

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT
FOR
NOVEMBER 2005
TO THE
BOARD OF SUPERVISORS

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

by the Director of Internal Audit
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Integrity
Objectivity
Independence

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MONTHLY SUMMARY – NOVEMBER 2005
Status Report to the Board of Supervisors by IAD

Board Directive:

Per Board Directive on September 27, 2005, Item 70, the Internal Audit Department is to report on the status on implementation of Treasurer Tax Collector audit recommendations to be included in monthly status reports to the Board through December 2005. The following status is provided:

Background:

Treasurer's Office: At the September 27, 2005 Board Meeting, we reported that on May 6, 2005, we issued a Report on Audit of Statement of Assets Held by the County Treasury as of December 31, 2004. In addition to that report, we issued: 1) a separate Management Letter and 2) a separate Confidential Supplement to the Management Letter on the audit of the Statement of Assets Held by the County Treasury as of December 31, 2004 dated August 31, 2005. **These documents identified a total of 18 internal control weaknesses: 1 material weakness, 4 significant issues, and 13 reportable conditions.**

Status:

As of December 1, 2005, the status of the 18 internal control weaknesses was as follows:

1 Material Weakness: In September, corrective action was implemented.

4 Significant Issues: 1 corrective action partially implemented, 2 corrective actions in process, and 1 corrective action not implemented.

13 Reportable Conditions: We will do a Follow-Up on the 13 Reportable Conditions in January 2006.

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NOVEMBER AUDIT ACTIVITY:

WE FINISHED 7 PROJECTS THIS MONTH:

We completed 4 Audits:

1. Community Service Programs, Inc.: In response to Board Directive No. 81, June 28, 2005, we found that it is not cost-effective to have District Attorney staff perform victim/witness services in-house, and that the contractor has an adequate project tracking and billing processes in place. No recommendations were made.
2. Treasurer Tax Collector: Report on Review of Statement of Assets Held by the County Treasury as of September 30, 2005. Based on our review, we were not aware of any material modifications that should be made to the financial statement for it to be fairly stated.
3. District Attorney: We found the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for the District Attorney's Office Audit of Automobile Insurance Fraud Program, for Fiscal Year Ending June 30, 2005.
4. District Attorney: We found the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for the District Attorney's Office Audit of Workers Compensation Insurance Fraud Program, for Fiscal Year Ending June 30, 2005.

We issued 2 Reports of Monthly Computer Assisted Audit Techniques:

5. Auditor-Controller & Human Resources Departments:
 - Duplicate Vendor Payments: We completed our monthly audit for October of vendor payments and identified 2 duplicate payments totaling \$2,218 that is being pursued by the Auditor Controller.

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- Working Retirees: No new issues. As noted in prior month, 7 out of over 200 working retirees exceeded the legal thresholds for hours worked in fiscal year 04-05. Our review is in process.

6. Auditor-Controller & Human Resources Departments:

- Duplicate Vendor Payments: We completed our monthly audit for November of vendor payments and identified no duplicate payments.
- Working Retirees: No new issues. As noted in prior month, 7 out of over 200 working retirees exceeded the legal thresholds for hours worked in fiscal year 04-05. Our review is in process.

We completed 1 Follow-Up Audit:

7. Social Services Agency – 2nd Follow-Up Audit of Trust and Agency Funds: Corrective actions were taken on 1 of 4 recommendations resulting in **3 recommendations being not fully implemented.** A 3rd Follow-Up Audit will be conducted in 2006.

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BOARD DIRECTIVE TO PROVIDE STATUS ON MATERIAL FINDING:

Department and Description	Comments
<p>DEPT: Treasurer-Tax Collector</p> <p>TITLE: Confidential Supplement to the Management Letter and Audit of the Statement of Assets Held by the County Treasury at December 31, 2004 (Confidential Report)</p> <p><u>Audit No:</u> 2409</p> <p>ISSUED: August 31, 2005</p>	<p><u>BOARD DIRECTIVE:</u> Per Board Directive on September 27, 2005, Item 70, the Internal Audit Department is to report on the status on implementation of Treasurer-Tax Collector audit recommendations to be included in monthly status report to Board through December 2005. The following status is provided:</p> <p><u>BACKGROUND:</u> At the September 27, 2005 Board Meeting, we reported that on May 6, 2005, we issued a Report on Audit of Statement of Assets Held by the County Treasury as of December 31, 2004. In addition to that report, we issued: 1) a separate Management Letter and 2) a separate Confidential Supplement to the Management Letter on the Audit of the Statement of Assets Held by the County Treasury as of December 31, 2004 dated August 31, 2005. These documents identified a total of 18 internal control weaknesses: 1 material weakness, 4 significant issues, and 13 reportable conditions. The <u>material audit findings</u> involved an internal control weakness in the wire transfer of funds. The <u>significant audit findings</u> were related to logical security controls, IT security monitoring and internal controls over granting local area network access. (Confidential Finding)</p> <p><u>STATUS:</u> In October, corrective action was implemented for the 1 material weakness. However, as of December 1, 2005 for the 4 significant issues, corrective action is partially implemented for 1, corrective actions is in process for 2, and for 1 corrective action has not been implemented.</p>

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NON-MATERIAL FINDINGS

	Department and Description	Comments
1.	<p>DEPT: Community Service Programs, Inc. and O.C District Attorney</p> <p>TITLE: Report on Limited Review of Community Service Programs, Inc. Victim/Witness Assistance Programs</p> <p>(Board Directive No. 81, dated June 28, 2005.)</p> <p><u>Audit No.</u> 2568</p> <p>ISSUED: November 10, 2005</p>	<p>SCOPE: By Board Directive, we conducted an audit of Community Service Programs, Inc. (CSP) Victim/Witness Assistance programs and analyzed the possibility of using District Attorney staff to perform this function in-house. We also evaluated CSP’s system for tracking project costs to ensure proper billings to the County; verified a sample of CSP expenditures to ensure they were appropriate and supported; and reviewed the reasonableness of CSP project overhead allocations.</p> <p>CONCLUSION: We found it was <u>not</u> cost effective to have District Attorney staff perform these services in-house; CSP has an adequate system of tracking project costs to ensure proper billing to the County; expenditures were appropriate and adequately supported; and CSP allocates its project overhead costs on an equitable basis.</p> <p>BACKGROUND: CSP, a non-profit organization, has been the designated provider of victim/witness assistance services in Orange County for over 30 years. CSP performs other related services to the County such as domestic violence, child dependency, and rape victim services. The combined County budget for this contract is approximately \$1.4 million, of which \$420,000 is specifically for victim/witness assistance programs.</p> <p>TYPE OF RECOMMENDATIONS: No recommendations were made.</p>

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2.	<p>DEPT: Treasurer-Tax Collector.</p> <p>TITLE: Report on Review of the Statement of Assets Held by the County Treasury at September 30, 2005.</p> <p><u>Audit No.</u> 2510</p> <p>ISSUED: November 18, 2005</p>	<p>SCOPE: In our review of the Treasurer-Tax Collector’s (County Treasurer) Statement of Assets Held (financial statement), we performed tests to determine whether the assets (cash, demand accounts, and investments) held by the County Treasury were fairly stated, i.e., the assets exist, and were recorded accurately, completely, and timely.</p> <p>CONCLUSION: Based on our review, we were not aware of any material modifications that should be made to the financial statement for it to be fairly stated.</p> <p>BACKGROUND: At September 30, 2005 the County Treasury had total assets of \$5.167 billion, of which \$2.57 billion was in the County Pool; \$2.53 billion was in the Education Pool; and \$67 million was Non-Pooled.</p> <p>California Government Code requires that the elected Auditor-Controller perform three quarterly reviews and one quarterly audit of the statement of assets in the County Treasury. The Auditor-Controller contracts with the Internal Audit Department to conduct the quarterly reviews and the quarterly audit.</p> <p>TYPE OF RECOMMENDATIONS: NONE</p>

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3.	<p>DEPT: District Attorney</p> <p>TITLE: Report on District Attorney's Office Audit of Automobile Insurance Fraud Program, for Fiscal Year Ending June 30, 2005</p> <p><u>Audit No.</u> 2515</p> <p>ISSUED: November 28, 2005</p>	<p>SCOPE: We audited the District Attorney (DA) Office's financial statement for the Grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.</p> <p>CONCLUSION: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>BACKGROUND: The grant is funded by the California Department of Insurance, and the 2004/2005 fiscal year grant award totaled \$1,620,200. However, expenditures totaled only \$782,741, as a result, the DA office will submit to the Department of Insurance a request to carry-over \$837,459 to fiscal year 05/06.</p> <p>The grant agreement requires that the DA obtain an annual audit of the financial statement. The DA has the option of outsourcing the audit to an outside CPA firm or requesting that the County Internal Audit Department conduct the audit.</p> <p>TYPE OF RECOMMENDATIONS: NONE</p>

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4.	<p>DEPT: District Attorney</p> <p>TITLE: Report on District Attorney's Office Audit of Workers Compensation Insurance Fraud Program, for Fiscal Year Ending June 30, 2005</p> <p><u>Audit No.</u> 2515</p> <p>ISSUED: November 28, 2005</p>	<p>SCOPE: We audited the District Attorney (DA) Office's financial statement for the Grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.</p> <p>CONCLUSION: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>BACKGROUND: The grant is funded by the California Department of Insurance, and the 2004/2005 fiscal year grant award totaled \$1,766,121. However, expenditures totaled \$2,358,625; as a result, the DA office will absorb the \$592,504 of net expenditures over funding.</p> <p>The grant agreement requires that the DA obtain an annual audit of the financial statement. The DA has the option of outsourcing the audit to an outside CPA firm or requesting that the County Internal Audit Department conduct the audit.</p> <p>TYPE OF RECOMMENDATIONS: NONE</p>

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5.	DEPT: Board of Supervisors TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of October 2005 <u>Audit No.</u> 2518-J ISSUED: October 27, 2005	<p>SCOPE: The monthly CAAT Routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 5 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, biannually, or annually.</p> <p>CONCLUSION:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> • <u>Working Retirees:</u> <p>BACKGROUND: The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population.</p> <p>The resulting matches identified by the CAATs are subjected to further review and analysis by the Internal Audit Department. We then forward any resulting findings to the A-C, HR, or CEO/Purchasing for their review and concurrence, and subsequent correction/recovery. We also work with these departments to identify internal control enhancements with the purpose of preventing future occurrences of the type of findings identified by the CAATs.</p> <p>TYPE OF RECOMMENDATIONS: No recommendations given.</p>

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6.	DEPT: Board of Supervisors TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of November 2005 <u>Audit No.</u> 2518-K ISSUED: November 30, 2005	<p>SCOPE: The monthly CAAT Routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 5 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, biannually, or annually.</p> <p>CONCLUSION:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> • <u>Working Retirees:</u> <p>BACKGROUND: The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population.</p> <p>The resulting matches identified by the CAATs are subjected to further review and analysis by the Internal Audit Department. We then forward any resulting findings to the A-C, HR, or CEO/Purchasing for their review and concurrence, and subsequent correction/recovery. We also work with these departments to identify internal control enhancements with the purpose of preventing future occurrences of the type of findings identified by the CAATs.</p> <p>TYPE OF RECOMMENDATIONS: No recommendations given.</p>

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7.	DEPT: Social Services Agency TITLE: Second Follow-Up Audit of Trust and Agency Funds, Original Audit 2135 <u>Audit No.</u> 2533 ISSUED: November 22, 2005	<p>SCOPE: 2nd Follow-Up Audit of trust and agency funds, administered by Auditor-Controller staff in SSA Accounting Services, to determine if corrective action had been taken for the 4 recommendations not fully implemented at the time of our 1st Follow-Up Audit dated September 29, 2003. No material weaknesses or significant issues were identified in the original audit report dated March 20, 2002.</p> <p>CONCLUSION: Our 2nd Follow-Up Audit of the remaining 4 recommendations found that 1 was fully implemented, 1 was partially implemented, 1 was in process, and 1 was not implemented. Because there are recommendations not fully implemented, we will conduct a 3rd Follow-Up Audit in 2006 to determine the status of the remaining recommendations. The Audit Oversight Committee will be notified of the open recommendations at the next scheduled meeting. The recommendations that were “in process” and “not implemented” involved two trust funds containing unidentified monies and requiring research to determine the correct payees and final disposition of the funds. Some of these transactions date back to prior to 1990. At the time of the original audit, unidentified monies in the two funds ranged from approximately \$700,000 - \$862,000.</p> <p>BACKGROUND: The original audit assessed the processes, procedures, and controls over the trust and agency funds to ensure the funds were safeguarded; disbursements were properly authorized, recorded and issued timely; and that funds were administered in compliance with County Accounting Procedures. During the audit period, SSA processed in excess of \$400 million in cash and non-cash disbursement transactions.</p> <p>TYPE OF RECOMMENDATIONS: The original audit identified 9 recommendations to completely reconcile trust funds, identify and transfer excess balances to appropriate parties, establish subsidiary records; perform supervisory reviews; and segregate fund duties.</p>