

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT
FOR
JANUARY 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
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Integrity
Objectivity
Independence

MONTHLY SUMMARY – JANUARY 2006
Status Report to the Board of Supervisors by IAD

JANUARY AUDIT ACTIVITY:

WE FINISHED 4 PROJECTS THIS MONTH:

We completed 1 Audit:

Public Administrator/Public Guardian: In response to Board Directive No. 22, May 3, 2005, we conducted six audits and released the results in one consolidated report. In the areas audited, we found controls and processes in place over cash receipts, cash disbursements, trust funds, special use revolving funds, warehouse and property controls, and preparation of the annual budget. We identified **1 significant issue and 15 control findings resulting in 16 recommendations** to enhance processes and controls.

We issued 1 Report of Monthly Computer Assisted Audit Techniques:

Auditor-Controller & Human Resources Departments:

- Duplicate Vendor Payments: We completed our monthly audit for November of vendor payments and identified **2** duplicate payments totaling **\$3,497** that are being pursued by the Auditor-Controller.
- Working Retirees: No new issues. Our review is in process.

We completed 2 Follow-Up Audits:

1. Integrated Waste Management Department – 1st Follow-Up Audit of Limited Review of Controls and Implementation of Fee Collection and Accounts Receivable Systems. Corrective actions were taken on 9 of 15 recommendations resulting in **1 recommendation being not fully implemented and 5 recommendations deferred until completion of phase two of the LISTS project.** **A 2nd Follow-Up Audit will be conducted in 2006.**
2. Auditor-Controller – 2nd Follow-Up Audit and Final Close-Out of Trust and Agency Fund Disbursements. Corrective actions were taken on all 3 recommendations.

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MATERIAL FINDING:

	Department and Description	Comments
		None issued during January 2006.

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NON-MATERIAL FINDINGS

	Department and Description	Comments
1.	<p>DEPT: Public Administrator/ Public Guardian</p> <p>TITLE: Consolidated Audit Report of the PA/PG</p> <ol style="list-style-type: none"> 1) Cash Receipts 2) Cash Disbursements 3) Trust Funds 4) Special Use Revolving Fund 5) Warehouse and Property Controls 6) Budget Process <p>(Board Directive No. 22, Board Date May 3, 2005.)</p> <p><u>Audit No. 2528</u></p> <p>ISSUED: January 19, 2006</p>	<p>SCOPE: By Board Directive, we conducted audits of internal controls and procedures for six business processes including cash receipts, cash disbursements, trust funds, special use revolving funds, warehouse and property controls, and the annual budget process.</p> <p>CONCLUSION: No material issues were identified. 1 Significant Issue was noted relating to control deficiencies in PA/PG’s case management and subsidiary accounting system (Epages). We found controls were place to ensure cash receipts are properly collected, recorded, deposited and safeguarded; cash disbursements are properly authorized, processed timely, and recorded accurately; trust funds are adequately monitored and reconciled; special use revolving fund transactions are proper and the funds are reconciled; controls are in place to safeguard assets (property) held on behalf of its clients; and a budget process is being established for the newly created department. We also identified areas where efficiency and effectiveness within the processes can be enhanced and one issue concerning succession planning. Our report identified 1 Significant Issue and 15 Control Findings resulting in 16 recommendations to establish or enhance existing processes and controls.</p> <p>BACKGROUND: Effective July 1, 2005, PA/PG became a separate department. During the audit period, the Public Administrator processed approximately \$13.5 million cash receipts and \$7.5 million cash disbursements. The Public Guardian processed about \$16.1 million cash receipts and \$14.1 million cash disbursements.</p> <p>TYPE OF RECOMMENDATIONS: Evaluate feasibility of a replacement system for Epages; ensure appropriate system controls are part of new system; update and test IT continuity plan; continue succession planning for Fiduciary Manager; segregate cash receipting and reconciling duties; conduct inventories of cash receipt forms; enhance controls over issuance and use of Property Inventory forms; enhance controls over the use of property search witnesses; enhance procedures for storage of pharmaceutical materials and vehicles, enhance supervisory review of trust fund reconciliations, and prepare fee studies as part of the budget process.</p>

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Department and Description	Comments
<p>2. DEPT: Board of Supervisors</p> <p>TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of December 2005</p> <p><u>Audit No.</u> 2518-L</p> <p>ISSUED: January 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> 2 duplicate payment totaling \$3,497 were identified in the November 2005 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 17,357 invoices paid during November 2005 amounting to \$186,777,897. • <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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3.	<p>DEPT: Integrated Waste Management Department</p> <p>TITLE: First Follow-Up Audit of Controls and Implementation of the Landfill Fee Collection and Accounts Receivable Systems, Original Audit 2327</p> <p><u>Audit No.</u> 2524</p> <p>ISSUED: January 26, 2006</p>	<p>SCOPE: 1st First Follow-Up Audit of the Limited Review of Controls and Implementation of the IWMD’s Landfill Fee Collection and Accounts Receivable Systems to determine the implementation status of 15 recommendations made in our original audit report dated July 6, 2004. No material weaknesses or significant issues were identified in the original audit.</p> <p>CONCLUSION: Corrective actions were taken on 9 of 15 recommendations resulting in 1 recommendation being not fully implemented and 5 recommendations deferred until completion of phase two of the LISTS project. Because there are recommendations not fully implemented, we will conduct a 2nd 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 1 recommendation that was “partially implemented” involved formalizing a process for the review of system audit logs. The 5 recommendations “deferred” were dependant on the completion of phase two of the Landfill Information Systems Technology Study (LISTS) project. That project is expected to be completed in February 2006.</p> <p>BACKGROUND: The original audit reviewed whether appropriate controls were present in IWMD’s new landfill fee collection and accounts receivable systems in the areas of access controls, system audit logs, and other system controls as specified in IWMD’s system requirements documentation. Additionally, we reviewed the last phase (implementation) of the system development life cycle for these new systems.</p> <p>TYPE OF RECOMMENDATIONS: The original audit had recommendations in the areas of: user account privileges, application controls, systems audit logs and monitoring, access controls, policies and procedures and system documentation, information systems disaster recovery plan, and documented system development lifecycle methodology.</p>

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4.	DEPT: Auditor-Controller TITLE: Final Close-Out, 2 nd Follow-Up Audit of Trust and Agency Fund Disbursements, Original Audit 2429 <u>Audit No.</u> 2533 ISSUED: January 5, 2006	<p>SCOPE: 2nd Follow-Up Audit of trust and agency fund disbursements in the Auditor-Controller/Central Operations Division to determine if corrective action had been taken for the 3 recommendations not fully implemented at the time of our 1st Follow-Up Audit dated May 31, 2005. No material weaknesses or significant issues were identified in the original audit report dated June 24, 2004.</p> <p>CONCLUSION: Our 2nd Follow-Up Audit of the remaining 3 recommendations found that all had been fully implemented. As such, this report represents the final close-out of the original audit.</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 FY 2003/04, Central Operations processed approximately \$533 million disbursement transactions mostly comprised of employee payroll withholdings.</p> <p>TYPE OF RECOMMENDATIONS: Research and resolve outstanding reconciling items; ensure responsibility and accountability of funds is clearly established and communicated; reconcile trust funds completely and resolve differences timely.</p>