

OC Board of Supervisors'

Internal Audit Department

O R A N G E C O U N T Y

INTERNAL AUDITOR'S ANNUAL REPORT

FOR FISCAL YEAR ENDING JUNE 30, 2010
DR. PETER HUGHES, CPA, CIA, CFE



OF

ORANGE

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Our organization, Our performance

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SPECIAL THANKS

The Internal Audit Department would like to thank the eGov team at the County Executive Office, specifically Mr. Stephen Salcido, Ms. Julie Nguyen and Ms. Grace Chou for their insights, professional services and graphics design support. The graphics design support and website maintenance provided is a valuable service. Because of the professional support services we receive from the eGov team, we were the recipients of the 2008 Bronze Website Award from the Association of Local Government Auditors.



FLORIDA

A Message from

THE DIRECTOR OF INTERNAL AUDIT



Greetings,

We've had another productive year. We provided audit coverage or services to **nineteen of the County's twenty-two (86%) departments and agencies**. We completed **thirty-two (32) financial, internal control, lease, and information technology (IT) audits; three (3) special request audits** directed by the Board of Supervisors (BOS) and Audit Oversight Committee (AOC); and **(248)** additional projects consisting of 47 IT projects; 164 fraud alerts, risk analysis, other quality activities; and 37 status and accountability reports to the BOS and AOC.

The 248 projects and activities noted above include 36 **quarterly and monthly reports to the Board and AOC** and 1 **Internal Audit Department Annual Report** that supports giving them timely and critical detailed information to act on in their decision making process and to enable them to oversee the effectiveness of the Internal Audit Department. Also included are 47 **IT Projects** consisting of monthly computer-assisted auditing (CAAT) reports of payroll and vendor payments and periodic Audit Alerts issued for the CAPS+ and PTMS implementations. We performed our annual Risk Assessment of 22 departments/agencies, 5 Board Offices, and 1 comprehensive risk assessment for IT. We monitored 9 cash losses reported to the Auditor-Controller for consideration in our internal control audits. We received 123 **Fraud Hotline** allegations and issued 2 **Fraud Hotline Reports** to the BOS and AOC. Lastly, we conducted an **External Quality Assessment (Peer Review) of the San Bernardino County** Internal Audit Section, and prepared a **Balanced Scorecard** report for our Internal Audit Department validated by the County of San Diego Audit and Advisory Services.

This year we completed a demanding audit plan that included an evaluation of **Countywide Pension Practices** for unusually high "end of career" or "pension spiking" promotions and salary increases. We finished several audits of "core business processes" involving District Attorney Grants, Cash Disbursements (CEO/Risk Management); **County Fee Development Monitoring Process** (CEO/Budget, Auditor-Controller, Clerk of the Board of Supervisors), and Payroll (OC Public Works).

We provided **IT Assistance to several major system implementations including the CAPS+ Financial System, CAPS+ Human Resources/Payroll, the Property Tax Management System, and PA/PG's case management and financial system, and completed IT audits of the CAPS+ Oracle database and Payment Card Industry Data Security Standards (PCIDSS) compliance**. We also started audits of selected Community Facility Districts and Board-directed audits of the Treasurer Tax-Collector, including the annual Compliance Audit that addresses \$7.2 billion in investments and an Internal Control Audit of Tax Collections and Cash Receipts that involves \$5.3 billion in annual property tax payment collections.

Of particular noteworthiness this year was the honor of being selected by the **American Institute of Certified Public Accountants (AICPA) as CPA of the Year for Local Government**. Specifically, the AICPA is the national, professional association of Certified Public Accountants (CPAs) in the United States, with more than 360,000 members including CPAs in business and industry, public practice, government, and education; student affiliates; and international associates. I attended the 2010 National Government Accounting and Auditing Conference in August 2010 to receive my award. Please see page 8 for additional information.

As in past years, we received the full support and cooperation from all levels of County personnel and management in answering our questions, facilitating our audits, and promptly addressing our audit concerns.

It has been my pleasure to be of service to the OC Board of Supervisors.

Sincerely,

A handwritten signature in blue ink that reads "Peter Hughes". The signature is fluid and cursive.

Dr. Peter Hughes CPA, CIA, CFE
Director of Internal Audit

DR. PETER HUGHES

Director of Internal Audit
Ph.D., MBA, CPA, CIA, CFE,
CITP, CCEP, CFF

■ Find us at:
www.ocgov.com/audit

■ E-mail your comments to:
peter.hughes@iad.ocgov.com

■ THIS REPORT

This Internal Auditor's Annual Report to the Board of Supervisors is designed to provide highlights and audit accomplishments of the audit activities during the past fiscal year. I am pleased to report we completed a very demanding audit plan.

The governance and accountability established by the Board of Supervisors continues to ensure this department has the independence necessary to comply with all governmental and professional requirements.

The support role played by internal auditing within any organization is expressed well by the following authoritative definition from the Institute of Internal Auditors:

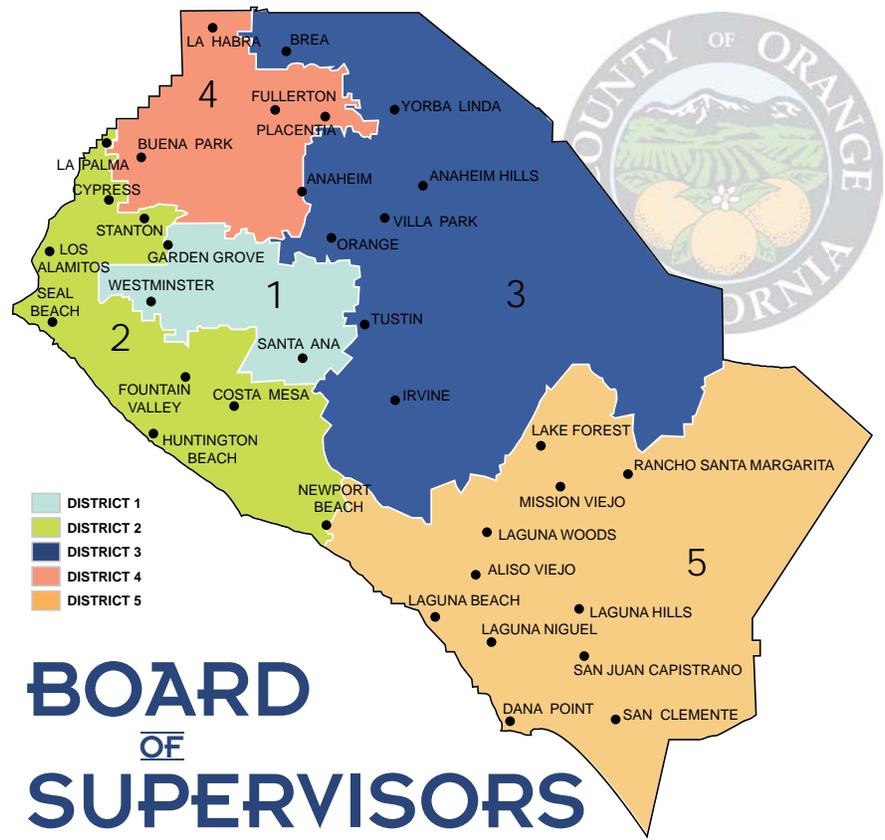
“ Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. ”

In size of operations, the County business environment is similar to large commercial firms and our annual budget would place OC in the *Fortune 500*. Orange County is the 6th largest county in USA from over 3,100 counties. However, the County governmental environment is different from that of a typical commercial organization in a number of ways. The business diversity of the County's 22 separate departments is much more complex given our mandated and directed responsibilities. County executive management also has a public stewardship responsibility where all activities and reports have a concerned public audience as fund providers, recipients, and participants in this process.

An important factor as to why the IAD functions so well is our organizational independence from the business units we audit within the County.



MEET OC'S BOARD OF SUPERVISORS



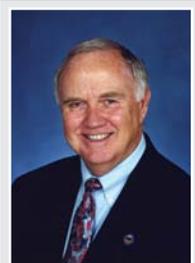

Chair
Janet Nguyen
First District

Garden Grove (portions of), Santa Ana, Westminster



Supervisor
John M. W. Moorlach
Second District

Costa Mesa, Cypress, Fountain Valley, Garden Grove (portions of), Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach, Stanton



Vice-Chairman
Bill Campbell
Third District

Anaheim (portions of), Brea, Irvine, Orange, Tustin, Villa Park, Yorba Linda



Supervisor
Shawn Nelson
Fourth District

Anaheim (portions of), Buena Park, Fullerton, La Habra, Placentia



Supervisor
Patricia C. Bates
Fifth District

Aliso Viejo, Dana Point, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano

GOVERNANCE & ACCOUNTABILITY

(COMPLETED 36 REPORTS TO BOS AND AOC)

REPORTING STRUCTURE

BOARD OF SUPERVISORS

IAD's Independence Complies with Best Practices

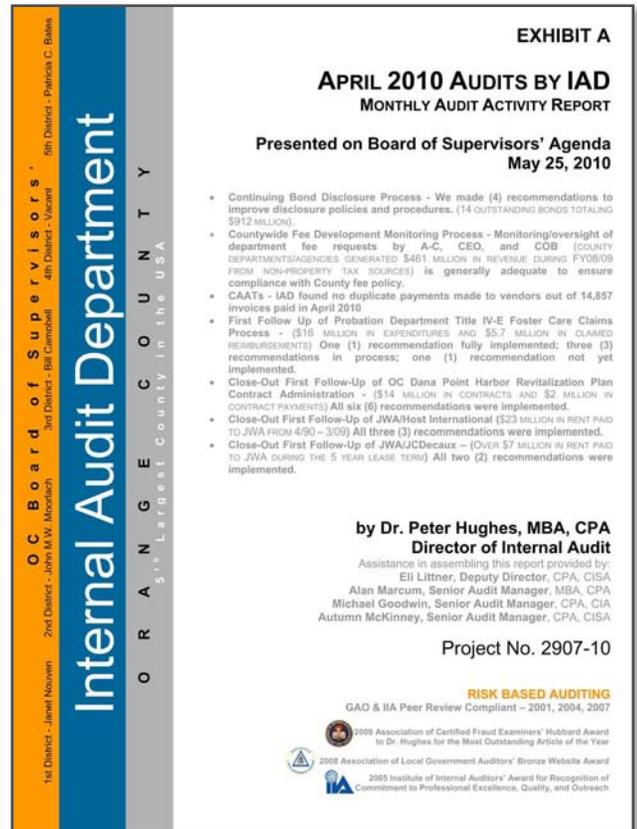
The Director of Internal Audit reports directly to the Board of Supervisors which is the highest governing body of the County. This reporting structure is the most prevalent one for the largest Counties and Cities in the US and the one that fully complies with independence standings required by the AICPA, IIA and Government Accountability Office (GAO). The Board of Supervisors share in the elected responsibility and accountability for financial stewardship of the entire County.

We strive to meet the Board's 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 reviews and assessments of County operations are always informative, accurate, and objective.

IAD'S MONTHLY ACTIVITY REPORT TO THE BOARD OF SUPERVISORS

As a direct report to the Board, the Director of Internal Audit submits to the Board (in public forum) a monthly summary of all audit reports issued for the prior month. We prepared **12** monthly reports for FY 09-10.

This formal communication to the Board allows for more detailed discussions of audit reports and issues in the public setting. The heightened level of exposure ensures the transparency of the audit process. This report identifies all audits and follow-up audits completed for the month, and a detailed description of the scope, conclusion, background, and type of recommendations. In addition, the Monthly Audit Activity Report provides a summary of audits and follow-ups completed and a description of any material or critical findings that were identified in the audits.



Monthly Audit Activity Report

Government

Elected Officials, Citizenship and Voting





GOVERNANCE & ACCOUNTABILITY (CONTINUED)

AUDIT OVERSIGHT COMMITTEE REPORTS

AOC Adheres to Best Practices

The Board also created the Audit Oversight Committee (AOC) as an advisory group to provide quarterly oversight of the progress of the Internal Audit Department in completing its Annual Audit Plan. The AOC membership, set by the Board of Supervisors, includes the Chair and Vice-Chair of the Board, Auditor-Controller, Treasurer-Tax Collector (ex-officio member), County Executive Officer and a public member.

For the FY 09-10 quarterly AOC meetings, we prepared a total of **24** reports as follows: *Quarterly Status Report* (4); *External Audit Coverage* (4), three *Executive Summaries of Audit Assignments* (12), and *IT Briefing Reports* (4).

The *Quarterly Status Report* lists all audits, follow-ups, and control related & other assignments, along with the budget, actual hours charged, variance between budget and actual, and milestone comments. The *External Audit Coverage* reports identify external audits being conducted in the County, as reported to us by the Departments/ Agencies, and an executive summary which identifies the total audits in progress, planned, and completed, along with any material issues identified. The *Executive Summaries of Audit Assignments* provides a findings summary for audits and follow-ups. *IT Briefing Reports* summarize the work performed in the area of IT audits and Internal Audit's involvement with system implementations, such as CAPS+ and PTMS.

A G E N D A

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

THURSDAY, June 3, 2010, 2:30 p.m.

HALL OF ADMINISTRATION
333 Santa Ana Blvd., **3rd Floor**
CEO Main Conference Room
Santa Ana, California



Supervisor Janet Nguyen
Member

David Sundstrom
Chairman

Dr. David Carlson
Vice Chairman
Public Member

Director of Internal Auditor
County Counsel
Clerk

Supervisor Bill Campbell
Member

Thomas G. Mauk
Member

Chriss Street
Ex-Officio Member (non-voting)

Dr. Peter Hughes, CPA
Ann Fletcher
Renee Aragon

The Audit Oversight Committee (AOC) welcomes you to this meeting. This agenda contains a brief general description of each item to be considered. The AOC encourages your participation. If you wish to speak on an item contained in the agenda, please complete a Speaker Form identifying the item(s) and deposit it in the Speaker Form Return box located next to the Clerk. If you wish to speak on a matter which does not appear on the agenda, you may do so during the Public Comment period at the beginning of the meeting. Except as otherwise provided by law, no action shall be taken on any item not appearing in the agenda. When addressing the AOC, please state your name for the record prior to providing your comments.

In compliance with the Americans with Disabilities Act, those requiring accommodation for this meeting should notify the Internal Audit Department 72 hours prior to the meeting at (714) 834-5475

All supporting documentation is available for public review in the office of the OC Internal Audit Department located in the Hall of Finance and Records Building, 12 Civic Center Plaza, Room 232, Santa Ana, California 92701 during regular business hours, 8:00 a.m. - 5:00 p.m., Monday through Friday.

2:30 P.M.

1. Roll Call
2. Approve Audit Oversight Committee Regular Meeting Minutes of February 23, 2010
3. Receive Status of the Serpentine Funding Limited P-T Notes (formerly Whistlejacket SIV) (continued from AOC 9/17/08-Item 6, 5/29/08-Item 5, 2/28/08-Items 6 and 8, 12/11/09-Item 3, 3/25/09-Item 4, 5/27/09-Item 4, 9/2/09-Item 4, 11/23/09-Item 4, Item 4-2/23/10)

AGENDA –AUDIT OVERSIGHT COMMITTEE MEETING, THURSDAY, JUNE 3, 2010 - PAGE 1

AUDIT OVERSIGHT COMMITTEE REPORT AGENDA

**GOVERNANCE & ACCOUNTABILITY
(CONTINUED)**

QUALITY ASSURANCE & IMPROVEMENT PROGRAM

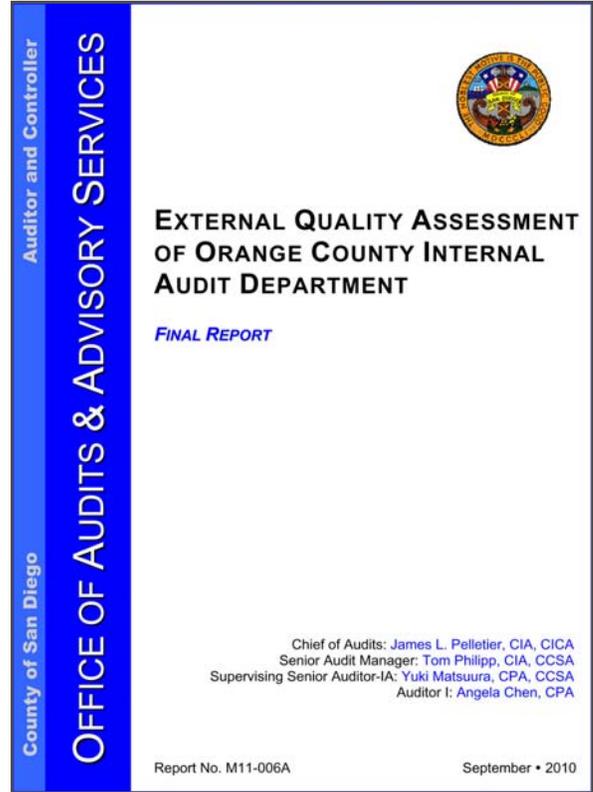
IAD Receives Highest Possible Rating

Who Audits the Internal Auditors? Government Code and the audit profession require that auditors be audited at least every three years. This audit is called a **Peer Review or Quality Assessment**. A Peer Review assesses an **audit department's adherence to over 150 professional standards**.

The Institute of Internal Auditors (IIA) Professional Standard 1300 requires that the Chief Audit Executive (CAE) develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both internal and external assessments.

Internal assessments by the OC Internal Audit Department (OCIAD) include the use of Quality Assurance checklists on every audit; ongoing monitoring of all audits through close supervision and timely review of audit work papers and reports; and formal, structured reviews from all levels of management. Senior Audit Managers perform annual internal assessments of each others' audits and provide feedback on the results of the assessments. Customer surveys of audit services are sent out to obtain the client's perspective of the audit process. At year end, we tabulate the customer survey results as a performance measure to help identify where improvements can be made.

External assessments (Peer Reviews/Quality Assessments) are done of the OCIAD every three years. In June 2010, the County of San Diego's Office of Audits & Advisory Services conducted our most recent peer review and found we conformed to the IIA Standards and Code of Ethics with the highest possible rating. In the last 10 years the OCIAD has had 4 Peer Reviews and each time the OCIAD received the best rating possible.



EXTERNAL QUALITY ASSESSMENT (PEER REVIEW)

IIA Professional Standards also require that the CAE communicate the results of the QAIP to the Board. The results of the QAIP are communicated in Audit Oversight Committee meetings, within our annual Business Plan, by individual meetings between the Director of Internal Audit and Board of Supervisors' members, and in our Annual OC Internal Auditor's Report.

The OC Internal Audit Department participates in the California Counties Audit Chief Committee Peer Review Program which coordinates Quality Assessments of County internal audit functions. The Quality Assessments are scheduled on a rotational basis so that independence is maintained. In 2009, the OC Internal Audit Department conducted an external Quality Assessment/Peer Review of the **County of San Bernardino** Internal Audit function, and issued the final report on January 6, 2010.



GOVERNANCE & ACCOUNTABILITY (CONTINUED)

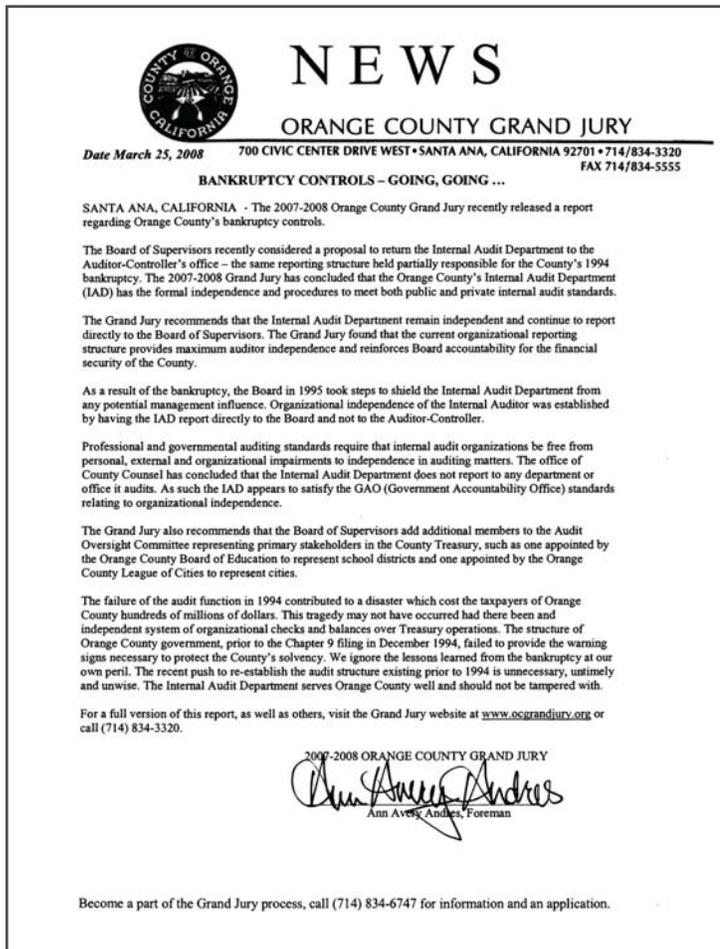
GRAND JURY REPORT

IAD should continue reporting directly to Board

Each county is required by law to impanel a Grand Jury to serve for a term of one year and is mandated to investigate and report on civil and criminal matters within the county. The civil or "watchdog" responsibilities of the Grand Jury include the examination of all aspects of County government, including special districts, to ensure the County is being governed honestly and efficiently and County monies are being handled appropriately.

The Orange County Grand Jury meets with the OC Internal Audit Department each year as a new Grand Jury is assembled. They meet with the director and gain an understanding of the audit services we provide and how the annual risk assessment and annual audit plan is developed. On occasion members of the Grand Jury will attend the quarterly Audit Oversight Committee meetings to observe the oversight meetings in public forum.

On March 25, 2008, the 2007-2008 Orange County Grand Jury in their report titled "*Bankruptcy Controls – Going, Going, ...*" concluded that the Internal Audit Department should remain independent and continue to report directly to the Board of Supervisors, and that the current organizational reporting structure provides maximum auditor independence and reinforces the Board of Supervisors' accountability for the financial security of the County.



GRAND JURY REPORT



INTERNAL AUDIT NOTEWORTHY NEWS

DR. PETER HUGHES NAMED AICPA'S 2010 CPA OF THE YEAR.



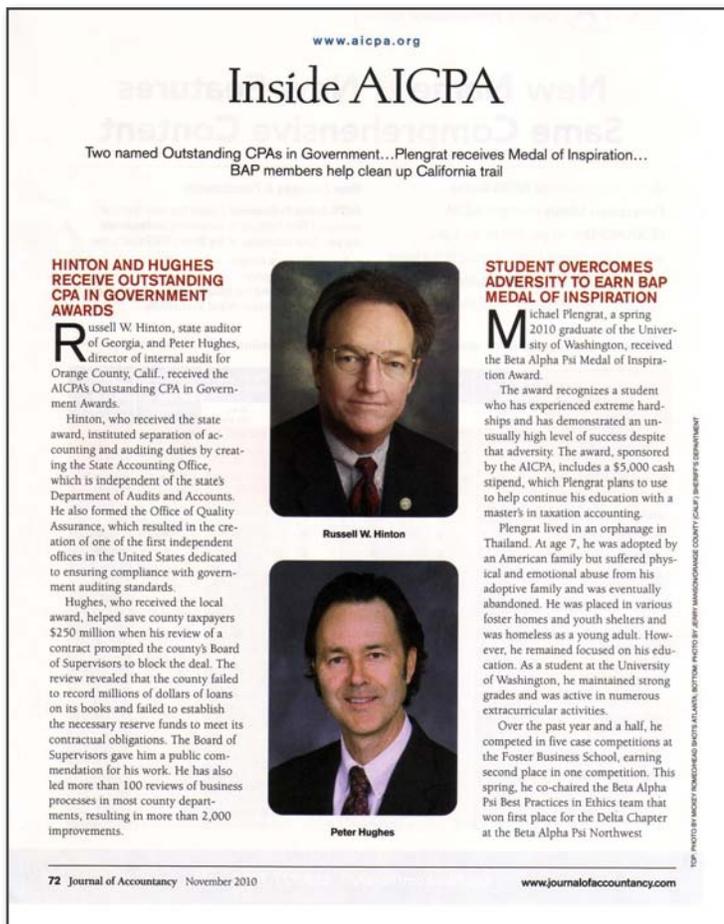
Washington, D.C. (Aug. 16 2010) – Dr. Peter Hughes, CPA, CIA, CITP, CFE, CFF, CCEP of Orange County Calif., is the recipient of the American Institute of Certified Public Accountant's Outstanding CPA in Local Government Award.

This is an incredible honor. Only one out of 360,000 CPA's are selected for this recognition in this category.

THE "OSCAR" FOR CPA'S

The award is based upon rigorous criteria that ensure the recipient meets the highest professional standards.

"I accepted this award on behalf of my entire staff, for it was only through their dedication and professionalism that this recognition was possible."
- Peter Hughes



IN 2009

The ACFE recognized the contributions of anti-fraud professionals worldwide with the prestigious ACFE Outstanding Achievement Award – 2009 Hubbard Award to Dr. Peter Hughes, CFE, CPA for the most popular article of the year, titled *Ethics Pays in So Many Ways*.



IN 2008

In the first inaugural year of the ALGA Website Awards, the Internal Audit Department was awarded the ALGA Bronze Website Award for its informational and user-friendly audit website (www.ocgov.com/audit). ALGA is a national association dedicated to promoting and advancing the audit profession.



IN 2005

The Internal Audit Department received the highly prestigious "Recognition of Commitment" to professional excellence, professional quality, and outreach from the Institute of Internal Auditors (IIA). On behalf of the OC Board of Supervisors and the Internal Audit Department, Dr. Hughes was presented with a plaque at the IIA's International Conference in July, 2005.





INTERNAL AUDIT'S BALANCED SCORECARD

Internal Audit completed its first Balanced Scorecard for FY 09-10 as our framework for performance measurement. We adopted the following **four perspectives** of a Balanced Scorecard and **14 Key Performance Indicators** as indicators of our success towards achieving our strategic vision and mission. Our results were validated by the County of San Diego Office of Audits & Advisory Services.

PERSPECTIVES:

1. **Serving the Board and Audit Clients** (Customer Perspective)
2. **Running the Business** (Process Perspective)
3. **Managing the Resources** (Financial Perspective)
4. **Developing our Employees** (Innovation and Learning Perspective)

The county of San Diego validated that IAD achieved all 14 of its Key Performance Indicators and met or exceeded all 17 of the Association of Local Government Auditors (ALGA) Best Practice benchmarks.

PERSPECTIVE INDICATORS:

A. Serving the Board and Audit Clients (Customer Perspective)

1. Customer Surveys
2. Materiality of Audit Coverage
3. Breadth of Audit Coverage
4. Responsiveness to Board Directives
5. Responsiveness to Audit Oversight Committee Direction
6. Transparency of Audit Function

B. Running the Business (Process Perspective)

7. Percentage of Audit Findings Concurred with by Management
8. Percentage of Audit Recommendations Implemented
9. Completion of Annual Risk Assessments & Audit Plan
10. Percentage of Audit Engagements Completed Each Year

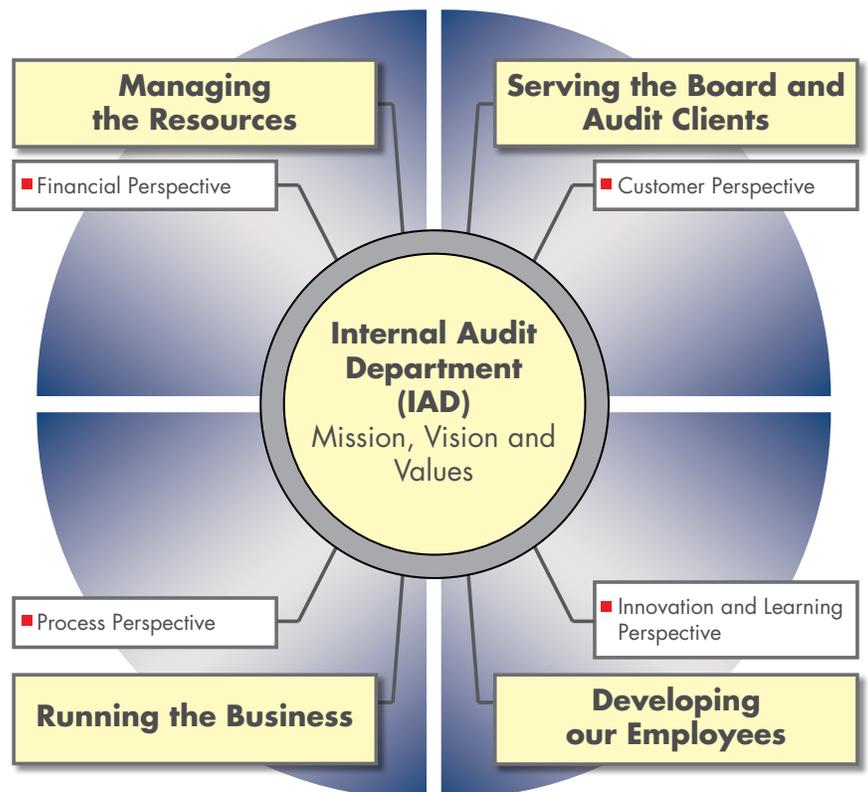
C. Managing the Resources (Financial Perspective)

11. Percentage of Chargeable Audit Time
12. Ratio of Auditors to County Employees

D. Developing the Employees (Innovation and Learning Perspective)

13. Average years of Professional Experience
14. Percentage of Auditors who are CPAs and CIAs

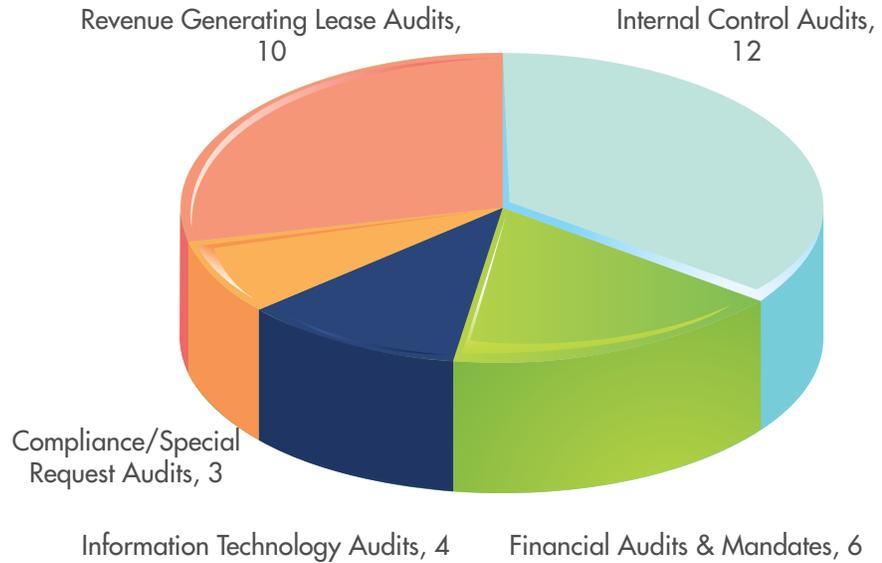
IAD BALANCED SCORECARD



FY 2009/2010 DETAILED ACCOMPLISHMENTS

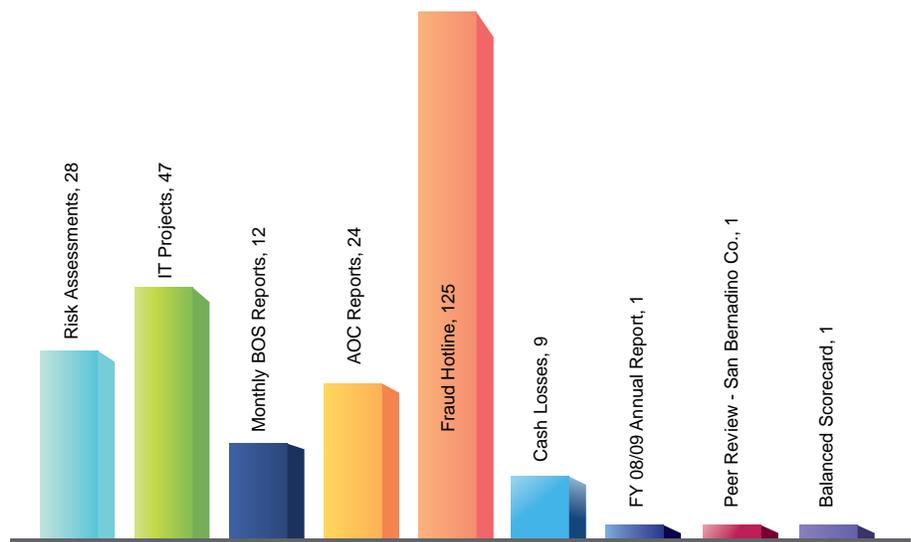
35 AUDITS COMPLETED

Our "Audits Completed" represents the completed audits from the FY 2009-10 Audit Plan, which was developed based upon our annual Risk Assessment and approved by the Audit Oversight Committee and Board of Supervisors.



Our "Audit Projects Completed" represents various reports and projects generated for purposes of planning and risk assessment; fraud hotline management; providing controls assistance to system implementations; performing computerized auditing routines; monitoring cash losses, and preparing reports to the Board of Supervisors and Audit Oversight Committee for governance and accountability over the Internal Audit function.

248 PROJECTS COMPLETED





COUNTYWIDE RISK ASSESSMENT

We completed 28 Risk Assessments. The OC Internal Audit Department conducts a comprehensive, interactive countywide Risk Assessment for purposes of establishing the annual Audit Plan. The Risk Assessment consists of a **General Risk Assessment** for critical business processes common throughout the County (e.g. cash receipts and disbursements, receivables and payables, purchasing and contract administration, payroll, budgets, etc.) and an **Information Technology Inventory and Assessment** where key systems are identified and rated by levels of risk. The Risk Assessment includes reviews of Business Plans; meetings with the Board of Supervisors and the County Executive Office; and meetings and/or correspondence with all departments/agencies to obtain their input on risks affecting their respective areas. **For FY 09/10, we completed risk assessments for twenty-two (22) departments/agencies (excluding Internal Audit and the Office of the Performance Auditor), five (5) Board Offices, and one (1) comprehensive Risk Assessment for Information Technology that consolidated information from all County departments/agencies.**

AUDIT ALERTS - PROMPT REPORTING FOR IMMEDIATE ACTION

In response to the Board of Supervisors request to bring to their attention audit issues on urgent matters, we began issuing Audit Alerts in 2008 and continue to use this means of reporting aimed at **elevating the issues** to the Board and Management for **immediate** attention and action.

The Audit Alert was designed to identify, highlight and audit significant issues impacting the County. Our focus was not just informing the Board, but to aid County management with proper stewardship to identify risk and provide timely recommendations for resolutions. In due diligence, the Audit Alert was developed and applied as a "Best Practice."

In 2007/2008 we issued 7 Audit Alerts; in 2008/2009 we issued 3 Audit Alerts; and in 2009/10 we issued 2 Audit Alerts for a total of **12** Audit Alerts issued since 2008. Audit Alerts are presented to the Board through the Monthly Audit Activity Report.

COMPLIANCE/SPECIAL REQUEST AUDITS

We completed 3 special requests. During FY 2009-2010, the OC Internal Audit Department performed the following special request audits resulting from the Board of Supervisors or the Audit Oversight Committee:

1. Internal Audit of Countywide Pension Practices (Audit No. 2913) The Orange County Grand Jury in its report titled *The Guardian of Last Resort on the Public Administrator/Public Guardian*, dated May 6, 2009 identified "questionable pension practices" where an employee received a promotion and salary increase of 57% within one year of retirement. The Grand Jury cited that the one year promotion is costing the taxpayers of Orange County an additional \$1,453,100 in lifetime pension benefits. The Grand Jury recommended that the OC Internal Audit Department conduct an in depth review of Orange County Human Resources (OCHR) personnel records to determine if additional instances of "questionable pension practices" (pension spiking) existed.

We found 99.62% of the retirees, 778 of 781, did not receive questionable promotions and salary increases. These "End-of-Career" promotions and salary increases complied with County policies and procedures and were properly documented, approved and supported. However, we found two additional questionable instances similar to the one instance identified by the Grand Jury.

2. Review of Allegations Made About the Assessor and Clerk of the Board (Audit No. 2905-B) The Internal Audit Department was asked to investigate serious allegations made against the Assessor and the Clerk of the Board at the Board of Supervisors meeting on May 18, 2010. We concluded that the three serious allegations reviewed were without merit. The documentation and purported "evidence" provided failed to support any of the allegations. Additionally, in all instances the allegations were directly refuted by readily available evidence examined by us.

COMPLIANCE/SPECIAL REQUEST AUDITS (CONTINUED)

3. Analysis of Maximus, Inc. Agreement with the County of Orange (Audit No. 2905-A) We were asked to analyze whether Maximus, Inc. met the audit requirements as specified in Sections 20.1 and 20.2 of the Agreement between the County of Orange and Maximus Human Services, Inc., a subsidiary of Maximus Inc. We found that Maximus met the audit requirements of the Agreement.

INTERNAL CONTROL AUDITS

We completed 5 Audits and 7 Follow-Up Audits. Internal Control Audits (ICAs) determine the adequacy and integrity of controls in critical business processes by providing reasonable assurance over the recording, reporting, and reconciling of financial transactions, safeguarding County assets, compliance with department and County policies, and evidence of process efficiencies and effectiveness. Some ICAs include audits of multiple areas and activities. For example, one audit report may address contract administration and contract payments. Our audit count is based on the number of audit reports issued for each audit assignment. We performed the following ICAs during 2009-10:

1. Auditor-Controller's and Treasurer-Tax Collector's \$22 Billion Electronic Funds Transfer Processes (Material Impact Audit) (Audit No. 2821) – 1 audit completed. We audited manual and system controls for EFT transactions that included accounts payable, vendor payments, trust payments, debt service payments, investment activities, intra-bank transfers, property tax apportionments, and payroll, sales, and landfill tax payments. The Treasurer-Tax Collector processed about \$20 billion in EFTs, and the Auditor-Controller processed about \$2 billion in EFTs.

2. Countywide Fee Development Monitoring Process (Critical Impact Audit) (Audit No. 2922) – 1 audit completed. We audited controls in the **County Executive Office, Auditor-Controller, and Clerk of the Board** for their oversight and monitoring responsibilities of department/agency fee requests submitted for Board of Supervisors' approval. County departments/agencies generated **\$461 million** in fee revenue in Fiscal Year 2008/09 from Licenses, Permits and Franchises and Charges for Services.

3. CEO/Risk Management Workers' Compensation and Liability & Property Claim Disbursements (Critical Impact Audit) (Audit No. 2923) – 1 audit completed. We audited controls over claim disbursements processed by Risk Management for Workers' Compensation claims and for Liability & Property claims filed against the County. About **\$26 million in Workers' Compensation** claims and **\$8 million in Liability & Property claims** were processed during the audit period.

4. Sheriff-Coroner Payroll Process (High Impact Audit) (Audit No. 2825) – 1 audit completed. We audited the manual and IT controls over Sheriff-Coroner payroll where over **\$491 million** was processed using an in-house developed Sheriff Timekeeping System. Sheriff-Coroner is the department with the largest payroll expenditures in the County.

5. OC Public Works Payroll Process (High Impact Audit) (Audit No. 2925) – 1 audit completed. We audited controls over OC Public Works payroll where over **\$80 million** was processed and is one of the top five departments/agencies with the largest payroll expenditures in the County.



6. Follow-Up Audits – 7 Follow-Up Audits completed. Follow-Up Audits are necessary to ensure that audit recommendations are implemented satisfactorily. We perform our First Follow-Up Audit approximately six months from the date of the original audit report. If any items are not fully implemented, a Second Follow-Up Audit is conducted approximately 12 months from the date of the original audit report. The Audit Oversight Committee is notified of any recommendations not fully implemented after our Second Follow-Up Audit. We conducted the following Follow-Up Audits: **Auditor-Controller Claims & Disbursing Vendor Payments; CEO/IT Contract Administration & Payments; CEO/Public Finance Cash Receipts, Disbursements & Trust Funds; CEO/Procurement Office Policy on Sole Source Contracts; OC Dana Point Harbor Revitalization Plan; Probation Title IV-E Foster Care Claims Process; OC Public Works Payroll Process.**



■ FINANCIAL AUDITS & MANDATES (FAM)

We completed 5 Audits and 1 Follow-Up Audit. In these audits we determine whether the financial statements are fairly stated in accordance with applicable professional standards, financial statements are supported by sound internal controls; and whether management complied with applicable laws, regulations, and grant requirements. These audits are conducted in accordance with generally accepted auditing standards of the United States of America, and/or Government Auditing Standards issued by the Comptroller General of the United States.

We completed all financial, mandated, and follow-up audits as follows:

- **District Attorney Auto Insurance Fraud Grant audit.**
- **District Attorney Workers' Compensation Fraud Grant audit.**
- **District Attorney Health & Disability Insurance Fraud Grant audit.**
- **Retiree Medical Annual Required Contribution Payment audit**
- **Continuing Bond Disclosure Process**
- **Follow-Up Audit of Tax Redemption Audit – 3 years ending 6/30/08**

■ INFORMATION TECHNOLOGY (IT) AUDITS

We completed 3 audits, 1 follow-up audit, and 47 projects in this category as listed below. In these audits, we review controls in a variety of information technology areas including general controls, application controls, and system developments. We performed work in the following IT areas during FY 09-10:

1. Implementation Assistance: We worked on 4 projects as described below. We consider our work on each project to be “completed” for this fiscal year, even if our assistance will continue in the following fiscal year:

Overview: We provide implementation assistance to selected key financial system implementations. Our role is limited to reviewing and providing feedback on the internal controls contained in written procedures, process flowcharts, and other process and control documentation prepared for the new system by the implementation team. The primary purpose of our review is to review and provide feedback whether selected processes being developed and documentation contain appropriate internal controls in the four key areas of:

- ▶ Proper segregation of duties;
- ▶ Appropriate reviews and approvals;
- ▶ Audit trails related to preservation of source documents and recording of reviews and approvals; and
- ▶ Sound account reconciliations.

We also attend selected project and governance meetings. Depending on the nature of our feedback, it can be verbal/email or in a written report known as an “Audit Alert” to provide “just in time” input to the implementation. During FY 09-10, we provided assistance to the following 4 system implementation projects:

- **CAPS+ Financial System Implementation (Audit No. 2943):** We issued CAPS+ Audit Alert No. 5 in response to a request made by the CAPS Steering Committee (CSC). The CSC requested feedback on the CAPS Program Management Office proposal that all CAPS+ purchasing documents have a separate creator and approver enforced by the CAPS+ system. The reason for having a separate person approve is to ensure the accuracy and validity of the transaction in CAPS+, which is the official system of record. Our assistance is completed on this implementation.

- **CAPS+ Human Resources/Payroll System Implementation (Audit No. 2944):** We issued CAPS+ HR/Payroll Audit Alert No. 1 that addresses our first interim review of 1) selected planned internal controls and 2) written procedures and training planned for the central HRD and A-C/Payroll functions. The system is estimated to be implemented on 2/22/11. Our assistance will continue in FY 10-11 for this implementation.

- **Property Tax Management System (PTMS) Implementation (Audit No. 2945)**

- ▶ **Tier 1:** We performed our review of selected documents. Tier 1 went live in May 2010. However, some of the Tier 1 modules will be updated/integrated when Tier 3 is implemented. Additionally, ATS continues to be the system of record (rather than PTMS) for some Tier 1 modules until Tier 3 is implemented. As such, our review of the Tier 1 modules will likely continue until Tier 3 is implemented.

- ▶ **Tier 2 and Tier 3:** The PTMS Steering Committee decided to combine the Tier 2 and 3 user acceptance testing. This means Tier 2 will go-live around the same time as Tier 3, which is estimated to be 7/1/11. We are awaiting process maps, procedures, and other related documentation for our review of internal controls.

Our assistance will continue in FY 10-11 for this implementation.

- **Orange County Public Administrator Conservatorship System (OCPACS) Implementation (Audit No. 2952):** Our review of selected documentation is in process. We attended selected interim user acceptance testing sessions for the case management, accounting, and asset management modules. This system is estimated to be implemented in March 2011. Our assistance will continue in FY 10-11 for this implementation.

2. Audits: We completed 3 audits as described below:

- **IT Component of ICA – Auditor-Controller’s and Treasurer-Tax Collector’s \$22 Billion Electronic Funds Transfer Processes Material Impact Audit (Audit No. 2847):** This is an integrated audit (also see Internal Control Audit No. 2821). The IT and non-IT components were combined into one report. The IT component



focused primarily on 1) access and transmission controls for EFT files transmitted to the bank and 2) user access profiles, system enforced dual authorization, and password settings. The Treasurer-Tax Collector processed about **\$20 billion** in EFTs and the Auditor-Controller processed about **\$2 billion** in EFTs.

■ **CAPS+ Financial System Oracle Database Configuration Critical Impact Audit (Audit No. 2948):**

The audit reviewed the Oracle database configuration for the CAPS+ financial system in the following areas: Account Profiles, Privileges and Authorizations, Listener, Data Security, Operating System, Database Links, Auditing/Logging, Authentication, Database Parameters and Other Oracle Database Security Features. The **CAPS+ Financial System records over \$3.4 Billion** collected and disbursed annually.

■ **Treasurer-Tax Collector Controls Over Compliance With Payment Card Industry (PCI) Data Security Standard Critical Impact Audit (Audit No. 2946):**

The audit reviewed Treasurer-Tax Collector's (T-TC) governance policies/procedures (controls) to ensure Countywide compliance with the Payment Card Industry Data Security Standards (PCI DSS) validation requirements. We also selected a sample of five departments to determine whether: PCI DSS validation documentation was submitted to the acquiring banks; third party payment card processors and equipment complied with PCI DSS; and third party agreements addressed PCI DSS compliance. **The County collects \$193 million annually** through credit/debit cards.

3. Computer Assisted Audit Techniques (CAATs): We use a proprietary, state-of-the-art/best practice software product to help us analyze data for payroll and vendor payments. The audit work is commonly known as Computer Assisted Audit Techniques (CAATs). We completed **43** projects in this category:

■ **Duplicate Vendor Payments:** We conducted **12** monthly CAAT routines to identify potential duplicate vendor payments. Since the inception of this routine in May 2002, duplicate payments identified are \$955,828 and amounts recovered are \$893,962, for a recovery rate of about 94%.

■ **Working Retirees/Extra Help Hours:** We performed **12** reviews of available working retiree activity reports to identify retirees who exceed hour limits for FY 09-10 and noted no working retirees exceeded the annual limits.

■ **Employee/Vendor Address Match:** We performed **4** CAAT routines to identify employees that share a similar address as a vendor, which could be an indicator of employees buying goods or issuing contracts to themselves or a related vendor. We identified 13 potential employee-vendor matches which were provided to the Human Resources Department (HRD) for further review. HRD determined no conflict existed for all 13 potential employee-vendor matches.

■ **Direct Deposits:** We performed **12** CAAT routines to identify multiple employee paychecks directly deposited to the same bank account, which could be an indicator of inappropriate payments, and noted no findings.

■ **Annual Risk Assessment:** We performed several CAAT routines (count as **1** project) to obtain financial information (transaction amounts and activity) that we utilize in the annual risk assessment. For example, we compile cash receipt activity by the department that processed the cash receipt rather than by the department/fund where the money was deposited (some departments process monies for other departments).

■ **Rewrite CAAT Routines:** The new CAPS+ Financial system changed the reports and data fields for CAAT routines. As such, we needed to rewrite those routines. We completed and implemented new CAAT routines for duplicate vendor payments, employee/vendor matches, and the annual risk assessment routines (count rewrites as **1** project).

■ **New CAAT Routine – Employee Receivable Analysis:** We developed a new CAAT routine comparing employee data with certain receivables data (count as **1** project):

► **Delinquent Property Taxes:** We developed the CAAT routine and performed an analysis/comparison of County employee data with delinquent secured property tax data at 8/12/09 (**\$247**

BEST PRACTICE BY OC IAD

OC IAD is one of the few counties to have developed an ongoing CAAT Program.

(Continued on page 16)

(Continued from page 15)

million) and unsecured property tax data at 9/11/09 (**\$30 million**).

- ▶ **Centralized Accounts Receivable:** We developed the CAAT routine and performed an analysis/comparison of County employee data with centralized receivables data as of 4/21/10 (**\$36.5 million**) recorded by Treasurer-Tax Collector in the CUBS system.

Due to the immateriality of centralized receivables and delinquent property taxes identified as potentially owed by a County employee, we do not plan to continue this routine on an on-going basis. The need for this analysis may be revisited in the future.

4. Follow-Up Audit: We completed **1** follow-up audit as listed below:

- **Second Follow-Up Audit** Internal Control Review of the Auditor-Controller's Accounts Receivable and Collection Process – IT Results (Audit No. 2849).

REVIEWS OF LEASE REVENUE - \$31 MILLION

The importance of the lease audits is underscored by the fact that in over a decade, the 6 lease/concession agreements we audited in FY 09-10 will generate about \$31 million in revenue to the County.

We completed a total of 10 audits in this category as listed below.

We completed **6** Audits of Revenue Generating Leases as listed below. In these audits, we audit to determine if all revenues due to the County are properly calculated, recorded, and received. These reviews are requested annually by John Wayne Airport (JWA), OC Dana Point Harbor (OCDPH), OC Parks, and OC Public Works (OCPW).

The below lease/license/operating agreements generate approximately \$18.5 million annual gross receipts and \$3.1 million annual revenue to the County. The overarching purpose of the audits is to provide independent assurance that the revenue due to the County is received in accordance with the agreements. As the average term of the agreements can range from 10 to 30 years, the additional revenue we identified will result in additional ongoing revenue over the life of the agreements. Two of the below lease agreements are new and generate a relatively smaller amount of revenue to the County. However, we audited those two leases as a first time audit to help ensure the lessee's records are on the "right track" and to make any necessary corrections timely in the lease term.

- JWA/Budget Rent A Car
- JWA/Hudson Group (Specialty)
- OC Parks/Irvine Park Railroad & Concessions
- JWA/Hudson Group (News)
- OCDPH/Dolphin Safari, Inc.
- OC Parks/Santiago Equestrian Center

Follow-Up Audits for Revenue Generating Lease Audits:

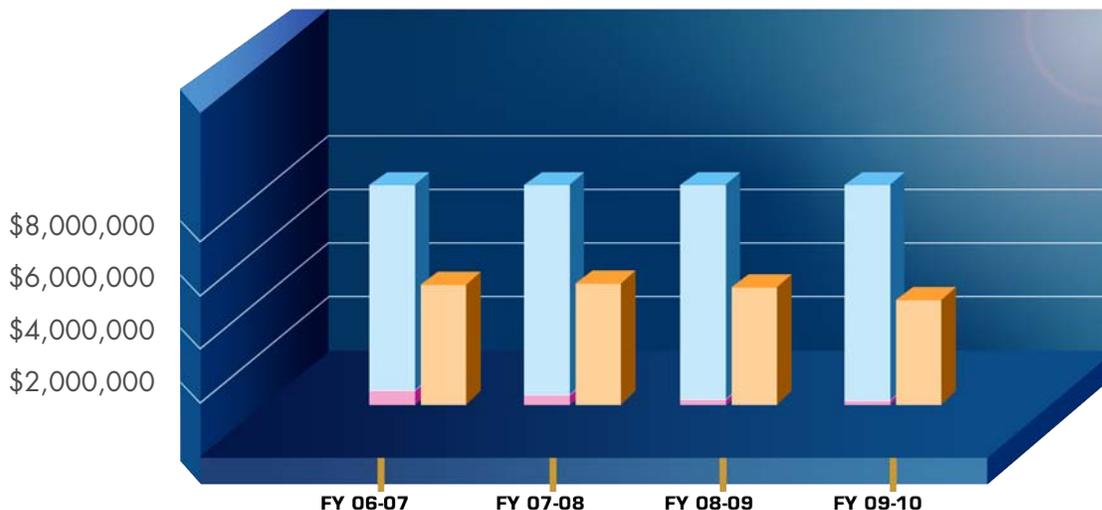
We completed **4** First Follow-Up Audits as listed below:

First Follow-Up Audits:

- JWA/Parking Concepts, Inc.
- JWA/Host International, Inc.
- JWA/JC Decaux Airport, Inc.
- OCPW/Lake Forest Golf & Practice Center



ACTUAL AND POTENTIAL REVENUE RECOVERY



	FY 06-07	FY 07-08	FY 08-09	FY 09-10
Dana Point Harbor Audit Added Revenue (2)	\$6,250,000	\$6,250,000	\$6,250,000	\$6,250,000
Other IAD Revenue Recoveries (1)	\$400,381	\$290,909	\$136,594	\$102,521
IAD Budget	\$2,940,767	\$2,973,741	\$2,916,012	\$2,526,955

(1) While not our predominant objective, the OC Internal Audit Department audits and reviews for revenue recoveries whenever the opportunity presents itself. We look for under-recovered revenues as a critical component of assisting management in safeguarding the County's assets. We conduct several audits of business contracted by agencies such as John Wayne Airport, OC Public Works, OC Parks, and the OC Dana Point Harbor to ensure all revenues due to the County are properly calculated and received. In addition, we audit to determine if any duplicate payments to vendors have been mistakenly made.

As noted in prior year annual reports, for the past 4 years, average revenue recoveries represent **8.2%** of our annual budget excluding OC Dana Point Harbor, and over 200% when including our OC Dana Point Harbor recommendations adopted by the Board 2001.

OC DANA POINT HARBOR

(2) Our largest revenue "recovery" to date has been the Board of Supervisor's 2001 adoption of the Internal Audit Department's recommendation to retain Dana Point Harbor as a County-owned harbor operation. This decision is estimated to result in the County recovering, at a minimum, an additional \$250 million over 40 years on behalf of the taxpayers to be directly applied to continued enhancement of the harbor.

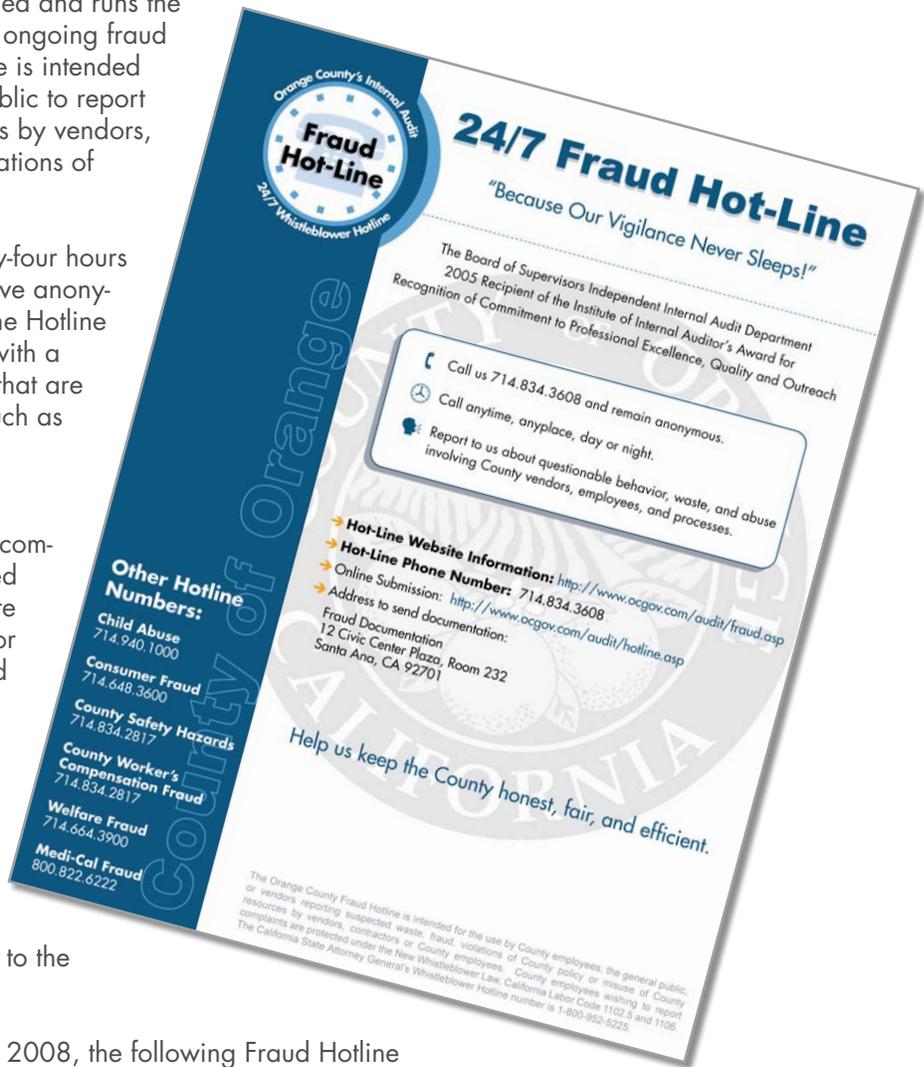
FRAUD HOTLINE

The OC Internal Audit Department established and runs the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. The Hotline is intended for County employees, vendors, and the public to report suspected fraud, misuse of County resources by vendors, contractors, or County employees, and violations of County policy.

The Hotline is monitored live for calls twenty-four hours a day, seven days a week. Callers can leave anonymous information or identify themselves. The Hotline telephone system also provides the callers with a list of Hotline numbers for reporting frauds that are not handled by the County Fraud Hotline such as Welfare Fraud.

In Fiscal Year 2009/2010, we saw a 22% increase in the number of Hotline incidents compared to the prior fiscal year. We processed **123 Hotline incidents**: 40 incidents were referred to County departments/agencies for investigation and 18 for their discretion and action, 34 incidents were referred to the Welfare Fraud Hotline for investigations, 22 were referred to outside agencies, and 9 were closed due to insufficient information/other to investigate. To date, five of the 40 incidents referred to County departments/agencies for investigation remain open. We prepared two (2) Fraud Hotline Activity Reports that were submitted to the AOC and Board.

Hotline Enhancements: Starting in July 2008, the following Fraud Hotline notice was added to the County's PayStub Portal, where it appears for all 18,000 plus County employees every time they view their paychecks (stubs) online. In addition, we coordinated with the County Executive Office to frequently post in the *CEO's County Connection* a notice for the Fraud Hotline.



ORANGE COUNTY'S INTERNAL AUDIT DEPARTMENT FRAUD HOTLINE

- If you suspect fraud, waste or abuse of County resources call the OC Internal Audit Department Fraud Hotline at (714) 834-3608.
- We take calls or emails 24/7. Our site is <http://www.ocgov.com/audit>
- You can call or email us anonymously and you are given Whistleblower protection under California Law.



Customer satisfaction surveys are sent to our clients when an audit is finalized and issued. Customer satisfaction surveys measure the value of our audit services and report products. The customer satisfaction survey provides feedback regarding auditors' professionalism, timely communications, partnering, technical knowledge, and whether recommendations were practical and reasonable.

Customer Surveys on Audit Services Provided

4.8 on a scale of 5

Client satisfaction is also one of the OC Internal Audit Department's Key Performance Measures in its Annual Business Plan. Our goal for FY 2009/10 was to obtain an average client satisfaction rating of "3" on a scale of 1 through 5. We are pleased to report our actual results for FY 2009/10 showed an average rating of 4.8, which demonstrates high client satisfaction with our audit services.

Orange County
Internal Audit Department
Customer Survey of Audit Services

Name of Auditor(s):
Audit No.:
Name of Audit:

Please rate 1 to 5
1 being Strongly Disagree
5 being Strongly Agree
(The higher the score the better the evaluation)

Score	Evaluation Factors
	1. Were the auditor(s) professional and courteous?
	2. Did the auditor(s) communicate the objectives of the audit?
	3. Did the auditor(s) discuss findings with you in a timely manner?
	4. Did the auditor provide reasonable and practical recommendations?
	5. Was the audit report clear and accurate?
	6. Did the auditor(s) demonstrate satisfactory technical knowledge relating to internal control?
	7. Were your experiences with the auditor(s) positive?
	8. Would you recommend the services of the auditor(s) to your colleagues?

Items Not Addressed Above:

Customer Surveys & Client Satisfaction

Quotes from FY 2009/10 Customer Surveys:

"Thank you for your insights and comments; we value your input." - Human Resources Department

"I would like to thank you for the thoroughness and professionalism exhibited by your staff during their work on the OC Dana Point Harbor Audit of Contract Administration and Contract Payments, and the Revenue Generating Lease Audit for Dana Point Yacht Club." - OC Dana Point Harbor

"The Auditor did a very thorough job. She even created a map inventorying each and every item of equipment and the number of ad faces per item. As a result of her work, we have a much better map compared to what was provided for the lease exhibit." - John Wayne Airport

"I thought the auditor staff were very professional and courteous and were very intelligent in their research and findings" - OC Public Works Fleet Services

"Very much a value-added audit." - OC Public Works Information Technology

"Probation is very appreciative of Internal Audit's evaluation of the Title IV-E claiming process. It provided necessary perspective for our operation." - Probation Department

AUDIT RECOMMENDATIONS

The OC Internal Audit Department tracks all audit recommendations as of January 2003, including counts of audit recommendations, types of recommendations (e.g., material or critical weakness, significant issue, control finding, or efficiency/effectiveness issue); management concurrence; implementation status of audit recommendations as determined in our Follow-Up Audits, and percentage of audit recommendations that were followed-up.

OUTCOME

2009-2010 Results

- **Recommendations Made: 125** recommendations were made in FY 09/10.

Types of Recommendations: Of the 125 recommendations made during FY 09/10, we identified **7 Significant Issues** and **118 Control Findings** including Compliance Issues and Efficiency or Effectiveness Issues.
- **Management Concurrence:** For each recommendation, management submits responses to the OC Internal Audit Department that includes their concurrence with audit findings and recommendations, implementation plans, and implementation dates. Of the 125 recommendations made during FY 09/10, 123 (98%) **HAD FULL MANAGEMENT CONCURRENCE, AND 2 (2%) HAD PARTIAL MANAGEMENT CONCURRENCE.**
- **Implementation Status:** Follow-Up Audits are performed at 6 months and, if necessary at 12 months, following the issuance of all final audit reports to verify the implementation status of audit recommendations. Because of the 6 and 12 month Follow-Up Audit periods, we do not have implementation status for all audits conducted in FY 2009-10.

Since 2003

Recommendations Made:

Between January 2003 and June 2010, Internal Audit made **1,137 audit recommendations.**

Type of Recommendations:

There was **1 Material Weakness (.1%), 50 Significant Issues (4.4%), and 1,086 Control Findings** including Compliance Issues or Efficiency/Effectiveness Issues (**95.5%**).

Management Acceptance/Concurrence:

OF THE TOTAL 1,137 AUDIT RECOMMENDATIONS, WE OBTAINED FULL OR PARTIAL MANAGEMENT CONCURRENCE ON 99% OF THE RECOMMENDATIONS.

Implementation Status:

Follow-Up Audits are performed to verify the implementation status of audit recommendations. Since January 2003, we have followed-up on **899 audit recommendations. OF THE 899 RECOMMENDATIONS, 100% WERE VERIFIED AS FULLY IMPLEMENTED AND/OR CLOSED AS FOLLOWS:**

- **799** recommendations (**89%**) were implemented or closed by the First Follow-Up Audit.
- **100** recommendations (**11%**) were implemented or closed by the Second Follow-Up Audit.



INTERNAL AUDIT DEPARTMENT PROFESSIONAL STAFF

Director of Internal Audit, Dr. Peter Hughes, Ph.D., MBA, **CPA**, CIA, CFE, CFF, CITP, CCEP
Deputy Director, Eli Littner, **CPA**, CIA, CFE, CFS, CISA

Senior Audit Manager, Michael J. Goodwin, **CPA**, CIA
Senior Audit Manager, Alan Marcum, MBA, **CPA**, CIA, CFE
Senior Audit Manager, Autumn McKinney, **CPA**, CIA, CISA, CGFM
Audit Manager, Lily Chin, **CPA**
IT Audit Manager, Wilson Crider, **CPA**, CISA, CICA
Audit Manager, Michael Dean, **CPA**, CIA, CCSA, CISA
Audit Manager, Winnie Y. Keung, **CPA**, CIA
Audit Manager, Carol L. Swe, **CPA**, CIA, CCSA, CISA
Audit Manager, Kenneth Wong, **CPA**, CIA
Senior Auditor, Lisette Free, **CPA**, CFE
Senior Auditor, Abdul Khan, **CPA**, CIA, CISA, CFS
Senior Auditor, Susan Nestor, **CPA**, CIA

ADMINISTRATIVE STAFF

Executive Assistant/Administrative Manager, Renee Aragon
Staff Specialist/Deputy Purchasing Agent, Maribel Garcia

CERTIFICATION LEGEND

CPA
Certified Public
Accountant

CIA
Certified Internal
Auditor

CICA
Certified Internal
Controls Auditor

CCSA
Certification in Control
Self-Assessment

CISA
Certified Information
Systems Auditor

CFE
Certified Fraud
Examiner

CFF
Certified in Financial
Forensics

CFS
Certified Fraud
Specialist

CGFM
Certified Government
Financial Manager

CCEP
Certified Compliance
and Ethics Professional

CITP
Certified Information
Technology Professional

MBA
Masters in Business
Administration

NEW PROFESSIONAL CERTIFICATIONS

During Fiscal Year 2009/2010, one auditor, the Director, received a Certification in Financial Forensics (CFF).

STAFF TRAINING

Professional staff completed the minimum continuing professional education required for their professional licenses/certifications. Training was received in a variety of topics including government accounting and auditing standards updates, information technology auditing, and computer assisted audit techniques.

PROFESSIONAL CREDENTIALS

The OC Internal Audit Department is the only large county in the USA whose audit staff have the combination of **100% CPA's; 80% possessing double certifications; and almost 60% of staff have three or more certifications.**

The OC Internal Audit Department follows the professional standards of: the Institute of Internal Auditors (IIA), the U.S. Government Accountability Office (GAO), and the American Institute of Certified Public Accountants (AICPA) where applicable.

Accordingly, the Internal Audit Department and its individual auditors hold various professional licenses and certifications, and are members of many prestigious professional audit and accounting associations. At a minimum, each auditor is licensed as an active **Certified Public Accountant (CPA)**. See additional certifications on page 21 and related professional associations on pages 23 and 24.

WHY ARE CERTIFICATIONS AND PROFESSIONAL MEMBERSHIPS IMPORTANT?

Auditing and accounting related certifications and professional memberships are critical to our professional effectiveness for the following reasons:

- The certifications demonstrate a technical capability that is recognized internationally. The professional associations providing the certifications have rigorous standards and minimum requirements that include educational criteria, comprehensive written exams for technical knowledge and skills, and verified work experience.
- The certifications also have ethical requirements. These ethical requirements are important so that we don't suborn our judgment or professional opinions.
- The memberships support our philosophy of continuous learning and improvement. Our membership and participation in professional associations allows us to be updated on relevant issues in business and industry with regard to accounting trends and developing best practices. Additionally, attendance at professional association conferences and meetings allows us to network and benchmark with our peers. Such constant renewal keeps us professionally current, refreshed, invigorated, and responsive to the County's needs.

Most importantly, possession of a CPA license and other relevant certifications allows us to assign qualified individuals to complex audits and makes us uniquely qualified within the County for our audit responsibilities.

For example, the Senior Audit Manager overseeing the OC Fraud Hotline, along with the Deputy Director and Director of Internal Audit are Certified Fraud Examiners. The Certified Fraud Examiner certification demonstrates our ability and qualification to oversee the OC Fraud Hotline and investigate, when necessary, allegations of theft, nepotism, defalcation, etc.



PROFESSIONAL ORGANIZATIONS



CALIFORNIA BOARD OF ACCOUNTANCY

The OC Internal Audit Department has the privilege of staffing **14** Certified Public Accountants (CPAs) under the State of California and follows the guidelines of the (AICPA) American Institute of Certified Public Accountants.

AMERICAN INSTITUTE OF PUBLIC ACCOUNTANTS



- DR. PETER HUGHES NAMED THE 2010 CPA OF THE YEAR FOR LOCAL GOVERNMENT

The American Institute of Certified Public Accountants is the national, professional association of Certified Public Accountants (CPAs) in the United States, with more than 360,000 members including CPAs in business and industry, public practice, government, and education; student affiliates; and international associates. Dr. Hughes attended the 2010 AICPA National Government Conference in August 2010 to receive his award.

- CERTIFIED IN FINANCIAL FORENSICS

The American Institute of Certified Public Accountants (AICPA) established the Certified in Financial Forensics (CFF) in 2008 for CPAs who specialize in forensic accounting. The CFF credential is granted exclusively to CPAs who demonstrate considerable expertise in forensic accounting through their knowledge, skills, and experience. The Internal Audit Department has **1** CFF.



THE INSTITUTE OF INTERNAL AUDITORS (IIA)

The Internal Audit Department has an annual sustaining membership with the Institute of Internal Auditors. **11** of our staff are Certified Internal Auditors (CIA) and **2** staff earned the Certification in Controll Self-Assessment (CCSA).



THE INSTITUTE OF INTERNAL AUDITORS, RESEARCH FOUNDATION

Dr. Peter Hughes, Director of Internal Audit, served another term on the IIA's important Board of Research and Education for 2009-2010.



ASSOCIATION OF CERTIFIED FRAUD EXAMINERS (ACFE)

The Internal Audit Department has **4** staff that are Certified Fraud Examiners (CFE) and are members of the Association of Certified Fraud Examiners. Dr. Peter Hughes, Director of Internal Audit, is pleased to serve as a member of the ACFE's prestigious Editorial Advisory Committee. In 2009, Dr. Hughes was the recipient of the ACFE Outstanding Achievement Award – Hubbard Award for the prized article, "Ethics Pays in So Many Ways" published in the 2008 July/August Edition of the *Fraud Magazine*.



ASSOCIATION OF LOCAL GOVERNMENT AUDITORS (ALGA)

The Internal Audit Department has an annual sustaining membership with ALGA. Also, the Internal Audit Department has published articles in the past in their Audit Abstracts Category of their quarterly publication. In 2008, the Internal Audit Department received the Bronze Website Award for our department website.



ASSOCIATION OF CERTIFIED FRAUD SPECIALISTS (ACFS)

The Internal Audit Department has **2** staff members that are a Certified Fraud Specialists. Dr. Peter Hughes, Director of Internal Audit, co-authored a five page article titled "Ethics Programs" that was published in the ACFS Fraud Magazine for July/August 2008.



SOCIETY OF CORPORATE COMPLIANCE AND ETHICS (SCCE)

The Internal Audit Department has **1** staff member that is a Certified Compliance and Ethics Professional (CCEP).



GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA)

The Government Finance Officers Association is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership. Several of our staff are members of this organization.



CERTIFIED INFORMATION SYSTEMS AUDITORS (CISA) & INFORMATION SYSTEMS AUDIT AND CONTROL ASSOCIATION (ISACA)

The Internal Audit Department has **5** staff members that are Certified Information Systems Auditors (CISA) and are members of the Information Systems Audit and Control Association (ISACA).



CERTIFIED GOVERNMENT FINANCIAL MANAGER (CGFM) & ASSOCIATION OF GOVERNMENT ACCOUNTANTS (AGA)

The Internal Audit Department has **1** staff member that is a Certified Government Financial Manager (CGFM) and is a member of the Association of Government Accountants (AGA) organization.



■ THE YEAR AHEAD

APPROVAL OF FY 2010-11 AUDIT PLAN AND RISK ASSESSMENT

On June 3, 2010, the Audit Oversight Committee (AOC) approved the FY 2010-11 Audit Plan and Risk Assessment. This comprehensive report details our plan for audits and reviews in the upcoming fiscal year and incorporates the results of our extensive risk assessment. Any revisions or changes to the Audit Plan throughout the year are made in the OC Internal Audit Department's Quarterly Status Report and approved by the AOC.

BOARD OF SUPERVISORS AND AOC REQUEST FOR AUDITS

The OC Internal Audit Department reserves resources to accommodate Board of Supervisors requests. Board requests derive from individual Board members' staff desiring specific audit projects and by Board-directed audits which require a Board majority vote. In addition, the AOC can request audits at the quarterly meetings. The Internal Audit Director reserves the right to determine how to best fit the Board and AOC directed reviews into the Audit Plan.

FY 2010-11 AUDIT PLAN HIGHLIGHTS:

■ Internal Control Audits

We will validate, substantiate, and confirm the integrity of internal controls over the following processes to ensure accurate, complete and timely processing of financial transactions and ensure County assets are safeguarded:

- ▶ **Treasurer-Tax Collector Tax Collections and Cash Receipts**
- ▶ **Health Care Agency Medical Billing Process**
- ▶ **OC Community Resources/OC Parks Collection of Parking Fees**
- ▶ **Health Care Agency Fee-Generated Revenues; Cash Disbursements**
- ▶ **OC Waste & Recycling/OC Public Works Fee-Generated Revenues**
- ▶ **OC Waste & Recycling/Social Service Agency Cash Disbursements**
- ▶ **OC Public Works Fee-Generated Revenues**
- ▶ **OC Public Works Fleet Services and Administration of Fuel Cards**

- ▶ **Health Care Agency Contract Administration and Payments**
- ▶ **OC Dana Point Harbor Boat Slip Waitlist Administration**

■ Information Technology

The OC Internal Audit Department will review the adequacy of internal controls in the **CAPS+ Implementation – Human Resources/Payroll**. We will focus specifically on the four control areas of segregation of duties; reviews and approvals; audit trails; and reconciliations. We will also perform a similar function in the **PTMS Implementation** where we will evaluate controls over billing, collecting and allocating property taxes. We also plan to provide IT audit assistance to selected Internal Control Audits.

We plan to perform IT audits of:

- ▶ **Auditor-Controller's CAPS+ User Access Administration**
- ▶ **Auditor-Controller & CEO/Information Technology – Review of Change Management for CAPS+ Finance**
- ▶ **HCA Medical Billing – IRIS/Cerner System**
- ▶ **PA/PG ePages Upgrade**

We will rewrite certain computer assisted audit techniques (**CAATs**), such as the duplicate vendor payment routine, because of the new CAPS+ system.

■ Financial Audits & Mandates

In addition to our 4 **District Attorney Grant Audits**, we will conduct audits of **Treasurer-Tax Collector – Annual Investment Compliance**, and **CEO/Public Finance Community Facility Districts for Ladera Ranch**.

■ Revenue Generating Lease Audits

Revenue generating lease audits ensure the correct amount of rent is paid to the County based on a percentage of gross revenue and evaluate the adequacy of internal controls over the reporting of gross revenues. These critical audits are performed at the request of **John Wayne Airport, OC Public Works, OC Parks, and OC Dana Point Harbor**. The 3 lease audits scheduled this year have **combined annual revenue to the County of about \$4 million**.



Internal Audit Department

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PROVIDING FACTS AND PERSPECTIVES COUNTYWIDE

TRANSPARENCY

The Internal Audit Department reports directly to the Board of Supervisors on a monthly basis in a public forum. Additionally, the Internal Audit Department reports quarterly to the Board-appointed advisory group known as the Audit Oversight Committee. All final audit reports are available on the IAD website.

IAD MISSION

The mission of the Orange County Internal Audit Department (IAD) is to provide reliable, independent and objective evaluations of business processes to the Board of Supervisors and County management in order to assist them in making business and financial decisions and to protect and safeguard the County's resources and assets.

▶ WEBSITE

Visit us online: Go to www.ocgov.com/audit

▶ ADDRESS

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Room 232
Santa Ana, California 92701-4521

▶ PHONE

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▶ FAX

(714) 834-2880

▶ OCIAD'S EMPLOYEE FRAUD HOTLINE

(714) 834-3608