

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT

FOR

NOVEMBER 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

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December 18, 2007

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of November. Included are an overview and a detailed briefing of each item.

As always, I'm available at your convenience to discuss any aspect of these items.

Respectfully submitted,

Dr. Peter Hughes, CPA

MONTHLY ACTIVITY – November 2007
Status Report to the Board of Supervisors by IAD

OCTOBER AUDIT ACTIVITY:

THE FOLLOWING PROJECTS ARE SUMMARIZED BELOW:

Exhibit **Audits:**

- B. Auditor-Controller – Special Report on Virtual Timesheet Interface (VTI): Internal Control Review of bi-weekly payroll processes. We identified 4 significant issues concerning the ability to access employee Social Security numbers in the VTI timekeeping system.

- C. Dana Point Harbor Department – Ocean Institute: Review of lease revenue for Ocean Institute. No material or significant issues noted. We identified 16 control findings related to compliance with the lease agreement or improvements to internal controls.

- D. District Attorney – Audit of Workers’ Compensation Insurance Fraud Program: We found the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures for the District Attorney’s Office Audit of Workers Compensation Insurance Fraud Program, for Fiscal Year Ending June 30, 2007.

Exhibit **Monthly Computer Assisted Audits of Vendor Payments (CAATs):**

- E. Auditor Controller – Duplicate Payments to Vendors – November 2007: We identified **7 duplicate payments made to vendors, totaling \$1,619 or .0015% of the \$109 million vendor invoices** processed during October 2007 that are being pursued by the Auditor-Controller.

Exhibit **Research Project:**

- F. Audit Oversight Committee Request – Results of Research to Identify Similar Audit Organizations to OC Internal Audit Department Reporting Model: Our research found that the OC Internal Audit Department reporting model is the most widely used throughout the U.S. in large counties. **54%** of the largest U.S. Counties have established an internal audit function that **share the OC IAD reporting model** that reports directly to the elected Board of Supervisors and performs no management duties. Three other reporting models account for the remaining 23%, 15%, and 8%.

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Detailed Breakout

MATERIAL FINDING:

	Department and Description	Comments
		None issued during November 2007.

Board Date: December 18, 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>DEPT: Auditor-Controller</p> <p>TITLE: Special Report on Virtual Timesheet Interface (VTI): Access to Employee Social Security Numbers</p> <p><u>Audit No.:</u> 2763</p> <p>ISSUED: November 14, 2007</p>	<p>SCOPE: In the course of performing audits of the bi-weekly payroll process and the Virtual Timecard Interface (VTI) system, we identified an issue concerning access and confidentiality of employee Social Security numbers in VTI. VTI enabled users in the supervisory and payroll clerk roles (anyone with permission to review and approve timesheets) to obtain complete Social Security numbers and annual leave balances for all employees within their respective department/agency, including management and executive level.</p> <p>CONCLUSION: Because of the privacy risk, sensitivity, and the potential of misuse of employee Social Security numbers, we immediately contacted the Auditor-Controller and met with them to work towards resolution of the issues. We identified (4) four recommendations for immediate evaluation and implementation, all which are considered Significant Issues.</p> <p>BACKGROUND: In FY 2000-01, the County began implementing an automated timekeeping and reporting system known as Virtual Timesheet Interface (VTI). VTI is currently utilized by nearly all County departments/agencies. The California Office of Privacy Protection has the statutorily mandated purpose of protecting the privacy of individuals' personal information, and has published recommended practices for protecting the confidentiality of Social Security numbers because of the role they have come to play in the marketplace, in identity theft and other forms of fraud.</p> <p>TYPE OF RECOMMENDATIONS: Auditor-Controller/Information Technology investigate the full extent and impact of the ability to access employee Social Security numbers in VTI; implement corrective actions that restricts access to employee Social Security numbers in accordance with governing rules and regulations; evaluate whether Social Security numbers are necessary as identifiers when employee ID numbers are also used in VTI; explore the necessary measures for remediation if any breach or misuse of employee Social Security numbers is identified.</p>

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C.	<p>DEPT: Dana Point Harbor Department</p> <p>TITLE: Final Report of Lease Revenue for Ocean Institute</p> <p><u>Audit No.:</u> 2577</p> <p>ISSUED: November 6, 2007</p>	<p>SCOPE: Review of lease revenue to determine whether the records of Ocean Institute adequately supported monthly rent paid to the County.</p> <p>CONCLUSION: Ocean Institute retained sufficient documentation to adequately support monthly rent paid to the County. No material weaknesses or significant issues were identified. However, we did identify additional potential rent owed of \$66,895 related to facility rental revenue and 16 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 Ocean Institute, dated June 29, 1999, to develop and operate County approved facilities and programs specifically related to marine science research, marine-related cultural activities/events, protection and conservation of the marine environment, and maritime and marine science education. For the year ended January 31, 2006, Ocean Institute reported gross receipts (not subject to percentage rent) of \$3.9 million to the County and paid \$12,000 in rent to the County.</p> <p>TYPE OF RECOMMENDATIONS: Lease compliance or improvements to internal controls regarding: percentage rent not paid on facility rental revenue; percentage rent not paid on museum style retail store sales; errors made in reporting commercial cruises; commercial cruise flat rent should be separate from minimum annual rent; periodic increases to minimum annual rent; periodic increases to security deposit; required financial statements not submitted; other required annual reports not submitted; required signature and completeness of monthly gross receipts statement; and audit costs.</p>

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D.	<p>DEPT: District Attorney</p> <p>TITLE: Audit of Workers' Compensation Insurance Fraud Program, Fiscal Year Ending 6/30/07</p> <p><u>Audit No.:</u> 2709</p> <p>ISSUED: November 30, 2007</p>	<p>SCOPE: We audited the District Attorney (DA) Office's financial statement for the Grant to determine that budgeted amounts, revenues and expenditures were fairly stated, i.e., the amounts are recorded accurately, completely, and timely. Also, in planning and performing our audit we reviewed internal controls over financial reporting and performed tests of the DA Office's compliance with certain laws, regulations and grant requirements.</p> <p>CONCLUSION: In our opinion, the financial statement presents fairly, in all material respects, the approved budget, revenues and expenditures. In addition, we found no matters involving the internal controls that we considered a material weakness and nothing came to our attention that caused us to believe that the DA office's had not complied with the laws, regulations, and grant requirements tested.</p> <p>BACKGROUND: The grant is funded by the California Department of Insurance, and the 2006/2007 fiscal year grant award totaled \$2,560,916. However, expenditures totaled only \$1,810,990, as a result, the DA office will submit to the Department of Insurance a request to carry-over \$749,926 to fiscal year 07/08.</p> <p>The grant agreement requires that the DA obtain an annual audit of the financial statement. The DA has the option of outsourcing the audit to an outside CPA firm or requesting that the County Internal Audit Department conduct the audit.</p> <p>TYPE OF RECOMMENDATIONS: NONE</p>

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E.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: Computer Assisted Audit Techniques November 2007 <u>Audit No.:</u> 2713-E ISSUED: October 26, 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 7 duplicate payments made to vendors totaling \$1,619 or .0015% of the \$109 million vendor invoices processed during October 2007. We analyzed 17,502 vendor invoices paid in October 2007 amounting to \$108,760,153. 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. <p>Based on the to-date recoveries of \$615,293 from the duplicate vendor payment routine, these CAAT routines have paid for themselves and are returning monies to the County that may otherwise be lost.</p> <ul style="list-style-type: none"> • 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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F.	<p>DEPT: Audit Oversight Committee</p> <p>TITLE: Revised for Clarification and Initial Report on Results of Research Requested by the Audit Oversight Committee to Identify Similar Audit Organizations to OC Internal Audit Departing Reporting Model</p> <p><u>Audit No.:</u> 2707-A</p> <p>ISSUED: Revised Report issued on November 21, 2007 and Initial Report issued on November 02, 2007</p>	<p>SCOPE: The Audit Oversight Committee, at their September 5, 2007 meeting, asked the Internal Audit Department to identify other counties and cities throughout the U.S. that have an independent internal audit function similar to Orange County's where the Internal Audit Department reports directly to the elected County Supervisors and performs no management duties.</p> <p>CONCLUSION: The OC Internal Audit Department reporting model is the most widely used throughout the U.S. in large counties.</p> <ul style="list-style-type: none"> • 54% of the largest U.S. Counties have established an internal audit function that share the OC IAD reporting model that reports directly to the elected Board of Supervisors and performs no management duties. Three other reporting models account for the remaining 23%, 15%, and 8%. <p>BACKGROUND: We determined the best source of readily available information regarding city and county internal audit functions was the 2006 membership directory developed by the Association of Local Government Auditors. In addition to this directory, we reviewed the relevant local government audit websites to rule out any audit functions that perform management duties.</p> <p>TYPE OF RECOMMENDATIONS: NONE</p>