEPARTMENT ORGANIZATION CHART	13
COUNTYWIDE CONTROL RISK ASSESSMENT.....	14
A RISK-BASED APPROACH TO DETERMINE AUDIT PRIORITIES	14
RISK ASSESSMENT ANALYSIS FOR FY 2015-16	14
RISK ASSESSMENT METHODOLOGY.....	14
RISK ASSESSMENT ANALYSIS AND TRENDS	16
SEE ATTACHMENT - RISK ASSESSMENT SCHEDULES	A-1



FY 2015-16 Audit Plan

EXECUTIVE SUMMARY

MISSION STATEMENT

The mission of the OC Internal Audit Department is to provide **reliable, independent, objective evaluations** and business and **financial advisory services** to the Board of Supervisors and County management. Our role is to assist both parties with their important business and financial decisions, as well as to contribute to protecting and safeguarding the County's resources and assets.

We support and assist the **Board of Supervisors** and **County Executive Management** in the accomplishment of their functional business goals and objectives by helping implement best business practices with regard to internal controls, accounting systems, and business processes. Our contribution to this effort is testing and reporting on their internal control systems and processes. County executive management is responsible for establishing and maintaining these control processes because they must rely on these processes in managing their organizations. These systems and processes are used for safeguarding the County's assets and resources, and for reasonable, prudent, and effective financial stewardship and for accurate recording and reporting.

PUBLIC SECTOR GOVERNANCE AND THE ROLES OF INTERNAL AUDIT

Public sector governance encompasses the policies, procedures, processes and internal controls used to direct an organization's activities to provide *reasonable assurance* that objectives are met and that operations are carried out in an ethical and accountable manner. Governance relates to the means by which goals are established and accomplished; ensures government credibility; and assures appropriate behavior of government officials by reducing the risk of public corruption. **Government auditing (both external and internal) is a cornerstone of good public sector governance by providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results.** Government auditing supports the governance roles of oversight, insight, and foresight.

- ▶ **Oversight.** Auditors provide oversight of County management by evaluating whether department/agencies are doing what they are supposed to do, spending funds for intended purposes, and complying with laws and regulations.
- ▶ **Insight.** Auditors provide insight to assist County management by assessing which programs, policies and internal controls are working and which are not; sharing best practices and benchmarking information; and looking across department/agencies to find opportunities to borrow, adapt, or re-engineer management practices.
- ▶ **Foresight.** Auditors help County management look forward by identifying trends and bringing attention to emerging challenges before they become crises. These issues often represent long-term risks that may far exceed the terms of office for most elected officials, and can sometimes receive low priority for attention where scarce resources drive more short-term focus on urgent concerns.

The OC Internal Audit Department is committed to serving the Board and County management in helping ensure effective public sector governance.



FY 2015-16 Audit Plan

IAD'S EXPERTISE IN FINANCIAL/BUSINESS PROCESSES AND CONTROLS

The OC Internal Audit Department (IAD) is recognized for our financial expertise and knowledge in business cycle internal controls and processes. We apply this expertise in assisting County executive management in enhancing their business processes and improving and strengthening the internal control environment the public expects, relies upon, and demands of its government. We are committed to a process of continuous learning and improvement, and we keep ourselves updated on relevant issues in business and industry with regard to accounting trends and developing financial best practices.

To meet our clients' expectations for integrity, objectivity, and independence and to function effectively with consistent reliability and credibility, the IAD applies professional auditing standards to all engagements. This allows us to ensure audits of County operations are always informative, accurate, and objective. Where required, the IAD follows the ethical and professional standards promulgated by the **American Institute of Certified Public Accountants (AICPA)**, the **Institute of Internal Auditors (IIA)**, and the **Government Accountability Office (GAO)**. Moreover, the quality of IAD operations is regularly and independently assured by rigorous Peer Reviews conducted by outside CPA firms or by the California Counties Audit Chief's Committee. We have successfully passed five such peer reviews to date, with the last one conducted in April 2014.

ANNUAL RISK ASSESSMENT FOR DEVELOPMENT OF AUDIT PLAN

Each year, IAD conducts an interactive, countywide Risk Assessment that includes members of the **Board of Supervisors**, the **County Executive Office**, and **all Department/Agency executive management** regarding risks affecting their respective areas. We rank and tabulate the results to develop a "risk-based" Annual Audit Plan.

We have conducted comprehensive risk assessments for the past 16 years. This year, we sent risk assessment questionnaires via Survey Monkey to the Board of Supervisors, the County Executive Office, Chief Operating Officer, Chief Information Officer, and to all departments/agencies. See page 14 for a detailed discussion of the annual risk assessment methodology.

We design our "risk-based" Audit Plan to address what we consider to be the highest priority areas, while limiting the scope of work to what can realistically be accomplished with available staff resources. Our risk ratings are based on current information that fluctuates frequently given the nature, diversity, size and impact of County operations on the public, as well as the "risk appetite" of the Audit Oversight Committee (AOC). Our Audit Plan is submitted, publicly discussed, reviewed and approved at the beginning of each fiscal year by the AOC.

*We note in our Risk Assessment that **the County's control environment is an ever-changing and a dynamic environment.** Our County continues to face challenges in the coming year with the budget situation; transitions in IT sourcing and human resource services; department reorganizations; and turnover of County executive management. All of these can impact processes, controls and productivity in County operations.*



FY 2015-16 Audit Plan

AUDIT PLAN HIGHLIGHTS & KEY AUDIT CATEGORIES

We are dedicated to completing our Audit Plan while continuing to be flexible and responsive to the Board of Supervisors' requests for audit services. The Audit Plan also includes some flexibility to be responsive to directives for audit services from the Board of Supervisors or Audit Oversight Committee (AOC). For each audit in the Audit Plan, we have listed the proposed audit objectives, dollar impact and estimated audit hours.

Our Audit Plan has as its foundation the traditional internal audits of "hard-control areas" such as segregation of duties, limiting access to cash, accurate originating accounting entries and transactions, and reconciliations. Examples of such traditional audits in our Audit Plan include the *Financial Audits and Mandates, Internal Control Audits, Information Technology Audits, and Revenue-Generating Lease Audits*. These audit reports contain opinions regarding the status of internal controls or the County's compliance with grant or other governing provisions, and include recommendations to management regarding improvements to specific processes and internal controls.

FY 15-16 Audit Plan Highlights

This year we are continuing our focus on audits of County *Special Revenue Funds*. We have identified the County's population of Special Revenue Funds and have included a sample of the largest funds in our FY 15-16 Audit Plan. In accordance with Government Code Section 25250, we will conduct countywide biennial audits in the areas of *Accounts Receivable* and *Fiduciary/Trust Funds*. We will audit controls in the reorganized *Public Administrator/Public Guardian* functions. We will audit *Purchasing and Contract Administration* functions in selected departments. We have several *Special Request Audits* identified by the Board, AOC and Department/Agency Directors. We will conduct the critical *Annual Investment Compliance Audit* of the Treasurer-Tax Collector. We will also conduct a *General IT Controls* audit of Probation; an *Application Controls* audit of the Treasurer's Sunguard Quantum Treasury Management Software Upgrade; provide internal controls review and feedback during the *CAPS+ Finance/Purchasing System Upgrade Project*, and develop computer-assisted audit techniques (*CAATs*) which are continuous audits of key processes using automated queries of an entire population of data.

Our **Follow-Up Audit** process ensures that our audit recommendations are implemented satisfactorily. Our **First Follow-Up Audit** begins about six months following the release of an audit report. If necessary, a **Second Follow-Up Audit** will be conducted about six months following the release of the First Follow-Up Audit report. At the request of the AOC, we are to bring to their attention any audit recommendations we find still not addressed, resolved or mitigated after the Second Follow-Up Audit.

*Based on our Follow-Up Audits, we can state that **County management substantially implements our report recommendations on a timely basis**. We attribute this level of implementation to the reliability and usefulness of our audit findings and recommendations. We also compliment County management in partnering with us in this effort to be responsive.*



FY 2015-16 Audit Plan

DEDICATION OF RESOURCES TO AUDIT-RELATED SERVICES

Our Audit Plan is based on **16,000 direct audit hours** to be provided by nine (9) audit professionals and three (3) Senior Audit Managers. Because of budget constraints, we utilize audit positions to perform administrative duties such as budgeting and human resources and adjust the Audit Plan accordingly. We also adjust the Audit Plan as needed to reserve for voluntary work furloughs and vacancies. Audit hours for the Director of Internal Audit are not included in the above total, while the time for the three Senior Audit Managers is adjusted to allow time for administrative duties.

Because of our budget and staffing constraints, we evaluate all audit requests based on our risk assessment criteria. Special request audits from the Board of Supervisors, Audit Oversight Committee and/or Department/Agency Directors are weighted extra.

Note: We judgmentally select the highest priority audits that we can realistically address with our existing audit staff resources. Audits that cannot be accommodated are recorded into our risk assessment for future consideration.

Audit Plan hours are allocated to the audit areas as follows:

Internal Control Audits (ICA):	5,700	36%
Financial Audits and Mandates (FAM):	2,150	13%
Revenue Generating Lease Audits (RGL):	1,200	8%
Information Technology Audits (IT):	2,150	13%
Fraud Hotline:	1,500	9%
Reserve for BOS and AOC Directives:	600	4%
Other Audit Activities*:	<u>2,700</u>	<u>17%</u>
	16,000	100%

*The Audit Plan allocates an additional **2,700 hours** for Other Audit Activities such as tracking **Cash Losses**; providing **Technical Assistance to Departments** on business, accounting, internal control, compliance, and policy and procedural issues; performing the **Annual Risk Assessment, HIPAA Administration**; and compiling and presenting **External Audit Activity Reports** to the Board of Supervisors and Audit Oversight Committee.

Included in the Audit Plan are **600 hours reserved** to respond to Board of Supervisors and/or Audit Oversight Committee requests for audit services. Our *FY 2015-16 Audit Plan* is detailed beginning on page 5.

Interchangeability of Planned Audits/Time Permitting Audits. The annual Audit Plan is subject to change for such events where the Director of Internal Audit, Audit Oversight Committee (AOC), or Board majority assesses if it is warranted to substitute, postpone or cancel a scheduled audit due to timing, priority, resource, and risk considerations. The submission of these scheduled audits, and their approval by the AOC, enables the Director of Internal Audit to substitute the scheduled audits with any of the **“Time Permitting Audits.”** Time Permitting Audits are noted in the Audit Plan and are not assigned budgets until they are initiated.



FY 2015-16 Audit Plan

OC BOARD OF SUPERVISORS' INTERNAL AUDIT DEPARTMENT FY 2015-16 AUDIT PLAN

Audit Name	Budgeted Hours
INTERNAL CONTROL AUDITS 36% OF TOTAL AUDIT COVERAGE	
Validate, substantiate, and confirm the adequacy of critical internal controls to ensure accurate, complete and timely processing of County financial transactions; ensure County assets are safeguarded from loss, waste, and abuse; evaluate compliance with department and County policies; evaluate process efficiency and effectiveness.	
Cash Receipts & Receivables: Audits of cash handling, receipts and deposits processed in CAPS+ to ensure cash receipts are safeguarded, deposited and reconciled with County records; to ensure accounts receivable and related billings are made timely; are monitored by aging of accounts; and ensure collection efforts and bad debt write-offs are approved with management's authorization.	
1 Countywide Accounts Receivable \$865M Audit of policies, procedures and controls over accounts receivable in select departments/agencies.	600
Fiduciary and Special Revenue Funds: Audits to ensure revenues and expenditures are proper and in compliance with County and departmental policies, procedures, and laws. The purpose of a fiduciary fund (agency/trust funds) is to temporarily hold monies that belong to persons or entities other than the County, such as the Auditor-Controller's Fund 355 used to hold monies due to the State from parking and equipment violation penalties. The purpose of a special revenue fund is to establish accountability over the County's restricted monies to help ensure the monies are expended only for statutory purposes, such as SSA's Fund 12W – used to account for monies restricted to the administration of community-based intervention services provided to SSA clients. Countywide, fiduciary and special revenue funds have fund balances of about \$1.5 billion . In FY 14/15, we audited twenty-four (24) fiduciary and special revenue funds in the Auditor-Controller and SSA with fund balances totaling \$136 million and \$104 million , respectively. <i>Note:</i> Fiduciary Fund amounts exclude certain funds such as investment trust funds, unapportioned property taxes, pension and other post-employment benefit trust funds, and redevelopment private purpose trust funds.	
2 Countywide Assessment of Fiduciary (Trust and Agency) Funds - \$1.5B fund balance. Assess County policies, procedures, and test compliance for select funds.	800
3 OCPW/OC Flood Fund 400 - \$105M revenues; \$87M expenditures; \$146M fund balance (carryover from FY 14/15)	250
4 OCCR/OC Parks Fund 405 - \$74M revenues; \$72M expenditures; \$60M fund balance (carryover from FY 14/15)	400
5 Sheriff-Coroner Special Revenue Funds - \$34M revenues; \$31M expenditures; \$68M fund balance	400
6 OC Dana Point Harbor Fund 108 - \$24M revenues; \$21M expenditures; \$50M fund balance (carryover from FY 14/15)	400
7 Child Support Services - \$6.5M revenues/expenditures; \$50M fund balance (Time Permitting Audit)	0
Purchasing and Contracts: Audits of procurement processes and systems for compliance with requirements in the Contract Policy Manual and for contract administration to ensure vendor payments are properly reviewed, authorized, timely and validated to contract terms. Includes sole source contract administration.	
8 County Executive Office - \$716M Audit of selected controls/processes over procurements and/or contract administration.	400
9 Auditor-Controller - \$516M Audit of selected controls/processes over procurements and/or contract administration.	400
10 Health Care Agency - \$371M Audit of selected controls/processes over procurements and/or contract administration. (Time Permitting Audit)	0



FY 2015-16 Audit Plan

<i>Audit Name</i>	<i>Budgeted Hours</i>
INTERNAL CONTROL AUDITS continued	
Special Request Audits: Audits of selected controls and processes identified by the Board of Supervisors, the Audit Oversight Committee and/or Department/Agency Directors, subject to confirmation through Internal Audit's Risk Assessment process.	
11 Public Administrator - District Attorney \$17M receipts; \$9M disbursements Audit of selected controls and processes of the Public Administrator function administered by the District Attorney. (Identified by AOC, Grand Jury)	400
12 Public Guardian - Health Care Agency \$4M receipts; \$15M disbursements Audit of selected controls and processes of the Public Guardian function administered by the Health Care Agency. (Identified by AOC, Grand Jury)	400
13 OC Waste & Recycling \$122M receipts; Audit of cash handling activities. (Identified by Dept./Agency Director)	300
Other Internal Control Projects:	
14 Internal Control Survey To assess the County's awareness and status in establishing and monitoring internal controls.	300
15 Internal Control Training Tailored for each specific department and is provided at their request.	200
Follow-Up Audits (First):	
16 A-C Fiduciary and Special Revenue Funds (1337)	300
17 SSA Special Revenue Funds (1336)	
18 HCA Mental Health Services Fund 13Y (1420)	
Follow-Up Audits (Second):	
19 Probation Public Safety Realignment AB 109 (1323-F1)	100
20 OCPW Procurement and Contracts (1225-F1)	
21 Work Paper Close-Out & Final Report Issuance (audits from prior year plan)	50
Subtotal	5,700



FY 2015-16 Audit Plan

<i>Audit Name</i>	<i>Budgeted Hours</i>
<p>FINANCIAL AUDITS & MANDATES 13% OF TOTAL AUDIT COVERAGE</p> <p>Determine that financial statements are fairly stated in accordance with applicable professional standards; financial statements are supported by sound internal controls; and management complied with applicable laws, regulations and grant requirements. These audits are conducted in accordance with generally accepted auditing standards of the United States and/or Governmental Auditing Standards issued by the U.S. Comptroller.</p> <p>District Attorney Grants - \$6.4M: Audit the financial statements as of June 30, 2015, for four critical grants from the State to determine that budgeted amounts, revenues and expenditures are recorded accurately and completely, and review controls and test compliance with rules and regulations.</p>	
1 DA Grant: Workers Comp Fraud - \$3.6M	200
2 DA Grant: Health & Disability Insurance Fraud - \$1.7M (includes new grant request)	250
3 DA Grant: Auto Insurance Fraud - \$1.3M	200
4 DA Grant: Auto Fraud Activity Interdiction - \$500K	200
5 Treasurer-Tax Collector: Annual Investment Compliance Audit (2014) - \$7.2 billion (carry-over from FY 14/15) Audit to ensure the Treasurer has purchased only those high quality and safe investments allowed by CA Government Code and the IPS (Investment Policy Statement) to ensure the safety of those funds approved by the Board of Supervisors.	100
6 Treasurer-Tax Collector: Annual Investment Compliance Audit (2015) - \$7.2 billion Audit to ensure the Treasurer has purchased only those high quality and safe investments allowed by CA Government Code and the IPS (Investment Policy Statement) to ensure the safety of those funds approved by the Board of Supervisors.	800
7 Auditing & Accounting Standards Update: Review of New Statements on Auditing Standards regarding risk assessment and internal controls requirements.	100
Follow-Up Audits (First):	50
8 Tax Redemption Officer (1453)	200
Follow-Up Audits (Second):	50
9 Clerk-Recorder Review of Fund 12D - Other Accounting Issues (1159-B)	50
10 Work Paper Close-Out & Final Report Issuance (audits from prior year plan)	50
Subtotal	2,150



FY 2015-16 Audit Plan

<i>Audit Name</i>	<i>Budgeted Hours</i>
<p>REVENUE GENERATING LEASE AUDITS 8% OF TOTAL AUDIT COVERAGE</p> <p>The County receives about \$153 million annual rent from revenue leases. About \$102 million of the annual rent is based on a percentage of gross revenue, with the remaining \$51 million from "flat" rent leases, which we do not audit. We audit the supporting records of businesses with revenue generating leases to ensure the correct amount of rent is paid to the County based on a percentage of gross revenue, and that internal controls are adequate to ensure the integrity of records used to report gross revenues. Our audits also identify ambiguities and omissions in the contracts that may disadvantage the County. These critical audits are performed at the request of JWA, OC Public Works, OCCR/OC Parks, and OC Dana Point Harbor on a rotational basis. Over the last 5 years, we have performed 18 audits covering 20% of the \$102 million annual rent. Over the last 10 years, we have audited 66% of the \$102 million annual rent. For the following leases, annual rent paid is \$9.9 million.</p>	
1 OC Dana Point Harbor - Vintage Marina Partners	350
2 OC Dana Point Harbor - Ocean Institute	250
3 OC Dana Point Harbor - Dana Point Marina Company	350
4 Follow-Up Audits - Perform on selected recommendations as deemed warranted.	200
5 Work Paper Close-Out & Final Report Issuance (audits from prior year plan)	50
Subtotal	1,200

<i>Audit Name</i>	<i>Budgeted Hours</i>
<p>INFORMATION TECHNOLOGY AUDITS 13% OF TOTAL AUDIT COVERAGE</p> <p>Audit of information technology controls (i.e., general controls, application controls, and system developments).</p> <p>Computer-Assisted Audit Techniques (CAATs) - Continuous Auditing - Data Analytics - CAATs are cited as a best practice and provide critical continuous audit coverage on the entire population of selected transactions. CAATs are automated queries (logical searches for matching characteristics) applied to large amounts of electronic data and the resulting output (matches) are further reviewed and validated.</p>	
1 CAATs - Develop New Routines - Develop on-going CAAT routines for selected financial activities to monitor for unusual activity and transactions and for compliance with process objectives and management's expectation.	450
<p>General Control Reviews: Audit IT general controls in the areas of security management (policies and procedures, risk assessment, security awareness and training, and remediation of security weaknesses), access controls (identification and authentication controls, monitoring activity and incident response, physical security), configuration management (policies/procedures and change management), segregation of duties (policies/procedures and segregation of incompatible duties), and continuity planning (recovery plans, backup plans, environmental controls. and testing/validating plans).</p>	
2 John Wayne Airport - Houses and/or maintains key systems over airport operations, parking, facilities, and maintenance. (carry-over from FY 14-15)	100
3 Probation - Houses and/or maintains key applications essential to operations including Integrated Probation Financial System (accounts for billing/collection of fees/fines), Integrated Case Management System (case management, intake assessments, etc.), and various other law enforcement related systems.	400



FY 2015-16 Audit Plan

<i>Audit Name</i>	<i>Budgeted Hours</i>
INFORMATION TECHNOLOGY AUDITS continued	
Application Control Reviews: Review selected controls over the input, processing, and output of data and transactions. Areas to review will be focused and may include segregation of duties, reviews and approvals, key edits/validation rules, audit trails, and balancing.	
4 Treasurer-Tax Collector - Sunguard Quantum Treasury Management Software Upgrade - In FY15-16, the T-TC plans to upgrade its application for treasury management and wire transfers. Our audit will be limited to the key security configuration settings and user roles as related to wire transfers. Start in the last quarter of FY15-16.	100
New System Implementation Assistance: For new mission critical systems being implemented or significantly upgraded, IAD audits the adequacy of planned internal controls in accordance with an MOU agreed to by management. The MOU specifies that management is responsible for designing adequate controls in the new system and for providing documentation (flowcharts, narratives, policies and procedures, etc.) to be reviewed by Internal Audit. Our audits focus on the control areas of: 1) proper segregation of duties, 2) reviews and approvals, 3) audit trails, and 4) reconciliations to ensure the system addresses the key/fundamental controls.	
5 Auditor-Controller/County Purchasing Office - CAPS+ Finance and Purchasing System Upgrade - Review and provide feedback on key internal controls as they are being designed and implemented by management. Attend CAPS+ Advisory Committee meetings and relevant project meetings.	350
Other IT Audits:	
6 CEO/IT & Auditor-Controller - CAPS+ Hardware Upgrade: The platform for CAPS+ Finance/Purchasing and HR/Payroll is being moved from a P595 to a P8 series mid-range computer. IAD will review the key configuration settings for the operating system.	400
Follow-Up Audits (First):	
7 Sheriff-Coroner General Controls Review (1353)	150
8 CEO/IT - Review of OC Expediter System (1455)	
9 OC Waste & Recycling - Paradigm Accounts Receivable System (1445)	
Follow-Up Audits (Second):	
10 To be determined.	50
11 IT Research, Assistance, & Attendance of Oversight Meetings Perform ad hoc IT research and assistance. This may include assisting CIO in developing a scope of work and engaging a 3rd party to provide a SOC (Service Organization Controls) Type 2 or similar audit of the County's data center in FY 16-17. Also includes attending bi-monthly CAPS+ Steering Committee meetings, select Technology Council meetings, and other key IT meetings.	125
12 Work Paper Close-Out & Final Report Issuance (audits from prior year plan)	25
Subtotal	2,150



FY 2015-16 Audit Plan

<i>Audit Name</i>		<i>Budgeted Hours</i>
FRAUD HOTLINE 9% OF TOTAL AUDIT COVERAGE		
<p>The OC Fraud Hotline is staffed by professionals to ensure proper handling of all reports of possible waste, fraud, and abuse of County resources and ethical violations by employees or vendors. The monitoring is provided by an outside vendor 24 hours, 7 days a week and is staffed in-house by a fraud hotline manager. For the period of January 1 through December 31, 2014, the Internal Audit Department received 395 Hotline allegations of which: 33 were Actionable Cases; 309 were Cases Referred Out to Other Agencies; 53 were Non Actionable Items; and 48 cases were closed. Of these cases, 15 (31%) were substantiated and 33 (69%) were not substantiated.</p>		
1	Administration & Operation of Fraud Hotline For providing oversight, training, assessments, investigations and advisement as warranted. We also prepare semi-annual Hotline status reports for the BOS and AOC.	1,500
Subtotal		1,500
RESERVE FOR BOS/AOC DIRECTIVES 4% OF TOTAL AUDIT COVERAGE		
<p>Hours reserved for special request audits from the Board of Supervisors and Audit Oversight Committee.</p>		
1	Reserve for BOS and AOC Directives	600
Subtotal		600
OTHER AUDIT ACTIVITIES 17% OF TOTAL AUDIT COVERAGE		
1	Annual Risk Assessment - Audit Plan	400
<p>We conduct a comprehensive and interactive Risk Assessment, including meeting with the Board of Supervisors; sending Risk Assessment Questionnaires to 20 County departments/agencies; reviewing department and agency Business Plans; compiling detailed financial information; compiling risk ratings of key information systems, and reviewing current/prior audit coverage by County internal and external auditors. This critical process determines the basis for allocating our audit resources for the year among hundreds of competing issues and risks.</p>		
2	Cash Losses	50
<p>We monitor all cash losses reported to the Auditor-Controller for consideration during our annual Risk Assessment and when conducting our Internal Control Reviews.</p>		
3	External Audit Reporting	300
<p>In accordance with AOC Policy No. 2, Internal Audit compiles and reviews a quarterly status report of "third party" external audits conducted in County departments/agencies. The County typically undergoes 100+ external audits each year. We also monitor the status of material audit findings and questioned costs. We consider these audits when developing our annual audit plan and our scope of work for any related audits.</p>		
4	Technical Assistance to Other Dept./Agencies	1,500
<p>To advise on business, accounting, internal control, compliance, and policy and procedural issues.</p>		
5	HIPAA Administration	50
<p>Internal Audit is designated as a covered component under HIPAA and must abide by HIPAA rules and regulations. These are hours set aside for the department's HIPAA Coordinator.</p>		



FY 2015-16 Audit Plan

<i>Audit Name</i>	<i>Hours</i>
OTHER AUDIT ACTIVITIES continued	
6 Reports for Board, AOC, EA Meetings	400
We report quarterly to the Audit Oversight Committee (AOC). The AOC provides executive oversight and guidance to the Internal Audit Department. We compile and report our progress to the AOC regarding the Audit Plan and provide Executive Summaries on audit activity. We compile and present to the Board of Supervisors a monthly report of all of our audit reports issued each month. We also prepare an annual Business Plan, Audit Plan and Risk Assessment Report, and Annual Internal Auditor's Report to the BOS each year.	
Subtotal	<u>2,700</u>
Grand Total (6)	<u><u>16,000</u></u>



FY 2015-16 Audit Plan

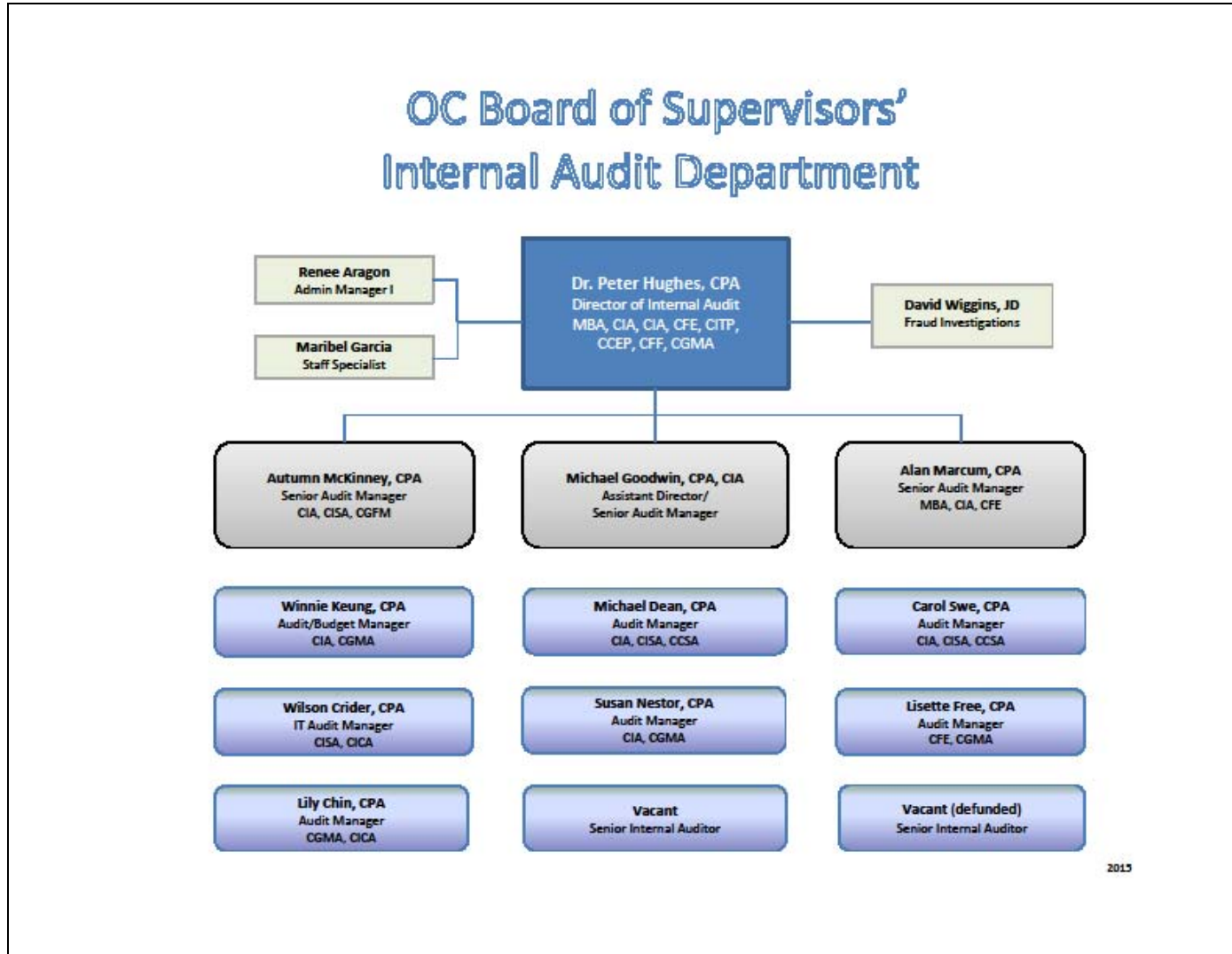
FOOTNOTES:

- (1) Dollar amounts shown in this Audit Plan represent the scale and magnitude of the activity audited in order to give the reader a sense of the financial impact and significance of the area or activity audited. In those audits where we test a sample of transactions and not the entire population, we clarify this point in the scope of our final Audit Report.
- (2) We reserve time in our Audit Plan for Board of Supervisors and Audit Oversight Committee directives and audit adjustments. We also identify other areas or activities for possible audit should we have available time or as substitutes.
- (3) The Orange County Internal Audit Department (OCIAD) generates several different types of reports including audit reports, audit alerts, and status reports. In addition, OCIAD undertakes several different projects including audits of financial statements, audits of internal controls, audits of transactions through the use of computer programs, audits of lessee compliance with County contracts, and audits of IT controls. OCIAD receives and oversees Hotline calls up through resolution. A total project count therefore includes all assignments completed; not just released audit reports. Each year, OCIAD prepares an **Annual Internal Audit Report** in addition to its Quarterly Status Report. The Annual Internal Audit Report is for the general public in content and tone.
- (4) The annual Audit Plan is subject to change for such events where the Director of Internal Audit, Audit Oversight Committee (AOC), or Board majority assesses if it is warranted to substitute, postpone or cancel a scheduled audit due to timing, priority, resource, and other risk considerations. Such modifications will be noted in the "Milestones & Comments" section of the Quarterly Status Reports submitted to the AOC. The acceptance of the Quarterly Status Report by the AOC authorizes any changes noted.
- (5) Because of our budget and staffing constraints, we evaluate all audit requests based on our risk assessment criteria. Special request audits from the Board of Supervisors, AOC and/or Department/Agency Directors are weighted extra during our annual risk assessment, and are considered for inclusion or not in the annual Audit Plan. Per the OCIAD Charter, a Board majority vote is required to add an audit to the existing Audit Plan.
- (6) For purposes regarding Fiscal Year-End reporting, we consider audits completed (**Done**) as of the official release of a completed pre-draft or draft audit report to the Department/Agency Director, and are shown as such in our Milestones & Comments column of the AOC Quarterly Status Report.
- (7) We use an industry best practice in estimating the available hours at 77% for audit staff to conduct audits by deducting all paid personal leave, training and administration so as to better estimate the direct hours available to conduct field work and write audit reports. We also deduct a vacancy factor based on historical trends and actual occurrences. We reflect any material changes in our estimates as warranted in our quarterly reports.
- (8) The Annual Audit Plan is based on 16,000 direct audit hours to be provided by nine (9) audit professionals and 3 Senior Audit Managers. The direct hours exclude time charges for vacation, holidays, training, administrative time, and other time not directly charged to an audit. This approach and percentage are standard within the industry.



OC Internal Audit Organization Chart

DEPARTMENT ORGANIZATION CHART





Risk Assessment

COUNTYWIDE RISK ASSESSMENT METHODOLOGY

A Risk-Based Approach to Determine Audit Priorities

Generally Accepted Government Auditing Standards and the Institute of *Internal Auditors (IIA)* *International Standards for the Professional Practice of Internal Auditing* require the Chief Audit Executive to establish a risk-based approach to determine the priorities for internal audit activities. The Internal Audit Department has completed a Risk Assessment as a means to help identify, measure, and prioritize potential audits based on the level of risk to the County and for preparing the FY 2015-16 Audit Plan.

Risk Assessment Analysis for FY 2015-16

Our Risk Assessment for FY 2015-16 found that the County continues to be impacted by challenging economic times. The impact of prior budget cuts from the recent Vehicle License Fees/Adjustment Account (VLFAA) ruling, elimination of positions, planned system upgrades/implementations put on hold; new rules & regulations; department reorganizations, and turnover in key executive and management positions in several County departments/agencies (including Auditor-Controller, Clerk-Recorder, OC Public Works and the former Public Administrator/Public Guardian function). All of these can impact workloads, morale, decrease the level and timeliness of supervision, lower proficiency on new business systems, decrease continuity of operations and retention of “corporate” memory, and increase the overall learning curve of County staff and management.

Given these factors, we adjust our risk ratings annually and audit the fundamental business processes such as cash receipts, disbursements, purchasing and contract administration, and special revenue/fiduciary funds.

Risk Assessment Methodology

A comprehensive, countywide Risk Assessment was conducted that solicited input from the **Board of Supervisors**, the **County Executive Office**, **Chief Operating Officer**, **Chief Information Officer**, and **all Department/Agency Directors** on risks affecting their respective areas. For our second year, we sent out Risk Assessment Questionnaires via **Survey Monkey** for input on risks and areas of audit interest in their business operations. We reviewed the completed survey comments and audit requests. We additionally compiled financial information for business processes in each department/agency (e.g., cash receipts, disbursements, payroll, purchasing, fiduciary funds, contracts and budgets.) For **Information Technology**, we included questions in the Risk Assessment Questionnaire pertaining to changes in existing IT systems, processes, and organizational structure, as well as any new or planned system implementations. We also utilized information from the Department/Agency *Business Impact Analysis – Critical Business Process IT Dependency Listing* (available at the RecoverOC portal) to help identify and rank key applications used by the departments/agencies.

Audit Universe

There are several approaches on defining an audit universe (all areas subject to risk assessment and audits). We defined the County audit universe as **20 departments/agencies**. This excludes Internal Audit, the Office of the Performance Auditor, and the Office of Independent Review, and accounts for the reorganization of the Public Administrator/Public Guardian and Human Resources Services. In March 2014, the Public Administrator was combined with the District Attorney and the Public Guardian was combined with the Health Care Agency. In July 2014, the Human Resources Services Department was consolidated under the County Executive Office.



Risk Assessment

Our audit universe is further defined by **eight (8) standard business processes/cycles** (see table below) common to all departments and agencies, with our primary emphasis on **financial and accounting controls**. We also conduct **Revenue Generating Lease Audits** in four (4) departments. This results in an **audit universe consisting of 164 auditable business processes**.

<p>Cash Receipts & Receivables – Includes the receipting, recording, transferring, depositing, safeguarding, and reconciling of monies and fees received in depts./agencies. Cash receipts have a high inherent risk of misuse.</p>	<p>Cash Disbursements & Payables – Includes verifying receipt of goods/services, adequacy of supervisory reviews and approvals, timeliness of invoice processing, completeness and accuracy of payments, proper reconciliations and safeguarding of assets.</p>
<p>Fee-Generated Revenue – Includes audits of department/agency fee studies and fee development processes, methodologies, and assumptions used for establishing cost-recovery fees charged to the public for “Licenses, Permits and Franchises,” and “Charges for Services,” and are submitted to the Board of Supervisors for approval.</p>	<p>Purchasing and Contracts – Includes use of County-issued purchasing cards; vendor payment review/approval process; ensuring terms of contracts were met prior to issuing payments; reviewing justification of Sole Source contracts; and monitoring CEO/Procurement’s oversight responsibilities.</p>
<p>Revolving Funds – Includes validating compliance with County Accounting Procedures, ensuring revolving fund disbursements are proper, approved, monitored, and safeguarded.</p>	<p>Payroll – Includes timekeeping practices in depts./agencies that use either the VTI time reporting system or in-house developed payroll system (i.e Sheriff); premium and overtime pay practices; payroll unit supervision and payroll reports, Central Payroll’s role in processing payroll; and monitoring for unauthorized payroll changes.</p>
<p>Fiduciary Funds/Special Revenue Funds Includes validating the purpose/objectives of fiduciary/special use funds; ensuring sources and uses of the funds are in accordance with stated use; and reconciliations are prepared timely/completely to safeguard funds.</p>	<p>Revenue Generated Lease Audits – Audit the records of businesses with revenue generating leases to ensure the correct amount of rent is paid to the County based on a percentage of gross revenue, and that internal controls are adequate to ensure the integrity of records used to report gross revenues.</p>
<p>Information Technology Systems & Controls – Audit of IT controls including general controls, application controls, and system developments. Include use of Computer Assisted Audit Techniques (CAATs) that is cited as a best practice and provides continuous audit coverage applied to large populations of data and the resulting output is further verified and validated.</p>	

Our *Risk Assessment Schedule* shown on page A-1 shows the **164 auditable business processes** and assigned risk ratings. We consider the following factors in assigning risk levels:

- **Department/Agency Changes:** (20%) Assessed factors such as management and/or organizational changes, significant increases/decreases in staffing and workloads, new/eliminated programs, and significant changes in laws/regulations.
- **Operating Environment:** (20%) Assessed factors related to the department’s operating environment such as public image, laws/regulations, safety and environmental issues, sensitivity to economic factors, pending litigation, and business continuity.
- **Last Audit Performed:** (10%) Identified all Internal Control Audits, Financial/Mandated Audits and Information Technology Audits conducted in the last 10 years, and assessed risk higher in areas with old or no prior audits.
- **Financial Activity/Volume:** (50%) We compiled and assessed financial information (dollar volume, number and nature of transactions) for each process in departments/agencies.



Risk Assessment

Results of Risk Assessment

Using the above criteria, an overall risk and audit priority level is then assigned as **High Priority**, **Moderate Priority**, or **Low Priority**. The overall risk levels we assign determine our where we focus our audit resources and audit priorities.

Of the 164 auditable business processes we identify in our *Risk Assessment Schedule*: **21 (13%) are High Priority**, **99 (60%) are Moderate Priority**, and **44 (27%) are Low Priority**.

Risk Assessment Analysis and Trends

The departments/agencies with a high risk score indicates that the services or functions they are responsible for are by nature a **high priority activity** because of such factors as having a large amount of expenditures and revenues, having a high level of liquid assets such as cash, management’s assessment of the control environment, or a high degree of public interest. A risk score indicates that if something were to go wrong, it could have a greater impact. A high risk score does not mean that a business process is being managed ineffectively or that internal controls are not adequate. As such:

1. We are committed to prioritizing and auditing business activities or processes identified as “high risk” within the current year. Our approach is to provide coverage of the most critical or sensitive aspect of the activity identified. We do make exceptions to this in regards to any audits that are “carry-overs” from the prior year, where there has been recent audit coverage, or if our professional judgment determines otherwise.
2. Any audit requests made by the Board of Supervisors, Audit Oversight Committee or Department/Agency Directors become a “high priority” area to audit.
3. Our commitment is to perform focused audits that address the most critical areas of operations to provide a quick turnaround time to the auditee. We are striving to minimize the disruption to auditee operations through this approach.
4. Except in instances like the District Attorney grants, we do not audit areas unless the risk assessment identifies them as high priority. The passage of time is not a key factor in allocating audit resources. Our risk-based assessment is driven by numerous risk factors and is the reason we do not have a firm cycle of audits.

Based on our FY 15-16 Survey Monkey Risk Assessment Questionnaire, the following trends were reported by departments/agencies and the percent of responses:

1. Significant Reorganization (in management, duties, positions, functions)	78%
2. Changes to Business Processes, Systems, Internal Controls	39%
3. Budget/Staff Reductions (in accounting, budgeting, compliance operations)	11%
4. Risk of Exposure to Loss, Regulatory Sanctions, and Penalties	67%
5. Risk of Exposure to Loss, Embarrassment (by level of public visibility)	78%
6. Significant Changes to Key IT Systems, Applications	50%
7. Planned or New System Implementations	67%
8. Reported Fraud, Losses, Misappropriations in Depts./Agencies	5%
9. Areas of Audit Interest (requested by Depts./Agencies)	22%



Risk Assessment

We have a history of 16 years of audit reports and audit findings and have concluded that the departments and agencies have dedicated and control conscious managers overseeing their main business processes. In the audit reports issued, we noted that less than 10% of the findings are "Significant Issues" and less than 1% of the findings are "Material or Critical."

The Internal Audit Department's historical basis for assessing the competence of management found that the overall County control environment is positive and effective and helps offset the inherent internal control risks associated with many of the County's business processes. In our opinion, we can assert that County Management has demonstrated an increasing awareness of internal controls and our audit results have verified this achievement.

**SEE ATTACHMENTS - RISK ASSESSMENT SCHEDULE A-1
SCHEDULE OF 10 YEAR PRIOR AUDIT COVERAGE A-2**