

EXHIBIT A

# IAD'S MONTHLY ACTIVITY REPORT

FOR

## JUNE 2006

TO THE

## BOARD OF SUPERVISORS

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

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*Integrity  
Objectivity  
Independence*

**by the Director of Internal Audit  
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Certified Information Technology Professional (CITP),  
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**JUNE AUDIT ACTIVITY:**

**WE FINISHED 13 PROJECTS FOR THIS MONTH AS SUMMARIZED BELOW:**

We completed Audits:

1. Audit of County's NSF Check Notification Process:  
Audit of Treasurer-Tax Collector, Auditor-Controller and selected departments/agencies' notification processes for NSF checks, and a review of the planned process enhancements. No material or significant issues were identified. We identified **5 suggested recommendations** for all depts./agencies to consider in a report issued countywide.
2. Social Services Agency:  
Audit of accounts receivable and collections processes. We identified **4 significant issues** and **3 control findings** resulting in **7 recommendations** to improve existing controls.
3. John Wayne Airport:  
Audit of JWA's contract administration over two types of public works contracts. No material or significant issues were identified. We identified **26 control findings** to enhance existing controls and processes.
4. Dana Point Harbor Department:  
We completed our limited review of lease revenue for Aventura Sailing Association and identified **4 control findings** related to compliance with the lease agreement or improvements to internal controls.

We issued 1 Report of Monthly Computer Assisted Audit Techniques for the Month of May 2006:

5. Auditor-Controller:
  - Duplicate Payments to Vendors: We identified **1** duplicate payment made to vendors for **\$7,680** that is being pursued by the Auditor-Controller.
  - Deleted Vendors: No findings.

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We completed 8 Follow-Up Audits:

6. Health Care Agency:  
1<sup>st</sup> Follow-Up Audit of contract administration and cash disbursements. Corrective action was taken on 5 of 8 recommendations.
7. Resources and Development Management Department/Planning and Development Services Function:  
1<sup>st</sup> and Final Close-Out Follow-Up Audit of budgetary controls over Building & Safety Fund 113. Corrective action was taken on 2 of 2 recommendations.
8. Social Services Agency:  
1<sup>st</sup> and Final Close-Out Follow-Up Audit of contract administration and cash disbursements. Corrective action was taken on 9 of 9 recommendations.
9. Resources and Development Management Department/ Ralph B. Clark Regional Park Softball Complex:  
1<sup>st</sup> and Final Close-Out Follow-Up Audit of the Limited Lease Review of Ralph B. Clark Regional Park Softball Complex (SCSA). Corrective action was taken on 6 of 6 recommendations.
10. John Wayne Airport/Parking Concepts Inc.:  
1<sup>st</sup> and Final Close-Out Follow-Up Audit of the Limited Review of Operating Agreement with Parking Concepts, Incorporated for valet parking services. Corrective action was taken on 5 of 5 recommendations.
11. John Wayne Airport/Vanguard Car Rental:  
1<sup>st</sup> and Final Close-Out Follow-Up Audit of the Limited Review of Lease Revenue for Vanguard Car Rental USA, Inc. Corrective action taken on 2 of 2 recommendations.
12. John Wayne Airport/Enterprise Rent-A-Car:  
1st and Final Close-Out Follow-Up Audit of the Limited Review of Lease Revenue for Enterprise Rent-A-Car of Los Angeles. Corrective action taken on 4 of 4 recommendations.

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13. County Clerk-Recorder:

2<sup>nd</sup> and Final Close-Out Follow-Up Audit of cash receipts and trust fund disbursements. Corrective action was taken on 7 of 7 of the recommendations remaining from the 1<sup>st</sup> Follow-Up Audit.

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**MATERIAL FINDING:**

	Department and Description	Comments
		None issued during June 2006.

Board Date: July 25, 2006

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For a copy of the complete audit report that contains the audit objective,  
scope, findings, recommendations, and management's response,  
contact the Internal Audit Department's website at <http://www.ocgov.com/audit/>

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**NON-MATERIAL FINDINGS**

	Department and Description	Comments
1.	<p>DEPT: Treasurer Tax-Collector, Auditor-Controller, HCA, Clerk-Recorder, IWMD</p> <p>TITLE: Audit of the County’s Non-Sufficient Fund (NSF) Check Notification Process</p> <p><u>Audit No.:</u> 2576</p> <p>ISSUED: June 29, 2006</p>	<p><b>SCOPE:</b> Audit of NSF check notification process to determine if the County departments/agencies receive timely notification, and if processes are in place to prevent the further acceptance of subsequent NSF checks from the same individuals. We also participated in meetings for enhancing the NSF check notification process.</p> <p><b>CONCLUSION:</b> <b>No material weaknesses or significant issues were noted.</b> Some time lags existed in the process from when the Bank first identifies a “returned item,” such as an NSF check, to when department/agency cash receipting locations are notified. These lags resulted from manual processing and sending documents via the U.S. Mail system. Each department/agency reviewed had a unique process in place for preventing acceptance of additional NSF checks depending on the nature of the payment and ability to pursue collections. The enhancements to the County’s notification process are expected to <b>decrease the notification time lag by 4-5 working days.</b></p> <p><b>BACKGROUND:</b> The County receives approximately <b>500 returned checks per month.</b> During the months of <b>December 2004</b> and <b>April 2005</b> (months when property tax payments are due), the County received approximately <b>\$3 million</b> in total bank returned items, which mostly consisted of NSF checks. Effective June 26, 2006, the County implemented a more streamlined and automated NSF check notification process.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Our audit report <u>did not</u> contain formal recommendations. Instead, suggested recommendations were provided in a report issued to <u>all</u> Department/Agency Directors. Recommendations included ensuring dept./agency satellite locations are immediately notified of NSF checks; performing supervisory reviews of NSF check information; reviewing current policies and procedures for alignment with overall business objectives; providing training to cashiering staff, and incorporating the new returned item notification process into existing dept./agency procedures.</p>

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<p>2. DEPT: Social Services Agency</p> <p>TITLE: Internal Control Review of Social Services Agency Accounts Receivable and Collection Process</p> <p><u>Audit No.</u> 2575</p> <p>ISSUED: June 29, 2006</p>	<p><b>SCOPE:</b> Audit of controls and processes over accounts receivable and collections to determine if invoices and claims are recorded accurately, completely and timely as accounts receivables; if accounts receivable are monitored using reconciliations and aging reports; and if collection efforts on delinquent accounts are performed in accordance with established procedures and statutory requirements, including the writing off of uncollectible debts.</p> <p><b>CONCLUSION:</b> <b>No material weaknesses were identified.</b> Controls and processes were in place to ensure complete and accurate recording of accounts receivable, and that collection efforts are performed in accordance with established procedures. We identified <b>four significant issues</b> and <b>three control findings</b> resulting in <b>seven recommendations</b> to improve the timeliness of establishing accounts receivable, the monitoring of accounts receivable through reconciliations and aging reports, ensuring proper authorization for writing off uncollectible debts, and reviewing the collections process to maximize efforts where collectibility is most likely.</p> <p><b>BACKGROUND:</b> Accounts receivables are established upon the expiration of public assistance benefits, or when it has been determined that an overpayment/overissuance of public assistance has occurred. SSA's accounts receivable balance as of August 31, 2005 was <b>approximately \$19 million.</b> SSA/Accounting/Collections is responsible for the collection of amounts due to the County. During the audit period, collections totaled <b>\$2,031,805.</b></p> <p><b>TYPE OF RECOMMENDATIONS:</b> Identify barriers that impact the timeliness of establishing accounts receivable; prepare aging reports to analyze delinquency patterns; reconcile accounts receivable records to VACS (computer system); ensure debt write-offs are authorized at appropriate management level; evaluate current processes concerning recoveries of debt to maximize collection efforts; evaluate other available options in the collection process.</p>

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<p>3. DEPT: John Wayne Airport</p> <p>TITLE: Audit of Public Works Contract Administration</p> <p><u>Audit No.</u> 2567</p> <p>ISSUED: June 29, 2006</p>	<p><b>SCOPE:</b> At the request of JWA, we performed an audit to evaluate procedures, processes and internal controls related to the management of public works contracts. Our audit examined two types of public works contracts: Public Works contracts exceeding \$75,000, and Delivery Order contracts. We assessed JWA’s public works contract administration processes using a <i>Business Process Maturity Model</i>.</p> <p><b>CONCLUSION:</b> <b>No material weaknesses or significant issues were identified.</b> JWA’s public works contract administration using the Business Process Maturity Model determined that the process for contracts over \$75,000 is between Stage 3 – <i>Stabilized</i> and Stage 4 – <i>Actively Managed</i>. We assessed JWA’s contract administration for Delivery Order contracts at slightly under Stage 3 – <i>Stabilized</i>. We identified <b>26 control findings</b> to enhance controls and processes. By implementing the recommendations, JWA can achieve a higher level of process maturity in public works contract administration.</p> <p><b>BACKGROUND:</b> As of July 27, 2005, there were <b>ten active public works contracts over \$75,000</b> with contracts ranging individually from <b>\$558,000 to \$5,997,500</b>. A Delivery Order contract is an annual public works contract. The contract amount is not fixed, but there is a <b>minimum of fifty thousand dollars (\$50,000) and a maximum of one million dollars (\$1,000,000)</b>.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Recommended process and controls include updating policies and procedures; establishing criteria for evaluating contractor bids; reconciling project financial reports; performing field inspections and supervisory reviews of inspection reports; documenting deviations to project plans and specifications; reviewing change orders; ensuring accuracy of contractor pay requests, and finalizing procedures for Delivery Order contract administration.</p>

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<p>4. DEPT: Dana Point Harbor Department</p> <p>TITLE: Limited Review of Lease Revenue for Aventura Sailing Association</p> <p><u>Audit No.</u> 2564</p> <p>ISSUED: June 7, 2006</p>	<p><b>SCOPE:</b> Limited review of lease revenue to determine whether the records of Aventura Sailing Association (Aventura), a sublease of T.B.W. Company dba Dana West Marina (TBW), adequately supported gross receipts remitted to the County.</p> <p><b>CONCLUSION:</b> We found that Aventura has retained sufficient documentation to adequately support monthly gross receipts remitted to the County. <b>No material weaknesses or significant issues were identified.</b> However, we did identify <b>4 control findings</b> related to compliance with the lease agreement or improvements to internal controls.</p> <p><b>BACKGROUND:</b> The County of Orange entered into a 30-year lease agreement (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 Aventura, dated June 5, 1996, for the operation of a sailing club. In 2004, Aventura generated over \$662,000 in gross receipts and the County received approximately \$36,000 in rent payments.</p> <p>The Lease Agreement with TBW expired October 31, 2005. The County has entered into a management agreement with TBW for the continued operation of the West Marina commencing on November 1, 2005. Effective June 1, 2005, the County of Orange entered into a separate lease agreement directly with Aventura. The new agreement establishes a minimum annual rent plus a percentage rent of 7.5% of gross receipts in excess of \$750,000 per year.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Lease compliance regarding the use of cash registers and pre-numbered source documentation to record sales, and reporting of gift certificates and deposits.</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 May 2006</p> <p><u>Audit No.</u> 2518-Q</p> <p>ISSUED: June 26, 2006</p>	<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, annually, or as necessary.</p> <p><b>CONCLUSION:</b></p> <ul style="list-style-type: none"> <li>• <u>Duplicate Payments to Vendors:</u> 1 duplicate payment for \$7,680 was identified in the May 2006 data and is being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 16,968 invoices paid in May 2006 amounting to \$362,804,279.</li> <li>• <u>Deleted Vendors:</u> No findings.</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: Health Care Agency</p> <p>TITLE: <b>Follow Up Audit</b> of Internal Control Review of Contract Administration and Cash Disbursements (Original Audit 2530)</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: June 12, 2006</p>	<p><b>SCOPE:</b> <b>1<sup>st</sup></b> Follow-Up Audit of HCA’s contract administration and cash disbursements to determine the implementation status of recommendations made in our original audit report dated October 20, 2005. In that audit, we identified 1 significant issue and 4 control findings resulting in <b>8</b> recommendations.</p> <p><b>CONCLUSION:</b> <b>5</b> recommendations were fully implemented, <b>2</b> were partially implemented, and <b>1</b> was in process of implementation. HCA is taking corrective action to address the remaining recommendations.</p> <p><b>BACKGROUND:</b> The original audit assessed controls and processes over cash disbursements made to human services contractors and the fiscal monitoring process for validating contractor expenditures. HCA had approximately <b>414 human services contracts</b> with a budget <b>totaling approximately \$180 million</b>. 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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	<b>Department and Description</b>	<b>Comments</b>
7.	<p>DEPT: Resources and Development Management Department/Planning and Development Services Function</p> <p>TITLE: Final Close-Out Follow Up Audit of Review of Budgetary Controls (Original Audit 2584)</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: June 28, 2006</p>	<p><b>SCOPE:</b> 1<sup>st</sup> Follow-Up Audit of RDMD/PDS budgetary controls over the Building &amp; Safety Fund 113 to determine the implementation status of recommendations made in our original audit report dated October 28, 2005. In that audit, we identified 2 control findings resulting in 2 recommendations.</p> <p><b>CONCLUSION:</b> Our Follow-Up Audit of the 2 recommendations found that satisfactory corrective action was taken on both recommendations. As such, this report represents the final close-out of the original audit.</p> <p><b>BACKGROUND:</b> During the fiscal year ending June 30, 2002, a \$2.4 million fund deficit occurred in PDS's Building and Safety Fund 113. An internal audit was conducted at that time, and subsequently, a Follow-Up Audit was conducted that found satisfactory corrective action was taken on all recommendations. Two new recommendations were made in a separate audit of RDMD/PDS' current of budgetary controls and process over the fund.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Develop a contingency plan to ensure timely program reductions aligned with the required reductions in RDMD's workforce for Building &amp; Safety Fund 113. In conjunction with developing a contingency plan, determine an appropriate amount of fund reserve needed to sustain operations and allow sufficient time to take corrective actions, such as a reduction in workforce.</p>

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	<b>Department and Description</b>	<b>Comments</b>
8.	<p>DEPT: Social Services Agency</p> <p>TITLE: <b>Final Close-Out Follow Up Audit</b> of Internal Control Review of Contract Administration and Cash Disbursements (Original Audit 2531)</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: June 13, 2006</p>	<p><b>SCOPE:</b> <b>1<sup>st</sup></b> Follow-Up Audit of SSA’s contract administration and cash disbursements to determine the implementation status of recommendations made in our original audit report dated October 5, 2005. In that audit, we identified 9 control findings resulting in <b>9</b> recommendations.</p> <p><b>CONCLUSION:</b> <b>We are pleased to report that satisfactory corrective action was taken on all 9 recommendations. As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> The original audit assessed controls and processes over cash disbursements made to human services contractors and the fiscal monitoring process for validating contractor expenditures. SSA had approximately <b>321 human services contracts</b> with the funding amount <b>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. 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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<p>9. DEPT: Resources and Development Management Department</p> <p>TITLE: Final Close-Out Follow Up Audit of the Limited Lease Review of Ralph B. Clark Regional Park Softball Complex (Original Audit 2345)</p> <p><u>Audit No.:</u> 2545-A</p> <p>ISSUED: June 29, 2006</p>	<p><b>SCOPE:</b> 1<sup>st</sup> Follow-Up Audit of the Limited Lease Review of Ralph B. Clark Regional Park Softball Complex (SCSA), original report dated January 26, 2004. In that review, we identified a total of 6 findings resulting in 6 recommendations.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action was taken on all 6 recommendations. As such, this report represents the final close-out of the original review.</p> <p><b>BACKGROUND:</b> The primary purpose of our original review was to determine whether SCSA's records adequately supported gross receipts reported to the County. We also reviewed compliance with certain other provisions of the lease agreement, such as accounting methods and payment procedures. We found SCSA retained sufficient documentation to adequately support monthly gross receipts reported to the County, except for handwritten receipts to support league and tournament fees.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Lease compliance or improvements to internal controls regarding source documentation for league and tournament fees, cash basis reporting of gross receipts, and monthly rent report to the County.</p>

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10.	<p>DEPT: John Wayne Airport</p> <p>TITLE: <b>Final Close-Out Follow Up Audit</b> of Limited Review of Operating Agreement with Parking Concepts, Inc. (PCI) for Valet Parking Services at John Wayne Airport (Original Audit 2557)</p> <p><u>Audit No.</u> 2545-F</p> <p>ISSUED: June 28, 2006</p>	<p><b>SCOPE:</b> 1<sup>st</sup> Follow-Up Audit of the Limited Review of Operating Agreement with Parking Concepts, Incorporated (PCI) for valet parking services at John Wayne Airport, original report dated September 22, 2005. In that review, we identified a total of 5 control findings resulting in 5 recommendations.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action was taken on all 5 recommendations. As such, this report represents the final close-out of the original review.</p> <p><b>BACKGROUND:</b> The primary purpose of our original review was to determine whether PCI's records adequately supported gross receipts reported to the County. We also reviewed compliance with certain other provisions of the operating agreement, such as accounting methods and payment procedures. We found PCI retained sufficient documentation to adequately support gross receipts reported to the County, except for a key reconciliation.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Lease compliance or improvements to internal controls regarding daily ticket reconciliation and physical vehicle inventory, restrictive endorsement of checks, and unpaid valet parking fees.</p>

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11.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Final Close-Out Follow Up Audit of Limited Review of Lease Revenue for Vanguard Car Rental (Original Audit 2540)</p> <p><u>Audit No.</u> 2545-H</p> <p>ISSUED: June 30, 2006</p>	<p><b>SCOPE:</b> 1<sup>st</sup> Follow-Up Audit of the Limited Review of Lease Revenue Vanguard Car Rental USA, Inc. (Vanguard), original report dated October 4, 2005. In that review, we identified a total of 2 control findings resulting in 2 recommendations.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action was taken on all 2 recommendations. As such, this report represents the final close-out of the original review.</p> <p><b>BACKGROUND:</b> The primary purpose of our original review was to determine whether Vanguard’s records adequately supported gross receipts reported to the County. We also reviewed compliance with certain other provisions of the lease agreement, such as accounting methods and payment procedures. We found Vanguard retained sufficient documentation to adequately support gross receipts reported to the County.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Lease compliance or improvements to internal controls regarding customer adjustments deducted from gross receipts and monthly gross receipts statement.</p>

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12.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Final Close-Out Follow Up Audit of Limited Review of Lease Revenue for Enterprise Rent-A-Car (Original Audit 2541)</p> <p>Audit No. 2545-D</p> <p>ISSUED: June 30, 2006</p>	<p><b>SCOPE:</b> 1<sup>st</sup> Follow-Up Audit of the Limited Review of Lease Revenue for Enterprise Rent-A-Car Company of Los Angeles (Enterprise), original report dated June 30, 2005. In that review, we identified a total of 4 control findings resulting in 4 recommendations.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action was taken on all 4 recommendations. As such, this report represents the final close-out of the original review.</p> <p><b>BACKGROUND:</b> The primary purpose of our original review was to determine whether Enterprise's records adequately supported gross receipts reported to the County. We also reviewed compliance with certain other provisions of the lease agreement, such as accounting methods and payment procedures. We found Enterprise retained sufficient documentation to adequately support gross receipts reported to the County.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Lease compliance or improvements to internal controls regarding supporting documentation, debit card deposits, and monthly gross receipts statement.</p>

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13.	<p>DEPT: County Clerk-Recorder</p> <p>TITLE: Final Close-Out Second Follow Up Audit of Department Control Review of Cash Receipts and Trust Fund Disbursements (Original Audit 2324)</p> <p>Audit No. 2533</p> <p>ISSUED: June 26, 2006</p>	<p><b>SCOPE:</b> 2<sup>nd</sup> Follow-Up Audit of cash receipts and trust fund disbursements to determine if corrective action had been taken for the 7 recommendations not fully implemented at the time of our 1<sup>st</sup> Follow-Up Audit, dated April 19, 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 7 recommendations found that satisfactory corrective action was taken on all recommendations. As such, this report represents the final close-out of the original audit.</p> <p><b>BACKGROUND:</b> The original audit assessed the processes, procedures and controls over the collection, recording, depositing, reconciling, disbursing, and safeguarding of cash receipts and trust funds. During the audit period, the Clerk-Recorder processed approximately \$67 million in cash receipts and \$15.7 million in cash disbursements.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Enhance user access controls over cashiering computer system; establish controls over cash receipts and trust funds to improve accountability, segregation of duties, supervisory reviews, and reconciliation process; maintain physical safeguards over critical business forms.</p>