

**EXHIBIT A**

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

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

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**by the County Internal Auditor**  
**Dr. Peter Hughes, MBA, CPA,**

Certified Information Technology Professional (CITP),  
Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE)



*Integrity*  
*Objectivity*  
*Independence*

Assistance in assembling this report provided by:

**Eli Littner, Deputy Director, CPA, CIA, CFE, CFS, CISA**  
**Alan Marcum, Audit Manager, MBA, CPA, CIA, CFE**  
**Michael J. Goodwin, Audit Manager, CPA, CIA**  
**Autumn McKinney, Audit Manager, CPA, CIA, CGFM**

**MONTHLY SUMMARY – OCTOBER 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 November 2, 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, and 3 corrective actions not implemented.

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

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OCTOBER AUDIT ACTIVITY:

**WE FINISHED 7 PROJECTS THIS MONTH:**

We completed 4 Audits:

1. John Wayne Airport: We found Vanguard Car Rental USA, Inc. lease revenue amounting to \$818,000 due the County was properly remitted. We identified **2 control findings** related to compliance with the lease agreement.
2. Social Services Agency: We found controls and processes in place over contract administration and cash disbursements and identified **9 control findings and recommendations** to enhance processes and controls.
3. Heath Care Agency: We found controls and processes in place over contract administration and cash disbursements and identified a **significant issue** and **4 other control findings** resulting in **8 recommendations** to improve processes and controls.
4. RDMD/Planning & Development Services: We found a well-defined process for developing and monitoring the budget for Building & Safety Fund 113. We made **2 recommendations for significant issues** pertaining to a contingency plan and a fund reserve.

We issued 1 Report of Monthly Computer Assisted Audit Techniques:

5. Auditor-Controller & Human Resources Departments: We completed our monthly audits of vendor payments and identified **1** duplicate payment totaling **\$1,000** that is being pursued by the Auditor Controller. At least **6** working retirees exceeded the legal thresholds for hours worked in fiscal year 04-05. Our review is in process.

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We completed 2 Follow-Up Audits:

6. Child Support Services – 2<sup>nd</sup> Follow-Up Audit Final Close-Out Review: Corrective actions were taken on all 2 recommendations.
  
7. Auditor-Controller – 1<sup>st</sup> Follow-Up Audit Final Close-Out Review of Property Tax Unit: Corrective actions were taken on all 7 planned corrective actions and all 3 recommendations.

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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  <b>(Confidential Report)</b></p> <p><u>Audit No:</u> 2409</p> <p>ISSUED: August 31, 2005</p>	<p><b><u>BOARD DIRECTIVE:</u></b>                      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><b><u>BACKGROUND:</u></b> 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. <b>These documents identified a total of 18 internal control weaknesses: 1 material weakness, 4 significant issues, and 13 reportable conditions.</b> 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. <b>(Confidential Finding)</b></p> <p><b><u>STATUS:</u></b></p> <p>In September, corrective action was implemented for the 1 material weakness. However, as of November 2, 2005 corrective action is in process for 1 of the 4 significant issues, and corrective action has not been started for the remaining 3 significant issues.</p>

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**NON-MATERIAL FINDINGS**

	<b>Department and Description</b>	<b>Comments</b>
1.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Report on <b>Limited Review of Lease Revenue</b> for Vanguard Car Rental USA, Inc.</p> <p><u>Audit No.</u> 2540</p> <p>ISSUED: October 4, 2005</p>	<p><b>SCOPE:</b> Limited review of lease revenue to determine if gross receipts reported to the County by Vanguard Car Rental USA, Inc. (Vanguard) were complete and supported by their records.</p> <p><b>CONCLUSION:</b> We found that Vanguard’s gross receipts of approximately \$7.5 million and \$818,000 of rent paid to the County were supported by their records and appeared complete. <b>No material weaknesses or significant issues were identified. We identified 2 control findings related to compliance with the Lease Agreement.</b></p> <p><b>BACKGROUND:</b> The County of Orange entered into a lease agreement (Agreement) with National Car Rental System, Inc., dated December 14, 2000, for the operation of a rental car concession at John Wayne Airport. In 2002, ANC Rental Corporation assumed the lease per U.S. Bankruptcy Court Order for the operation of a rental car concession under the National and Alamo car rental brands. ANC Rental Corporation filed bankruptcy and Vanguard assumed the lease in August 2003 per U.S. Bankruptcy Court Order. Vanguard typically generates 8,000 to 11,000 car rental agreements per month. During the 5-month review period, Vanguard generated approximately \$7.5 million in gross receipts and paid the County over \$818,000 in rent.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> JWA should evaluate whether adjustments for customer satisfaction are excludable from gross receipts. JWA should require Vanguard to submit Monthly Gross Receipt Statements in the form prescribed by Clause 15 of the Lease Agreement.</p>

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<p>2. DEPT: Social Services Agency</p> <p>TITLE: Report on <b>Internal Control Review</b> of Contract Administration and Cash Disbursements Processes</p> <p><u>Audit No.</u> 2531</p> <p>ISSUED: October 5, 2005</p>	<p><b>SCOPE:</b> Audit of controls and processes over human services contract administration and cash disbursements to ensure cash disbursements are processed completely, accurately, and timely; cash disbursements have adequate documentation to justify payments made to the contractors; fiscal monitoring/site review process confirms contractor expenditures are appropriately supported and allowable in accordance with contractual requirements; and to identify any ineffective or inefficient processes that come to our attention.</p> <p><b>CONCLUSION:</b> <b>No material weaknesses or significant issues were identified.</b> Controls and processes are in place to ensure cash disbursements for contracted services are processed completely, accurately, timely; cash disbursements for contracted services have adequate supporting documentation to justify payments made to the contractors; fiscal monitoring/site review processes are in place to confirm contractor expenditures are appropriately supported and allowable in accordance with contractual requirements; and we noted some areas where effectiveness and efficiency can be enhanced. <b>Our report identified nine Control Findings resulting in nine recommendations.</b></p> <p><b>BACKGROUND:</b> SSA has approximately <b>321 human services contracts with the funding amount totaling \$123.4 million.</b> The term for these contracts range from one year to three years with individual maximum contract obligations ranging from \$500 to \$28.5 million. SSA/Privatization Services reviews and authorizes contractor invoices and performs detailed reviews and fiscal monitoring of contracts. For some contracts, external CPA firms are used to perform on-site fiscal monitoring to audit program expenses.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Conduct fiscal monitoring reviews of specific programs (Wraparound Services and Individual Providers); perform follow-ups on fiscal monitoring reviews; perform documented supervisory reviews of the fiscal monitoring; and reconcile contract payments to job cost and General Ledger systems.</p>

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3.	<p>DEPT: Health Care Agency</p> <p>TITLE: Report on <b>Internal Control Review</b> of Contract Administration and Cash Disbursements</p> <p><u>Audit No.</u> 2530</p> <p>ISSUED: October 20, 2005</p>	<p><b>SCOPE:</b> Audit of controls and processes over human services contract administration and cash disbursements to ensure cash disbursements are processed completely, accurately, timely; cash disbursements have adequate documentation to justify payments made to the contractors; fiscal monitoring/site review process confirms contractor expenditures are appropriately supported and allowable in accordance with contractual requirements; and to identify any ineffective or inefficient processes that come to our attention.</p> <p><b>CONCLUSION:</b> <b>No material weaknesses were identified.</b> Controls and processes are in place to ensure cash disbursements are processed completely, and accurately. For contracts where contractors self-report their revenue and expenditures, <u>a review of supporting documentation by itself is not adequate</u> to justify payments made to the contractors. HCA complements this process by contracting external audits and performing site reviews that additionally validate program expenditures. We identified the area of fiscal reviews as a <b>Significant Issue</b> with <b>four recommendations</b>, and <b>four</b> other Control Findings resulting in a total of <b>eight recommendations</b> to improve controls and processes.</p> <p><b>BACKGROUND:</b> HCA has approximately 414 human services contracts with a budget totaling approximately \$180 million. HCA/Contract Development &amp; Management Division develops, solicits, negotiates, and administers contracts with external providers of alcohol, drug abuse, mental health, public health, and medical services; analyze contractor invoices; and authorize payments for disbursement by the Auditor-Controller. HCA/Contracts perform on-site reviews of contractors, and for some contracts, they use external CPA firms to perform fiscal monitoring.</p> <p><b>Type of Recommendations:</b> Perform timely Annual Site Visits and Fiscal/Administrative Reviews; improve documentation of site visits and fiscal reviews; ensure timely adjustments are made when contractor actual costs <u>are less than</u> the monthly contract provisional payment amount; strengthen controls to ensure timely contractor payments; update policies and procedures based upon current practices.</p>

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4.	<p>DEPT: RDMD/Planning and Development Services Function</p> <p>TITLE: <b>Review of Budgetary Controls</b> for Planning and Development Services Department, Original Audits 2548 and 2316</p> <p><u>Audit No.</u> 2584</p> <p>ISSUED: October 28, 2005</p>	<p><b>SCOPE:</b> Performed in conjunction with our Follow-Up Audit of the former Planning &amp; Development Services Department Building &amp; Safety Fund 113, we reviewed the budgetary processes and controls in RDMD/Planning &amp; Development Services, specifically involving the development of the annual budget, on-going budget monitoring processes, and the training of budget personnel. We also reviewed the process for projecting workload and staffing needs related to Building &amp; Safety Fund 113.</p> <p><b>CONCLUSION:</b> The processes and controls in RDMD/PDS demonstrated a well-defined and articulated budget process. We were pleased with the efforts RDMD/PDS has made in projecting and monitoring staffing needs and workloads and its budget monitoring processes related to Building &amp; Safety Fund 113. Because Building &amp; Safety Fund 113 is used to cover departmental expenses and is subject to both seasonal and economic fluctuations, we made <b>two new recommendations, which we consider Significant Issues,</b> to develop <b>an adequate fund reserve</b> and <b>a contingency plan</b> specifically for the RDMD/PDS in the event a future reduction in workforce may be warranted.</p> <p><b>BACKGROUND:</b> An internal audit was conducted on budgetary controls in the County Executive Office (CEO) and PDS following a <b>\$2.4 million fund deficit</b> that occurred in PDS's <b>Building and Safety Fund 113</b> during the fiscal year ending June 30, 2002. The original audit report contained nine recommendations for corrective actions needed by the CEO, PDS, and the Auditor-Controller. Our Follow-Up Audit (Audit No. 2548 for Original Audit 2316; issued in a separate report on September 8, 2005) found that satisfactory corrective action was taken on all nine recommendations. This review focused specifically on the budget practices concerning RDMD/PDS' development of the budget for Building &amp; Safety Fund 113.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Work jointly with Human Resources and Employee Relations to develop a contingency plan to ensure timely program reductions; determine an appropriate amount of fund reserve needed to sustain operations and allow sufficient time to take corrective actions.</p>

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5.	DEPT: Board of Supervisors  TITLE: <b>Monthly Report on Computer-Assisted Audit Techniques (CAAT)</b> for the Month of September 2005  <u>Audit No.</u> 2518-I  ISSUED: October 27, 2005	<p><b>SCOPE:</b> The monthly CAAT Routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 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><b>CONCLUSION:</b></p> <ul style="list-style-type: none"> <li>• <b>Duplicate Payments to Vendors:</b> <b>1 duplicate payment totaling \$1,000 was identified</b> in the August 2005 data and is being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 15,582 invoices paid during August 2005 amounting to \$70,926,941.</li> <li>• <b>Working Retirees:</b> <b>At least 6 retirees, including 1 early retiree, exceeded the hour limits for fiscal year 2004/2005.</b> We met with Human Resources on September 6, 2005, to discuss the exceptions and process enhancements to help avoid future occurrences. We are currently waiting for a County Counsel opinion to help clarify this issue.</li> </ul> <p><b>BACKGROUND:</b> The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population.</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><b>TYPE OF RECOMMENDATIONS:</b> No recommendations given.</p>

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6.	<p>DEPT: Auditor-Controller</p> <p>TITLE: <b>Final Close-Out Follow-Up Audit</b> of Limited Review – Property Tax Unit Extended Tax Roll Process, Original Audit 2427</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: October 26, 2005</p>	<p><b>SCOPE:</b> 1<sup>st</sup> Follow-Up Audit of our limited review of the Property Tax Unit’s Extended Tax Roll process to determine the implementation status of 7 planned corrective actions and 3 recommendations made in our original audit report dated October 14, 2004. No material weaknesses or significant issues were identified in the original audit.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action has taken place on all 7 planned corrective actions and 3 recommendations. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> In FY 2003/04, while creating the Extended Tax Roll, a series of events occurred concerning a bond issuance and related debt service requirements for Coast Community College District. In the end, these events resulted in a <b>\$9.2 million computation error</b> of the tax rate, causing a shortage in apportioned tax monies to the District. This situation was remedied by requesting Board of Supervisors’ approval to make a temporary loan to this District to cover its funding needs. At the time of the original audit, the Property Tax Unit had developed planned corrective actions to reduce the risk of future occurrence, which we evaluated for effectiveness.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Planned corrective actions developed by the Property Tax Unit included: requiring <u>positive confirmations</u> from all districts; submitting bond budgets and tax rates <u>directly to the school districts</u>; <u>monitoring local elections</u>; improve <u>documentation and tracking</u> of all correspondence received from the school districts; and enhancement of the <u>management review and approval process</u>. Additional recommendations included: continuation of efforts in succession planning and finalizing written procedures for the Extended Tax Roll process; enhancement of tracking and documentation processes for correspondence received from taxing jurisdictions; determine training needs for other depts. involved in the annual tax roll process.</p>

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7.	<p>DEPT: Child Support Services</p> <p>TITLE: Final Close-Out                      Second Follow-Up Audit of                      Departmental Control Review of                      Cash Receipts, Trust/Departmental                      Funds and Revolving Funds,                      Original Audit 2330</p> <p><u>Audit No.</u> 2533</p> <p>ISSUED: October 26, 2005</p>	<p><b>SCOPE:</b> 2<sup>nd</sup> Follow-Up Audit of cash receipt, trust/departmental fund and revolving fund processes to determine if corrective action had been taken for the 2 recommendations not fully implemented at the time of our 1<sup>st</sup> Follow-Up Audit, dated March 31, 2005. No material weaknesses or significant issues were identified in the original audit.</p> <p><b>CONCLUSION:</b> Our second and final Follow-Up Audit of the remaining 2 recommendations found that both had been fully implemented. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> The original audit assessed the processes, procedures and controls over the collection, recording, depositing, reconciling, and safeguarding of cash receipts, trust/departmental funds and revolving funds. During the audit period, CSS collected <b>\$165 million in cash receipts</b> and <b>expended approximately \$32,700 of revolving funds.</b></p> <p><b>TYPE OF RECOMMENDATIONS:</b> The original audit identified <b>23</b> recommendations to enhance user access, security and physical safeguards over computer system used for child support collections; establish controls over cash receipts and revolving funds to improve accountability and compliance with County Accounting Procedures; perform complete and timely reconciliations of all funds and accounts.</p>