

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT
FOR
MAY 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
Dr. Peter Hughes, MBA, CPA

Certified Information Technology Professional (CITP),
Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE)

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

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

MAY AUDIT ACTIVITY:

WE FINISHED 10 PROJECTS FOR THIS MONTH AS SUMMARIZED BELOW:

We completed 8 Audits:

1. Treasurer Tax-Collector:

Report on Review of Statement of Assets Held by the County Treasury as of March 31, 2006. Based on our review, we were not aware of any material modifications that should be made to the financial statement for it to be fairly stated.

2. Resources and Development Management Department:

OC Zoo at Irvine Regional Park - Cash Disbursements and Cash Receipts. No material weaknesses or significant issues were identified. Controls were generally in place over cash disbursements and receipts. We identified **7 control findings** to enhance existing controls and procedures.

3. Dana Point Harbor Department:

We completed our limited review of lease revenue for Noel Marine Canvas & Upholstery (NMC), a sublease of T.B.W. Company dba Dana West Marina. We found that NMC **has not** retained sufficient documentation to adequately support monthly gross receipts remitted to the County. No material weaknesses or significant issues were identified (in relation to the County). However, we did identify additional rent of **\$3,045** owed to the County. We also identified a total of **5 control findings** related to compliance with the lease agreement or improvements to internal controls.

4. John Wayne Airport:

We completed our limited review of lease revenue for Signature Flight Support. We found that Signature Flight Support has retained sufficient documentation to adequately support monthly gross receipts to the County. No material weaknesses, significant issues or reportable conditions were identified.

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

5. Dana Point Harbor Department:

We completed our limited review of lease revenue for Ship to Shore Insurance Agency (SSI), a sublease of T.B.W. Company dba Dana West Marina. We found that SSI has retained sufficient documentation to adequately support monthly gross receipts remitted to the County. No material weaknesses or significant issues were identified (in relation to the County). However, we did identify additional rent of **\$36,712** owed to the County. We also identified a total of **5 control findings** related to compliance with the lease agreement or improvements to internal controls.

6. Dana Point Harbor Department:

We completed our limited review of lease revenue for Dream Catcher Yachts (DCY), a sublease of T.B.W. Company dba Dana West Marina (TBW). We found that DCY has retained sufficient documentation to adequately support monthly gross receipts remitted to the County. No material weaknesses or significant issues were identified (in relation to the County). However, we did identify additional rent of **\$79,070** owed to the County. We also identified a total of **9 control findings** related to compliance with the lease agreement or improvements to internal controls.

7. Treasurer Tax Collector:

Report on Audit of the Statement of Assets Held by the County Treasury as of December 31, 2005. Based on our audit, we were not aware of any material modifications that should be made to the financial statement for it to be fairly stated. Our observations regarding internal control weaknesses, i.e., draft Management Letter was issued to the Treasurer on May 8, 2006; response due by July 5, 2006.

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

We completed 1 Board of Supervisor Directive:

8. CEO/Office of Information and Technology: A Board of Supervisor directive to perform a “reconnaissance study,” i.e. an Informal Advisory Review (IAR) of the CIO’s allocation of IT costs and rates. The goal of our IAR was to perform a preliminary survey to provide a basis for recommending whether or not a review or audit would be beneficial. It is our point of view that retention of an outside consultant would be beneficial and advantageous at this time in order to assist the CIO prepare for some of the revisions scheduled to be effective for FY 07-08.

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

9. Auditor-Controller:

- Duplicate Payments to Vendors: We identified **2** duplicate payments made to vendors, totaling **\$3,216**, that are being pursued by the Auditor-Controller.
- Deleted Vendors: No findings.

We completed 1 Follow-Up Audit:

10. Treasurer Tax-Collector: Initial Follow-Up Audit of Management Letter and Confidential Supplement regarding Audit of the Statement of Assets Held by the County Treasury at 12/31/04, Original Audit 2409. Corrective action was taken on 12 of 18 recommendations.

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

MATERIAL FINDING:

	Department and Description	Comments
		None issued during May 2006.

Board Date: June 27, 2006

Page A5 of 15

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/>

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

NON-MATERIAL FINDINGS

	Department and Description	Comments
1.	<p>DEPT: Treasurer Tax-Collector</p> <p>TITLE: Report on Review of the Statement of Assets Held by the County Treasury as of March 31, 2006</p> <p><u>Audit No.:</u> 2569</p> <p>ISSUED: May 31, 2006</p>	<p>SCOPE: In our review of the Treasurer-Tax Collector’s (County Treasurer) Statement of Assets Held (financial statement), we performed tests to determine whether the assets (cash, demand accounts, and investments) held by the County Treasury were fairly stated, i.e., the assets exist, and were recorded accurately, completely, and timely.</p> <p>CONCLUSION: Based on our review, we were not aware of any material modifications that should be made to the financial statement for it to be fairly stated.</p> <p>BACKGROUND: At March 31, 2006 the County Treasury had total assets of \$5.724 billion, of which \$3.131 billion was in the County Pool; \$2.527 billion was in the Education Pool; and \$66 million was Non-Pooled.</p> <p>California Government Code requires that the elected Auditor-Controller perform three quarterly reviews and one quarterly audit of the statement of assets in the County Treasury. The Auditor-Controller contracts with the Internal Audit Department to conduct the quarterly reviews and the quarterly audit.</p> <p>TYPE OF RECOMMENDATIONS: NONE</p>

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

Department and Description	Comments
<p>2. DEPT: Resources and Development Management Department</p> <p>TITLE: Audit of the Orange County Zoo at Irvine Regional Park Cash Disbursements and Cash Receipts</p> <p><u>Audit No.</u> 2587</p> <p>ISSUED: May 25, 2006</p>	<p>SCOPE: At the request of RDMD, we conducted an audit of internal controls and procedures for cash disbursements and cash receipts.</p> <p>CONCLUSION: No material weaknesses or significant issues were identified. We found controls were in place to ensure cash disbursements are supported, accurate and properly authorized. Controls were also in place to ensure cash receipts are properly collected, recorded, deposited and safeguarded. Our audit identified 7 control findings to further enhance controls in areas of timely processing of payments, segregation of duties, document retention, safeguarding handwritten cash receipt forms, transfer of accountability and check endorsement. We also identified where efficiency and effectiveness can be enhanced by utilizing the Electronic Report Management and Imaging (ERMI) system in the payment process.</p> <p>BACKGROUND: RDMD/Harbor, Beaches & Parks Function manages the OC Zoo. The Zoo receives cash for entry fees, zoo programs and tours, and disburses cash for items needed to maintain the Zoo, such as produce, grain, hay and veterinary services. Between November 1, 2004 and October 31, 2005, the Zoo received approximately \$180,000 in revenues and incurred approximately \$1,000,000 in expenses.</p> <p>TYPE OF RECOMMENDATIONS: Take steps to ensure timely payment of invoices; segregate purchasing/receiving duties; retain supporting documents per County record retention requirements; segregate cash handling duties; safeguard handwritten cash receipt forms; document transfer of accountability for cash receipts; restrictively endorse checks upon receipt.</p>

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

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3.	<p>DEPT: Dana Point Harbor Department</p> <p>TITLE: Limited Review of Lease Revenue for Noel Marine Canvas</p> <p><u>Audit No.</u> 2562</p> <p>ISSUED: May 17, 2006</p>	<p>SCOPE: Limited review of lease revenue to determine whether the records of Noel Marine Canvas & Upholstery (NMC), a sublease of T.B.W. Company dba Dana West Marina (TBW), adequately supported gross receipts remitted to the County.</p> <p>CONCLUSION: We found that NMC has not retained sufficient documentation to adequately support monthly gross receipts remitted to the County. No material weaknesses or significant issues were identified (in relation to the County). However, we did identify additional rent of \$3,045 owed to the County. We also identified a total of 5 control findings related to compliance with the lease agreement or improvements to internal controls.</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, and other boat-related services. TBW subsequently entered into a sublease with NMC, dated February 1, 1998, and most recently renewed July 13, 2004, for the operation of a marine canvas and boating upholstery service at the marina. In 2004, NMC generated \$60,892 in gross receipts and the County received approximately \$3,000 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. During the transition period, the County has entered into month-to-month leases with TBW’s former sublessees including NMC.</p> <p>TYPE OF RECOMMENDATIONS: Lease compliance regarding source documentation, rent percentage used, and timeliness of reporting gross receipts.</p>

MONTHLY SUMMARY – MAY 2006
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4.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Limited Review of Lease Revenue for Signature Flight Support</p> <p><u>Audit No.</u> 2582</p> <p>ISSUED: May 12, 2006</p>	<p>SCOPE: Limited review of lease revenue to determine whether gross receipts reported to the County by Signature Flight Support were adequately supported by their records.</p> <p>CONCLUSION: Based on our limited review, we find that Signature Flight Support (Signature) has retained sufficient documentation to adequately support their computation of monthly fee payments to the County. No material weaknesses, significant issues or reportable conditions were identified.</p> <p>BACKGROUND: The County of Orange entered into a lease agreement (Agreement) with Signature dated October 26, 1994, for conducting a fixed base operation at John Wayne Airport (JWA) including the sale of aircraft fuel and car rental services. For the year ended December 31, 2004, Signature reported approximately 3.2 million gallons of fuel and oil purchased and \$20,301 in gross receipts from rental car operations, and paid the County approximately \$193,000 in rent.</p> <p>TYPE OF RECOMMENDATIONS: None.</p>

MONTHLY SUMMARY – MAY 2006
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5.	<p>DEPT: CEO/Information Technology</p> <p>TITLE: Board of Supervisors Directive “Reconnaissance Review” of the CIO’s IT Cost Allocations</p> <p><u>Audit No.</u> 25102</p> <p>ISSUED: May 10, 2006</p>	<p>SCOPE: The goal of our Informal Advisory Review (IAR) was to perform a preliminary survey to provide a basis for recommending whether or not a review or audit would be beneficial. Our IAR was high level as it considered the material accuracy and equity of the IT cost allocation to the County as a whole, rather than reviewing for accuracy or equity to a specific department or situation. As this was not an audit, we did not express an opinion on the CIO’s allocation of IT costs and rates. If we were to perform additional auditing procedures, other matters in this regard might have come to our attention.</p> <p>CONCLUSION: It is our point of view that retention of an outside consultant would be beneficial and advantageous at this time in order to assist the CIO prepare for some of the revisions scheduled to be effective for FY 07-08. We identified 6 suggestions for improvement, many of which the new CIO and IT Working Group are already working on.</p> <p>BACKGROUND: The Internal Audit Department (IAD) was requested by a Board of Supervisor directive to perform a “reconnaissance study,” i.e. an Informal Advisory Review (IAR) of the CIO’s allocation of Information Technology (IT) costs and rates. The IAD was directed to provide the results of its review to the IT Working Group within 2 weeks of the start of their fieldwork.</p> <p>TYPE OF RECOMMENDATIONS: Suggestions for improvement in the areas of: Auditor-Controller involvement, enhancing communications, benchmarking, mainframe strategy, data center strategy, and data entry coordinator in Building 12.</p>

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

Department and Description	Comments
<p>6. DEPT: Dana Point Harbor Department</p> <p>TITLE: Limited Review of Lease Revenue for Ship to Shore Insurance Agency</p> <p><u>Audit No.</u> 2560</p> <p>ISSUED: May 9, 2006</p>	<p>SCOPE: Limited review of lease revenue to determine whether the records of Ship to Shore Insurance Agency (SSI), a sublease of T.B.W. Company dba Dana West Marina (TBW), adequately supported gross receipts remitted to the County.</p> <p>CONCLUSION: We found that SSI has retained sufficient documentation to adequately support monthly gross receipts remitted to the County but improvements in recordkeeping are needed. No material weaknesses or significant issues were identified. However, we identified that SSI owes the County additional rent of \$36,712 for the years 2001 through 2004. We also identified 5 control findings related to compliance with the lease agreement or improvements to internal controls.</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, and other boat-related services. TBW subsequently entered into a sublease with SSI, dated June 15, 1994, for the operation of a boat insurance brokerage agency. In 2004, SSI reported over \$26,000 in gross receipts and the County received approximately \$2,600 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. During the transition period, the County has entered into month-to-month leases with TBW's former sublessees including SSI.</p> <p>TYPE OF RECOMMENDATIONS: Lease compliance regarding underreported insurance commissions, supporting documentation, and financial records.</p>

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

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7.	<p>DEPT: Dana Point Harbor Department</p> <p>TITLE: Limited Review of Lease Revenue for Dream Catcher Yachts</p> <p><u>Audit No.</u> 2542</p> <p>ISSUED: May 9, 2006</p>	<p>SCOPE: Limited review of lease revenue to determine whether the records of Dream Catcher Yachts (DCY), a sublease of T.B.W. Company dba Dana West Marina (TBW), adequately supported gross receipts remitted to the County.</p> <p>CONCLUSION: We found that DCY has retained sufficient documentation to adequately support monthly gross receipts reported to the County. No material weaknesses or significant issues were identified. However, we identified that additional rent of \$79,070 is owed the County for the period 9/02 through 8/05. We also identified 9 control findings related to compliance with the lease agreement or improvements to internal controls.</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, and other boat-related services. TBW subsequently entered into a sublease with DCY, commencing October 1, 2002, for the operation of a boat brokerage service at the marina. In 2004, DCY generated \$351,075 in gross receipts and remitted to the County over \$17,500 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. During the transition period, the County has entered into month-to-month leases with TBW's former sublessees including DCY.</p> <p>TYPE OF RECOMMENDATIONS: Lease compliance regarding percentage rents used, underreported new boat sales, supporting documentation, discounts, and deductions from gross receipts.</p>

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

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8.	<p>DEPT: Treasurer Tax-Collector</p> <p>TITLE: Report on Audit of the Statement of Assets Held by the County Treasury as of December 31, 2005</p> <p><u>Audit No.:</u> 2511</p> <p>ISSUED: April 28, 2006</p>	<p>SCOPE: In our audit of the Treasurer-Tax Collector’s (County Treasurer) Statement of Assets Held (financial statement), we performed tests to determine whether the assets (cash, demand accounts, and investments) held by the County Treasury were fairly stated, i.e., the assets exists, and are recorded accurately, completely, and timely.</p> <p>CONCLUSION: In our opinion, the Statement of Assets Held by the County Treasury presents fairly, in all material respects, the amount and type of assets in the County Treasury as of December 31, 2005.</p> <p>BACKGROUND: At December 31, 2005 the County Treasury had total assets of \$6.281 billion, of which \$3.416 billion was in the County Pool; \$2.8 billion was in the Education Pool; and \$65.7 million was Non-Pooled.</p> <p>California Government Code requires that the elected Auditor-Controller perform three quarterly reviews and one quarterly audit of the statement of assets in the County Treasury. The Auditor-Controller contracts with the Internal Audit Department to conduct the quarterly reviews and the quarterly audit.</p> <p>TYPE OF RECOMMENDATIONS: In planning and performing our audit for the purpose of expressing an opinion on the financial statement, the American Institute of Certified Public Accounts requires that we obtain an understanding of the Treasurer’s internal controls over financial reporting. In doing so, we identified deficiencies relating to the design or operation of the internal controls. These deficiencies have been identified in a draft Management Letter, which we issued to the Treasurer-Tax Collector on May 8, 2006. A written response from the Treasurer-Tax Collector to the recommendations in the Draft Management Letter is due by July 5, 2006.</p>

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

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9.	<p>DEPT: Board of Supervisors</p> <p>TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of April 2006</p> <p><u>Audit No.</u> 2518-P</p> <p>ISSUED: May 19, 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 \$3,216 were identified in the March 2006 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 19,679 invoices paid in March 2006 amounting to \$136,678,370. • <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>

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

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10.	<p>DEPT: Treasurer Tax-Collector</p> <p>TITLE: Follow-Up Audit of Management Letter and Confidential Supplement regarding Audit of the Statement of Assets Held by the County Treasury at 12/31/04, Original Audit No. 2409, As of 3/31/06.</p> <p><u>Audit No.</u> 2571</p> <p>ISSUED: May 1, 2006</p>	<p>SCOPE: 1st Follow-Up Audit of the Management Letter and Confidential Supplement regarding Audit of the Statement of Assets Held by the County Treasury at 12/31/04. In the audit, we identified a total of 18 recommendations, 1 material weakness; 4 significant issues; and 13 reportable conditions.</p> <p>CONCLUSION: 12 recommendations were fully implemented, 1 recommendation is in process; 2 recommendations are partially implemented; and 3 recommendations have not been implemented.</p> <p>BACKGROUND: In planning and performing our audit for the purpose of expressing an opinion on the Treasurer-Tax Collector’s (County Treasurer) Statement of Assets Held (financial statement), the American Institute of Certified Public Accounts requires that we obtain an understanding of the Treasurer’s internal controls over financial reporting. In doing so, we identified deficiencies relating to the design or operation of the internal controls. These deficiencies were identified in two documents, a Management Letter and a Confidential Supplement to the Management Letter.</p> <p>TYPE OF RECOMMENDATIONS: NONE</p>