

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, 2012**  
**DR. PETER HUGHES, CPA, CIA, CFE**

Craig Regional Park –  
• Courtesy of OC Parks



# OF ORANGE

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### ON THE COVER

The image on the front cover is of Craig Regional Park. The image on the back cover is from Carbon Canyon Regional Park. Both parks are representative of the Fourth District and are provided courtesy of OC Community Resources/OC Parks. We appreciate the continued support of OCCCR/OC Parks in providing images for our annual reports each year of the beautiful resources available throughout the County of Orange.

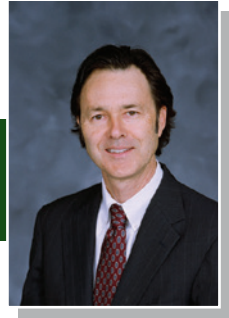
### SPECIAL THANKS

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. The professional support services we received from the eGov team helped us win the 2008 Bronze Website Award from the Association of Local Government Auditors.



## A Message from

## THE DIRECTOR OF INTERNAL AUDIT



Greetings,

We've had another productive year. We provided audit coverage, presence or services to **19 of 22 (86%) departments and agencies**. We completed **40 audits** consisting of **29** financial, internal control, lease, and information technology audits; **3** Control Self-Assessments & Process Improvements; and **8** special request audits directed by the Board of Supervisors (BOS) and Audit Oversight Committee (AOC.) We also completed **290 additional audit projects and activities** consisting of IT projects; fraud hotline alerts; risk analysis; technical assistance to County departments/agencies; cash losses; and other status and accountability reports to the BOS and AOC.

The **290** audit projects and activities noted above include **40** quarterly and monthly reports to the Board and AOC and **1** Internal Auditor's Annual Report that gives 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 which provides countywide coverage; and internal control assistance provided to new system implementations.

We performed our annual **Risk Assessment** in 22 departments and agencies, and a comprehensive, countywide risk assessment for IT resulting in **2** risk assessments. We monitored **8** Cash Losses reported to the Auditor-Controller for consideration in our internal control audits. We provided **9** Technical Assistance Projects to departments/agencies. We received **182** Fraud Hotline allegations and issued a Summary Report of Hotline Activities to the BOS and AOC.

This year we completed a demanding audit plan that included the Sheriff-Coroner Law Enforcement Service Contract Cost Study, where we determined that the proposed law enforcement service contracts valued at over \$110 million with the twelve Orange County cities did fully and properly recovered their costs, including the City of Yorba Linda's contract for services beginning in Fiscal Year 2012-13. We also conducted an Annual

Compliance Audit of Treasurer-Tax Collector to ensure compliance in investment practices with California Government Code requirements for a portfolio of over \$7 billion in investments.

We finished several audits of "core business processes" involving Grants (District Attorney); Cash Disbursements (OC Community Resources); County Fee Generating Revenue (OC Public Works), Lease-Generated Revenue (including contracted parking operations at the County's parks and JWA); and Revolving Funds/Travel Cash Advances (Social Services Agency). We provided IT Internal Controls Assistance to major systems implementations including CAPS+ Human Resources/Payroll System and the Property Tax Management System (PTMS). We also facilitated five Control Self-Assessment & Process Improvement workshops (two in Public Administrator/Public Guardian and three in the Human Resources Department).

Our audit coverage is designed to provide a presence in all county departments on a rotational basis. We target the higher risk areas identified in our annual risk assessment. Our audit coverage is broad and diverse in that it includes financial audits, information technology audits, internal control audits, compliance audits and revenue audits.

As in past years, we received full support and cooperation from all levels in County personnel and management in facilitating our audits and promptly addressing our audit concerns. It has been my pleasure to be of service to the OC Board of Supervisors in the County of Orange.

Sincerely,

Dr. Peter Hughes, CPA  
Director of Internal Audit

### DR. PETER HUGHES

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

■ 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

This Internal Auditor's Annual Report to the O.C. 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 in FY 11-12.

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 Orange County in the Fortune 500. Orange County is the 6th largest county in the 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 25 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.

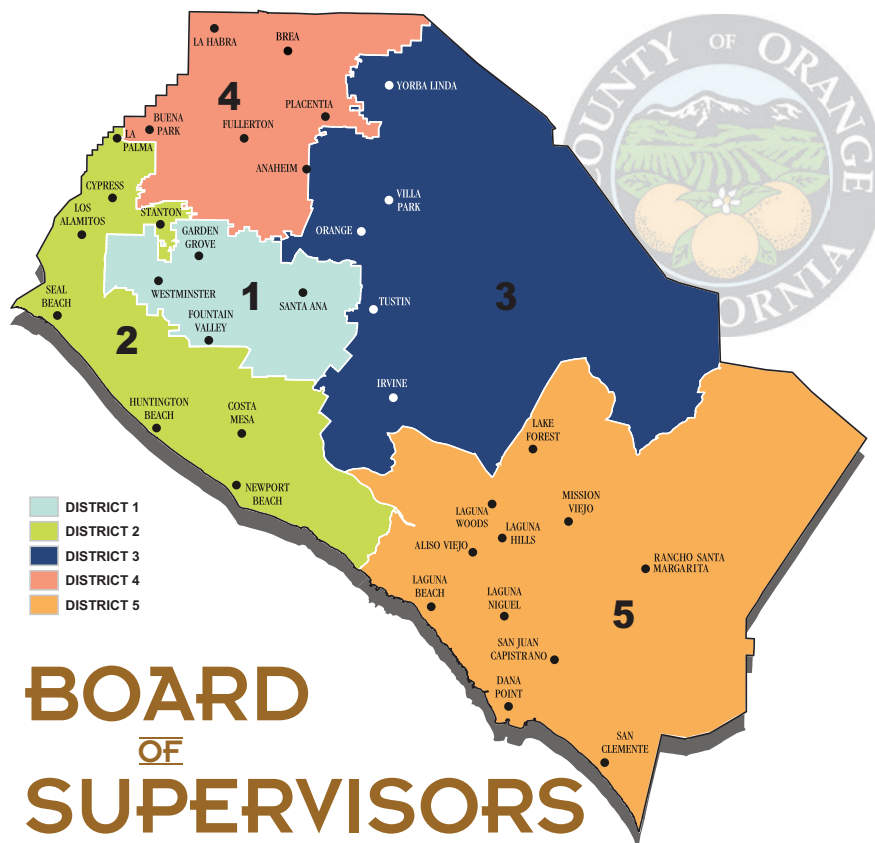
**An important factor as to why the IAD functions so well is our organizational independence from the business units we audit within the County.**



## FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT



### MEET OC'S BOARD OF SUPERVISORS



## BOARD OF SUPERVISORS



**Supervisor  
Janet Nguyen**  
First District

Fountain Valley (portions of), Garden Grove, Santa Ana, Westminster



**Supervisor  
John M. W. Moorlach**  
Second District

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



**Supervisor  
Todd Spitzer**  
Third District

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



**Chairman  
Shawn Nelson**  
Fourth District

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



**Vice Chair  
Patricia C. Bates**  
Fifth District

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



## GOVERNANCE & ACCOUNTABILITY

(COMPLETED 40 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 U.S. and the one that fully complies with independence standards 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.

#### OC INTERNAL AUDITOR'S ANNUAL REPORT FOR FY 2010-11

Each year the IAD prepares an annual report to the Board of Supervisors that provides highlights and accomplishments of the audit activities during the prior fiscal year.

#### IAD'S MONTHLY INTERNAL AUDIT 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 11-12.

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 includes detailed descriptions of the scope, conclusions, background, and type of recommendations. In addition, the *Monthly Internal Audit Activity Report* provides a summary of completed audits and follow-ups and a description of any significant risks, control or governance issues, and a listing by severity of audit findings identified in the audits.



#### Monthly Internal Audit Activity Report

Government

Elected Officials, Citizenship and Voting







## FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT



### GOVERNANCE & ACCOUNTABILITY (CONTINUED)

#### AUDIT OVERSIGHT COMMITTEE REPORTS

##### AOC Adheres to Best Practice

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 Chairman and Vice-Chairman of the Board, Auditor-Controller, Treasurer-Tax Collector (ex-officio member), County Executive Officer, and a public member. As specified in Board Resolution (19)95-271 titled *"Establishment of an Internal Audit Unit Independent from the County Auditor-Controller Reporting Directly to the Board of Supervisors,"* the Board directed the "CEO and Auditor-Controller to effect the transfer of internal audit responsibilities and staff from the Auditor-Controller's Office to the Internal Audit Unit" and clarified that "the Oversight Committee will not have direct control over the Internal Audit Unit. Direct control will be exercised by the Board of Supervisors."

For the FY 11-12 quarterly AOC meetings, we prepared a total of **28** reports as follows:


- Four (4) *Quarterly Status Reports* listing all audits, follow-ups, and control related & other assignments, along with the budget, actual hours charged, variance between budget and actual, and milestone comments.
- Four (4) *External Audit Coverage Reports* identifying 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 critical/material issues identified.
- Twelve (12) *Executive Summaries of Audit Assignments* providing a findings summary for audits and follow-up audits.
- Four (4) *IT Briefing Reports* summarizing the work performed in the area of IT audits and Internal Audit's involvement with system implementations, such as CAPS+ and PTMS.
- Four (4) *Summary Highlights of Audit Reports Issued By Month* listing all final audit reports issued during the fiscal year.

The *Quarterly Status Report* in combination with the *IAD Monthly Internal Audit Activity Report* and the *Internal Auditor's Annual Report* fulfills the Audit Director's obligation to report to the Board of Supervisors the OC Internal Audit Department's purpose, authority, and performance relative to its annual audit plan per the Institute of Internal Auditors (IIA) Professional Standard 2060.

#### IAD'S COUNTY RISK MANAGEMENT ROLE (COMPLIES WITH IIA PROFESSIONAL STANDARD 2020 - RISK MANAGEMENT)

Risk management is a key responsibility of senior management and the Board of Supervisors. The OC Internal Audit Department's role per its Board-approved Charter and Administrative Rules is to provide support to the Board of Supervisors and Countywide "risk management processes" in the following four ways:

1. Participating and providing risk/control insights to various County oversight committees such as the CAPS+ Steering Committee, PTMS Steering Committee, Business Continuity Working Group, Financial Managers Forum, Human Resources Leadership Forum, Purchasing Council, HIPAA Coordinator Group, Property/Surplus Equipment Officer Group, RFP committees for large contracts, and Department Head meetings.

A G E N D A	
REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE ORANGE COUNTY, CALIFORNIA WEDNESDAY, May 2, 2012, 10:00 a.m. HALL OF ADMINISTRATION 333 Santa Ana Blvd., 5 <sup>th</sup> Floor Conference Room A Santa Ana, California	
	
Supervisor Shawn Nelson Chairman	Dr. David Carlson, Public Member Vice-Chairman
Supervisor John M.W. Moorlach Member	Jan Grimes Chief Deputy Auditor-Controller Member
Thomas G. Mauk Member	Shari L. Freidenrich Ex-Officio Member (non-voting)
Steve Danley Ex-Officio Member (non-voting)	
Director of Internal Audit County Counsel Clerk	Dr. Peter Hughes, CPA Ann Fletcher Renée Aragon
<small>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.</small>	
<small>"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) 834-5478"</small>	
<small>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 202, Santa Ana, California 92701 during regular business hours, 8:00 a.m. - 5:00 p.m., Monday through Friday.</small>	
10:00 A.M.	
1. Roll Call	Speaker AOC Chairman
2. Approve Audit Oversight Committee regular meeting minutes of March 15, 2012	AOC Chairman
3. Receive and file SAS 114 Required Communication from External Auditors Vavrinek, Trine, Day & Company, LLP	Vavrinek, Trine, Day & Co., LLP
AGENDA - AUDIT OVERSIGHT COMMITTEE MEETING, WEDNESDAY, MAY 2, 2012 - PAGE 1	

#### AUDIT OVERSIGHT COMMITTEE REPORT AGENDA



## GOVERNANCE & ACCOUNTABILITY (CONTINUED)

2. Compiling, assessing, and providing written quarterly status reports of all External Audits performed throughout the County (such as those conducted by State and Federal Auditors) to the Board of Supervisors and Audit Oversight Committee. These quarterly reports highlight material issues and significant findings identified by external auditors, providing visibility to various financial, compliance, programmatic, and regulatory issues and risks. The AOC Administrative Procedure No. 2 (approved by the Board of Supervisors) established the OC Internal Audit Department's responsibility for this report.
3. Performing and distributing Internal Audit's Annual Risk Assessment to the Board of Supervisors, AOC, and Department Heads, as well as posting on Internal Audit's website, to give visibility of the risk ratings we assign to the County's key business processes and systems. To help determine the risk ratings, among other things we send out departmental risk assessment surveys, conduct interviews with key executive management, and review departmental business plans to determine business strategies and risks. See further details about our Annual Risk Assessment on page 14.
4. Distributing all internal audit reports to the Board of Supervisors, AOC, and Department Heads, as well as posting on Internal Audit's website, to give Countywide visibility to findings and related risks identified.

## 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** Per IIA Professional Standard 1311, internal assessments must include:

- I. Ongoing Monitoring of the Performance of the Internal Audit Activity The OC Internal Audit Department performs the following:
  1. Ongoing supervision of all audits through timely review of audit work papers and reports.
  2. Uses Quality Assurance checklists on every audit.
  3. Surveys all of its "auditees" with a *Customer Survey of Audit Services* to obtain the client's perspective of the audit process. The *Customer Survey* consists of nine questions pertaining to the value and competency of the audit and auditors. At year end, we tabulate the customer survey results to measure performance and help identify where improvements can be made.
  4. Senior Audit Managers perform annual internal assessments of each others' audits and provide feedback on the results of the assessments.
  5. Uses project budgets, timekeeping, audit plan tracking, and identifies cost recoveries.
  6. All levels of management perform formal, structured reviews including formal review and approval of all official releases by the Audit Director.
- II. Periodic Internal Reviews Performed Through Self-Assessment The OC Internal Audit Department performs the following:
  1. Periodic in-depth interviews of key department heads and administrators.
  2. Periodic "self-assessments" including all of its staff, auditors, and managers using an anonymous survey addressing the department's compliance with professional auditing standards and charter.





## FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT

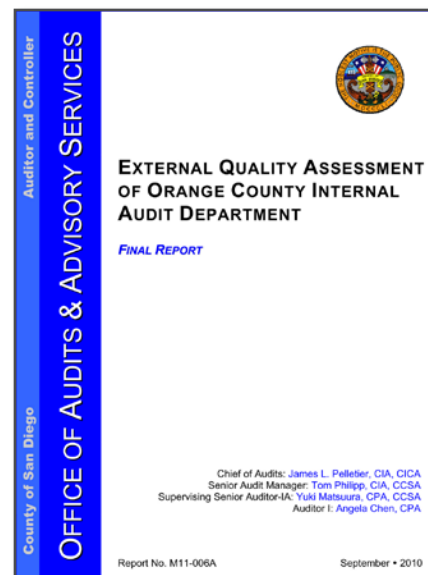


3. Reviews the *Association of Local Government Auditors Biennial Benchmarking and Best Practices Survey* as a comparison for performance metrics.
4. Reports every three years a "Balanced Scorecard," the results of meeting its performance objectives.

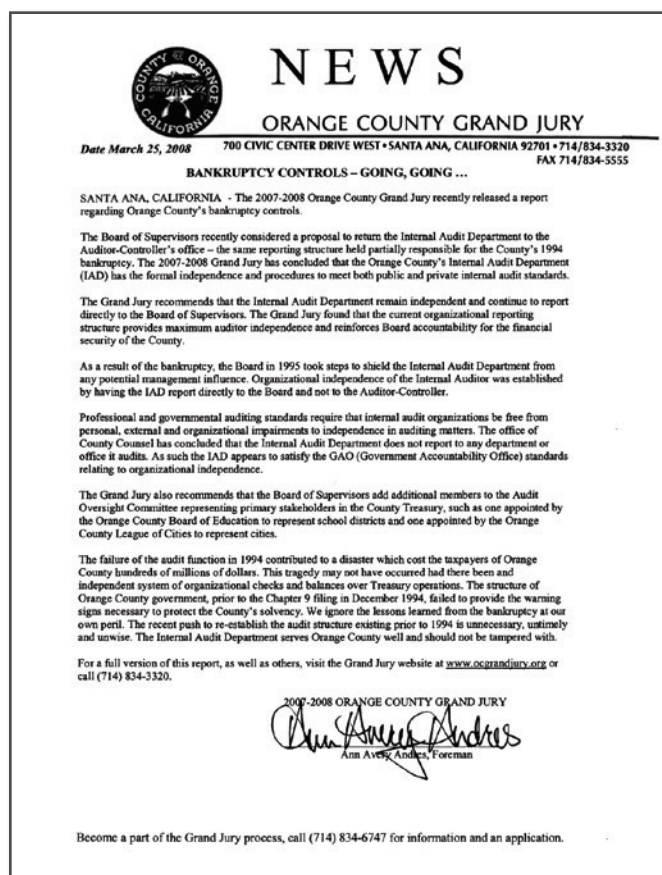
We are happy to report that our internal assessment for FY 11-12 confirmed we continue to comply with professional auditing standards and have incorporated many of the best practices of the profession.

**External Assessments** (IIA Professional Standard 1312) Peer Reviews/Quality Assessments are conducted on 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 that we conformed to the IIA Standards and Code of Ethics with the highest possible rating. In the last 10 years, the OCIAD has had four Peer Reviews and each time the OCIAD received the best ratings possible. The next Peer Review is due in 2013 for the three years ended June 30, 2013.

IIA Professional Standards also require that the chief audit executive communicate the results of the Peer Review/Quality Assessment to the Board of Supervisors. The results 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 Internal Auditor's Report.



### EXTERNAL QUALITY ASSESSMENT (PEER REVIEW)



### GRAND JURY REPORT

#### IAD Should Continue Reporting Directly to the Board

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 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 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.



## ■ INTERNAL AUDIT NOTEWORTHY NEWS

### IN 2012:

- Dr. Hughes served as the Chair of the **California Counties Audit Chief's Committee (CCACC)**. The CCACC meets 3 times a year in both Northern and Southern California to discuss statewide audit issues.
- Dr. Hughes served his second year of a three year term on the prestigious **AICPA Government Performance and Accountability Committee (GPAC)**.
- Dr. Hughes participated in the **Compliance Oversight Committee (COC)** consisting of the Internal Audit Department, Human Resource Department and County Counsel to address issues of mutual concern in a proactive effort of sound governance.



### IN 2011 – GPAC

**Peter Hughes elected as AICPA GPAC Ambassador for 3 year term** for their Government Performance and Accountability Committee (GPAC). In this capacity Dr. Hughes along with fellow "Ambassadors" represent GPAC to a world-wide audience. Dr. Hughes' expertise in developing controls to spot and stop fraud will be on display this February 2012 as a Key Note Speaker at a "Thought Leadership" Symposium in Australia.

### IN 2010 – AICPA

The American Institute of Certified Public Accountants (AICPA) named Dr. Peter Hughes as **2010 CPA of the Year for Local Government**. Only one out of 360,000 of total CPAs is selected for this recognition. This award is based upon rigorous criteria that ensure the recipient meets the highest professional standards.



### IN 2009 – ACFE

The Association of Certified Fraud Examiners (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, entitled *Ethics Pays in So Many Ways*.



### IN 2008 – ALGA

The Internal Audit department was awarded the Association of Local Government Auditors (ALGA) Bronze Website Award for its informational and user-friendly audit website ([www.ocgov.com/audit](http://www.ocgov.com/audit)). ALGA is a national organization dedicated to promoting and advancing the audit profession.



### IN 2005 – IIA

The Internal Audit Department received the highly prestigious "Recognition of Commitment" to professional excellence, quality and outreach from the Institute of Internal Auditors (IIA).





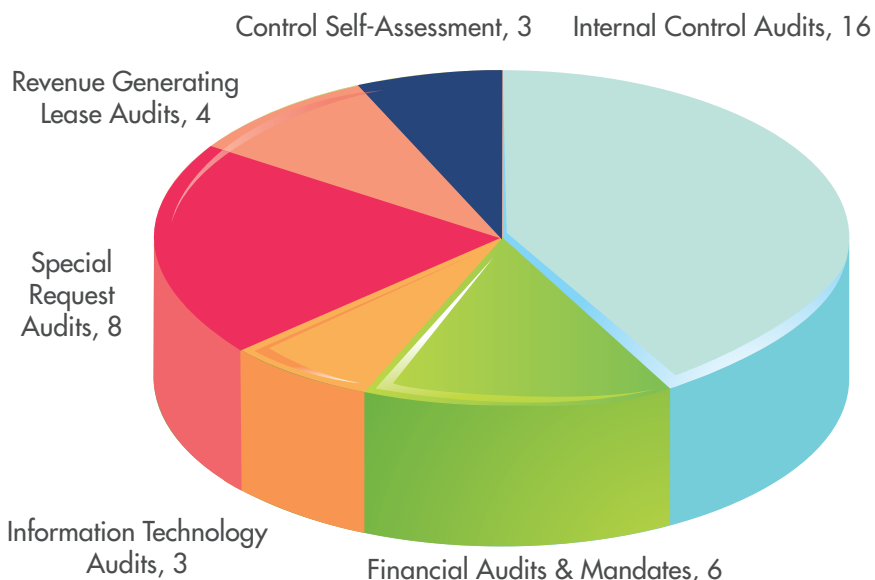
# FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT



## FY 2011/2012 DETAILED ACCOMPLISHMENTS

### 40 AUDITS COMPLETED

Our "Audits Completed" count represents the completed audits in the FY 2011/12 Audit Plan, which was developed based upon our annual Risk Assessment and approved by the Audit Oversight Committee and Board of Supervisors.



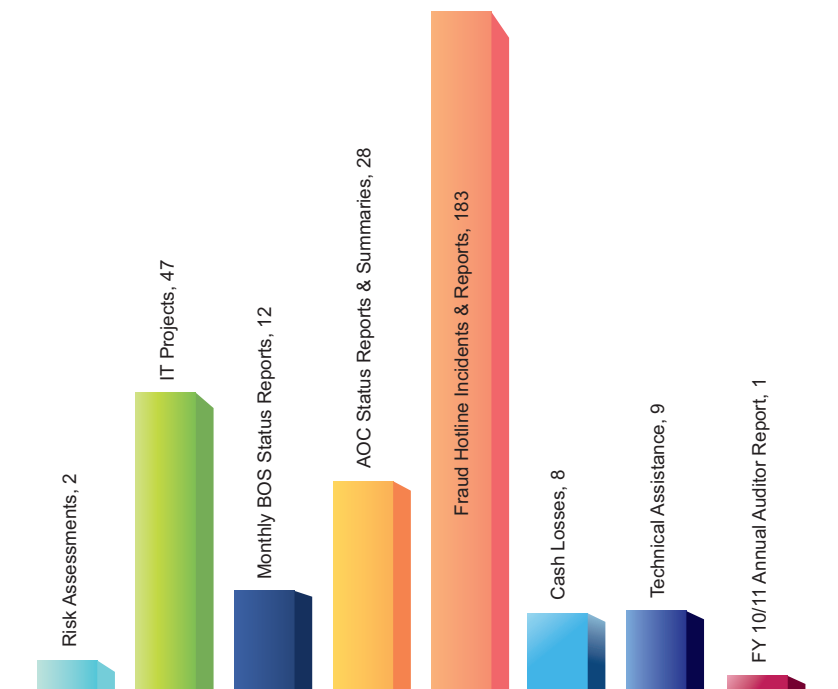
### Audit Projects – AOC Reports

Effective FY 11-12, AOC Reports include each quarter the following seven (7) reports:

1. Quarterly AOC Status Report
2. Executive Summaries – FAM
3. Executive Summaries - ICA
4. Executive Summaries - ICA Follow-Up Audits
5. IT Briefing Report
6. External Audit Report
7. Summary Highlights of Audit Reports Issued by Month

Note: Prior to FY 11-12, there were six (6) AOC reports each quarter. The Summary Highlights of Audit reports Issued by Month started in FY 11-12.

### 290 AUDIT PROJECTS AND ACTIVITIES COMPLETED







## ■ INTERNAL CONTROL AUDITS

**We completed 3 Audits and 13 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 2011-12:

**1. OC Public Works Fee Generated Revenue.**

We audited the adequacy of internal controls over fee development processes for establishing cost-recovery fees charged to the public. **OC Public Works generated \$11.5 million in fee generated revenue** from Board-approved, cost-recovery fees charged to the public for providing County services.

**2. OC Community Resources Disbursement Approval Process.** We audited the adequacy of internal controls for approving and processing disbursements (payments to vendors for commodities and services). **OC Community Resources disbursed over \$83 million in expenditures** from OC Animal Care, OC Community Services, OC Parks, OC Public Libraries, and OCCR Administration.

**3. Social Services Agency Revolving Funds.** We audited internal controls to ensure two revolving funds are adequately safeguarded; transactions are processed in accordance with County policy; and transactions are properly authorized, recorded completely, accurately and processed timely. **Social Services Agency incurred approximately \$1.3 million in revolving fund expenditures.**

We completed 13 Follow-Up Audits (1 integrated follow-up audit is also counted under the IT audits).

**4. Treasurer-Tax Collector Cash Receipts/Tax Collections**

**5. OC Public Works – Countywide Fleet Management**

**6. OC Public Works – County Fuel Card Administration**

**7. Health Care Agency – Disbursement Approval Process**

**8. OC Waste & Recycling – Disbursement Approval Process**

**9. OC Waste & Recycling – Fee Generated Revenue**

**10. Health Care Agency – Fee Generated Revenue**

**11. Health Care Agency – Contract Development & Management**

**12. Public Defender Revolving Funds**

**13. County Counsel Revolving Funds**

**14. Sheriff-Coroner & Health Care Agency – ICE Contract Administration**

**15. Countywide Fee Development Monitoring Process**

**16. Auditor-Controller & Treasurer-Tax Collector Electronic Fund Transfers (Integrated Follow-Up Audit)**

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.



## ■ FINANCIAL AUDITS & MANDATES (FAM)

We completed 5 Audits and 1 Follow-Up Audit.

1. District Attorney Workers' Compensation Fraud Grant Audit
2. District Attorney Health & Disability Insurance Fraud Grant Audit
3. District Attorney Insurance Fund Fraud Audit
4. District Attorney Auto Fraud Activity Interdiction Audit

In the District Attorney 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.

### 5. Treasurer-Tax Collector Annual Compliance Audit (12/31/10)

In the Treasurer-Tax Collector Annual Compliance Audit, we determined the Orange County Treasurer's compliance with the California Government Code (sections 27130 – 27137) and related provisions of the Orange County Investment Policy Statement. This audit is mandated by California Government Code and is conducted in accordance with generally accepted auditing standards of the United States of America.

We completed 1 Financial and Mandated Follow-Up Audit:

### 6. Follow-Up Audit of Treasurer-Tax Collector Investment Compliance Audit for 2009

## ■ INFORMATION TECHNOLOGY (IT) AUDITS

We completed 3 follow-up audits, 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 11-12:

### 1. Property Tax Management System (PTMS) Implementation (Audit No. 1141)

**Implementation Assistance:** We consider our work on this project to be "completed" for this fiscal year, even though our assistance will continue the following fiscal year.

**Work Performed - Tier 3 Modules:** We attended oversight meetings and reviewed documentation for a sample of the Tier 3 key business processes (primarily tax refunds and penalty cancellations). We previously reviewed a majority of the draft high-level design documentation created by the PTMS Project Team for payment processing, penalty cancellations, and tax refunds. We are awaiting further development of the Tier 3 modules before we can observe and validate the implementation of the planned controls/processes. PTMS is scheduled to go-live in December 2013. Our assistance will continue in FY 12-13 for this implementation.

**Background:** 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:



## ■ INFORMATION TECHNOLOGY (IT) AUDITS (CONTINUED)

- ▶ 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.

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.

### 2. HCA Medical Billing – IT Portion (Audit No. 1018/1045)

A large majority of this audit was performed in FY 11-12, but since the report was issued in FY 12-13, we will not include this audit in the completed "counts" for FY 11-12. This integrated audit reviewed both manual and system controls. The IT audit portion reviewed application controls over the medical billing process in the areas of: (1) user access (password and account management), (2) segregation of duties, (3) system edit checks, (4) system enforced holds/queues, and (5) transactional audit trails. Additionally, IT general controls were reviewed as related to the medical billing systems (IRIS and Practice Expert) in the areas of: (1) change management and (2) backup and recovery.

### 3. IT General Control Audits:

In these audits, we review policies and procedures in the areas of security management, access controls (physical security, security administration), configuration management (software acquisition and maintenance), segregation of duties, and contingency planning (environmental controls and backup procedures). We started the 2 audits listed below, but will not include these audits in our completed "counts" as the audits were not completed at June 30, 2012 and will carry-over to FY 12-13.

- **Social Services Agency:** Houses and/or maintains key applications essential to the agency's operations including: CalWorks, Child Welfare Services/Case Management System (CWS/CMS), Assessment, Intervention and Management System (AIMS), and Orangewood Children's Home Information System (OCIS).

- **District Attorney:** Houses and/or maintains key applications essential to the agency's operations including: Case Management System and numerous in-house developed databases.

### 4. 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 **46** projects in this category:

#### BEST PRACTICE BY OC IAD

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

- **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 \$983,595 and amounts recovered are \$970,101, for a recovery rate of about 99%.
- **Working Retirees/Extra Help Hours:** We performed **12** monthly reviews of working retiree activity reports to identify retirees who exceed hourly limits and noted no working retirees exceeded annual limits for FY 11-12.
- **Employee/Vendor Address Match:** We performed **4** CAAT routines to identify employees that share a similar address with a vendor, which could be an indicator of employees buying goods or issuing contracts to themselves or a related vendor. We identified two (2) potential employee-vendor matches that were provided to the Human Resources Department (HRD) for further review. HRD determined no conflict existed for one of the matches and a conflict and violation of department policy did exist for the other match. Corrective action was taken by the department.
- **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. We noted no findings.
- **Annual Risk Assessment:** We performed several CAAT routines (count as **1** project) to obtain financial information (transaction amounts and activity) utilized in the annual risk assessment. For example, we re-sort and compile cash receipt activity by the department





## FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT



processing the cash receipt rather than by the department/fund where the money is deposited.

- **New CAAT - IHSS:** In-Home Supportive Services (IHSS) is a program administered by the Social Services Agency (SSA) that provides domestic and personal care services to allow disabled and elderly individuals to live safely at home. As requested by the BOS, we performed and developed 5 new CAAT routines using data obtained June 22, 2011.

- ▶ **County Employee vs. IHSS Provider:** We performed a comparison of County employees and IHSS Providers and identified 92 active employees (31 were SSA employees) also working as IHSS providers. We provided the 92 "matches" to SSA for further review. 13 of the 92 were referred by SSA to the District Attorney's Fraud Unit for further review to determine any potential fraud.
- ▶ **Non-Employee Provider Sharing Address with SSA Employee:** We identified 49 active SSA employees sharing the same address with an IHSS provider. The IHSS client hires the provider, not SSA. Because clients and providers may often be related (i.e. family members), the instance of a provider sharing an address with an employee could also potentially be an instance of a client related to an employee. SSA reviewed these 49 instances and determined no conflicts existed.
- ▶ **Multiple Providers Sharing Same Address:** We identified 1 instance of 5 providers at same address; 3 instances of 4 providers at the same address; and 29 instances of 3 providers at the same address. SSA reviewed those instances where there are four to five providers with the same address and informed us there were "no improprieties."
- ▶ **Providers with Potentially High Numbers of Clients:** We identified IHSS providers who are potentially providing services to multiple clients such as 1 provider potentially providing services to 8 clients, 8 providers potentially providing services to 7 clients, etc. Note: The number of potential clients per provider is overstated due to the nature of the data used in our analysis (e.g. each provider record could be a client or could be another transaction such as an address change).

SSA reviewed the 1 provider potentially serving 8 clients (had 8 "records" in the data file) and determined the provider is actually serving only 3 active clients and identified no concerns. SSA receives a monthly report of "Providers 300+ Hours" which alerts SSA to those providers with high service hours who may have multiple clients. As a result, SSA will not perform further review of these providers.

- ▶ **Mobile Home Parks with High Concentrations of Providers:** We identified 1 mobile home park with 32 providers and 1 mobile home park with 23 providers. SSA indicated these two mobile home parks are designated for senior citizens and it is not unusual for providers to be senior citizens who are often caring for a senior spouse. As a result, SSA will not perform further follow-up on these providers.

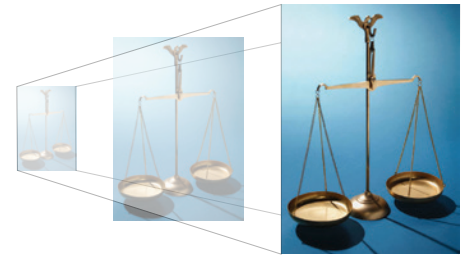
**5. Follow-Up Audit:** We completed 3 follow-up audits as listed below:

- **Second Follow-Up Audit - Treasurer-Tax Collector's Controls Over Compliance with PCI DSS (Audit No. 1147-A):** Our Second Follow-Up Audit found that the Treasurer-Tax Collector, Auditor-Controller, OC Public Works, CEO/Procurement, and OC Community Resources fully implemented three (3) recommendations remaining from our First Follow-Up Audit.
- **Second Follow-Up Audit - CAPS+ Financial System Oracle Database Configuration (Audit No. 1147-B):** Our Second Follow-Up Audit found that the one (1) remaining recommendation from our First Follow-Up audit was in process and we "closed" the recommendation for follow-up purposes. The CAPS Steering Committee was working on an RFP for a CAPS+ Security Assessment which would address the one (1) remaining recommendation. We will continue to informally monitor progress of this recommendation during our attendance at the monthly CAPS Steering Committee meetings.
- **Second Follow-Up Audit - Auditor-Controller and Treasurer-Tax Collector's \$22 Billion Electronic Funds Transfer Processes (Audit No. 1131-B):** Our Second Follow-Up Audit found that the Auditor-Controller, Treasurer-Tax Collector, and CEO/IT fully implemented or closed eight (8) recommendations and one (1) recommendation was in process from our First Follow-Up Audit. The follow-up was an integrated audit performed by both "non-IT" and "IT" auditors.



## ■ COUNTYWIDE RISK ASSESSMENT

**We completed 2 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, accounts 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 11/12, we completed individual risk assessments for 22 departments/agencies (excluding Internal Audit, the Office of Independent Review, and the Office of the Performance Auditor), five Board Offices, and one 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 2007 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 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 seven Audit Alerts; in 2008/2009 we issued three Audit Alerts; and in 2009/10 we issued two Audit Alerts. **We are pleased to report no Audit Alerts in FY 11-12 were issued.** As such, a total of **13** Audit Alerts have been issued since 2007. Audit Alerts are presented to the Board through the *Monthly Internal Audit Activity Report*.

## ■ SPECIAL REQUEST AUDITS

**8 Audits Completed.** During FY 11/12, Internal Audit performed the following special request audits:

**1. County of Orange Management Letter and Single Audit Report for the Year Ended June 30, 2010.** At the direction of the Audit Oversight Committee, we completed a Follow-Up Audit of the recommendations contained in the FY 2009-10 County Management Letters and the Single Audit Report made by the County External Auditor, Vavrinek, Trine, Day & Co., LLP.

**2. Countywide Audit of Employee Cash Advances – All Departments/Agencies.** At the

request of the AOC and in accordance with our FY 2010/2011 Audit Plan and Risk Assessment approved by the Audit Oversight Committee and Board of Supervisors, we conducted a Countywide Audit of Employee Cash Advances as of April 30, 2011, at which time **seven County departments and agencies had 222 outstanding travel cash advances made to employees totaling \$97,489.**

**3. Performance Measure Validation of Human Resources Department.** At the direction of the Board of Supervisors, we completed a Performance Measure Validation Audit of Human Resources Department/Employee Benefits Vendor, Kaiser Permanente (Kaiser) to determine



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if Kaiser is accurately reporting its performance measure results. **The annual premium for Kaiser in 2010 was \$42.3 million.**

**4. Sheriff-Coroner Law Enforcement Services Contract Cost Study for FY 2012-13.** At the request of the Audit Oversight Committee, we completed an audit to determine if the proposed law enforcement services contracts with the twelve Orange County cities and Orange County Transportation Authority will recover full costs in accordance with County policies and applicable California Government Code. In addition, we included a review of the Sheriff-Coroner's contract proposal with the City of Yorba Linda for services beginning in Fiscal Year 2012-13. **The Sheriff-Coroner proposed costs of \$112 million for FY 12-13 for contracted law enforcement services.**

**5. Sheriff-Coroner Inmate Welfare Fund and Selected Jail Commissary Processes.** At the request of the Audit Oversight Committee and in accordance with our *FY 2010/2011* Audit Plan and Risk Assessment, we completed an audit of internal controls over the administration and use of the Inmate Welfare Fund and selected Jail Commissary processes. **The Inmate Welfare Fund had \$3.5 million in revenues and \$4.4 million in expenditures.**

**6. Sheriff-Coroner & Health Care Agency Contract Administration – U.S. Immigration and Customs Enforcement (ICE).** At the request of the Audit Oversight Committee and in accordance with our *FY 2010/2011* Audit Plan and Risk Assessment, we completed an audit of contract administration and billing processes in the Sheriff-Coroner and the Health Care Agency under an Agreement with ICE. **The Sheriff-Coroner and Health Care Agency billed ICE over \$27 million for detention services and cost reimbursement for prescription medication.**

**7. Probation Department GPS Electronic Monitoring Programs.** At the request of the Audit Oversight Committee and in accordance with our *FY 2010/2011* Audit Plan and Risk Assessment, we completed an audit of contract administration and billing processes over Probation's two GPS programs: **Supervised Electronic Confinement/Home Detention (SEC)** administered by a contractor and **Continuous Electronic Monitoring (CEM)** administered by Probation.

**8. Public Guardian's Office Activities Regarding the Klubnikin Family Trust.** At the request of the Audit Oversight Committee, we addressed two allegations made in Board of Supervisor public comments concerning the sale of the Klubnikin Family Trust rental house and the involvement of the Public Guardian's office. The allegations were found to be without merit.

**9. IHSS CAAT – BOS request. See IT section. This is not counted as a Special Request here because these are included under IT accomplishments - CAATs.**

## ■ CONTROL SELF-ASSESSMENT & PROCESS IMPROVEMENT

Control Self-Assessment & Process Improvement (CSA-PI) is a process by which the managers and employees of a unit and trained facilitators from Internal Audit have a workshop to discuss the strengths and concerns which impact their ability (individually and as a group) to meet their objectives and get their work done. CSA-PI is not an audit; rather, it is an audit technique within the broad framework of internal audit that measures areas that traditional audit techniques are not designed to measure, such as trust, morale and corporate culture. **Over the past 10 years, Internal Audit has conducted over 100 workshops.**

In FY 11-12, we facilitated **two CSA-PI workshops** in the **Public Administrator/Public Guardian**, **three CSA-PI workshops** in the **Human Resources Department**; and **one in IAD**. After completion of the CSA-PI workshops, each team worked with management to prepare an **Internal Action Plan** which addressed the higher-priority issues brought forward during the workshops.





## ■ TECHNICAL ASSISTANCE TO DEPARTMENTS/AGENCIES

**9 Projects Completed.** While not considered an audit, Technical Assistance can include assistance such as participating on Request for Proposal (RFP) evaluation panels, performing high-level reviews of technical issues, or providing limited consultation services.

- 1. CEO/County Procurement Office.** Provided feedback on 2012 Contract Policy Manual.
- 2. OC Community Resources.** Provided internal controls over gift cards to veterans.
- 3. CEO/Office of Protocol – International Visitors & Protocol Foundation of Orange County.** Supported cultural/business ties with the international community.
- 4. CEO/IT - IT Sourcing RFP.** Participated on an IT Sourcing RFP pricing committee.
- 5. CAPS+ ESMT UNDO Action.** Provided feedback on CAPS+ Payroll/HR system.
- 6. CAPS+ Data Warehouse.** Provided feedback on CAPS+ Security and Workflow.
- 7. A-C and HRD - Catastrophic Leave Form.** Provided feedback to remove SSNs.
- 8. OCDPH – OC Sailing and Events Center RFP.** Provided feedback on an RFP.
- 9. OCDPH – Minimum Rent Adjustment.** Confirmed calculations of rent adjustments.

## ■ REVENUE GENERATING LEASE AUDITS

**We completed 4 audits.**

### **Revenue Generating Lease Audits:**

We completed **3** 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 Department (DPHD), OC Parks, and OC Public Works (OCPW).

The below three (3) lease agreements generate approximately \$9 million annual gross receipts and \$1.6 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, any additional revenue we identify will result in additional ongoing revenue over the life of the agreements.

- **John Wayne Airport - Paradies - OC, LLC**
- **John Wayne Airport - Fox Rent A Car, Inc.**
- **OC Public Works - Riverview Golf Course**

### **Follow-Up Audits for Revenue Generating Lease Audits:**

We completed **1** Follow-Up Audit as listed below:

- **Second Follow-Up Audit:**
  - ▶ **OC Dana Point Harbor – Dana Point Yacht Club**

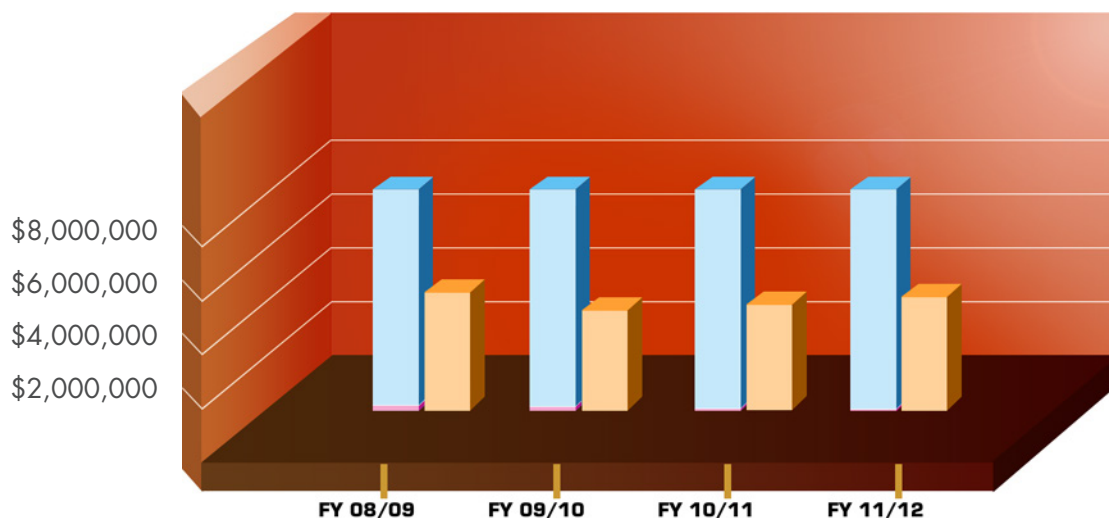
The importance of the lease audits is underscored by the fact that in over a decade, the three (3) lease agreements we audited in FY 11-12 will generate about \$1.6 million in revenue to the County.



## FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT



### ■ 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)	\$136,594	\$102,521	\$60,586	\$45,474
IAD Budget	\$2,916,012	\$2,526,955	\$2,659,188	\$2,729,272

(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 **3.2%** of our annual budget excluding OC Dana Point Harbor, and over 200% including OC Dana Point Harbor.

#### 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.

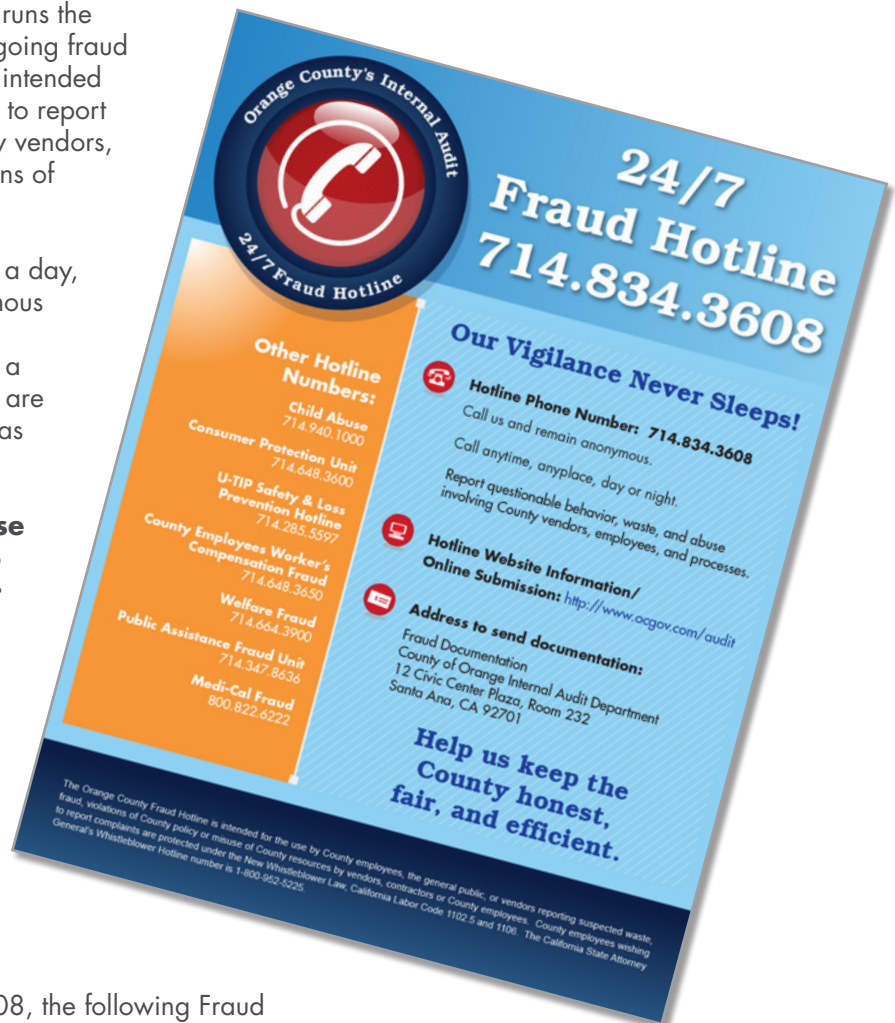


## FRAUD HOTLINE

The 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 24 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 11/12, we saw a **35% increase** in the number of Hotline incidents compared to the prior fiscal year. We processed **182 Hotline incidents**: 66 incidents were referred to County departments/agencies for investigation and 25 for their discretion and action; 51 incidents were referred to the Welfare Fraud Hotline for investigations; 26 were referred to outside agencies; and 14 were closed due to insufficient information/other to investigate. To date, 12 of the 66 incidents referred to County departments/agencies for investigation remain open.



**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 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 and e-mails 24/7.  
Our site is <http://www.ocgov.com/audit>
- Call or email us anonymously and you will receive Whistleblower protection under California Law.



## FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT



Customer satisfaction surveys are sent to our clients when an audit is finalized and issued. These 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

# 4.7 on a scale of 5

Client satisfaction is also one of Internal Audit's Key Performance Measures in its Annual Business Plan and Balanced Scorecard. Our goal for FY 2011/12 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 2011/12 showed an average rating of 4.7, which demonstrates high client satisfaction with audit services.

# Customer Surveys & Client Satisfaction

### Quotes from FY 2011/12 Customer Surveys:

*"Auditors were very detailed oriented. They discussed their findings in a timely manner which was great so that issues can be addressed in a timely manner. Auditors were friendly and thoroughly listened to explanations for potential findings. We appreciate the hard work and dedication provided by your staff as well as the quick turnaround of the various reports."* - **Sheriff-Coroner - Financial/Administrative Services**

*"The auditor was very accommodating when scheduling meeting dates and times. He was always available to answer our questions during the document gathering process. His timelines were very reasonable."* - **Sheriff-Coroner - Custody Operations & Court Services Command**

*"The auditor was extremely professional and courteous during the audit process. He made the experience both painless and informative and ensured that confidential materials remained confidential. The experience helped to validate our processes and improve in an area the will be beneficial to the Agency going forward."* - **Health Care Agency**

*"The service level was outstanding throughout the audit. OCWR has been very pleased with the work of the auditors"* - **OC Waste & Recycling**

*"The auditors were a pleasure to work with. We appreciate their help in strengthening our internal controls over County Counsel's revolving fund."* - **County Counsel**





## AUDIT RECOMMENDATIONS

The Internal Audit Department tracks all audit recommendations made as of January 2003, including counts of audit recommendation, 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.

### OUTCOME

#### FY 2011/2012 Results

- **Recommendations Made: 96** recommendations were made in FY 11/12.  
**Types of Recommendations:** Of the 96 recommendations made during FY 11/12, we identified **7 Critical Control Weaknesses/Material Weaknesses, 26 Significant Control Weaknesses** and **63 Control Findings** including Compliance Issues and Efficiency or Effectiveness Issues.
- **Management Concurrence:** For each recommendation, management submits responses to Internal Audit that includes their concurrence of audit findings and recommendations, implementation plans, and implementation dates. Of the 96 recommendations made during FY 11/12, **94 (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 2011-12.

#### Since 2003:

##### Recommendations Made:

Between January 2003 and June 2012, Internal Audit made 1,354 audit recommendations.

##### Types of Recommendations:

There were **16 Critical Control Weaknesses/Material Weaknesses** (1.2%), **94 Significant Control Weaknesses** (6.9%), and **1,244 Control Findings** including Compliance Issues or Efficiency & Effectiveness Issues (91.9%).

##### Management Acceptance/Concurrence:

Of the total 1,354 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 **1,074 audit recommendations.** Note: not all audit recommendations required follow-ups, and some are pending completion due to timing differences.

Of the 1,074 recommendations, **100% were verified as fully implemented and/or closed as follows:**

- **952 recommendations (88.6%)** were implemented or closed by the First Follow-Up Audit.
- **122 recommendations (11.4%)** were implemented or closed by the Second Follow-Up Audit.



## FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT



### INTERNAL AUDIT DEPARTMENT PROFESSIONAL STAFF

Director of Internal Audit, Dr. Peter Hughes, Ph.D., MBA, **CPA**, CIA, CFE, CITP, CCEP, CFF, CGMA  
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**, CICA, CGMA  
IT Audit Manager, Wilson Crider, **CPA**, CISA, CICA  
Audit Manager, Michael Dean, **CPA**, CIA, CCSA, CISA  
Audit Manager, Winnie Y. Keung, **CPA**, CIA, CGMA  
Audit Manager, Carol L. Swe, **CPA**, CIA, CCSA, CISA  
Audit Manager, Kenneth Wong, **CPA**, CIA  
Audit Manager, Lisette Free, **CPA**, CFE, CGMA  
Senior Auditor, Abdul Khan, **CPA**, CIA, CISA, CFS, CGMA  
Senior Auditor, Susan Nestor, **CPA**, CIA, CGMA

### ADMINISTRATIVE STAFF

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

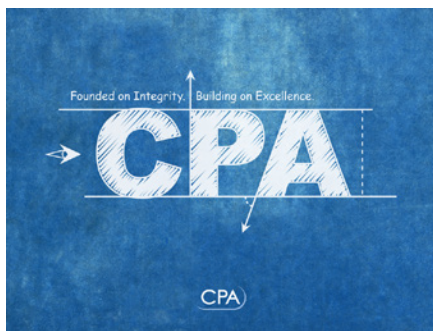
**CGFM**  
Certified Government  
Financial Manager

**CCEP**  
Certified Compliance  
and Ethics Professional

**CITP**  
Certified Information  
Technology Professional

**CGMA**  
Chartered Global  
Management Accountant

**MBA**  
Masters in Business  
Administration



### STAFF TRAINING

Professional staff completed the minimum continuing professional education required for their professional licenses and 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; 100% possessing double certifications; and 86% carrying 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 our judgment or professional opinions are not compromised.
- 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 allow 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.



## FY 2011/2012 INTERNAL AUDITOR'S ANNUAL REPORT



### ■ PROFESSIONAL ORGANIZATIONS



#### CALIFORNIA BOARD OF ACCOUNTANCY

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

#### AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)



##### 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 in the United States, with more than 360,000 members. Dr. Hughes attended the 2010 AICPA National Government Conference in August 2010 to receive his award.

##### GOVERNMENT PERFORMANCE AND ACCOUNTABILITY COMMITTEE (GPAC)

Dr. Hughes also is serving on the AICPA **Government Performance and Accountability Committee (GPAC)** for his first term. The GPAC represents CPAs working in all levels of federal, state, and local government and serves the public who depend on CPAs to help ensure government accountability.



##### 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 Internal Audit Department has **one** CFF.

#### THE INSTITUTE OF INTERNAL AUDITORS (IIA)

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



#### THE INSTITUTE OF INTERNAL AUDITORS, RESEARCH FOUNDATION

Dr. Peter Hughes, Director of Internal Audit, served 5 terms (2005-2010) on the IIA's important Board of Research and Education for 2010-2011.



#### CALIFORNIA STATE ASSOCIATION OF COUNTIES (CSAC)

Dr. Hughes is recognized by CSAC as a designated authority regarding combating fraud in local government and was requested as a featured speaker at the California State Association of Counties (CSAC) Institute in Sacramento in October 2011 and presented a course on Detecting Fraud in Government and Non-Profit Environments: What a Steal!



#### ASSOCIATION OF CERTIFIED FRAUD EXAMINERS (ACFE)

The OCIAD has **four** staff that are Certified Fraud Examiners (CFE) and are members of the Association of Certified Fraud Examiners. Dr. Peter Hughes, Director of Internal Audit, served 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 2008.







### ASSOCIATION OF LOCAL GOVERNMENT AUDITORS (ALGA)

The OC Internal Audit Department has an annual sustaining membership with ALGA. Also, the OC Internal Audit Department published an article about OCIAD's CAAT routines and its use within Orange County in their Audit Abstracts Category of their quarterly publication. In 2008, the OC Internal Audit Department received the association's Bronze Website Award for our department website. IAD's article on CAATs was published in ALGA's Summer 2011 Quarterly Journal.



### ASSOCIATION OF CERTIFIED FRAUD SPECIALISTS (ACFS)

The OC Internal Audit Department has **two** 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.



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

The OC Internal Audit Department has **six** staff members who are Certified Information Systems Auditors (CISA) and are members of the Information Systems Audit and Control Association. Our IT Audit Manager developed and presented a training course about OCIAD's use of CAATs for the ISACA LA spring conference.



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

The OC Internal Audit Department has **one** 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.



### CALIFORNIA COUNTIES AUDIT CHIEFS' COMMITTEE

The OC Internal Audit Department attends regular quarterly meetings and participates in the California Counties Audit Chief's Committee as part of the Peer Review Program. In June 2010, the OC Internal Audit Department received its fourth peer review and passed without exception.

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

The Internal Audit Department has **one** staff member who 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 2012-13 AUDIT PLAN AND RISK ASSESSMENT

On May 2, 2012, the Audit Oversight Committee (AOC) approved the FY 2012-13 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 and AOC requests. Board requests derive from Board-directed audits which require a Board majority vote of the Board, and specific audit projects requested by a district staff. The Director of Internal Audit reserves the right to determine how to best fit audits and reviews directed by the Board and AOC into the Audit Plan.

### FY 2012/13 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:

- ▶ **OC Community Resources Cash Receipts & Receivables**
- ▶ **OC Community Resources Fee Generated Revenue**
- ▶ **OC Public Works Disbursement Approval Process**
- ▶ **OC Public Works Procurement & Contract Administration**
- ▶ **Social Services Agency Contract Administration**
- ▶ **County General Fund Reserves/Cash Flow Operating Transfers**

#### ■ Information Technology

The OC Internal Audit Department will provide internal controls assistance to the **PTMS Implementation and the Treasurer-Tax Collector Central Web Payment Portal**. We will focus specifically on the four control areas of segregation of duties; reviews and approvals; audit trails; and reconcili-

ations. We will also 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 CAPS+HR/Payroll User Access/Segregation of Duties**
- ▶ **Auditor-Controller – Automated Mileage Claims**
- ▶ **Auditor-Controller CAPS+ Server, CAPS+ Change Management, or FTP Server**
- ▶ **CEO/IT – Status of Testing of Disaster Recovery/Business Continuity Plan**
- ▶ **District Attorney General Control Review**

We will continue to perform computer assisted audit techniques (CAATS) of payroll and vendor payments. We plan on developing new CAAT routines for Procurement/Contracts and for Section 8 Housing Disbursements.

#### ■ Financial Audits and Mandates

In addition to our 4 **District Attorney Grant Audits**, we will conduct audits of **Treasurer-Tax Collector – Annual Investment Compliance Audit; CEO/Public Finance Community Facility Districts; Calculation of Reverse Pension Pickup; and the Clerk-Recorder Fund 12D**.

#### ■ 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 5 lease audits scheduled this year have **combined annual revenue to the County of about \$3.4 million and include:**

- ▶ **John Wayne Airport – Vanguard Car Rental**
- ▶ **OCCR/OC Parks – Strawberry Farms Golf Course**
- ▶ **OC Dana Point Harbor – Anchor Marine**
- ▶ **OC Dana Point Harbor – DP Jet Ski**
- ▶ **OC Dana Point Harbor – Riviera Charters/Beach Cities Scuba**



## Internal Audit Department

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

**PROVIDING FACTS AND  
PERSPECTIVES COUNTYWIDE****TRANSPARENCY**

The OC Internal Audit Department (OCIAD) 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 OCIAD website.

**OCIAD MISSION**

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

Carbon Canyon  
Regional Park –  
Courtesy of OC Parks

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**► OCIAD'S EMPLOYEE FRAUD HOTLINE**

(714) 834-3608