

EXHIBIT A

MONTHLY AUDIT ACTIVITY REPORT
FOR APRIL 2008
TO THE BOARD OF SUPERVISORS



Internal Audit Department

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**by the Director of Internal Audit
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May 7, 2008

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of April 2008. 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

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THE FOLLOWING AUDITS ARE SUMMARIZED BELOW:

- | <u>Exhibit</u> | <u>Audits:</u> |
|----------------|---|
| B. | <u>County Executive Office</u> – Audit of the Source of Funding for the 2004 OCEA Pension Enhancements. We determined that the Orange County Employees Association (OCEA) members themselves and not Orange County fully and accurately paid for the cost of the pension enhancements (2.7% @ age 55 benefit formula) as agreed upon in their 2004 Memorandum of Understanding for Fiscal Years 2005-06, 2006-07, & 2007-08, totaling \$80 million, which included additional employee contributions of \$46.4 million (as of February 28, 2008) and health insurance cost savings of \$33.6 million. |
| C. | <u>Auditor Controller</u> – Claims & Disbursing's Vendor Payment Process. Internal Control Review of vendor payments submitted by departments/agencies for payment. No material or significant issues noted. We identified 7 control findings to enhance existing process and controls. |
| D. | <u>CAPS Steering Committee – CAPS⁺ Audit Alert No. 1:</u> An Audit Alert was issued to the CAPS Steering Committee with one recommendation to ensure written strategies are created for developing and documenting comprehensive key procedures and internal controls for the new CAPS ⁺ system and related processes. |
| E. | <u>CAPS Steering Committee – CAPS⁺ Audit Alert No. 2:</u> – An Audit Alert was issued to the CAPS Steering Committee with one recommendation to make the Independent Verification & Validation (IV&V) contract a high priority and ensure that an IV&V firm is engaged as soon as possible for the new CAPS ⁺ system implementation. |
| F. | <u>Sheriff-Coroner:</u> Sheriff Administration Purchasing Card (Cal Card) Expenditures. Compliance audit of expenditures made on behalf of Sheriff-Coroner Administration. No material or significant issues noted. We identified 1 compliance finding to enhance existing process. |
| G. | <u>County Executive Office/Purchasing</u> Audit Alert – County Cal Card Program. An Audit Alert was issued to CEO/Purchasing with one recommendation to ensure Cal Card purchases exceeding established 30-day purchase limits are being declined by the issuing bank. |

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H. Performance Measure Validation Audit of Integrated Waste Management 2005-2006 Performance Indicators. Based on our audit of the fiscal year 2005-2006 Outcome Indicator Results reported in IWMD's 2007-2008 Business Plan, we found all seven Performance Measurers were supported with six Measurers receiving our highest rating of 5 Star.

I. Auditor Controller – Claims & Disbursing's Mileage and Other Expenses Reimbursement Process. Internal Control Review of mileage and travel claims submitted by employees for reimbursement. No material or significant issues noted. We identified **2 control findings** and **1 efficiency/effectiveness issue** to enhance existing process and controls.

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

J. Auditor Controller – Duplicate Payments to Vendors – April 2008: We analyzed **18,168** vendor invoices paid in March 2008 amounting to about **\$86 million** and found **99.97%** of the invoices were only paid once. Of the \$86 million vendor invoices, we identified **6** duplicate payments made to vendors totaling **\$24,188**

Exhibit **Follow-Up Audits**

K. Auditor-Controller: Special Report on VTI: Access to Employee Social Security Numbers. First and Final Close-Out Follow-Up Audit on ability access to employee Social Security numbers in VTI. Corrective action was taken on all **four recommendations**. As such, this represents the final close-out of the original audit.

L. Auditor-Controller: Central Payroll Processes. First and Final Close-Out Follow-Up Audit of controls over Central Payroll's bi-weekly payroll processes. Corrective action was taken on the **one recommendation**. As such, this represents the final close-out of the original audit.

M. Resources and Development Management Department/Facilities Operations Contract Administration and Cash Disbursements. First Follow-Up Audit of controls and processes found **three (3) recommendations fully implemented and two (2) recommendations partially implemented.**

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Detailed Breakout

MATERIAL FINDING:

	Department and Description	Comments
		None issued during April 2008.

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NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	DEPT: County Executive Office TITLE: Audit of Source of Funding for the 2004 OCEA Pension Enhancements <u>Audit No.:</u> 2765 ISSUED: April 3, 2008	<p>Scope: At the request of the Chairman of the Board of Supervisors and the Audit Oversight Committee, we audited the cost allocations for the Orange County Employee Association (OCEA) pension enhancements (the “2.7% at age 55” benefit formula) to determine if member’s additional retirement contributions and related health insurance cost savings under the OCEA contracts of 2004 fully covered the cost of the pension enhancements.</p> <p>Conclusion: The Internal Audit Department determined that the Orange County Employees Association (OCEA) members themselves and not Orange County fully and accurately paid for the cost of the pension enhancements (2.7% @ age 55 benefit formula) as agreed upon in their 2004 Memorandum of Understanding for Fiscal Years 2005-06, 2006-07, & 2007-08, totaling \$80 million, which included additional employee contributions of \$46.4 million (as of February 28, 2008) and health insurance cost savings of \$33.6 million.</p> <p>Background: On August 24, 2004, the Orange County Board of Supervisors adopted Resolution No. 2004-247 to implement a 2.7% @ age 55 retirement formula for General Members of the Orange County Employees Retirement System (OCERS) retiring on or after July 1, 2005. It is an enhanced retirement plan for the OCERS General Members. Through negotiations with the labor organizations, the bargaining units agreed that pension enhancement will be without any additional cost to the County. In addition, they agreed to make additional employee contributions to the retirement system and health benefit changes (increased co-payments, higher deductible and increased employee payroll deductions). The combination of the additional employee contributions and health insurance cost savings are to cover the annual cost of implementing the enhanced retirement benefits.</p> <p>Type of Recommendations: The County Executive Office establish written policies and procedures for documenting and development of the reverse pick up rates, the analysis of the health insurance cost savings, conducting the annual reviews, and assign responsibilities for maintaining all supporting documentation.</p>

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Exhibit	Description	Comments
C.	DEPT: Auditor-Controller TITLE: Internal Control Review of A-C Claims & Disbursing's Vendor Payment Process <u>Audit No.:</u> 2720-4 ISSUED: April 2, 2008	<p>Scope: An audit of internal controls and processes over vendor payments submitted from departments/agencies to A-C Claims & Disbursing to determine if vendor payments are processed completely, accurately and timely; if payments are authorized and compliant with A-C procedures; and if business processes are efficient and effective.</p> <p>Conclusion: No material weaknesses or significant issues were identified. We found that vendor payments were processed completely, accurately, timely and in accordance with Auditor-Controller procedures and expectations. We identified seven (7) findings and recommendations to enhance existing controls and processes over vendor payments.</p> <p>Background: The Claims & Disbursing Unit in A-C Central Operations processes vendor payments for departments and agencies and is a centralized, core business process. Vendor payments are made for Board-approved contracts, price agreements, purchase orders, and miscellaneous vendor invoices for goods and services received in the County. During Fiscal Year 2006/07, A-C Claims processed 68,559 vendor payments totaling over \$1.6 billion.</p> <p>Type of Recommendations: Ensure vendor discounts are identified and taken when applicable; ensure sales taxes are charged and detected on all applicable purchases; continue efforts in processing invoices within their internal goal of 10 business days; ensure supervisory reviews of Vendor Table Update Requests are performed timely; provide additional supervision and training over Claims & Disbursing's Quality Assurance Audits and Stratification Reviews.</p>

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D.	DEPT: CAPS Steering Committee TITLE: CAPS+ Audit Alert No. 1 – Completeness of Internal Control Document <u>Audit No.:</u> 2764-A ISSUED: April 29, 2008	<p>Scope: As described in our MOU dated August 28, 2007, the Internal Audit Department's role on the CAPS+ Implementation Project is reviewing and providing feedback on the internal control plans that will be developed by the CAPS+ Project Implementation team for the new system. As such, we have followed the progress of the internal control plans and identified the below issue warranting further attention.</p> <p>Conclusion: We issued a CAPS+ Audit Alert No. 1 regarding the completeness of written strategies for developing and documenting comprehensive key procedures and internal controls for the new CAPS+ system and related processes as a whole. The CAPS Steering Committee concurred with our recommendation and stated that a revised CAPS+ Policy and Procedure Plan would be completed by April 30, 2008 to address the issues raised.</p> <p>Background: The purpose of a CAPS+ Audit Alert is respond to the CAPS Steering Committee's request to quickly bring to their attention important potential issues for their assessment and if necessary, corrective action. The process incorporates an accelerated management response timeline to ensure the timely dissemination of audit issues so as to not impede progress of the CAPS+ Implementation Project.</p> <p>Type of Recommendation: Ensure written strategies are created for developing and documenting comprehensive key procedures and internal controls for the new CAPS+ system and related processes as a whole.</p>

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E.	DEPT: CAPS Steering Committee TITLE: CAPS+ Audit Alert No. 2 – IV&V Contract <u>Audit No.:</u> 2764-B ISSUED: April 3, 2008	<p>Scope: At the May 11, 2007 CAPS Steering Committee meeting, Internal Audit recommended that an Independent Validation & Verification (IV&V) firm be hired as a risk mitigation activity and as an industry best practice for an implementation project of the CAPS+ size. The CAPS Steering Committee agreed and included monies for an IV&V firm in the project budget. As such, we have followed the progress of the IV&V contract.</p> <p>On February 20, 2008, the CAPS Program Management Office (PMO) informed the CAPS Steering Committee that none of the four IV&V firms it sent proposals to had responded. The CAPS Steering Committee directed the PMO to immediately pursue other IV&V firms on the State of CA master contract list.</p> <p>Conclusion: We issued a CAPS+ Audit Alert No. 2 recommending that the CAPS Steering Committee continue to make the IV&V contract a high priority and ensure that an IV&V firm is engaged as soon as possible. The CAPS PMO, on behalf of the CAPS Steering Committee, concurred with our recommendation and stated it would endeavor to bring a proposed IV&V contract to the Board of Supervisors on May 6, 2008.</p> <p>Background: The purpose of a CAPS+ Audit Alert is respond to the CAPS Steering Committee’s request to quickly bring to their attention important potential issues for their assessment and if necessary, corrective action. The process incorporates an accelerated management response timeline to ensure the timely dissemination of audit issues so as to not impede progress of the CAPS+ Implementation Project.</p> <p>Type of Recommendation: The CAPS Steering Committee should ensure that an IV&V firm is engaged as soon as possible.</p>

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Exhibit	Description	Comments
F.	DEPT: Sheriff-Coroner TITLE: Audit of Sheriff-Coroner Expenditures: Sheriff Administration Purchasing Card (Cal Card) Expenditures <u>Audit No.:</u> 2766-2 ISSUED: April 29, 2008	<p>Scope: An Audit Oversight Committee directed audit of Sheriff-Coroner Administration’s purchasing card (Cal Card) expenditures for the fiscal year ending June 30, 2007 to determine compliance with requirements of the <i>County of Orange Cal Card Policies and Procedures</i>.</p> <p>Conclusion: No material or significant weaknesses were noted. We tested 100% of the Cal Card expenditures made on behalf of Sheriff Administration and found the expenditures were in overall compliance with Cal Card policy. We identified one (1) compliance finding concerning cardholders that exceeded their 30-day purchase limit. We also issued an Audit Alert to CEO/Purchasing to ensure controls were in place to decline purchases exceeding established limits (see next item).</p> <p>Background: On November 7, 2007, the Audit Oversight Committee directed the Internal Audit Department to conduct an audit of expenditures incurred by the Sheriff Administration. The AOC expressed a desire to check the integrity of key accounts, funds and expenditures under the direction of Sheriff Administration in response to a recent federal indictment concerning allegations against the elected Sheriff-Coroner. During FY 2006-07, there were \$30,523 in Cal Card expenditures incurred on behalf of Sheriff Administration. Neither the Sheriff-Coroner, Undersheriff, nor the Assistant Sheriffs were Cal Card cardholders.</p> <p>Type of Recommendation: Sheriff-Coroner Department establish a process to track 30-day purchase limits of cardholders, and to notify cardholders that exceed the purchase limits for appropriate remediation.</p>

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G.	DEPT: County Executive Office TITLE: CEO/Purchasing Audit Alert – County Cal Card Program <u>Audit No.:</u> 2766-3 ISSUED: April 29, 2008	<p>Scope: An “Audit Alert” to County Executive Office/Purchasing concerning an issue we identified in our audit of Sheriff Administration’s purchasing card (Cal Card) expenditures in which there were six instances where cardholders exceeded the 30-day purchase limit of \$15,000. Our Audit Alert identified one (1) recommendation to investigate this issue with US Bank to ensure the controls are in place and operating as intended to decline purchases by cardholders that exceed purchase limits.</p> <p>Conclusion: CEO/Purchasing contacted US Bank and the State of California Cal Card Program Administrator. The current system is now set up so that the accumulation of cost occurs with the swiping of the card. In the event purchases are attempted that exceed the authorized limits, the system will recognize that the card holder has exceeded their card limit and will decline the additional charges. The State Cal-Card Administrator has reviewed this issue with US bank and is satisfied with the explanation and the controls in place.</p> <p>Background: <i>The County of Orange Cal Card Policies and Procedures Section V. – Purchase Authorization</i> states that the issuing bank (U.S. Bank) established a “purchase authorization process” which ensures that the purchase is within the monthly purchase limit and single purchase limit established for that card. The policy states “If the purchase exceeds the monthly or single transaction limit...the purchase will be declined.”</p> <p>Type of Recommendation: CEO/Purchasing work with US Bank to ensure cardholder purchase limits cannot be exceeded.</p>

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H.	<p>DEPT: Integrated Waste Management</p> <p>TITLE: Performance Measure Validation Audit of Integrated Waste Management 2005-2006 Performance Indicators</p> <p><u>Audit No.:</u> 2754</p> <p>ISSUED: April 11, 2008</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 2005/2006 Business Plan contained 7 Performance Indicator Results; which we selected for testing Integrated Waste Managements' supporting documentation. Our audit scope did not include an assessment of the appropriateness of Integrated Waste Managements' 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 fiscal year 2005-2006 Outcome Indicator Results reported in IWMD's 2007-2008 Business Plan, we found all seven Performance Measurers were supported with six Measurers receiving our highest rating of 5 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: OC Waste & Recycling (was Integrated Waste Management) ensure that reported results are properly stated.</p>

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Exhibit	Description	Comments
I.	DEPT: Auditor-Controller TITLE: Internal Control Review of Claims & Disbursing Mileage and Other Expenses Reimbursement Process <u>Audit No.:</u> 2720-2 ISSUED: April 30, 2008	<p>Scope: An audit of internal controls and processes over reimbursements of Mileage and Other Expenses Claims submitted by employees for incurred County business and travel expenses to determine if the reimbursements are processed completely, accurately and timely; are authorized and in accordance with Auditor-Controller procedures and expectations; and if the processes are efficient and effective.</p> <p>Conclusion: No material weaknesses or significant issues were identified. We found that mileage and travel reimbursement claims were processed completely, accurately, timely and in accordance with Auditor-Controller procedures and expectations. We identified three (3) findings and recommendations to enhance existing controls and processes over the reimbursement of mileage and travel claims.</p> <p>Background: The Claims & Disbursing Unit within the A-C Central Operations provides payroll and claims processing for all County departments, including processing employee mileage and other expenses reimbursements. For the year ending June 30, 2007, A-C Claims and Disbursing processed employee Mileage and Other Expenses Claims totaling \$5,244,184.</p> <p>Type of Recommendations: Establish policies and procedures to ensure taxable mileage and other expenses claimed through the cash advance process are identified and reported as taxable reimbursements; provide periodic refresher training to staff on the County's Travel Policy to ensure all claims have supporting documentation as required by the policy and procedures, consider revising the Mileage and Other Expense Claims form to include a certification that alcoholic beverages were not included.</p>

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J.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: Computer Assisted Audit Techniques - April 2008 <u>Audit No.:</u> 2713-J ISSUED: April 25, 2008	<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> We analyzed 18,168 vendor invoices paid in March 2008 amounting to about \$86 million and found 99.97% of the invoices were only paid once. Of the \$86 million vendor invoices we identified 6 duplicate payments made to vendors totaling \$24,188. The Auditor-Controller currently has a recovery rate from vendors of about 97% on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a human clerical error. <p>Based on the to-date recoveries of \$682,633 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"> • <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. 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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K.	<p>DEPT: Auditor-Controller</p> <p>TITLE: Final Close-Out First Follow-Up Audit – Special Report on Virtual Timesheet Interface (VTI) Access to Employee Social Security Numbers (Original Audit No.2763</p> <p><u>Audit No.:</u> 2727-G</p> <p>ISSUED: April 8, 2008</p>	<p>Scope: First Follow-Up Audit on Special Report on Virtual Timecard Interface (VTI) to determine the implementation status of four recommendations made in our original audit report dated November 14, 2007, where we identified issues concerning access and confidentiality of employee Social Security numbers in VTI. All four report items were Significant Issues.</p> <p>Conclusion: We are pleased to report that satisfactory corrective action was taken on all four recommendations. Auditor-Controller/Information Technology implemented corrective actions to address four recommendations including an immediate investigation and masking of employee Social Security numbers in VTI. They reported that no breaches or misuse of employee Social Security numbers in VTI were identified during their investigation. As such, this report represents the final close-out of the original audit.</p> <p>Background: In FY 2000-01, the County began implementing an automated timekeeping and reporting system known as VTI. VTI is currently utilized by nearly all County departments/agencies. 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>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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L.	DEPT: Auditor-Controller TITLE: Final Close-Out First Follow-Up Audit – Internal Control Review of A-C’s Central Payroll Processes (Original Audit 2631-1) <u>Audit No.:</u> 2727-F ISSUED: April 8, 2008	<p>Scope: First Follow-Up Audit of Auditor-Controller Central Payroll’s processes and controls to determine the implementation status of one recommendation made in our original audit report dated August 30, 2007. No material weaknesses or significant issues were identified in the original audit report.</p> <p>Conclusion: We are pleased to report that satisfactory corrective action was taken on the one recommendation. Central Payroll implemented a process to contact department/agency Human Resources personnel to resolve certain high risk payroll exceptions. As such, this report represents the final close-out of the original audit.</p> <p>Background: Central Payroll processes bi-weekly payroll when upon receipt of employee timecards (electronic and manual) from departments and agencies. During 2006, Central Payroll processed bi-weekly payroll for approximately 19,700 employees in twenty-four County agencies/departments and seven (7) other governmental non-County agencies, totaling over \$1.1 billion in gross pay.</p> <p>Type of Recommendations: Central Payroll should contact department/agency Human Resources personnel when there are payroll exceptions that are identified as higher risk, such as invalid employee I.D. numbers, ineligible premium pays, and incorrect pay codes for status type.</p>

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M.	<p>DEPT: Resources and Development Management Department</p> <p>TITLE: First Follow-Up Audit of Internal Control Review of RDMD/Facilities Operations Contract Administration and Cash Disbursements</p> <p><u>Audit No.:</u> 2727-A</p> <p>ISSUED: April 21, 2008</p>	<p>Scope: First Follow-Up Audit of contract administration and cash disbursement controls and processes in RDMD/Facilities Operations to determine the implementation status of five recommendations made in our original audit report dated May 22, 2007. No material weaknesses or significant issues were identified in the original audit report.</p> <p>Conclusion: Our First Follow-Up Audit indicated that RDMD/Facilities Operations fully implemented three recommendations and partially implemented two recommendations. Facilities Operations is taking corrective action to fully implement the remaining two recommendations.</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 original audit, Facilities Operations was involved with approximately 1,300 contracts totaling \$19.7 million. Note: On March 18, 2008 by Board resolution, a new department named OC Public Works was established which comprised all the functions of the former RDMD, with the exception of OC Parks and the Internal Services Publishing Unit. In addition, Facilities Operations is now referred to as OC Facilities.</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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