

**MONTHLY AUDIT ACTIVITY REPORT
FOR JULY 2008
TO THE BOARD OF SUPERVISORS**

**Presented on Board Agenda
August 19, 2008**

Project No. 2807-1

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

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Letter from Director Peter Hughes



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August 19, 2008

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of July 2008. An overview and a detailed briefing of each report are provided.

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.

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THE FOLLOWING ITEMS ARE SUMMARIZED BELOW:

Exhibit **Audits:**

- B. County Procurement Office - Audit Alert for Policy on Sole Source Contracts: In conjunction with our audit of Sheriff-Coroner Administration Expenditures and Procurements, we issued an **Audit Alert** to the CEO/County Procurement Office with **4 recommendations** to enhance County policy on sole source contracts.

- C. Performance Measure Validation Audit of County Executive Office 2006 Performance Indicators: Based on our audit of the fiscal year 2006 Outcome Indicator Results reported in CEO's 2007 Business Plan, we found all 3 Performance Measurers were supported with **all 3 Measurers receiving our highest rating of 5 Star.**

- D. John Wayne Airport - GAT Airline Ground Support (GAT): Review of Revenue Generating License. GAT did not pay the correct fees to the County. Final amounts owed are to be determined. Currently, amounts owed are calculated to be at least \$73,107 and could increase by as much as another \$75,000. We consider these issues to be control findings and no material weaknesses or significant issues were noted.

Exhibit **Monthly Computer Assisted Audits of Vendor Payments (CAATs):**

- E. Auditor Controller – Duplicate Payments to Vendors – July 2008: We analyzed **19,845** vendor invoices paid in June 2008 amounting to about **\$119 million** and found **99.98%** of the invoices were only paid once. Of the \$119 million vendor invoices, we identified **5** duplicate payments made to vendors totaling **\$21,448.**

Exhibit **Follow Up Audits:**

- F. Clerk of the Board – Performance Measure Validation: **Final Close-Out** of Initial Follow Up Audit of the Performance Measure Validation of the Clerk of the Board of Supervisors 2005 Performance Indicators (Original Audit No. 2747). The original audit contained 3 recommendations. **We found that 1 recommendation was fully implemented and 2 recommendations closed due to satisfactory corrective action. As such, this report represents the final close-out of the original audit.**

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- G. Human Resources – Performance Measure Validation: **Final Close-Out** of Initial Follow Up Audit of the Performance Measure Validation of Human Resources 2005-2006 Performance Indicators (Original Audit No. 2753). The original audit contained 1 recommendation. **We found that the 1 recommendation was fully implemented. As such, this report represents the final close-out of the original audit.**
- H. OC Public Works – Parking Concepts, Inc.: First Follow-Up Audit of Review of Operating Agreements with Parking Concepts, Inc. (Original Audit 2590). The original audit contained **25** recommendations. We found **19** recommendations have been fully implemented; **1** recommendation has been partially implemented; **2** recommendations have not been implemented; and **3** recommendations are closed. OC Public Works and Parking Concepts Inc. are taking corrective action to address the remaining **3** recommendations.
- I. John Wayne Airport – Atlantic Aviation: First and **Final Close-Out** Follow-Up Audit of the Review of Lease Revenue for Atlantic Aviation (Original Audit No. 2644). Corrective action was made on all 7 recommendations. **As such, this represents the final close-out of the original audit.**

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Detailed Breakout

MATERIAL FINDING:

	Department and Description	Comments
		None issued during July 2008.

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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/>

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NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	<p>DEPT: County Procurement Office</p> <p>TITLE: Audit Alert – County Procurement Office Policy on Sole Source Contracts</p> <p>REPORT NO: 2766-5</p> <p>ISSUED: July 17, 2008</p>	<p>Scope: We conducted an Audit Oversight Committee directed audit of Sheriff-Coroner Administration sole source procurements and related contract payments for Fiscal Years 2006-07 and 2005-06 to determine compliance with requirements of the County <i>Contract Policy Manual</i> on sole source requests. Our review of the <i>Contract Policy Manual (CPM)</i> found the language of the policy lends itself for varying interpretations by the users and could be improved upon to provide better guidance for departments/agencies.</p> <p>Conclusion: We issued an Audit Alert to the County Procurement Office with four recommendations to enhance the County’s Contract Policy Manual on sole source contracts. Specifically, we recommended clearer guidelines and examples on policy requirements, most notably in the documentation requirements for sole source justification. The County Procurement Office concurred with all the recommendations and will conduct a review of sole source policy.</p> <p>Background: <i>CPM Section 4.4 – Sole Source and Proprietary Requests</i> is the County’s policy for requesting sole source procurements and provides criteria for departments/agencies to justify not using the County’s standard competitive bidding process. The policy also allows departments/agencies to subsequently hire vendors after initially obtaining the contracts by sole source.</p> <p>Type of Recommendations: Provide additional clarification and guidance on sole source requests, which should include examples of documentation requirements and specific criteria for issuing subsequent contracts with sole source vendors; provide periodic training to departments/agencies on sole source procurements; consider establishing a threshold by which the County Procurement Office would review and approve certain high-dollar sole source procurements prior to BOS approval; consider establishing a process by which all department/agency sole source contracts are periodically reported to the County Procurement office and the BOS for tracking and oversight of sole source usage.</p>

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C.	<p>DEPT: County Executive Office</p> <p>TITLE: Performance Measure Validation of County Executive Office 2006 Performance Indicators</p> <p>AUDIT NO: 2750</p> <p>ISSUED: July 14, 2008</p>	<p>Scope: Our audit included obtaining an understanding of the methodology in place for collecting and reporting Performance Indicator Results by interviewing key personnel, observations, and reviewing source documentation. The 2006 Business Plan contained 3 Performance Indicator Results; which we selected for testing County Executive Office's supporting documentation. Our audit scope did not include an assessment of the appropriateness of County Executive Office's Performance Indicators based on their mission, goals and objectives. We rated source (supporting) documentation provided as follows: 5 Star - Adequate supporting documentation; 4 Star - Adequate documentation with recommendations for improvement; and 3 Star - Noted opportunities for improvement.</p> <p>Conclusion: Based on our audit of the fiscal year 2006 Outcome Indicator Results reported in CEO's 2007 Business Plan, we found all three Performance Measurers were supported with all three Measurers receiving our highest rating of 5 Star.</p> <p>Background: We have initiated our PMV audits at the request of the Audit Oversight Committee. Our approach is to review performance measure results, assign validation ratings, report conclusions, and make recommendations. Our validation program is designed to provide assurance to the Board of Supervisors, the County Executive Officer, and the departments/agencies and other stakeholders that reported Outcome Indicators are reliable and can be utilized in decision making covering Government resources with confidence.</p> <p>Type of Recommendations: None</p>

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D	<p>DEPT: John Wayne Airport</p> <p>TITLE: Review of License Revenue for GAT Airline Ground Support</p> <p>AUDIT NO: 2734</p> <p>ISSUED: July 24, 2008</p>	<p>Scope: Review of license revenue to determine whether the records of GAT Airline Ground Support (GAT) adequately supported monthly fees paid to the County.</p> <p>Conclusion: GAT did not pay the correct fees to the County. Final amounts owed are to be determined. Currently, amounts owed are calculated to be at least \$73,107 and could increase by as much as another \$75,000. We consider these issues to be control findings and no material weaknesses or significant issues were noted.</p> <p>Background: The County entered into a license agreement with GAT dated August 19, 2004, as amended and assigned, for the non-exclusive right to conduct and operate commercial aviation ramp services, in-flight food catering service, wash and wax operations, interior aircraft cleaning, and other contract ground services at the John Wayne Airport. During the 12-months ended July 31, 2007, GAT generated approximately \$1.4 million in gross receipts and paid the County approximately \$140,000 in fees.</p> <p>Type of Recommendations: Incorrect fee percentage used for interior aircraft cleaning. Additional amounts owed are yet to be determined, but could be as much as \$75,000. Also, fees were not paid on the 10% surcharge collected from GAT's customer. The additional amounts owed related to the 10% surcharge are \$73,107.</p>

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E.	<p>DEPT: Auditor-Controller Human Resources County Procurement Office</p> <p>TITLE: Computer Assisted Audit Techniques - July 2008</p> <p>AUDIT NO: 2844-A</p> <p>ISSUED: July 25, 2008</p>	<p>Scope: 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>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> We analyzed 19,845 vendor invoices paid in June 2008 amounting to about \$119 million and found 99.98% of the invoices were only paid once. Of the \$119 million vendor invoices we identified 5 duplicate payments made to vendors totaling \$21,448. The Auditor-Controller currently has a recovery rate from vendors of about 98% on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a human clerical error. <p>Based on the to-date recoveries of \$711,883 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"> • <u>Deleted Vendors:</u> No findings. <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. 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>

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F.	<p>DEPT: Clerk of the Board</p> <p>TITLE: Final Close-Out Initial Follow Up Audit of the Performance Measure Validation of the Clerk of the Board of Supervisors 2005 Performance Indicators (Original Audit No. 2747)</p> <p>AUDIT NO: 2760-D</p> <p>ISSUED: July 14, 2008</p>	<p>Scope: Final Close-Out of Initial Follow Up Audit of the Performance Measure Validation of the Clerk of the Board of Supervisors 2005 Performance Indicators. Our audit was limited to reviewing the actions taken to implement the 3 recommendations in our audit report dated December 10, 2007.</p> <p>Conclusion: We are pleased to report that 1 recommendation was fully implemented and 2 recommendations closed due to satisfactory corrective action. We commend the Clerk of the Board personnel for their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit.</p> <p>Background: The objective of our Performance Measure Validation (PMV) was to validate the accuracy of the 2005 Outcome Measure Results reported in the Clerk of the Board'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 6 Performance Indicators Results, and we tested the supporting documentation for all 6. Our audit scope did not include an assessment of the appropriateness of the Clerk of the Board's outcome measures based on their mission, goals and objectives.</p> <p>Type of Recommendations: The Clerk of the Board ensures for future business plans that the original supporting documentation for reported outcome indicators is retained and outcome indicators are clearly defined.</p>

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G.	<p>DEPT: Human Resources</p> <p>TITLE: Final Close-Out Initial Follow-Up Audit of the Performance Measure Validation of the Human Resources 2005-2006 Performance Indicators (Original Audit No. 2753)</p> <p>AUDIT NO: 2815-A</p> <p>ISSUED: June 16, 2008</p>	<p>Scope: Final Close-Out of Initial Follow Up Audit of the Performance Measure Validation of Human Resources 2005-2006 Performance Indicators. Our audit was limited to reviewing the actions taken to implement the 1 recommendation in our audit report dated January 16, 2008.</p> <p>Conclusion: We are pleased to report that one recommendation was fully implemented. We commend Human Resources personnel for their responsiveness in addressing our recommendation. As such, this report represents the final close-out of the original audit.</p> <p>Background: The objective of our Performance Measure Validation (PMV) was to validate the accuracy of the 2005-2006 Outcome Measure Results reported in Human Resource's 2007-2008 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 Human Resource's outcome measures based on their mission, goals and objectives.</p> <p>Type of Recommendations: Human Resource ensures for future business plans that stated outcome indicators and reported results complement each other.</p>

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H.	<p>DEPT: OC Public Works</p> <p>TITLE: First Follow-Up Audit of Review of the Operating Agreements with Parking Concepts, Inc. (Original Audit No. 2590)</p> <p>AUDIT NO: 2741-B</p> <p>ISSUED: June 16, 2008</p>	<p>Scope: First Follow-Up Audit of Review of Operating Agreements with Parking Concepts, Inc. (PCI) to determine the implementation status of 25 recommendations made in our original audit report, dated September 11, 2006. No material or significant issues were identified in the original audit report.</p> <p>Conclusion: We found 19 recommendations have been fully implemented; 1 recommendation has been partially implemented; 2 recommendations have not been implemented; and 3 recommendations are closed. OC Public Works and PCI are taking corrective action to address the remaining 3 recommendations.</p> <p>Background: The County of Orange entered into two operating agreements with PCI, dated May 23, 2000 and June 4, 2002, for the operation of the Santa Ana Civic Center Parking Facilities and the Manchester Avenue Complex Parking Facilities. For fiscal year 04-05, PCI remitted over \$6.6 million in gross receipts to the County and PCI received payments of over \$1.6 million for these two Agreements.</p> <p>Type of Recommendations: Compliance with the operating agreements or internal control improvements regarding: inadequate records and recordkeeping for compensation paid to PCI; accuracy of Daily Ticket Reconciliations and Daily Master Reports; maintaining, updating, and monitoring of the Operating Schedule; keycard controls and records; audited Statement of Gross Receipts; customer refusals to pay; debit card report from the McGann software; review and approval of PCI's monthly invoice; and cash drawers at the parking facilities.</p>

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Exhibit	Description	Comments
I.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Final Close-Out First Follow-Up Audit of Review of Lease Revenue for Newport FBO Two, LLC dba Atlantic Aviation FBO (Original Audit No. 2644)</p> <p><u>Audit No.:</u> 2741-B</p> <p>ISSUED: June 16, 2008</p>	<p>Scope: First and Final Follow-Up Audit of the Review of Lease Revenue to determine to determine the implementation status of 7 recommendations made in our original audit report, dated September 21, 2007. No material or significant issues were identified in the original audit report.</p> <p>Conclusion: We are pleased to report that all 7 recommendations were fully implemented. We commend the personnel at JWA and Atlantic Aviation for their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit.</p> <p>Background: The County of Orange entered into a lease agreement with Atlantic Aviation, dated October 24, 1994, for conducting a fixed base operation to serve general aviation at JWA. For the year ended March 31, 2007, Atlantic Aviation reported approximately 4.3 million gallons of delivered fuel and lubricant and \$377,183 in gross receipts from rental cars, and it paid the County approximately \$298,500 in fees.</p> <p>Type of Recommendations: Lease compliance regarding: sublease with Go Rent-A-Van, other fees charged by Go Rent-A-Van not reported as gross receipts, discounts reduce Go Rent-A-Van gross receipts, The Hertz Corporation's commissions to Atlantic Aviation not reported as gross receipts, and the security deposit amount should be updated.</p>

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