INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

Integrity
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Independence

Management Letter on Audit of the Statement of Assets Held by the County Treasury

At
December 31, 2004

AUDIT NUMBER: 2409 **REPORT DATE: AUGUST 31, 2005**

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Deputy Director:	**Eli Littner, CPA, CIA**
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Senior Auditor:	**Dan Melton, CPA**
Senior Auditor:	**Ken Wong, CPA**

ORANGE COUNTY TREASURER
MANAGEMENT LETTER ON AUDIT OF
STATEMENT OF ASSETS HELD BY COUNTY TREASURER
AT DECEMBER 31, 2004

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INTERNAL AUDIT DEPARTMENT

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Transmittal Letter

Audit No. 2409

August 31, 2005

TO: John M. W. Moorlach, Treasurer-Tax Collector

FROM: Peter Hughes, Ph.D., CPA, Director
Internal Audit Department

SUBJECT: Management Letter on Audit of the Statement of Assets Held by the County Treasury at December 31, 2004

Attached is our Management Letter on Audit of the Statement of Assets Held by the County Treasury at December 31, 2004. The Management Letter contains eighteen audit recommendations, which include one Material Weakness and four Significant Issues. However, in the Management Letter, we identified certain information technology (IT) weaknesses at a general level because of the risks associated with disclosing specific details. We have provided the specific details of our findings and corresponding recommendations to you in a separate Confidential Supplement to the Management Letter to facilitate the implementation of our recommendations. Your responses to our recommendations have been included in the Management Letter and the complete text of the responses is included in Attachment B.

Please note, beginning in January 2005, we implemented a more structured and rigorous follow-up audit process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). As a matter of policy, our first Follow-Up Audit will now begin at six months upon the official release of the report. The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our second Follow-Up Audit will now begin at 12 months from the release of the original report by which time all audit recommendations are expected to be addressed or implemented.

We have attached a Follow-Up Audit Tracking Document template. Your department should complete this template as our audit recommendations are implemented. When we perform our Follow-Up Audit approximately six months from the date of this report, we will request the completed document to facilitate our audit.

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

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not addressed, resolved or implemented after our second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for their discussion.

Because of these visible changes to our follow-up process, the Internal Audit Department is available to partner with all departments and agencies so that they can successfully implement or address difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report, recommendations, or follow-up process.

Further, as the Director of Internal Audit Department, effective December 14, 2004, I make a monthly audit status presentation to the BOS where I detail any significant and material audit findings released in reports during the prior month and the status of audit recommendation implementations as disclosed by Follow-Up Audits. However given the risks associated with disclosing specific details of certain IT findings, the results of this Management Letter will be limited in a future summary to the BOS. See Attachment A for a description of report item classifications.

We appreciate the courtesy and cooperation of your staff during our review. If you have any questions regarding our review, please call me, Eli Littner, Deputy Audit Director at (714) 834-5899, or Alan Marcum, Audit Manager at (714) 834-4119.

Attachments

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller
Gary Cowan, Assistant Treasurer-Tax Collector
Paul Gorman, Deputy Treasurer
Emily Lin, Treasurer Accounting/Compliance Manager
Jan Grimes, Assistant Auditor-Controller, Central Operations
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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INTERNAL AUDIT DEPARTMENT

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AUDIT MANAGER

MANAGEMENT LETTER

Audit No. 2409

August 31, 2005

TO: John M. W. Moorlach, Treasurer-Tax Collector

SUBJECT: Management Letter on Audit of the Statement of Assets Held by the County Treasury at December 31, 2004

Pursuant to Government Code 26920(b) and 26922, we have audited the Statement of Assets Held by the County Treasury as of December 31, 2004 and have issued our report dated May 6, 2005.

In planning and performing our audit, we considered the Treasury's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statement and not to provide overall assurance on the internal controls in place. However, we noted certain matters involving the internal controls and its operations that we consider being reportable conditions under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to deficiencies in the design or operation of the internal control that in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories: Material Weaknesses, Significant Issues, and Reportable Conditions. See Attachment A for a description of report item classifications.

We identified eighteen audit findings, which include one Material Weakness and four Significant Issues. These deficiencies are discussed in the Detailed Findings, Recommendations, and Responses section of this report and should be corrected to strengthen the internal controls and enhance assurance that internal control procedures are adequate to achieve reliability of financial reporting. **However, because of the risks associated with disclosing the specific details of certain IT findings, we described findings 1, 6, 7, 8, 9 and 10 only at a general level in our management letter for Audit No. 2409. We have provided the specific details of our findings and corresponding recommendations to you in a separate Confidential Supplement to the Management Letter to facilitate the implementation of our recommendations.**

The Treasurer is responsible for establishing and maintaining the internal controls framework for his Department. In fulfilling this responsibility, judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures.

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

The objectives of internal controls over financial reporting are to provide management with reasonable, but not absolute, assurance that reliability of financial reporting is achieved with established criteria and management's policies.

This report was discussed with representatives of the Treasury management; their responses have been incorporated in the report. This report is intended solely for the use of the Treasury management and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

We appreciate the cooperation and assistance extended to us by the personnel of the Treasury during our examination. If you have any questions regarding our review, please call me, Eli Littner, Deputy Audit Director, at (714) 834-5899, or Alan Marcum, Audit Manager, at (714) 834-4119.

Respectfully submitted,

Peter Hughes, Ph.D., CPA
Director, Internal Audit

Audit Team
Eli Littner, Deputy Director, CPA, CIA, CISA
Alan Marcum, Audit Manager, CPA, CIA
Camille Gackstetter, In-charge Auditor, CPA
Scott Suzuki, Principal Auditor, CPA, CIA, CISA
Michael Dean, CIA
Winnie Keung, CPA
Dan Melton, CPA
Ken Wong, CPA

Attachment A – Report Item Classifications
Attachment B – Treasurer-Tax Collector Response

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
David E. Sundstrom, Auditor-Controller
Jan Grimes, Assistant Auditor-Controller, Central Operations
Gary Cowan, Assistant Treasurer-Tax Collector
Paul Gorman, Deputy Treasurer
Emily Lin, Treasurer Accounting/Compliance Manager
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

EXECUTIVE SUMMARY

OBJECTIVES

The Internal Audit Department audited the Statement of Assets Held by the County Treasury as of December 31, 2004 and have issued our report dated May 6, 2005. In planning and performing our audit, we considered the Treasury's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statement and not to provide overall assurance on the internal controls in place.

BACKGROUND

The audit was conducted for the purpose of assisting the Auditor-Controller in verifying the amount and kind of money and the amount of bank receipts in the treasury as shown on the Statement of Assets Held by the County Treasury as of December 31, 2004 (Statement), in accordance with Government Code 26920(b) and 26922.

CONCLUSION

Based on our audit of the Treasurer's Statement of Assets, we identified one material weakness, four significant issues, and thirteen reportable conditions which are noted in the Detailed Observations, Recommendations and Management Responses section of this report. **Because of the risks associated with disclosing the specific details of certain IT findings, we described findings 1, 6, 7, 8, 9 and 10 only at a general level in our management letter for Audit No. 2409. Of the six confidential findings, one is a material weakness; three are significant issues; and two are reportable conditions**. **We have provided the specific details of these findings and corresponding recommendations to the Treasurer-Tax Collector in a separate Confidential Supplement to the Management Letter to facilitate their implementation of our recommendations.** See Attachment A for a description of report item classifications.

One significant issue and eleven reportable conditions are being reported in detail in this Management Letter. The one significant issue is related to internal controls over granting local area network access - two employees were granted temporary access without any type of restrictions and when access was no longer needed, it was not removed (Finding No. 5). The eleven reportable conditions are related to the following: segregation of duties; security monitoring; local administrator rights granted to users; updating of the IT risk assessment; classification of IT resources; IT physical security; and IT evidence of review.

The American Institute of Certified Public Accountants Statement on Auditing Standards, Section AU 319—Consideration of Internal Control in a Financial Statement Audit requires auditors to obtain an understanding of the entity's internal controls over relevant processes, as well as, consider the entity's use of their information technology (IT) and its relevance to the audit of financial statements. During the audit period, the Treasurer's Office relied on information systems as their general ledger (Quantum System) and to record their cash (Cashiering and Back Office Systems), demand accounts and investments (Quantum System). Since the Treasurer's Office relied on these information systems to provide the information on the financial statement, we gained an understanding of general and application controls of the systems, tested selected controls and identified the following weaknesses. **However, because of the risks associated with disclosing the specific details of certain IT findings, we have provided the specific details of our findings and corresponding recommendations to the Treasurer-Tax Collector in a separate confidential supplement to facilitate their implementation of our recommendations.**

Internal Control Weakness in the Wire Transfer of Funds Process

Finding No. 1: (Confidential Finding) (Material Weakness)

Segregation of Duties

Finding No. 2
An accounting employee has inappropriate combination of duties in that the employee has the authority to on-line approve, release and transmit wire transfers. (Reportable Condition)

Failure to have appropriate segregation of duties increases the risk that irregular activity could occur and not be detected.

Recommendation No. 2
We recommend the Treasurer ensure that the Chief Investment Officer cannot both approve, release, and transmit wire transfers.

Treasurer-Tax Collector Response:
Concur. The Chief Investment Officer's access to approve wires has been removed.

Finding No. 3
Three Information Technology (IT) employees have incompatible duties. The IT Manager has the authority to on-line approve wire transfers, and the Programmer/Systems Analyst II and Technical Systems Specialist have the authority to transmit, on-line wire transfers. (Reportable Condition)

The IT staff should not be assigned end user duties. Failure to have appropriate segregation of duties increases the risk that irregular activity could occur and not be detected. As of February 1, 2005, the IT Manager's ability to approve wire transfers was cancelled.

Recommendation No. 3
We recommend the Treasurer terminate the Programmer/Systems Analyst II and Technical Systems Specialist ability to transmit wire transfers.

Treasurer-Tax Collector Response:
Concur. The Programmer/Analyst and the Technical Systems Specialist were given the ability to transmit wire transfers during January 2005 when the Department was testing a new method of transmitting wire transfer data to Wells Fargo Bank. In the course of debugging, the two Systems people were given these rights on and off to facilitate troubleshooting. These rights have now been terminated.

Finding No. 4
The Information Technology (IT) Manager performs incompatible duties in that the IT Manager is the systems analyst for both the Quantum and Back Office systems. (Reportable Condition)

The IT Manager should not have the duties of IT administrator and systems analyst. Inadequate segregation of duties increases the risk that errors could occur and not be detected.

Recommendation No. 4
We recommend the Treasurer reassign the IT Manager's systems analyst duties for the Quantum and Back Office systems.

Treasurer-Tax Collector Response:
Concur. The duties of IT Administration for Quantum and Back Office have been reassigned to two Systems Analysts. The overlap of duties occurred due to employee turnover, resulting in a shortage of manpower. The IT Manager was responsible for Quantum until additional employees were hired. A new Systems Analyst was hired on December 10, 2004 and has taken over this duty.

Internal Controls Over Granting Network Access

Finding No. 5
We found that internal controls need to be improved over the granting of system administrator access to the Treasurer's local area network. (Significant Issue)

Two end users (Remittance Division employees) were granted temporary system administrator access to the local area network for training purposes. They were granted access without any type of restrictions and when access was no longer needed it was not removed. The Treasurer's office removed the two employees administrator access upon notification by Internal Audit.

In addition, we found that documentation for adding/deleting users was not retained, and procedures were not in effect for resource owners to periodically review user permissions to ensure that they remain appropriate.

Recommendation No.5:
We recommend the Treasurer strengthen internal controls over granting system administrator access to the Treasurer's local area network.

Treasurer-Tax Collector Response:
Concur. Concurrently with this audit, two IT trainees were helping replace the Treasurer desktop computers. It was necessary to grant system administration rights to properly install and configure the necessary software and related settings. One of the trainees has since been hired as an Information Systems Technician. The other trainee's administrator access has been removed. Requests for adding/deleting end users access to folders are documented through emails and/or User Access Request forms attached to the emails. These requests are saved for future reference. A new report listing the user access to Treasurer folders will be reviewed and signed off by Accounting/Compliance Manager quarterly. We expect this to be implemented by August 31, 2005.

IT Logical Security Controls

Finding No. 6: (Confidential Finding) (Significant Issue)

Finding No. 7: (Confidential Finding) (Reportable Condition)

Finding No. 8: (Confidential Finding) (Reportable Condition)

IT Security Monitoring Controls

Finding No. 9 and 10: (Confidential Finding) (Significant Issue)

Finding No. 11
We found that the IT Manager does not review changes to Windows operating system policy settings. (Reportable Condition)

Having managerial review of changes to Windows policy settings helps ensure only appropriate changes are made.

Recommendation No. 11
We recommend the Treasurer require that IT Manager review all changes to Windows policy settings and document their review with initials and date.

Treasurer-Tax Collector Response:
Concur. In the past, the Department has maintained two network operating systems – Novell Netware and Windows. This setup has made network administration and configuration management more complex than a single system. The Treasurer-Tax Collector's Office is currently phasing out Novell Netware with the goal of maintaining Microsoft Windows 2000/2003 as its sole network operating system. In February 2005, the Netware file system was converted to Windows, and in September 2005, the Novell GroupWise email system will be converted to Microsoft Exchange. As soon as this project is completed, we will set up a procedure to review the operating system policies. There have been no changes to the default Windows operating system policy since January 2004. A documented monthly review will be in place by December 31, 2005.

Local Administrator Rights Granted to Users

Finding No. 12
In order to use Q-risk, a component of Quantum, end users must possess local administrator rights at their respective workstations. As such, two accounting employees have been granted local administrator accounts. Users with administrator accounts have excessive access to system resources including access to the command line and the ability to install programs. (Reportable Condition)

Q-risk is a query building application which can provide information on projected cash balances, cash flow ladders, cash flow analysis, interest rate gap, etc. The Treasurer's Office is currently working with the Quantum vendor to resolve this problem.

Recommendation No. 12
We recommend the Treasurer continue to work with the Quantum vendor until the Q-risk design no longer requires administrator rights.

Treasurer-Tax Collector Response:
Concur. The Department has relayed the problem and a request for resolution to the vendor. The vendor has not yet made a commitment as to when this will be fixed.

IT Risk Assessment

Finding No. 13
The IT risk assessment has not been updated since it was prepared in 2003. (Reportable Condition)

The Information Technology Governance Institute – Control Objectives for Information and related Technology (COBIT) control objective "Planning & Organization", section 9.1, "Business Risk Assessment", states, "Management should establish a systematic risk assessment framework. Such a framework should incorporate regular assessment of the relevant information risks to the achievement of the business objectives, forming a basis for determining how the risks should be managed to an acceptable level. Management should ensure that reassessments occur and that risk assessment information is updated with results of audits, inspections and identified incidents."

Recommendation No. 13
We recommend the Treasurer ensure that the Treasurer's System Risk Analysis is updated annually.

Treasurer-Tax Collector Response:
Concur. An updated Treasurer's System Risk Analysis will be completed before September 30, 2005.

Internal Controls Over the Classification of IT Resources

Finding No.14
We found that the Treasurer's office has not established adequate internal controls for the purpose of classifying information resources. (Reportable Condition)

Management should formally identify information technology resource owners and implement procedures to ensure that all data are classified in terms of sensitivity by a formal and explicit decision by the data owner according to the data classification scheme. Even data needing "no protection" should require a formal decision to be so designated. Owners should determine disposition and sharing of data, as well as whether and when programs and files are to be maintained, archived or deleted. Evidence of owner approval and data disposition should be maintained. Policies should be defined to support reclassification of information, based on changing sensitivities. The classification scheme should include criteria for managing exchanges of information between organizations, addressing both security and compliance with relevant legislation – COBIT DS 5.8.

Recommendation No. 14
We recommend the Treasurer ensure that adequate internal controls are established for the purpose of classifying information resources.

Treasurer-Tax Collector Response:
Concur. The Department has started the process of classifying and monitoring access to information resources. We anticipate completing this exercise by December 31, 2005.

IT Physical Security

Finding No. 15
Backup server tapes are stored off-site, however, the transfer and removal of tapes from the server room is not documented. (Reportable Condition)

To ensure accountability is established for the transfer/removal of the backup tapes, the movement of the tapes should be logged.

Recommendation No. 15
We recommend the Treasurer require Information Systems staff to log the transfer and removal of backup tapes from the server room.

Treasurer-Tax Collector Response:
Concur. Backup server tapes are taken from the server room directly to the Quality Assurance room where documentation is completed before sending them offsite to the Data Center, and eventually to permanent offsite storage with Iron Mountain. The tapes are accompanied by documentation listing the container, the date and the sender's name. In addition to this documentation, a Tape Drop-Off and Pick Up Log were recently introduced to record the backup tapes' drop-off date/time and pick-up date/time. This additional step in the process provides additional control and accountability by requiring the person dropping off the tapes and the person picking up the tapes to initial the log.

Finding No. 16
Visitors to sensitive IT areas are escorted, however, they are not required to log/sign in and out. (Reportable Condition)

COBIT DS 12.3 states "individuals who are not members of the IT function's operations group are escorted by a member of that group when they must enter the facilities. A visitor's log should be kept and reviewed regularly."

Recommendation No. 16
We recommend the Treasurer require Information Systems staff to ensure visitors to sensitive IT areas sign/log in and out.

Treasurer-Tax Collector Response:
Concur. The server rooms are kept locked and visitors are required to be escorted by authorized personnel. By July 31, 2005 the Department will implement and maintain a log for all visitors to sign in/out.

Finding No. 17
There are no documented procedures for the disposal of computer hardware. (Reportable Condition)

Procedures should be in place to clear sensitive information and software from computers, disks, and other equipment or media when they are disposed of or transferred to another use.

Recommendation No. 17
We recommend the Treasurer document procedures for sanitation of equipment and media prior to disposal or reuse.

Treasurer-Tax Collector Response:
Concur. The Department currently reformats the computers (FDISK) before disposal. Written documentation of this process will be completed by December 31, 2005.

IT Evidence of Review

Finding No. 18
IT staff and accounting staff reported they review the "Master File Audit Report" online, however, they do not document their review with their initials and date of review. **(Repeat of finding No. 2 from the 12/31/03 Treasury Funds Audit Management Letter, which was partially implemented in June 2004.)** (Reportable Condition)

The "Master File Audit Report" is a security report that reflects password changes, unauthorized log on attempts, changes to general ledger accounts, changes to counterparties, and user profile changes, additions, and deletions. To ensure accountability is established and provide evidence of review, the reviewer should document their review with their initials and date of review.

Recommendation No. 18
We recommend the reviewers of the "Master File Audit Report" document their review with their initials and date of review.

Treasurer-Tax Collector Response:
Concur. A daily Master File Audit Report is now being printed, reviewed, and signed by the IT Group.

ATTACHMENT A: Report Item Classifications

For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

Material Weaknesses:
Audit findings that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.

Significant Issues:
Audit findings that represent a deficiency in the design or operation of processes or internal controls. Significant issues do not present a material exposure throughout the County; yet generally will require more immediate attention and corrective action by management than expected with a "Reportable Condition."

Reportable Conditions:
Audit findings that require management's corrective action to implement or enhance processes and internal controls.

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BRETT R. BARBRE
DEPUTY TREASURER-TAX COLLECTOR
PUBLIC INFORMATION OFFICER

July 15, 2005

Dr. Peter Hughes, CPA
Director, Internal Audit
County of Orange
400 Civic Center Drive West
Building 12, Room 232
Santa Ana, CA 92701-4521

Dear Dr Hughes:

Pursuant to Audit Oversight Committee Administrative Procedure No. 1, we have prepared our response to the draft results of your Management Letter on Audit of Statement of Assets held by County Treasury as of December 31, 2004. The recommendation numbers used in your report reference our response.

Recommendation No. 2
We recommend the Treasurer ensure that the Chief Investment Officer cannot both approve, release, and transmit wire transfers.

Treasurer-Tax Collector response:
Concur. The Chief Investment Officer's access to approve wires has been removed.

Recommendation No. 3
We recommend the Treasurer terminate the Programmer/Systems Analyst II and Technical Systems Specialist ability to transmit wire transfers.

Treasurer-Tax Collector response:
Concur. The Programmer/Analyst and the Technical Systems Specialist were given the ability to transmit wire transfers during January 2005 when the Department was testing a new method of transmitting wire transfer data to Wells Fargo Bank. In the course of debugging, the two Systems people were given these rights on and off to facilitate troubleshooting. These rights have now been terminated.

Recommendation No. 4
We recommend the Treasurer reassign the IT manager's systems analyst duties for the Quantum and Back Office systems.

Dr. Peter Hughes, CPA
Page 2

Treasurer-Tax Collector response:
Concur. The duties of IT Administration for Quantum and Back Office have been reassigned to two Systems Analysts. The overlap of duties occurred due to employee turnover, resulting in a shortage of manpower. The IT Manager was responsible for Quantum until additional employees were hired. A new Systems Analyst was hired on December 10, 2004 and has taken over this duty.

Recommendation No. 5
We recommend the Treasurer strengthen internal controls over granting system administrator access to the treasurer's local area network.

Treasurer-Tax Collector response:
Concur. Concurrently with this audit, two IT trainees were helping replace the Treasurer desktop computers. It was necessary to grant system administration rights to properly install and configure the necessary software and related settings. One of the trainees has since been hired as an Information Systems Technician. The other trainee's administrator access has been removed. Requests for adding/deleting end users access to folders are documented through emails and/or User Access Request forms attached to the emails. These requests are saved for future reference. A new report listing the user access to Treasurer folders will be reviewed and signed off by Accounting/Compliance Manager quarterly. We expect this to be implemented by August 31, 2005.

Recommendation No. 11
We recommend the Treasurer require that the IT Manager review all changes to Windows policy settings and document their review with initials and date.

Treasurer-Tax Collector response:
Concur. In the past, the Department has maintained two network operating systems – Novell Netware and Windows. This setup has made network administration and configuration management more complex than a single system. The Treasurer-Tax Collector's Office is currently phasing out Novell Netware with the goal of maintaining Microsoft Windows 2000/2003 as its sole network operating system. In February 2005, the Netware file system was converted to Windows, and in September 2005, the Novell GroupWise email system will be converted to Microsoft Exchange. As soon as this project is completed, we will set up a procedure to review the operating system policies. There have been no changes to the default Windows operating system policy since January 2004. A documented monthly review will be in place by December 31, 2005.

Recommendation No. 12
We recommend the Treasurer continue to work with the Quantum vendor until the Q-risk design no longer requires administrator rights.

Treasurer-Tax Collector response:
Concur. The Department has relayed the problem and a request for resolution to the vendor. The vendor has not yet made a commitment as to when this will be fixed.

Dr. Peter Hughes, CPA
Page 3

Recommendation No. 13
We recommend the Treasurer ensure that the Treasurer's System Risk Analysis is updated annually.

Treasurer-Tax Collector response:
Concur. An updated Treasurer's System Risk Analysis will be completed before September 30, 2005.

Recommendation No. 14
We recommend the Treasurer ensure that adequate internal controls are established for the purpose of classifying information resources.

Treasurer-Tax Collector response:
Concur. The Department has started the process of classifying and monitoring access to information resources. We anticipate completion of this exercise by December 31, 2005.

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We recommend the Treasurer require Information systems staff to log the transfer and removal of backup tapes from the server room.

Treasurer-Tax Collector response:
Concur. Backup server tapes are taken from the server room directly to the Quality Assurance room where documentation is completed before sending them offsite to the Data Center, and eventually to permanent offsite storage with Iron Mountain. The tapes are accompanied by documentation listing the container, the date and the sender's name. In addition to this documentation, a Tape Drop-Off and Pick Up Log were recently introduced to record the backup tapes' drop-off date/time and pick-up date/time. This additional step in the process provides additional control and accountability by requiring the person dropping off the tapes and the person picking up the tapes to initial the log.

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We recommend the Treasurer require Information systems staff to ensure visitors to sensitive IT areas sign/log in and out.

Treasurer-Tax Collector response:
Concur. The server rooms are kept locked and visitors are required to be escorted by authorized personnel. By July 31, 2005 the Department will implement and maintain a log for all visitors to sign in/out.

Recommendation No. 17
We recommend the Treasurer document procedures for sanitation of equipment and media prior to disposal or reuse.

Treasurer-Tax Collector response:
Concur. The Department currently reformats the computers (FDISK) before disposal. Written documentation of this process will be completed by December 31, 2005.

Dr. Peter Hughes, CPA
Page 4

Recommendation No. 18
We recommend the reviewers of the "Master File Audit Report" document their review with their initials and date of review.

Treasurer-Tax Collector response:
Concur. A daily Master File Audit Report is now being printed, reviewed, and signed by the IT Group.

If you have additional questions or follow-up comments, please contact Paul Gorman, Deputy Treasurer at 834-2288.

Very truly yours,

John M. W. Moorlach, C.P.A., CFP®
Orange County Treasurer-Tax Collector