

OC Board of Supervisors'

# Internal Audit Department

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



## COUNTY INTERNAL AUDITOR'S ANNUAL REPORT

FOR FISCAL YEAR ENDING JUNE 30, 2009

DR. PETER HUGHES, CPA

Courtesy of OC Parks



# OF ORANGE COUNTY FLORIDA

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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 are the recipients of the 2008 Bronze Website Award from the Association of Local Government Auditors.



## A Message from

# THE COUNTY INTERNAL AUDITOR



Greetings,

We've had another productive year. We provided audit coverage, presence or services to **seventeen of the County's twenty-three departments and agencies**. We completed **five (5) compliance/special request audits** directed by the Board of Supervisors (BOS) and Audit Oversight Committee (AOC); **forty-six (46) financial, operational, internal control, lease, and information technology audits**; and **(201) other support/reporting activities**.

The 201 support/reporting activities noted above include **36 quarterly and monthly reports to the Board and AOC** 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 **40 Information Technology (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 23 departments/agencies, five (5) Board Offices, and one (1) comprehensive risk assessment for IT. Lastly, we reported on **96 Fraud Hotline** incidents during FY 08/09, which was a 150% increase from the prior year.

This year we completed a demanding Audit Plan that included an evaluation of the CAFR financial statement footnote disclosure and review process involving funds of over \$8 billion. We also started our county-wide audit of wire transfers/electronic fund transfers involving the Auditor-Controller, Treasurer-Tax Collector and various departments/agencies which include over \$22 billion in electronic disbursements. We finished several audits of "core business processes" involving contract administration and contract payments (OC Dana Point Harbor Revitaliza-

tion, CEO/Information Technology); interdepartmental billings (OC Public Works Transportation), and administrative claims for Federal/State reimbursement (Probation Title IV-E). Total expenditures addressed in these audits were over \$180 million.

Of particular noteworthiness this year was the honor of being selected by the Association of Certified Fraud Examiners (ACFE) for an Outstanding Achievement Award. Specifically, the 2009 Hubbard Award, given to the most popular article of the year, recognized me and fellow authors Dr. Mary Kaidonis and Dr. Urton Anderson for our article entitled "Ethics Pays in So Many Ways." Our article presented for the first time compelling evidence that ethical business practice give an entity a bottom-line advantage over its competitors. It was published in the July/August 2008 Edition of the *Fraud Magazine*. 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 Board of Supervisors for the County of Orange.

Sincerely,

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

Dr. Peter Hughes CPA  
County Internal Auditor

## DR. PETER HUGHES

County Internal Auditor  
Ph.D., MBA, CPA, CIA, CFE,  
CITP, CCEP

Find us at:  
[www.ocgov.com/audit](http://www.ocgov.com/audit)

E-mail your comments to:  
[peter.hughes@iad.ocgov.com](mailto:peter.hughes@iad.ocgov.com)



## ■ THIS REPORT

The FY 2008/2009 County Internal Auditor's Annual Report to the Board of Supervisors is designed to provide the highlights and audit accomplishments of the audit activities during the past fiscal year. I am please to report we completed a very demanding audit plan.

The governance and accountability that the Board of Supervisors has established continue 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:

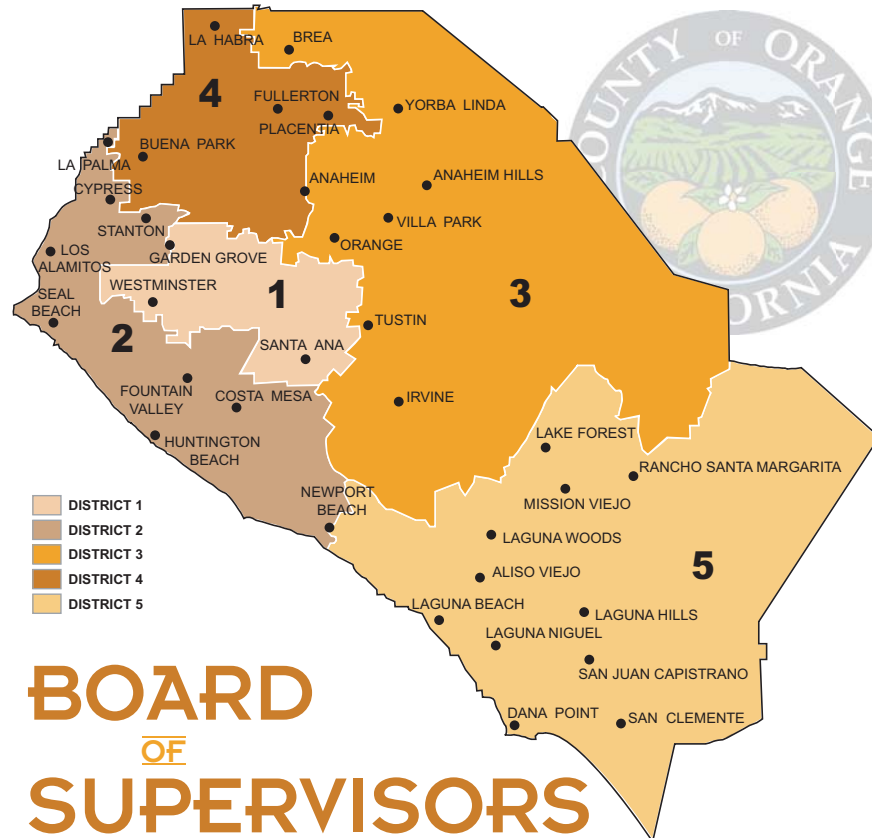
“ Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management,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

The County governmental environment is different from that of a typical commercial organization in a number of ways. Although the size of operations for the County business environment is similar to large commercial firms and our annual budget would place the OC in the *Fortune 500*, the business diversity of the County 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 both 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



Vice 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



Supervisor  
Bill Campbell  
Third District

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



Supervisor  
Chris Norby  
Fourth District

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



Chair  
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

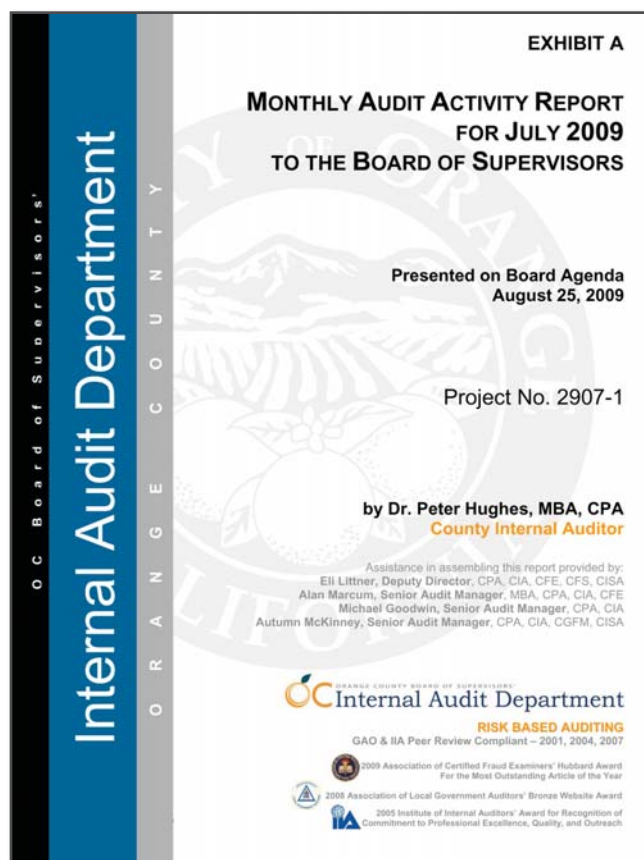
The County Internal Auditor reports directly to the Board of Supervisors which is the highest governing body of the County. This reporting structure is the most prevalent one for the largest Counties and Cities in the US and the one that fully complies with independence standings required by the AICPA, IIA and 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 County Internal Auditor submits to the Board (in public forum) Monthly Audit Activity Reports, which are monthly summaries of all audit reports issued for the prior month. We prepared **12** monthly reports for FY 08-09.

This formal communication to the Board allows for more detailed discussions of audit reports and issues in a 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 findings that were identified in the audits.



#### Monthly Audit Activity Report

## Government

Elected Officials, Citizenship and Voting





# FY 2008/2009 COUNTY INTERNAL AUDITOR'S ANNUAL REPORT

## GOVERNANCE & ACCOUNTABILITY (CONTINUED)

### AUDIT OVERSIGHT COMMITTEE REPORTS

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 08-09 quarterly AOC meetings we prepared a total of **24** reports as follows: *Quarterly Status Report* (4); *External Audit Coverage* (4), *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, variances between budget and actual hours, and milestone comments. The External Audit Coverage reports identify external audits being conducted in the County, as reported to us by the Department/Agencies, and an executive summary which identifies the total audits in progress, planned, and or completed, along with any material issues identified. The Executive Summaries of Audit Assignments provides a Summary of Findings 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+, ATS, and PTMS.

## A G E N D A

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA

Wednesday, May 27, 2009, 1:00 p.m.



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

**Supervisor Patricia Bates**  
Member

**Supervisor Janet Nguyen**  
Member

**David Sundstrom**  
Chairman

**Thomas G. Mauk**  
Member

**Dr. David Carlson**  
Vice Chairman  
Public Member

**Chriss Street**  
Ex-Officio Member (non-voting)

County Internal Auditor  
County Counsel  
Clerk

Dr. Peter Hughes, CPA  
Nicholas Chrisos  
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.

### 1:00 P.M.

1. Roll Call
2. Approve Audit Oversight Committee Minutes of March 25, 2009
3. Receive Status of the Structured Investment Vehicles (SIV) Held in the County's Investment Pool (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)
4. Oral status of Internal Audit Department response to Grand Jury Report, "Guardian of Last Resort"

## AUDIT OVERSIGHT COMMITTEE REPORT AGENDA



Old Orange County Courthouse



ORANGE COUNTY BOARD OF SUPERVISORS

# Internal Audit Department

## GOVERNANCE & ACCOUNTABILITY (CONTINUED)

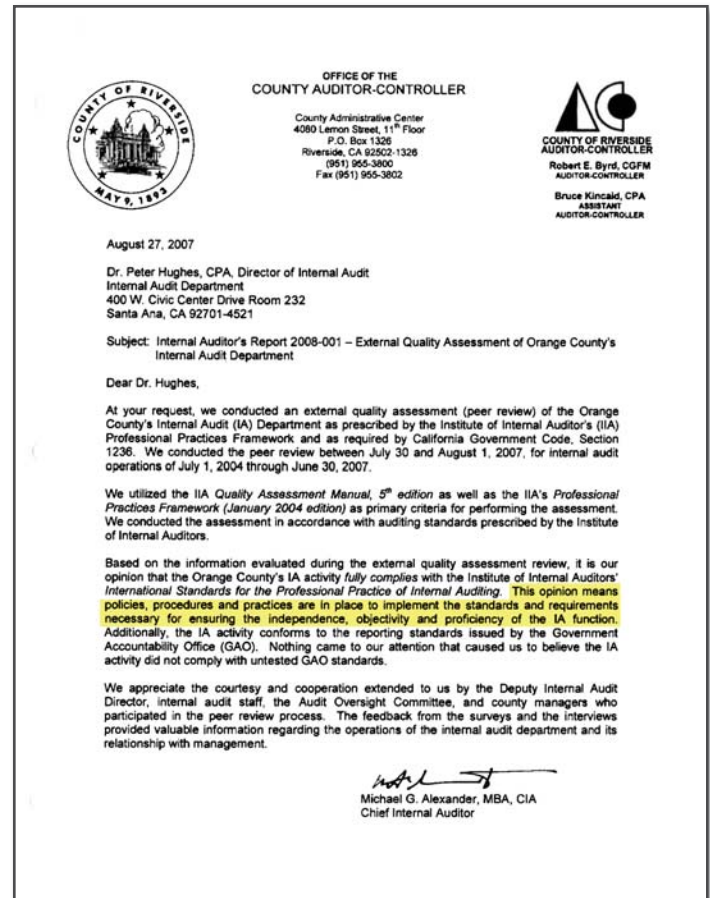
### IIA QUALITY ASSESSMENT & IMPROVEMENT PROGRAM

Have you ever wondered who audits the Orange County Internal Audit Department? 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 audit standards.

The Institute of Internal Auditors (IIA) Standard 1300 requires that the Chief Audit Executive (CAE) develop and maintain a Quality Assessment & Improvement Program (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both internal and external assessments. IIA Standards also requires that the CAE communicate the results of the QAIP to the Board.

The OCIAD internal assessments include the ongoing monitoring of all audits through close supervision and timely review of auditor's work and draft reports, and formal structured reviews from all levels of audit management, including the CAE. Customer Surveys of Audit Services are sent out at the completion of assignments to obtain the client's perspective of the audit. The County Internal Auditor will follow-up with the client when survey results warrant. At year-end we tabulate the results to help identify where improvements can be made. Also, OCIAD performs benchmarking with information obtained by the Association of Local Government Auditors (ALGA). We have identified specific performance indicators and measures that we periodically compare (benchmark) with the results of ALGA's national surveys.

External assessments (Peer Reviews) are done of the OCIAD every three years. In August 2007, the County



### EXTERNAL QUALITY ASSESSMENT (PEER REVIEW)

of Riverside's Internal Audit Division conducted our Peer Review, and in May and September 2004 an external accounting firm conducted our Peer Reviews. In the last nine years the OCIAD has had 4 Peer Reviews and each time the OCIAD received the best ratings possible from the independent Peer Reviewers.

The results of the QAIP are communicated during Quarterly Audit Oversight Committee meetings, within our annual Business Plan, by individual meetings between the County Internal Auditor and Board of Supervisors members, and in our County Internal Auditor's Annual Report.





## FY 2008/2009 COUNTY INTERNAL AUDITOR'S ANNUAL REPORT



### NEWS

#### ORANGE COUNTY GRAND JURY

Date March 25, 2008 700 CIVIC CENTER DRIVE WEST • SANTA ANA, CALIFORNIA 92701 • 714/834-3320  
FAX 714/834-5555

##### BANKRUPTCY CONTROLS – GOING, GOING ...

SANTA ANA, CALIFORNIA - The 2007-2008 Orange County Grand Jury recently released a report regarding Orange County's bankruptcy controls.

The Board of Supervisors recently considered a proposal to return the Internal Audit Department to the Auditor-Controller's office – the same reporting structure held partially responsible for the County's 1994 bankruptcy. The 2007-2008 Grand Jury has concluded that the Orange County's Internal Audit Department (IAD) has the formal independence and procedures to meet both public and private internal audit standards.

The Grand Jury recommends that the Internal Audit Department remain independent and continue to report directly to the Board of Supervisors. The Grand Jury found that the current organizational reporting structure provides maximum auditor independence and reinforces Board accountability for the financial security of the County.

As a result of the bankruptcy, the Board in 1995 took steps to shield the Internal Audit Department from any potential management influence. Organizational independence of the Internal Auditor was established by having the IAD report directly to the Board and not to the Auditor-Controller.

Professional and governmental auditing standards require that internal audit organizations be free from personal, external and organizational impairments to independence in auditing matters. The office of County Counsel has concluded that the Internal Audit Department does not report to any department or office it audits. As such the IAD appears to satisfy the GAO (Government Accountability Office) standards relating to organizational independence.

The Grand Jury also recommends that the Board of Supervisors add additional members to the Audit Oversight Committee representing primary stakeholders in the County Treasury, such as one appointed by the Orange County Board of Education to represent school districts and one appointed by the Orange County League of Cities to represent cities.

The failure of the audit function in 1994 contributed to a disaster which cost the taxpayers of Orange County hundreds of millions of dollars. This tragedy may not have occurred had there been and independent system of organizational checks and balances over Treasury operations. The structure of Orange County government, prior to the Chapter 9 filing in December 1994, failed to provide the warning signs necessary to protect the County's solvency. We ignore the lessons learned from the bankruptcy at our own peril. The recent push to re-establish the audit structure existing prior to 1994 is unnecessary, untimely and unwise. The Internal Audit Department serves Orange County well and should not be tampered with.

For a full version of this report, as well as others, visit the Grand Jury website at [www.ocgrandjury.org](http://www.ocgrandjury.org) or call (714) 834-3320.

2007-2008 ORANGE COUNTY GRAND JURY  
  
Ann Avery Andres, Foreman

Become a part of the Grand Jury process, call (714) 834-6747 for information and an application.

## GOVERNANCE & ACCOUNTABILITY (CONTINUED)

### GRAND JURY REPORT

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.

Each county is required by law to impanel a body of 23 or 19 members, 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 as each year 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.

## GRAND JURY REPORT





ORANGE COUNTY BOARD OF SUPERVISORS

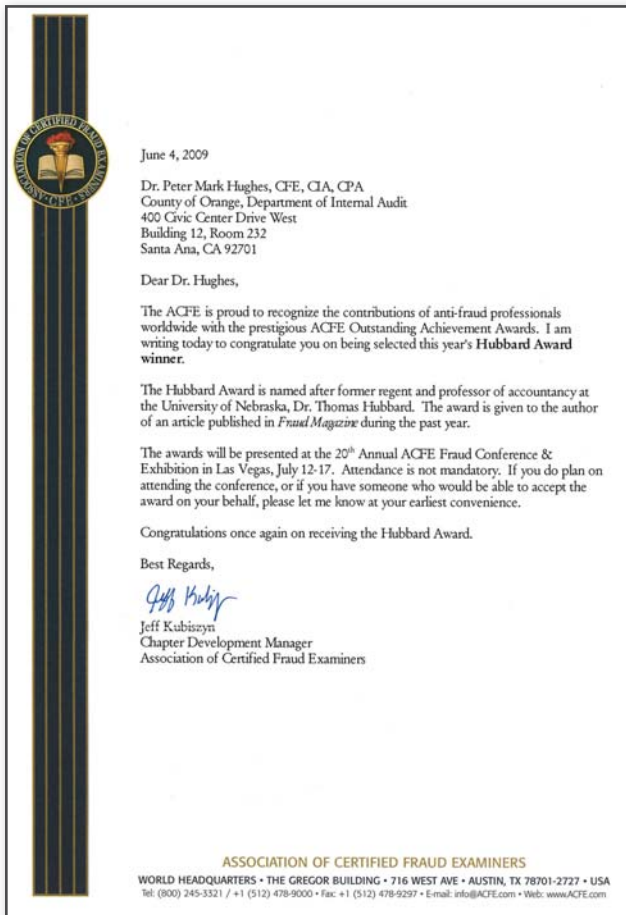
# Internal Audit Department

## INTERNAL AUDIT NOTEWORTHY NEWS

### DR. PETER HUGHES, CFE, CPA RECIPIENT OF THE PRESTIGIOUS ACFE OUTSTANDING ACHIEVEMENT AWARD – HUBBARD AWARD MOST POPULAR ARTICLE OF THE YEAR



The ACFE is proud to recognize 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.



The Hubbard Award is named after former regent and professor of accountancy at the University of Nebraska, Dr. Thomas Hubbard. The award is given to the favored author of an article published in Fraud Magazine during the past year (2008).

The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Together with nearly 50,000 members, the ACFE is reducing business fraud worldwide and inspiring public confidence in the integrity and objectivity within the profession.

The articles published in the Fraud Magazine are directed at a wide range of professionals globally who have an interest in white-collar crime, including fraud examiners, internal auditors, forensic accountants, loss prevention professionals, investigators, law enforcement officials, financial officers and academicians.

The award winning article was published in the 2008 July/August Edition of the Fraud Magazine, "Ethics Programs: Ethics Pays in So Many Ways." Dr. Peter Hughes, Dr. Mary Kaidonis and Dr. Urton Anderson present that sound ethics programs do strongly influence the decisions of consumers, prospective employees, and investors which give the company measurable bottom-line advantages in the marketplace.

The ACFE Outstanding Achievement Award – 2009 Hubbard Award was presented at the 20th Annual International ACFE Fraud Conference & Exhibition on July 14, 2009.

### 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 (<http://www.ocgov.com/audit>). ALGA is a national association dedicated to promoting and advancing the audit profession, and as part of this effort ALGA presents audit awards to various governmental audit departments for their achievements in governmental auditing.



### IN 2005

The Internal Audit Department has 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 on July 12, 2005.







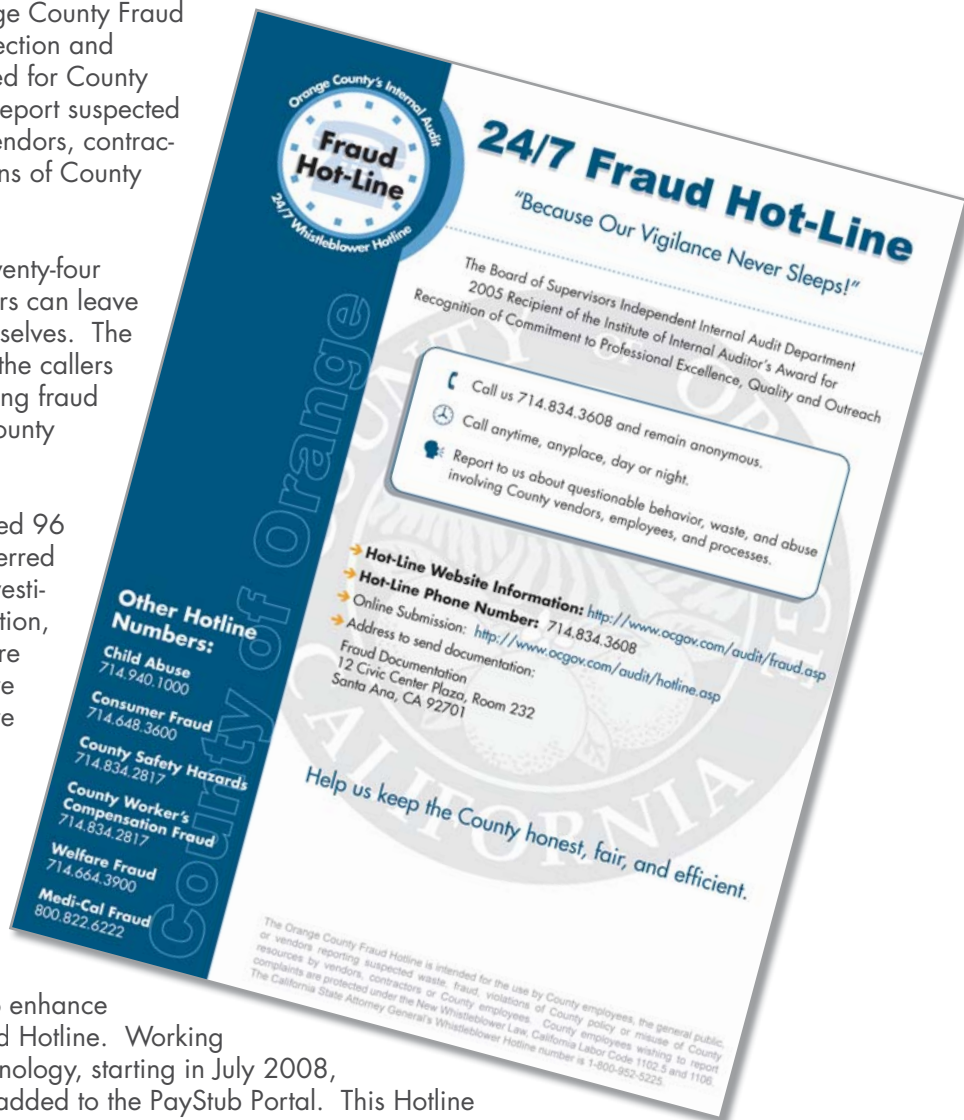
## FRAUD HOTLINE

The IAD 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 fraud incidents that are not handled by the County Fraud Hotline such as Welfare Fraud.

In Fiscal Year 2008/2009, we processed 96 Hotline incidents: 34 incidents were referred to County departments/agencies for investigation and 8 for their discretion and action, 27 incidents were referred to the Welfare Fraud Hotline for investigations, 21 were referred to outside agencies, and 6 were closed due to insufficient information/other to investigate. To date, four of the 34 incidents referred to County departments/agencies for investigation remain open.

**Hotline Enhancements:** In Fiscal Year 2007-2008 we suggested ways to enhance the visibility of the existence of the Fraud Hotline. Working with Auditor-Controller Information Technology, starting in July 2008, the following Fraud Hotline notice was added to the PayStub Portal. This Hotline notice appears for all 18,000 plus County employees every time they view their pay checks (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.

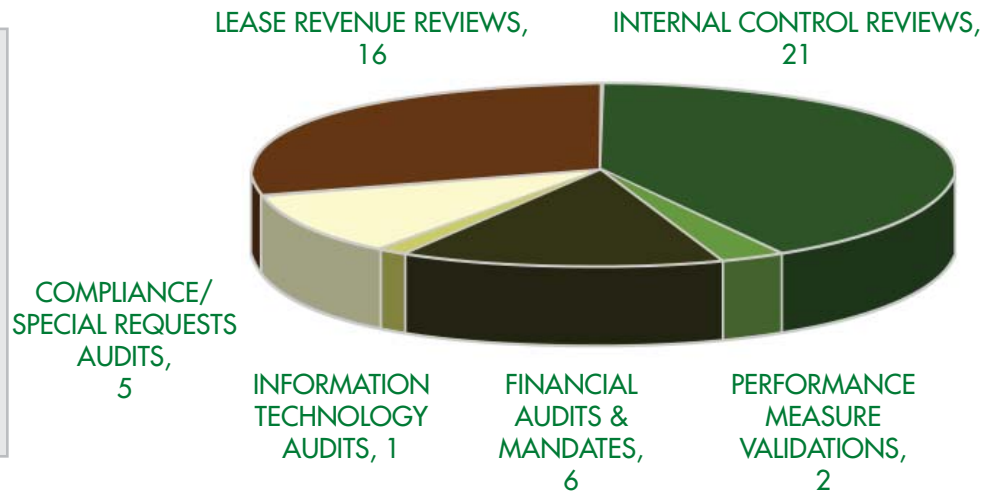




## ■ FY 2008/2009 DETAILED ACCOMPLISHMENTS

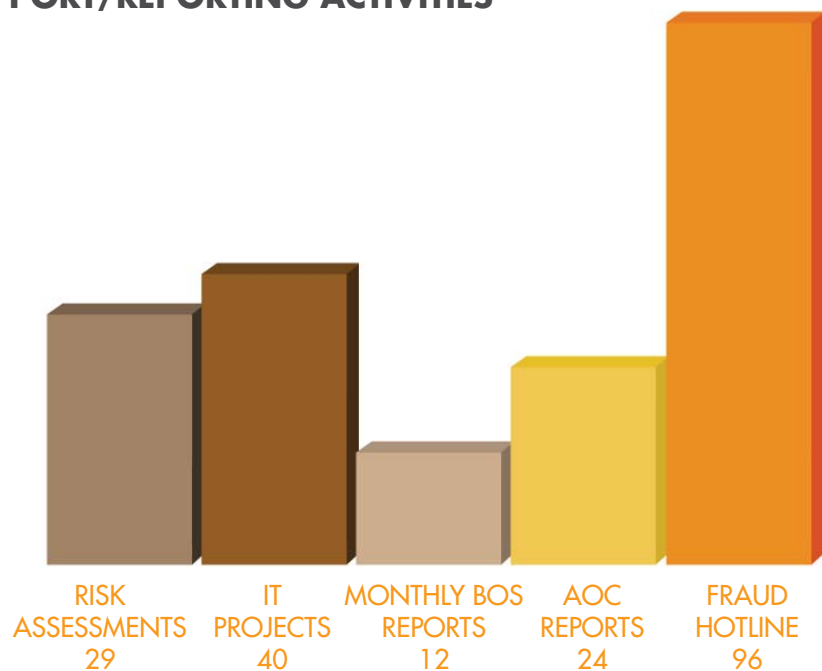
### 51 AUDITS COMPLETED

Our "Audits Completed" count represents the completed audits from the FY 2008-09 Audit Plan, which was developed based upon our annual Risk Assessment and approved by the Audit Oversight Committee.



### 201 SUPPORT/REPORTING ACTIVITIES

Our "Activities Completed" represents various reports and projects generated for purposes of planning, risk assessment, fraud hotline management, performing computerized auditing routines, and preparing reports to the Board of Supervisors and Audit Oversight Committee for governance and accountability over the Internal Audit function.





### ■ COUNTYWIDE RISK ASSESSMENT

**We completed 29 Risk Assessments.** Internal Audit 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 & 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 as to 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 08/09, we completed risk assessments for all twenty-three (23) departments/agencies, five (5) Board Offices, and one (1) comprehensive risk assessment for Information Technology.**



### ■ AUDIT ALERT - HIGH IMPACT AUDITS

In response to the Board of Supervisors request to bring to their attention audit issues on urgent matters, the Internal Audit Department began issuing Audit Alerts in 2008 and continues 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 and highlight significant audit 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 6 Audit Alerts and in 2008/2009 we issued 3 Audit Alerts for a total of 9 Audit Alerts issued since 2008. These High Impact Audit Issues are presented to the Board through the Monthly Audit Activity Reports.

### ■ COMPLIANCE/SPECIAL REQUEST AUDITS

**We completed 5 special requests.** During FY 2008-2009, Internal Audit performed the following compliance/special request audits resulting from the Board of Supervisors and/or the Audit Oversight Committee:

**1. Internal Audit Reporting Models for Large U.S. Counties and Cities by Population – Update #1 (Audit No. 2807-4).** At the request of the Audit Oversight Committee, we identified 5 different internal audit reporting models used by the 34 largest U.S. counties and cities by population. Orange

County's Internal Audit Department reporting model is the most widely used throughout the U.S. in large counties and cities. A combined average of 53% of the 34 largest U.S. Counties (17) and Cities (17) based on population, including Orange County, share the Orange County model (Model 1). This means that the Internal Auditor is an appointed position that reports to the elected Board of Supervisors/City Council and performs no management or accounting duties. This reporting model ensures the Internal Auditor's independence.



## COMPLIANCE/SPECIAL REQUEST AUDITS (CONTINUED)

**2. Analysis of the Savings from the Health Insurance Change as Part of the New Retirement Cost Offset** (Audit No. 2807-3), dated September 5, 2008. On May 20, 2008, the Board of Supervisors directed the Internal Audit Department to provide a more detailed analysis of the savings realized from the health insurance changes as part of the new retirement cost offset. The County actually experienced cost savings of \$16 million and therefore \$16 million of savings was applied on a pro-rata basis to all participating labor organizations based on their medical cost.

**3. Report on Review of Contractual Terms Related to the "Profit and Loss Statements" of Two Vendors Utilized by HCA to Provide Inmate Medical Services** (Audit No. 2807-11), dated May 1, 2009. The Board of Supervisors directed the Internal Audit department to review the contractual terms of the two vendors as related to the "Profit and Loss Statement" findings raised by the Office of Performance Audit Director in its audit of HCA/Correctional Medical Services. We conclude that both contracts are "fixed fee" contracts that were designed by HCA to effectively transfer the risk of potential case load and cost escalations for inmate medical care to the vendors instead of to the County. These fixed fee contracts require the vendors to assume in all material regards the risk of unforeseen escalations in utilization and medical severity and the corresponding cost increases. Moreover, the contract contains no penalties with regard to submission of the vendors' profit and loss statements.

**4. Compliance Audit of Board's Audit Oversight Committee.** (Audit No. 2807-13), dated June 23, 2009; revised July 23, 2009. For calendar years 2007–2008, we reviewed the extent that the AOC is complying with its duties and responsibilities and compared their duties and responsibilities to the practices identified and recommended as "best practices" and/or "good ideas" for consideration by the Association of Government Auditors (AGA) and the Government Finance Officers Association (GFOA). This was reported on March 27, 2009 to the Audit Oversight Committee for discussion and subsequent action to be taken. Currently, we are awaiting the AOC's final response prior to release of the report.

**5. Analysis of Sheriff-Coroner Disallowed POST Costs.** At the September 17, 2008 Audit Oversight Committee meeting, we were asked to provide the status on the disallowance of approximately \$114,000 out of \$308,570 of claimed costs by Sheriff-Coroner personnel for Peace Officer Standards and Training (POST). On December 11, 2008, we provided our written feedback to the AOC indicating that the Sheriff-Coroner took appropriate corrective action to improve POST claim submissions.

## INTERNAL CONTROL AUDITS

**We completed 4 Audits.** Internal Control Audits (ICAs) determine whether controls and processes are in place over critical business processes, which include an evaluation of the adequacy and integrity of internal controls; compliance with department and County policies; and evidence of process efficiencies and effectiveness. Some of the ICAs include audits of multiple areas, issues and activities. For example, one audit report may address contract administration and related contract payments. Our audit count is based on the number of audit reports issued for each audit assignment. We performed the following ICAs during 2008-09:

**1. CEO/Information Technology Contract Administration and Payments** – 1 audit completed. We audited controls over contract administration and payments in CEO/IT where they administered 387 contracts totaling \$109 million and disbursed over \$17 million in contract payments.

**2. OC Dana Point Harbor Department Contract Administration and Payments** – 1 audit completed. We audited controls over the administration and payments

for the Harbor Revitalization Plan that included \$11.6 million in contracts and \$1.2 million in contract payments.

**3. OC Public Works/Transportation Interdepartmental Billing Process** – 1 audit completed. We audited controls over the interdepartmental billing process and Flagship Billing System where Transportation billed County departments and agencies over \$22 million for services provided such as asset management, parts labor, fuel, vehicle pool rental and depreciation costs.





## FY 2008/2009 COUNTY INTERNAL AUDITOR'S ANNUAL REPORT

**4. Probation Department Title IV-E Claims Process** - 1 audit completed. We assessed controls and compliance over the Probation Department's Title IV-E Foster Care Program claiming process where there were \$16 million in administrative costs incurred and claimed reimbursements totaling \$6 million.

**5. Follow-Up Audits** - 17 Follow-Up Audits completed. Follow-Up Audits are necessary to ensure that audit recommendations are implemented satisfactorily. We perform our First Follow-Up Audit six months from the date of the original audit report. If any items are not fully implemented, a Second Follow-Up Audit is conducted 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; CEO/Public Finance Accounting; CEO/Purchasing; Purchasing Card Administration and Sole Source Contract Policy; Clerk-Recorder Cash Receipts; OCCR – Housing Choice Voucher Payments, OC Public Works Contract Administration; Probation Bi-Weekly Payroll; Sheriff-Coroner Revolving Funds, Travel Expenditures and Contracts; and Treasurer-Tax Collector Interest Apportionment.**

## ■ PERFORMANCE MEASURE VALIDATIONS

**Completed 2 Audits.** In 2005 we added a new audit area called Performance Measure Validation Audits (PMVs) to our Audit Plan. These audits validated the performance measure results reported by County departments in their annual business plans. An example of performance measures tested include such measures as the County Counsel – percentage of clients rating litigation support as satisfactory or better in terms of quality and responsiveness. Since 2005, we completed PMVs and subsequent Follow-Up Audits in **15 of 22 County Departments/Agencies.** For FY 2008/09, we completed 2 PMV Follow-Up Audits in the Human Resources Department and County Counsel.



## ■ FINANCIAL AUDITS & MANDATES (FAM)

**Completed 6 Audits.** In these audits we determined that the financial statements are fairly stated in accordance with applicable professional standards, financial statements are supported by sound internal controls, and that the 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 by 6/30/09, all financial and mandated audits listed in the 2008/2009 Audit Plan on schedule as follows:

- District Attorney Auto Insurance Fraud Grant audit.
- District Attorney Workers' Compensation Fraud Grant audit.
- District Attorney Spousal Abuser Prosecution Grant audit.
- District Attorney Health & Disability Insurance Fraud Grant audit.
- Tax Redemption Audit – 3 years ending 6/30/08
- Follow-Up Audit of Cost Allocations for OCEA Pension Enhancements



## ■ INFORMATION TECHNOLOGY (IT) AUDITS

**We completed 1 audit and 40 projects in this category as listed below.** In these assignments, 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 08-09:

### 1. CAPS+ Implementation Assistance – Financial/Purchasing System Phase 1:

We completed 2 projects as described below:

- **CAPS+ Audit Alert No. 3 – Capital Assets:** We issued CAPS+ Audit Alert No. 3 that provided feedback on the internal controls contained in the CAPS+ Capital Assets documentation. Our review focused on the internal control areas of segregation of duties, reviews and approvals, audit trails, and key account reconciliations.
- **CAPS+ Audit Alert No. 4 – Cost Accounting:** We issued CAPS+ Audit Alert No. 4 that provided feedback on the internal controls contained in the CAPS+ Cost Accounting documentation. Our review focused on the internal control areas of segregation of duties, reviews and approvals, audit trails, and key account reconciliations.

### 2. PTMS Implementation Assistance:

We completed 1 project as described below:

- **PTMS Audit Alert No. 2:** We issued PTMS Audit Alert No. 2 that provided interim feedback on the internal controls contained in the PTMS system requirements and implementation plan documents.

### 3. CAPS+ Implementation Assistance – Human Resources/Payroll System:

We completed 1 project as described below:

- **Developed MOU:** We developed a written MOU establishing Internal Audit's role on the CAPS+ HR/Payroll Implementation Project that was accepted by the CAPS Steering Committee on June 11, 2009. Our role is to review and provide feedback on the various Internal Control Plans, Policies, and Procedures developed by the Project Implementation Team to ensure processes contain appropriate internal controls. The focus of our reviews will be in four areas: proper segregation of duties; appropriate reviews and approvals; audits trails related to protection of source documents and recording of reviews and approvals; and sound account reconciliations.

**4. IT Component of ICR:** Occasionally, the Internal Control Reviews (ICRs) may include a review of selected IT controls. We completed 1 ICR with an IT component as described below:

- **IT Component of ICR – OCPW Transportation Billing (Audit No. 2847):** We audited controls over the interdepartmental billing process and Flagship Billing System where Transportation billed County departments and agencies over **\$22 million** for services provided such as asset management, parts labor, fuel, vehicle pool rental and depreciation costs (See Audit No. 2823). The IT portion of the audit consisted of a review of 1) high-level IT general controls for OCPW as related to the Flagship Billing System and 2) user access to rates and account codes in the Flagship Billing System and the Fleet Focus System.



## FY 2008/2009 COUNTY INTERNAL AUDITOR'S ANNUAL REPORT

### 5. Computer Assisted Audit Techniques (CAATs):

We completed 36 projects in this category. 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 perform the following CAAT routines on a regular basis:

- **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 \$811,418 and amounts recovered are \$793,358, for a recovery rate of about 98%.
- **Employee/Vendor Address Match:** We performed 1 CAAT routine 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.
- **Direct Deposits:** We performed 7 CAAT routines to identify multiple employee paychecks directly deposited to the same bank account, which could be an indicator of inappropriate payments.

#### **BEST PRACTICE BY OC IAD**

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

- **Working Retirees/Extra-Help Hours:** We performed 1 review of available working retiree activity reports to identify retirees who exceed extra-help hour limits for FY 07-08.
- **Deleted Vendors:** We performed 12 monthly CAAT routines to identify vendors deleted or removed from the Vendor Master List.
- **High Dollar Payments:** We performed 1 CAAT routine to produce statistics and stratify the payment (invoice) file to identify large and unusual payments when compared to the population.
- **Data Validation:** We performed several CAAT routines (counted as 1 project) to identify missing or invalid data in certain payment and vendor files used in other various CAAT routines. We analyzed specific data fields including bank account, check number, check amount, voucher date, check date, report date, preparer ID, and vendor tax ID.
- **Annual Risk Assessment:** We performed several CAAT routines (counted 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).



"The Wedge" Newport Beach  
William Nelson, Sheriff/Harbor Patrol





## ■ REVIEWS OF LEASE REVENUE - \$424 MILLION

The importance of the lease audits is underscored by the fact that in over a decade, the 10 lease/concession agreements we audited in FY 08-09 will generate about \$424 million in revenue to the County.

**We completed a total of 16 audits in this category as listed below.**

**We completed 10 Reviews of Lease Revenue as listed below.** In these reviews, 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 Department (DPHD), OC Public Works (OCPW), and OC Parks.

The below lease/license/operating agreements generate approximately \$67.7 million annual gross receipts and **\$42.4 million** annual revenue to the County. The overarching purpose of the audits is to provide independent assurance that the revenue due the County is received in accord with the agreements. As a result of this "due diligence," we identified approximately \$55,119 in additional revenue and audit costs owed for the below 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.

- JWA/Parking Concepts Inc.
- JWA/Caterina's
- JWA/Host International
- JWA/JC Decaux
- DPHD/Dana Point Yacht Club
- OCPW/Bella's Kitchen
- OC Parks/Mile Square Golf Course
- OC Parks/California Junior Lifeguard Programs – Sunset Beach
- OC Parks/California Junior Lifeguard Programs – Salt Creek Beach
- OC Parks/RM Fisheries

### **Follow-Up Audits for Reviews of Lease Revenue:**

We completed 5 First Follow-Up Audits and 1 Second Follow-Up Audits as listed below:

#### **First Follow-Up Audits:**

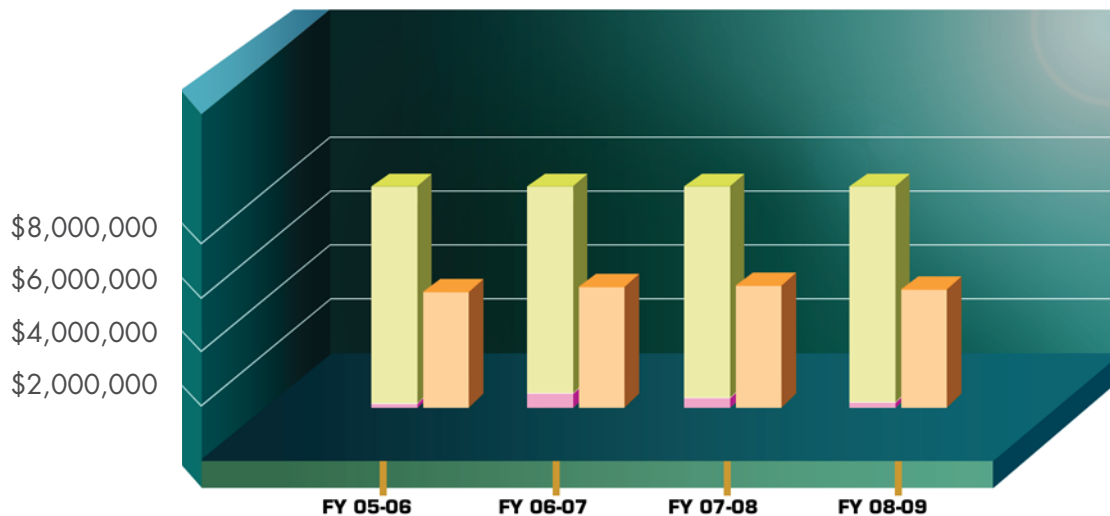
- JWA/Creative Croissants
- JWA/GAT Airline Ground Support
- OCPW/River View Golf Course
- OC Parks/David L. Baker Golf Course
- OC Parks/Sunset Aquatic Marina

#### **Second Follow-Up Audits:**

- OCPW/Parking Concepts Inc.



## ■ ACTUAL AND POTENTIAL REVENUE RECOVERY



Dana Point Harbor Audit Added Revenue (2)	\$6,250,000	\$6,250,000	\$6,250,000	\$6,250,000
Other IAD Revenue Recoveries (1)	\$103,557	\$400,381	\$290,909	\$136,594
IAD Budget	\$2,634,701	\$2,940,767	\$2,973,741	\$2,916,012

(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 **8.1%** of our annual budget excluding OC Dana Point Harbor, and over 200% including OC Dana Point Harbor.

### OC DANA POINT HARBOR

(2) Our greatest accomplishment to date has been the Board of Supervisor's 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 taxpayers.



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

# 4.7 on a scale of 5

Client satisfaction is also one of Internal Audit's Key Performance Measures in its Annual Business Plan. Our goal for FY 2008/09 was to obtain an average client satisfaction rating of "4" on a scale of 1 through 5. We are pleased to report our actual results for FY 2008/09 showed an average rating of 4.7, which demonstrates high client satisfaction with 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 2008/2009 Customer Surveys:

"We particularly appreciate the collaborative manner in which this audit was handled. This thorough review facilitated greater understanding of the Lessee's operations and the improvement of the Lessee's financial report to OC Dana Point Harbor." - **OC Dana Point Harbor**

"We appreciate our solid working relationship with Internal Audit." - **County Executive Office**

"We appreciate the auditors' courtesy and professionalism extended during their field audit. Thank you!" - **District Attorney Financial Services**

"Staff was very professional and reasonable. It is always helpful to have auditor's familiar with the audit." - **Treasurer-Tax Collector's Office**

"Thanks for your assistance during the audit process; the staff was very helpful." - **OCPW/OC Facilities**

"The audit was helpful in augmenting processes used by OCSD Facilities Planning in support of Design agreements." - **OC Sheriff Department, Research & Development Division**





# AUDIT RECOMMENDATIONS

The Internal Audit Department tracks all audit recommendations made as of January 2003, including counts of audit recommendations, types of recommendations (e.g., material 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 on.

## OUTCOME

### 2008-2009 Results

- **Recommendations Made: 95** recommendations were made in FY 2008/2009.
- **Types of Recommendations:** Of the 95 recommendations made during FY 2008/2009, we identified **2 Significant Issues** and **93 Control Findings** including Compliance Issues and Efficiency or Effectiveness Issues.
- **Management Concurrence:** For each audit recommendation, management submits responses to Internal Audit that includes their concurrence of audit findings and recommendations, implementation plans, and implementation dates. **OF THE 95 RECOMMENDATIONS MADE DURING FY 2008/2009, 95 (100%) HAD FULL 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 2008/2009.

### Since 2003

#### Recommendations Made:

Between January 2003 and June 2009, Internal Audit made **1,011** audit recommendations.

#### Type of Recommendations:

There was **1** Material Weakness (**.1%**), **43** Significant Issues (**4.3%**), and **967** Control Findings including Compliance Issues or Efficiency/Effectiveness Issues (**95.6%**).

#### Management Acceptance/Concurrence:

**OF THE TOTAL 1,011 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 827 audit recommendations. **OF THE 827 RECOMMENDATIONS, 100% WERE VERIFIED AS FULLY IMPLEMENTED AND/OR CLOSED AS FOLLOWS:**

- **738** recommendations (**89%**) were implemented or closed by the First Follow-Up Audit.
- **86** recommendations (**10%**) were implemented or closed by the Second Follow-Up Audit.
- **3** recommendations (**1%**) were pending implementation or not followed up due to extenuating circumstances.

**INTERNAL AUDIT DEPARTMENT PROFESSIONAL STAFF**

County Internal Auditor, Dr. Peter Hughes, Ph.D., MBA, **CPA**, CIA, CFE, 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, CISA, CCSA  
Audit Manager, Camille Gackstetter, **CPA**  
Audit Manager, Winnie Y. Keung, **CPA**, CIA  
Audit Manager, Carol L. Swe, **CPA**, CIA, CISA, CCSA  
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, Maribel Garcia

**CERTIFICATION LEGEND**

**CPA**  
Certified Public  
Accountant

**CIA**  
Certified Internal  
Auditor

**CCSA**  
Certification in Control  
Self-Assessment

**CISA**  
Certified Information  
Systems Auditor

**CFE**  
Certified Fraud  
Examiner

**CICA**  
Certified Internal  
Controls Auditor

**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 2008/2009, one auditor received their Certified Information Systems Auditor (CISA) certification and Certified Fraud Specialist (CFS) certification, and one auditor received their Certified Fraud Examiner (CFE) certification.

**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 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 20 and related professional associations on pages 22 and 23.

## 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 County Internal Auditor 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.

The IAD is the only large county in the USA whose audit staff have the combination of 100% CPA's: 87% possessing double certifications and 53% of staff with triple certifications.



## ■ PROFESSIONAL ORGANIZATIONS



### CALIFORNIA BOARD OF ACCOUNTANCY

The Internal Audit Department has the privilege of staffing **15** Certified Public Accountants (CPAs) under the State of California and follows the guidelines of the (AICPA) American Institute of Certified Public Accountants.



### 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 **3** staff earned the Certification in Control Self-Assessment (CCSA). In July of 2009, Dr. Peter Hughes presented a Professional Standards Update to the San Diego Chapter of the IIA.



### 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 2008-2009.



### ASSOCIATION OF LOCAL GOVERNMENT AUDITORS (ALGA)

The Internal Audit Department also 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 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, County Internal Auditor, 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*.





## FY 2008/2009 COUNTY INTERNAL AUDITOR'S ANNUAL REPORT

### ASSOCIATION OF CERTIFIED FRAUD SPECIALISTS (ACFS)

The Internal Audit Department has 2 staff members that are a Certified Fraud Specialists. Dr. Peter Hughes, County Internal Auditor, co-authored a five page article titled "Ethics Programs" that was published in the ACFS Fraud Magazine for July/August 2008. He was also a featured speaker at the ACFS 8th Annual National Fraud Conference in San Diego, CA in August 2007.



### SOCIETY OF CORPORATE COMPLIANCE AND ETHICS (SCCE)

The Internal Audit Department has 1 staff member that is a Certified Compliance and Ethics Professional (CCEP). Dr. Peter Hughes, County Internal Auditor, was a speaker at the International Compliance & Ethics Institute in New Orleans, LA in September 2007.



### GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA)

Dr. Peter Hughes was a guest speaker at the GFOA 101st Annual National Conference in Anaheim, CA in June 2007. Several of our staff are members of this organization.



### CALIFORNIA COUNTIES AUDIT CHIEFS' COMMITTEE

Dr. Peter Hughes, County Internal Auditor, was a speaker at the Southern California training in Ontario, CA in May 2008 and also was a guest speaker in Sacramento, CA in April 2009.

### FEDERAL ETHICS REPORT

Dr. Peter Hughes, County Internal Auditor, authored a six page article titled "Ethics Pays" that was published as the cover page article in the CCH Federal Ethics Report in February 2008.

### FEDERAL ETHICS REPORT

Dr. Peter Hughes was a guest speaker for the Newport Beach Chapter of *Leadership Tomorrow* on May 21, 2009 at the Newport Beach Central Library. His presentation was entitled *Ethics in Government Oversight*. Dr. Hughes has been asked to return to this group to make another presentation in September 2009. The presentation title is *The Role of Ethics in Today's Society*. This organization's program is designed to provide class members with monthly workshops to hear presentations and participate in panel discussions and other activities with local leaders and experts.





## ■ THE YEAR AHEAD

### Approval of FY 2009-10 Audit Plan and Risk Assessment

On May 27, 2009, the Audit Oversight Committee (AOC) approved the FY 2009-10 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 IAD's Quarterly Status Report and approved by the AOC.

### Board of Supervisors and AOC Request for Audits

The 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 County Internal Auditor reserves the right to determine how to best fit the Board and AOC directed reviews into the Audit Plan.

### FY 2009-10 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:

- ▶ **County Wire Transfers/Electronic Fund Transfers**
- ▶ **Sheriff-Coroner Payroll**
- ▶ **OC Public Works Payroll**
- ▶ **CEO/Risk Management Cash Disbursements**
- ▶ **Health Care Agency Medical Billing Process**
- ▶ **Countywide Fee Development Processes**
- ▶ **Public Administrator/Public Guardian Case Management**
- ▶ **Tobacco Settlement Revenues**
- ▶ **Employee Layoff Assessments**

#### ■ Information Technology

Internal Audit will review the adequacy of internal controls in the **CAPS+ Implementation – Human Resources/Payroll** and the **CAPS+ Implementation – Financial System Phase 2 (Year End Close)**. 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:

- ▶ **Treasurer-Tax Collector Compliance with Payment Card Industry**
- ▶ **Auditor-Controller's CAPS+ User Access Administration**
- ▶ **CEO/Information Technology**
- ▶ **HCA Medical Billing – IRIS/Cerner System**
- ▶ **PA/PG ePages Upgrade**

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

#### ■ Financial Audits & Mandates

In addition to our 3 **District Attorney Grant Audits**, we will conduct audits of **Countywide Pension Practices – "Pension Spiking"**; **CEO/Public Finance – Debt Service Bond Reserves and Treasurer-Tax Collector – Audit of Administrative & Budget Practices**.

#### ■ 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 6 leases audits scheduled this year have **combined annual revenue to the County of approximately \$3 million**.





## 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.

[www.ocgov.com/audit](http://www.ocgov.com/audit)

# Internal Audit Department

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



Courtesy of OC Parks

## ► **WEBSITE**

Visit us online: Go to [www.ocgov.com/audit](http://www.ocgov.com/audit)

## ► **MAIL**

Contact us by mail at:  
12 Civic Center Plaza  
Room 232  
Santa Ana, California 92701-4521

## ► **PHONE**

Contact us by phone at:  
(714) 834-5475

## ► **FAX**

(714) 834-2880

## ► **OCIAD'S FRAUD HOTLINE**

Countywide Fraud Hotline number:  
(714) 834-3608