

# MONTHLY AUDIT ACTIVITY REPORT FOR AUGUST 2008 TO THE BOARD OF SUPERVISORS

Presented on Board Agenda  
September 23, 2008

Project No. 2807-2

by the Director of Internal Audit  
**Dr. Peter Hughes, MBA, CPA**

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# Letter from Director Peter Hughes



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September 23, 2008

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of August 2008. Each report has an overview and a detailed briefing for your review.

As always, I'm available at your convenience to discuss any aspect of these items.

Respectfully submitted,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA

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

**MONTHLY AUDIT ACTIVITY – August 2008**  
Status Report to the Board of Supervisors by IAD

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**THE FOLLOWING ITEMS ARE SUMMARIZED BELOW:**

- | <u>Exhibit</u> | <u>Audits:</u>  |
|----------------|---|
| B.             | <u>Sheriff-Coroner:</u> Audit of DMJM H&N Contracts and A-E Contract Management Process. We found that the Sheriff-Coroner was in compliance with County and Sheriff-Coroner policies with the A-E contracts with DMJM H&N, and had implemented several best practices to ensure the integrity of their A-E contract management processes. <b>No material weaknesses or significant issues were noted.</b> We identified <b>five (5) Control Findings</b> and <b>four (4) Efficiency/Effectiveness Issues</b> resulting in <b>nine (9) recommendations</b> to enhance their controls and process. |
| C.             | <u>Clerk-Recorder:</u> South County Branch Office Cash Receipts. Audit of internal controls over cash receipts process at branch office. <b>No material or significant issues were identified.</b> <b>Six (6) recommendations</b> were made to enhance existing controls.   |
| D.             | <u>OC Community Resources/OC Parks - Sunset Aquatic Park:</u> Review of Revenue Generating Lease. Sunset Aquatic Park paid the proper amount of rent to the County. No material weaknesses or significant issues noted. We identified <b>3</b> control finding related to compliance with the lease agreement and/or improvements in internal controls.   |
| E.             | <u>County Executive Office:</u> Public Finance Accounting - Cash Receipts, Cash Disbursements and Selected Department/Trust Funds. Audit of internal controls over cash receipting and disbursing processes and oversight of selected department/trust funds. <b>No material or significant issues were identified.</b> <b>Eight (8) recommendations</b> were made to enhance existing controls.  |
| <u>Exhibit</u> | <b><u>Monthly Computer Assisted Audits of Vendor Payments (CAATs):</u></b>  |
| F.             | <u>Auditor Controller – Duplicate Payments to Vendors – August 2008:</u> We analyzed <b>16,402</b> vendor invoices paid in July 2008 amounting to about <b>\$94 million</b> and found <b>99.99%</b> of the invoices were only paid once. Of the \$94 million vendor invoices, we identified <b>8</b> duplicate payments made to vendors totaling <b>\$2,691.</b>  |

**MONTHLY AUDIT ACTIVITY – August 2008**  
Status Report to the Board of Supervisors by IAD

Exhibit

**Follow Up Audits:**

- G. Auditor-Controller: First Follow-Up Audit of the Integrated Internal Control Review of Accounts Receivable and Collection Processes – IT Results (Original Audit 2428-B). The original audit contained 37 recommendations. We found 16 recommendations have been fully implemented; 15 recommendations are closed; and 6 recommendations are not implemented. The Auditor-Controller is taking corrective action to address the remaining 6 recommendations.
- H. Internal Audit Department: **Final Close-Out** of Initial Follow Up Audit of the Performance Measure Validation of the Internal Audit Department. **We are pleased to report that 1 recommendation was fully implemented. As such, this report represents the final close-out of the original audit.**

**MONTHLY AUDIT ACTIVITY – August 2008**  
Status Report to the Board of Supervisors by IAD

**Detailed Breakout**

**MATERIAL FINDING:**

	Department and Description	Comments
		None issued during August 2008.

Board Date: September 23, 2008

Exhibit A, Page 5 of 13

For a copy of the complete audit report that contains the audit objective, scope, findings, recommendations, and management's response, contact the OC Internal Audit Department's website at <http://www.ocgov.com/audit/>

**MONTHLY AUDIT ACTIVITY – August 2008**  
 Status Report to the Board of Supervisors by IAD

**NON-MATERIAL FINDINGS**

Exhibit	Description	Comments
B.	DEPT: Sheriff-Coroner  TITLE: Audit of DMJM H&N Contracts and A-E Contract Management Process  REPORT NO: 2768  ISSUED: August 27, 2008	<p><b>Scope:</b> On January 15, 2008, the County Board of Supervisors directed the Internal Audit Department to perform an informational review of the vendor, DMJM H&amp;N, during Board discussion of the Sheriff-Coroner Architect-Engineering contract (\$2.4 million) with DMJM H&amp;N for the James A. Musick jail expansion master plan. In response to the Board's request and correspondence with Chairman John M.W. Moorlach's Office, we developed agreed-upon procedures and audited the Sheriff-Coroner 10 contracts with DMJM H&amp;N and the Architect-Engineering (A-E) contract management process for internal controls, compliance with County and Sheriff-Coroner policies and to recommend opportunities to implement best practices.</p> <p><b>Conclusion: No material weaknesses or significant issues were noted.</b> We found that the Sheriff-Coroner was in compliance with County and Sheriff-Coroner policies with the A-E contracts with DMJM, and had implemented several best practices to ensure the integrity of their A-E contract management processes. We identified <b>five (5) Control Findings</b> and <b>four (4) Efficiency/Effectiveness Issues</b> resulting in <b>nine (9) recommendations</b> to enhance their controls and process.</p> <p><b>Background:</b> Architect-Engineering service contracts do not fall under the purview of the County Purchasing Agent. These contracts are typically bid and monitored by a department/agency project manager. The Sheriff-Coroner uses their own Research and Development Division project managers or may use OC Public Works to bid and manage A-E contracts. The Sheriff-Coroner awarded to DMJM nine A-E contracts since November 2006, totaling \$3.16 million and at the time of our fieldwork a tenth contract was still in negotiation.</p>

Board Date: September 23, 2008

Exhibit A, Page 6 of 13

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**MONTHLY AUDIT ACTIVITY – August 2008**  
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
	<p>EXHIBIT B CONTINUED</p> <p>TITLE:                      Audit of Sheriff-Coroner DMJM                      H&amp;N Contracts and A-E Contract                      Management Process</p> <p>REPORT NO: 2768</p> <p>ISSUED: August 27, 2008</p>	<p><b>Type of Recommendations:</b> Project managers prepare a formal record of negotiation, and maintain an event log for A-E contract files; establish a consistent written methodology for calculating evaluation committee scores; determine the appropriate methodology for scoring A-E firms; implement a quality review process to ensure the accuracy of A-E evaluation scores; require that each evaluation committee member sign a no conflict of interest document, and that they will abide by evaluation committee rules; evaluation committee include a representative from the user division; and a copy of the record of negotiation be provided to the Board of Supervisors.</p>

Board Date: September 23, 2008

Exhibit A, Page 7 of 13

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**MONTHLY AUDIT ACTIVITY – August 2008**  
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
C.	DEPT: Clerk-Recorder  TITLE: Internal Control Review of South County Branch Office Cash Receipts Process  AUDIT NO: 2723  ISSUED: August 28, 2008	<p><b>Scope:</b> Audit of internal controls and processes over cash receipts at the Clerk-Recorder's South County Branch Office for the period from April 1, 2007 through March 31, 2008 to determine if cash receipts are processed completely, accurately, timely, and in accordance with County Accounting Procedures and the Clerk-Recorder's policies and procedures, and that cash receipts and critical business forms are safeguarded to minimize occurrence of misuse, loss or theft.</p> <p><b>Conclusion: No material weaknesses or significant issues were noted.</b> We found overall internal controls and processes are in place to ensure cash receipts are received, recorded, deposited and safeguarded in accordance with County Accounting Procedures and the Clerk-Recorder's policies and procedures. We identified <b>five (5) Control Findings</b> and <b>one (1) Efficiency/Effectiveness Issue</b> resulting in <b>six (6) recommendations</b> to enhance existing controls and process.</p> <p><b>Background:</b> The Clerk-Recorder opened the South County Branch Office in February 2006 to provide South County residents a more convenient location for obtaining Clerk-Recorder services. During the audit period, <b>total cash receipts processed at the South County Branch Office were \$927,458.</b></p> <p><b>Type of Recommendations:</b> Implement a procedure to identify mail receipts transferred from the Civic Center Office to South County Branch Office for processing; document transfer of accountability when exchanging mail receipts between locations; and ensure the mail receipts are processed; perform documented physical inventories of Bank Note Paper and handwritten cash receipt forms; ensure proper transfer of accountability and voiding of Bank Note Paper; partner with Auditor-Controller Information Technology to develop a process for transmitting Deposit Order information via an electronic file that will replace the current manual process.</p>

Board Date: September 23, 2008

Exhibit A, Page 8 of 13

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**MONTHLY AUDIT ACTIVITY – August 2008**  
 Status Report to the Board of Supervisors by IAD

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D	<p>DEPT: OC Community Resources/OC Parks</p> <p>TITLE: Review of Lease Revenue for Sunset Aquatic Park, Ltd., dba Sunset Aquatic Marina</p> <p>AUDIT NO: 2740</p> <p>ISSUED: August 14, 2008</p>	<p><b>Scope:</b> Review of lease revenue to determine whether the records of Sunset Aquatic Park adequately supported monthly rent paid to the County.</p> <p><b>Conclusion:</b> Sunset Aquatic Park retained sufficient documentation to adequately support monthly rent paid to the County. No material weaknesses or significant issues were identified. However, we did identify 3 control findings related to compliance with the lease agreement and/or improvements in internal controls.</p> <p><b>Background:</b> The County of Orange (County) entered into an amended and restated lease agreement with Sunset Aquatic Park, Ltd, also known as Sunset Harbour Marina dated December 20, 1994, for the operation of a marina, boat launch, dry boat storage, and marine repair facility located in Seal Beach. The marine repair facility is operated by Sunset Aquatic Marine Center, Ltd., a sublessee of Sunset Aquatic Park. During the 12 months ended August 31, 2007, Sunset Aquatic Park generated approximately \$4.2 million in gross receipts and paid the County approximately \$717,000 in rent.</p> <p><b>Type of Recommendations:</b> Lease compliance and/or internal control improvements regarding annual lease rent calculation, misclassification of sublessee gross receipts, and non-resettable counter for boat launch parking.</p>

Board Date: September 23, 2008

Exhibit A, Page 9 of 13

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**MONTHLY AUDIT ACTIVITY – August 2008**  
 Status Report to the Board of Supervisors by IAD

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E.	<p>DEPT: County Executive Office</p> <p>TITLE: Internal Control Review of County Executive Office/Public Finance Accounting – Cash Receipts, Cash Disbursements &amp; Selected Department/Trust Funds</p> <p>AUDIT NO: 2722</p> <p>ISSUED: August 5, 2008</p>	<p><b>Scope:</b> Audit of internal controls and processes over CEO/Public Finance Accounting's cash receipts, cash disbursements, and selected department/ trust funds for the period November 1, 2006 through October 2007 to determine if cash receipts are properly collected, recorded, deposited, and reconciled; if cash disbursements are accurate, adequately supported, processed timely, properly recorded, and authorized; and if department/trust funds are safeguarded, monitored and reconciled to County records and are used in accordance with the designated fund purpose.</p> <p><b>Conclusion: No material weaknesses or significant issues were noted.</b> We found internal controls and processes were adequate to ensure that funds were received, recorded, deposited, safeguarded, and disbursed in accordance with County Executive Office/Public Finance and Accounting's procedures and expectations. We identified <b>five (5) Control Findings</b> and <b>two (2) Efficiency/Effectiveness Issues</b> for CEO/Public Finance Accounting and <b>one (1) Control Finding for CEO/Administration</b> resulting in <b>eight (8) recommendations</b> to enhance controls and processes.</p> <p><b>Background:</b> CEO/Public Finance is responsible for managing the County's public debt programs including Construction and Debt Service funds; pension obligation funds; Orange County Development Agency funds; the Orange County Special Financing Authority (Teeter) fund, and the Orange County Tobacco Settlement fund. The County's Auditor-Controller provides accounting services to CEO/Public Finance. During Fiscal Year 2006/07, CEO/Public Finance Accounting <b>received over \$500 million in cash receipts and paid over \$541 million in cash disbursements.</b></p> <p><b>Type of Recommendations:</b> Perform documented supervisory reviews and approvals of Deposit Orders, initial collection records and key supporting documents; perform reconciliations of staff charges to trustee accounts; ensure timely deposits of funds (CEO/Administration); revise the <i>Payment Review and Approval</i> form to include additional information; update cash disbursement written procedures; evaluate timing of annual NDAPP payments to minimize interest expense; research other school district agreements regarding requirements for interest payments.</p>

Board Date: September 23, 2008

Exhibit A, Page 10 of 13

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**MONTHLY AUDIT ACTIVITY – August 2008**  
 Status Report to the Board of Supervisors by IAD

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F.	<p>DEPT:                      Auditor-Controller                      Human Resources                      County Procurement Office</p> <p>TITLE:                      Computer Assisted Audit                      Techniques - August 2008</p> <p>AUDIT NO: 2844-B</p> <p>ISSUED: August 29, 2008</p>	<p><b>Scope:</b> The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 4 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary.</p> <p><b>Conclusion:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors:</u> We analyzed 16,402 vendor invoices paid in July 2008 amounting to about <b>\$94 million</b> and found <b>99.99%</b> of the invoices were only paid once. Of the \$94 million vendor invoices we identified <b>8</b> duplicate payments made to vendors totaling <b>\$2,691</b>. The Auditor-Controller currently has a recovery rate from vendors of about <b>97%</b> on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a human clerical error.</li> </ul> <p>Based on the to-date recoveries of \$732,073 from the duplicate vendor payment routine, these CAAT routines have paid for themselves and are returning monies to the County that may otherwise be lost.</p> <ul style="list-style-type: none"> <li>• <u>Deleted Vendors:</u> No findings.</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. 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 County Procurement Office 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>

Board Date: September 23, 2008

Exhibit A, Page 11 of 13

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**MONTHLY AUDIT ACTIVITY – August 2008**  
 Status Report to the Board of Supervisors by IAD

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G.	<p>DEPT: Auditor-Controller</p> <p>TITLE: First Follow Up Audit of the Integrated Internal Control Review of Accounts Receivable and Collection Processes – IT Results (Original Audit 2428-B)</p> <p>AUDIT NO: 2624</p> <p>ISSUED: August 5, 2008</p>	<p><b>Scope:</b> <b>First</b> Follow-Up Audit of Review of the Integrated Internal Control Review of Accounts Receivable and Collection Processes – IT Results to determine the implementation status of <b>37</b> recommendations made in our original audit report, dated August 11, 2005. No material or significant issues were identified in the original audit report.</p> <p><b>Conclusion:</b> We found <b>16</b> recommendations have been fully implemented; <b>15</b> recommendations are closed; and <b>6</b> recommendations are not implemented. The Auditor-Controller is taking corrective action to address the remaining <b>6</b> recommendations.</p> <p><b>Background:</b> The Auditor-Controller (A-C) is the Chief Accounting Officer for the County and oversees its central accounting systems, including the Accounts Receivable and Collections Section. The Accounts Receivable Unit processes approximately \$200 million in receivables annually. The A-C utilizes the Columbia Ultimate Business Systems' Revenue Plus Collector System. This system, known as CUBS, serves as the subsidiary accounts receivable ledger. As such, the initial recording and subsequent collection of receivables are recorded in CUBS. Our integrated audit scope covered the initial recording of accounts receivable into CUBS; the reconciliations and aging reports used to monitor accounts receivable; and the collection and write-off of delinquent accounts. Additionally, selected IT controls (general and application controls) supporting these processes were included in the audit scope and are discussed in the original report 2428-B.</p> <p><b>Type of Recommendations:</b> Recommendations were made in the areas of logical access, security monitoring, security related personnel practices and user account management, business continuity management – IT Division, physical security, business continuity plan – Accounts Receivable and Collections, security program planning and management, information resource classification, software development methodology, application security, and data validation features.</p>

**MONTHLY AUDIT ACTIVITY – August 2008**  
 Status Report to the Board of Supervisors by IAD

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H.	<p>DEPT: Internal Audit Department</p> <p>TITLE: <b>Final Close-Out</b> First Follow-Up Audit of the Performance Measure Validation of the Internal Audit Department's 2005-2006 Performance Indicators (Original Audit No. 2762)</p> <p>AUDIT NO: 2760-E</p> <p>ISSUED: August 14, 2008</p>	<p><b>Scope:</b> <b>Final Close-Out</b> of Initial Follow Up Audit of the Performance Measure Validation of the Internal Audit Department's 2005-2006 Performance Indicators. Our audit was limited to reviewing the actions taken to implement the 1 recommendation in our audit report dated September 20, 2007.</p> <p><b>Conclusion: We are pleased to report that 1 recommendation was fully implemented. As such, this report represents the final close-out of the original audit.</b></p> <p><b>Background:</b> The objective of our Performance Measure Validation (PMV) was to validate the accuracy of the 2005-2006 Outcome Measure Results reported in the Internal Audit Department's 2007 Business Plan. Our audit included obtaining an understanding of the methodology in place for collecting and reporting Outcome Measure Results by interviewing key personnel, observations, and reviewing source documentation. The Business Plan contained a total of 3 Performance Indicators Results, and we tested the supporting documentation for all 3. Our audit scope did not include an assessment of the appropriateness of the Internal Audit Department's outcome measures based on their mission, goals and objectives.</p> <p><b>Type of Recommendations: None</b></p>

Board Date: September 23, 2008

Exhibit A, Page 13 of 13

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