**EXHIBIT A**

# IAD'S MONTHLY ACTIVITY REPORT

**FOR**

# AUGUST 2007

**TO THE**

# BOARD OF SUPERVISORS

*2005 Recipient of the Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality & Outreach*

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

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**by the Director of Internal Audit**

**Dr. Peter Hughes, MBA, CPA**

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Objectivity
Independence

**County of Orange**
**BOARD OF SUPERVISORS'**
**INTERNAL AUDIT DEPARTMENT**

*Integrity*
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*Independence*

*Providing Facts and Perspectives Countywide*

**OFFICE OF THE DIRECTOR**

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September 10, 2007

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report of all audits completed for the month of August. Included are an overview and a detailed briefing of each report.

Also included in this report is the Quality Assurance/Peer Review of the Internal Audit Department (Exhibit B). The Peer Review was the fourth external assessment conducted of my department since I joined in 1999. The assessment was conducted by the County of Riverside. We received a much deserved but seldomly given "clean" opinion from our Peer Reviewers for the fourth consecutive time. The clean opinion means we *fully complied* with all relevant Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing and we conform to the reporting standards issued by the Government Accountability Office.

This is a noteworthy achievement and is a significant accomplishment for any internal audit department.

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

Respectfully submitted,

Dr. Peter Hughes

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**MONTHLY ACTIVITY – August 2007**
Status Report to the Board of Supervisors by IAD

JULY AUDIT ACTIVITY:

Exhibit

B. External Quality Assessment of Orange County's Internal Audit Department: The County of Riverside's Auditor-Controller's Office conducted an external quality assessment (peer review) of Orange County's Internal Audit Department as prescribed by the Institute of Internal Auditor's (IIA) Professional Practices Framework and as required by California Government Code, Section 1236. The Peer Reviewer's issued a "clean" opinion and noted **5 Best Practice areas** where the OC Internal Audit Department demonstrates the commitment to the highest level of quality and professionalism.

**WE FINISHED 10 PROJECTS FOR THIS MONTH AS SUMMARIZED BELOW:**

Exhibit We completed 3 Audits:

C. Auditor-Controller – Corporate Controls: Centralized Core Business Systems Audit - Central Payroll Process Audit:
Internal Control Review of processes and controls over bi-weekly payroll processing in Central Payroll. No material, significant issues or control findings noted. We identified **1 Efficiency/Effectiveness Issue** to enhance existing process.

D. Health Care Agency – Departmental Controls: Departmental Business System Audit - Payroll Process:
Internal Control Review of processes and controls over bi-weekly payroll processing in HCA Payroll. No material, significant issues or control findings noted. We identified **1 Efficiency/Effectiveness Issue** to enhance existing controls.

E. John Wayne Airport – Review of Lease Revenue of The Hertz Corporation: Review of lease revenue of The Hertz Corporation. No material or significant issues noted. We identified 8 control findings related to compliance with the lease agreement or improvements to internal controls.

Exhibit We issued 2 Reports of Monthly Computer Assisted Audits of Vendor Payments (CAATs):

F. Auditor Controller – Duplicate Payments to Vendors – July 2007:
We identified **4** duplicate payments made to vendors, totaling **$8,037** or **.007%** of the **$117** million of vendor invoices processed during June 2007 that are being pursued by the Auditor-Controller.

G. Auditor Controller – Revenue Recoveries - Duplicate Payments to Vendors – August 2007:
We identified **6** duplicate payments made to vendors, totaling **$10,456** or **.009%** of the **$116** million of vendor invoices processed during July 2007 that are being pursued by the Auditor-Controller for collection.

Exhibit We completed 5 Follow-Up Audits:

H. Orange County Public Library – Final Close-Out Initial Follow-Up Audit of Performance Measure Validation: The original audit report contained four (4) recommendations. We are pleased to report that satisfactory corrective action has taken place for all audit recommendations. As such, this report represents the final close-out of the original audit.

I. Registrar of Voters – Final Close-Out of Performance Measure Validation: The original audit report contained five (5) recommendations. We are pleased to report that satisfactory corrective action has taken place for all audit recommendations. As such, this report represents the final close-out of the original audit.

J. Social Services Agency – Final Close-Out of Performance Measure Validation: The original audit report contained one (1) recommendation. We are pleased to report that satisfactory corrective action has taken place for the audit recommendation. As such, this report represents the final close-out of the original audit.

K. Integrated Waste Management Department – Contract Administration:
First Follow-Up Audit of IWMD contract administration. Corrective action was taken on all **11** recommendations; however, we identified a **new finding**, which is considered a **Significant Issue,** resulting in **1** new recommendation. IWMD Accounting is working towards implementing the new recommendation.

L. Probation Department - Revolving Fund:
First Follow-Up Audit of Probation's revolving fund. Corrective action was taken on **4 of 6** recommendations. We identified a **new finding**, which is considered a **Significant Issue,** resulting in **2** new recommendations. Probation is working towards implementing the remaining **4** recommendations.

**MONTHLY ACTIVITY – August 2007**
Status Report to the Board of Supervisors by IAD

## Detailed Breakout

## MATERIAL FINDING:

| | Department and Description | Comments |
|---|---|---|
| | | None issued during August 2007. |



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

## NON-MATERIAL FINDINGS

| Exhibit | Description | Comments |
|---|---|---|
| B. | DEPT:<br>OC Internal Audit Department<br><br>TITLE: External Quality Assessment of Orange County's Internal Audit Department for the period July 1, 2004 through June 30, 2007<br><br>ISSUED: August 27, 2007 | **SCOPE:** Conduct an external quality assessment (peer review) of the OC Internal Audit Department (OCIAD), for the period July 1, 2004 through June 30, 2007, as prescribed by the Institute of Internal Auditor's (IIA) Professional Practices Framework and as required by California Government Code, Section 1236.<br><br>**CONCLUSION:** Based on the information evaluated during the external quality assessment review, it was the opinion of the Peer Reviewer's that the OCIAD *fully complied* with the IIA's International Standards for the Professional Practice of Internal Auditing. The opinion means policies, procedures and practices were in place to implement the standards and requirements necessary for ensuring the independence, objectivity and proficiency of the OCIAD function. Additionally, the OCIAD activity conforms to the reporting standards issued by the Government Accountability Office (GAO).<br><br>**BACKGROUND:** The period of review was July 1, 2007 through June 30, 2007. It was requested by the Audit Oversight Committee in May 2007 that the peer review be conducted by a true peer. These services were provided at no cost by the County of Riverside and in turn, the OC IAD will conduct a peer review of different California County. The last peer reviews were conducted in 2004 and 2001. |

| Exhibit | Description | Comments |
|---|---|---|
| C. | DEPT: Auditor-Controller<br><br>TITLE: Internal Control Review of Auditor-Controller Central Payroll Processes: Corporate Controls – Centralized Core Business System Audit<br><br>Audit No.: 2631-1<br><br>ISSUED: August 30, 2007 | **SCOPE:** Audit of bi-weekly payroll processes and controls in Auditor-Controller's Central Payroll unit to determine if payroll is processed completely, accurately, and timely; if payroll exceptions and corrections are approved and supported; premium pay adjustments are properly supported, approved and calculated; and if payroll processes are efficient and effective.<br><br>**CONCLUSION: No material weaknesses, significant issues or control findings were noted.** Controls and processes are in place to ensure payroll is processed completely, accurately, timely; payroll exceptions and corrections are approved and supported; premium pay is properly supported, approved and calculated; and no inefficient or ineffective procedures were noted. However, we noted **1 effectiveness/efficiency** observation where process effectiveness can be enhanced concerning payroll corrections.<br><br>**BACKGROUND:** During 2006, Central Payroll processed bi-weekly payroll for approximately **19,700 employees** in twenty-four (24) County agencies/departments and seven (7) other governmental non-County agencies, totaling **$1,136,302,255 in gross pay**.<br><br>**TYPE OF RECOMMENDATION:** Central Payroll should contact department/agency Human Resources personnel when there are payroll exceptions that are identified as higher risk, such as invalid employee I.D. numbers, ineligible premium pays, and incorrect pay codes for status type. |



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| D. | DEPT: Health Care Agency<br><br>TITLE: Internal Control Review of Payroll Process: Departmental Controls – Departmental Business System Audit<br><br>Audit No.: 2631-2<br><br>ISSUED: August 9, 2007 | **SCOPE:** Audit of bi-weekly payroll processes and controls at HCA to determine if payroll is processed completely, accurately, and timely; if additions, deletions, and changes to payroll are appropriate, approved, and supported; premium pay adjustments are properly supported, approved and calculated; Auditor-Controller core business processes are effective through accurate recording, reporting, and system output; and HCA payroll processes are efficient and effective.<br><br>**CONCLUSION: No material weaknesses, significant issues or control findings were noted.** Controls and processes are in place to ensure payroll is processed completely, accurately, timely; additions, deletions and changes to payroll are approved and supported; premium pay is properly supported, approved and calculated; no exceptions were noted in the Auditor-Controllers core business systems; and no inefficient or ineffective procedures were noted. However, we noted **1 effectiveness/efficiency** observation where process effectiveness can be enhanced concerning reviewing payroll changes using a *Timecard Audit Report* to detect any unauthorized payroll changes.<br><br>**BACKGROUND:** HCA utilizes *Virtual Timesheet Interface* (VTI) for recording and processing employee bi-weekly payroll. HCA/Payroll Unit, which is staffed by Auditor-Controller employees, reviews submitted timesheets; adjusts employees' timecards in VTI when necessary; and uploads the approved timecards to Auditor-Controller's Central Payroll for issuance of bi-weekly payroll. During the audit period, HCA's **total gross bi-weekly pay for approximately 2,700 employees was $159,949,080.**<br><br>**TYPE OF RECOMMENDATIONS:** HCA and HCA Accounting, in consultation with Auditor-Controller Information Technology; evaluate the need to modify the VTI *Timecard Audit Report* to include query capabilities to target specific research that would assist HCA by providing a tool to monitor any unauthorized changes to pay codes such as modifying leave hours to regular hours. |



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| E. | DEPT: John Wayne Airport<br><br>TITLE: Review of Lease Revenue for The Hertz Corporation<br><br>Audit No. 2643<br><br>ISSUED: August 20, 2007 | **SCOPE:** Review of lease revenue to determine whether the records of The Hertz Corporation adequately supported gross receipts reported to the County.<br><br>**CONCLUSION:** We found that The Hertz Corporation retained sufficient documentation to adequately support monthly gross receipts reported to the County. No material weaknesses or significant issues were identified. However, we did identify **8 control findings** related to compliance with the lease agreement or improvements to internal controls.<br><br>**BACKGROUND:** The County of Orange entered into a lease agreement with The Hertz Corporation dated December 15, 2000, for the operation of a rental car concession at John Wayne Airport. During the 12-month review period, The Hertz Corporation generated approximately $40.3 million in gross receipts and paid the County over $4 million in rent.<br><br>**Type of Recommendations:** Lease compliance or improvements to internal controls regarding: underpayment of rent ($713 and $437 in the 2 sample months) due to non-reporting of car rental gross receipts generated by Atlantic Aviation; underpayment of rent ($1,975 and $2,305 in the 2 sample months) due to improper reduction to gross receipts for vehicle license fee surcharges; estimating the amount of prepaid fuel exclusion; and reviewing detailed documentation to support adjustments before authorizing credits against monthly rent. |



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| F. | DEPT: Auditor-Controller<br>Human Resources<br>CEO/Purchasing<br><br>TITLE: Computer Assisted Audit Techniques July 2007<br><br>Audit No.: 2713-A<br><br>ISSUED: August 7, 2007 | **SCOPE:** The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 5 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary.<br><br>**CONCLUSION:**<br>• Duplicate Payments to Vendors: We identified **4** duplicate payments made to vendors, totaling **8,037 or .007% of the $117 million** of vendor invoices processed during June 2007. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 22,611 invoices paid in June 2007 amounting to $117,410,665. The Auditor-Controller currently has a recovery rate of about **86%** on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error.<br><br>Based on the to-date recoveries of $592,408 from the duplicate vendor payment routine, these CAAT routines have paid for themselves and are returning monies to the County that may otherwise be lost.<br><br>• Deleted Vendors: No findings.<br><br>**BACKGROUND:** The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population. The resulting matches identified by the CAATs are subjected to further review and analysis by the Internal Audit Department. We then forward any resulting findings to the A-C, HR, or CEO/Purchasing for their review and concurrence, and subsequent correction/recovery. We also work with these departments to identify internal control enhancements with the purpose of preventing future occurrences of the type of findings identified by the CAATs. |



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|---|---|---|
| G. | DEPT: Auditor-Controller<br>Human Resources<br>CEO/Purchasing<br><br>TITLE: Computer Assisted Audit Techniques August 2007<br><br>Audit No.: 2713-B<br><br>ISSUED: August 17, 2007 | **SCOPE:** The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 5 CAATs routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary.<br><br>**CONCLUSION:**<br>• Duplicate Payments to Vendors: We identified **6** duplicate payments made to vendors, totaling **$10,456** or **.009%** of the **$116 million** of vendor invoices processed during July 2007. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 17,390 invoices paid in July 2007 amounting to $115,786,392. The Auditor-Controller currently has a recovery rate of about **85%** on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error.<br><br>Based on the to-date recoveries of $592,408 from the duplicate vendor payment routine, these computer assisted routines have paid for themselves and are returning monies to the County that may otherwise be lost.<br><br>• Deleted Vendors: No findings.<br><br>**BACKGROUND:** The CAATs differ from our traditional audits in that the CAATs can query 100% of a data universe whereas the traditional audits typically test but a sample of transactions from the population. The resulting matches identified by the CAATs are subjected to further review and analysis by the Internal Audit Department. We then forward any resulting findings to the A-C, HR, or CEO/Purchasing for their review and concurrence, and subsequent correction/recovery. We also work with these departments to identify internal control enhancements with the purpose of preventing future occurrences of the type of findings identified by the CAATs. |



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|---|---|---|
| H. | DEPT: Orange County Public Library<br><br>TITLE: Initial and **Final Close-Out** Follow-Up Audit of the Performance Measure Validation of Orange County Public Library<br><br>Audit No. 2671-C<br><br>ISSUED: August 2, 2007 | **SCOPE:** We have completed an initial and Final Follow-Up Audit of Performance Measure Validation of Orange County Public Library. Our audit was limited to reviewing, as of the 2007 Business Plan, actions taken to implement the four recommendations in our audit report dated August 14 2006.<br><br>**CONCLUSION:** The original audit report contained four (4) recommendations. **We are pleased to report that satisfactory corrective action has taken place for all four audit recommendations. As such, this report represents the final close-out of the original audit.**<br><br>**BACKGROUND:** The objective of our Performance Measure Validation (PMV) was to validate the accuracy of the Fiscal Year 2004-2005 Outcome Measure Results reported in OCPL 2006 Business Plan. Our audit included obtaining an understanding of the methodology in place for collecting and reporting Outcome Measure Results by interviewing key personnel, observations, and reviewing source documentation. The Business Plan contained a total of 6 Outcome Measure Results, and we tested the supporting documentation for all 6. Our audit scope did not include an assessment of the appropriateness of OCPL Strategies based on their mission, goals and objectives.<br><br>**TYPE OF RECOMMENDATIONS: NONE** |



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# MONTHLY ACTIVITY – August 2007

Status Report to the Board of Supervisors by IAD

| Exhibit | Description | Comments |
|---|---|---|
| I. | DEPT: Registrar of Voters<br><br>TITLE: Initial Follow-Up Audit of Performance Measure Validation of Registrar of Voters (Original Audit No. 2593)<br><br>Audit No. 2671-A<br><br>ISSUED: August 8, 2007 | **SCOPE:** We have completed an initial and Final Follow-Up Audit of Performance Measure Validation of Registrar of Voters. Our audit was limited to reviewing, as of the 2007 Business Plan, actions taken to implement the five recommendations in our audit report dated September 7, 2006.<br><br>**CONCLUSION:** The original audit report contained five (5) recommendations. **We are pleased to report that satisfactory corrective action has taken place for all five audit recommendations. As such, this report represents the final close-out of the original audit.**<br><br>**BACKGROUND:** The objective of our Performance Measure Validation (PMV) was to validate the accuracy of the Fiscal Year 2004-2005 Outcome Indicator Results reported in ROV 2006-2007 Business Plan. Our audit included obtaining an understanding of the methodology in place for collecting and reporting Outcome Indicator Results by interviewing key personnel, observations, and reviewing source documentation. The Business Plan contained a total of 6 Outcome Indicator Results, and we tested the supporting documentation for all 6. Our audit scope did not include an assessment of the appropriateness of ROV Strategies based on their mission, goals and objectives.<br><br>**TYPE OF RECOMMENDATIONS: NONE** |



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| J. | DEPT: Social Services Agency<br><br>TITLE: Initial and Final Close-Out Follow-Up Audit of Performance Measure Validation of Social Services Agency (Original Audit No. 25100)<br><br>Audit No. 2671-B<br><br>ISSUED: August 17, 2007 | **SCOPE:** We have completed an initial and Final Follow-Up Audit of Performance Measure Validation of Social Services Agency. Our audit was limited to reviewing, as of the 2007 Business Plan, actions taken to implement the five recommendations in our audit report dated October 3, 2006.<br><br>**CONCLUSION:** The original audit report contained one (1) recommendation. **We are pleased to report that satisfactory corrective action has taken place for the one audit recommendation. As such, this report represents the final close-out of the original audit.**<br><br>**BACKGROUND:** The objective of our Performance Measure Validation (PMV) was to validate the accuracy of the Fiscal Year 2004-2005 Results reported in SSA 2006-2007 Business Plan. Our audit included obtaining an understanding of the methodology in place for collecting and reporting Outcome Indicator Results by interviewing key personnel, observations, and reviewing source documentation. The Business Plan contained a total of 5 Outcome Indicator Results, and we tested the supporting documentation for all 5. Our audit scope did not include an assessment of the appropriateness of SSA Strategies based on their mission, goals and objectives.<br><br>**TYPE OF RECOMMENDATIONS: NONE** |



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|---|---|---|
| K. | DEPT: Integrated Waste Management Department<br><br>TITLE: First Follow-Up Audit of Integrated Waste Management Department Contract Administration Process and Controls (Original Audit No. 2591)<br><br>Audit No. 2636-I<br><br>ISSUED: August 29, 2007 | **SCOPE:** First Follow-Up Audit of contract administration to evaluate internal controls over contract administration processes at Management Services, Procurement and Planning Services, and the three operating Landfills, and to determine if processes are performed uniformly and consistently. The original audit report dated November 29, 2006 contained **11** recommendations with no material weaknesses or significant issues identified.<br><br>**CONCLUSION:** We are pleased to report that IWMD took satisfactory corrective action to fully implement all **11** recommendations. During our Follow-Up Audit, a **new finding** came to our attention concerning the accuracy of Contract Monitor Worksheets that are prepared and maintained by **Auditor-Controller** personnel stationed in **IWMD Accounting**. Because IWMD divisions rely on the worksheets for contract monitoring, we consider the new finding a **Significant Issue**.<br><br>**BACKGROUND:** Contract administration within IWMD is decentralized. Contract administration, including budget monitoring and payment approval, is performed at each landfill/division, which administers various types of contracts including Waste Disposal Agreements, Importation Agreements, Franchise Agreements, Price Agreements and Negotiated Contracts. Contract payments for Price Agreements exceeded **$3 million** and payments for Negotiated Contracts totaled approximately **$36 million.**<br><br>**TYPE OF RECOMMENDATIONS:** Perform documented management reviews of annual inflation rate and franchise cost calculations, contractor quotes and daily field reports; segregate purchasing duties; reconcile contract payments to Accounting's worksheet; revise and/or establish procedures to clearly define contract administration duties. **New Recommendation:** IWMD Accounting establish procedures to ensure the accuracy of Contract Monitoring Worksheets. |



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|---|---|---|
| L. | DEPT: Probation Department<br><br>TITLE: First Follow-Up Audit of Internal Control Review of Probation Department Revolving Fund (Original Audit No. 2598)<br><br>Audit No. 2636-H<br><br>ISSUED: August 30, 2007 | **SCOPE:** First Follow-Up Audit of procedures, processes and controls to ensure revolving funds are adequately safeguarded; transactions are properly authorized, recorded completely, accurately and timely; and are in compliance with applicable County Accounting Manual (CAM) procedures. The original audit report dated October 3, 2006 contained **6** recommendations with no material weaknesses or significant issues identified.<br><br>**CONCLUSION:** Our Follow-Up Audit found that **2** recommendations were fully implemented; **2** recommendations were partially implemented; and **2** recommendations were closed for purposes of follow-up. We also noted a **new finding** concerning unpaid travel cash advance reimbursements, which is considered a **Significant Issue**, and resulted in **2 new recommendations**. Probation is working towards implementing the **4** remaining recommendations.<br><br>**BACKGROUND:** The Probation Department maintains one revolving fund of **$69,000** for petty cash expenditures. During the period under review, there were approximately **$174,735 in petty cash expenditures and $24,661 in travel cash advances.**<br><br>**TYPE OF RECOMMENDATIONS:** Ensure revolving fund reconciliations are performed monthly and have a documented supervisory review; segregate certain revolving fund duties; perform documented physical inventories of unused checks; submit timely travel cash advance claims with proper authorization per CAM procedures. **New recommendations:** Process all outstanding travel advance claims to reimburse employees for expenses, and to collect monies due back to Probation; steps be taken to ensure timely processing of all future travel advance claims. |



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