AOC Meeting 9/17/08, Item 4

OC Board of Supervisors'

Internal Audit Department

ORANGE COUNTY

ANNUAL OC INTERNAL AUDITOR REPORT

FOR FISCAL YEAR ENDING JUNE 30, 2008

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Our organization, Our performance

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This report

The FY 2007/2008 Annual OC Internal Auditor Report to the Board of Supervisors is designed to provide the highlights and accomplishments of the audit activities during the past fiscal year. I am pleased to report we completed a very demanding audit plan that included several special request audits for the Board of Supervisors and the Audit Oversight Committee.

The governance and accountability that the Board of Supervisors has established continues to ensure this department has the independence necessary to comply with all Governmental and Professional requirements.

Client and employee satisfaction continues to rate us highly in the areas of quality and communication.

PROVIDING FACTS AND PERSPECTIVES COUNTYWIDE

TRANSPARENCY

The Internal Audit Department reports directly to the Board of Supervisors on a monthly basis in a public forum. Additionally, the Internal Audit Department reports quarterly to the Board-appointed advisory group known as the Audit Oversight Committee. All final audit reports are provided on the IAD website.

IAD MISSION

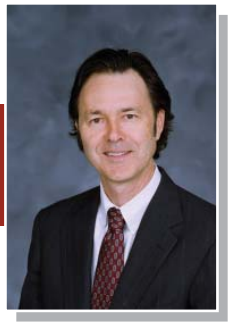
The mission of the Orange County Internal Audit Department (IAD) is to provide reliable, independent and objective evaluations of business processes to the Board of Supervisors and County management in order to assist them in making business and financial decisions and to protect and safeguard the County's resources and assets.

SPECIAL THANKS

The Internal Audit Department would like to thank the eGov team at the County Executive Office, specifically Mr. Stephen Salcido, Ms. Julie Nguyen and Ms. Grace Chou for their insights, professional services and graphics design support. The graphics design support and website maintenance provided is a valuable service. Because of the professional support services we receive from the eGov team, we are the recipients of the 2008 Bronze Website Award from the Association of Local Government Auditors.

A Message from

ORANGE COUNTY'S DIRECTOR OF INTERNAL AUDIT



Greetings,

We've had another productive year. We provided audit coverage, presence or services to twenty of the County's twenty-three departments and agencies. We completed seven (7) special requests directed by the Board of Supervisors (BOS) and Audit Oversight Committee (AOC); sixty-two (62) financial, performance measure validation, internal control, lease, and information technology audits; and (135) other audit projects and support activities for a total of (204) completed audits and audit projects for the year.

The 135 audit projects noted above include 34 quarterly and monthly reports to the BOS and AOC giving them timely and critical detailed information to act on in their decision making process and to enable them to oversee the effectiveness of the Internal Audit Department. All this achieves the accountability and transparency that the BOS is committed to.

This year we completed a very demanding audit plan that included an audit that verified the OCEA's members, and not the County, fully paid $84 million over the past 3 years for the enhanced pension benefits agreed upon in negotiations held in 2004.

We also finished several BOS and AOC directed audits of the Sheriff's Department procurements and travel expenditures and an audit of the CEO Public Finance Office which we found properly and accurately processed nearly $1 billion a year in receipts and disbursements regarding bond issuances and related disbursements.

Of particular noteworthiness this year was the honor of being held up as a Best Practice for the world community of governmental auditors by the Association of Local and Government Auditors (ALGA). Specifically, ALGA recognized our website as the third best website for advancing greater accountability and transparency in government by the timely and complete public postings of our audit reports.

Also, we are pleased to report the 2007 Employee Survey of the Internal Audit Department staff found that our employees rate very highly the management of the audit function and the effectiveness of our work place environment. This survey pulls no punches and revealed clearly that management "sets" the right tone at the top which directly translates into the ability to recruit and retain high quality professionals and to ensure the highest quality of professional service to the BOS.

As in past years, we received the full support and cooperation from all levels of County personnel and management in answering our questions, facilitating our audits, and promptly addressing our audit concerns.

It has been my pleasure to be of service to the BOS in the County of Orange.

Sincerely,

Peter Hughes

Dr. Peter Hughes CPA
Director of Internal Audit

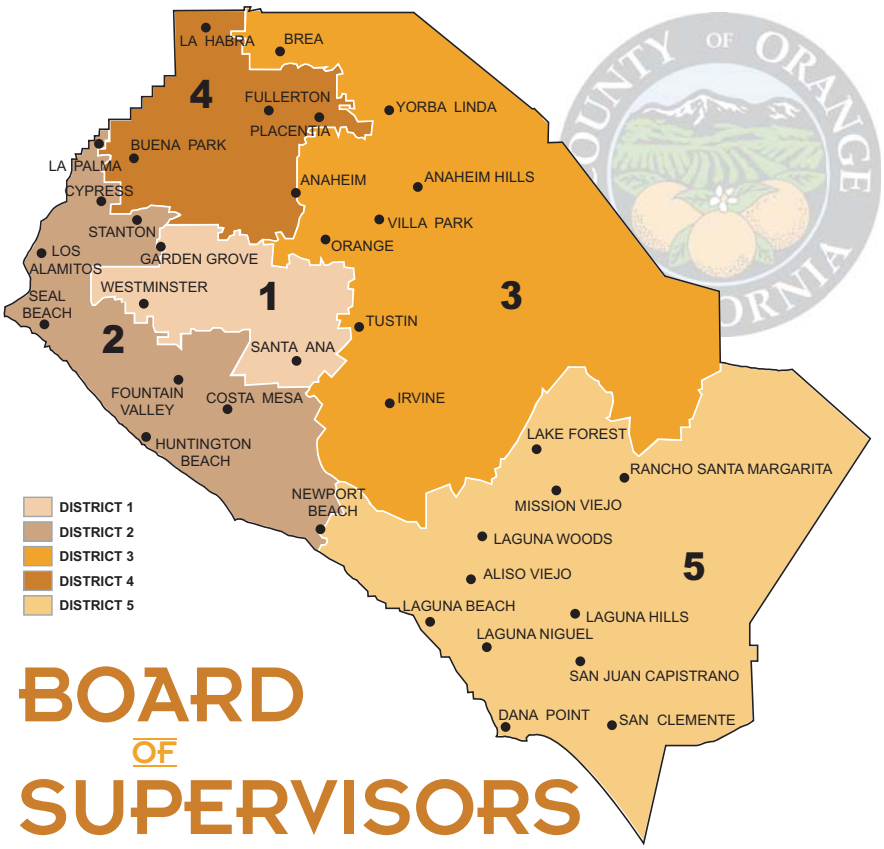
DR. PETER HUGHES

Internal Audit Director
Ph.D., MBA, CPA, CIA, CFE, CITP, CCEP

■ Find us at:
www.ocgov.com/audit

■ E-mail your comments to:
peter.hughes@iad.ocgov.com

MEET OC'S BOARD OF SUPERVISORS



BOARD OF SUPERVISORS

Supervisor
Janet Nguyen
First District

Garden Grove (portions of), Santa Ana, Westminster

Chairman
John M. W. Moorlach
Second District

Costa Mesa, Cypress, Fountain Valley, Garden Grove (portions of), Huntington Beach, La Palma, Los Alamitos, Newport Beach, Seal Beach, Stanton

Supervisor
Bill Campbell
Third District

Anaheim (portions of), Brea, Irvine, Orange, Tustin, Villa Park, Yorba Linda

Supervisor
Chris Norby
Fourth District

Anaheim (portions of), Buena Park, Fullerton, La Habra, Placentia

Vice Chair
Patricia C. Bates
Fifth District

Aliso Viejo, Dana Point, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Mission Viejo, Rancho Santa Margarita, San Clemente, San Juan Capistrano

GOVERNANCE & ACCOUNTABILITY

REPORTING STRUCTURE

BOARD OF SUPERVISORS

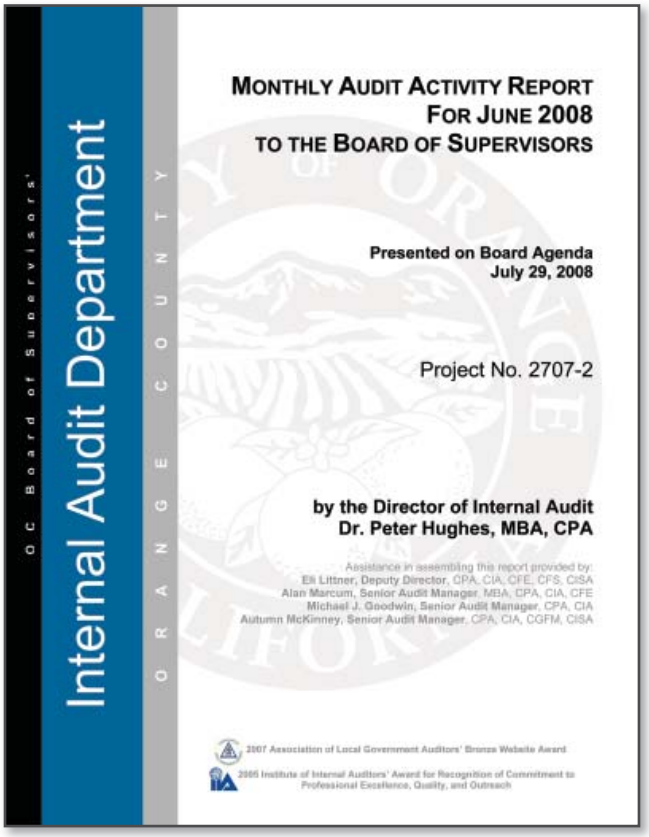
We completed 34 reports to the BOS and AOC. The Internal Audit Department reports directly to the Board of Supervisors. This reporting structure is unique because Orange County is the only county in the State of California with this reporting relationship. The BOS share in the elected responsibility and accountability for financial stewardship of the County.

We strive to meet the BOS's expectations for integrity, objectivity, and independence; and to function effectively with consistent reliability and credibility. The IAD applies professional auditing standards to all engagements. This allows us to ensure reviews and assessments of County operations are always informative, accurate, and objective.

IAD'S MONTHLY ACTIVITY REPORT TO THE BOARD OF SUPERVISORS

As a direct report to the BOS, the Director of Internal Audit submits to the BOS (in public forum) a monthly summary of all audit reports issued during the prior month. We prepared 12 monthly reports for FY 07-08.

This formal communication to the BOS allows for more detailed discussions of audit reports and issues in the public setting. The heightened level of exposure ensures the transparency of the audit process. This report identifies all audits and follow-up audits completed for the month, and a detailed description of the scope, conclusion, background, and type of recommendations. In addition, the Monthly Activity Report provides a description of any material findings that were identified in the audits.


OC Board of Supervisors'
Internal Audit Department
ORANGE COUNTY

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

Assistance in assembling this report provided by:
Eli Littner, Deputy Director, CPA, CIA, CFE, CFS, CISA
Alan Marcum, Senior Audit Manager, MBA, CPA, CIA, CFE
Michael J. Goodwin, Senior Audit Manager, CPA, CIA
Autumn McKinney, Senior Audit Manager, CPA, CIA, CGFM, CISA

2007 Association of Local Government Auditors' Bronze Website Award
2006 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach

Monthly Activity Report

GOVERNANCE & ACCOUNTABILITY (CONTINUED)

AUDIT OVERSIGHT COMMITTEE

The BOS also created the Audit Oversight Committee (AOC) to provide quarterly oversight of the progress of the Internal Audit Department in completing its annual audit plan. For the FY 07-08 quarterly AOC meetings, we prepared a total of 22 reports as follows: Quarterly Status Report (4); Quarterly Report of External Audit Coverage (4), Executive Summaries of Audit Assignments (12), and IT Briefing Reports (2).

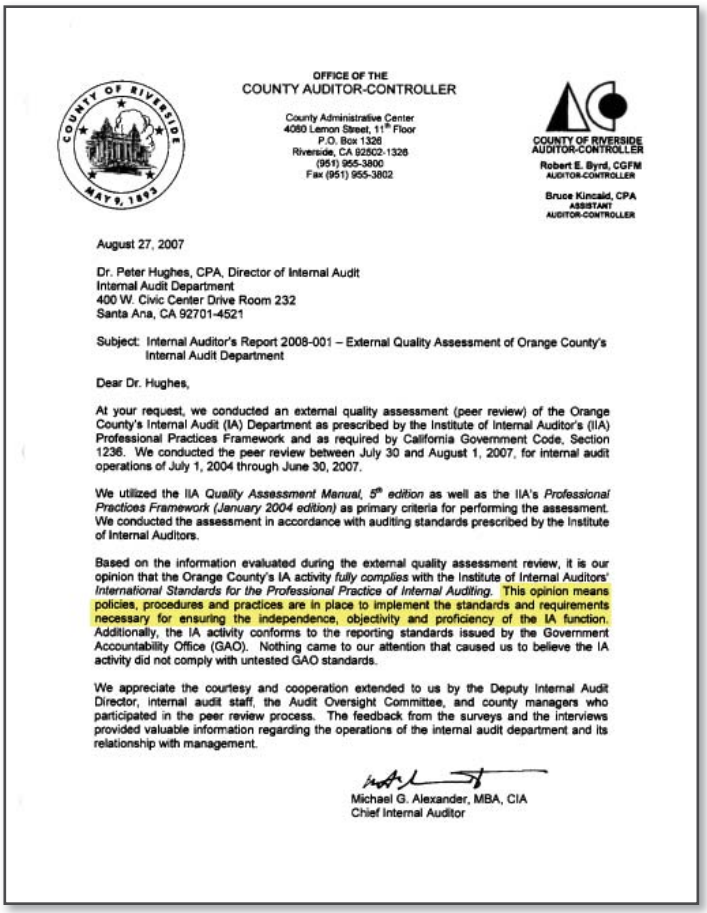
The Quarterly Status Report lists all audits, follow-up audits, and control related & other assignments, along with the budget, actual hours charged, variance between budget and actual, and milestone comments. The Quarterly External Audit Coverage reports identify external audits being conducted in the County, as reported to us by the Department/Agencies, and an executive summary which identifies the total audits in progress, planned, and completed, along with any material issues identified. The Executive Summaries of Audit Assignments provides a findings summary for audits and follow-ups. IT Briefing Reports summarize the work performed in the area of IT audits and Internal Audit's involvement with system implementations, such as CAPS+, and PTMS.

Old Orange County Courthouse

EXTERNAL QUALITY ASSESSMENT (PEER REVIEW)

Have you ever wondered who audits the Orange County Internal Audit Department? Government Code and the audit profession require that auditors be audited at least every three years. This audit is called a Peer Review or Quality Assessment. A Peer Review assesses an audit department's adherence with over 150 professional audit standards.

In August 2007, the Internal Audit Department had an External Quality Assessment conducted by the County of Riverside's Internal Audit Division and was found to fully comply with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. This opinion means policies, procedures and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function. This is the fourth Peer Review conducted for the Internal Audit Department over the past eight years where each time the Internal Audit Department received the best ratings possible by the independent Peer Reviewers.



OFFICE OF THE
COUNTY AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

COUNTY OF RIVERSIDE
AUDITOR-CONTROLLER

Robert E. Byrd, CGFM
AUDITOR-CONTROLLER

Bruce Kincaid, CPA
ASSISTANT
AUDITOR-CONTROLLER

August 27, 2007

Dr. Peter Hughes, CPA, Director of Internal Audit
Internal Audit Department
400 W. Civic Center Drive Room 232
Santa Ana, CA 92701-4521

Subject: Internal Auditor's Report 2008-001 – External Quality Assessment of Orange County's Internal Audit Department

Dear Dr. Hughes,

At your request, we conducted an external quality assessment (peer review) of the Orange County's Internal Audit (IA) Department as prescribed by the Institute of Internal Auditor's (IIA) Professional Practices Framework and as required by California Government Code, Section 1236. We conducted the peer review between July 30 and August 1, 2007, for internal audit operations of July 1, 2004 through June 30, 2007.

We utilized the IIA *Quality Assessment Manual, 5th edition* as well as the IIA's *Professional Practices Framework (January 2004 edition)* as primary criteria for performing the assessment. We conducted the assessment in accordance with auditing standards prescribed by the Institute of Internal Auditors.

Based on the information evaluated during the external quality assessment review, it is our opinion that the Orange County's IA activity *fully complies* with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. This opinion means policies, procedures and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity and proficiency of the IA function. Additionally, the IA activity conforms to the reporting standards issued by the Government Accountability Office (GAO). Nothing came to our attention that caused us to believe the IA activity did not comply with untested GAO standards.

We appreciate the courtesy and cooperation extended to us by the Deputy Internal Audit Director, internal audit staff, the Audit Oversight Committee, and county managers who participated in the peer review process. The feedback from the surveys and the interviews provided valuable information regarding the operations of the internal audit department and its relationship with management.

Michael G. Alexander, MBA, CIA
Chief Internal Auditor

EXTERNAL QUALITY ASSESSMENT (PEER REVIEW)

NEWS

ORANGE COUNTY GRAND JURY

Date March 25, 2008

700 CIVIC CENTER DRIVE WEST • SANTA ANA, CALIFORNIA 92701 • 714/834-3320
FAX 714/834-5555

BANKRUPTCY CONTROLS – GOING, GOING ...

SANTA ANA, CALIFORNIA - The 2007-2008 Orange County Grand Jury recently released a report regarding Orange County's bankruptcy controls.

The Board of Supervisors recently considered a proposal to return the Internal Audit Department to the Auditor-Controller's office – the same reporting structure held partially responsible for the County's 1994 bankruptcy. The 2007-2008 Grand Jury has concluded that the Orange County's Internal Audit Department (IAD) has the formal independence and procedures to meet both public and private internal audit standards.

The Grand Jury recommends that the Internal Audit Department remain independent and continue to report directly to the Board of Supervisors. The Grand Jury found that the current organizational reporting structure provides maximum auditor independence and reinforces Board accountability for the financial security of the County.

As a result of the bankruptcy, the Board in 1995 took steps to shield the Internal Audit Department from any potential management influence. Organizational independence of the Internal Auditor was established by having the IAD report directly to the Board and not to the Auditor-Controller.

Professional and governmental auditing standards require that internal audit organizations be free from personal, external and organizational impairments to independence in auditing matters. The office of County Counsel has concluded that the Internal Audit Department does not report to any department or office it audits. As such the IAD appears to satisfy the GAO (Government Accountability Office) standards relating to organizational independence.

The Grand Jury also recommends that the Board of Supervisors add additional members to the Audit Oversight Committee representing primary stakeholders in the County Treasury, such as one appointed by the Orange County Board of Education to represent school districts and one appointed by the Orange County League of Cities to represent cities.

The failure of the audit function in 1994 contributed to a disaster which cost the taxpayers of Orange County hundreds of millions of dollars. This tragedy may not have occurred had there been and independent system of organizational checks and balances over Treasury operations. The structure of Orange County government, prior to the Chapter 9 filing in December 1994, failed to provide the warning signs necessary to protect the County's solvency. We ignore the lessons learned from the bankruptcy at our own peril. The recent push to re-establish the audit structure existing prior to 1994 is unnecessary, untimely and unwise. The Internal Audit Department serves Orange County well and should not be tampered with.

For a full version of this report, as well as others, visit the Grand Jury website at www.ocgrandjury.org or call (714) 834-3320.

2007-2008 ORANGE COUNTY GRAND JURY

Ann Avery Andres, Foreman

Become a part of the Grand Jury process, call (714) 834-6747 for information and an application.

GRAND JURY REPORT

GOVERNANCE & ACCOUNTABILITY (CONTINUED)

GRAND JURY REPORT

Each County is required by law to impanel a Grand Jury of up to 23 members, to serve for a term of one year and is mandated to investigate and report on civil and criminal matters within the county. The civil or "watchdog" responsibilities of the grand jury include the examination of all aspects of county government, to ensure the county is being governed honestly and efficiently and county monies are being handled appropriately.

The new Orange County Grand Jury meets with the OC Internal Audit Department starting each fiscal year. They meet with the Director to gain an understanding of the audit services we provide and how the annual risk assessment and annual audit plan is developed. On occasion, members of the Grand Jury will attend the quarterly Audit Oversight Committee meetings to observe them in public forum.

On March, 25, 2008, the 2007-2008 Orange County Grand Jury in their report titled "*Bankruptcy Controls – Going, Going…*" concluded that the Internal Audit Department should remain independent and continue to report directly to the Board of Supervisors, and that the current organizational reporting structure provides maximum auditor independence and reinforces the Board of Supervisors' accountability for the financial security of the County.

INTERNAL AUDIT NOTEWORTHY NEWS

ASSOCIATION OF LOCAL GOVERNMENT AUDITORS (ALGA) BRONZE WEBSITE AWARD FOR OC INTERNAL AUDIT DEPARTMENT

In the first inaugural year of the ALGA Website Awards, the Internal Audit Department was awarded the ALGA Bronze Website Award for its informational and user-friendly audit website (http://www.ocgov.com/audit). ALGA is a national association dedicated to promoting and advancing the audit profession, and as part of this effort ALGA presents audit awards to various governmental audit departments for their achievements in governmental auditing. The OC Internal Audit Department supports transparency to Orange County and its citizens as well as the public at large. As such, we created and continue to maintain a website that supports this philosophy. Our website is friendly, inviting, easily found, easy to navigate, current (updated monthly), and discloses all critical aspects of our function in a logical manner including:

- All audit reports issued.
- Annual audit plans and risk assessments.
- Annual business plans and annual reports of accomplishments.
- Mission statement, charter, and organization chart. Audit staff directory and contact information.
- Audit Oversight Committee (agendas, minutes, bylaws, policies, and committee membership).
- Peer Review results.
- Educational material in the areas of internal controls and ethics/compliance.
- Description of core audit activities (i.e., types of audits) that include additional links to reference material for internal controls including information technology.

Association of Local Government Auditors

2008 Website Award

BRONZE

The National Association of Local Government Auditors hereby presents this award to

Internal Audit Department, County of Orange, California

for its Website www.ocgov.com/audit

George McGowan, President of ALGA, 2007-08

Presented at the 2008 Annual Conference of the Association of Local Government Auditors
May 19, 2008
Philadelphia, Pennsylvania

- Audit programs, internal control questionnaires, and segregation of duties checklists for County departments' use (i.e., self-assessment) in the areas of cash receipts, cash disbursements, trust funds, and revolving funds.

In addition to a user-friendly menu on the left side of the homepage, our homepage includes different colored "boxes" that provide easy links to areas of importance, including our Fraud Hotline and recent articles written by Dr. Peter Hughes, Director of Internal Audit. The Fraud Hotline aspect of our website is noteworthy in that we have implemented an online fraud reporting form that is configured for anonymous submissions.

IN 2005

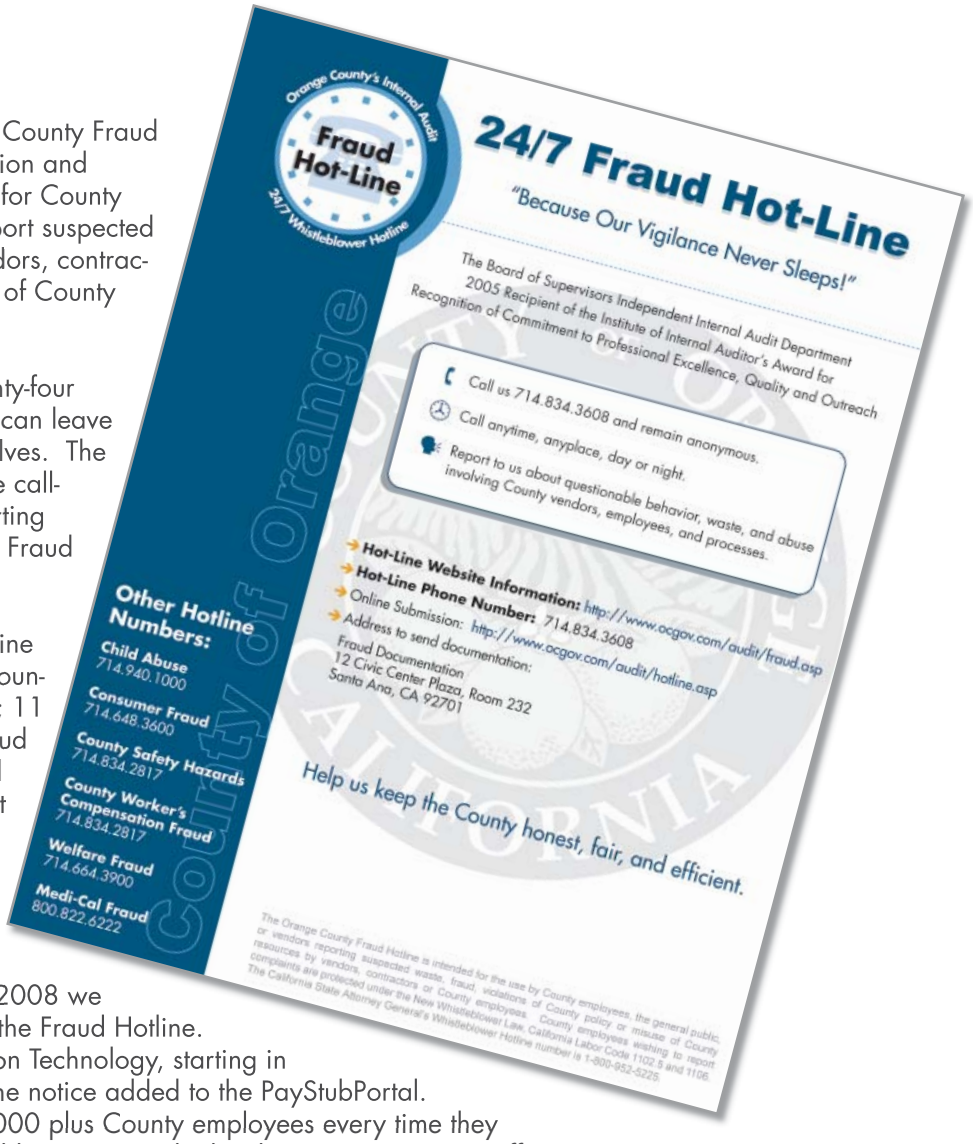
The Internal Audit Department has received the highly prestigious "Recognition of Commitment" to professional excellence, professional quality, and outreach from the Institute of Internal Auditors (IIA). On behalf of the OC Board of Supervisors and the Internal Audit Department, Dr. Hughes was presented with a plaque at the IIA's International Conference on July 12, 2005 in Chicago.

FRAUD HOTLINE

The IAD established and runs the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. The Hotline is intended for County employees, vendors, and the public to report suspected fraud, misuse of County resources by vendors, contractors, or County employees, and violations of County policy.

The Hotline is monitored live for calls twenty-four hours a day, seven days a week. Callers can leave anonymous information or identify themselves. The Hotline telephone system also provides the callers with a list of Hotline numbers for reporting frauds that are not handled by the County Fraud Hotline, such as welfare fraud.

In FY 2007/2008, we processed 62 Hotline incidents: 30 incidents were referred to County departments/agencies for investigation; 11 incidents were referred to the Welfare Fraud Hotline for investigation, 16 were referred to outside agencies, and 5 had insufficient information to investigate. To date, one of the 30 incidents referred to County departments/agencies for investigation remains open.


Orange County's Internal Audit
Fraud Hot-Line
24/7 Whistleblower Hotline

24/7 Fraud Hot-Line

"Because Our Vigilance Never Sleeps!"

The Board of Supervisors Independent Internal Audit Department
2005 Recipient of the Institute of Internal Auditor's Award for Recognition of Commitment to Professional Excellence, Quality and Outreach

Call us 714.834.3608 and remain anonymous.
Call anytime, anyplace, day or night.
Report to us about questionable behavior, waste, and abuse involving County vendors, employees, and processes.

Hot-Line Website Information: http://www.ocgov.com/audit/fraud.asp
Hot-Line Phone Number: 714.834.3608
Online Submission: http://www.ocgov.com/audit/hotline.asp
Address to send documentation:
Fraud Documentation
12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Help us keep the County honest, fair, and efficient.

County of Orange

Other Hotline Numbers:
Child Abuse 714.940.1000
Consumer Fraud 714.648.3600
County Safety Hazards 714.834.2817
County Worker's Compensation Fraud 714.834.2817
Welfare Fraud 714.664.3900
Medi-Cal Fraud 800.822.6222

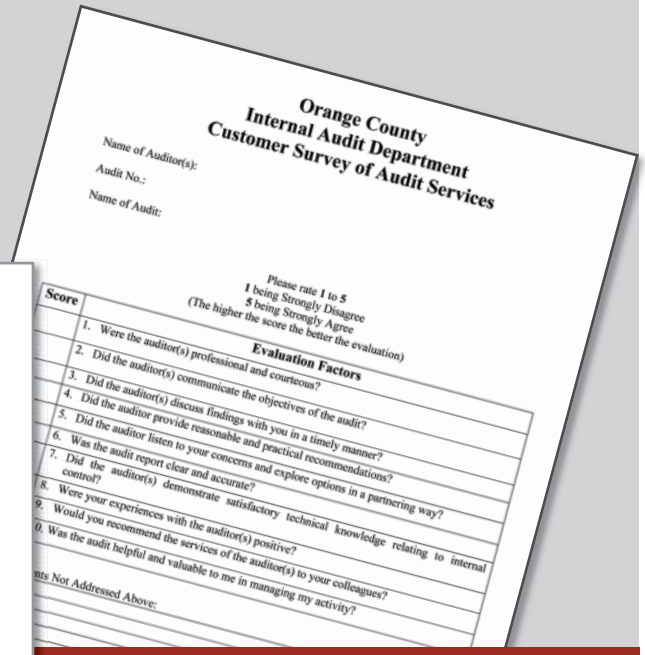
The Orange County Fraud Hotline is intended for the use by County employees, the general public, or vendors reporting suspected waste, fraud, violations of County policy, or misuse of County resources by vendors, contractors or County employees. County employees wishing to report complaints are protected under the New Whistleblower Law, California Labor Code 1102.5 and 1106. The California State Attorney General's Whistleblower Hotline number is 1-800-952-5225.

Hotline Enhancements: In FY 2007/2008 we enhanced the visibility of the existence of the Fraud Hotline. Working with Auditor-Controller Information Technology, starting in July 2008, we had the below Fraud Hotline notice added to the PayStubPortal. This Hotline notice will appear for all 18,000 plus County employees every time they view their pay checks (stubs) online. In addition, we worked with County Executive Office to post in the CEO's County Connection in August 2008 the same notice for the Fraud Hotline.

Orange County's Internal Audit
Fraud Hot-Line
24/7 Whistleblower Hotline
(714) 834-3608

ORANGE COUNTY'S INTERNAL AUDIT DEPARTMENT FRAUD HOTLINE

- If you suspect fraud, waste or abuse of County resources call the OC Internal Audit Department Fraud Hotline at (714) 834-3608.
- We take calls or emails 24/7.
  Our site is http://www.ocgov.com/audit
- You can call or email us anonymously and you are given Whistleblower protection under California Law.



Orange County
Internal Audit Department
Customer Survey of Audit Services

Name of Auditor(s):

Audit No.:

Name of Audit:

Please rate 1 to 5
1 being Strongly Disagree
5 being Strongly Agree
(The higher the score the better the evaluation)

Score	Evaluation Factors
	1. Were the auditor(s) professional and courteous?
	2. Did the auditor(s) communicate the objectives of the audit?
	3. Did the auditor(s) discuss findings with you in a timely manner?
	4. Did the auditor provide reasonable and practical recommendations?
	5. Did the auditor listen to your concerns and explore options in a partnering way?
	6. Was the audit report clear and accurate?
	7. Did the auditor(s) demonstrate satisfactory technical knowledge relating to internal control?
	8. Were your experiences with the auditor(s) positive?
	9. Would you recommend the services of the auditor(s) to your colleagues?
	0. Was the audit helpful and valuable to me in managing my activity?

nts Not Addressed Above:

Customer Surveys on Audit Services

4.9 on a scale of 5

Client satisfaction is also one of Internal Audit's Key Performance Measures in its Annual Business Plan. Our goal for FY 2007/2008 was to obtain an average client satisfaction rating of "4" on a scale of 1 through 5. We are pleased to report our actual results for FY 2007/2008 showed an almost perfect average rating of 4.9, which demonstrates high client satisfaction with audit services.

Client Satisfaction

Quotes from FY 2007/2008 Customer Surveys:

"The auditor is always professional and thorough and works to understand the auditee's process. She made practical recommendations which can be realistically implemented." ***- Auditor-Controller Claims & Disbursing***

"We appreciate the auditors' professionalism and courtesy extended during their field audit. Thank you!" ***- District Attorney Financial Services***

"Our auditor acted professionally at all times. He did a good job of communicating any findings to us." ***- Housing & Community Services Department***

"Internal Audit Department worked with DPHD collaboratively and positively." ***- Dana Point Harbor Department***

"The Internal Audit staff is always courteous and professional. They offer constructive criticism and offer appropriate advice." ***- Public Defender Administrative Services***

AUDIT RECOMMENDATIONS

The Internal Audit Department tracks all audit recommendations made since 2003, including counts of audit recommendations, types of recommendations (e.g., material weakness, significant issue, control finding, or efficiency/effectiveness issue); management concurrence; implementation status of audit recommendations as determined in our Follow-Up Audits, and percentage of audit recommendations that were followed-up.

OUTCOME

2007-2008 Results

- **Recommendations Made: 103** recommendations were made in FY 2007/2008.
- **Types of Recommendations:** Of the 103 recommendations made during FY 2007/2008, we identified **19 Significant Issues** and **84 Control Findings** including compliance issues and efficiency or effectiveness issues.
- **Management Concurrence:** For each audit recommendation, management submits responses to Internal Audit that includes their concurrence of audit findings and recommendations, implementation plans, and implementation dates. **OF THE 103 RECOMMENDATIONS MADE DURING FY 2007/2008, 102 (99%) HAD FULL MANAGEMENT CONCURRENCE** and **1** (1%) **had partial management concurrence.**
- **Implementation Status:** Follow-Up Audits are performed at 6 months and, if necessary at 12 months following the issuance of all final audit reports to verify the implementation status of audit recommendations. Because of the 6 and 12 month Follow-Up Audit period, we do not yet have implementation status for all audits conducted in FY 2007/2008.

Since 2003

Recommendations Made:

Between January 2003 and June 2008, Internal Audit made **915** audit recommendations.

Type of Recommendations:

There was **1** Material Weakness (**.1%**), **41** Significant Issues (**4.5%**), and **873** Control Findings (**95.4%**) including compliance issues or efficiency/effectiveness issues.

Management Acceptance/ Concurrence:

OF THE 915 AUDIT RECOMMENDATIONS, WE OBTAINED FULL OR PARTIAL MANAGEMENT CONCURRENCE ON 99% OF THE RECOMMENDATIONS.

Implementation Status:

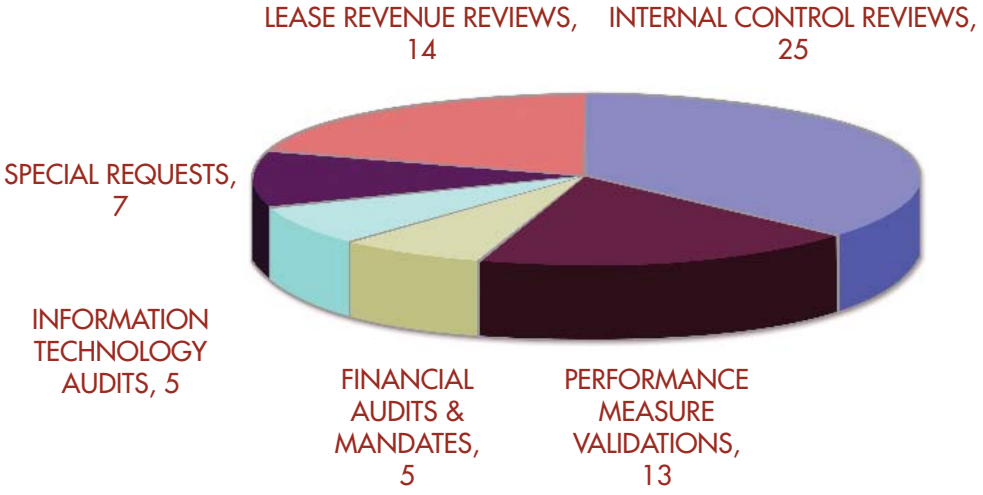
Follow-Up Audits are performed to verify the implementation status of audit recommendations. Since January 2003, we have followed-up on 704 audit recommendations. **OF THE 704 RECOMMENDATIONS, 99% WERE VERIFIED AS FULLY IMPLEMENTED AND/OR CLOSED AS FOLLOWS:**

- **618** recommendations (**88%**) were implemented or closed by the First Follow-Up Audit.
- **80** recommendations (**11%**) were implemented or closed by the Second Follow-Up Audit.
- **6** recommendations (**1%**) were pending implementation or not followed up due to extenuating circumstances.

FY 2007/2008 DETAILED ACCOMPLISHMENTS

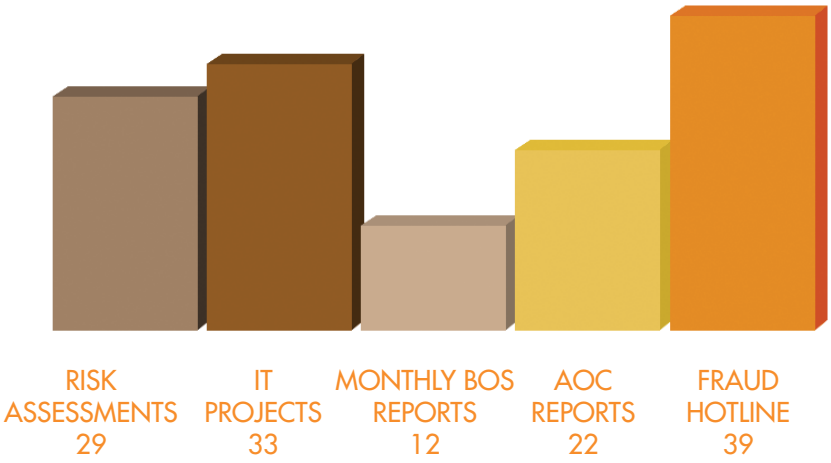
69 AUDITS COMPLETED

Our "Audits Completed" count represents the completed audits from the FY 2007-08 Audit Plan, which was developed based upon our annual Risk Assessment and approved by the Audit Oversight Committee.



135 AUDIT PROJECTS COMPLETED

Our "Audit Projects Completed" represents various reports and projects generated for purposes of planning, risk assessment, fraud hotline management, performing computerized auditing routines, and preparing reports to the Board of Supervisors and Audit Oversight Committee for governance and accoutability over the Internal Audit function.



COUNTYWIDE RISK ASSESSMENT

We completed 29 Risk Assessments. Internal Audit conducts a comprehensive, interactive countywide Risk Assessment for purposes of establishing the annual Audit Plan. The Risk Assessment consists of a **General Risk Assessment** for critical business processes common throughout the County (e.g., cash receipts and disbursements, receivables and payables, purchasing and contract administration, payroll, budgets, etc.) and an **Information Technology Inventory and Assessment** where key systems are identified and rated as to levels of risk. The Risk Assessment includes reviews of Business Plans; meetings with the Board of Supervisors and the County Executive Office; and meetings and/or correspondence with departments/agencies to obtain their input on risks affecting their respective areas. **For FY 2007/2008, we completed risk assessments for all twenty-three (23) departments/agencies, five (5) Board Offices, and one (1) comprehensive risk assessment for Information Technology.**

SPECIAL REQUESTS

We completed 7 special requests. During FY 2007/2008, Internal Audit performed the following special requests resulting from requests by the Board of Supervisors and/or the Audit Oversight Committee:

1. Audit of Cost Allocations for OCEA Pension Enhancements. 1 audit completed. At the request of the Board of Supervisors and the Audit Oversight Committee, we conducted an audit of the source of funding for the 2004 OCEA pension enhancements (the "2.7% @ age 55" benefit formula) to determine if members' additional retirement contributions and related health insurance cost savings under the OCEA contracts of 2004 fully and accurately covered the cost of the pension enhancements for Fiscal Years 2005-06, 2006-07 & 2007-08.

2. Audit of Sheriff-Coroner Administration Expenditures and Procurements. 4 audits completed. At the direction of the Audit Oversight Committee, we conducted audits of Sheriff-Coroner Administration's revolving fund expenditures and travel expenditures; purchasing card (Cal Card) expenditures; and sole source procurements for compliance with County policy. We also issued two Audit Alerts to CEO/Purchasing resulting from our audit of the Sheriff-Coroner Cal Cards and Sole Source Procurements.

3. Audit of Sheriff-Coroner DMJM H&N Contracts and Contract Management Process. 1 audit completed. At the direction of the Board of Supervisors, we audited the Sheriff-Coroner contracts with DMJM H&N and the Architect-Engineering contract management process for internal controls, compliance with County and Sheriff-Coroner policy, and to recommend opportunities to implement best practices.

4. County of Orange Strategic Focus Planning Process. 1 project completed. In 2006 the County of Orange Board of Supervisors identified the need for a County-wide Strategic Planning effort and launched the County-wide Strategic Focus Planning Process. The Strategic Focus Planning Process has been implemented under the direction of CEO Thomas G. Mauk, CFO Robert J. Franz, and the Strategic Focus Steering Committee.

IAD continued its participation in the Strategic Focus Planning process in FY 2007/2008 by providing assistance with the Strategic Focus Summit #2 conducted on August 7, 2007. Our assistance included developing and conducting a computerized survey for the scheduled participants to rank by level of importance the Great Goals; capture notes to provide a basic overview of the Summit; and prepare a Countywide Strategic Focus Status Report as of November 20, 2007.

INTERNAL CONTROL REVIEWS

We completed 25 Audits. ICR's are audits that determine whether controls and processes are in place over critical business processes, and include an evaluation of the adequacy and integrity of internal controls; compliance with department and county policies, and evidence of process efficiencies and effectiveness. Some of the ICRs include audits of multiple areas, issues and activities. For example, one audit report may address contract administration and related vendor payments. Our audit count is based on the number of audit reports issued for each audit assignment. We performed the following ICRs during FY 2007/2008:

1. Treasurer-Tax Collector's Interest Apportionment Process – 1 audit completed. The Interest Apportionment Process is a centralized and core business Treasurer-Tax Collector process that has countywide financial impact, and was related to the County bankruptcy. The process involves the accounting and distribution of $317 million in annual interest earnings from the County's $6.1 billion investment pools.

2. Auditor-Controller Claims & Disbursing – 4 audits completed. A/C Claims & Disbursing is a centralized, core business process with countywide impact. We audited the Educational and Professional Reimbursement Process; Mileage and Other Expenses Reimbursement Process; Vendor Payment Process, and identified issues concerning employee Social Security numbers used in Claims & Disbursing's reports and systems.

3. County Executive Office/Public Finance Accounting – 1 audit completed. We audited internal controls and processes over cash receipts, cash disbursements, and selected department/trust funds, where over $500 million was received and $541 million was disbursed during FY 2006/2007.

4. Clerk-Recorder Cash Receipts - 1 audit completed. We audited internal controls and processes at the South County Branch Office, which opened in February 2006, and where over $927,000 in cash receipts were received between April 2007 and March 2008.

5. Housing & Community Services Department – Housing Choice Voucher Program Payments – 2 audits completed. We audited internal controls and selected system controls over the disbursement of approximately $89 million in housing assistance payments. In addition, we issued a separate "Audit Alert" to the Deputy CEO/ Chief Information Officer (CIO) concerning the transmission of payment data to the bank requiring opening all County ports to allow the transmission to occur.

6. Probation Bi-Weekly Payroll Process – 1 audit completed. We audited the adequacy and integrity of internal controls; compliance with applicable rules and County policies; and process efficiencies and effectiveness over Probation Department's processing of over $128 million in bi-weekly payroll.

7. Special Report on Virtual Timesheet Interface (VTI): Access to Employee Social Security Numbers – 1 audit completed. In our audit of the bi-weekly payroll process and the Virtual Timecard Interface (VTI) system, an issue was identified concerning access and confidentiality of employee Social Security numbers. This was reported to Auditor-Controller/Information Technology who took immediate corrective action to mask employee Social Security numbers used in systems and reports.

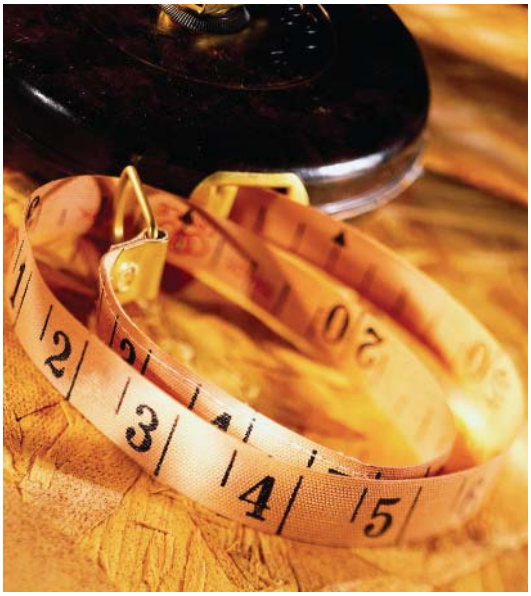
8. Sheriff-Coroner Contract Administration and Cash Disbursements - 1 audit completed. We audited internal controls in Sheriff-Coroner Facilities Operations and South Operations to evaluate the adequacy of contract monitoring and contract payment processes for approximately $3 million in Price Agreements and Purchase Orders administered at these divisions.

9. Follow-Up Audits of Internal Control Reviews - 13 Follow-Up Audits completed. Follow-Up Audits are necessary to ensure that audit recommendations are implemented satisfactorily. We perform our First Follow-

Up Audit six months from the date of the original audit report. If any items are not fully implemented, a second Follow-Up Audit is conducted 12 months from the date of the original audit report. The Audit Oversight Committee is notified of any recommendations not fully implemented after our second Follow-Up Audit. We conducted Follow-Up Audits in the following areas: **Auditor-Controller** Central Payroll, **CEO**/Purchasing Cal Card Administration, **Health Care Agency** Payroll, **Integrated Waste Management Department** Contract Administration, **John Wayne Airport** Cash Disbursements, **Probation** Revolving Fund, **Resources & Development Management Department** Contract Administration, **Sheriff-Coroner** Contract Administration, and **Social Services Agency** Accounts Receivable & Collections, and Revolving Funds.

PERFORMANCE MEASURE VALIDATIONS

Completed 13 Audits. In 2005 we added a new audit area called Performance Measure Validation Audits (PMV) to our Audit Plan. These audits validate the performance measure results reported by the County departments in their annual business plans. We completed thirteen PMVs: seven audits and six follow-up audits. Audits were completed in the following departments: **Clerk of the Board**; **County Counsel**; **Human Resources**; **Integrated Waste Management**; **Internal Audit**; **Public Defender**; and **Treasurer-Tax Collector**. Follow-up audits were completed in the following departments: **Public Library**; **Registrar of Voters**; **Health Care Agency**; **Housing and Community Services**; **Social Services Agency**; and **Resources and Development Management Department**. An example of the type of performance measures tested include such measures as the County Counsel – Percentage of clients rating litigation support as satisfactory or better in terms of quality and responsiveness. We tested a total of 34 performance measures for the seven departments audited.



FINANCIAL AUDITS & MANDATES

Completed 5 Audits. In these audits we determined that the financial statements are fairly stated in accordance with applicable professional standards, financial statements are supported by sound internal controls, and that management complied with applicable laws, regulations, and grant requirements. These audits are conducted in accordance with generally accepted auditing standards of the United States of America, and/or Government Auditing Standards issued by the Comptroller General of the United States.

We completed by 6/30/08, all financial and mandated audits listed in the 2007/2008 Audit Plan on schedule as follows:

- District Attorney Auto Insurance Fraud Grant audit.
- District Attorney Workers' Compensation Fraud Grant audit.
- District Attorney Spousal Abuser Prosecution Grant audit.
- District Attorney Health & Disability Insurance Fraud Grant audit.
- Follow-Up Audit of the Tax Redemption Officer

INFORMATION TECHNOLOGY (IT) AUDITS

We completed 5 audits and 33 projects. In these audits, we review controls in a variety of information technology areas including general controls, application controls, and system developments. We performed work in the following IT audit areas during FY 2007/2008:

1. CAPS+ Implementation Assistance:
We completed 4 projects as described below:

- **CAPS+ MOU:** We developed a written MOU for our assistance on the CAPS+ Implementation Project that was accepted by the CAPS Steering Committee. Our role is to review and provide feedback on the various Internal Control Plans developed by the Project Implementation Team to ensure processes contain appropriate internal controls. The focus of our reviews will be in four areas: proper segregation of duties; appropriate reviews and approvals; audits trails related to preservation of source documents and recording of reviews and approvals; and sound account reconciliations.

- **CAPS+ Audit Alert No. 1:** We issued a CAPS+ Audit Alert No. 1 that addressed the completeness of written strategies for developing and documenting comprehensive key procedures and internal controls for the new CAPS+ system and related processes.

- **CAPS+ Audit Alert No. 2:** We issued a CAPS+ Audit Alert No. 2 that recommended the CAPS Steering Committee continue to make the Independent Verification & Validation (IV&V) contract a high priority and ensure that an IV&V firm is engaged as soon as possible.

- **CAPS+ Internal Controls Training Class:** As requested by management of the CAPS+ Implementation Project, we provided an internal controls training class to 35 members of the CAPS+ Implementation Project functional teams.

2. PTMS Implementation Assistance:
We completed 2 projects as described below:

- **PTMS MOU:** We developed a written MOU for our assistance on the PTMS Implementation Project that was accepted by the Property Tax Administration Departments (Auditor-Controller, Treasurer-Tax Collector, and Clerk of the Board). Our role is to review and provide feedback on selected policies and procedures developed by the PTMS Project Implementation Team to ensure processes contain appropriate internal controls. The focus of our reviews will be in four areas: proper segregation of duties; appropriate reviews and approvals; audits trails related to preservation of source documents and recording of reviews and approvals; and sound account reconciliations.

- **PTMS Audit Alert No. 1:** We issued a PTMS Audit Alert No. 1 that communicated the need to evaluate Independent Verification and Validation (IV&V) services for the PTMS Implementation Project.

3. ATS Reengineering Project:
We completed 1 project as described below:

- **ATS Audit Alert No. 1:** We issued an ATS Audit Alert No. 1 that communicated the need to evaluate Independent Verification and Validation (IV&V) services for the ATS Reengineering Project.

4. IT Component of ICRs: Occasionally, the Internal Control Reviews (ICRs) may include a limited review of selected IT controls. We completed 2 ICRs with IT components, resulting in 3 IT Audits as described below:

- **Housing and Community Services**: Housing Choice Voucher Program Payments. We performed an internal control review of the Housing Choice Voucher Program which annually disburses $89 million in payments. The audit included a high-level IT review of the Housing Pro system used to disburse the payments. IT Findings were in the areas of: IT risk assessment, security planning, business continuity, and a related network security issue reported in a separate audit alert to the CIO.

- **Audit Alert to CEO/IT:** During the above audit of housing payments, we were informed that when HCS transmits its payment data electronically to its bank, CEO/IT must open all County ports to allow the transmission to occur. We issued a separate "Audit Alert" to communicate this network security risk to the CIO. The CIO took immediate steps to mitigate and correct the issue.

- **Special Report on Virtual Timesheet Interface:** During our internal control review of the Auditor-Controller's Central Payroll Processes, we identified an issue concerning user access and confidentiality of employee Social Security numbers in the Virtual Timecard Interface (VTI) system and issued a separate report. The Auditor-Controller responded that it took corrective action on the vulnerabilities.

5. Follow-Up of IT Audits:
We completed 2 IT Follow-Up Audits as described below:

- First Follow-Up Audit for the Auditor-Controller/IT Review of Accounts Receivable/Collections (CUBS System)

- Second Follow-Up Audit of the IWMD/LIST Implementation Review.

BEST PRACTICE BY OC IAD
OC IAD is one of the few counties to have developed an ongoing CAAT Program.

6. Computer Assisted Audit Techniques (CAATs):
We completed 26 projects in this category. We use a proprietary, state-of-the-art/best practice software product to help us analyze data for payroll and vendor payments. The audit work is commonly known as Computer Assisted Audit Techniques (CAATs). We perform the following CAAT routines on a regular basis:

- **Duplicate Vendor Payments:** We conducted 12 monthly computer routines to identify potential duplicate vendor payments. Since the inception of this routine in May 2002, duplicate payments identified are $729,806 and amounts recovered are $711,883, for a recovery rate of about 98%.

- **Deleted Vendors:** We performed 12 monthly routines to identify vendors deleted or removed from the Vendor Master List.

- **Working Retirees/Extra Help Hours:** We reviewed available working retiree activity reports to identify retirees who exceed hour limits for FY 2006/2007.

- **Annual Risk Assessment:** We performed several CAAT routines to obtain financial information (transaction amounts and activity) that we utilize in the annual risk assessment. For example, we compile cash receipt activity by the department that processed the cash receipt rather than by the department/fund where the money was deposited (some departments process monies for other departments).

"The Wedge" Newport Beach
William Nelson, Sheriff/Harbor Patrol

LEASE REVENUE REVIEWS

The importance of the lease audits is underscored by the fact that in over a decade, the 8 lease/concession agreements we audited in FY 2007/2008 will generate $38 million for the County.

We completed 8 Reviews of Lease Revenue as listed below. In these reviews, we audit to determine if all revenues due to the County are properly calculated, recorded, and received. These reviews are requested annually by **John Wayne Airport** (JWA), **OC Dana Point Harbor Department** (DPHD), **OC Public Works** (OCPW), and **OC Parks**.

The below lease/concession agreements generate approximately $30.9 million annual gross receipts and $3.8 million annual revenue to the County. The overarching purpose of the audits is to provide independent assurance that the revenue due the County is received in accordance with the agreements. As a result of this "due diligence," we identified approximately $162,000 in additional revenue and audit costs owed for the below lease/concession agreements. As the average term of the agreements can range from 10 to 40 years, the additional revenue we identified will result in additional ongoing revenue over the life of the agreements.

- JWA/Thrifty Car Rental
- JWA/GAT Airline Ground Support
- JWA/Creative Croissants
- OC Parks/Riverview Golf Course
- OC Parks/Lake Forest Golf & Practice Center
- OC Parks/David L. Baker Golf Course
- OC Parks/Sunset Aquatic Marina
- OC Parks/Strawberry Farms Golf Club

Follow-Up Audits for Reviews of Lease Revenue:
We completed 4 First Follow-Up Audits and 2 Second Follow-Up Audits as listed below:

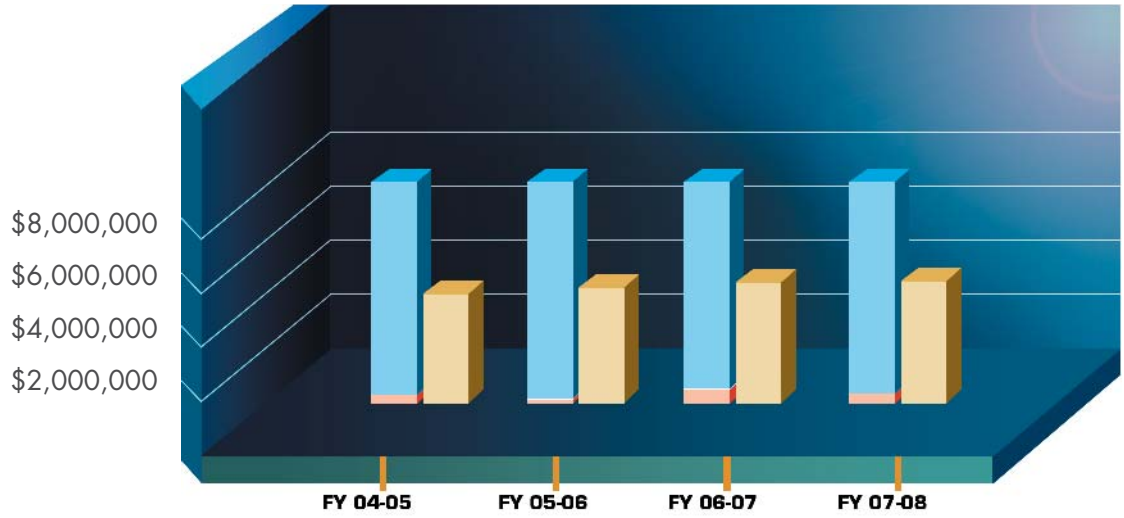
First Follow-Up Audits:

- JWA/Hertz Rent A Car
- JWA/Newport Beach Golf Course
- OCPW/Parking Concepts Inc.
- OC Parks/Science Enrichment Services

Second Follow-Up Audits:

- OC Parks/Newport Dunes Waterfront Resort
- DPHD/Dana Point Marina Inn

ACTUAL AND POTENTIAL REVENUE RECOVERY



	FY 04-05	FY 05-06	FY 06-07	FY 07-08
Dana Point Harbor Audit Added Revenue (2)	$6,250,000	$6,250,000	$6,250,000	$6,250,000
Other IAD Revenue Recovery (1)	$242,758	$103,557	$400,381	$290,909
IAD Operating Budget	$2,462,510	$2,634,701	$2,940,767	$2,973,741

(1) While not our predominate objective, the OC Internal Audit Department audits and reviews for revenue recoveries whenever the opportunity presents itself. We look for under-recovered revenues as a critical component of assisting management in safeguarding the County's assets. We conduct several audits of businesses contracted by agencies such as John Wayne Airport, OC Public Works, OC Parks, and the OC Dana Point Harbor to ensure all revenues due to the County are properly calculated and received. In addition, we audit to determine if any double payments to vendors have been mistakenly made.

As noted in prior year annual reports, for the past 4 years, average revenue recoveries represent 9.4% of our annual budget excluding OC Dana Point Harbor, and over 200% including OC Dana Point Harbor.

OC DANA POINT HARBOR

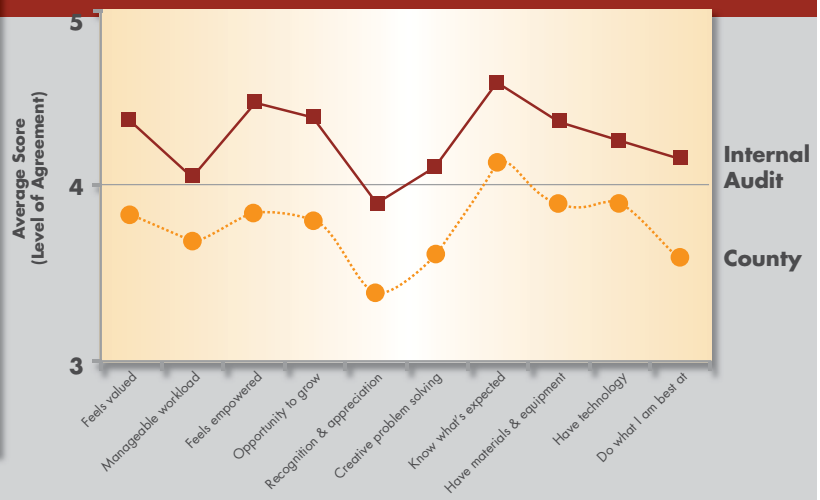
(2) Our greatest achievement to date has been the Board of Supervisors' adoption of the Internal Audit Department's recommendation to retain Dana Point Harbor as a County-owned harbor operation. This decision is estimated to result in the County recovering, at a minimum, an additional $250 million over 40 years on behalf of the taxpayers.

Employee Satisfaction

4.19 on a scale of 5

Employee satisfaction is one important factor to our department success. The Internal Audit Department staff rated their department 4.19, which is significantly higher than the County average of departments in almost every area of management, workplace environment and job satisfaction.

LEVEL OF AGREEMENT WITH STATEMENTS 1-10 FOR INTERNAL AUDIT EMPLOYEES COMPARED TO COUNTY EMPLOYEES



POSITIVE RESULTS

It is pleasing to see that our commitment to good management bears positive results. Particularly noteworthy results from the 2007 County of Orange Employee Survey are the relative high ratings received for seven critical indicators of our success in providing innovative, high quality, responsive, collaborative and cost effective internal audit services to the Orange County. These areas are as follows:

1. Communications throughout the Department are open, honest and direct.
2. Management and staff collaborate effectively with other County agencies and departments.
3. All members of the Department are committed to doing quality work.
4. Everyone is encouraged to find new ways to improving our services.
5. Different ideas and perspectives are welcomed in the Department.
6. Everyone is encouraged to work together.
7. Everyone is encouraged to explore creative ways to solve problems.

INTERNAL AUDIT DEPARTMENT PROFESSIONAL STAFF

Director, Dr. Peter Hughes, Ph.D., MBA, **CPA**, CIA, CFE, CITP, CCEP
Deputy Director, Eli Littner, **CPA**, CIA, CFE, CFS, CISA

Senior Audit Manager, Michael Goodwin, **CPA**, CIA
Senior Audit Manager, Alan Marcum, MBA, **CPA**, CIA, CFE, CISA
Senior Audit Manager, Autumn McKinney, **CPA**, CIA, CISA, CGFM
Audit Manager, Lily Chin, **CPA**
Audit Manager, Michael Dean, **CPA**, CIA, CCSA, CISA
Audit Manager, Camille Gackstetter, **CPA**
Audit Manager, Nancy Ishida **, **CPA**, CIA, CCSA, CISA
Audit Manager, Winnie Keung, **CPA**, CIA
Audit Manager, Carol Swe, **CPA**, CIA, CCSA, CISA
Audit Manager, Kenneth Wong, **CPA**, CIA
Senior Auditor, Lisette Free, **CPA**
Senior Auditor, Abdul Khan, **CPA,** CIA
Senior Auditor, Susan Nestor, **CPA**, CIA
Senior Auditor, Gerardo Saucedo**, **CPA**, CIA, CISA

** Recently separated for promotional opportunities or retirement.

ADMINISTRATIVE STAFF

Administrative Manager, Vangie Ortiz**
Executive Assistant, Renee Aragon
Staff Specialist, Maribel Garcia

A special recognition to our retiree **Vangie Ortiz** for her 33 years of service to the County. She is valued and appreciated for her hard work. Her contributions to the Internal Audit Department over the last 10 years were invaluable to our success. We wish her much happiness in her retirement.

CERTIFICATION LEGEND

CPA Certified Public Accountant	CIA Certified Internal Auditor	CCSA Certification in Control Self-Assessment	CISA Certified Information Systems Auditor	CFE Certified Fraud Examiner
CFS Certified Fraud Specialist	CGFM Certified Government Financial Manager	CCEP Certified Compliance and Ethics Professional	CITP Certified Information Tech. Professional	MBA Masters in Business Administration

NEW PROFESSIONAL CERTIFICATIONS

During FY 2007/2008, one auditor received his Certified Information Systems (CISA) certification and one auditor received his Certified Internal Auditor (CIA) certification.

STAFF TRAINING

Professional staff completed the minimum continuing professional education required for their professional licenses/certifications. Training was received in a variety of topics including government accounting and auditing standards updates, information technology auditing, computer assisted audit techniques, and fraud.

PROFESSIONAL CREDENTIALS

The IAD is the only large county in the USA whose audit staff have the combination of 100% CPA's. Of the audit staff, 80% possess double certifications and 50% have triple certifications.

The OC Internal Audit Department follows the professional standards of: the Institute of Internal Auditors (IIA), the U.S. Government Accountability Office (GAO), and the American Institute of Certified Public Accountants (AICPA) where applicable.

Accordingly, the Internal Audit Department and its individual auditors hold various professional licenses and certifications, and are members of many prestigious professional audit and accounting associations. At a minimum, each auditor is licensed as an active Certified Public Accountant (CPA). See additional certifications on page 19 and related professional associations on pages 21 and 22.

WHY ARE PROFESSIONAL CREDENTIALS IMPORTANT?

Auditing and accounting related certifications and professional memberships are critical to our professional effectiveness for the following reasons:

- The certifications demonstrate a technical capability that is recognized internationally. The professional associations providing the certifications have rigorous standards and minimum requirements that include educational criteria, comprehensive written exams for technical knowledge and skills, and verified work experience.
- The certifications also have ethical requirements. These ethical requirements are important so that we don't subordinate our judgment or professional opinions.
- The memberships support our philosophy of continuous learning and improvement. Our membership and participation in professional associations allows us to be updated on relevant issues in business and industry with regard to accounting trends and developing best practices. Such constant renewal keeps us professionally current, refreshed, invigorated, and responsive to the County's needs.

Most importantly, possession of a CPA license and other relevant certifications allows us to assign qualified individuals to complex audits (such as the recent audit of the Source of Funding for the 2004 OCEA Pension Enhancements) and makes us uniquely qualified within the county to carry out our audit responsibilities.

For example, the Senior Audit Manager overseeing the OC Fraud Hotline, along with the Deputy Director and Director, are Certified Fraud Examiners. The Certified Fraud Examiner certification demonstrates our ability and qualification to oversee the OC Fraud Hotline and investigate, when necessary, allegations of theft, nepotism, defalcation, etc.

PROFESSIONAL ORGANIZATIONS

CALIFORNIA BOARD OF ACCOUNTANCY

The Internal Audit Department has the privilege of staffing **16** Certified Public Accountants (CPAs) under the State of California and follows the guidelines of the (AICPA) American Institute of Certified Public Accountants.

THE INSTITUE OF INTERNAL AUDITORS (IIA)

The Internal Audit Department has an annual sustaining membership with the Institute of Internal Auditors. **13** of our staff are Certified Internal Auditors (CIA) and **3** staff earned the Certification in Control Self-Assessment (CCSA).

THE INSTITUTE OF INTERNAL AUDITORS, RESEARCH FOUNDATION

Dr. Peter Hughes, Director of Internal Audit, served another term on the IIA's important Board of Research and Education for 2007-2008.

ASSOCIATION OF LOCAL GOVERNMENT AUDITORS (ALGA)

The Internal Audit Department also has an annual sustaining membership with ALGA. The Internal Audit Department has published articles in the past in the Audit Abstracts Category of their quarterly publication. As noted on page 6, we are the proud recipients of the 2008 Bronze Website Award.

SOCIETY OF CORPORATE COMPLIANCE AND ETHICS (SCCE)

The Internal Audit Department has 1 staff member that is a Certified Compliance and Ethics Professional (CCEP). Dr. Peter Hughes, Director of Internal Audit, was a speaker at the International Compliance & Ethics Institute in New Orleans, LA in September 2007.

ASSOCIATION OF CERTIFIED FRAUD EXAMINERS (ACFE)

The Internal Audit Department has **3** staff that are Certified Fraud Examiners (CFE) and are members of the Association of Certified Fraud Examiners. Dr. Peter Hughes, Director of Internal Audit, is pleased to serve as a member of the ACFE's prestigious Editorial Advisory Committee. Dr. Peter Hughes also co-authored a five page article titled "Ethics Programs" that was published in the ACFE Fraud Magazine for July/August 2008. See page 23 for more detail.

ASSOCIATION OF CERTIFIED FRAUD SPECIALISTS (ACFS)

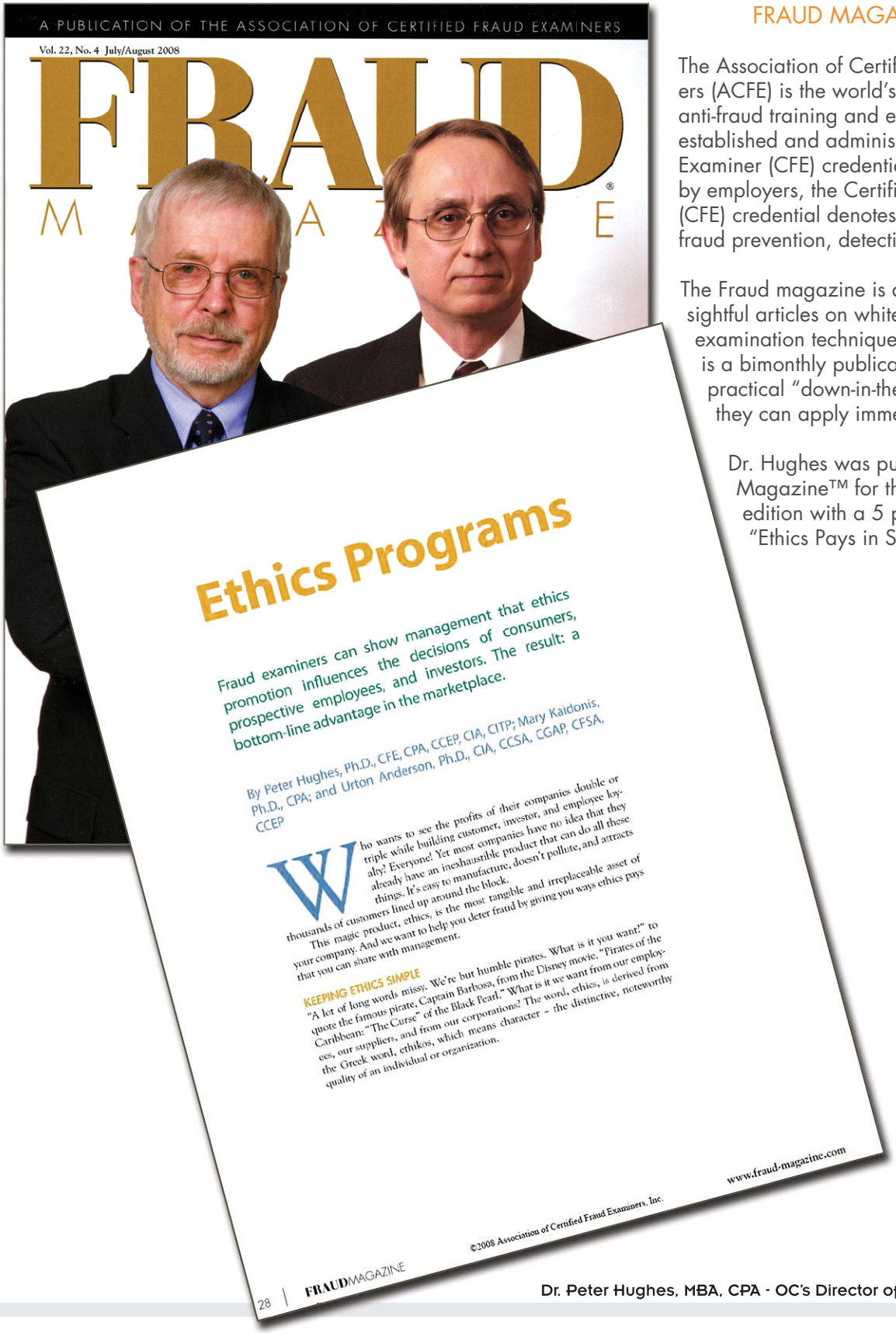
The Internal Audit Department has **1** staff member that is a Certified Fraud Specialist. Dr. Peter Hughes, Director of Internal Audit, was a featured speaker at the ACFS 8th Annual National Fraud Conference in San Diego, CA in August 2007.

GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA)

Dr. Peter Hughes, Director of Internal Audit, was a guest speaker at the GFOA 101st Annual National Conference in Anaheim, CA in June 2007. Several of our staff are members of this organization.

CALIFORNIA COUNTIES AUDIT CHIEFS' COMMITTEE

Dr. Peter Hughes, Director of Internal Audit, along with the IAD CSA team made a presentation at the Southern California Training in Ontario, CA in May 2008.


A PUBLICATION OF THE ASSOCIATION OF CERTIFIED FRAUD EXAMINERS

Vol. 22, No. 4 July/August 2008

FRAUD MAGAZINE

Ethics Programs

Fraud examiners can show management that ethics promotion influences the decisions of consumers, prospective employees, and investors. The result: a bottom-line advantage in the marketplace.

By Peter Hughes, Ph.D., CFE, CPA, CCEP, CIA, CITP; Mary Kaidonis, Ph.D., CPA; and Urton Anderson, Ph.D., CIA, CCSA, CGAP, CFSA, CCEP

Who wants to see the profits of their companies double or triple while building customer, investor, and employee loyalty? Everyone! Yet most companies have no idea that they already have an inexhaustible product that can do all these things. It's easy to manufacture, doesn't pollute, and attracts thousands of customers lined up around the block.

This magic product, ethics, is the most tangible and irreplaceable asset of your company. And we want to help you deter fraud by giving you ways ethics pays that you can share with management.

KEEPING ETHICS SIMPLE

"A lot of long words missy. We're but humble pirates. What is it you want?" to quote the famous pirate, Captain Barbosa, from the Disney movie, "Pirates of the Caribbean: "The Curse" of the Black Pearl." What is it we want from our employees, our suppliers, and from our corporations? The word, ethics, is derived from the Greek word, ethikos, which means character – the distinctive, noteworthy quality of an individual or organization.

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www.fraud-magazine.com

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FRAUD MAGAZINE ARTICLE

The Association of Certified Fraud Examiners (ACFE) is the world's premier provider of anti-fraud training and education. The ACFE established and administers the Certified Fraud Examiner (CFE) credential. Globally preferred by employers, the Certified Fraud Examiner (CFE) credential denotes proven expertise in fraud prevention, detection and deterrence.

The Fraud magazine is devoted to timely, insightful articles on white-collar crime and fraud examination techniques, Fraud Magazine™ is a bimonthly publication that gives readers practical "down-in-the-trenches" information they can apply immediately.

Dr. Hughes was published in the Fraud Magazine™ for the July/August 2008 edition with a 5 page article entitled "Ethics Pays in So Many Ways."

FEDERAL ETHICS REPORT

The CCH brand has been a market leader since 1913, the year the U.S. federal income tax was created.

It is one of the most respected names among accountants, attorneys and compliance professionals.

Dr. Hughes authored a six page article titled "Ethics Pays" published as the cover page article in the CCH Federal Ethics Report in February 2008.

CCH®
FEDERAL ETHICS *Report*
Volume 15, Issue 2 February 2008

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Business Ethics

Ethics Pays

By Dr. Peter M. Hughes, CPA, CCEP, CIA, CITP, CFE

Who wants to see the profits of their company double or triple while building customer, investor and employee loyalty? This question has an easy and ready answer—everyone does! Yet, despite the universal and unanimous support for just such a bottom-line booster, most companies are oblivious to the fact that they currently have just such a product in their inventory. A product, mind you, that is easy to manufacture, non polluting, green as an evergreen, that has an inexhaustible supply and that has customers lining up around the block to buy.

The beauty of Ethical behavior is that it is understood in every culture, every language and by everyone, regardless of age, race, or income level.

So, tell me you say, what product are you talking about? What does it look like? Well, I'm talking about the most tangible and irreplaceable asset of any company. I'm talking about the very soul of an organization. I'm taking about the "Ethics" of a company.

The Year Ahead

Approval of FY 2008-09 Audit Plan and Risk Assessment

On May 29, 2008, the Audit Oversight Committee (AOC) approved the FY 2008-09 Audit Plan and Risk Assessment. This comprehensive report details our plan for audits and reviews in the upcoming fiscal year and incorporates the results of our extensive risk assessment. Any revisions or changes to the Audit Plan throughout the year are made in IAD's Quarterly Status Report and approved by the AOC.

Board of Supervisors Request for Audits

The Internal Audit Department reserves resources to accommodate Board of Supervisors requests. Individual Board members desiring specific audit projects shall place on the Board Agenda their proposal for review and approval by Board majority. In addition, the Audit Oversight Committee can request audits at the quarterly meetings. The Internal Audit Director reserves the right to determine how to best fit the Board or AOC directed review into the Audit Plan.

Some FY 2008-09 Audit Plan Highlights:

Information Technology

Internal Audit will provide feedback on internal controls in the CAPS+ Implementation focusing specifically on control areas of segregation of duties; reviews and approvals; audit trails; and reconciliations. We will also perform a similar function in the PTMS Implementation.

Financial Audits & Mandates

In addition to our 4 District Attorney Grant audits ($4.7 million), we will conduct a mandated audit of the Tax Redemption Office where over $47 million is collected annually in delinquent taxes and penalties; audit the Retiree Medical Annual Required Contribution ($54 million) funding process; evaluate the County financial statement footnote and bond disclosure processes; and the Sheriff-Coroner Homeland Security Grant ($8 million) process.

Internal Control Reviews

We will validate, substantiate, and confirm the integrity of internal controls over the following processes to ensure accurate, complete and timely processing of financial transactions and ensure County assets are safeguarded:

- OC Dana Point Harbor: Harbor Revitalization Contract Administration
- County Wire Transfers/Electronic Fund Transfers
- OC Public Works: Automated Permitting and Planning System and Interdepartmental Billings
- CEO/Information Technology Contract Administration
- Sheriff-Coroner: Payroll and Musick Facility Construction Grant

Revenue Generating Lease Audits

Revenue generating lease audits ensure the correct amount of rent is paid to the County based on a percentage of gross revenue and evaluate compliance with lease/concession agreement terms related to gross revenues. These critical audits are performed at the request of John Wayne Airport, OC Public Works, OC Parks, and OC Dana Point Harbor. The 7 leases audits scheduled this year have combined annual gross receipts and revenue to the County totaling $22.5 million and $4.5 million, respectively.

Internal Audit Department

OC Board of Supervisors'

ORANGE COUNTY

Hoag Challenge Cup by William Nelson

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AOC Meeting 9/17/08, Item 4