

Internal Audit Department

O R A N G E C O U N T Y

EXHIBIT A

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

Presented on Board Agenda
July 29, 2008

Project No. 2707-2

by the Director of Internal Audit
Dr. Peter Hughes, MBA, CPA

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Letter from Director Peter Hughes



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July 29, 2008

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of June 2008. An overview and a detailed briefing of each report are provided.

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

Respectfully submitted,

A handwritten signature in blue ink that reads "Peter Hughes".

Dr. Peter Hughes, CPA

The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

MONTHLY AUDIT ACTIVITY – June 2008
Status Report to the Board of Supervisors by IAD

THE FOLLOWING ITEMS ARE SUMMARIZED BELOW:

Exhibit **Audits:**

- B. PTMS Audit Alert No.1: An **Audit Alert** was issued to the Property Tax Administration Departments (Auditor-Controller, Treasurer Tax Collector, and Clerk of the Board) with **one recommendation** to evaluate obtaining IV&V services for the PTMS Implementation Project or explain how the concepts of IV&V and/or other risk mitigation processes are being deployed in the PTMS Implementation Project.

- C. Sheriff-Coroner Sole Source Procurements and Related Contract Payments: Compliance audit of Sheriff-Coroner Administration sole source procurements and related payments. No material, significant or compliance issues were noted.

- D. John Wayne Airport – Thrifty Car Rental: Review of Revenue Generating Lease. Thrifty Car Rental paid the proper amount of rent to the County. No material weaknesses, significant issues, or control findings were noted.

- E. John Wayne Airport – Creative Croissants: Review of Revenue Generating Lease. Creative Croissants paid the proper amount of rent to the County. No material weaknesses or significant issues noted. We identified **1** control finding related to compliance with the lease agreement.

- F. ATS Audit Alert No. 1: An **Audit Alert** was issued to the Assessor with **one recommendation** to evaluate obtaining IV&V services for the ATS Reengineering Project or explain how the concepts of IV&V and/or other risk mitigation processes are being deployed in the ATS Reengineering Project.

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

- G. Auditor Controller – Duplicate Payments to Vendors – June 2008: We analyzed **20,050** vendor invoices paid in May 2008 amounting to about **\$96 million** and found **99.999%** of the invoices were only paid once. Of the \$96 million vendor invoices, we identified **3** duplicate payments made to vendors totaling **\$788**.

MONTHLY AUDIT ACTIVITY – June 2008
Status Report to the Board of Supervisors by IAD

Exhibit **Follow Up Audits:**

- H. OC Public Works: Initial and Final Close-Out Follow Up Audit of Performance Measure Validation Limited Audit of Resources & Development Management Department (Original Audit No. 25101). Corrective action was made on all **23** audit recommendations. **As such, this report represents the final close-out of the original audit.**

- I. John Wayne Airport – The Hertz Corporation: First and Final Close-Out Follow-Up Audit of the Review of Lease Revenue for The Hertz Corporation (Original Audit No. 2643). Corrective action was made on all **8** recommendations. **As such, this represents the final close-out of the original audit.**

- J. John Wayne Airport – Newport Beach Golf Course: First and Final Close-Out Follow-Up Audit of the Review of Lease Revenue for Newport Beach Golf Course (Original Audit No. 2649). Corrective action was made on all **6** recommendations. **As such, this represents the final close-out of the original audit.**

- K. Health Care Agency Payroll Process Follow Up Audit: First and Final Close-Out Follow-Up Audit of controls over HCA's bi-weekly payroll processes. Corrective action was made on the **1** recommendation. **As such, this represents the final close-out of the original audit.**

- L. Sheriff-Coroner Contract Administration and Cash Disbursements: First and Final Close-Out Follow-Up Audit of controls over contract administration and related cash disbursements. Corrective action was made on **11** recommendations and **1** recommendation was closed. **As such, this represents the final close-out of the original audit.**

Exhibit **Training & Employee Survey:**

- M. Internal Controls Training – CAPS⁺ Implementation Project: Internal Audit provided an internal controls training class to 35 CAPS⁺ Implementation Project Team members.

- N. 2007 County of Orange Employee Survey - OC Internal Audit Department: As part of the Strategic Focus directed by the Board of Supervisors, the CEO initiated a County-wide employee survey in December 2007. The Internal Audit Department staff rated their Department significantly better than the County average of Departments in almost every area of management, workplace environment and job satisfaction.

MONTHLY AUDIT ACTIVITY – June 2008
Status Report to the Board of Supervisors by IAD

Detailed Breakout

MATERIAL FINDING:

	Department and Description	Comments
		None issued during June 2008.

Board Date: July 29, 2008

Exhibit A, Page 5 of 18

For a copy of the complete audit report that contains the audit objective, scope, findings, recommendations, and management's response, contact the OC Internal Audit Department's website at <http://www.ocgov.com/audit/>

MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	<p><u>Dept:</u> Property Tax Administration (PTA) Departments: Auditor-Controller, Treasurer Tax-Collector, and Clerk of the Board</p> <p><u>TITLE:</u> PTMS Audit Alert No. 1 – IV&V Contract</p> <p><u>Report No.:</u> 2769-A</p> <p>Issue Date: June 5, 2008</p>	<p>Scope: The current Assessment Tax System (ATS) is being replaced by two new systems: the new Property Tax Management System (PTMS) and a reengineered Assessment Tax System (ATS). The PTMS Implementation Project will be managed by the three Property Tax Administration (PTA) Departments consisting of the Auditor-Controller, Treasurer-Tax Collector, and Clerk of the Board. The ATS Reengineering Project will be managed by the Assessor. This PTMS Audit Alert addresses the PTMS Implementation Project only. We have issued a separate ATS Audit Alert to the Assessor that addresses the ATS Reengineering Project.</p> <p>Conclusion: We issued PTMS Audit Alert No. 1 recommending that the PTA Departments evaluate obtaining IV&V services for the PTMS Implementation Project or explain how the concepts of IV&V and/or other risk mitigation processes are being deployed in the PTMS Implementation Project. The PTA Departments concurred with our recommendation and are developing a scope of work for the IV&V services. Once the scope has been determined, it is the intent of the PTA Departments to request funding and authority from the Board of Supervisors to obtain IV&V services for the project.</p> <p>Background: The purpose of a PTMS Audit Alert is to quickly bring to the PTA Departments' 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 PTMS Implementation Project.</p> <p>Type of Recommendation: One – see above.</p>

MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
C.	<p>DEPT: Sheriff-Coroner Administration</p> <p>TITLE: Sheriff-Coroner Administration Sole-Source Procurements and Related Contract Payments</p> <p><u>Audit No.:</u> 2766-4</p> <p>ISSUED: June 25, 2008</p>	<p>Scope: An Audit Oversight Committee directed audit of Sheriff-Coroner Administration sole source procurements and related contract payments for Fiscal Years 2006-07 and 2005-06 to determine compliance with requirements of the <i>County Contract Policy Manual</i> on sole source requests.</p> <p>Conclusion: No material, significant or compliance issues were noted. We tested all three sole source procurements for professional consultant services on behalf of Sheriff-Coroner Administration and found the contracts were appropriately reviewed and approved by the Board of Supervisors in accordance with County policy. We audited all related contract expenditures and found them to be valid, properly supported and approved by management. No audit recommendations were made. However, we issued a draft Audit Alert to CEO/County Procurement Office with recommendations to enhance the <i>Contract Policy Manual</i> requirements for sole source procurements.</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 FYs 2006-07 and 2005-06, there were only three sole source procurements in Sheriff-Coroner Administration totaling \$505,960 for professional consultant services. Approximately \$203,000 in contract payments was incurred during that period.</p> <p>Type of Recommendations: None</p>

MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
D	DEPT: John Wayne Airport TITLE: Review of Lease Revenue Thrifty Car Rental <u>Audit No.:</u> 2733 ISSUED: June 25, 2008	<p>Scope: Review of lease revenue to determine whether the records of Thrifty Car Rental adequately supported monthly rent paid to the County.</p> <p>Conclusion: Thrifty Car Rental retained sufficient documentation to adequately support monthly rent paid to the County. No material weaknesses, significant issues, or control findings were identified.</p> <p>Background: The County of Orange entered into a lease agreement with DTG Operations, Inc. (Thrifty Car Rental) dated February 4, 2003, as amended and assigned, for the operation of an on-airport car rental agency at JWA. During the 12-months ended October 31, 2007, Thrifty Car Rental reported approximately \$9.2 million in gross receipts and paid percentage rent of approximately \$920,000 to the County. Additional flat rent of approximately \$29,000 was paid to the County for Ready Car parking spaces located in the JWA garage.</p> <p>Type of Recommendations: None.</p>

Board Date: July 29, 2008

Exhibit A, Page 8 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
E	DEPT: John Wayne Airport TITLE: Review of Lease Revenue Creative Croissants <u>Audit No.:</u> 2735 ISSUED: June 24, 2008	<p>Scope: Review of lease revenue to determine whether the records of Creative Croissants adequately supported monthly rent paid to the County.</p> <p>Conclusion: Creative Croissants retained sufficient documentation to adequately support monthly rent paid to the County. No material weaknesses or significant issues were identified. However, we did identify 1 control finding related to compliance with the lease agreement.</p> <p>Background: The County of Orange entered into a lease agreement with Creative Croissants effective March 1, 1996, as amended and assigned, for the operation of a coffee specialty concession at JWA. During the 12-months ended December 31, 2007, Creative Croissants reported approximately \$1.4 million in gross receipts and paid rent of approximately \$359,000 to the County.</p> <p>Type of Recommendation: Lease compliance regarding supporting documentation for customer refunds.</p>

Board Date: July 29, 2008

Exhibit A, Page 9 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
F.	<p><u>Dept:</u> Assessor</p> <p><u>TITLE:</u> ATS Audit Alert No. 1 – IV&V Contract</p> <p><u>Report No.:</u> 2770</p> <p>Issue Date: June 30, 2008</p>	<p>Scope: The current Assessment Tax System (ATS) is being replaced by two new systems: the new Property Tax Management System (PTMS) and a reengineered Assessment Tax System (ATS). The PTMS Implementation Project will be managed by the three Property Tax Administration (PTA) Departments consisting of the Auditor-Controller, Treasurer-Tax Collector, and Clerk of the Board. The ATS Reengineering Project will be managed by the Assessor. This ATS Audit Alert addresses the ATS Reengineering Project only. We have issued a separate PTMS Audit Alert that addresses the PTMS Implementation Project.</p> <p>Conclusion: We issued ATS Audit Alert No. 1 recommending that the Assessor evaluate obtaining IV&V services for the ATS Reengineering Project or explain how the concepts of IV&V and/or other risk mitigation processes are being deployed in the ATS Reengineering Project. The Assessor concurred with the concept, intent and the need for project risk mitigation. At this time, the Assessor does not support external IV&V services and an internal review by CEO/IT is not possible at this time. The Assessor made a presentation to Board of Supervisors on June 17, 2008 regarding the ATS Reengineering Project that included a discussion of IV&V services and risk mitigation. As such, it appears the concepts of IV&V and risk mitigation are recognized and being discussed by the appropriate executive stakeholders. This closes out our Audit Alert.</p> <p>Background: The purpose of an ATS Audit Alert is to quickly bring to the Assessor's attention important potential issues for 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 ATS Reengineering Project.</p> <p>Type of Recommendation: One – see above.</p>

Board Date: July 29, 2008

Exhibit A, Page 10 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

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G.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: Computer Assisted Audit Techniques - June 2008 <u>Audit No.:</u> 2713-L ISSUED: June 30, 2008	<p>Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 4 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 20,050 vendor invoices paid in May 2008 amounting to about \$96 million and found 99.999% of the invoices were only paid once. Of the \$96 million vendor invoices we identified 3 duplicate payments made to vendors totaling \$788. The Auditor-Controller currently has a recovery rate from vendors of about 98% 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 \$711,883 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>

Board Date: July 29, 2008

Exhibit A, Page 11 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
H.	<p>DEPT: OC Public Works</p> <p>TITLE: Final Close-Out Initial Follow Up Audit of the Performance Measure Validation of RDMD, Original Audit No. 25101</p> <p><u>Audit No.:</u> 2760-A</p> <p>ISSUED: June 17, 2008</p>	<p>Scope: Initial and Final Follow-Up Audit of Performance Measure Validation of Resources & Development Management Department (RDMD), new department named OC Public Works. Our audit was limited to reviewing, as of the 2007 Business Plan, actions taken to implement the 23 recommendations in our audit report dated February 7, 2007.</p> <p>Conclusion: We are pleased to report that 19 recommendations were fully implemented and 4 recommendations closed due to satisfactory corrective action. We commend the personnel at OC Public Works for their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit.</p> <p>Background: The objective of our Performance Measure Validation (PMV) was to validate the accuracy of the FY 2004-2005 Outcome Measure Results reported in RDMD's 2006 Business Plan. Our audit included obtaining an understanding of the methodology in place for collecting and reporting Outcome Measure Results by interviewing key personnel, observations, and reviewing source documentation. The Business Plan contained a total of 34 Performance Indicators Results, and we tested the supporting documentation for all 34. Our audit scope did not include an assessment of the appropriateness of RDMD outcome measures based on their mission, goals and objectives.</p> <p>Type of Recommendations: RDMD for future business plans develop and implement procedures for collecting, retaining, and reporting outcome measures; outcome measures and reported results complement each other; reported results are supported and properly stated; and original supporting documentation is retained.</p>

Board Date: July 29, 2008

Exhibit A, Page 12 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
I.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Final Close-Out First Follow Up Audit of Review of Lease Revenue for The Hertz Corporation, Original Audit No. 2643</p> <p><u>Audit No.:</u> 2741-A</p> <p>ISSUED: June 16, 2008</p>	<p>Scope: First and Final Follow-Up Audit of the review of lease revenue to determine whether the records of The Hertz Corporation adequately supported monthly rent paid to the County. The original audit report, dated August 20, 2007, contained 8 recommendations with no material weaknesses or significant issues.</p> <p>Conclusion: We are pleased to report that all 8 recommendations were fully implemented. We commend the personnel at JWA and The Hertz Corporation for their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit.</p> <p>Background: The County of Orange entered into a lease agreement with The Hertz Corporation dated December 15, 2000, for the operation of a rental car concession at JWA. During the 12-month period ending September 30, 2006, The Hertz Corporation reported approximately \$40.3 million in gross receipts and paid the County over \$4 million in rent.</p> <p>Type of Recommendations: Lease compliance or improvements to internal controls regarding: underpayments of rent; estimating the amount of prepaid fuel exclusion; and reviewing detailed documentation to support adjustments before authorizing credits against monthly rent.</p>

Board Date: July 29, 2008

Exhibit A, Page 13 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
J.	<p>DEPT: John Wayne Airport</p> <p>TITLE: Final Close-Out First Follow Up Audit of Review of Lease Revenue for Newport Beach Golf Course, Original Audit No. 2649</p> <p><u>Audit No.:</u> 2741-C</p> <p>ISSUED: June 16, 2008</p>	<p>Scope: First and Final Follow-Up Audit of the review of lease revenue to determine whether the records of Newport Beach Golf Course adequately supported monthly rent paid to the County. The original audit report, dated October 4, 2007, contained 6 recommendations with no material weaknesses or significant issues.</p> <p>Conclusion: We are pleased to report that all 6 recommendations were fully implemented. We commend the personnel at JWA and Newport Beach Golf Course for their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit.</p> <p>Background: The County of Orange entered into a lease agreement with Newport Beach Golf Course dated June 3, 1975 for the operation of a golf course, restaurant, pro shop, and golf instruction located on the JWA South Clear Zone. During the 12-month period ending December 31, 2006, Newport Beach Golf Course reported approximately \$4.2 million in gross receipts and paid the County approximately \$171,000 in rent.</p> <p>Type of Recommendations: Lease compliance or improvements to internal controls regarding: reconciliation of daily Starter Sheets; recording rounds of golf paid with gift certificates on the daily Starter Sheet; source documents for rentals; special event forms not sequentially numbered; and clerical errors.</p>

Board Date: July 29, 2008

Exhibit A, Page 14 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
K.	<p>DEPT: Health Care Agency</p> <p>TITLE: Final Close-Out First Follow Up Audit of Internal Control Review of HCA Payroll Process, Original Audit No. 2631-2</p> <p><u>Audit No.:</u> 2727-D</p> <p>ISSUED: June 11, 2008</p>	<p>Scope: First Follow-Up Audit of HCA's Bi-Weekly Payroll processes and controls to determine the implementation status of 1 recommendation made in our original audit report dated August 9, 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 1 recommendation. HCA Payroll now utilizes a modified VTI <i>Timecard Audit Report</i> each pay period for monitoring unauthorized pay code changes. As such, this report represents the final close-out of the original audit.</p> <p>Background: HCA utilizes Virtual Timesheet Interface (VTI) for recording and processing employee bi-weekly payroll. HCA/Payroll reviews submitted timesheets; adjusts employees' timecards in VTI when necessary; and uploads the approved timecards to Auditor-Controller's Central Payroll for issuance of bi-weekly payroll. During the audit period, HCA's total gross bi-weekly pay for approximately 2,700 employees was \$159,949,080.</p> <p>Type of Recommendations: HCA and HCA Accounting, in consultation with Auditor-Controller Information Technology; evaluate the need to modify the VTI <i>Timecard Audit Report</i> to include query capabilities to target specific research that would assist HCA by providing a tool to monitor any unauthorized changes to pay codes such as modifying leave hours to regular hours.</p>

Board Date: July 29, 2008

Exhibit A, Page 15 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

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L.	<p>DEPT: Sheriff-Coroner Administration</p> <p>TITLE: Final Close-Out First Follow Up Audit of Contract Administration and Cash Disbursements, Original Audit No. 2664</p> <p><u>Audit No.:</u> 2727-E</p> <p>ISSUED: June 19, 2008</p>	<p>Scope: First Follow-Up Audit of Sheriff-Coroner contract administration and cash disbursement processes and controls in Facilities Operations, South Operations, and Financial/Administrative Services to determine the implementation status of 12 recommendations made in our original audit report dated July 26, 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 11 recommendations, and 1 recommendation was closed out. We commend the personnel at Facilities Operations and South Operations for their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit.</p> <p>Background: During the audit period, Facilities Operations administered 57 Price Agreements totaling approximately \$2.8 million. South Operations had 25 active Price Agreements totaling approximately \$4 million, and 25 Purchase Orders totaling approximately \$242,245.</p> <p>Type of Recommendations: <u>Facilities Operations:</u> Ensure invoices and supporting documents are validated to terms of Price Agreements; document management review & approval of invoices; retain shipping documents; document exceptions in invoice processing times. <u>South Operations:</u> establish contract administration procedures and tracking mechanisms; segregate contracting from other purchasing duties; ensure compliance with County procedures for use of revolving funds for contracted services. <u>Financial/Administration:</u> Evaluate effectiveness of Account Payable's contract notification process; maintain a listing of individuals authorized to approve contract invoice payments.</p>

Board Date: July 29, 2008

Exhibit A, Page 16 of 18

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MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

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M.	<p>DEPT: CAPS Steering Committee</p> <p>TRAINING TITLE: Recap of New Risk Assessment Standards and Internal Controls 101</p> <p><u>Project No.:</u> 2764-C</p> <p>Presented: June 16, 2008</p>	<p>Scope: As requested by management of the CAPS+ Implementation Project, the Internal Audit Department provided an internal controls training class to 35 members of the CAPS+ Implementation Project team.</p> <p>Conclusion: The training was well received with an average score of “Excellent” (6.3 on scale of 1 – 7) by the class attendees.</p> <p>Background: The CAPS system plays a critical role in processing financial information that supports the missions and objectives of all County departments and agencies. It is also used in compiling the County’s financial statements for purposes of the external audit and financial reporting to other governmental and private agencies.</p> <p>The best opportunity to affect the system of internal control and process efficiency in the CAPS+ system is during the system development phases. During the development phases, changes and extensions to the system of internal control can be accomplished with considerable less cost and effort than after the CAPS+ system becomes operational.</p> <p>Type of Recommendations: Not applicable.</p>

MONTHLY AUDIT ACTIVITY – June 2008
 Status Report to the Board of Supervisors by IAD

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N.	<p>DEPT: Board of Supervisors</p> <p>TITLE: 2007 County of Orange Employee Survey of OC's Internal Audit Department</p> <p><u>Audit No.:</u> 2707-B</p> <p>ISSUED: June 30, 2008</p>	<p>Scope: As part of the Strategic Focus planning efforts directed by the Board of Supervisors, the County Executive Office initiated the second annual county-wide survey of the 18,649 employee workforce. The survey was conducted to elicit employees' thoughts and opinions about the quality of their management, workplace environment and culture, and job satisfaction.</p> <p>Conclusion: The Internal Audit Department staff rated their Department significantly better than the County average of Departments in almost every area of management, workplace environment and job satisfaction.</p> <p>Background: The CEO invited employees to participate in the anonymous and confidential survey in December 2007. Reports comparing the results for individual agencies/departments to the county-wide averages were prepared separately and distributed accordingly.</p> <p>Type of Recommendations: Not applicable.</p>

Board Date: July 29, 2008

Exhibit A, Page 18 of 18

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