

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT
FOR
MAY 2007
TO THE
BOARD OF SUPERVISORS

*2005 Recipient of the Institute of Internal Auditors' Award for
Recognition of Commitment to Professional Excellence, Quality & Outreach*

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 Compliance and Ethics Professional (CCEP)
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, Senior Audit Manager, MBA, CPA, CIA, CFE
Michael J. Goodwin, Senior Audit Manager, CPA, CIA
Autumn McKinney, Senior Audit Manager, CPA, CIA, CGFM, CISA

County of Orange
BOARD OF SUPERVISORS'
INTERNAL AUDIT DEPARTMENT

*Integrity
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*Providing Facts and
Perspectives Countywide*

OFFICE OF THE DIRECTOR

DR. PETER HUGHES
PH.D., MBA, CPA,

Certified Compliance & Ethics Professional
(CCEP)

Certified Information Technology
Professional (CITP)

Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)

E-MAIL: peter.hughes@iad.ocgov.com

ELI LITTNER

DEPUTY DIRECTOR
CPA, CIA, CFE

Certified Fraud Specialist (CFS),
Certified Information Systems Auditor (CISA)

MICHAEL J. GOODWIN
SENIOR AUDIT MANAGER
CPA, CIA

ALAN MARCUM
SENIOR AUDIT MANAGER
MBA, CPA, CIA, CFE

AUTUMN MCKINNEY
SENIOR AUDIT MANAGER
CPA, CIA, CISA

Certified Government Financial Manager (CGFM)

HALL OF FINANCE & RECORDS
400 CIVIC CENTER DRIVE WEST
BUILDING 12, ROOM 232
SANTA ANA, CA 92701

www.ocgov.com/audit

(714) 834-5475 Main
(714) 834-2880 Fax

OC FRAUD HOTLINE
(714) 834-3608

June 11, 2007

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report of all audits completed for the month of May. Included are an overview and a detailed briefing of each report.

In addition to the May Monthly Audit Activity Report, I am also pleased to present as Exhibit B our FY 07/08 Audit Plan recently approved by the Audit Oversight Committee on May 17, 2007. The Audit Plan was derived from our annual risk assessment and details where our audit resources will be allocated for the next fiscal year beginning July 1, 2007.

As always, I'm available at your convenience to discuss any aspect of these audits and the audit plan.

Respectfully submitted,

Dr. Peter Hughes

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Status Report to the Board of Supervisors by IAD

MAY AUDIT ACTIVITY:

THE AUDIT OVERSIGHT COMMITTEE APPROVED OUR FY 07-08 AUDIT PLAN AT THE LAST QUARTERLY MEETING ON MAY 17, 2007.

<u>Exhibit</u>	<u>Project:</u>
B.	FY 07-08 Audit Plan approved by the Audit Oversight Committee on May 17, 2007

WE FINISHED 7 PROJECTS FOR THIS MONTH AS SUMMARIZED BELOW:

<u>Exhibit</u>	<u>We completed 4 Audits:</u>
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- C. RDMD/Facilities Operations Contract Administration:
Internal Control Review of processes and controls over Facilities Operations contract administration and cash disbursements. No material or significant issues noted. We identified **5 control findings** to enhance existing controls.

- D. Treasurer-Tax Collector Review of the Statement of Assets Held:
Report on Review of Statement of Assets Held by the County Treasury as of March 31, 2007. 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.

- E. Housing and Community Services Department Performance Measure Validation: This report was issued in April, however it is being included in the May audit activity status report. Based on our audit of the 2005 Results reported in HCS 2006 Business Plan, we rated 69% or nine (9) of HCS reported Performance Indicator Results as 5 Star, three (3) as 4 Star, and one (1) as 3 Star.

- F. Social Service Agency Revolving Fund:
Internal Control Review over SSA revolving fund processes and controls. No material or significant issues were noted. We identified **3 control findings** to enhance existing controls.

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Exhibit We issued 2 Reports of Monthly Computer Assisted Audit Techniques (CAATs):

G. Auditor Controller – Duplicate Payments to Vendors – April 2007:
We identified **4 duplicate payments** made to vendors, **totaling \$406** or **.0003%** of the **\$153 million of vendor invoices** processed during March 2007 that are being pursued by the Auditor-Controller.

H. Auditor Controller – Duplicate Payments to Vendors – May 2007:
We identified **10 duplicate payments** made to vendors, **totaling \$10,373** or **.002%** of the **\$549 million of vendor invoices** processed during April 2007 that are being pursued by the Auditor-Controller.

Exhibit We completed 1 Follow-Up Audit:

I. Public Defender Revolving Fund:
First Follow-Up Audit found that all **7 recommendations** were fully implemented. **We are pleased to report that satisfactory corrective action has taken place for all audit recommendations. As such, this report represents the final close-out of the original audit.**

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Detailed Breakout

MATERIAL FINDING:

	Department and Description	Comments
		None issued during May 2007.

Board Date: June 26, 2007

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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

Exhibit	Description	Comments
B.	<p>TITLE: Annual Audit Plan</p> <p>For the Period July 1, 2007 through June 30, 2008</p> <p>DATE: Approved by the Audit Oversight Committee on May 17, 2007</p>	<p>The Internal Audit Department produces an annual audit plan based on a rigorous risk assessment process. We are dedicated to completing our Audit Plan while continuing to be flexible and responsive to the Board of Supervisors’ requests for audit services. As required, our Annual Audit Plan is reviewed and approved by the Audit Oversight Committee prior to the beginning of the new fiscal year. The Audit Oversight Committee Members this year are: Chairman Chris Norby, Vice-Chairman John Moorlach, Auditor-Controller David Sundstrom, County Executive Officer Tom Mauk and Public Member Dr. David Carlson. Additionally, we distribute our approved annual audit plan to all County Departments.</p> <p>The Audit Plan has at its core the traditional audits of “hard-controls;” such as segregation of duties, limiting access to cash, and accurate originating accounting entries and transactions. Examples of these traditional audits in our audit plan include our core business functions identified as Financial Audits and Mandates (FAM), Internal Control Reviews (ICR), and Information Technology Audits (IT). We combine the three core groups of “hard control” audits (FAM, ICR, and IT) with Performance Measure Validation Reviews (PMV) and Control Self-Assessment (CSA) workshops to achieve balanced audit coverage of the County. Our reports contain opinions regarding the presentation of financial statements or the County’s compliance with grant or other governing provisions. Our reports also include recommendations to management regarding improvements to specific accounting processes and internal controls.</p> <p>We are pleased to report that County management substantially implements our recommendations on a timely basis.</p>

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Exhibit	Description	Comments
C.	<p>DEPT: Resources and Development Management Department</p> <p>TITLE: Facilities Operations Contract Administration and Cash Disbursements</p> <p>For the Period July 1, 2005 through September 30, 2006</p> <p><u>Audit No.:</u> 2632</p> <p>ISSUED: May 22, 2007</p>	<p>SCOPE: Audit of controls and processes over Facilities Operations contract administration and cash disbursements to ensure contracts are monitored to prevent overruns; contract expenditures are approved prior to payment; supporting documentation exists for services performed, expenditures are allowable in accordance with contractual requirements, contract payments are processed completely, accurately and timely, and business processes are efficient and effective.</p> <p>CONCLUSION: Controls and processes are in place to ensure contracts are monitored, contract expenditures are approved, supporting documentation exists for contract payments, and expenditures are allowable per contractual requirements, and cash disbursements are processed completely and accurately. We identified 5 control findings resulting in 5 recommendations to improve controls and processes over Change Order administration and invoice processing. No material weaknesses or significant issues were identified.</p> <p>BACKGROUND: RDMD/Facilities Operations provides support services to County departments/agencies by operating and maintaining facilities and managing capital projects. Facilities Operations administers and/or participates in administering several Standing Contracts, Purchase Order Contracts and Board-Approved Contracts. During the audit period, we identified approximately 1,300 contracts totaling \$19,778,250 in which Facilities Operations is involved.</p> <p>TYPE OF RECOMMENDATIONS: Enhance policy over Change Orders and Notices of Completion to ensure timely processing and approval in accordance with project completion; prepare supporting documents for time extension requests; ensure periodic verification of services; evaluate invoice processing timeframes.</p>

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D.	<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, 2007</p> <p><u>Audit No.:</u> 2610</p> <p>ISSUED: May 30, 2007</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, 2007 the County Treasury had total assets of \$6.383 billion, of which \$3.237 billion was in the County Pool; \$3.006 billion was in the Education Pool; and \$139.6 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>

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D.	<p>DEPT: Housing and Community Services Department</p> <p>TITLE: Performance Measure Validation Limited Audit of Housing & Community Services 2005 Performance Indicators</p> <p><u>Audit No.:</u> 2661</p> <p>ISSUED: April 17, 2007</p>	<p>SCOPE: Our audit included obtaining an understanding of the methodology in place for collecting and reporting Performance Indicator Results by interviewing key personnel, observations, and reviewing source documentation. The 2005 Business Plan contained a total of 13 Performance Indicator Results; we selected all 13 for testing Housing & Community Services (HCS) supporting documentation. Our audit scope did not include an assessment of the appropriateness of HCS Performance Indicators 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 2005 Results reported in HCS 2006 Business Plan, we rated 69% or nine (9) of HCS reported Performance Indicator Results as 5 Star, three (3) as 4 Star, and one (1) as 3 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: Supporting documents are retained for all results reported in the Business Plans; reported results are properly stated and supported.</p>

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E.	<p>DEPT: Social Services Agency</p> <p>TITLE: Internal Control Review of Social Services Agency Revolving Funds</p> <p>For the Period November 1, 2005 through October 31, 2006</p> <p><u>Audit No.:</u> 2635</p> <p>ISSUED: May 24, 2007</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 three (3) control findings to enhance revolving fund internal controls and processes.</p> <p>BACKGROUND: SSA maintains two revolving funds totaling \$247,750 for general operations. The funds are allocated between three accounts: Welfare and Assistance (\$127,750), Supplies and Services, which includes travel cash advances (\$100,000), and Family Discretionary Fund (\$20,000). During the period under review, SSA incurred approximately \$661,285 in Welfare and Assistance revolving fund expenditures, \$474,190 in Services and Supplies expenditures, and \$113,912 in Family Discretionary Fund expenditures.</p> <p>TYPE OF RECOMMENDATIONS: Segregate duties of expenditure approval and check signing at district offices; ensure employees submit travel advance claim forms timely; cancel supporting documents upon payment.</p>

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Exhibit	Description	Comments
F.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: CAAT April 2007 <u>Audit No.:</u> 2620-J ISSUED: May 17, 2007	<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"> • Duplicate Payments to Vendors: We identified 5 duplicate payments made to vendors, totaling \$25,159 or .03% of the \$79 million of vendor invoices processed during February 2007. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 17,278 invoices paid in February 2007 amounting to \$79,203,269. The Auditor-Controller currently has a recovery rate of about 82% on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error. • Working Retirees: We identified seven (7) working retirees who exceeded the 960 hour limit for fiscal year 2005/2006. The excess hours ranged from 3.25 to 43 hours, which is within one (1) pay period and appears to be an improvement over prior years. For example, in FY 04-05, the excess hours were up to 193 hours. In FY 01-02 when we first started this routine, the excess hours were up to 1,068 hours. This closes out our work on this routine for FY 05-06. • 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. 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>

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Exhibit	Description	Comments
G.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: CAAT April 2007 <u>Audit No.:</u> 2620-J ISSUED: May 17, 2007	<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"> • Duplicate Payments to Vendors: We identified 4 duplicate payments made to vendors, totaling \$406 or .0003% of the \$153 million of vendor invoices processed during March 2007. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 19,820 invoices paid in March 2007 amounting to \$153,014,170. The Auditor-Controller currently has a recovery rate of about 86% on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error. • 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. 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>

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Exhibit	Description	Comments
H.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: CAAT May 2007 <u>Audit No.:</u> 2620-K ISSUED: May 25, 2007	<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"> • Duplicate Payments to Vendors: We identified 10 duplicate payments made to vendors, totaling \$10,373 or .002% of the \$549 million of vendor invoices processed during April 2007. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 18,952 invoices paid in April 2007 amounting to \$548,692,845. The Auditor-Controller currently has a recovery rate of about 87% on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error. • 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. 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>

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Exhibit	Description	Comments
I.	<p>DEPT: Public Defender</p> <p>TITLE: FINAL CLOSE-OUT of First Follow-Up Audit of the Public Defender Revolving Fund (Original Audit No. 2599)</p> <p>As of May 22, 2007</p> <p><u>Audit No.:</u> 2636-G</p> <p>ISSUED: May 24, 2007</p>	<p>SCOPE: 1st Follow-Up Audit of Public Defender revolving fund to determine the implementation status of recommendations made in our original report. In that report, there were 7 recommendations to enhance revolving fund controls and processes.</p> <p>CONCLUSION: We are pleased to report that satisfactory corrective action has taken place on all 7 recommendations. As such, this report represents the final close-out of the original audit.</p> <p>BACKGROUND: The Public Defender maintains two revolving funds: \$50,000 for general operations and \$5,000 for the Delta Special Revenue Fund. During the period under review, approximately \$46,000 in petty cash expenditures and \$37,000 in travel cash advances were incurred.</p> <p>TYPE OF RECOMMENDATIONS: Segregate bank reconciliation duties; perform supervisory reviews of bank reconciliations; research and resolve outstanding items on bank reconciliations; perform surprise cash counts at Alternate Defender; ensure travel advances over \$1,000 are approved by Dept. Head; submit cash advance claims timely per CAM procedures.</p>