

MONTHLY REPORT TO THE BOARD OF SUPERVISORS

by

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INTERNAL AUDIT DEPARTMENT AUDIT ACTIVITY FOR THE MONTH OF DECEMBER 2004

Monthly Summary – December 2004

Status Report to the Board of Supervisors by IAD

	Department and Description	Comments
1.	<p><u>1st Follow-Up Audit No. 2440:</u></p> <p>Issued: 12/30/04</p> <p>DEPT: Sheriff-Coroner</p> <p>Original Audit No.: 2235</p> <p>Issued: 3/4/03</p> <p>Title: Follow-Up of Department Control Review of Cash Disbursements, Trust Funds, Special Appropriation Funds, Revolving Funds and Flash Fund</p>	<p>1st Follow-Up Audit of <u>cash disbursements</u> in Sheriff-Coroner Office to determine if corrective action had been taken for the 16 recommendations we noted in our original audit. 13 recommendations have been fully implemented, 2 are in process, and 1 is partially implemented.</p> <p>CONCLUSION: The Sheriff-Coroner Office is making satisfactorily progress and their corrective actions adequately addressed the more important audit concerns identified. The 3 remaining recommendations not fully implemented will be addressed by IAD in a 2nd Follow-Up Audit to be performed in 2005.</p> <p>BACKGROUND: The original audit assessed the adequacy of processes, procedures and controls to 1) properly protect cash funds from losses; 2) to ensure the disbursements are accurately, timely and completely accounted for; 3) that disbursements are for proper expenditures that are adequately supported and approved.</p> <p>Trust Funds: There is 1 main trust fund with 17 sub-accounts each having a specific purpose and use. These funds are used to temporarily hold deposits and to distribute fees, revenue, and required payments to the State, courts, cities and vendors. Over \$5 million was paid out from these funds over the year.</p> <p>Revolving Funds: There are 30 locations with revolving funds that are used for change funds, cash travel advances and for making small petty cash purchases. About \$1.8 million was paid from revolving funds over the year.</p> <p>Special Appropriation Funds/Flash Fund: These funds are for expenses incurred in criminal cases involving narcotics, vice, and other special investigations. There are two special appropriations funds totaling \$500,000, and about \$171,000 was expended over the year. The flash fund balance is maintained at \$30,000, and that same amount was used during the year.</p> <p>TYPE OF RECOMMENDATIONS: Reassign certain control tasks to more than one employee, enhance management reviews and approvals, improve controls to prevent losses of funds, and enhance the reconciliation and cash handling processes.</p>

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2.	<p><u>2nd Follow-Up Audit No. 2440:</u></p> <p>Issued: 12/29/04</p> <p>DEPT: Sheriff-Coroner</p> <p>Original Audit No.: 2131</p> <p>Issued: 10/18/01</p> <p>1st Follow-Up Report Issued: Sept. 9, 2003</p> <p>Title: Second Follow-Up of Department Control Review of Cash Receipts and Trust Funds</p>	<p>2nd Follow-Up Audit of <u>cash receipts and trust fund disbursements</u> in Sheriff-Coroner Office to determine if corrective action had been taken for the 6 recommendations not fully implemented from our 1st follow-up audit report. 5 recommendations have been fully implemented and 1 is in process.</p> <p>CONCLUSION: The Sheriff-Coroner Office is making satisfactorily progress and their corrective actions adequately addressed the more important audit concerns identified. The 1 remaining recommendation not fully implemented will be addressed by IAD in a 3rd Follow-Up Audit to be performed in 2005.</p> <p>BACKGROUND: The original audit assessed the adequacy of processes, procedures and controls to 1) properly protect cash funds from losses; 2) ensure the cash receipts are properly collected, recorded, deposited, and reconciled; 3) that disbursements from trust funds are proper, adequately supported and authorized; 4) determine compliance with County Accounting Procedures.</p> <p>Cash Receipts: Monies are collected by various divisions for bail, fingerprinting, unclaimed property, licenses, and for receipts from jail commissaries. About \$24 million in cash receipts was received during the year.</p> <p>Trust Funds: The Sheriff-Coroner (formerly Marshal Department) maintains a trust fund at each of the five Courts to hold monies collected for civil process transactions. These monies are eventually disbursed to litigants and to the Sheriff-Coroner for service fees. Cash receipts collected and amounts paid out during the year in aggregate were about \$22 million.</p> <p>TYPES OF RECOMMENDATIONS: Reassign certain control tasks to more than one employee, enhance management reviews and approvals, improve controls to prevent losses of funds, and enhance the reconciliation and cash handling processes to ensure better control over funds.</p>
3.	<p><u>1st Follow-Up Audit No. 2440:</u></p> <p>Issued: 12/16/04</p>	<p>1st Follow-Up Audit of <u>purchasing card transactions</u> in Integrated Waste Management Department (IWMD) to determine if corrective action had been taken for the 2 recommendations we noted in our original audit. Both recommendations have been fully implemented.</p>

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	<p>DEPT: Integrated Waste Management Department (IWMD)</p> <p>Original Audit No.: 2346:</p> <p>Issued: 5/5/04</p> <p>Title: Follow-Up of Department Control Review – Purchasing Card Program</p>	<p>CONCLUSION: IWMD took adequate corrective actions to address the 2 audit concerns we identified.</p> <p>BACKGROUND: The original audit assessed the adequacy of processes, procedures and controls to 1) ensure purchasing card transactions are valid, accurately supported, and approved by management; 2) are in compliance with the County’s Purchasing Card manual; 3) that purchases were proper and did not circumvent purchasing card requirements.</p> <p style="padding-left: 40px;">Purchasing Cards: IWMD had 5 purchasing cardholders at the time of our audit and spent \$154,196 using the purchasing cards during the year.</p> <p>TYPE OF RECOMMENDATIONS: Maintain adequate supporting documentation for all purchases, and ensure changes in purchasing card personnel are communicated to CEO/Purchasing which provides oversight of the purchasing card program.</p>
4.	<p><u>1st Follow-Up Audit No. 2440:</u></p> <p>Issued: 12/16/04</p> <p>DEPT: Orange County Public Library (OCPL)</p> <p>Original Audit No.: 2346</p> <p>Issued: 5/5/04</p> <p>Title: Follow-Up of Department Control Review – Purchasing Card Program</p>	<p>1st Follow-Up Audit of purchasing card transactions in the Orange County Public Library (OCPL) to determine if corrective action had been taken for the 1 recommendation we noted in our original audit. The recommendation has been fully implemented.</p> <p>CONCLUSION: OCPL took adequate corrective action to address the 1 audit concern we identified.</p> <p>BACKGROUND: The original audit assessed the adequacy of processes, procedures and controls to 1) ensure purchasing card transactions are valid, accurately supported, and approved by management; 2) are in compliance with the County’s Purchasing Card manual; 3) that purchases were proper and did not circumvent purchasing card requirements.</p> <p style="padding-left: 40px;">Purchasing Cards: OCPL had 11 purchasing cardholders at the time of our audit and spent \$166,920 using the purchasing cards during the year.</p> <p>TYPE OF RECOMMENDATION: Ensure management documents their review and approval.</p>

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5.	<p><u>1st Follow-Up Audit No. 2440:</u></p> <p>Issued: 12/16/04</p> <p>DEPT: Assessor</p> <p>Original Audit No.: 2346</p> <p>Issued: 5/5/04</p> <p>Title: Follow-Up of Department Control Review – Purchasing Card Program</p>	<p>1st Follow-Up Audit of <u>purchasing card transactions</u> in the Assessor’s Office to determine if corrective action had been taken for the 2 recommendations we noted in our original audit. Both recommendations have been fully implemented.</p> <p>CONCLUSION: Assessor’s Office took adequate corrective action to address the 2 audit concerns we identified.</p> <p>BACKGROUND: The original audit assessed the adequacy of processes, procedures and controls to 1) ensure purchasing card transactions are valid, accurately supported, and approved by management; 2) are in compliance with the County’s Purchasing Card manual; 3) that purchases were proper and did not circumvent purchasing card requirements.</p> <p>Purchasing Cards: The Assessor’s Office had 2 purchasing cardholders at the time of our audit and spent \$26,830 using the purchasing cards during the year.</p> <p>TYPE OF RECOMMENDATION: Maintain adequate supporting documentation for all purchases, and maintain a Purchasing Card Log for telephone, mail order and Internet purchases.</p>
6.	<p><u>Audit No. 2411</u></p> <p>Issued: 12/15/04</p> <p>DEPT: District Attorney (DA)</p> <p>Title: County of Orange District Attorney’s Office Spousal Abuser Prosecution Program Report on Audit (Grant Award No. 03SA10B017)) For the Year Ended June 30, 2004</p>	<p>We audited the District Attorney (DA) Office’s financial statements for the Grant to determine that budgeted amounts, expenditures, and costs claimed and accepted were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office’s compliance with certain laws, regulations and grant requirements.</p> <p>CONCLUSION: In our opinion, the financial statements presents fairly, in all material respects, the approved budget, cumulative expenditures, and allowable costs. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office’s had not complied with the laws, regulations, and grant requirements tested.</p>

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		<p>BACKGROUND: The grant is funded by the California Department of Justice, and the 2003/2004 fiscal year grant award totaled \$95,033. The grant requires the DA to provide a 20% (\$19,007) in-kind match, which is funded from the County General Fund.</p> <p>The grant agreement requires that the DA obtain an annual audit of the financial statements. The DA has the option of outsourcing the audit to an outside CPA firm or requesting that the County Internal Audit Department conduct the audit.</p>
7.	<p><u>Computer Assisted Audit Techniques (CAAT)</u> <u>Audit No. 2416 – K</u></p> <p>Issued: 12/02/04</p> <p>DEPT: Auditor-Controller (A-C), Human Resources (HR), and CEO/Purchasing.</p> <p>Title: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for November 2004.</p>	<p>We utilize a proprietary, best practices, and industry recognized software product to help us compile, sort, and screen through large amounts of data on a monthly and periodic basis to help us identify possible duplications in the County’s payroll and vendor’s payments as well as other exceptions.</p> <p>CONCLUSION:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We perform this analysis monthly to identify duplicate payments made to vendors. We added 16,950 invoices paid during November 2004 and amounting to \$73,680,302 to our database. We identified two duplicate payments amounting to \$219 in November 2004. Duplicate payments identified to date are \$220,691 and amounts recovered to date are \$199,572. • <u>Employee/Vendor Relationships:</u> We perform this procedure annually to identify employees buying goods/issuing contracts to themselves or a related vendor. We compared 19,908 employee addresses with 80,218 vendor addresses. In November 2004, we submitted 8 matches to HR for their review. • <u>Working Retirees:</u> We perform this procedure once or twice a year to identify retirees working beyond legislated or contracted hour maximums. We reviewed all extra help retirees (236) for FY 03-04 and found one retiree had exceeded the established limits. Currently, HR continues to clarify the responsibilities and authority of OCERS versus the County and improve communications with the department HR staff and applicable retirees.

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		<p>BACKGROUND: The resulting observations and exceptions noted using CAAT are subjected to research and validation by the A-C, HR, or CEO/Purchasing for their review and/or correction. We also work with these departments to identify internal control enhancements whose purpose is to prevent future occurrences of the findings identified. We perform each type of analysis monthly, bi-annually, or annually depending on the individual objective.</p>
8.	<p><u>Audit No. 2408</u> Issued: 12/01/04 DEPT: Treasurer-Tax Collector (County Treasurer) Title: Report on Review of the Statement of Assets Held by the County Treasury as of September 30, 2004.</p>	<p>In our review of the Treasurer-Tax Collector’s (County Treasurer) <u>Statement of Assets Held (financial statement)</u>, we performed tests to determine whether the assets (cash, demand accounts and investments) held by the County Treasury were fairly stated, i.e. the assets exist, and are recorded accurately, completely, and timely.</p> <p>CONCLUSION: Based on our review, we were not aware of any material modifications that should be made to the financial statement for it to be fairly stated.</p> <p>BACKGROUND: At September 30, 2004 the County Treasury had total assets of \$4.998 billion, of which \$2.5 billion was in the County Pool; \$2.4 billion was in the Education Pool; and \$61 million was Non-Pooled.</p> <p>California Government Code requires that the elected Auditor-Controller perform quarterly reviews of statement of assets in the County treasury. The Auditor-Controller contracts with the Internal Audit Department to conduct these reviews on a quarterly basis.</p>