



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

**2005 Recipient of the Institute of Internal Auditors
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**PERFORMANCE MEASURE VALIDATION
OF
AUDITOR-CONTROLLER**

AUDIT NUMBER: 2554

REPORT DATE: APRIL 14, 2006

Audit Director:	Peter Hughes, Ph.D., CPA
Deputy Director:	Eli Littner, CPA, CIA
Audit Manager:	Alan Marcum, MBA, CPA, CIA
Senior Auditor:	Toni Smart, CPA

**PERFORMANCE MEASURE VALIDATION
OF
AUDITOR-CONTROLLER**

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Transmittal Letter

Audit No. 2554

April 14, 2006

TO: David E. Sundstrom, Auditor-Controller

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Performance Measure Validation

We have completed our Performance Measure Validation (PMV) of the FY 2003-2004 goal and key Outcome Indicator results included in the 2005 Business Plan. The final report is attached along with your responses to our recommendations.

We wish to thank the Auditor-Controller for volunteering to be the first department/agency at the County to go through a Performance Measurer Validation audit. The interactions with the Auditor-Controller and his staff provided us with invaluable insights into the development and implementation of the PMV audit process. In addition, in developing our PMV audit process we benchmarked with Maricopa County, Arizona Internal Audit Department's Performance Measurer Certification program. Maricopa County has been conducting their certification program for over five years and has received several awards and has been referred to as the "gold standard" of performance measurement auditing by the Government Accounting Standards Board (GASB). Our approach closely mirrors the award winning approach developed by the Maricopa County Internal Audit Department.

Please note, beginning in January 2005, we implemented a more structured and rigorous Follow-Up Audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our first Follow-Up Audit will now begin no later than six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-Up Audit will now begin at 12 months from the release of the original report, by which time all audit recommendations are expected to be addressed and implemented. However, we will not perform our follow-up until the next Business Plan cycle.

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

We will provide a Follow-Up Audit Report Form to you; this template should be completed as our audit recommendations are implemented. When we perform our Follow-Up Audit by the next Business Plan cycle, we will need to obtain the completed document to facilitate our review. As the Director of Internal Audit, I now submit a monthly audit status report to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to partner with the Auditor-Controller's Office so they can successfully implement or mitigate difficult audit recommendations. The Auditor-Controller is free to call me should he wish to discuss any aspect of our audit report or recommendations.

Additionally, we will be forwarding to the Auditor-Controller a Customer Survey of Audit Services for completion. The Auditor-Controller will receive the survey shortly after the distribution of this report. We appreciate the courtesy and cooperation of the Auditor-Controller staff during our review.

Attachment

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Thomas G. Mauk, County Executive Officer
- Shaun Skelly, Chief Assistant Auditor-Controller
- Foreperson, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors



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INTERNAL AUDITOR'S REPORT

Audit No. 2554

April 14, 2006

TO: David E. Sundstrom, Auditor-Controller

SUBJECT: Performance Measure Validation

We have completed our Performance Measure Validation (PMV) to validate the accuracy of the FY 2003-2004 goal and key Outcome Indicator results reported in your 2005 Business Plan. Our audit included obtaining an understanding of the methodology in place for collecting and reporting Outcome Indicator results by interviewing key personnel, observations, and reviewing source documentation. In addition, we validated the accuracy of each Outcome Indicator result by reviewing and testing your supporting documentation. Our audit scope did not include an assessment of the appropriateness of your Outcome Indicators based on your mission, goals and objectives.

We have initiated our PMV audits at the request of the Audit Oversight Committee. Our approach is to review performance measure results, assign validation ratings, report conclusions, and make recommendations. Our validation program is designed to provide assurance to the Board of Supervisors, the County Executive Officer, and you and other stakeholders that reported Outcome Indicators are reliable and can be utilized in decision making covering Government resources with confidence.

We wish to thank the Auditor-Controller for volunteering to be the first department/agency at the County to go through a Performance Measure Validation audit. The interactions with the Auditor-Controller and his staff provided us with invaluable insights into the development and implementation of the PMV audit process. In addition, in developing our PMV audit process we benchmarked with Maricopa County, Arizona Internal Audit Department's Performance Measure Certification program. Maricopa County has been conducting their certification program for over five years and has received several awards and has been referred to as the "gold standard" of performance measurement auditing by the Government Accounting Standards Board (GASB). Our approach closely mirrors the award winning approach developed by the Maricopa County Internal Audit Department.

We conducted our audit in accordance with the Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors and with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

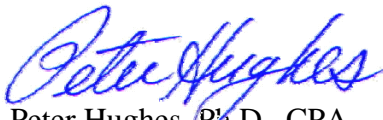
For each Outcome Indicator tested, we reported the results using one of the three Rating Definitions shown below.

Rating Definitions		
5 Star	★★★★★	We found adequate supporting documentation.
4 Star	★★★★	We found adequate documentation with some recommendations for improvement.
3 Star	★★★	We noted opportunities for improvement.

Based on our audit of the FY 2003-2004 Outcome Indicator results reported in your 2005 Business Plan, we rated 50 percent of your measures as 5 Star. Of the 14 Outcome Indicators tested; 6 were rated as 5 Star; 2 were rated as 4 Star; 4 were rated as 3 Star, and 2 were too new for results to be rated at this time period. On page 3 we have provided a table (Summary Table – Validation Results) that lists for each Outcome Indicator, the reported results, and our rating of the accuracy of the Auditor-Controller results. For the Outcome Indicators that were rated as 4 Star or 3 Star, we have provided detail of these, along with recommendations for enhancements over the gathering and reporting of the Outcome Indicator results in the Findings, Recommendations and Management Responses section of this report.

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of the Auditor-Controller's Office. If we can be of further assistance, please contact me or Eli Littner, Deputy Director at (714) 834-5899 or Alan Marcum, Audit Manager, at (714) 834-4119.

Respectfully Submitted,



Peter Hughes, Ph.D., CPA
Director, Internal Audit

Attachment A – Auditor-Controller Management Responses

Distribution Pursuant to Audit Oversight Committee Procedure No. 1

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Shaun Skelly, Chief Assistant Auditor-Controller
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

SUMMARY TABLE – VALIDATION RESULTS

Auditor-Controller FY 2003-2004 Stated		Internal Audit Validation		
Outcome Indicators	Results	(Highest Rating Possible) 5 Star	4 Star	3 Star
		★★★★★	★★★★	★★★
1. To produce quarterly sets of FRET reports for review by department fiscal managers.	Developed reports and verified their accuracy using Business Objects. In testing the report delivery process (PDF files), determined that an alternative approach (BO web Intelligence) was required and the server platform on which this application runs needed to be significantly upgraded to handle production volumes.	✓		
2. The Auditor-Controller represented on the following oversight committees: Treasurer Oversight Committee (TOC), Audit Oversight Committee (AOC), and Public Financing Advisory Committee (PFAC).	This is a new measure; therefore no results have been reported so far by the Auditor-Controller.	Not Tested	Not Tested	Not Tested
3. To provide fiscal advice to the Board of Supervisors on all collective bargaining units.	This is a new measure; therefore no results have been reported so far by the Auditor-Controller.	Not Tested	Not Tested	Not Tested
4. To receive an unqualified opinion on compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each major Federal program administered by the County.	The County received unqualified opinions in all areas covered by the Single Audit Reports for FY 2003-04. The County administered over \$633 million in Federal dollars during FY 2003-04, which funded approximately 136 Federal programs.	✓		
5. To receive a rating of at least 95% in overall satisfaction in the department's biennial Countywide client surveys of the department's central accounting sections.	The department exceeded its rating goal in the survey of its outstationed accounting sections, sent to County departments and agencies in 2004. 96.33% of these clients were "Very Satisfied" to "Satisfied" with the department's services.		✓ Finding #1 (See page 6)	



SUMMARY TABLE – VALIDATION RESULTS

Auditor-Controller FY 2003-2004 Stated		Internal Audit Validation		
Outcome Indicators	Results	(Highest Rating Possible) 5 Star ★★★★★	4 Star ★★★★	3 Star ★★★
6. To receive a rating of at least 90% in overall satisfaction in the department's annual survey of County vendors.	The department received a rating of 94% in overall satisfaction in its survey of vendors conducted in 2004.			✓ Finding #2 (See page 6)
7. To issue County employee biweekly paychecks on time for all 26 pay periods.	The biweekly payroll deadline was met for all pay periods in FY 2003-04.		✓ Finding #3 (See page 7)	
8. To reduce payroll processing labor hours by 25%.	Completed testing/debugging of VTI 4.0 and prepared for its implementation. Survey of 13 departments showed average payroll processing labor hours reduction of 44% that equates to a composite total man-hour reduction of 3.75 FTE's.	✓		
9. Efficiency measures of transaction cost.	Results for 03-04 are \$7.66 per invoice in total direct and indirect costs per invoice paid in central claims.			✓ Finding #4 (See page 8)
10. To receive an unqualified (highest possible) audit opinion and the Government Finance Officers' Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the County's Comprehensive Annual Financial Report (CAFR).	The County received both an unqualified opinion and the GFOA Certificate for the FY 2002-03 CAFR. The County also expects to receive an unqualified opinion and the GFOA Certificate for the FY 2003-04 CAFR.	✓		
11. 99% of all property taxes will be allocated to taxing agencies on time.	The department met all property tax deadlines, apportioning over \$4.0 billion in property taxes, penalties, special taxes/assessments, and interest to over 170 local government funds in 64 separate apportionments.	✓		
12. 99% of State and Federal funds will be claimed in time to satisfy cash flow requirements.	The department achieved better than 99% compliance.			✓ Finding #5 (See page 9)



SUMMARY TABLE – VALIDATION RESULTS

Auditor-Controller FY 2003-2004 Stated		Internal Audit Validation		
Outcome Indicators	Results	(Highest Rating Possible) 5 Star ★★★★★	4 Star ★★★★	3 Star ★★★
13. Achieve CAPS user satisfaction with Financial and Payroll systems of 90% or higher.	Survey was distributed to Financial Managers Forum (FMR) and Payroll staff throughout the County. Measured satisfaction in key functional areas (Payroll, Job Cost, Claims Processing, etc.) Satisfaction was at 98% for Staff Support and 97% for Quality of Information Provided.	✓		
14. Reduce hard copy and fiche printing and distribution cost by 20%.	Countywide rollout of WebERMI has been completed. User training substantially completed. Expanded usage of Data Mining. Financial hardcopy reports have been turned off for IWMD, CSS, RDMD, HCA, and SSA. Resulting savings for report print and distribution estimated at \$95,000 for FY 03-04.			✓ Finding #6 (See page 10)



DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Finding No. 1 (4 Star)

Auditor-Controller Goal Outcome Indicator: To receive a rating of at least 95% in overall satisfaction in the department's biennial Countywide client surveys of the department's central accounting sections (#3.A).

Auditor-Controller Stated Results: The department exceeded its rating goal in the survey of its outstationed accounting sections, sent to County departments and agencies in 2004. 96.33% of these clients were "Very Satisfied" to "Satisfied" with the department's services.

The Board of Supervisors Internal Audit Department validation found that:

- A. The Auditor-Controller outstationed Accounting Managers did not document their methodology for determining survey distribution.
- B. Auditor-Controller personnel at Social Services Agency did not maintain documentation to support that they distributed 210 surveys.

Recommendation No. 1A

For future Business Plans, we recommend that the A-C document methodology for survey distribution.

Auditor-Controller Response

Concur.

Recommendation No. 1B

For future Business Plans, we recommend that the A-C maintain evidence of survey distribution.

Auditor-Controller Response

We do not concur with the Stated Results. Although we agree that evidence of survey distribution should be maintained, we do not agree with the Stated Results. As discussed with the auditors, we did maintain documentation to support the distribution of surveys at the Social Services Agency. More specifically, we maintained a distribution list showing the 210 SSA employees to whom the survey was distributed. The same list also shows the approximately 70 employees who responded to the survey. We believe this adequately documents the distribution of the surveys. However, to provide additional documentation in the future, we will also retain a copy of the survey transmittal email.

Finding No. 2 (3 Star)

Auditor-Controller Goal Outcome Indicator: To receive a rating of at least 90% in overall satisfaction in the department's annual survey of County vendors (#3.B).

Auditor-Controller Stated Results: The department received a rating of 94% in overall satisfaction in its survey of vendors conducted in 2004.



The Board of Supervisors Internal Audit Department validation found that:

- A. The list of 500 vendors selected for survey was not maintained for subsequent validation.
- B. We were provided a spreadsheet that included 169 vendor responses. However, vendor survey responses were not maintained to validate the accuracy of the spreadsheet.
- C. A judgmental sample was used to select 500 out of 50,000 vendors to survey, which were paid in October 2004. In order to ensure the reliability of the survey data, the sample size should be statistically valid. A statistically valid sample requires a random selection of clients that fairly represent the population of clients served.

Recommendation No. 2A & 2B

For future Business Plans create written procedures for the collection, retention, and reporting of result data for **all** goal and key Outcome Indicators.

Auditor-Controller Response

Concur. For future business plans we will develop procedures for the collection of this data and retain those records for five years or until audited, whichever is sooner.

Recommendation No. 2C

For future Business Plans use a statistically valid random sample selection of vendors to survey.

Auditor-Controller Response

We do not concur with the Stated Results. The finding indicates that there was a pool of 50,000 vendors to survey. As discussed with the auditors, the number of open, active and unique vendors doing business with the County is closer to 5,000. The total vendor number used in the finding includes those vendors bidding with the county, and includes duplicate vendor numbers for the same company.

Do not concur with the recommendation. For many reasons we believe a judgmental sample is superior to a statistically valid random sample for the vendor survey. Our judgmental sample size was significant and included 500 unique vendors from a pool of about 5,000 active vendors and was structured in a way to include all vendor types. Overall, we believe this methodology provides a cost effective means to evaluate this Outcome Indicator. However, we will modify the wording in our Business Plan to make it clear that we use a judgmentally selected sample covering a specific time period.

Internal Audit Department Rejoinder to Auditor-Controller Response

We are pleased that the Auditor-Controller has agreed with our recommendations to retain the survey results for our future validation, and that he will now explicitly disclose the sampling methodology in their Business Plan. In addition, once the Auditor-Controller's staff determines the number of active vendors we will provide our insights regarding their stratification process for future references.

Finding No. 3 (4 Star)

Auditor-Controller Goal Outcome Indicator: To issue County employee biweekly paychecks on time for all 26 pay periods (#3.C).



Auditor-Controller Stated Results: The biweekly payroll deadline was met for all pay periods in FY 2003-04.

The Board of Supervisors Internal Audit Department validation found that the Results do not support the Outcome Indicator. The Outcome Indicator states that the Auditor-Controller will issue all County employee biweekly paychecks on time for all 26 pay periods. However, the Results indicate that the payroll deadline was met for all 26 pay periods. Employee paychecks may be issued after the payroll deadline for a variety of reasons although the payroll deadline was met.

Recommendation No. 3

For future Business Plans revise Goal Outcome Indicator #3.C to “met all biweekly payroll deadlines”, from “issuing all County employee biweekly paychecks on time.”

Auditor-Controller Response

Concur.

Finding No. 4 (3 Star)

Auditor-Controller Goal Outcome Indicator: Efficiency measures of transaction cost (#4.B).

Auditor-Controller Stated Results: Results for 03-04 are \$7.66 per invoice in total direct and indirect costs per invoice paid in central claims.

The Board of Supervisors Internal Audit Department validation found that:

- A. There was no documentation to support the Results of \$7.66 per invoice in total direct and indirect costs. Upon notification of our audit, the Auditor-Controller prepared a new cost analysis. The cost analysis included a cost per invoice of \$7.58.
- B. The cost per invoice included in the Results is not accurate. The cost methodology used to calculate “Cost per Invoice” does not include indirect costs. We calculated approximately \$133,111.58 in indirect costs excluded from the cost per invoice calculation. Our calculation of cost per invoice, including indirect costs of \$133,111.58, results in a revised cost per invoice of \$8.33.
- C. The Invoice count used to calculate “Cost per Invoice” was for the period 11/1/03 -10/31/04, however, invoice costs were calculated for the period 7/1/03 – 6/30/04.

Recommendation No. 4A

For future Business Plans create written procedures for the collection, retention, and reporting of result data for **all** goal and key Outcome Indicators.

Auditor-Controller Response

Concur. For future business plans we will develop procedures for the collection of this data and retain those records for five years or until audited, whichever is sooner.

Recommendation No. 4B

For future Business Plans include indirect costs in the calculation of individual invoice transaction cost or modify the performance measure to include only direct costs.



Auditor-Controller Response

Concur. We will change the wording of this measure to indicate that only direct unit costs are included.

Recommendation No. 4C

For future Business Plans establish controls to ensure that calculation methods are consistent for **all** Outcome Indicator results and that documentation supports each measured result.

Auditor-Controller Response

Concur. For future Business Plans we will document the procedures for collecting this data and retain that documentation in our files for five years or until audited, whichever is sooner.

Finding No. 5 (3 Star)

Auditor-Controller Key Outcome Indicator: 99% of State and Federal funds will be claimed in time to satisfy cash flow requirements (#3).

Auditor-Controller Stated Results: The department achieved better than 99% compliance.

The Board of Supervisors Internal Audit Department validation found that:

- A. The Auditor-Controller's documentation did not support the Results that 99% of claims were processed timely to meet cash flow requirements. Outstationed accounting sections prepare a bi-monthly status report that reports on the timeliness of claims and reports. However, based on our review of documentation provided we could not verify the Auditor-Controller's results that 99% of claims were processed timely.
- B. The results reported by some managers that reports/claims were processed on time was not accurate, based on our subsequent testing of claims. Our testwork included a sample of 26 claims processed by 2 outstationed accounting sections in FY 2003-2004. We found that 6 or 23% were submitted after the award requirement or outstationed accounting section policy.

Recommendation No. 5A

For future Business Plans create written procedures for the collection, retention, and reporting of result data for **all** goal and key Outcome Indicators.

Auditor-Controller Response

Concur. We concur with the recommendation and will create written procedures and improve our documentation. However, we would like to point out that we are confident that we met the goal of claiming 99% of Federal and State funds on time to satisfy cash flow requirements. By comparing the number of late claims/reports referenced in our status reports to the total number of claims/reports, we were able to objectively reach this conclusion for the Business Plan.

Recommendation No. 5B

For future Business Plans establish controls to ensure that calculation methods are consistent for **all** Outcome Indicator results and that documentation supports each measured result.



Auditor-Controller Response

We do not concur with the Stated Results. Although we agree with the recommendation, we do not concur with the Stated Results. Documentation was provided to the auditor showing why none of the cited claims were considered late. One of the six claims in question was submitted by HCS Accounting to the California Department of Aging (CDA). CDA allows for a small grace period for reporting, especially when the due date falls on a weekend (as was the case for this claim). A request for a short extension was made to CDA and it was granted. The claim was filed before the revised due date and is therefore not considered late.

The remaining five claims were submitted by HCA Accounting to various State or local funding sources. There are several reasons, as explained to the auditor, why these five claims were not considered late. First, none of these five claims have formal due dates. The referenced out stationed accounting section policy is only an internal guideline set by HCA Accounting for submission of claims for managerial review. Additionally, all five of these claims were delayed by circumstances beyond the control of HCA Accounting. As such, we do not consider these reports to have been submitted late. Moreover, we would like to point out that because none of these claims have official due dates or financial penalties, 100% of the claimed amounts were received, and cash flow needs were met we believe the Key Outcome Indicator was met in these cases.

Internal Audit Department Rejoinder to Auditor-Controller Response

We recognize the fact that the claims were submitted by the State or local funding sources formal due dates (timelines). However, our observation pertains to the fact that the Auditor-Controller **internally established** performance measure was not met in several instances. Our recommendation is that Auditor-Controller management clarifies what timeline they want to report on, the "Program" or on their "Internal" timeline as it is currently stated in their Business Plan.

Finding No. 6 (3 Star)

Auditor-Controller Key Outcome Indicator: Reduce hard copy and fiche printing and distribution cost by 20% (#5).

Auditor-Controller Stated Results: Countywide rollout of WebERMI has been completed. User training substantially completed. Expanded usage of Data Mining. Financial hardcopy reports have been turned off for IWMD, CSS, RDMD, HCA, and SSA. Resulting savings for report print and distribution estimated at \$95,000 for FY 03-04.

The Board of Supervisors Internal Audit Department validation found that the stated Result is not accurate. According to supporting documentation, there was an increase in costs of \$15,746.20, rather than a savings of \$95,000.

The Auditor-Controller staff during our exit meeting provided us with additional documentation to support distribution savings. Upon testing of this information, we found that we could not verify the hours used to calculate the reported cost savings.

Recommendation No. 6

For future Business Plans establish controls to ensure that calculation methods are consistent for **all** Outcome Indicator results and that documentation supports each measured result.



Auditor-Controller Response

Concur. We will document calculation methods and will retain appropriate documentation supporting each measured result. It should be pointed out that factors beyond the Auditor's control, namely, unexpected and substantial increases in printing rates charged by the Data Center, caused the costs to rise. Print volume was actually reduced by approximately 2 million pages in FY 03-04. Had rates remained constant between FY 02-03 and FY 03-04, the reduction in print volume would have resulted in the projected savings of \$95,000. In the next Fiscal Year (FY 04 -05) print charges alone were reduced by \$186,761 well beyond the expected target of \$120,000. This does not include cost savings related to distribution. We expect to end tracking of this specific measure in the next Fiscal Year and begin tracking a new measure.



ATTACHMENT A: Auditor-Controller Management Responses



DAVID E. SUNDSTROM, CPA
AUDITOR-CONTROLLER

AUDITOR-CONTROLLER COUNTY OF ORANGE

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INFORMATION TECHNOLOGY

March 28, 2006

TO: Peter Hughes, Director
Internal Audit Department

SUBJECT: Response to Internal Audit Revised Draft Report on Performance Measure
Validation of Auditor-Controller

RECEIVED
INTERNAL AUDIT DEPARTMENT
2006 MAR 28 AM 11:02

Following are our responses to the subject audit report. In those cases where we concur with your recommendations we plan to complete implementation in time for application in the next Business Plan cycle. However, we will work to complete the documentation of our related policies and procedures by September 1, 2006. Please feel free to contact me if you have any questions or if you'd like to discuss this further.

Recommendation No. 1A

For future Business Plans, we recommend that the A-C document methodology for survey distribution.

Auditor-Controller Response

Concur.

Recommendation No. 1B

For future Business Plans, we recommend that the A-C maintain evidence of survey distribution.

Auditor-Controller Response

We do not concur with the Stated Results. Although we agree that evidence of survey distribution should be maintained, we do not agree with the Stated Results. As discussed with the auditors, we did maintain documentation to support the distribution of surveys at the Social Services Agency. More specifically, we maintained a distribution list showing the 210 SSA employees to whom the survey was distributed. The same list also shows the approximately 70 employees who responded to the survey. We believe this adequately documents the distribution of the surveys. However, to provide additional documentation in the future, we will also retain a copy of the survey transmittal email.

Recommendation No. 2A & 2B

For future Business Plans create written procedures for the collection, retention, and reporting of result data for **all** goal and key Outcome Indicators.



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March 28, 2006
Page 2

Auditor-Controller Response

Concur. For future business plans we will develop procedures for the collection of this data and retain those records for five years or until audited, whichever is sooner.

Recommendation No. 2C

For future Business Plans use a statistically valid random sample selection of vendors to survey.

Auditor-Controller Response

We do not concur with the Stated Results. The finding indicates that there was a pool of 50,000 vendors to survey. As discussed with the auditors, the number of open, active and unique vendors doing business with the County is closer to 5,000. The total vendor number used in the finding includes those vendors bidding with the county, and includes duplicate vendor numbers for the same company.

Do not concur with the recommendation. For many reasons we believe a judgmental sample is superior to a statistically valid random sample for the vendor survey. Our judgmental sample size was significant and included 500 unique vendors from a pool of about 5,000 active vendors and was structured in a way to include all vendor types. Overall, we believe this methodology provides a cost effective means to evaluate this Outcome Indicator. However, we will modify the wording in our Business Plan to make it clear that we use a judgmentally selected sample covering a specific time period.

Recommendation No. 3

For future Business Plans revise Goal Outcome Indicator #3.C to “met all biweekly payroll deadlines,” from “issuing all County employee biweekly paychecks on time.”

Auditor-Controller Response

Concur.

Recommendation No. 4A

For future Business Plans create written procedures for the collection, retention, and reporting of result data for **all** goal and key Outcome Indicators.

Auditor-Controller Response

Concur. For future business plans we will develop procedures for the collection of this data and retain those records for five years or until audited, whichever is sooner.

Recommendation No. 4B

For future Business Plans include indirect costs in the calculation of individual invoice transaction cost or modify the performance measure to include only direct costs.



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March 28, 2006
Page 3

Auditor-Controller Response

Concur. We will change the wording of this measure to indicate that only direct unit costs are included.

Recommendation No. 4C

For future Business Plans establish controls to ensure that calculation methods are consistent for all Outcome Indicator results and that documentation supports each measured result.

Auditor-Controller Response

Concur. For future Business Plans we will document the procedures for collecting this data and retain that documentation in our files for five years or until audited, whichever is sooner.

Recommendation No. 5A

For future Business Plans create written procedures for the collection, retention, and reporting of result data for all goal and key Outcome Indicators.

Auditor-Controller Response

Concur. We concur with the recommendation and will create written procedures and improve our documentation. However, we would like to point out that we are confident that we met the goal of claiming 99% of Federal and State funds on time to satisfy cash flow requirements. By comparing the number of late claims/reports referenced in our status reports to the total number of claims/reports, we were able to objectively reach this conclusion for the Business Plan.

Recommendation No. 5B

For future Business Plans establish controls to ensure that calculation methods are consistent for all Outcome Indicator results and that documentation supports each measured result.

Auditor-Controller Response

We do not concur with the Stated Results. Although we agree with the recommendation, we do not concur with the Stated Results. Documentation was provided to the auditor showing why none of the cited claims were considered late. One of the six claims in question was submitted by HCS Accounting to the California Department of Aging (CDA). CDA allows for a small grace period for reporting, especially when the due date falls on a weekend (as was the case for this claim). A request for a short extension was made to CDA and it was granted. The claim was filed before the revised due date and is therefore not considered late.

The remaining five claims were submitted by HCA Accounting to various State or local funding sources. There are several reasons, as explained to the auditor, why these five claims were not considered late. First, none of these five claims have formal due dates. The referenced out stationed accounting section policy is only an internal guideline set by HCA Accounting for submission of claims for managerial review. Additionally, all five of these claims were delayed by circumstances beyond the control of HCA Accounting. As such, we do not consider these reports to have been submitted late. Moreover, we would like to point out that because none of



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these claims have official due dates or financial penalties, 100% of the claimed amounts were received, and cash flow needs were met we believe the Key Outcome Indicator was met in these cases.

Recommendation No. 6

For future Business Plans establish controls to ensure that calculation methods are consistent for **all** Outcome Indicator results and that documentation supports each measured result.

Auditor-Controller Response:

Concur. We will document calculation methods and will retain appropriate documentation supporting each measured result. It should be pointed out that factors beyond the Auditor's control, namely, unexpected and substantial increases in printing rates charged by the Data Center, caused the costs to rise. Print volume was actually reduced by approximately 2 million pages in FY 03-04. Had rates remained constant between FY 02-03 and FY 03-04, the reduction in print volume would have resulted in the projected savings of \$95,000. In the next Fiscal Year (FY 04 -05) print charges alone were reduced by \$186,761 well beyond the expected target of \$120,000. This does not include cost savings related to distribution. We expect to end tracking of this specific measure in the next Fiscal Year and begin tracking a new measure.



David E. Sundstrom
Auditor-Controller

ChiefDpt/Rsp to Perf Meas

