

# **MONTHLY REPORT TO THE BOARD OF SUPERVISORS**

by

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**INTERNAL AUDIT DEPARTMENT  
AUDIT ACTIVITY FOR THE  
MONTH OF JANUARY 2005**

## Monthly Summary – JANUARY 2005

### Status Report to the Board of Supervisors by IAD

#### MATERIAL FINDINGS

	Department and Description	Comments
		NONE

#### NON-MATERIAL FINDINGS

	Department and Description	Comments
1.	<p><u>Audit No. 2465:</u></p> <p>ISSUED: 1/12/05</p> <p>DEPT: Resources and Development Management Department</p> <p>TITLE: Special Purpose Review of Peacock Hill Equestrian Center</p>	<p>We performed a special purpose revenue review of the Peacock Hills Equestrian Center at Irvine Regional Park. The Lease Agreement between the County and the lessee expired in September 2002 and is currently operated on a month-to-month holdover. RDMD is negotiating a new Agreement. The purpose of our review was to perform a limited review of the lessee’s accounting records for adequacy and compliance with the Agreement in order to identify any potential issues that should be addressed by RDMD in the new Agreement.</p> <p>Our review was limited to performing analytical procedures of gross receipts for reasonableness, a follow-up of issues identified by our prior audit in 1998, and a review of the lessee’s and sublessee’s source documents and accounting records. We did not perform detailed testing of transactions or accounting records.</p> <p><b>CONCLUSION:</b> We found the lessee’s and sublessee’s source documents and accounting records <b>generally appear to comply with the Agreement.</b> We did note five suggestions for RDMD’s consideration in the new Agreement in the areas of: financial statement requirements, security deposit, contract trainer records, accounting methods, and liability release forms. RDMD informed us that it is working to address these issues in the new Agreement.</p>

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	Department and Description	Comments
2.	<p><u>Audit No. 2416 – L</u> <u>Computer Assisted Audit Techniques (CAAT)</u></p> <p>ISSUED: 1/26/05</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 December 2004.</p>	<p>We utilize a proprietary, best practices, and industry recognized software product to help us compile and query large amounts of data looking for specified characteristics. These automated queries are commonly known as CAATs (Computer Assisted Audit Techniques). We perform the CAAT routines monthly, bi-annually, or annually depending on the nature of the specific routine.</p> <p><b>CONCLUSION:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors</u>: We perform this analysis monthly to identify duplicate payments made to vendors. We added 16,942 invoices paid during November 2004 and amounting to \$166,888,415 to our database. <b>No potential duplicate payments were identified in the November 2004 data.</b></li> <li>• <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. Human Resources reviewed the matches with the applicable departments and determined that <b>no conflict of interest existed for 7 of the 8 matches.</b> The remaining 1 match is still being reviewed by Human Resources</li> <li>• <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 <b>found one retiree had exceeded the established limits.</b> HR continues to clarify the responsibilities and authority of OCERS versus the County and improve communications with the department HR staff and applicable retirees.</li> </ul> <p><b>BACKGROUND:</b> The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population.</p>

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	Department and Description	Comments
		<p>The resulting matches identified by the CAATs are subjected to further review and analysis by the Internal Audit Department. We then forward any resulting findings to the A-C, HR, or CEO/Purchasing for their review and concurrence, and subsequent correction/recovery. We also work with these departments to identify internal control enhancements with the purpose of preventing future occurrences of the type of findings identified by the CAATs.</p>
3.	<p><u>Report No. 2402</u></p> <p>ISSUED: 1/28/05</p> <p>DEPT: County Wide/Internal Audit Department</p> <p>TITLE: Orange County Employees Fraud Hotline Activity For the Period September 24 – December 31, 2004.</p>	<p>The Orange County Internal Audit Department established and runs the Orange County Employees Fraud Hotline as part of its ongoing fraud detection and prevention effort. The establishment of a Hotline is a best practice and a requirement of the Sarbanes-Oxley Act of 2002, which must be followed by public companies.</p> <p><b>CONCLUSION:</b> IAD received twelve calls during the period, of which two calls were actionable. The two actionable calls concerned allegations of employee misconduct. One caller alleged time abuse and noncompliance with Government Code, and the other caller alleged unprofessional employee conduct. During the period, <b>IAD finalized and closed four cases.</b> The allegations for the four cases closed found without merit.</p>