

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT
FOR
FEBRUARY 2006
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
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

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FEBRUARY AUDIT ACTIVITY:

WE FINISHED 7 PROJECTS THIS MONTH:

We completed 4 Audits:

Treasurer Tax-Collector: Pursuant to Section 4108.5 of the Revenue and Taxation Code, we have completed an audit of the Treasurer-Tax Collector's Office Redemption Section as of June 30, 2005. In the areas audited, we found that the records and accounts of redemption collections appear to be reliable and fairly stated. We identified two Significant Issues, and four Control Findings. One of the Significant Issues relates to compliance with the Revenue and Taxation Code in paying interest on refunds, and the other relates to user access rights to the Assessment Tax System.

Probation Department: We have completed an audit of the Juvenile Division's books and accounts for the Orange County Probation Department for the fiscal years ending June 30, 2004 and June 30, 2005 as required by Chapter 2, Section 275(b) of the Welfare and Institutions Code. In the areas we audited, we found that Probation's internal controls over its books and accounts relating to cash receipts, disbursements and cash file management of juvenile cases are adequate and effective to ensure management's goals and objectives are accomplished. We identified two Significant Issues related to review and resolution of the PFS Error File and payments recorded to suspense, and five Control Findings.

Dana Point Harbor Department: We have completed our limited review of the Dana West Yacht Club, a sublease of the lease agreement between the County and T.B.W. Company, dba Dana West Marina, for the period June 1, 2004 through May 31, 2005. We found that DWYC retained sufficient documentation to adequately support monthly gross receipts remitted to the County. No material weaknesses, significant issues, or control findings were identified.

Internal Audit Department: We have completed our report concerning the operation of the Orange County Fraud Hotline. This report is for the period of January 1, 2005 through December 31, 2005. The report includes background information on the Hotline including the establishment, purpose, and the processing of Hotline calls and a statistical summary of Hotline activities for the period.

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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 **3** duplicate payments made to vendors, totaling **\$828**, that are being pursued by the Auditor-Controller.
- Working Retirees: No new issues this month. Our review is still in process.
- Deleted Vendors: No findings.

We completed 2 Follow-Up Audits:

1. Human Resources Department: **Final Close-Out Follow-Up Audit** of the Human Resources Department (formerly under the County Executive Office) Reclassification Process for Management Positions. Corrective actions were taken on all 13 recommendations.
2. Housing and Community Services Department: **Final Close-Out Follow-Up Audit** of the Orange County Development Agency. Corrective actions were taken on all 3 recommendations.

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MATERIAL FINDING:

	Department and Description	Comments
		None issued during February 2006.

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NON-MATERIAL FINDINGS

	Department and Description	Comments
1.	DEPT: Treasurer Tax-Collector TITLE: Audit of Tax Redemption Officer Records and Accounts as of June 30, 2005 <u>Audit No. 2513</u> ISSUED: February 22, 2006	<p>SCOPE: Pursuant to Section 4108.5 of the Revenue and Taxation Code, we have completed an audit of the Treasurer-Tax Collector’s Office Redemption Section as of June 30, 2005. The objective of our audit was to evaluate the reliability and integrity of financial and operational tax redemption records and to determine compliance with laws and regulations governing redemption activities. We did not review the property tax apportionment process performed by the Auditor-Controller’s Office or the computer information systems used by the Redemption Section.</p> <p>CONCLUSION: Based on our audit, the records and accounts of redemption collections appear to be reliable and fairly stated. No Material Weaknesses were identified. However, we identified two Significant Issues, and four Control Findings.</p> <p>BACKGROUND: The Treasurer-Tax Collector performs the duties of Tax Redemption Officer through the Redemption Section of his Department. These duties, as defined by Part 7 of the Revenue and Taxation Code, include maintaining abstracts of delinquent secured taxes; calculating and collecting interest and penalties on delinquent secured taxes; verifying specific conditions have been met before property is redeemed by property owners; and issuing certificates for redeemed property. The total dollar volume of redemption taxes and penalties collected during fiscal year 2004-05 was approximately \$42.6 million for secured taxes and \$4.9 million for supplemental taxes. Tax Redemption refunds totaled approximately \$1.6 million. Tax records are maintained on the Assessment Tax System (ATS).</p> <p>TYPE OF RECOMMENDATIONS: One of the Significant Issues relates to compliance with the Revenue and Taxation Code in paying interest on refunds, and the other relates to user access rights to the Assessment Tax System. The four Control Findings are related to the following: timeliness of refunds to taxpayers; internal controls over penalty cancellations; accuracy of the installment receipt calculation; and documenting the review of system changes.</p>

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2.	DEPT: Probation TITLE: Audit of Internal Controls over Juvenile Records and Accounts for the Fiscal Years Ending June 30, 2004 and June 30, 2005 <u>Audit No. 2512</u> ISSUED: February 7, 2006	<p>SCOPE: Our audit focused on Probation’s internal controls and processes over cash receipts and disbursements and was limited to the fiscal years ending June 30, 2004 and June 30, 2005. Chapter 2, Section 275(b) of the Welfare and Institutions Code requires an audit of the books and accounts relating to juvenile cases only; therefore, we limited our audit to include juvenile cases and related issues. Also, we reviewed actions taken by Probation to implement the five open recommendations made in our audit report dated March 2, 2004. Our review methodology included inquiry, auditor observation, and testing of pertinent documentation for the purpose of assessing the adequacy and effectiveness of Probation’s internal controls and processes. Our audit did not include a review of information systems or system controls used in the process.</p> <p>CONCLUSION: Based on our audit, Probation’s internal controls over its books and accounts relating to cash receipts, disbursements and cash file management of juvenile cases are adequate and effective to ensure management’s goals and objectives are accomplished in accordance with Chapter 2, Section 275 (b) of the Welfare and Institutions Code.</p> <p>BACKGROUND: Probation protects the community by conducting investigations for the court, enforcing court orders, assisting victims and facilitating the resocialization of offenders. Probation has the fiduciary responsibility for a variety of monies, including monies for fines, fees, penalty assessments, restitution to victims, and charges for services provided. Probation maintains a trust fund that is used for the collection and disbursement of monies.</p> <p>TYPE OF RECOMMENDATIONS: We identified two Significant Issues related to review and resolution of the PFS Error File and payments recorded to suspense. Five Control Findings related to filing and monitoring Abstracts of Judgments, control and accountability over handwritten cash receipt books, monitoring of commission revenue and secondary review of manually input information.</p>

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3.	<p>DEPT: Dana Point Harbor Department</p> <p>TITLE: Audit of Limited Review of Lease Revenue for Dana West Yacht Club for the Period June 1, 2004 through May 31, 2005</p> <p><u>Audit No.</u> 2561</p> <p>ISSUED: February 10, 2006</p>	<p>SCOPE: Limited review of lease revenue to determine if gross receipts reported to the County by Dana West Yacht Club (DWYC) were complete and supported by their records.</p> <p>CONCLUSION: We found that DWYC has retained sufficient documentation to adequately support monthly gross receipts remitted to the County. No material weaknesses, significant issues, or control findings were identified.</p> <p>BACKGROUND: The County of Orange entered into a 30-year lease agreement with T.B.W. Company dba Dana West Marina (TBW), dated October 21, 1975, for the operation of the Dana Point West Marina and other boat-related services, located at Dana Point Harbor. TBW subsequently entered into a sublease with DWYC, dated September 23, 1987, for the operation of a yacht club. In 2004, DWYC generated over \$490,000 in gross receipts and the County received approximately \$16,000 in rent payments.</p> <p>The lease agreement with TBW expired October 31, 2005. The County entered into a management agreement with TBW for the continued operation of the West Marina effective November 1, 2005. The County of Orange also entered into a separate lease agreement directly with DWYC dated November 22, 2005. The new agreement establishes a minimum annual rent plus a percentage rent of 7.5% of gross receipts in excess of \$1.2 million per year.</p> <p>TYPE OF RECOMMENDATIONS: No recommendations given.</p>

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4.	<p>DEPT: Internal Audit Department</p> <p>TITLE: Orange County Fraud Hotline Activity for the Period January 1, 2005 through December 31, 2005</p> <p><u>Audit No.</u> 2503</p> <p>ISSUED: February 17, 2006</p>	<p>SCOPE: We have completed our report concerning the operation of the Orange County Fraud Hotline. This report is for the period of January 1, 2005 through December 31, 2005. The report includes background information on the Hotline including the establishment, purpose, and the processing of Hotline calls and a statistical summary of Hotline activities for the period. In addition, we provided an update to our response to the recommendations in the 2003-2004 Grand Jury Report “County Fraud Hotline – Does it Work?”</p> <p>CONCLUSION: The Internal Audit Department received 17 calls during the period. During the period 11 cases were finalized and closed. For 3 of the 11 cases that were finalized and closed, the allegations were substantiated. One case (1) dealt with an employee falsifying his mileage reimbursement reports; one (1) dealt with employees being reimbursed for mileage at a higher rate than the Memorandum of Understanding (MOU); and the last case dealt with the improper use of a revolving cash fund. In all three (3) cases, appropriate corrective action was taken. The Grand Jury report contained seven (7) recommendations on our Hotline process. The IAD has now completed implementing corrective action on all seven (7) of the recommendations.</p> <p>BACKGROUND: The Orange County Internal Audit Department (IAD) established and runs the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. The establishment of a Hotline is a best business practice for both private and governmental entities. The Hotline is intended for County employees, vendors, and the public to report suspected fraud, misuse of County resources by vendors, contractors, or County employees. Violations of County policy are also reported. Fraud is an intentional act that results in the misstatement of financial records or theft of the County’s assets. The misuse of County resources would include for example the use of a County computer to run an outside business. In instances when non-County callers use the Hotline, their complaints are also processed.</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 January 2006</p> <p><u>Audit No.</u> 2518-M</p> <p>ISSUED: February 9, 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> 3 duplicate payment totaling \$828 were identified in the December 2005 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 18,939 invoices paid in December 2005 amounting to \$450,176,002. • <u>Working Retirees:</u> No new issues this month. As noted in prior month, seven retirees exceeded hour limits for FY 04-05. Our review is still in process. <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: Human Resources Department</p> <p>TITLE: Follow-Up Audit of Reclassification Process for Management Positions Original Audit No. 2344, as of October 31, 2005</p> <p><u>Audit No.</u> 2551</p> <p>ISSUED: February 9, 2006</p>	<p>SCOPE: 1st First Follow-Up Audit of the Human Resources Department Reclassification Process for Management Positions to determine the implementation status of 13 recommendations made in our original audit report dated September 12, 2003.</p> <p>CONCLUSION: We are pleased to report that satisfactory corrective action has taken place on all 13 recommendations. As such, this report represents the final close-out of the original audit.</p> <p>BACKGROUND: In May 2003, the Internal Audit Department contracted with Jefferson Wells International, a professional internal auditing and consulting firm, to provide subject matter experts in auditing Human Resources' reclassification process. They assisted in evaluating the adequacy and effectiveness of processes and controls over reclassification; reviewing the entire process from origination of requests through the review, approval, or denial by HR; determining how requests are tracked, monitored and resolved; and reviewing HR's standards and established criteria for accepting or rejecting reclassification requests and studies.</p> <p>TYPE OF RECOMMENDATIONS: Retain outside experts to help develop standards; form a reclassification advisory committee; develop specific standards for each phase of the reclassification process; identify barriers and develop streamlined processes to expedite handling of reclassification requests; develop effective tracking mechanisms; implement effective documentation and communication systems; utilize a database to document reclassification decisions; establish turnaround times for requests and studies; improve customer service through self-assessments and customer surveys; develop training processes; establish performance measures.</p>

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4.	<p>DEPT: Housing and Community Services Department</p> <p>TITLE: Follow-Up Audit of Internal Control Review of Orange County Development Agency Fund Expenditures, Original Audit 2433</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: February 24, 2006</p>	<p>SCOPE: 1st First Follow-Up Audit of the Orange County Development Agency (OCDA) fund expenditures to determine the implementation status of 3 recommendations made in our original audit report dated August 3, 2005. No material or significant issues were identified in the original audit.</p> <p>CONCLUSION: We are pleased to report that satisfactory corrective action has taken place on all 3 recommendations. As such, this report represents the final close-out of the original audit.</p> <p>BACKGROUND: The original audit assessed the adequacy of internal controls over OCDA fund expenditures. During the audit period, OCDA expenditures totaled \$2,958,785. Controls were found to be effective to ensure fund disbursements were properly authorized, accurate, supported, and processed timely in accordance with management’s authorization and direction.</p> <p>TYPE OF RECOMMENDATIONS: Establish procedures to ensure all journal vouchers showing fund expenditures for OCDA are routed to the Program Manager; obtain pre-approval from depts./agencies for any “material” reimbursable costs performed on behalf of OCDA; review invoices for mathematical accuracy before approval of payment.</p>