

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT

FOR

OCTOBER 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

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

OCTOBER AUDIT ACTIVITY:
WE FINISHED 7 PROJECTS FOR THIS MONTH AS SUMMARIZED BELOW:

We completed 4 Audits:

1. RDMD – Swales Anchorage
Limited review of lease revenue for Swales Anchorage. No material or significant issues noted. We identified additional rent of **\$13,052** owed to the County and **11 control findings** related to compliance with the lease agreement or improvements to internal controls.
2. Probation Department – Revolving Funds
Internal Control Review of Revolving Fund. No material or significant issues noted. We identified **6 control findings** to enhance existing controls.
3. Probation Department – RSAT Grant
Internal Control Review of RSAT Claiming process at Youth Guidance Center. No material weaknesses, significant issues, or control findings were identified.
4. Social Services Agency
Performance Measure Validation. Based on our audit of the FY 2004-2005 Results reported in SSA FY 2006-2007 Business Plan, we rated 80% or four (4) of SSA reported Outcome Indicator Results as 5 Star, and one (1) as 4 Star.

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

5. Auditor Controller
 - Duplicate Payments to Vendors: We identified **19** duplicate payments made to vendors for **\$4,937** that are being pursued by the Auditor-Controller.
 - Deleted Vendors: No findings.

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We completed 2 Follow-Up Audits:

6. RDMD – Sand Canyon LLC (SFGC)
1st Follow-Up Audit of the Limited Lease Review of Strawberry Farms Golf Course. Corrective action was taken on **8 of 11** recommendations.

7. Risk Assessment – CAPS Payroll Application
2nd Follow-Up Audit and **Final Close-Out** of the Risk Assessment for the CAPS Payroll Application. Corrective action was taken on the **4** remaining recommendations.

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MATERIAL FINDING:

	Department and Description	Comments
		None issued during October 2006.

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NON-MATERIAL FINDINGS

	Department and Description	Comments
1.	<p>DEPT: Resource and Development Management Department (RDMD)</p> <p>TITLE: Limited Review of Lease Revenue for Swales Anchorage</p> <p><u>Audit No.:</u> 2578</p> <p>ISSUED: October 5, 2006</p>	<p>SCOPE: Limited review of lease revenue to determine whether the records of Swales Anchorage adequately supported gross receipts reported to the County.</p> <p>CONCLUSION: We found that Swales Anchorage 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 \$13,052 owed to the County and 11 control findings related to compliance with the lease agreement or improvements to internal controls.</p> <p>BACKGROUND: The County of Orange entered into a lease agreement with Swales Anchorage, dated January 1, 1971, for the operation of a commercial marina on County Tidelands located in Lower Newport Bay. During our 12-month review period, Swales Anchorage generated over \$360,000 in gross receipts and paid the County \$72,070 in rent.</p> <p>TYPE OF RECOMMENDATIONS: Lease compliance or improvements to internal controls regarding: reporting of delinquent slip rent and late fee charges; annual income statements; inventory and billing of dinghy spaces; and improving accounting records related to adjustments to gross receipts, commingled rental account, and security deposits.</p>

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Department and Description	Comments
<p>2. DEPT: Probation Department</p> <p>TITLE: Internal Control Review of Probation Department Revolving Funds For the Period May 1, 2005 through April 30, 2006</p> <p><u>Audit No.:</u> 2598</p> <p>ISSUED: October 3, 2006</p>	<p>SCOPE: Audit of procedures, processes and controls to ensure revolving funds are adequately safeguarded; transactions are properly authorized, recorded completely, accurately and timely; and are in compliance with applicable County Accounting Manual (CAM) procedures.</p> <p>CONCLUSION: No material weaknesses or significant issues were identified. Controls are in place to safeguard funds and to ensure revolving fund transactions are properly authorized, recorded, accurate and compliant with CAM procedures. Our audit identified six (6) control findings to enhance revolving fund internal controls and processes.</p> <p>BACKGROUND: The Probation Department maintains one revolving fund of \$69,000 for petty cash expenditures. During the period under review, there were approximately \$174,735 in petty cash expenditures and \$24,661 in travel cash advances.</p> <p>TYPE OF RECOMMENDATIONS: Ensure revolving fund reconciliations are performed monthly and have a documented supervisory review; segregate certain revolving fund duties; perform documented physical inventories of unused checks; submit timely travel cash advance claims with proper authorization per CAM procedures.</p>

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3.	<p>DEPT: Probation Department</p> <p>TITLE: Internal Control Review of Probation Department Claiming Process for Residential Substance Abuse Treatment Grants at the Probation Department Youth Guidance Center</p> <p><u>Audit No.:</u> 2633</p> <p>ISSUED: October 3, 2006</p>	<p>SCOPE: Audit of internal controls over the claiming process for the Residential Substance Abuse Treatment (RSAT) Grants for the period July 1, 2005 through June 30, 2006 to ensure compliance with grant claiming requirements and to recommend any needed process or control improvements.</p> <p>CONCLUSION: Controls and processes over reporting and claiming salaries and wages on the RSAT Grants were in place and operating to ensure compliance with claiming requirements. No material weaknesses, significant issues or control findings were identified.</p> <p>BACKGROUND: RSAT Grants partially fund the Addiction, Substance Abuse, Education, and Recognition Treatment (ASERT) program administered at Probation's Youth Guidance Center. For the period under review, the RSAT Grant provided approximately \$456,805 in funding to Probation. Salaries and wages are the largest expenditures for administering the ASERT program.</p> <p>TYPE OF RECOMMENDATIONS: None.</p>

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<p>4. DEPT: Social Services Agency (SSA)</p> <p>TITLE: Performance Measure Validation of Social Services Agency</p> <p><u>Audit No.:</u> 25100</p> <p>ISSUED: October 3, 2006</p>	<p>SCOPE: Our audit included obtaining an understanding of the methodology in place for collecting and reporting Outcome Indicator Results by interviewing key personnel, observations, and reviewing source documentation. The Business Plan contained a total of 6 Outcome Indicator Results; we selected all 5 for testing Social Services Agency (SSA) supporting documentation. Our audit scope did not include an assessment of the appropriateness of SSA Strategies based on their mission, goals and objectives. We rated source (supporting) documentation provided as follows: 5 Star - Adequate supporting documentation; 4 Star - Adequate documentation with recommendations for improvement; and 3 Star - Noted opportunities for improvement.</p> <p>CONCLUSION: Based on our audit of the FY 2004-2005 Results reported in SSA FY 2006-2007 Business Plan, we rated 80% or four (4) of SSA reported Outcome Indicator Results as 5 Star, and one (1) as 4 Star.</p> <p>BACKGROUND: We have initiated our PMV audits at the request of the Audit Oversight Committee. Our approach is to review performance measure results, assign validation ratings, report conclusions, and make recommendations. Our validation program is designed to provide assurance to the Board of Supervisors, the County Executive Officer, and the departments/agencies and other stakeholders that reported Outcome Indicators are reliable and can be utilized in decision making covering Government resources with confidence.</p> <p>TYPE OF RECOMMENDATIONS: The SSA use consistent type of information to calculate the key outcome indicator results.</p>

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<p>5. DEPT: Board of Supervisors</p> <p>TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of August 2006</p> <p><u>Audit No.:</u> 2620-B</p> <p>ISSUED: September 7, 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, annually, or as necessary.</p> <p>CONCLUSION:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors:</u> 11 duplicate payments for \$4,937 were identified in the July 2006 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 14,948 invoices paid in July 2006 amounting to \$118,163,395. • <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>

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6.	<p>DEPT: Resource and Development Management Department (RDMD)</p> <p>TITLE: First Follow-Up Audit Limited Lease Review of Sand Canyon LLC (Strawberry Farms Golf Club) – Original Audit No. 2340 As of December 31, 2005</p> <p><u>Audit No.:</u> 2558</p> <p>ISSUED: October 4, 2006</p>	<p>SCOPE: 1st Follow-Up Audit of Limited Lease Review of Strawberry Farms Golf Course to determine the implementation status of 11 recommendations made in our original audit report, dated July 2, 2004. No material or significant issues were identified in the original audit report.</p> <p>CONCLUSION: 8 recommendations were fully implemented, 2 recommendations were partially implemented, and 1 recommendation was not implemented. RDMD and Strawberry Farms Golf Course are taking corrective action to address the remaining 3 recommendations.</p> <p>BACKGROUND: The original audit was a limited review of lease revenue pertinent to the lease agreement between the County and Sand Canyon LLC (Strawberry Farms Golf Club), dated November 8, 1996. The lease agreement is primarily to operate an eighteen-hole golf course, driving range, and pro-shop on properties owned by the County and the Irvine Ranch Water District.</p> <p>TYPE OF RECOMMENDATIONS: Lease compliance or improvements to internal controls regarding: rent owed due to reallocation of advance reservation fees, pro-shop fees, tee pack fees, and environmental fees; categorization of banquet/event equipment rentals; categorization of other site fees; approval for handicap and membership fees; required financial statements; reimbursement of audit costs; supervisory review of vending cart sales; and documentation of register voids.</p>

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<p>7. DEPT: Risk Assessment</p> <p>TITLE: Final Close-Out Second Follow-Up Audit Risk Assessment for CAPS Payroll Application – Original Audit No. 2247 As of June 30, 2006</p> <p><u>Audit No.:</u> 2525</p> <p>ISSUED: October 17, 2006</p>	<p>SCOPE: The Internal Audit Department contracted with iSecurePrivacy, a professional consulting firm, to assist them in assessing the risk within the County’s payroll processing. Fieldwork was performed during six weeks in October and November 2002 and the auditors worked extensively with the biweekly payroll cycle ending August 30, 2002.</p> <p>CONCLUSION: We are pleased to report that satisfactory corrective action has taken place on all 4 remaining recommendations. As such, this report represents the final close-out of the original audit.</p> <p>BACKGROUND: County payroll is processed on the County Accounting and Personnel System (CAPS). This application is vendor-provided by American Management Systems. At the time of the original audit, the County used Advantage 2.2 for its payroll application. The Auditor-Controller’s Office supports the CAPS application internally through Functional Analysts who perform production processing table maintenance, ensure payroll processing is correct, and develop business requirements when changes to the software are required. ACS is the third party vendor that develops application modifications in concert with the County’s requirements.</p> <p>TYPE OF RECOMMENDATIONS: Recommendations for improvement in the areas of enhancing application recovery plan and assessing risks from a significant CAPS outage; RACF security profiles; application security profiles; functional analysts’ access to production datasets; security monitoring and reporting; validation of premium pays; and notifying local security administrators of staff transfers or terminations.</p>