

IAD'S MONTHLY ACTIVITY REPORT

FOR

JULY 2005

TO THE

BOARD OF SUPERVISORS

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.



*Integrity
Objectivity
dependence*

by the Director of Internal Audit

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Monthly Summary – July 2005

Status Report to the Board of Supervisors by IAD

We finished 5 projects this month:

- We completed 3 Follow Up Audits of Resources & Development Management Department (Revolving Funds, Purchased Utilities/Chilled water & Steam) and Health Care Agency Cash Receipts.
 - We noted that RDMD fully implemented 3 recommendations and partially implemented 4 recommendations pertaining to revolving funds.
 - We noted that RDMD fully implemented all 5 recommendations pertaining to purchased utilities and chilled water & steam.
 - We noted that the HCA fully implemented all 11 recommendations pertaining to cash receipts.

- We completed 2 Audits:
 - We validated 2 of the 34 control objectives on HCA's IT self-assessment. No material weaknesses or significant issues were identified. We identified fifteen reportable conditions. Seven related to creating or revising written policies/procedures and eight related to best practices/controls.
 - We found that McDonald's Corporation's lease revenue amounting to \$750,000 due the County was properly remitted.

Monthly Summary – July 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>DEPT: Resources & Development Management Department (RDMD)</p> <p>TITLE: Follow-Up Audit Department Control Review Resources & Development Management Department Revolving Funds, Original Audit No. 2431</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: July 7, 2005</p>	<p>SCOPE: 1st Follow-Up Audit of revolving fund processes to determine if corrective action had been taken for the 7 recommendations we noted in our original audit. No material or significant weaknesses were identified in the original audit.</p> <p>CONCLUSION: 3 recommendations were fully implemented and 4 recommendations were partially implemented. RDMD is establishing processes to fully implement the remaining recommendations in the areas of authorized signature lists, inventories of blank checks, segregation of duties, and fund reconciliations.</p> <p>BACKGROUND: The original audit assessed the processes, procedures and controls over revolving funds at four locations: Central Fund Allocation (\$76,095); Facilities Ops. (\$3,000); Ops. & Maintenance (\$3,050) and Transportation (\$1,100). RDMD has a total of \$114,500 in revolving funds that are disbursed from 39 different locations. During FY 2003/04, there were approximately \$176,600 revolving fund disbursements.</p> <p>TYPE OF RECOMMENDATIONS: Maintain current signature lists; perform inventories of unused checks; ensure segregation of revolving fund duties; reconcile revolving fund accounts and resolve differences timely; ensure locations are aware of allowable uses; and report all 1099 tax information to A/C Claims & Disbursing.</p>

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	Department and Description	Comments
2.	<p>DEPT: Health Care Agency</p> <p>TITLE: Follow-Up Audit Department Control Review Health Care Agency Cash Receipts, Original Audit No. 2435</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: July 14, 2005</p>	<p>SCOPE: 1st Follow-Up Audit of cash receipt processes to determine if corrective action had been taken for the 11 recommendations we noted in our original audit. No material or significant weaknesses were identified in the original audit.</p> <p>CONCLUSION: We are pleased to report all 11 recommendations were fully implemented.</p> <p>BACKGROUND: The original audit assessed the processes, procedures and controls over cash receipts at three HCA locations: Birth/Death Registration Unit (\$2.8 million deposits in FY 03/04), Budget Technical Unit (\$14.2 million cash receipts processed in FY 03/04); and Westminster Drug/Alcohol Services (\$6,328 deposits in FY 03/04).</p> <p>TYPE OF RECOMMENDATIONS: Establish accountability over cash receipts (e.g. transfer of accountability, check endorsement, collection records); ensure segregation of cash receipting duties; enhance controls over handwritten receipt forms (logs, periodic inventories); perform supervisory reviews of collections and deposits; make timely deposits; identify cash receipts processed by location.</p>

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3.	<p>DEPT: Health Care Agency</p> <p>TITLE: Limited Review of HCA's Information Technology (IT) Self-Assessment Questionnaire.</p> <p><u>Audit No.</u> 2420</p> <p>ISSUED: July 21, 2005</p>	<p>SCOPE: A pilot review limited to validating a sample of 2 of 34 control objectives from HCA's IT self-assessment questionnaire as of September 30, 2004. The two sample control objectives were:</p> <ul style="list-style-type: none"> • <u>Ensure Compliance with External Requirements:</u> includes controls for meeting legal, regulatory, and contractual obligations. • <u>Manage the Configuration:</u> includes controls for accounting for all IT components such as hardware and software, preventing unauthorized alteration, verifying physical existence, and providing a basis for sound change management. <p>CONCLUSION: We validated 2 of the 34 control objectives on HCA's IT self-assessment. No material weaknesses or significant issues were identified. We identified <u>fifteen</u> reportable conditions.</p> <p>BACKGROUND: In December 2003, the Internal Audit Department prepared and distributed to all County departments an IT self-assessment questionnaire. HCA Executive Management volunteered to be the pilot department for completion of the questionnaire. We appreciate HCA's time and effort with this new initiative and in accommodating our review. The questionnaire has 401 comprehensive questions organized into 34 areas or control objectives.</p> <p>TYPE OF RECOMMENDATIONS: Seven of the fifteen reportable conditions related to creating or revising written policies and procedures and the eight of the fifteen reportable conditions related to best practices/controls.</p>

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4.	<p>DEPT: Resources & Development Management Department</p> <p>TITLE: Follow-Up Audit Limited Review of Resources & Development Management Department Purchased Utilities and Chilled Water & Steam Billing Processes, Original Audit No. 2430</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: July 28, 2005</p>	<p>SCOPE: 1st Follow-Up Audit of revolving fund processes to determine if corrective action had been taken for the 5 recommendations we noted in our original audit. No material or significant weaknesses were identified in the original audit.</p> <p>CONCLUSION: We are pleased to report all 5 recommendations were fully implemented.</p> <p>BACKGROUND: The original audit assessed the processes, procedures and controls over the establishment and revisions of billing rates and overhead costs for purchased utilities and chilled water and steam provided to various County facilities. (Purchased utilities include electric, water and gas services.) We also reviewed the establishment and termination of utility accounts and the processing of utility payments.</p> <p>TYPE OF RECOMMENDATIONS: Establish policies to review billing rates and overhead costs on a regular basis; further clarify roles and responsibilities for conducting and reviewing fee studies; perform technical reviews of fee/cost studies; ensure space specifications of multiple-tenant buildings are verified and updated; perform supervisory reviews and cross-training to Purchasing & Contracts Utility Desk.</p>

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5.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Limited Review of Lease Revenue for McDonald's Corporation.</p> <p><u>Audit No.</u> 2563</p> <p>ISSUED: July 28, 2005</p>	<p>SCOPE: Limited review of lease revenue to determine if gross receipts reported to the County by McDonald's Corporation (McDonald's) were complete and supported by their records.</p> <p>CONCLUSION: We found that McDonald's gross receipts of approximately \$5.4 million and \$750,000 of rent paid to the County were supported by their records and appeared complete. No material weaknesses, significant issues, or reportable conditions were identified.</p> <p>BACKGROUND: In 1990, the County entered into a lease agreement with McDonald's for the operation of two fast food service areas at John Wayne Airport. McDonald's generates about \$5.4 million in gross receipts annually and pays rent to the County of about \$750,000 annually.</p>