

IAD's MONTHLY ACTIVITY REPORT
FOR
MARCH 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
Independence*

by the Director of Internal Audit
Dr. Peter Hughes, MBA, CPA,
Certified Information Technology Professional (CITP),
Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE)

Monthly Summary – MARCH 2005
Status Report to the Board of Supervisors by IAD

We finished 7 projects this month:

- We completed 3 Follow Up Audits of Cash Receipting for Child Support Services, and Resources & Development Management Department, and of HIPAA Privacy Rule Practices:
 - We noted 24 corrective actions taken on 26 audit findings.

- We completed 4 Audits:
 - We found that lease revenue amounting to \$2.8 million due the County were properly remitted.
 - We found that controls over RDMD trust and agency finds disbursements amounting to \$10 million were adequate and properly operating.
 - We completed two of our monthly audits of vendor payments and identified duplicate payments of \$36,000 which are being pursued by the Auditor Controller.

Monthly Summary – MARCH 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: Child Support Services (CSS)</p> <p>TITLE: Follow-Up Audit Departmental Control Review Child Support Services Cash Receipts/Trust Departmental Funds and Revolving Funds</p> <p><u>Audit No.</u> 2532/2330</p> <p>ISSUED: March 31, 2005</p>	<p>SCOPE: 1st Follow-Up Audit of cash receipt, trust/departmental fund and revolving fund processes to determine if corrective action had been taken for the 23 recommendations we noted in our original audit. No material weaknesses or significant issues were identified in the original audit.</p> <p>CONCLUSION: 21 recommendations were fully implemented and 2 were partially implemented. CSS is implementing new procedures for the remaining recommendations.</p> <p>BACKGROUND: The original audit assessed the processes, procedures and controls over the collection, recording, depositing, reconciling, and safeguarding of cash receipts, trust/departmental funds and revolving funds. During the audit period, CSS collected \$165 million in cash receipts and expended approximately \$32,700 of revolving funds.</p> <p>TYPE OF RECOMMENDATIONS: Enhance user access, security and physical safeguards over computer system used for child support collections; establish controls over cash receipts and revolving funds to improve accountability and compliance with County Accounting Procedures; perform complete and timely reconciliations of all funds and accounts.</p>

Monthly Summary – MARCH 2005
Status Report to the Board of Supervisors by IAD

	Department and Description	Comments
2.	<p>DEPT: Resources & Development Management Department</p> <p>TITLE: Limited Review of Rancho Beach House, Inc. (RBH)</p> <p><u>Audit No.</u> 2461</p> <p>ISSUED: March 30, 2005</p>	<p>SCOPE: Limited review of lease revenue to determine if gross receipts reported to the County by Rancho Beach House were complete and supported by their records.</p> <p>CONCLUSION: We found that Rancho Beach House's gross receipts were supported by their records and appeared complete. No material weaknesses or significant issues were identified. We identified <u>twelve</u> reportable conditions related to compliance with the lease agreement or suggestions for improvement.</p> <p>BACKGROUND: In 2001, the County entered into a lease agreement with Rancho Beach House for the operation of a restaurant at Dana Point Harbor. Rancho Beach House generates about \$2.8 million of gross receipts annually.</p> <p>TYPE OF RECOMMENDATIONS: Improvements to supporting documentation and processes for banquets and gift cards, financial statements not complying with the lease agreement, reporting of internet sales, approval of valet services, minor clerical errors, and signing monthly rent reports under penalty of perjury.</p>

Monthly Summary – MARCH 2005
Status Report to the Board of Supervisors by IAD

	Department and Description	Comments
3.	<p>DEPT: Resources & Development Management Department</p> <p>TITLE: Department Control Review Resources & Development Management Department Trust and Agency Fund Disbursements</p> <p><u>Audit No.</u> 2432</p> <p>ISSUED: March 30, 2005</p>	<p>SCOPE: Audit of procedures, processes and controls to ensure trust and agency fund disbursements are properly authorized, recorded and complied with County Accounting Procedures; and that trust and agency funds are adequately monitored and properly reconciled.</p> <p>CONCLUSION: Controls were in place to ensure fund disbursements were properly authorized, recorded and compliant with applicable procedures. Trust and agency funds were properly monitored and reconciled, except for one trust fund (see below). Our audit identified four (4) observations containing seven (7) recommendations to enhance internal controls. Of the four observations reported, one was a “Significant Issue” and three were “Reportable Conditions.”</p> <p>The significant issue involved the Real Property Services Trust Fund (300-367) where RDMD’s records showed \$833,770 in non-cash security deposits that were no longer in RDMD’s possession. The non-cash security deposits were physically transferred to CEO/Real Estate in June 1997, yet they remained recorded under RDMD.</p> <p>BACKGROUND: RDMD has ten trust and agency funds to hold collections for road improvements and drainage facilities, refundable cash and non-cash security deposits, and donations. During FY 2003-04, there were approximately \$10 million cash and non-cash disbursement transactions and over \$11 million cash receipts processed for the trust and agency funds.</p> <p>TYPE OF RECOMMENDATIONS: RDMD, A/C, and CEO coordinate efforts to ensure non-cash security deposits in Trust Fund 300-367 are accurately recorded under the appropriate controlling department; RDMD establish a process to determine the status of its active negotiable instruments; RDMD/Accounting enhance controls over deposit refunds and supervisory reviews.</p>

Monthly Summary – MARCH 2005
Status Report to the Board of Supervisors by IAD

	Department and Description	Comments
4.	<p>DEPT: Board of Supervisors</p> <p>TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for March 2005.</p> <p><u>Audit No.</u> 2518-C Computer Assisted Audit Techniques (CAAT)</p> <p>ISSUED: March 28, 2005</p>	<p>SCOPE: The monthly CAAT Routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform five CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, biannually, or annually.</p> <p>CONCLUSION: <u>Duplicate Payments to Vendors:</u> Three duplicate payments for \$242 were identified in the February 2005 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 17,023 invoices paid during February 2005 amounting to \$69,358,327.</p> <p>BACKGROUND: 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> <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>

Monthly Summary – MARCH 2005
Status Report to the Board of Supervisors by IAD

	Department and Description	Comments
5.	<p>DEPT: County Executive Office</p> <p>TITLE: Follow-Up Audit Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy Rule Compliance, Original Audit 2452</p> <p><u>Audit No.</u> 2556</p> <p>ISSUED: March 2, 2005</p>	<p>SCOPE: Follow-Up Audit of the County’s compliance with the HIPAA Privacy Rule to determine if corrective action had been taken for the 2 recommendations we noted in our original audit. No material weaknesses or significant issues were identified in the original audit.</p> <p>CONCLUSION: Both recommendations were fully implemented.</p> <p>BACKGROUND: The HIPAA Privacy Rule, effective April 14, 2003, was implemented to protect the privacy of an individual’s medical information and provides limits on how their protected health information (PHI) is used.</p> <p>TYPE OF RECOMMENDATIONS: Revise Notice of Privacy Practices to include a missing required element; develop written guidelines for conducting annual HIPAA reviews of departments/agencies.</p>

Monthly Summary – MARCH 2005
Status Report to the Board of Supervisors by IAD

	Department and Description	Comments
6.	<p>DEPT: Resources & Development Management Department</p> <p>TITLE: Follow-Up Audit Resources and Development Management Department/ Planning and Development Services Cash Receipts, Audit No. 2017</p> <p><u>Audit No. 2533</u></p> <p>ISSUED: March 2, 2005</p>	<p>SCOPE: 4th Follow-Up Audit of cash receipts process of the former Planning and Development Services Department (PDSD) to determine if corrective action had been taken for 1 recommendation concerning an unreconciled difference of \$119,580 in the Customer Trust Account fund. Under our current classification of report items, this would have been considered a significant issue.</p> <p>CONCLUSION: The recommendation to resolve the unreconciled difference has been fully implemented.</p> <p>BACKGROUND: RDMD/Accounting Services and the Auditor-Controller determined that the discrepancy occurred between 1992 - 1993 and was deemed the result of an accounting error and not a cash loss. In February 2005, a budget transfer in the amount of \$119,580.61 from Fund 113 into the Customer Trust Account was approved and made.</p> <p>TYPE OF RECOMMENDATION: Research, identify and resolve the unreconciled difference.</p>

Monthly Summary – MARCH 2005
Status Report to the Board of Supervisors by IAD

	Department and Description	Comments
7.	<p>DEPT: Board of Supervisors</p> <p>TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for February 2005.</p> <p><u>Audit No.</u> 2518-B Computer Assisted Audit Techniques (CAAT)</p> <p>ISSUED: March 1, 2005</p>	<p>SCOPE: The monthly CAAT Routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform five CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, biannually, or annually.</p> <p>CONCLUSION:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> Nine duplicate payments for \$35,671 were identified in the January 2005 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 18,329 invoices paid during January 2005 amounting to \$229,599,102. • <u>Employee/Vendor Relationships:</u> The 9 items previously identified have been resolved to HR's satisfaction. This routine is performed annually and will not be performed again for several months. <p>BACKGROUND: 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> <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>