

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT
FOR
MARCH 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

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Status Report to the Board of Supervisors by IAD

FEBRUARY AUDIT ACTIVITY:

WE FINISHED 5 PROJECTS THIS MONTH:

We completed 1 Audits:

Dana Point Harbor Department: We completed our limited review of lease revenue for T.B.W. Company dba Dana West Marina, a lease agreement between the County and T.B.W. Company, for the period February 1, 2004 through January 31, 2005. We found that TBW retained sufficient documentation to adequately support monthly gross receipts reported to the County. No material weaknesses or significant issues were identified. However, we did identify additional rent of **\$50,115** owed to the County. We also identified **29 control findings** related to compliance with the lease agreement or improvements to internal controls.

We issued 1 Report of Monthly Computer Assisted Audit Techniques:

Auditor-Controller & Human Resources Departments:

- Duplicate Payments to Vendors: We identified **4** duplicate payments made to vendors, totaling **\$1,011**, 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 3 Follow-Up Audits:

1. Housing and Community Services Department: **Final Close-Out, Second Follow-Up Audit** of disbursements and related information technology. Corrective action was taken on all 3 non-IT recommendations.
2. CAPS Steering Committee Members: **Final Close-Out Follow-Up Audit** of the Readiness Assessment for the County Accounting and Personnel System (CAPS) Readiness Assessment. Corrective action taken on 1 of 14 recommendations resulting in 2 recommendations partially implemented, 3 recommendations in process, 2 recommendations not implemented, and 4 recommendations deferred until the strategic direction of CAPS is determined.

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3. Auditor-Controller: **Final Close-Out Follow-Up Audit** of the Accounts Receivable and Collections processes. Corrective action was taken on all 3 non-IT recommendations.

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MATERIAL FINDING:

	Department and Description	Comments
		None issued during March 2006.

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NON-MATERIAL FINDINGS

	Department and Description	Comments
1.	<p>DEPT: Dana Point Harbor Dept.</p> <p>TITLE: Audit of Limited Review of Lease Revenue for T.B.W. Company dba Dana West Marina for the Period: February 1, 2004 through January 31, 2005</p> <p><u>Audit No.</u> 2539</p> <p>ISSUED: March 6, 2006</p>	<p>SCOPE: Limited review of lease revenue to determine whether gross receipts reported to the County by T.B.W. Company dba Dana West Marina (TBW) were adequately supported by their records.</p> <p>CONCLUSION: We found that TBW retained sufficient documentation to adequately support monthly gross receipts reported to the County. No material weaknesses or significant issues were identified. However, we did identify additional rent of \$50,115 owed to the County. We also identified 29 control findings related to compliance with the lease agreement or improvements to internal controls. Additional separate audit reports for TBW’s sublessees with additional monetary findings will also be issued.</p> <p>BACKGROUND: The County of Orange entered into a 30-year lease agreement with TBW, dated October 21, 1975, for the operation of the Dana Point West Marina located at Dana Point Harbor. The West Marina includes 980 boat slips, 40 wet storage spaces, and 51 dry storage spaces. The West Marina has entered into several sublease agreements to provide optional boat-related services as specified in the lease agreement.</p> <p>In 2004, TBW and its subleases generated over \$6 million in gross receipts and paid the County approximately \$1.2 million in rent payments. The lease agreement expired October 31, 2005. The County entered into a management agreement with TBW for the continued operation of the West Marina commencing on November 1, 2005.</p> <p>TYPE OF RECOMMENDATIONS: Lease compliance regarding percentage rents used; fair rental value of slip rental; delinquent/unpaid/underreported slip/building rents & other revenues; sub-operator gross receipts; electricity usage and slip rent calculations; security deposits; financial statements; segregation of duties; supervisory review; and reciprocal slip usage.</p>

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2.	<p>DEPT: Board of Supervisors</p> <p>TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of February 2006</p> <p><u>Audit No.</u> 2518-N</p> <p>ISSUED: March 2, 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"> • Duplicate Payments to Vendors: 4 duplicate payment totaling \$1,011 were identified in the January 2006 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 16,737 invoices paid in January 2006 amounting to \$407,734,892. • Working Retirees: 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. • Deleted Vendors: 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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3.	<p>DEPT: Housing and Community Services Department</p> <p>TITLE: Final Close-Out Second Follow-Up Audit of Disbursements and Related Information Technology Original Audit No. 2223, as of February 28, 2006</p> <p><u>Audit No.</u> 2533</p> <p>ISSUED: March 27, 2006</p>	<p>SCOPE: 2nd Follow-Up Audit of disbursements and related information technology at the Housing & Community Services Dept. to determine if corrective action had been taken for the 3 non-IT recommendations not fully implemented at the time of our 1st Follow-Up Audit dated September 9, 2003. No material or significant issues were identified in the original audit dated September 27, 2002.</p> <p>CONCLUSION: We are pleased to report that satisfactory corrective action has taken place on all 3 non-IT recommendations. As such, this report represents the final close-out of the original audit. Note: IAD is conducting a review of key application controls in HCS' recently implemented HAPPY Software's Housing Pro system, which will address the IT recommendations contained in our original and 1st Follow-Up Audit reports.</p> <p>BACKGROUND: The original audit assessed the processes, procedures, and controls over processing payments and disbursements from various HCS programs (OCHA, CDBG, HOME, and ESG). The audit also reviewed general controls over the Section 8 Rental Assistance (SERA) system. HCS disbursed approximately \$5 - \$6 million in monthly Section 8 HAP payments and over \$6 million for other HUD programs.</p> <p>TYPE OF RECOMMENDATIONS: The original audit contained 11 recommendations to perform supervisory reviews; ensure accountability over blank check stock; implement user profiles in SERA; prohibit sharing of passwords and ensure they have a minimum of 5 characters; notify Information Services when employees transfer or terminate; review SERA master file and delete extraneous vendor numbers; retain records per County policy.</p>

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4.	<p>DEPT: CAPS Steering Committee Members</p> <p>TITLE: Final Close-Out First Follow-Up Audit of the Report on Readiness Assessment for County Accounting and Personnel System (CAPS) Upgrade, Original Audit 2246</p> <p><u>Audit No.</u> 2522</p> <p>ISSUED: March 13, 2006</p>	<p>SCOPE: 1st follow-up audit of the Readiness Assessment for the County Accounting and Payroll System (CAPS) Upgrade to determine the implementation status of 14 recommendations made in our original audit report dated March 27, 2003.</p> <p>CONCLUSION: Corrective action was taken on 1 of 14 recommendations resulting in 2 recommendations partially implemented, 3 recommendations in process, 2 recommendations not implemented, and 4 recommendations deferred until the strategic direction of CAPS is determined. Because the scope of the CAPS Upgrade under which we performed our original audit is changed and the strategic direction of CAPS is being evaluated, we determined it is not appropriate to continue following-up on the remaining recommendations until the strategic direction for CAPS has been finalized. Then, at that time we could consider performing another readiness assessment that would be more applicable to the current conditions of the project. As such, this report represents the final close-out of the original audit.</p> <p>BACKGROUND: The original audit was performed to assess the County’s readiness for a major upgrade of CAPS. Utilizing a professional consulting firm, we conducted a process maturity evaluation of the County’s overall adherence to its adopted system development lifecycle model (named Software Engineering Excellence) utilizing a Capabilities Maturity Model (CMM) criteria. The audit determined the County was in a level 2 stage (repeatable) and recommended a level 3 stage (defined) as the minimum level needed to balance risk and quality during the CAPS Upgrade. 14 recommendations were made to assist and expedite the County in reaching the level 3 stage of the CMM.</p> <p>TYPE OF RECOMMENDATIONS: The original audit had recommendations in the areas of: testing standards, role definitions, adherence to Software Engineering Excellence, document archive management, security statements on requirements definition documents, internal audit involvement, sole source issues, capacity planning, documentation standards, succession planning, professional training, help desk, configuration management tool, and fit analysis.</p>

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5.	<p>DEPT: Auditor-Controller</p> <p>TITLE: Final Close-Out Audit of the Integrated Internal Control Review of A-C Accounts Receivable and Collection Processes, Original Audit 2428-A</p> <p><u>Audit No.</u> 2532</p> <p>ISSUED: March 7, 2006</p>	<p>SCOPE: 1st First Follow-Up Audit of the Auditor-Controller Accounts Receivable and Collection Processes to determine the implementation status of 3 non-IT recommendations made in our original audit report dated August 11, 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 non-IT recommendations. As such, this report represents the final close-out of the original audit for Audit 2428-A.</p> <p>Note: A separate Follow-Up Audit will be conducted for Audit 2428-B, which contains recommendations pertaining to the CUBS systems used in Accounts Receivable and Collections.</p> <p>BACKGROUND: The original audit assessed non-IT procedures, processes and controls to ensure claims/invoices submitted to the Auditor-Controller are recorded accurately and timely as accounts receivable; accounts receivables are monitored using reconciliation and aging reports; and that collection efforts on delinquent accounts are performed in accordance with established procedures and statutory requirements, including writing off of uncollectible debts. Accounts receivables were approximately \$36.7 million as of 12/31/04 and the Unit processes approximately \$200 million in receivables annually.</p> <p>TYPE OF RECOMMENDATIONS: Evaluate procedure for recording invoices into CUBS (currently using date when input into CUBS rather than actual date of invoice); ensure timely collection activities are performed in accordance with established procedures; conduct documented quality control reviews of collection activities.</p>