

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT
FOR
APRIL 2006
TO THE
BOARD OF SUPERVISORS

Recipient of the Institute of Internal Auditors "Award for Excellence"

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



*Integrity
Objectivity
Independence*

by the Director of Internal Audit
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MONTHLY SUMMARY – APRIL 2006
Status Report to the Board of Supervisors by IAD

APRIL AUDIT ACTIVITY:

WE FINISHED 7 PROJECTS THIS MONTH:

We completed 4 Audits:

Resources and Development Management Department:

We completed a limited review of lease revenue for Newport Dunes Waterfront Resort (NDWR) and its sublessees. We found that NDWR and its sublessees retained sufficient documentation to adequately support monthly gross receipts reported to the County. No material weaknesses or significant issues were identified. However, we identified **19 control findings** related to compliance with the lease agreement or improvements to internal controls.

John Wayne Airport:

We completed our Performance Measure Validation of the January 03 – June 04 Strategy Results included in the 2005 Business Plan. We rated source (supporting) documentation provided as follows: 80 percent (8) as 5 Star - Adequate supporting documentation; and 20 percent (2) as 4 Star - Adequate documentation with recommendations for improvement.

Auditor-Controller:

We completed our Performance Measure Validation of the FY 04/04 goal and Key Outcome Indicator results included in the 2005 Business Plan. We rated source (supporting) documentation provided as follows: 50 percent (6) as 5 Star - Adequate supporting documentation; 17 percent (2) as 4 Star - Adequate documentation with recommendations for improvement; and 33 percent (4) as 3 Star - Noted opportunities for improvement.

Control Self-Assessment by Purchasing:

We facilitated a Control Self-Assessment workshop of Purchasing. The workshop participants consisted of 15 procurement professionals (managers), from 13 different County departments/agencies. After the workshop, Internal Audit provided the participants with workshop summaries showing their perceived strengths and concerns, also CSA workshop summaries were provided to the CEO, the Deputy CEO, and the Acting Purchasing Manager for review and ongoing monitoring.

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We issued 1 Report of Monthly Computer Assisted Audit Techniques:

Auditor-Controller & Human Resources Departments:

- Duplicate Payments to Vendors: We identified 15 duplicate payments made to vendors, totaling **\$12,808**, that are being pursued by the Auditor-Controller.
- Working Retirees: HR has agreed to revise its working retiree policy to be more explicit regarding the government code requirements. We will perform no further work for the FY 04-05 working retirees.
- Deleted Vendors: No findings.

We completed 2 Follow-Up Audits:

1. Resources and Development Management Department: Final Close-Out, Second Follow-Up Audit of revolving funds. Corrective action was taken on 3 of 4 recommendations.
2. Resources and Development Management Department: First Follow Up Audit of Trust and Agency Fund Disbursements. Corrective action was taken on 5 of 7 recommendations, and 3 new recommendations were noted.

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MATERIAL FINDING:

	Department and Description	Comments
		None issued during April 2006.

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NON-MATERIAL FINDINGS

	Department and Description	Comments
1.	<p>DEPT: Resources and Development Management Dept.</p> <p>TITLE: Audit of Limited Review of Lease Revenue for Newport Dunes Waterfront Resort for the Period: November 1, 2003 through October 31, 2004</p> <p><u>Audit No.</u> 2462</p> <p>ISSUED: April 7, 2006</p>	<p>SCOPE: Limited review of lease revenue to determine whether gross receipts reported to the County by Newport Dunes Waterfront Resort (NDWR) and its sublessees were adequately supported by their records.</p> <p>CONCLUSION: We found that NDWR and its sublessees retained sufficient documentation to adequately support monthly gross receipts reported to the County. No material weaknesses or significant issues were identified. However, we identified 19 control findings related to compliance with the lease agreement or improvements to internal controls.</p> <p>BACKGROUND: The County of Orange entered into a lease agreement which has been amended and assigned to Waterfront Resort Properties, LP and Newport Dunes Marina, LLC (referred to as Newport Dunes Waterfront Resort or NDWR). The lease agreement is primarily to operate and maintain Newport Dunes Waterfront Resort, a public recreation facility located in Newport Beach. The facility includes a marina, RV park, dry boat storage, and recreational day use supported by food, beverage, and retail operations, as well as water sport equipment rentals and a team and leadership development business (ropes course) operated by 2 sublessees.</p> <p>During the review period from November 1, 2003 to October 31, 2004, NDWR and its sublessees generated over \$13.6 million in gross receipts and paid the County approximately \$2.2 million in rent.</p> <p>TYPE OF RECOMMENDATIONS: Lease compliance or improvements to internal controls regarding 3rd party equipment rentals, trade-out and other credits, financial statements, mobile cash registers, serially numbered forms, incomplete or missing documentation, past due balances and advance deposits, and employee discounts and complimentary services.</p>

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2.	DEPT: John Wayne Airport TITLE: Performance Measure Validation <u>Audit No.</u> 2555 ISSUED: April 14, 2006	<p>SCOPE: Our audit included obtaining an understanding of the methodology in place for collecting and reporting Strategy Results by interviewing key personnel, observations, and reviewing source documentation. The Business Plan contained a total of 45 Strategies, and we selected a sample of 10 Strategies and Results for testing JWA supporting documentation. Our audit scope did not include an assessment of the appropriateness of JWA Strategies based on their mission, goals and objectives. We rated source (supporting) documentation provided as follows: 5 Star - Adequate supporting documentation; 4 Star - Adequate documentation with recommendations for improvement and 3 Star – Noted opportunities for improvement.</p> <p>CONCLUSION: Based on our audit of the January 03 – June 04 Strategy Results reported in JWA 2005 Business Plan, we rated 80 percent (8) of JWA reported Strategy Results as 5 Star, and 20 percent (2) reported Strategy Results as 4 Star.</p> <p>BACKGROUND: We have initiated our PMV audits at the request of the Audit Oversight Committee. Our approach is to review performance measure results, assign validation ratings, report conclusions, and make recommendations. Our validation program is designed to provide assurance to the Board of Supervisors, the County Executive Officer, and the departments/agencies and other stakeholders that reported Outcome Indicators are reliable and can be utilized in decision making covering Government resources with confidence.</p> <p>TYPE OF RECOMMENDATIONS: The Airport Director ensure that reported results are supported and properly stated; and the Strategy or the Results being reported to complement each other.</p>

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3.	DEPT: Auditor-Controller TITLE: Performance Measure Validation <u>Audit No.</u> 2554 ISSUED: April 14, 2006	<p>SCOPE: Our audit included obtaining an understanding of the methodology in place for collecting and reporting Outcome Indicator results by interviewing key personnel, observations, and reviewing source documentation. In addition, we validated the accuracy of 12 Outcome Indicator results by reviewing and testing the A/C supporting documentation. Our audit scope did not include an assessment of the appropriateness of the A/C Outcome Indicators based on the A/C mission, goals and objectives. We rated source (supporting) documentation provided as follows: 5 Star - Adequate supporting documentation; 4 Star -Adequate documentation with recommendations for improvement and 3 Star – Noted opportunities for improvement.</p> <p>CONCLUSION: Based on our audit of the FY 2003-2004 Outcome Indicator Results reported in the A/C 2005 Business Plan, we rated 50 percent (6) of A/C Outcome Indicator Results as 5 Star; and 17 percent (2) Outcome Indicators as 4 Star; and 33 percent (4) Outcome Indicator Results as 3 Star.</p> <p>BACKGROUND: We have initiated our PMV audits at the request of the Audit Oversight Committee. Our approach is to review performance measure results, assign validation ratings, report conclusions, and make recommendations. Our validation program is designed to provide assurance to the Board of Supervisors, the County Executive Officer, and the departments/agencies and other stakeholders that reported Outcome Indicators are reliable and can be utilized in decision making covering Government resources with confidence.</p> <p>TYPE OF RECOMMENDATIONS: The A/C document methodology for survey results; maintain evidence of survey distribution; create written procedures for the collection, retention, and reporting of result data; outcome indicator and results being reported to complement each other; and calculation methods are consistent for all outcome indicator results and that documentation supports each measured result.</p>

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4.	DEPT: County-Wide Purchasing TITLE: Control Self-Assessment by Purchasing <u>Audit No.</u> 2589 ISSUED: April 18, 2006	<p>SCOPE: The Internal Audit Department facilitated a Control Self-Assessment (CSA) Workshop of Purchasing. The CSA workshop participants consisted of 15 procurement professionals (managers), from 13 different County departments/agencies.</p> <p>CONCLUSION: After the workshop, Internal Audit provided the participants with workshop summaries showing their perceived strengths and concerns. The Internal Audit Department also provided CSA workshop summaries to the CEO, the Deputy CEO, and the Acting Purchasing Manager for review and ongoing monitoring.</p> <p>BACKGROUND: Not Applicable</p> <p>TYPE OF RECOMMENDATIONS: Not Applicable</p>

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5.	<p>DEPT: Board of Supervisors</p> <p>TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of March 2006</p> <p><u>Audit No.</u> 2518-O</p> <p>ISSUED: April 12, 2006</p>	<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> 15 duplicate payment totaling \$12,808 were identified in the February 2006 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 15,349 invoices paid in February 2006 amounting to \$60,935,873. • <u>Working Retirees:</u> HR has agreed to revise its working retiree policy to be more explicit regarding the government code requirements. We will perform no further work for the FY 04-05 working retirees. • <u>Deleted Vendors:</u> No findings. <p>BACKGROUND: The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population.</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.	<p>DEPT: Resources and Development Management Department</p> <p>TITLE: Final Close-Out Second Follow-Up Audit of Revolving Funds, Original Audit 2431, as of February 28, 2006</p> <p><u>Audit No.</u> 2533</p> <p>ISSUED: April 6, 2006</p>	<p>SCOPE: 2nd Follow-Up Audit of revolving funds at RDMD 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 July 7, 2005. No material or significant issues were identified in the original audit dated November 3, 2004.</p> <p>CONCLUSION: 3 recommendations were fully implemented and 1 was partially implemented. RDMD is taking corrective action on the remaining recommendation. This report represents the final close-out for Audit 2431.</p> <p>BACKGROUND: The original audit assessed the processes, procedures and controls over revolving funds at four locations: Central Fund Allocation (\$76,095); Facilities Ops. (\$3,000); Ops. & Maintenance (\$3,050) and Transportation (\$1,100). RDMD has a total of \$114,500 in revolving funds that are disbursed from 39 different locations. During FY 2003/04, there were approximately \$176,600 revolving fund disbursements.</p> <p>TYPE OF RECOMMENDATIONS: Maintain current signature lists; perform inventories of unused checks; ensure segregation of revolving fund duties; reconcile revolving fund accounts and resolve differences timely; ensure locations are aware of allowable uses; and report all 1099 tax information to A/C Claims & Disbursing.</p>

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7.	<p>DEPT: Resources and Development Management Department</p> <p>TITLE: Follow-Up Audit of Department Control Review of Trust and Agency Fund Disbursements, Original Audit 2432, as of December 31, 2005</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: April 25, 2006</p>	<p>SCOPE: 1st Follow-Up Audit of RDMD’s trust and agency fund disbursements to determine the implementation status of recommendations made in our original audit report dated March 30, 2005. In that audit, we identified 1 significant issue and 3 reportable conditions resulting in 7 recommendations.</p> <p>CONCLUSION: 5 recommendations were fully implemented and 2 were partially implemented. During our Follow-Up Audit, we noted 2 new control findings resulting in 3 new recommendations. RDMD is taking corrective action to address the remaining and new recommendations.</p> <p>BACKGROUND: RDMD has ten trust and agency funds to hold collections for road improvements and drainage facilities, refundable cash and non-cash security deposits, and donations. During FY 2003-04, there were approximately \$10 million cash and non-cash disbursement transactions and over \$11 million cash receipts processed for the trust and agency funds.</p> <p>TYPE OF RECOMMENDATIONS: RDMD, A/C, and CEO coordinate efforts to ensure non-cash security deposits in Trust Fund 300-367 are accurately recorded under the appropriate controlling department; RDMD establish a process to determine the status of its active negotiable instruments; RDMD/Accounting enhance controls over deposit refunds and supervisory reviews.</p>