

**County of Orange Internal Audit Department
Finding Summary for Internal Control Reviews
For the Period July 1, 2005 through September 30, 2005**

Dept./Agency	Process Review	Audit No.	Audit Period	Final Report Issued	Reported Internal Control Issues
Auditor-Controller	Accounts Receivable and Collections	2428-A	As of December 31, 2005	8/11/05	<p>I. <u>CUBS: Date of Input and Assigned Date</u> Control finding concerning date used (date of input vs. date of invoice) when setting up receivables in the CUBS system.</p> <p>II. <u>Timely Collection Activity</u> Control finding relating to performing collection activities in accordance with established procedures.</p> <p>III. <u>Quality Control Reviews</u> Control finding relating to quality control reviews of Collection Officer activity.</p> <p style="background-color: yellow;">Management concurred with the above findings and corrective actions are underway.</p>
Auditor-Controller	Accounts Receivable and Collections – IT Results	2428-B	As of December 31, 2005	8/11/05	<p>We identified 37 control findings pertaining to application or general controls in the following areas:</p> <p>I. <u>Logical Access</u> There were eight control findings relating to configuration of folder permissions on the LAN (local area network), user account administration, network operating system and CUBS security settings, automatic workstation locking, and policies for passwords and remote access.</p> <p>II. <u>Security Monitoring</u> There were two control findings relating to configuration of LAN operating system policies and written procedures for security audit log reviews.</p> <p>III. <u>Security Related Personnel Practices and User Account Management</u> There were three control findings relating to notifying IT of employee status changes, data owner review of granted user permissions, and policies for temporary or emergency access.</p> <p>IV. <u>Business Continuity Management – IT Division</u> There were seven control findings relating to contingency planning for disasters, backup tape storage, server room environmental controls, and procedures for backups and hardware preventative maintenance.</p> <p>V. <u>Physical Security</u> There were five control findings relating to</p>

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				<p>server room access and policies for physical access and disposal of IT hardware.</p> <p>IV. <u>Business Continuity Plan –Accounts Receivable and Collections</u> There were two control findings relating to business continuity planning for the Accounts Receivable and Collection Division and testing of the plan.</p> <p>V. <u>Security Program Planning & Management</u> There were four control findings relating to preparation of an IT risk assessment, department IT security program, and incident response plan.</p> <p>VI. <u>Information Resource Classification</u> There were three control findings relating to classification of IT resources based upon established sensitivity and criticality criteria.</p> <p>VII. <u>Software Development Methodology</u> There was one control finding relating to developing a documented system development methodology.</p> <p>VIII. <u>CUBS: Application Security</u> There was one control finding relating to missing CUBS security features.</p> <p>IX. <u>CUBS: Data Validation Features</u> There was one control finding relating to missing CUBS data validation controls.</p> <p>Management concurred with the above findings and corrective actions are underway.</p>
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Notes:

1. The following Internal Control Review draft reports have been issued:
 - Internal Control Review of Social Services Agency Contract Administration and Cash Disbursements Processes (#2531); issued on 7/27/05.
 - Internal Control Review of Health Care Agency Contract Administration and Cash Disbursements Processes (#2530); issued on 8/17/05.
 - Review of Budgetary Controls for Resources & Development Management Department/Planning and Development Services (#2584); issued on 9/12/05.

County of Orange Internal Audit Department
Findings Summary for Attestation Services & Mandates Issued
For the Period of July 1, 2005 through September 30, 2005

Agency	Audit on	Audit No.	Audit Period	Final Report Issued	Internal Control and Compliance Issues Noted
Treasurer-Tax Collector	Review of the Statement of Assets Held by the County Treasury as of June 30, 2005	2509	June 30, 2005	Report issued August 31, 2005	None
Treasurer-Tax Collector	Management Letter on Audit of the Statement of Assets Held by the County Treasury at December 31, 2004	2409	December 31, 2004	We issued on August 31, 2005 the Management Letter	<ol style="list-style-type: none"> 1. 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) 2. 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) 3. 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) 4. 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) 5. We found that the IT Manager does not review changes to Windows operating system policy settings. (Reportable Condition) 6. 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) 7. The IT risk assessment has not been updated since it was prepared in 2003. (Reportable Condition)

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					<p>8. We found that the Treasurer’s office has not established adequate internal controls for the purpose of classifying information resources. (Reportable Condition)</p> <p>9. Backup server tapes are stored off-site, however, the transfer and removal of tapes from the server room is not documented. (Reportable Condition)</p> <p>10. Visitors to sensitive IT areas are escorted, however, they are not required to log/sign in and out. (Reportable Condition)</p> <p>11. There are no documented procedures for the disposal of computer hardware. (Reportable Condition)</p> <p>12. 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)</p>
Treasurer-Tax Collector	Confidential Supplement to the Management Letter on Audit of the Statement of Assets Held by the County Treasury at December 31,2004	2409	December 31, 2004	We issued on August 31, 2005 the Confidential Supplement to the Management Letter	We identified one material and three significant audit findings and two reportable conditions in this report in the Treasurer’s office. The <u>material audit findings</u> involved an internal control weakness in the wire transfer of funds. The <u>significant audit findings</u> were related to logical security controls, IT security monitoring and internal controls over granting local area network access. The <u>reportable conditions</u> were related to IT logical security controls.
Housing and Community Services	Internal Control Review Orange County Development Agency Fund Expenditures	2433	For the Period July 1, 2004 through December 31, 2004	Report issued on August 3, 2005	<p>We identified 3 Reportable Conditions:</p> <p>1. OCDA Program Manager does not receive copies of all journal vouchers from the various departments/agencies for review that are charging his fund accounts.</p> <p>2. OCDA does not pre-approve JV’s from other departments/agencies before they are processed by Auditor-Controller’s General Ledger. Pre-approval of JV’s prepared by other departments who seek</p>

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					<p>reimbursement from OCDA could avoid both a misclassification of an expenditure and avoid an over budget condition.</p> <p>3. OCDA is not reviewing invoices for mathematical accuracy. This type of review involves recalculating and confirming the accuracy of the charges on the invoice (example: multiplying the hours time the hourly rate or footing the invoice).</p>

**County of Orange Internal Audit Department
 Summary Report on IT Follow-Up Reviews Issued
 For the Period July 1, 2005 through September 30, 2005**

Department/Agency	Process Review	Audit No.	Original Report Issued	Reported Internal Control Issues	Status on Corrective Actions	Follow-Up Report Issued	Planned Actions for Recommendations Not Fully Implemented
Auditor-Controller Department	First Follow-Up: Laser Check Printing	2523 (for Original Audit No. 2326)	9/03/03	1. Application Server Security	Implemented	9/30/05	
				2. Duties Segregation	Implemented	2nd Follow-Up Audit Due: April 06	
				3. (A, B, & C) Supervisory Reviews and Reconciliation	Implemented		
				4. Data Encryption and Logical Access to Files A. Encryption B. Restrict folder access – Disbursing Unit C. Restrict folder access – Enterprise Data Center	Not Implemented Implemented Not Implemented		The application source code must first be obtained by the County in order to implement encryption. According to the Auditor-Controller, the appropriate level of access for users and support staff has now been identified and implemented. The Internal Audit Department will validate this during a secondary Follow-Up audit.
				5. (A, B, & C) User Account Information	Implemented		
				6. (A & B) Data Back-Up	Implemented		
				7. Data Retention	Implemented		
				8. (A, B, & C) Safeguarding Blank Check Stock	Implemented		
				9. Password Administration	Implemented		

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Department/Agency	Process Review	Audit No.	Original Report Issued	Reported Internal Control Issues	Status on Corrective Actions	Follow-Up Report Issued	Planned Actions for Recommendations Not Fully Implemented
				10. Operating System Account Policies	Partially Implemented		According to the Auditor-Controller, audit policies have now been enabled to coincide with recommended security best practices. The Internal Audit Department will validate this during a secondary Follow-Up audit.
				11. Server Administration	Implemented		
				12. Application Controls	Partially Implemented		The Auditor-Controller is in the process of evaluating ways to identify checks issued to "cash." Estimated implementation date is March 2006.
				13. Change Controls			
				A. Application Version Control	Closed		
				B. Documented Change Approval	Closed		
				C. Authorized Signature Control	Implemented		
				14. Audit Trails	Not implemented		The Auditor-Controller will store an electronic copy of the <i>Daily Report</i> in ERMI. Estimated implantation date is January 2006.
				15. Policies and Procedures	Partially Implemented		A model for printing checks in the event of an emergency has been tested. Additional requirements have to be determined before development of the process. Estimated implementation date is March 2006.
				<ul style="list-style-type: none"> • Normal Check Processing - Implemented • Disaster Recovery – Not Implemented 			

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 Summary Report on IT Follow-Up Reviews Issued
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				16. Vendor Contractual Compliance	In Process		The original check printing application vendor, RXLaser, was taken over by a company called NowDocs. CEO/IT is having discussions with NowDocs regarding the purchase of the source script and resolution of other contractual issues including application support. CEO/IT will send out a letter to the new vendor about the contractual issues raised in our original audit. Planned resolution date based upon current action plan is October 2005.

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Summary Report on ICR Follow-Up Audits Issued
For the Period July 1, 2005 through September 30, 2005

Department/ Agency	Process Review	Audit No.	Original Report Issued	Reported Internal Control Issues	Status on Corrective Actions	Follow -Up Report Issued	Planned Actions for Recommendations Not Fully Implemented
Resources and Development Management Department	First Follow-Up: Revolving Funds	2532 (for Original Audit No. 2431)	DCR: 11/3/04	I. Safeguarding Funds		7/7/05 2 nd Follow-Up Audit Due: Jan. '06	RMDM/CQA will submit <u>annual</u> reminders to other Petty cash locations for verification and updates of authorized signature(s). RDMD/CFA revised the current revolving fund check log to document the date and time of the periodic inventory and to include a signature for the supervisory review. RDMD/O&M Management will take measures to ensure individuals approving petty cash transactions will not sign the corresponding revolving fund checks. RDMD/CFA will perform reconciliations on a monthly basis and contact the Auditor-Controller before July 29, 2005 to discuss disposition of the overage.
				A. Authorized Sig. Lists/ Bank Sig. Cards	Partially Implemented		
				B. Periodic Inventories of Unused Checks	Partially Implemented		
				II. Segregation of Duties	Partially Implemented		
				III. Reconciliations			
				A. Bank Reconciliations	Implemented		
B. Fund Reconciliations	Partially Implemented						
				IV. Unauthorized Use of Revolving Funds	Implemented		
				V. Other Compliance Issues	Implemented		
Health Care Agency	First Follow-Up: Cash Receipts	2532 (for Original Audit No. 2435)	11/17/04	I. Accountability Over Cash Receipts		7/14/05 Final Close-Out Audit	
				A. Transfer of Accountability	Implemented		
				B. Check Endorsement	Implemented		
				C. Birth/Death Certificates and Burial Permits	Implemented		
				D. Record of Cash Receipts	Implemented		
				II. Segregation of Duties	Implemented		
				III. Handwritten Receipts			
A. Birth/Death Registration	Implemented						
B. Budget Technical Unit	Implemented						
C. Alcohol/Drug Abuse	Implemented						
				IV. Supervisory Reviews	Implemented		
				V. Timeliness of Deposits	Implemented		
				VI. Monitoring Cash Receipts	Implemented		

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Human Resources/ Employee Benefits	Second Follow-Up:	2533 (for Original Audit No. 2222)	DCR: 11/27/02 Initial Follow-Up Audit: 11/30/04	I. Accountability Over Cash Receipts	Implemented	8/4/05 Final Close- Out Audit	
	Cash Receipts and Cash Disbursements			II. Special Use Revolving Fund	Implemented		
Resources and Development Management Department	First Follow-Up: Purchased Utilities and Chilled Water & Steam Billing Processes	2532 (for Original Audit No. 2430)	DCR: 9/16/04	I. Process & Procedures		7/28/05 Final Close- Out Audit	
				A. Chilled Water/Steam Rates Review Process	Implemented		
				B. Purchased Utility Overhead Rate Review	Implemented		
				C. G Accounts Sharing List Updating Process	Implemented		
				II. Purchasing & Contract Utility Desk			
				A. Supervisory Review	Implemented		
				B. Cross-Training	Implemented		
Resources and Development Management Department/ Planning and Development Services	First Follow-Up: Review of Budgetary Controls (relating to Fund 113 – Building & Safety)	2548 (for Original Audit No. 2316)	2/27/03	I. Strategic Planning	Implemented	9/12/05 Final Close- Out Audit	
				II. Staffing, Projected Workload and Annual Budget	Implemented		
				III. Ownership and Accountability	Implemented		
				IV. Reviews and Approvals	Implemented		
				V. Training and Development	Implemented		
				VI. Cost Study	Implemented		
				VII. Loans from the General Fund	Implemented		
				VIII. Overhead Cost Calculations	Implemented		

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County Executive Office Auditor- Controller	First Follow-Up: Budget Process	2549 (for Original Audit No. 2342)	8/18/03	I. Budget Process Roles and Responsibilities	Implemented	9/19/05 Final Close- Out Audit	
				II. Accountability and Ownership of Budget a. Variance Threshold Limit b. Review and Sign-Offs c. Certification of Budget Projections.	a. Implemented b. Implemented c. Implemented		
				III. Detail EA Budget Briefings	Implemented		
				IV. Interaction Between Depts./Agencies and CEO/Budget Office	Implemented		
Housing & Community Services Department	First Follow-Up: Cash Disbursements and Revolving Funds	2532 (for Original Audit No. 2349)	7/15/04	I. Contract Disbursements A. Contractor Signature Lists B. Cancellation of Disbursement Docs.	A. Implemented B. Implemented	9/27/05 Final Close- Out Audit	
				II. Fiscal Monitoring (On-Site Reviews) A. Fiscal Monitoring Policy B. Fiscal Monitoring Coverage C. Equipment Purchases D. Supervisory Reviews E. Controls Over Meal Donations	A. Implemented B. Implemented C. Implemented D. Implemented E. Implemented		
				III. Revolving Funds A. Segregation of Duties B. Reconciliations C. Authorized Fund Balances D. Authorizations E. Travel Documentation F. Other Compliance and Control Issues	A. Implemented B. Implemented C. Implemented D. Implemented E. Implemented F. Implemented		

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Sheriff-Coroner	Second Follow-Up: Cash Disbursements-Trust Funds, Special Appropriation Funds, Revolving Funds and Flash Fund	2533 (for Original Audit No. 2235)	DCR: 3/4/03 Initial Follow-Up: 12/30/04	I. Revolving Fund Reconciliations	Not Implemented*	9/29/05 Final Close-Out Audit with an Open Item *	* Outlying divisions had not yet prepared monthly petty cash/revolving fund reconciliations. Financial/Administrative Services informed us that the outlying divisions will begin reconciling their petty cash revolving funds to the authorized amounts on a monthly basis beginning with the month of September 2005. Updated Status: Procedure was implemented; fund reconciliations were prepared for September 2005.
				II. Safe Combinations and Key Holders	Implemented		
				III. Cancellation of Support Documentation	Implemented		

**County of Orange Internal Audit Department
Reported Cash Losses
For the Period July 1, 2005 through September 30, 2005**

Dept./Agency & Amount of Loss	Area of Cash Loss	Cash Loss/ Audit No.	Date of Loss/ Audit Review Period	Final Report Issued	Reported Internal Control Issues

Notes:

- No cash losses were reported to the Internal Audit Department.
- The Auditor-Controller requests the Internal Audit Department to provide an opinion on the adequacy of internal controls for cash losses. Effective February 15, 2005, the Board of Supervisors approved a revision to the dollar threshold amounts pertaining to cash losses. The Auditor-Controller will request the Internal Audit Department to review cash losses that exceed \$1,000.