

# Internal Audit Department

O R A N G E County in the USA  
6<sup>th</sup> Largest

**FINAL CLOSE-OUT**

## SECOND FOLLOW-UP AUDIT AOC SPECIAL REQUEST:

### REVIEW OF COUNTY'S PURCHASE OF REAL PROPERTY USING CLERK- RECORDER SPECIAL REVENUE FUND 12D

AS OF MARCH 17, 2015

Our Second Follow-Up Audit found that the County Executive Office took satisfactory corrective action to implement the four (4) remaining recommendations from our original audit report containing six (6) recommendations. Previously, two (2) recommendations were fully implemented by the Clerk-Recorder and four (4) were in-process as of our First Follow-Up audit report dated May 6, 2014.

AUDIT NO: 1159A-F2  
(REFERENCE 1418)

REPORT DATE: JUNE 9, 2015

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**RISK BASED AUDITING**

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



Member of  
American Institute of Certified Public Accountants Award to Dr. Peter Hughes  
as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to  
Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of  
Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1159A-F2      June 9, 2015**

**TO:** Frank Kim, County Executive Officer  
Hugh Nguyen, Clerk-Recorder

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** **Second and Final Close-Out** Follow-Up Audit:  
AOC Special Request Review of County's  
Purchase of Real Property Using Clerk-  
Recorder Special Revenue Fund 12D,  
Original Audit No. 1159A, Issued  
February 21, 2013

We have completed a Second Follow-Up Audit of the County's Purchase of Real Property Using Clerk-Recorder Special Revenue Fund 12D. Our audit was limited to reviewing, as of March 17, 2015, actions taken to implement the remaining **four (4) recommendations** from our First Follow-Up Audit report dated May 6, 2014. We conducted this Second Follow-Up Audit in accordance with the *FY 14-15 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our Second Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our Second Follow-Up Audit found that the County Executive Office has taken satisfactory corrective action to **implement the remaining four (4) recommendations**. **As such, this report represents the final close-out of the original audit.**

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 5.

# OC Internal Auditor's Report



*Second and Final Close-Out Follow-Up Audit:  
AOC Special Request Review of County's  
Purchase of Real Property Using  
Clerk-Recorder Special Revenue Fund 12D  
Audit No. 1159A-F2*

As of March 17, 2015

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Audit No. 1159A-F2

June 9, 2015

TO: Frank Kim, County Executive Officer  
Hugh Nguyen, Clerk-Recorder

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: **Second and Final Close-Out** Follow-Up Audit: AOC Special Request Review of County's Purchase of Real Property Using Clerk-Recorder Special Revenue Fund 12D, Original Audit No. 1159A, Issued February 21, 2013

## Scope of Review

We have completed a Second Follow-Up Audit: AOC Special Request Review of County's Purchase of Real Property Using Clerk-Recorder Special Revenue Fund 12D. Our audit was limited to reviewing, as of March 17, 2015, actions taken to implement the four (4) remaining recommendations from our First Follow-Up Audit No. 1159A-F1, issued May 6, 2014.

## Background

As directed by the Audit Oversight Committee (AOC) at its March 15, 2012 meeting, the objective of our original review was to determine whether the acquisition of real property for about \$2.1 million located at 433 Civic Center Drive West in March 2008 was a permissible use of Special Revenue Fund 12D monies. The original audit found that using Fund 12D restricted monies to acquire the subject property was permissible as long as the property is used to store the appropriate records: specifically, recorded real property documents.

The original audit identified **two (2) Critical Control Weaknesses**, **two (2) Significant Control Weaknesses** and **two (2) Control Findings** to improve controls regarding the Agenda Staff Report (ASR) process, policies & procedures, compliance related to the purchase of real property, and use of restricted funds.

## Results

Our Second Follow-Up Audit found the County Executive Office took satisfactory corrective action to implement the four (4) remaining recommendations. **This report represents the final close-out of the original audit.** Based on our Follow-Up Audits, the following is the implementation status of the six (6) original recommendations. The item number from the original audit is shown before each heading.

**Finding No. 1 - The County ASR Process for Real Property Acquisitions Needs to be Improved as the ASR Prepared and Submitted by the County Executive Office Did Not Include Material and Relevant Refurbishment Cost Information (Critical Control Weakness)**

**Recommendation No. 1:** We recommend that the CEO work with Corporate Real Estate to develop "standard questionnaires" for all real property acquisitions and leases, utilizing the samples provided, and require the completed questionnaires to be attached to all future real property Agenda Staff Reports (ASRs).



The CEO should also communicate to the departments, in writing, clearly defined responsibilities for completion and submission of the questionnaire.

**Current Status: Implemented. (Second Follow-Up Audit)** Our Follow-Up Audit noted that the questionnaires are part of the applicable ASRs and can be accessed within the Comprehensive Agenda Management Solution (CAMS) System. With input and feedback obtained from the departments and agencies, CEO Real Estate amended the ASR and questionnaires in the CAMS system and its instructions to clarify to all users involved in real estate transactions that they are required to work with CEO Real Estate on the completion of the questionnaires and ASR. The improved questionnaires were in place January 1, 2015 in the CAMS documents library, and CAMS systems for all agencies were amended to point preparers of all real estate related ASRs to them.

The questionnaires continue to be a CAMS-enforced requirement for all Real Estate related ASRs. As such, we consider this recommendation implemented.

**Finding No. 2 - The County ASR Process for Real Property Acquisitions Needs to be Improved as the ASR Prepared and Submitted by the County Executive Office Did Not Clearly Explain the Funding Source, Intended Property Use, and Compliance with Funding Restrictions (Critical Control Weakness)**

**Recommendation No. 2:** We recommend that the CEO ensure the real property acquisition and lease questionnaires developed (see Finding No. 1 above) clearly identify and explain funding sources including the funding restrictions and compliance with those restrictions.

**Current Status: Implemented. (Second Follow-Up Audit)** Our Follow-Up Audit noted that certain questions have been included in the questionnaires with the intent to solicit key information relevant to clearly identify and explain funding sources including the funding restrictions and compliance with those restrictions. As noted in Finding No. 1 above, with input and feedback obtained from the departments and agencies, CEO Real Estate amended the ASR and questionnaires in the CAMS system and its instructions to clarify to all users involved in real estate transactions that they are required to work with CEO Real Estate on the completion of the questionnaires and ASR to assure the BOS is fully informed of the funding sources, funding restrictions and compliance with those restrictions. The improved questionnaires were in place January 1, 2015 in the CAMS documents library and contain instructions and contact information in case of questions about funding source or fund destination.

The questionnaires continue to be a CAMS-enforced requirement for all Real Estate related ASRs. As such, we consider this recommendation implemented.

**Finding No. 3 - Authoritative Opinion Regarding Appropriate Use of Fund 12D Not Obtained Prior to Purchase (Significant Control Weakness)**

**Recommendation No. 3:** We recommend that the Clerk-Recorder Department request County Counsel input on the propriety of future large dollar uses of Fund 12D restricted monies, including future renovations or improvements to the subject property.



**Current Status: Implemented. (First Follow-Up Audit)** Our Follow-Up Audit noted the Clerk-Recorder has drafted a policy and procedure for identifying and confirming Special Revenue allowable uses. The procedure provides guidance for determining whether an expenditure qualifies as Special Revenue allowable use, including guidance for requesting County Counsel input when deemed necessary. There have been no recent renovations or improvements to the subject property or questionable large dollar uses of Fund 12D restricted monies subsequent to the audit to allow us to evaluate compliance with this new procedure.

Since the Clerk-Recorder developed a policy for requesting County Counsel opinion on the propriety of future use of Fund 12D restricted monies, we consider this recommendation implemented.

## **Finding No. 4 - Plan for Subject Property Needs to Be Prepared (Significant Control Weakness)**

**Recommendation No. 4:** We recommend that the CEO work with the Clerk-Recorder Department and Corporate Real Estate to prepare a written plan for the subject property that will be included in the County's Civic Center Master Plan.

**Current Status: Implemented. (Second Follow-Up Audit)** Our Follow-Up Audit noted that, in April 2013, the BOS engaged the firm of Related Griffin/Related to work with staff to develop a Civic Center Facilities Strategic Plan. We observed that the subject property is included in the County of Orange Civic Center Facilities Strategic Plan Summary draft. The plan contains various scenarios involving the future of the subject property (i.e., renovate, sell, etc.). We were informed that over the next 3-6 months, this draft plan is to be reviewed by the Real Estate Subcommittee (a subcommittee of the Board of Supervisors) for further direction regarding amendment and/or presentation to the Board and the public.

In a memo dated March 25, 2014, the Clerk-Recorder notified the CEO/Chief Real Estate Officer that the Clerk-Recorder Department does not have any future operational needs for the property at 433 Civic Center Drive West. "After reviewing and analyzing various potential operational uses for the property, it was determined that it would not be cost effective to make the building functional for Clerk-Recorder operations."

The said property was purchased using Clerk-Recorder "Special Revenue" monies; consequently, any net proceeds from the sale of the property are mandated to be deposited into the Clerk-Recorder Department's Special Revenue Fund 12D-Modernization. If the County determines the property is needed for another County use, the County must reimburse the "Modernization" Special Revenue Fund 12D.

As noted, CEO Real Estate has taken significant action towards the development of a written plan for the subject property that will be submitted to the Board of Supervisors later this year as part of the Civic Center Facilities Strategic Plan. As such, we consider this recommendation implemented.





## **Finding No. 5 - Subject Property Currently Provides Storage for a Minimal Quantity of Non-Qualifying Documents (Control Finding)**

**Recommendation No. 5:** We recommend that the Clerk-Recorder Department remove any “non-compliant” records currently being stored at the subject property, such as fictitious business name records, or reimburse Fund 12D - Enhancement Fund for any non-compliant records stored.

**Current Status: Implemented. (First Follow-Up Audit)** Our Follow-Up Audit noted that the subject property is currently being used to store records that are non-qualifying. Clerk-Recorder worked with CEO Real Estate in the development of an industry acceptable procedure for calculating the reimbursement cost of the non-compliant records stored in the subject property, based on the market cost for document storage. Clerk-Recorder maintains a log of boxes and contents stored in the building. Based on this information, Clerk-Recorder has calculated the amount to be reimbursed to Fund 12D for FY 10/11 through FY 13/14 and plans to process the reimbursement upon the BOS approval of the Q-Bar (Quarterly Budget Augmentation Requests).

Since Clerk-Recorder developed an acceptable procedure for calculating the amount to be reimbursed to Fund 12D, and is in the process of reimbursing Fund 12D for past usage, we consider this recommendation implemented.

## **Finding No. 6 - The County Needs Written Policy That Clearly Defines and Establishes Corporate Real Estate's Responsibilities and Authorities (Control Finding)**

**Recommendation No. 6:** We recommend that the CEO work with Corporate Real Estate to develop a written policy that clearly defines and establishes Corporate Real Estate's responsibilities and authorities for all County real estate matters, including types of departmental projects they should be involved in and whether the involvement should be at the beginning of the project.

**Current Status: Implemented. (Second Follow-Up Audit)** On November 20, 2012, the Board of Supervisors directed the County Executive Office to review all County departmental real estate responsibilities as part of the then recently approved transfer of Corporate Real Estate to the County Executive Office.

Our Follow-Up Audit found that County Real Estate has undergone significant reorganization as of March 12, 2015. On April 28, 2015, CEO Real Estate hosted a meeting for all Agency leaders, all Agency contacts regarding real estate matters, and County Real Estate staff to: 1) share real estate functions that are being handled now by CEO Real Estate and how they will be handled going forward; 2) share the results of a survey of CEO Real Estate's Agency clients; and 3) listen for opportunities for improvement.

CEO Real Estate will provide a meeting summary and a list of contacts to all of CEO Real Estate's clients to further facilitate communication and customer service. Similar content will be posted on the County's new Intranet website for real estate by July 31, 2015.





These materials and resources are intended to reinforce CEO Real Estate's responsibilities and authorities for all County real estate matters except those of JWA and Sheriff, and they will define the types of departmental projects that CEO Real Estate should be involved in and again restate that CEO Real Estate's involvement must begin upon initiation of a real estate project. As such, we consider this recommendation implemented.

We appreciate the assistance extended to us by County Executive Office staff during our Second Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Alan Marcum, Senior Audit Manager at 834-4119.

Respectfully Submitted,

Dr. Peter Hughes, CPA, Director  
Internal Audit Department

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Mark Denny, Chief Operating Officer  
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Dana Ohanesian, Financial Services Manager, Clerk-Recorder  
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