ORANGE COUNTY
AUDITOR-CONTROLLER
INTERNAL AUDIT

AUDIT PLAN & RISK ASSESSMENT

FY 2016-17

Audit Number 1501

Approved by the Board of Supervisors
July 12, 2016

Approved by the Audit Oversight Committee
June 2, 2016

ORANGE COUNTY
AUDITOR-CONTROLLER
INTERNAL AUDIT

**Eric H. Woolery, CPA**
Orange County Auditor-Controller

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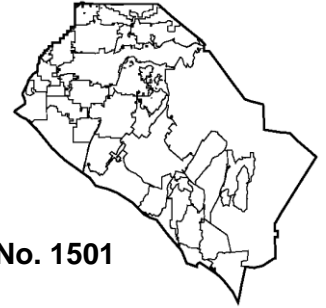
Transmittal Letter

Audit No. 1501

July 12, 2016

TO: Honorable Members, Board of Supervisors
               Members, Audit Oversight Committee

SUBJECT: FY 2016-17 Audit Plan & Risk Assessment

As the elected Auditor-Controller for Orange County, it is my great privilege to present the Auditor-Controller Internal Audit Division's Audit Plan and Risk Assessment for fiscal year (FY) 2016-17. The Auditor-Controller's responsibility, as cited in California Government Code Section 26881, includes reviewing departmental and countywide internal controls over accounting for all County offices and departments.

Auditor-Controller's Mission Statement

The Auditor-Controller Office's mission is to promote public oversight, provide accountability, and support financial decision-making for the County. As the Auditor-Controller's Office carries out its vision and mission, it will conduct business with the highest ethical and due diligence standards and demonstrate commitment to the public, other County departments and agencies, and its own employees.

We have prepared the attached Audit Plan and Risk Assessment to assist us in achieving our mission by providing a systematic approach for evaluating and improving the effectiveness and efficiency of countywide operations including risk management, governance, and internal control processes.

The Audit Oversight Committee reviewed and approved the FY 2016-17 Audit Plan and Risk Assessment on June 2, 2016. On July 12, 2016, the FY 2016-17 Audit Plan and Risk Assessment will be presented to the Board of Supervisors.

We would like to acknowledge the professionalism and cooperation extended to us by the management of the County's agencies and departments during our Risk Assessment process. We look forward to providing professional, ethical, and reliable audit and management advisory services to the various stakeholders and citizens of Orange County during this upcoming fiscal year.

Sincerely,

Eric Woolery, CPA
Auditor-Controller

Honorable Members, Board of Supervisors
Members, Audit Oversight Committee
FY 2016-17 Audit Plan & Risk Assessment
July 12, 2016

Attachments

cc: Audit Oversight Committee Members
        Dr. Dave Carlson, AOC Chairman, Private Sector Member
        Mark Wille, CPA, AOC Vice Chair, Private Sector Member
        Supervisor Lisa Bartlett, 5th District Board Chairwoman
        Supervisor Michelle Steel, 2nd District, Board Vice Chair
        Gary Caporicci, CPA, Private Sector Member
        Sarah J. "Sally" Anderson, CPA, Private Sector Member
        Drew Atwater, Private Sector Member
        Frank Kim, County Executive Officer

        Other Recipients of this Report
        Mark Denny, Chief Operating Officer
        Lilly Simmering, Deputy Chief Operating Officer
        Jessica Witt, Deputy Chief Operating Officer
        Department Heads
        Toni Smart, CPA, Director of Internal Audit, Auditor-Controller
        Foreperson, Grand Jury
        Robin Stieler, Clerk of the Board of Supervisors
        Macias Gini & O'Connell LLP, County External Auditor

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Audit Plan & Risk Assessment
FY 2016-17
Audit No. 1501

Message from the Internal Audit Division Director

We are pleased to provide the first Auditor-Controller (A-C) annual Audit Plan for FY 2016-17. On August 21, 2015, the Internal Audit Department merged with the A-C, creating the A-C Internal Audit Division. The Internal Audit Division is committed to preparing a risk-based Audit Plan as was previously performed by the Internal Audit Department and is required for compliance with internal auditing standards.

Our FY 2016-17 Audit Plan allocates limited staff resources using a risk-based methodology, partners with the County's external auditors to leverage audit resources, integrates information technology auditing with audits of traditional internal controls, and continues the foundation of performing critical Internal Control Audits of County processes, operations, and information technology. Further, the audit plan covers 21 departments, which includes all elected offices along with the Board of Supervisors.

We are dedicated to partnering with the Board of Supervisors and County departments/agencies. We welcome audit requests and have designated hours in our Audit Plan for these purposes; however, the final decision resides with the Auditor-Controller and A-C Internal Audit Division Director.

If you have any questions, please contact Toni Smart, Director of A-C Internal Audit Division, at 714-834-5442.

Overview of FY 2016-17 Audit Plan

The A-C Internal Audit Division utilizes professional standards and guidelines for the development of the annual Audit Plan. Professional standards require that we establish a risk-based plan to prioritize audits permitting an efficient allocation of limited audit resources, obtain senior management input during the process, and coordinate audit efforts with internal and external auditors.

We are dedicated to completing our Audit Plan which includes some flexibility to be responsive to directives for audit services from the Board of Supervisors and/or Audit Oversight Committee (AOC).

Our Audit Plan has, as its foundation, transaction cycles or business processes that cross multiple County Departments "horizontally", such as contract procurement, grant management, and information technology. Our audit services are focused on improving the County's financial and reporting condition covering standard business processes/cycles common to all departments and agencies with our primary emphasis on financial accounts and transactions**.**

The FY 2016-17 Audit Plan includes examination of internal controls related to financial statement accounts and transactional areas such as revenue, expenditures, assets, and liabilities, covering key control activities such as adherence to laws, regulations, policies and procedures, segregation of duties, authorizations and approvals, verifications, and reconciliations. Examples of these audits in our Audit Plan include: (1) Internal Control Audits, (2) Financial Audits and Mandates, (3) Information Technology Audits, and (4) Revenue Generating Lease Audits. Reports from these audits contain opinions regarding the status of internal controls or the County's compliance with grant or other governing provisions, and include recommendations to management regarding improvements to specific processes and internal controls. For each audit in the Audit Plan, we have listed the department/agency, proposed audit objectives, and estimated hours to complete the audit.

Annual Risk Assessment for Development of the Audit Plan

Generally Accepted Government Auditing Standards (Yellow Book) and the *Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing* require the Chief Audit Executive to establish a risk-based approach to determine the priorities for internal audit activities. The A-C Internal Audit Division has completed a Risk Assessment as a means to help identify, measure, and prioritize potential audits based on the level of risk to the County and for preparing the FY 2016-17 Audit Plan.

The A-C Internal Audit Division performed a countywide Risk Assessment that included members of the Board of Supervisors, the County Executive Office, and all department/agency executive management regarding risks affecting them. We sent out risk assessment questionnaires for input on risks and areas of audit interest in department/agency business operations. We met individually with members of the Board of Supervisors, the County Executive Officer, and County external auditors to obtain input on audit areas and discuss County risks. We ranked and tabulated the results to develop a "risk-based" annual Audit Plan, see the next section, Risk Assessment Analysis and Trends for FY 2016-17, for further details.

We design our "risk-based" Audit Plan to address what we consider to be the highest priority areas, while limiting the scope of work to what can realistically be accomplished with available staff resources. Our risk ratings are based on current information that fluctuates frequently given the nature, diversity, size, and impact of County operations on the public, as well as the "risk appetite" of the AOC. Our Audit Plan is submitted, publicly discussed, reviewed, and approved by the AOC prior to the beginning of each fiscal year.

Risk Assessment Analysis and Trends for FY 2016-17

A department/agency with a high risk score indicates the services or functions they are responsible for are by nature a high priority activity because of such factors as having a large amount of expenditures and/or revenues, having a high level of liquid assets such as cash, management's assessment of the control environment, or a high degree of public interest. A high risk score indicates that if something were to go wrong, it could have a greater impact. A high risk score does not mean that a business process is being managed ineffectively or that internal controls are not adequate.   Accordingly,

1. We are committed to prioritizing and auditing business activities or processes identified as "high risk" within the current fiscal year. Our approach is to provide coverage of the most critical or sensitive aspects of the activity identified. We do make exceptions to this in regards to any audits that are "carry overs" from the prior year, where there has been recent audit coverage, or if our professional judgment determines otherwise.

2. Any audit requests made by the Board of Supervisors, AOC, or department/agency directors become a "high priority" area to audit.

3. Our commitment is to perform focused audits that address the most critical areas of operations and to provide a quick turnaround time to the auditee. We strive to minimize the disruption to auditee operations through this approach.

4. The passage of time is not a key factor in allocating audit resources.   Our risk-based assessment is driven by numerous risk factors and is the reason we do not have a firm cycle of audits.

Table 1. Trends Reported by Departments/Agencies

1.	**Significant Reorganization** (in management, duties, positions, functions)	90%
2.	**Risk of Exposure to Loss or Embarrassment** (by level of public visibility)	65%
3.	**Planned or New System Implementations**	55%
4.	**Significant Changes to Key IT Systems, Applications**	45%
5.	**Risk of Exposure to Loss, Regulatory Sanctions, or Penalties**	40%
6.	**Areas of Audit Interest** (requested by departments/agencies)	38%
7.	**Changes to Business Processes, Systems, Internal Controls**	25%
8.	**Budget/Staff Reductions** (in accounting, budgeting, compliance operations)	15%
9.	**Reported Fraud, Losses, Misappropriations**	10%

Source: Department/agency responses to the FY 2016-17 Risk Assessment Questionnaire

Our Risk Assessment for FY 2016-17 found County departments/agencies are facing ever increasing levels of compliance requirements which require resources and supervision to mitigate negative impacts that could result from non-compliance. Departments/agencies are also adjusting to new department heads and other executive/senior management as well as the information technology shared services model and centralization of human resources services. Lastly, departments/agencies are keeping pace with technology with the implementation of new applications, infrastructure, and associated security.

Each of these factors can impact staff workload and morale, decrease the quality of supervision (as adjustments are made to new staffing models), lower the proficiency of new business processes as staff adapt to new applications, and/or decrease continuity of operations as requisite knowledge departs with senior staff separation.

Audit Universe

There are several approaches on defining an audit universe (all areas subject to risk assessment and audits). We defined the County audit universe as 21 departments/agencies, including the Board of Supervisors and excluding Performance Audit and Office of Independent Review.

Our audit universe is further defined by nine (9) standard business processes/cycles (see Table 2 below) and information technology common to all departments/agencies (except one which applies only to departments with revenue generating lease agreements), with our primary emphasis on financial accounts and transactions. This results in an audit universe consisting of 172 auditable business processes (21 departments, eight (8) business processes/cycles, plus four (4) departments with revenue generating lease agreements).

Table 2. County Audit Universe

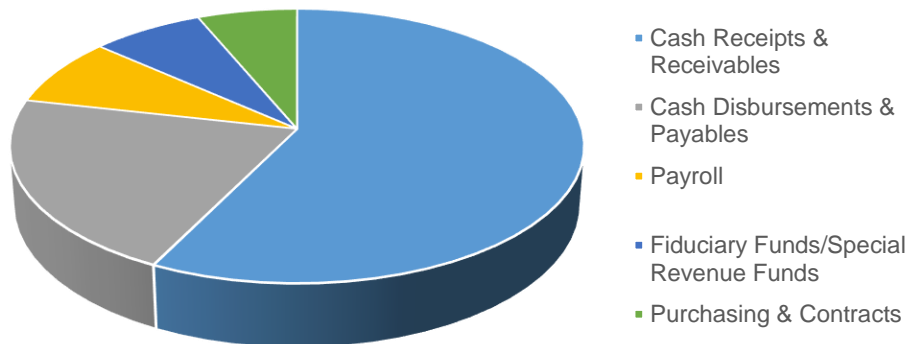|	
1. Cash Receipts & Receivables	**$13.6 Billion for FY 2014-15**
Includes the receipting, recording, transferring, depositing, safeguarding, and reconciling of monies received in departments/agencies. Cash receipts have a high inherent risk of misuse.	
2. Cash Disbursements & Payables	**$5 Billion for FY 2014-15**
Includes verifying receipt of goods/services, adequacy of supervisory reviews and approvals, timeliness of invoice processing, completeness and accuracy of payments, proper reconciliations, and safeguarding of assets.	
3. Fee-Generated Revenue	**$767 Million for FY 2014-15**
Includes audits of department/agency fee studies and fee development processes, methodologies, and assumptions used for establishing cost-recovery fees charged to the public for "Licenses, Permits and Franchises," and "Charges for Services," and are submitted to the Board of Supervisors for approval.	
4. Purchasing and Contracts	**$1.5 Billion for FY 2014-15**
Includes use of County-issued purchasing cards, vendor payment review/approval process, ensuring terms of contracts were met prior to issuing payments, reviewing justification of Sole Source contracts, and monitoring CPO's oversight responsibilities.	
5. Revolving Funds	**$5.8 Million for FY 2014-15**
Includes validating compliance with the County Accounting Manual, ensuring revolving cash fund disbursements are proper, approved, monitored, and safeguarded.	

6. Payroll	$1.9 Billion for FY 2014-15

Includes timekeeping practices in departments/agencies that use either the VTI time reporting system or in-house developed payroll system (e.g., Sheriff), premium and overtime pay practices, payroll unit supervision and payroll reports, Central Payroll's role in processing payroll, and monitoring for unauthorized payroll changes.

7. Fiduciary Funds/Special Revenue Funds	$1.7 Billion for FY 2014-15

Includes validating the purpose/objectives of fiduciary/special use funds, ensuring sources and uses of the funds are in accordance with stated use, and reconciliations are prepared timely/completely to safeguard funds.

8. Information Technology Systems & Controls	131 Key Systems for FY 2014-15

Audit of IT controls including general controls, application controls, and system development. Includes use of Computer Assisted Audit Techniques (CAATs) that is cited as a best practice and provides continuous audit coverage applied to large populations of data and the resulting output is further verified and validated.

9. Revenue Generated Lease Audits	$150 Million for FY 2014-15

Audit the records of businesses with revenue generating leases at John Wayne Airport, OC Community Resources, OC Dana Point Harbor, and OC Public Works to ensure the correct amount of rent is paid to the County based on a percentage of gross revenue, and that internal controls are adequate to ensure the integrity of records used to report gross revenues.

Note: FY 2014-15 data was used as this was the most recent complete fiscal year data available.

Figure 1. Distribution of Total Amounts to Business Processes/Cycles

- Cash Receipts & Receivables
- Cash Disbursements & Payables
- Payroll
- Fiduciary Funds/Special Revenue Funds
- Purchasing & Contracts

Note: Revolving Funds, Revenue Generating Lease Audits, and Fee Generated Revenue are of insignificant amounts to be depicted in this figure.

Our *Risk Assessment Schedule* at Attachment B shows the 172 auditable business processes and assigned risk ratings. We consider the following factors in assigning risk levels:

- **Financial Activity/Volume**: (50%) Assessed department/agency financial information for each auditable business process.

- **Department/Agency Changes**: (20%) Assessed factors such as management and/or organizational changes, significant increases/decreases in staffing and workloads, new/eliminated programs, and significant changes in laws/regulations.

- **Operating Environment**: (20%) Assessed factors related to changes in the operating environment such as public image, laws/regulations, safety and environmental issues, sensitivity to economic factors, pending litigation, and business continuity.

- **Last Audit Performed**: (10%) Identified all Internal Control Audits, Financial Audits & Mandates, and Performance Measure Validations conducted in the last 10 years. Areas with no recent or prior audits are assessed higher risk (see Attachment C).

Results of Risk Assessment

Using the above criteria, an overall risk and audit priority level is then assigned as High Priority, Moderate Priority, or Low Priority. The overall risk levels we assign determine where we focus our audit resources and audit priorities.

Priorities of the 172 auditable business processes we identify in our *Risk Assessment Schedule for Fiscal Year 2016-17* (Attachment B) are as follows*:*

- 15 (9%) are High Priority
- 101 (59%) are Moderate Priority
- 56 (32%) are Low Priority

Dedication of Resources to Audit-Related Services

Our Audit Plan is based on **26,000 direct audit hours** to be provided by 13 audit professionals, three (3) Senior Audit Managers, and the Assistant Director of Internal Audit. Audit hours for the Director of Internal Audit are not included.

Because of our budget and staffing constraints, we evaluate all audit requests based on our risk assessment criteria. Special request audits from the Board of Supervisors, AOC, and/or department/agency directors are weighted higher.

Note: We judgmentally select the highest priority audits that we can realistically address with our existing audit staff resources. Audits that cannot be accommodated are recorded into our Risk Assessment for future consideration.

Our FY 2016-17 Audit Plan is detailed beginning on page 9.

Table 3. Audit Areas

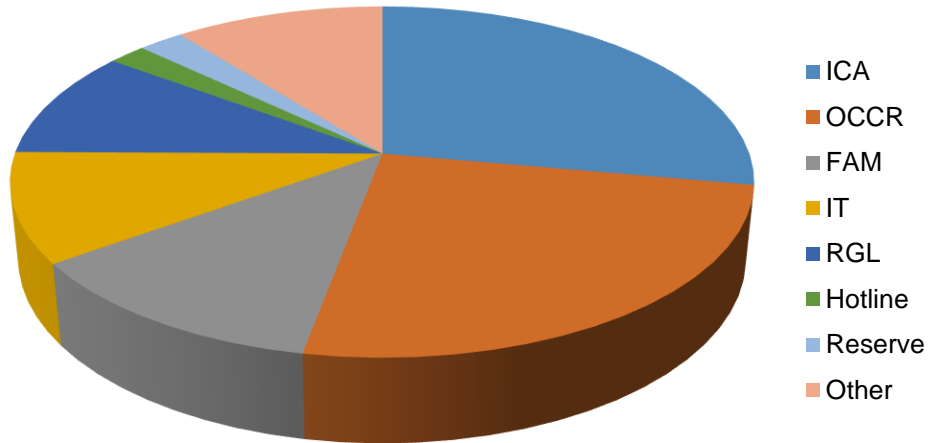| Audit Area	Objective	Hours	%
Internal Control Audits (ICA)	Validate, substantiate, and confirm the adequacy of critical internal controls to ensure accurate, complete, and timely processing of County financial transactions; ensure County	6,840	28%

	assets are safeguarded from fraud, waste, and abuse; evaluate compliance with department and County policies; and evaluate process efficiency and effectiveness.		
OCCR Fiscal Monitoring	OCCR Fiscal Monitoring performs reviews of third-party grant subrecipients required by federal regulations and a cash compliance audit of OCCR/OC Parks. The A-C Internal Audit Division has entered into an MOU with OCCR for reimbursement of these services. OCCR Fiscal monitoring is considered management advisory services and report distribution is limited.	6,520	25%
Financial Audits & Mandates (FAM)	Determine that financial statements are fairly stated in accordance with applicable professional standards, financial statements are supported by sound internal controls, and management complied with applicable laws, regulations and grant requirements. These audits are conducted in accordance with Generally Accepted Auditing Standards of the United States and/or Governmental Auditing Standards issued by the U.S. Comptroller General.	3,155	12%
Information Technology Audits (IT)	Audits of information technology controls (i.e., general controls, application controls) and system development.	2,410	9%
Revenue Generating Lease Audits (RGL)	Ensure lessees report and pay the correct amount of rent to the County based on a percentage of gross revenue and that internal controls are adequate to ensure the integrity of records used to report gross revenues. Our audits also identify ambiguities and omissions in the contracts that may disadvantage the County. These critical audits are performed at the request of John Wayne Airport, OC Community Resources, OC Dana Point Harbor, and OC Public Works on a rotational basis. Includes 2,270 hours for OCCR.	2,590	10%
Financial Fraud Hotline Referrals	Ensure proper handling of all reports of possible financial waste, fraud, and abuse of County resources.	500	2%
Reserve for BOS and AOC	Hours reserved for special request audits from the Board of Supervisors and Audit Oversight Committee.	600	2%
Other Audit Activities	IT and audit research; tracking cash losses; providing technical assistance to departments on business, accounting, internal control, compliance, and policy and procedural issues; performing the annual risk assessment; obtaining Special Districts' and Joint Power Authorities' financial statements; compiling and presenting External Audit Activity Reports to the AOC; and for FY 2016-17, participating in our required internal and external quality assessment, and implementing an electronic audit management solution to more efficiently manage audit activities.	3,385	12%
	TOTALS	26,000	100%

Figure 2. Distribution of Audit Hours to Audit Areas

Interchangeability of Planned Audits/Time Permitting Audits. The annual Audit Plan is subject to change for such events where the Auditor-Controller, Director of A-C Internal Audit Division, or AOC assesses it is warranted to substitute, postpone or cancel a planned audit due to timing, priority, resource, and risk considerations. The submission of these scheduled audits, and approval by the AOC, enables the Director of A-C Internal Audit Division to substitute the scheduled audits with a "Time Permitting Audit." Time Permitting Audits are noted in the Audit Plan and are not assigned budgets until they are initiated.

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FY 2016-17 Audit Plan Highlights

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This year we are shifting our focus on Internal Control Audits as well as Information Technology Audits with the re-staffing of our IT audit function. One of the audit projects we will undertake involves joint audit areas where Internal Control Audits will be coordinated with Information Technology audits to achieve the audit objective of assessing IT oversight over the Xerox and Atos contracts.

Our audit plan will cover areas of identified high risk and will partner with the County's External Financial Auditor in an effort to reduce the amount of work required to audit the County's Comprehensive Annual Financial Report (CAFR). Financial Mandated Audits will continue with examination of the Treasurer's activities.

The Auditor-Controller will continue to provide audit services to OCCR of its revenue generating leases and third-party grant recipients.

Our **Follow-Up Audit** process ensures that our audit recommendations are implemented satisfactorily. Our *First Follow-Up Audit* begins about six months following the release of an audit report. If necessary, a *Second Follow-Up Audit* will be conducted about six months following the release of the First Follow-Up Audit report. We bring to the AOC's attention any audit recommendations we find still not addressed, resolved, or mitigated by the Second Follow-Up Audit.

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Auditor-Controller Internal Audit Division FY 2016-17 Audit Plan

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Audit	Department/ Agency	Audit Objective	Hours
Internal Control Audits			
Procurement/Contract Administration *The total not-to-exceed amount for the five-year contract with Science Applications International Corporation (SAIC) is $83 million. The initial total pricing for the Xerox five-year contract (ultimately assigned to Atos) is $133.5 million.*	CEO/OCIT	*To assess OCIT's oversight of billing practices and internal controls over the SAIC and Xerox/Atos contracts.*	ICA 600 IT 500 Total 1100
ResCare Workforce Services Contract Oversight and CalWORKs Disbursements *FY 2014-15 expenditures include $248 million for Family Self-Sufficiency, $243 million for CalWORKs administration and assistance, and $1.1 million for Refugee Services administration and assistance.* *FY 2015-16 ResCare contract of approximately $11.8 million. Five-year funding award for the period July 1, 2016 through June 30, 2021 estimated at approximately $55 million.*	SSA	*To assess SSA's oversight over the contract with ResCare Workforce Services for provision of job and employment services. Audit objective may include assessing the cost of program performance.* *Evaluate internal controls over Family Self-Sufficiency disbursements, which include CalWORKs and Refugee Services.*	600
Countywide Audit of New Travel & Meeting Policy Implementation	Countywide	*To assess countywide implementation of the new travel and meeting policy and internal controls over disbursements.*	900
Procurement/Contract Administration *Carry over from FY 2015-16* *FY 2014-15 countywide procurement approximately $1.5 billion.*	CEO	*To assess the CPO's internal controls over procurement processes, systems, compliance, and oversight.*	600

Audit	Department/ Agency	Audit Objective	Hours
Internal Control Audits (con't)			
OCIT Internal Service Fund (ISF) Billing Rates to County Departments *FY 2014-15 operating revenue of $64.9 million, increase in net position of $14.3 million.*	CEO/OCIT	*To assess OCIT's internal controls for developing voice and data service rates for billing county departments/agencies on a cost reimbursement basis and recording to the Information Technology ISF.*	500
OCCR/Dana Point Harbor Procurement *FY 2014-15 procurement approximately $3 million.*	OCCR/ Dana Point Harbor	*To assess OCCR/Dana Point Harbor's internal controls over procurement processes/systems for compliance with the Contract Policy Manual.*	400
Payroll Controls *FY 2014-15 payroll is approximately $123 million for OCDA and approximately $130 million for Probation.*	OCDA Probation	*To assess internal controls over payroll processing at OCDA and Probation to ensure payroll is accurate, authorized, reviewed, and duties are properly segregated.*	500
Procurement/Contract Administration *FY 2014-15 procurement approximately $591 million.*	HCA/PG	*To assess the HCA/PG's procurement processes and systems for compliance with requirements in the Contract Policy Manual and for contract administration. Audit Scope may include assessing HCA/PG's management of federally funded programs to ensure HCA/PG and vendors are in compliance with federal, state, and County regulations.*	450
Billing of Law Enforcement Services for Harbor Patrol and Airport Police Services *Harbor Patrol billing was approximately $13.3 million in FY 2014-15 and Airport Police Services billing was approximately $15.8 million, total of $29.1 million.*	OCSD	*To assess the Sheriff Department's internal controls over billing for Harbor Patrol services and Airport Police Services.*	450
OC Parks Fund 405 *Carry over from FY 2015-16* *FY 2014-15 cash receipts approximately $78 million, disbursements approximately $83 million.*	OCCR	*To assess internal controls over the administration of special revenue funds to ensure transactions are accurate, valid, properly supported and recorded, and reconciled.*	400

Audit	Department/ Agency	Audit Objective	Hours
Internal Control Audits (con't)			
Revolving Funds FY 2014-15 revolving fund replenishments were approximately $1.7 million.	SSA	*To assess SSA's internal controls over the revolving fund to ensure the fund is used for authorized purposes and is adequately controlled, reconciled, and replenished.*	250
Cash Handling Activities *Carry over from FY 2015-16* *FY 2014-15 cash receipts approximately $135 million.*	OCWR	*To assess internal controls over cash handling for compliance with A-C and OCWR accounting procedures.*	200
Procurement/Contract Administration *Carry over from FY 2015-16* *FY 2014-15 procurement approximately $1 million.*	A-C	*To assess the A-C's procurement processes and systems for compliance with requirements in the Contract Policy Manual and for contract administration to ensure vendor payments are properly reviewed, authorized, timely, and validated to contract terms. Includes sole source contract administration.*	100
First Follow-Up Audits **Fiduciary & Special Revenue Funds (Audits 1421, 1519 & 1520)**	C-R T-TC ROV CEO Probation OCDA OCSD HCA/PG CSS OCPW OCCR	*Follow-up on management's implementation of audit recommendations provided in FY 2015-16 audit reports.*	530
First Follow-Up Audit **Procurement Process for Human Services Contracts (1426)**	OCCR	*Follow-up on management's implementation of audit recommendations provided in FY 2014-15 audit reports.*	60
First Follow-Up Audit **District Attorney-Public Administrator Select Controls & Processes (1523)**	OCDA	*Follow-up on management's implementation of audit recommendations provided in FY 2015-16 audit report.*	150

Audit	Department/ Agency	Audit Objective	Hours
Internal Control Audits (con't)			
<u>First Follow-Up Audit</u> **Health Care Agency-Public Guardian Select Controls & Processes (1524)**	HCA/PG	*Follow-up on management's implementation of audit recommendations provided in FY 2015-16 audit report.*	150
Decentralized Encumbrance Process *(Department Request)* *Time Permitting Audit*	A-C	*Assess selected department/agency internal controls over recording encumbrances in the CAPS+ system.*	0
Total Internal Control Audits			**6,840**
OCCR Fiscal Monitoring			
Third Party Grant Subrecipient Fiscal Monitoring – OCCR Office on Aging & Community Investment Divisions *FY 2015-16 subrecipient contracts are approximately $29 million.*	OCCR	*To assess grant subrecipients' federal expenditures to ensure federal funds are used for authorized purposes in compliance with federal statutes, regulations, and County policy.*	5,870
OC Parks Cash Compliance Audit *FY 2014-15 cash receipts approximately $1.4 million.*	OCCR	*To assess OC Parks' internal controls over cash handling for compliance with A-C and OCCR accounting procedures.*	650
Total OCCR Fiscal Monitoring			**6,520**
Financial Audits & Mandates			
Quarterly Review of the Schedule of Assets – as of 9/30/2016, 12/31/2016, and 3/31/2017 **Audit of the Schedule of Assets as of June 30, 2016** *Assets held in the County Treasury at 6/30/15 approximately $7.6 billion*	T-TC	*To confirm information presented on the Schedule of Assets held by the County Treasury pursuant to Government Code Sections 26920 and 26922.*	1,720

Audit	Department/ Agency	Audit Objective	Hours
Financial Audits & Mandates (con't)			
Quarterly Investments Compliance Monitoring – Quarters Ended 9/30/2016, 12/31/2016, 3/31/2017, and 6/30/2017 **Annual Investment Compliance Audit for the Year Ended December 31, 2015** *Carry over from FY 2015-16*	T-TC	*To assess whether funds managed by the Treasurer are in compliance with certain provisions of the Investment Policy Statement.*	815
Audit of Unearned Revenue *Unearned revenue increased from $41.2 million in FY 2013-14 to $65.7 million in FY 2014-15.*	HCA SSA Probation OCPW	*To assess internal controls over the recording of unearned revenue in the County's financial system and reported on the County's Comprehensive Annual Financial Report (CAFR). Audit objective includes revenue recognition and the effectiveness of budget monitoring processes. This audit supports the initiative to partner with the County's external auditors to leverage audit resources.*	600
<u>**First Follow-Up Audit**</u> **Internal Controls Over Juvenile Records and Accounts (1567)**	Probation	*Follow-up on management's implementation of audit recommendations provided in the FY 2015-16 audit report.*	20
Total Financial Audits & Mandates			**3,155**
Information Technology Audits			
OCIT General Controls Audit (***Department Request***)	CEO/OCIT	*To assess controls over the IT environment, computer operations, access to programs and data (cyber security), program development and program changes. Audit objective may include: logical access, incident management, change management, technical support, system configuration, disaster recovery, and physical security. These controls are the foundation of the IT control structure and help ensure the integrity of financial data processed by IT systems.*	800

Audit	Department/ Agency	Audit Objective	Hours
Information Technology Audits (con't)			
E-Pages System Implementation *FY 2014-15 cash receipts approximately $22 million, disbursements approximately $19.5 million.*	HCA/PG OCDA	*To advise on internal controls for the application implementation. Audit objective includes reviewing flowcharts, narratives, reconciliations, and policies/procedures developed by management to ensure the system addresses key/fundamental controls including: 1) proper segregation of duties, 2) reviews and approvals, and 3) audit trails.*	350
CAPS+ Finance & Purchasing Upgrade (*Department Request*) *Carry over from FY 2015-16*	A-C CEO	*To assess internal controls over the application upgrade. Audit objective includes reviewing flowcharts, narratives, reconciliations, and policies/procedures developed by management to ensure the system addresses key/fundamental controls including: 1) proper segregation of duties, 2) reviews and approvals, and 3) audit trails.*	320
Sungard/Quantum Upgrade (*Department Request*)	T-TC	*To assess internal controls over the application upgrade. Audit objective includes reviewing flowcharts, narratives, reconciliations, and policies/procedures developed by management to ensure the system addresses key/fundamental controls including: 1) proper segregation of duties, 2) reviews and approvals, and 3) audit trails.*	240
IT General Controls (*Department Request*) *Time Permitting Audit*	Probation	*To assess the Probation's controls over the IT environment, computer operations, access to programs and data, program development and program changes.*	0
Inter-County Access (*Department Request*) *Time Permitting Audit*	C-R	*To ensure other County departments' access to Clerk-Recorder IT resources is as prescribed by the Clerk-Recorder.*	0

Audit	Department/ Agency	Audit Objective	Hours
Information Technology Audits (con't)			
Paradigm *(Department Request)* *Time Permitting Audit*	OCWR	*To assess internal controls over the application. Audit objective includes ensuring the system addresses key/fundamental controls including: 1) proper segregation of duties, 2) reviews and approvals, and 3) audit trails.*	0
Computer-Assisted Audit Techniques	Multiple	*Develop new audit routines utilizing audit software.*	200
IT Audit Assistance with ICAs	NA	*See ICA contract audits of SAIC/Atos above.*	500
Total Information Technology Audits			**2,410**
Revenue Generating Lease Audits			
Revenue Generating Lease Audits *Includes: Parking Concepts Inc., Mile Square Park Golf Course, Strawberry Farms Golf Course, Santiago Equestrian Center, US Ocean Safety, and Canyon RV/Featherly Park.* *FY 2014-15 lease revenue approximately $6.1 million.*	OCCR	*To assess whether lessee records adequately support gross receipts reported to the county and compliance with lease terms.*	2,050
First Follow-Up Audits **Revenue Generating Leases** *Includes: Jet Ski, Dana Point Yacht Club, Dana Point Marina Inn, Ocean Institute, Bayshore Marina, Salt Creek Beach Concessions, David Baker Golf Course, Newport Dunes, and Subway.*	OCCR JWA	*Follow-up on management's implementation of audit recommendations provided in FY 2015-16 audit reports.*	540
Total Revenue Generating Lease Audits			**2,590**

Audit	Department/ Agency	Audit Objective	Hours
Other Audit Activities			
IT Research and Assistance	NA	NA	215
Workpaper Closeout	NA	NA	130
Reserve for Board of Supervisors' and AOC Directives	NA	NA	600
Annual Risk Assessment & Audit Plan	NA	NA	300
Financial Fraud Hotline Referrals	NA	NA	500
External Audit Reporting	NA	NA	300
Technical Assistance to Other Departments/Agencies	NA	NA	600
Reports for the Board of Supervisors and AOC	NA	NA	400
Cash Losses	NA	NA	100
Annual Internal Quality Assessment	NA	NA	200
External Quality Assessment (Peer Review)	NA	NA	200
Electronic Audit Management Solution Implementation	NA	NA	700
Auditing Standards & Updates	NA	NA	80
Special Districts'/Joint Powers Authorities' Financial Statements Monitoring	NA	NA	160
Total Other			**4,485**
TOTAL HOURS			**26,000**

Audit Plan Footnotes

(1)   Dollar amounts shown in this Audit Plan represent the scale and magnitude of the activity audited in order to give the reader a sense of the financial impact and significance of the area or activity audited. In those audits where we test a sample of transactions and not the entire population, we clarify this point in the scope of our final Audit Report.

(2)   We reserve time in our Audit Plan for Board of Supervisors and Audit Oversight Committee directives and audit adjustments. We also identify other areas or activities for possible "Time Permitting Audits" should we have available time or as substitutes.

(3)   The Auditor-Controller Internal Audit Division generates several different types of reports including audit reports and status reports. In addition, Internal Audit undertakes several different projects including audits of financial statements, audits of internal controls, audits of transactions through the use of computer programs, audits of lessee compliance with County contracts, and audits of IT controls. A total project count therefore includes all assignments completed, not just released audit reports.

(4)   The annual Audit Plan is subject to change for such events where the Auditor-Controller, Director of Internal Audit, Audit Oversight Committee, or Board of Supervisors majority assesses it is warranted to substitute, postpone or cancel a scheduled audit due to timing, priority, resource, and/or other risk considerations. Such modifications will be noted in the "Milestones & Comments" section of the Quarterly Status Reports submitted to the AOC. The acceptance of the Quarterly Status Report by the AOC authorizes any changes noted.

(5)   Because of our budget and staffing constraints, we evaluate all audit requests based on our risk assessment criteria. Special request audits from the Board of Supervisors, AOC and/or department/agency directors are weighted extra during our annual risk assessment and are considered for inclusion in the Audit Plan.

(6)   For purposes regarding Fiscal Year-End reporting, we consider audits completed (**Done**) as of the official release of a completed pre-draft or draft audit report to the department/agency director and are shown as such in our Milestones & Comments column of the AOC Quarterly Status Report.

(7)   We use an industry best practice in estimating the available hours at 77% for audit staff to conduct audits by deducting all paid personal leave, training, and administration so as to better estimate the direct hours available to conduct field work and write audit reports. We also deduct a vacancy factor based on historical trends and actual occurrences. We reflect any material changes in our estimates as warranted in our quarterly reports.

(8)   The annual Audit Plan is based on 26,000 direct audit hours to be provided by 13 audit professionals, three (3) Senior Audit Managers, and the Assistant Director of Internal Audit. The direct hours exclude time charges for vacation, holidays, training, administrative time, and other time not directly charged to an audit. This approach and percentage are standard within the industry.

(9)   With the merger of the former Internal Audit Department with the Auditor-Controller Department, the primary duties of receiving County Fraud Hotline calls was transferred to County Counsel. Any financial related fraud, waste, or abuse allegations are referred to the Auditor-Controller Internal Audit Division for investigation.

Appendix

Acronyms	Definition
A-C	Auditor-Controller
C-R	Clerk-Recorder
CEO	County Executive Office
COB	Clerk of the Board
COCO	County Counsel
CPO	County Procurement Office
CSS	Child Support Services
HCA/PG	Health Care Agency/Public Guardian
JWA	John Wayne Airport
OCCR	OC Community Resources
OCDA	District Attorney/Public Administrator
OCIT	CEO/Information Technology
OCPW	OC Public Works
OCSD	Sheriff-Coroner (Orange County Sheriff's Department)
OCWR	OC Waste & Recycling
PD	Public Defender
ROV	Registrar of Voters
SSA	Social Services Agency
T-TC	Treasurer-Tax Collector