

EXHIBIT A

# IAD'S MONTHLY ACTIVITY REPORT

FOR

## SEPTEMBER 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.*

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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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**SEPTEMBER AUDIT ACTIVITY:**  
**WE FINISHED 8 PROJECTS FOR THIS MONTH AS SUMMARIZED**  
**BELOW:**

We completed 5 Audits:

1. John Wayne Airport – Advantage Rent-A-Car  
Limited review of license revenue for Coast Leasing Corporation dba Advantage Rent-A-Car. We identified **5 control findings** related to compliance with the license agreement.
2. Registrar of Voters  
Performance Measure Validation. Based on our audit of the FY 2004-2005 Results reported in ROV FY 2006-2007 Business Plan, we rated 50% or six (3) of ROV reported Outcome Indicator Results as 5 Star, two (2) as 4 Star, and one (1) as 3 Star.
3. County Executive Office  
At the request of the County Executive Officer, we completed a Validation Review of the Orange County Election Study dated August 31, 2006 that was conducted by the Election Center. The scope of our review was to determine that objectives stated in the Board of Supervisors Directive, dated August 1, 2006, were responded to by the Election Center consultants in their conclusion. Based on our review, we concluded that **all objectives of the Board directives were responded to** by the consultant in their study dated August 31, 2006.
4. RDMD – Parking Concepts, Inc.  
Limited review of gross receipts remitted to the County and payments made to PCI in accordance with the operating agreements with Parking Concepts, Inc. We identified **25 control findings** related to compliance with the operating agreements or improvements to internal controls.
5. Treasurer-Tax Collector  
On April 28, 2006, we issued a Report on Audit of Statement of Assets Held by the County Treasury as of December 31, 2005. In addition to that report, we issued a separate Management Letter on the audit of the Statement of Assets Held by the County Treasury as of December 31, 2005 dated September 25, 2006. The Management Letter identified a total of 11 internal control weaknesses: 1 significant issue, and 10 control findings.

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

6. Auditor-Controller:

- Duplicate Payments to Vendors: We identified **5** duplicate payments made to vendors for **\$31,859** that are being pursued by the Auditor-Controller.
- Deleted Vendors: No findings.

We completed 2 Follow-Up Audits:

7. DPHD – Aventura Sailing Association

1<sup>st</sup> Follow-Up Audit and **Final Close-Out** of the Limited Lease Review of Aventura Sailing Association. Corrective action was taken on all **4** recommendations.

8. RDMD – Canyon Recreational Vehicle Park

2<sup>nd</sup> Follow-Up Audit and **Final Close-Out** of Limited Lease Review of Canyon Recreational Vehicle Park. Corrective action was taken on **1** remaining recommendation.

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**MATERIAL FINDING:**

	Department and Description	Comments
		None issued during September 2006.

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**NON-MATERIAL FINDINGS**

	Department and Description	Comments
1.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Limited Review of License Revenue for Coast Leasing Corporation, dba Advantage Rent-A-Car</p> <p><u>Audit No.:</u> 2581</p> <p>ISSUED: September 6, 2006</p>	<p><b>SCOPE:</b> Limited review of license revenue to determine whether the records of Coast Leasing Corporation dba Advantage Rent-A-Car (Advantage) adequately supported gross receipts reported to the County.</p> <p><b>CONCLUSION:</b> We found that Advantage retained sufficient documentation to adequately support monthly gross receipts reported to the County. <b>No material weaknesses or significant issues were identified.</b> However, we did identify <b>5 control findings</b> related to compliance with the license agreement.</p> <p><b>BACKGROUND:</b> The County of Orange entered into a license agreement with Advantage, effective October 2, 2002, to transact an off-airport car rental business at John Wayne Airport. During the 12-month review period, Advantage generated approximately \$2.3 million in gross receipts and paid the County \$160,388 in fees.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> License compliance regarding classification of customers, reporting of fuel reimbursements, and security deposit amount.</p>

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Department and Description	Comments
<p>2. DEPT: Registrar of Voters</p> <p>TITLE: Performance Measure Validation of Registrar of Voters</p> <p><u>Audit No.:</u> 2593</p> <p>ISSUED: September 7, 2006</p>	<p><b>SCOPE:</b> 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 6 for testing Registrar of Voters (ROV) supporting documentation. Our audit scope did not include an assessment of the appropriateness of ROV 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><b>CONCLUSION:</b> Based on our audit of the FY 2004-2005 Results reported in ROV FY 2006-2007 Business Plan, we rated 50% or six (3) of ROV reported Outcome Indicator Results as 5 Star, two (2) as 4 Star, and one (1) as 3 Star.</p> <p><b>BACKGROUND:</b> 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><b>TYPE OF RECOMMENDATIONS:</b> The ROV outcome indicator and results being reported to complement each other; and reported results are supported and properly stated.</p>

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	<b>Department and Description</b>	<b>Comments</b>
3.	<p>DEPT: County Executive Office</p> <p>TITLE: Validation Review of Orange County Election Study Conducted by the Election Center</p> <p><u>Audit No.:</u> 2663</p> <p>ISSUED: September 11, 2006</p>	<p><b>SCOPE:</b> At the request of the County Executive Officer, we completed a Validation Review of the Orange County Election Study dated August 31, 2006 that was conducted by the Election Center. The scope of our review was to determine that objectives stated in the Board of Supervisors Directive, dated August 1, 2006, were responded to by the Election Center consultants in their conclusion.</p> <p><b>CONCLUSION:</b> Based on our review, we concluded that <b>all objectives of the Board directives were responded to</b> by the consultant in their study dated August 31, 2006. In addition, the County Executive Officer as directed by the Board of Supervisors used a retired ROV with no connection to the County of Orange.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> None</p>

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4.	<p>DEPT: Resources and Development Management Department</p> <p>TITLE: Limited Review of Operating Agreements with Parking Concepts, Inc.</p> <p><u>Audit No.:</u> 2590</p> <p>ISSUED: September 11, 2006</p>	<p><b>SCOPE:</b> Limited review to determine whether the records of Parking Concepts, Inc. (PCI) adequately supported gross receipts remitted to the County and payments made to PCI in accordance with the operating agreements.</p> <p><b>CONCLUSION:</b> We found that PCI retained sufficient documentation to adequately support gross receipts remitted to the County, but not for payments made to PCI. <b>No material weaknesses or significant issues were identified (in relation to the County).</b> However, we did identify <b>25 control findings</b> related to compliance with the operating agreements or improving internal controls.</p> <p><b>BACKGROUND:</b> The County of Orange entered into two operating agreements with PCI, dated May 23, 2000 and June 4, 2002, for the operation of the Santa Ana Civic Center Parking Facilities and the Manchester Avenue Complex Parking Facilities. For fiscal year 04-05, PCI remitted over \$6.6 million in gross receipts to the County and PCI received payments of over \$1.6 million for these two Agreements</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Compliance with the Operating Agreements or internal control improvements regarding: inadequate records and recordkeeping for compensation paid to PCI; accuracy of Daily Ticket Reconciliations and Daily Master Reports; maintaining, updating, and monitoring of the Operating Schedule; keycard controls and records; audited Statement of Gross Receipts; customer refusals to pay; debit card report from the McGann software; review and approval of PCI's monthly invoice; and cash drawers at the parking facilities.</p>

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5.	<p>DEPT: Treasurer-Tax Collector</p> <p>TITLE: Management Letter on Audit of the Statement of Assets Held by the County Treasury</p> <p><u>Audit No.:</u> 2511</p> <p>ISSUED: September 25, 2006</p>	<p><b>SCOPE:</b> 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 have been identified in a Management Letter.</p> <p><b>CONCLUSION:</b> Based on our audit of the Treasurer’s Statement of Assets, we identified <b>1 significant issue, and 10 control findings.</b></p> <p><b>BACKGROUND:</b> At December 31, 2005 the County Treasury had total assets of \$6.281 billion, of which \$3.416 billion was in the County Pool; \$2.799 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><b>TYPE OF RECOMMENDATIONS:</b> The significant issue is related to one individual’s combination of user permissions to execute Automated Clearing House (ACH) transactions. The ten control findings are related to the following: segregation of duties; network access; IT logical security controls over the Cashiering System; IT security monitoring (system changes and audit trails); IT physical security (back-up procedures, environmental controls, incident response plan, and disaster recovery plan testing); and revision to the Investment Policy Statement.</p>

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6.	DEPT: Board of Supervisors  TITLE: Monthly Report on Computer-Assisted Audit Techniques (CAAT) for the Month of July 2006  <u>Audit No.:</u> 2620-A  ISSUED: September 7, 2006	<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> 5 duplicate payments for \$31,859 were identified in the June 2006 data and are being pursued by the A-C. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 22,417 invoices paid in June 2006 amounting to \$114,839,735.</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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7.	<p>DEPT: Dana Point Harbor Department</p> <p>TITLE: First Follow-Up Audit Limited Review of Lease Revenue for Aventura Sailing Association (Original Audit No. 2564)</p> <p><u>Audit No.:</u> 2650-B</p> <p>ISSUED: September 26, 2006</p>	<p><b>SCOPE:</b> 1<sup>st</sup> Follow-Up Audit and <b>Final Close-Out</b> of Limited Lease Review for Aventura Sailing Association (Aventura) to determine the implementation status of recommendations made in our original audit report dated June 7, 2006. In that audit, we identified <b>4</b> control findings resulting in <b>4</b> recommendations.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action has taken place on all <b>4</b> recommendations. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> The original audit was a limited review of lease revenue pertinent to the lease agreement between the County and T.B.W. Company dba Dana West Marina (TBW), dated October 21, 1975, for the operation of the West Marina located at Dana Point Harbor. TBW subsequently entered into a sublease with Aventura, dated June 5, 1996, for the operation of a sailing club.</p> <p>The Lease Agreement with TBW 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. Effective June 1, 2005, the County entered into a separate lease agreement directly with Aventura.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Compliance with the lease agreement or internal control improvements regarding serially numbered forms for services to charter fleet boats, records for retail sales, accounting for gift certificates, and security deposits from affiliated members.</p>

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	<b>Department and Description</b>	<b>Comments</b>
8.	<p>DEPT: Resources and Development Management Department</p> <p>TITLE: Final Close-Out Second Follow-Up Audit Limited Review of Canyon Recreational Vehicle Park (Original Audit No. 2449)</p> <p><u>Audit No.:</u> 2654-B</p> <p>ISSUED: September 26, 2006</p>	<p><b>SCOPE:</b> 2nd Follow-Up Audit and <b>Final Close-Out</b> of Limited Lease Review for Canyon Recreational Vehicle Park (Canyon RV) to determine the implementation status of 1 recommendation not fully implemented at the time of our 1<sup>st</sup> Follow-Up, dated August 22, 2006. No material or significant issues were identified in the original audit report, dated October 27, 2004.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action has taken place on the remaining 1 recommendation. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> The original audit was a limited review of lease revenue pertinent to the lease agreement between the County and Canyon RV Park, a California general partnership, dated June 15, 1988. The lease agreement is primarily to operate a public recreational vehicle park and campground</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Compliance with the lease agreement or improvements to internal controls regarding: incorrect categorization of gross receipts, sub-operator reporting gross vs. net amounts, adequacy of supporting documentation, certification of monthly gross receipt statement, and areas needing RDMD clarification.</p>