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Report on Independent Validation of Performance Measures Audit of Internal Audit Department's 2005/2006 Performance Measure Results report

Jefferson Wells International, Inc. ("Jefferson Wells") was engaged by the Internal Audit Department, County of Orange ("Internal Audit") to conduct an independent validation of Internal Audit's self assessment conclusions reported in the Performance Measures Audit of Internal Audit Department's 2005/2006 Performance Measure Results report dated September 20, 2007.

The primary objective of the validation was to review and evaluate supporting documentation of the performance measures audit performed by Internal Audit, including results, conclusions, opportunities for improvement, and action items.

In acting as independent validator, Jefferson Wells is fully independent of Internal Audit and has the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period of October 18 and 19, 2007, consisted of the following:

- Review of the project scope and approach used by Internal Audit
- Review of the performance measures audit report and related findings
- Review of the performance measures audit documentation and limited tests of the work as deemed necessary to support the validity of the audit conclusions

Based on the procedures performed above, we concur with the Internal Audit's conclusions in the attached Performance Measures Audit of Internal Audit Department's 2005/2006 Performance Measure Results report dated September 20, 2007.

Jefferson Wells is not a public accounting firm and does not provide attest services or otherwise report on financial statements. The procedures we performed were in accordance with the IIA Standards. This report is intended solely for the use of the client's internal management and is not intended to be, and should not be, used by any other parties without the prior written consent of Jefferson Wells.

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PERFORMANCE MEASURES AUDIT

OF

INTERNAL AUDIT DEPARTMENT'S 2005/2006 PERFORMANCE MEASURE RESULTS

AUDIT NUMBER: 2762 REPORT DATE: SEPTEMBER 20, 2007

Deputy Director: Eli Littner, CPA, CIA

Senior Audit Manager: Alan Marcum, MBA, CPA, CIA

Audit Manager: Camille Gackstetter, CPA

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

PERFORMANCE MEASURES AUDIT
OF
INTERNAL AUDIT DEPARTMENT'S
2005/2006 PERFORMANCE MEASURE RESULTS

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Transmittal Letter

Audit No. 2762

September 20, 2007

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

FROM: Eli Littner, CPA, CIA, Deputy Director
Internal Audit Department

SUBJECT: Performance Measures Audit of Internal Audit Department's 2005/2006 Performance Measure Results

We have completed our Performance Measure Audit of Internal Audit Department's 2005/2006 Performance Measure Results included in the 2007 Business Plan. The final Internal Auditor's Report is attached along with your response to our recommendation.

In developing our performance measures audit process, we benchmarked with Maricopa County, Arizona Internal Audit Department's Performance Measure Certification program. Maricopa County has been conducting their certification program for over five years and has received several awards and has been referred to as the "gold standard" of performance measurement auditing by the Government Accounting Standards Board (GASB). Our approach closely mirrors the award winning approach developed by the Maricopa County Internal Audit Department.

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 no later than 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 and implemented. However, we will not perform our follow-up until the next Business Plan cycle.

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

We will provide a Follow-Up Audit Report Form to you; this template should be completed as the audit recommendation is implemented. When we perform our Follow-Up Audit by the next Business Plan cycle, we will need to obtain the completed document to facilitate our review.

Every month an audit status report is submitted to the Board of Supervisors (BOS) detailing any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

We appreciate the courtesy and cooperation of the Internal Audit staff during our review.

Attachment

Other recipients of this report:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

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COUNTY OF ORANGE
BOARD OF SUPERVISORS'

INTERNAL AUDIT DEPARTMENT

INTERNAL AUDITOR'S REPORT

Audit No. 2762

September 20, 2007

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

SUBJECT: Performance Measures Audit of Internal Audit Department

We have completed our Audit of Internal Audit Department's 2005/2006 Performance Measure Results included in the 2007 Business Plan. 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. Our audit scope did not include an assessment of the appropriateness of your Performance Measures based on your mission, goals and objectives.

We have initiated our performance measures 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 you and other stakeholders that reported Performance Measures are reliable and can be utilized in decision making covering Government resources with confidence.

In developing our performance measures audit process we benchmarked with Maricopa County, Arizona Internal Audit Department's Performance Measure Certification program. Maricopa County has been conducting their certification program for over five years and has received several awards and has been referred to as the "gold standard" of performance measurement auditing by the Government Accounting Standards Board (GASB). Our approach closely mirrors the award winning approach developed by the Maricopa County Internal Audit Department.

We conducted our audit in accordance with the Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors except for Standard 1100 - Organizational Independence. We are not considered independent because we conducted this Performance Measures Audit on our own department.

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

For each Performance Indicator tested, we reported the results using one of the three Rating Definitions shown below.

Rating Definitions		
5 Star	★★★★★	We found adequate supporting documentation.
4 Star	★★★★	We found adequate supporting documentation with some recommendations for improvement.
3 Star	★★★	We noted opportunities for improvement.

Based on our audit of the 2005/2006 Results reported in your 2007 Business Plan, we rated 67 percent of your reported Performance Indicator Results as 5 Star. We tested all three (3) Performance Measure Results and rated two (2) as 5 Star and one (1) as 4 Star. In our testing, we found that the result for one performance measure was not reported in your 2007 Business Plan. On page 3, we provided a table (Summary Table – Validation Results) that lists for each Performance Measure the reported results and our rating of the accuracy of Internal Audit's results. For the Performance Measure Result that was rated a 4 Star, we provided detail, along with a recommendation for enhancement over the gathering and reporting of the Performance Measure Result in the Detailed Observations, Recommendations and Management Responses section of this report.

We appreciate the courtesy and cooperation extended to us during the audit by the personnel of the Internal Audit Department. If we can be of further assistance, please contact me at (714) 834-5899 or Alan Marcum, Senior Audit Manager at (714) 834-4119.

Respectfully Submitted,

Eli Littner, CPA, CIA
Deputy Director, Internal Audit

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:
Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors

SUMMARY TABLE – VALIDATION RESULTS

Internal Audit Department 2005/06 Results Stated		Internal Audit Validation		
Performance Measures	**Results**	(Highest Rating Possible) **5 Star** ★★★★★	**4 Star** ★★★★	**3 Star** ★★★
1. The County should not have a defalcation or reported cash loss exceeding $50,000. *(IAD 2005 Business Plan, p. 5)*	The County did not have any large and material cash losses of $50,000 or more. *(IAD 2007 Business Plan, p. 5)*	✓		
2.A. Maintain Follow Up report status for Quarterly AOC meetings. *(IAD 2005 Business Plan, p. 5)*	*No results were reported in IAD's 2006 or 2007 Business Plans for this performance measure.*		✓ **(Finding #1 on p. 4)**	
2.B. Maintain customer surveys and high-level satisfaction rating. *(IAD 2005 Business Plan, p. 5)*	Overall, IAD received an average rating of 3.0 or more by the customer in our customer satisfaction surveys. *(IAD 2007Business Plan, p. 5)*	✓		

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

Finding No. 1 (4 Star)

Internal Audit Performance Measure: Maintain Follow Up report status for Quarterly AOC meetings and maintain customer surveys and high-level satisfaction rating. *(IAD 2005 Business Plan, p. 5)*

Internal Audit Stated Results: Overall, IAD received an average rating of 3.0 or more by the customer in our customer satisfaction surveys. *(IAD 2007Business Plan, p. 5)*

Internal Audit Department's Finding:
We found that there were actually two performance measures in the performance measure stated above. However, IAD did not report the results for the first part of the performance measure pertaining to *maintaining follow up report status for quarterly AOC meetings.*

Internal Audit management informed us that although the results for the performance measure were unreported, the performance measure was accomplished. We reviewed the supporting documentation and conclude the performance measure was accomplished.

Recommendation No. 1
We recommend that Internal Audit ensure the results for each performance measure are reported.

Internal Audit Department Director Response:
Concur. Although Internal Audit's review process for the business plan is very thorough, we will immediately add an additional step to specifically review the performance measures and their corresponding results to ensure each performance measure result is reported on the business plan.

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INTERNAL AUDIT DEPARTMENT

September 4, 2007

TO: Eli Littner, CPA, CIA
Deputy Director, Internal Audit

SUBJECT: Reply to Draft Report on Performance Measures Audit No. 2762

I have completed my review of the Draft Report on the Performance Measures Audit of Internal Audit Department's 2005/2006 Performance Measure Results included in the 2007 Business Plan. I was impressed with the development, process, and approach of the audit. I was also pleased to see that Internal Audit has accomplished all three performance measures and appreciate your recommendation to further improve our business plan review process. Noted below is the recommendation from the Draft Report and my response.

Recommendation No. 1
We recommend that Internal Audit ensure the results for each performance measure are reported.

Internal Audit Department Director Response:
Concur. Although Internal Audit's review process for the business plan is very thorough, we will immediately add an additional step to specifically review the performance measures and their corresponding results to ensure each performance measure result is reported on the business plan.

I would like to express my appreciation for the high quality of work, the professionalism of your staff, and the value of the audit.

If you have any questions or need additional information, please contact me directly.

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

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