

**EXHIBIT A**

**IAD'S MONTHLY ACTIVITY REPORT**  
**FOR**  
**JUNE 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.*



*Integrity  
Objectivity  
Independence*

**by the Director of Internal Audit**  
**Dr. Peter Hughes, MBA, CPA**

Certified Compliance and Ethics Professional (CCEP)  
Certified Information Technology Professional (CITP)  
Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE)

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County of Orange  
BOARD OF SUPERVISORS'  
INTERNAL AUDIT DEPARTMENT

*Integrity  
Objectivity  
Independence*



*Providing Facts and  
Perspectives Countywide*

**OFFICE OF THE DIRECTOR**

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July 16, 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 June. Included are an overview and a detailed briefing of each report.

June marks the end of our fiscal year and I'm happy to report we were very successful in completing our annual audit plan. Also attached as Exhibit B, is the Fiscal Year 2006/2007 Internal Audit Report for the OC Board of Supervisors. This annual report details the fiscal year accomplishments.

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 – June 2007**  
Status Report to the Board of Supervisors by IAD

JUNE AUDIT ACTIVITY:

**WE COMPLETED THE FISCAL YEAR 2006/2007 INTERNAL AUDIT REPORT FOR THE OC BOARD OF SUPERVISORS:**

Exhibit            We completed 1 Report:  
B.                    This annual report details the Fiscal Year 2006/2007 accomplishments.

**WE FINISHED 8 PROJECTS FOR THIS MONTH AS SUMMARIZED BELOW:**

Exhibit            We completed 2 Audits:

C.                    Resources and Development Management Department - Science Enrichment Services:  
Limited Review of License Revenue for Science Enrichment Services. No material or significant issues noted. We identified one control finding related to compliance with the license agreement. During the draft report process, RDMD made satisfactory corrective action to implement the one recommendation. Therefore, this report also represented the **Final Close-Out** of the audit and we will not perform a follow-up audit.

D.                    Auditor-Controller/Health Care Agency – Duplicate Vendor Payment  
In December 2006 as part of our monthly computer assisted audit techniques (CAAT), we identified a **duplicate vendor payment of \$223,670**. Because of the large dollar amount, we performed a review of the cause and circumstances of the duplicate vendor payment to determine whether internal controls and processes related to this specific instance of invoice review and payment could be enhanced. The Auditor-Controller has identified and taken corrective actions to help prevent future potential duplicate payments of this magnitude. We did not identify any additional internal control enhancements that should be made at this time.

Exhibit            We issued 1 Report of Monthly Computer Assisted Audit Techniques (CAATs):

E.                    Auditor Controller – Duplicate Payments to Vendors –June 2007:  
We identified **9 duplicate payments** made to vendors, **totaling \$7,431 or .003% of the \$286 million** of vendor invoices processed during May 2007 that are being pursued by the Auditor-Controller.

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

Exhibit            We completed 6 Follow-Up Audits:

- F.            Public Administrator/Public Guardian:  
Second and **Final Close-Out** Follow-Up Audit of PA/PG cash receipts, cash disbursements, trust and special use revolving funds, warehouse and property controls, and budget process. For the remaining **7** recommendations, satisfactory corrective action was taken.
  
- G.            Treasurer Tax-Collector: Second and **Final Close-Out** Follow-Up Audit of the Management Letter and Confidential Supplement Regarding Audit of the Statement of Assets Held by the County Treasury at 12/31/04, Original Audit No. 2409, as of 2/28/07. For the remaining **6** recommendations, satisfactory corrective action was taken and/or the item was closed.
  
- H.            Health Care Agency: First and **Final Close-Out** Follow-Up Audit of HCA's information technology (IT) self-assessment questionnaire. For the **15** recommendations, satisfactory corrective action was taken and/or the item was closed.
  
- I.            Resources and Development Management Department - Swales Anchorage: First and **Final Close-Out** Follow-Up Audit of our limited review of lease revenue for Swales Anchorage. For the **11** recommendations, satisfactory corrective action was taken and/or the item was closed.
  
- J.            Dana Point Harbor Department – Rancho Beach House: First and **Final Close-Out** Follow-Up Audit of our limited review of lease revenue for Rancho Beach House. For the **12** recommendations, satisfactory corrective action was taken and/or the item was closed.

**MONTHLY ACTIVITY – June 2007**  
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**Detailed Breakout**

**MATERIAL FINDING:**

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

Board Date: July 31, 2007

Exhibit A, Page 5 of 14

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/>

**MONTHLY ACTIVITY – June 2007**  
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**NON-MATERIAL FINDINGS**

| Exhibit | Description  | Comments  |
|---------|--|---|
| B.      | <p>TITLE:<br/>                     FY 2006/2006 Internal Audit Report to the OC Board of Supervisors</p> <p>Issued: July 1, 2007</p> | <p>I am happy to present the FY 2006/2007 Internal Audit Report for the OC Board of Supervisors. This report details the tremendous accomplishments of this department for the past fiscal year.</p> <p>In summary, we provided audit coverage, presence or services to all the County's twenty-three departments and agencies. We completed 11 special requests, 90 financial, operational, compliance and information technology audits; and 87 other audit and support activities, for a total of 188 assignments for the year.</p> <p>Deserving of special notice, we completed our long range audit plan cycle. This success is in addition to finishing for the eighth consecutive year our annual audit plan. Since my appointment by the Board, we have provided a risk-based, systematic and practical approach to audit the County's high risk financial and business processes on a cyclical basis. As a result, we have audited or addressed all high risk fiscal activities identified in our long range risk assessment this year.</p> <p>It has been my pleasure to serve you.</p> |

**MONTHLY ACTIVITY – June 2007**  
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| Exhibit | Description  | Comments  |
|---------|--|---|
| C.      | <p>DEPT: Resources and Development Management Department</p> <p>TITLE: <b>Final Close-Out</b> Limited Review of License Revenue for Science Enrichment Services, Inc.</p> <p><u>Audit No.:</u> 2645</p> <p>ISSUED: June 25, 2007</p> | <p><b>SCOPE:</b> Limited review of license revenue to determine whether the records of Science Enrichment Services adequately supported gross receipts reported to the County.</p> <p><b>CONCLUSION:</b> We found that Science Enrichment Services retained sufficient documentation to adequately support monthly gross receipts reported to the County. <b>No material weaknesses or significant issues were identified.</b> However, we did identify <b>1 control finding</b> related to compliance with the license agreement. During the draft report process, RDMD made satisfactory corrective action to implement the <b>1</b> recommendation. Therefore, this report also represented the <b>Final Close-Out</b> of the audit and we will not perform a follow-up audit.</p> <p><b>BACKGROUND:</b> The County of Orange entered into a license agreement with Science Enrichment Services, Inc. dated May 12, 2004, for the operation of summer day camps in the County’s regional parks. In June 2006, Science Enrichment became a division of the Knowledge Learning Corporation. During the 12 month review period, Science Enrichment reported \$100,557 in gross receipts and paid the County \$12,067 in license fees.</p> <p><b>TYPE OF RECOMMENDATION:</b> Lease compliance regarding reporting of refund processing fees as gross receipts.</p> |

**MONTHLY ACTIVITY – June 2007**  
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| D.      | DEPT: Auditor-Controller<br>Health Care Agency<br><br>TITLE: Limited Review of<br>\$223,670 Duplicate Vendor<br>Payment<br><br><u>Audit No.:</u> 2665<br><br>ISSUED: June 29, 2007 | <p><b>SCOPE:</b> We performed a review of the cause and circumstances of a \$223,670 duplicate vendor payment to determine whether internal controls and processes related to this specific instance of invoice review and payment could be enhanced.</p> <p><b>CONCLUSION:</b> It appears the duplicate payment was caused by failure to follow prescribed departmental procedures at 3 key control points. The duplicate payment should have been detected at each of the 3 key control points.</p> <p>In addition to reminding staff to follow the existing departmental procedures, the Auditor-Controller has identified and taken corrective actions to help prevent future potential duplicate payments of this magnitude. We did not identify any additional internal control enhancements that should be made at this time.</p> <p><b>BACKGROUND:</b> In December 2006 as part of our monthly computer assisted audit techniques (CAAT), we identified a duplicate vendor payment of \$223,670. Because of the large dollar amount, we performed a review of the cause and circumstances of the duplicate vendor payment</p> <p><b>TYPE OF RECOMMENDATIONS:</b> None.</p> |

**MONTHLY ACTIVITY – June 2007**  
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| E.      | DEPT: Auditor-Controller<br>Human Resources<br>CEO/Purchasing<br><br>TITLE: CAAT June 2007<br><br><u>Audit No.:</u> 2620-L<br><br>ISSUED: June 25, 2007 | <p><b>SCOPE:</b> 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.</p> <p><b>CONCLUSION:</b></p> <ul style="list-style-type: none"> <li>• <b>Duplicate Payments to Vendors:</b> We identified <b>9 duplicate payments</b> made to vendors, <b>totaling \$7,431 or .003% of the \$286 million</b> of vendor invoices processed during May 2007. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 17,991 invoices paid in May 2007 amounting to \$285,729,511. The Auditor-Controller currently has a recovery rate of about <b>86%</b> on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error.</li> <li>• <u>Deleted Vendors:</u> No findings.</li> </ul> <p><b>BACKGROUND:</b> 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.</p> |

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| F.      | <p>DEPT: Public Administrator/<br/>Public Guardian</p> <p>TITLE: <b>Final Close-Out</b> Second Follow-Up Audit of the Cash Receipts and Disbursements, Trust and Special Use Revolving Funds, Warehouse and Property Controls, and the Budget Process (Board Directive, No. 22 dated May 3, 2005, Original Audit No. 2528)</p> <p><u>Audit No.:</u> 2637-D</p> <p>ISSUED: June 7, 2007</p> | <p><b>SCOPE:</b> 2<sup>nd</sup> and Final Follow-Up Audit of PA/PG to determine the implementation status of 7 recommendations not fully implemented at the time of our first Follow-Up Audit dated November 8, 2006.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action taken on the 7 remaining recommendations. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> Effective July 1, 2005, PA/PG became a separate department. During the audit period, the Public Administrator processed approximately \$13.5 million cash receipts and \$7.5 million cash disbursements. The Public Guardian processed about \$16.1 million cash receipts and \$14.1 million cash disbursements.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Evaluate feasibility of a replacement system for Epages; ensure appropriate system controls are part of new system; update and test IT continuity plan; continue succession planning for Fiduciary Manager; segregate cash receipting and reconciling duties; conduct inventories of cash receipt forms; enhance controls over issuance and use of Property Inventory forms; enhance controls over the use of property search witnesses; enhance procedures for storage of pharmaceutical materials and vehicles, enhance supervisory review of trust fund reconciliations, and prepare fee studies as part of the budget process.</p> |

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| G.      | <p>DEPT: Treasurer Tax-Collector</p> <p>TITLE: Second Follow-Up Audit of Management Letter and Confidential Supplement Regarding Audit of the Statement of Assets Held by the County Treasury at 12/31/04, Original Audit No. 2409, as of 2/28/07</p> <p><u>Audit No.:</u> 2666</p> <p>ISSUED: June 21, 2007</p> | <p><b>SCOPE:</b> 2nd and Final Follow-Up Audit of the Management Letter and Confidential Supplement regarding Audit of the Statement of Assets Held by the County Treasury at 12/31/04 to determine the implementation status of 6 recommendations not fully implemented at the time of our first Follow-Up Audit, dated May 1, 2006.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action taken on the 6 remaining recommendations. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> In planning and performing our audit for the purpose of expressing an opinion on the Treasurer-Tax Collector’s (County Treasurer) Statement of Assets Held (financial statement), the American Institute of Certified Public Accounts requires that we obtain an understanding of the Treasurer’s internal controls over financial reporting. In doing so, we identified deficiencies relating to the design or operation of the internal controls. These deficiencies were identified in two documents, a Management Letter and a Confidential Supplement to the Management Letter.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> In the original audit, we identified a total of 18 recommendations: 1 material weakness, 4 significant issues, and 13 reportable conditions. The material weakness dealt with internal control weakness in the wire transfer of funds process (Confidential Finding); the 4 significant issues were related to logical security controls (Confidential Finding), IT security monitoring (Confidential Finding); and internal controls over granting local area network access. The 13 reportable conditions were related to the following: security monitoring; local administrator rights granted to users; updating of the IT risk assessment; classification of IT resources; IT physical security; and IT evidence of review.</p> |

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| H.      | <p>DEPT: Health Care Agency</p> <p>TITLE: <b>Final Close-Out</b> of First Follow-Up Audit of the Limited Review of HCA’s Information Technology Self-Assessment Questionnaire (Original Audit No. 2420)</p> <p><u>Audit No.:</u> 2623</p> <p>ISSUED: June 25, 2007</p> | <p><b>SCOPE:</b> 1<sup>st</sup> and Final Follow-Up Audit of HCA’s information technology (IT) self-assessment questionnaire. The original audit report, dated July 21, 2005, contained <b>15</b> recommendations with no material weaknesses or significant issues.</p> <p><b>CONCLUSION:</b> We are pleased to report that satisfactory corrective action was taken as <b>14</b> recommendations were fully implemented and <b>1</b> recommendation was in process/closed. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> The original audit was a pilot review limited to validating a sample of 2 of 34 control objectives from HCA’s IT self-assessment questionnaire. The two sample control objectives were <u>Ensure Compliance with External Requirements</u> and <u>Manage the Configuration</u>.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Seven (7) of the 15 control findings related to creating or revising written policies and procedures and the 8 of the 15 control findings related to best practices/controls.</p> |

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| I.      | <p>DEPT: Resources and Development Management Department</p> <p>TITLE: <b>Final Close-Out</b> of First Follow-Up Audit of the Limited Review of Lease Revenue for Swales Anchorage (Original Audit No. 2578)</p> <p><u>Audit No.:</u> 2650-G</p> <p>ISSUED: June 26, 2007</p> | <p><b>SCOPE:</b> <b>1<sup>st</sup></b> and Final Follow-Up Audit of the limited review of lease revenue to determine whether the records of Swales Anchorage adequately supported gross receipts reported to the County. The original audit report, dated October 5, 2006, contained <b>11</b> recommendations with no material weaknesses or significant issues.</p> <p><b>CONCLUSION:</b> We are pleased to report that <b>7</b> recommendations were fully implemented; <b>1</b> recommendation was fully implemented during the draft report process; and <b>3</b> recommendations were closed. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> The County of Orange entered into a lease agreement with Swales Anchorage, dated January 1, 1971, for the operation of a commercial marina on County Tidelands located in Lower Newport Bay. During our 12-month review period, Swales Anchorage generated over \$360,000 in gross receipts and paid the County \$72,070 in rent.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Lease compliance or improvements to internal controls regarding: reporting of delinquent slip rent and late fee charges; annual income statements; inventory and billing of dinghy spaces; and improving accounting records related to adjustments to gross receipts, commingled rental account, and security deposits.</p> |

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| J.      | <p>DEPT: Dana Point Harbor Department</p> <p>TITLE: FINAL CLOSE-OUT of First Follow-Up Audit of the Limited Review of Lease Revenue for Rancho Beach House (Original No. 2461)</p> <p><u>Audit No.:</u> 2545-C</p> <p>ISSUED: June 25, 2007</p> | <p><b>SCOPE:</b> 1<sup>st</sup> and Final Follow-Up Audit of the limited review of lease revenue to determine whether the records of Rancho Beach House adequately supported gross receipts reported to the County. The original audit report, dated March 30, 2005, contained <b>12</b> recommendations with no material weaknesses or significant issues.</p> <p><b>CONCLUSION:</b> We are pleased to report that <b>8</b> recommendations were fully implemented; <b>1</b> recommendation was fully implemented during the draft report process; <b>1</b> was no longer applicable, and <b>2</b> recommendations were closed. <b>As such, this report represents the final close-out of the original audit.</b></p> <p><b>BACKGROUND:</b> The County of Orange entered into a lease agreement with Rancho Beach House, dated January 23, 2001. The Agreement is primarily for the operation of a restaurant located at Dana Point Harbor. Rancho Beach House generates about \$2.8 million of gross receipts annually.</p> <p><b>TYPE OF RECOMMENDATIONS:</b> Lease compliance or improvements to internal controls regarding: supporting documentation and processes for banquets and gift cards; financial statements not complying with the lease agreement; reporting of internet sales; approval of valet services; minor clerical errors; and signing monthly rent reports under penalty of perjury.</p> |