

EXHIBIT A

MONTHLY AUDIT ACTIVITY REPORT
FOR JANUARY 2008
TO THE BOARD OF SUPERVISORS



Internal Audit Department

Serving the OC Board of Supervisors since 1995

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

**by the Director of Internal Audit
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February 26, 2008

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of January 2008. Included are an overview and a detailed briefing of each item.

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

Respectfully submitted,

Dr. Peter Hughes, CPA

MONTHLY AUDIT ACTIVITY – January 2008
Status Report to the Board of Supervisors by IAD

THE FOLLOWING AUDITS ARE SUMMARIZED BELOW:

- | <u>Exhibit</u> | <u>Audits:</u> |
|----------------|--|
| B. | <u>Housing & Community Services Department – Housing Choice Voucher Program Payments:</u> Internal Control Review of processes, controls, and systems over the issuance of rental assistance payments. No material or significant issues noted. We identified 8 control findings to enhance existing process and controls, and issued an Audit Alert to CEO/IT concerning a system security issue. |
| C. | <u>Human Resources Department – Performance Measure Validation:</u> Based on our audit of the 2005/2006 Results reported in Human Resources' 2007/2008 Business Plan, we tested all 3 Performance Indicator Results and rated 67% or two (2) of Human Resources' reported Results as 5 Star and (1) as 4 Star. |
| D. | <u>OC Fraud Hotline Activity:</u> During July 1, 2007 through December 31, 2007, the OC Fraud Hotline received 23 new complaints of improper activities, of which 35% were opened for investigation, 57% were redirect to other agencies and two closed due to insufficient information. |
| E. | <u>Probation Department – Bi-Weekly Payroll Process:</u> Internal Control Review of bi-weekly payroll. No material or significant issues noted. We identified 1 control finding and 2 effectiveness/efficiency issues to enhance the process and controls. |
| F. | <u>Auditor-Controller – Claims & Disbursing's Educational and Professional Reimbursement Process:</u> Internal Control Review of employee tuition reimbursement process. No material or significant issues noted. We identified 3 control findings to enhance both existing process and controls and proposed process changes. |
| G. | <u>Auditor-Controller – Claims & Disbursing Processes Issues Concerning Employee Social Security Numbers:</u> Our Internal Control Review of Auditor-Controller Claims & Disbursing processes disclosed concerns on the access and use of employee Social Security Numbers in various documents and systems. We identified three significant issues to protect confidentiality and restrict access to employee SSN. |

MONTHLY AUDIT ACTIVITY – January 2008
Status Report to the Board of Supervisors by IAD

Exhibit **Monthly Computer Assisted Audits of Vendor Payments (CAATs):**

- H. Auditor Controller – Duplicate Payments to Vendors – January 2008:
We identified **2 duplicate payments made** to vendors, totaling **\$516 or .0006%** of the **\$80 million** vendor invoices processed during November 2007 that are being pursued by the Auditor-Controller.

Exhibit **Follow-Up Audits**

- I. Social Services Agency – Final Close-Out Audit of Internal Control Review of Revolving Funds: First Follow-Up Audit of SSA revolving fund. Corrective action was taken on all **three recommendations**. As such, this represents the final close-out of the original audit.
- J. Probation Department – Final Close-Out Audit of Internal Control Review of Revolving Fund: Second Follow-Up Audit of Probation revolving fund. Corrective action was taken on all **four recommendations**. As such, this represents the final close-out of the original audit.

MONTHLY AUDIT ACTIVITY – January 2008
Status Report to the Board of Supervisors by IAD

Detailed Breakout

MATERIAL FINDING:

	Department and Description	Comments
		None issued during January 2008.

Board Date: February 26, 2008

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 OC Internal Audit Department's website at <http://www.ocgov.com/audit/>

MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	DEPT: Housing & Community Services Department TITLE: Internal Control Review of Housing & Community Services Department – Housing Choice Voucher Program Payments <u>Audit No.:</u> 2724 ISSUED: January 17, 2008	<p>Scope: Audit of Housing Choice Voucher Payment process and controls at HCSD to determine if payments made are processed timely, accurately, and are adequately supported and recorded; payments are authorized and processed in compliance with management directives; assets are properly safeguarded; and business processes are efficient and effective related to payment processing. We also gained a high-level understanding of selected general and application controls over the Housing Pro system used to process payments.</p> <p>Conclusion: No material weaknesses or significant issues were identified. Controls and processes are in place to ensure payments are processed timely, accurately, are adequately supported and recorded; payments are authorized and processed in compliance with management directives; assets are properly safeguarded; and business processes are efficient and effective related to payment processing. We identified eight control findings and recommendations where controls and processes can be enhanced. In addition, an “Audit Alert” was issued to the Deputy CEO/Chief Information Officer concerning a vulnerability in system security that was immediately mitigated and corrected.</p> <p>Background: The Housing Assistance section of HCSD functions as the Orange County Housing Authority (OCHA), which makes housing subsidy disbursements for the Housing Choice Voucher Program. OCHA has provided rental assistance to more than 9,400 households in the Housing Choice Voucher Program. For the year ended June 30, 2007, OCHA made approximately \$89 million in Housing Choice Voucher Program payments.</p> <p>Type of Recommendations: Request reimbursement of (7) duplicate payments; evaluate procedures for detecting duplicate payments; ensure Positive Pay Exception Reports are signed by processor and have a documented supervisory review; segregate check custody and reconciling duties; ensure tenant files contain all required documents; establish an IT risk assessment, and security and business continuity plan.</p>

Board Date: February 26, 2008

Exhibit A, Page 6 of 14

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MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

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C.	DEPT: Human Resources Department TITLE: Performance Measure Validation Audit of Human Resources 2005-2006 Performance Indicators <u>Audit No.:</u> 2753 ISSUED: January 16, 2008	<p>Scope: Our audit included obtaining an understanding of the methodology in place for collecting and reporting Performance Indicator Results by interviewing key personnel, observations, and reviewing source documentation. The 2005/2006 Business Plan contained 3 Performance Indicator Results; which we selected for testing Human Resources' supporting documentation. Our audit scope did not include an assessment of the appropriateness of Human Resources' Performance Indicator based on their mission, goals and objectives. We rated source (supporting) documentation provided as follows: 5 Star - Adequate supporting documentation; 4 Star - Adequate documentation with recommendations for improvement; and 3 Star - Noted opportunities for improvement.</p> <p>Conclusion: Based on our audit of the 2005/2006 Results reported in Human Resources' 2007/2008 Business Plan, we tested all 3 Performance Indicator Results and rated 67% or two (2) of Human Resources' reported Results as 5 Star and (1) as 4 Star.</p> <p>Background: We have initiated our PMV audits at the request of the Audit Oversight Committee. Our approach is to review performance measure results, assign validation ratings, report conclusions, and make recommendations. Our validation program is designed to provide assurance to the Board of Supervisors, the County Executive Officer, and the departments/agencies and other stakeholders that reported Outcome Indicators are reliable and can be utilized in decision making covering Government resources with confidence.</p> <p>Type of Recommendations: Human Resources ensure that outcome indicator or results being reported complement each other.</p>

MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

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D.	DEPT: Internal Audit Department TITLE: OC Fraud Hotline Activity <u>Audit No.:</u> 2703 ISSUED: January 18, 2008	<p>Scope: We have completed our report concerning the operation of the Orange County Fraud Hotline. This report is for the period of July 1, 2007 through December 31, 2007. The report includes background information on the Hotline including the establishment, purpose, and the processing of Hotline calls and a statistical summary of Hotline activities for the period.</p> <p>Conclusion: During July 1, 2007 through December 31, 2007, the OC Fraud Hotline received 23 new complaints of improper activities, of which 35% were opened for investigation, 57% were redirect to other agencies and two closed due to insufficient information.</p> <p>Background: The Orange County Internal Audit Department (IAD) established and runs the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. The establishment of a Hotline is a best business practice for both private and governmental entities. 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. Violations of County policy are also reported. Fraud is an intentional act that results in the misstatement of financial records or theft of the County's assets. The misuse of County resources would include for example the use of a County computer to run an outside business. In instances when non-County callers use the Hotline, their complaints are also processed.</p> <p>Type of Recommendations: Not Applicable</p>

MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
E.	DEPT: Probation Department TITLE: Internal Control Review of Probation Department Bi-Weekly Payroll Process <u>Audit No.:</u> 2725 ISSUED: January 23, 2008	<p>Scope: Audit of bi-weekly payroll processes and controls at Probation to determine if payroll is processed completely, accurately, and timely in accordance with management's authorization; Auditor-Controller core business processes are effective through accurate recording, reporting, and system output as determined through our testing of payroll transactions; and Probation payroll processes are efficient and effective.</p> <p>Conclusion: No material weaknesses or significant issues were identified. Controls and processes are in place to ensure payroll is processed completely, accurately, and timely; Auditor-Controller core business processes are effective through accurate recording, reporting, and system output as determined through our testing of payroll transactions; and Probation payroll processes are efficient and effective. We identified one control finding and two efficiency/effectiveness observations to enhance process and controls.</p> <p>Background: Bi-weekly payroll for Probation's approximately 1,600 employees is recorded using both Virtual Timesheet Interface (VTI) and manual timecards. About half of the Probation employees' timecards are recorded in VTI and the other half use manual timesheets. During the audit period, the total gross bi-weekly pay for Probation employees was \$128,188,700.</p> <p>Type of Recommendations: Ensure payroll reports are reviewed and signed by the Probation/Payroll Supervisor and all documents are retained; utilize the modified <i>Timecard Audit Report</i> to monitor unauthorized changes to pay codes; Probation management continue its efforts to transition manual timecards to the automated VTI system.</p>

Board Date: February 26, 2008

Exhibit A, Page 9 of 14

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MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

Exhibit	Description	Comments
F.	DEPT: Auditor-Controller TITLE: Internal Control Review of Claims & Disbursing's Educational and Professional Reimbursement Process <u>Audit No.:</u> 2720-1 ISSUED: January 29, 2008	<p>Scope: Audit of the Educational and Professional Reimbursement process (also known as “tuition reimbursement”) administered by Auditor-Controller’s Claims & Disbursing. We evaluated: 1) the <u>existing</u> reimbursement process to determine if requests are processed completely, accurately, and timely; 2) the <u>proposed changes</u> to the reimbursement process which places greater reliance on dept./agency certifications and will expedite A-C Claims’ processing timeframes. We also verified the Auditor-Controller’s authority to revise the reimbursement policies; ensured changes are in compliance with Internal Revenue Service (IRS) rules and regulations; evaluated the revised reimbursement form for adequate department/agency certifications; and 3) that business processes are efficient and effective.</p> <p>Conclusion: No material weaknesses or significant issues were identified. Controls and processes are in place in the existing process to ensure reimbursement requests are processed completely, accurately, and timely. The Auditor-Controller’s proposed changes to the reimbursement process and claim form are allowable and contain adequate certifications and are compliant with IRS regulations. We identified three control findings resulting in eight recommendations to enhance existing and proposed processes.</p> <p>Background: The Educational and Professional Reimbursement Program is designed to encourage employees to continue their professional development through a variety of opportunities, and are eligible for reimbursement of certain related expenses. The maximum qualified reimbursement an employee could receive in FY06/07 was \$2,000. During that period, A-C Claims processed 3,285 educational and professional reimbursement requests totaling \$1,420,893.</p> <p>Type of Recommendations: Establish or enhance procedures for reimbursement requirements in areas of: professional exams, monitoring annual reimbursement limits, post quality assurance reviews, and processing timeframes; add a certification to new claim form regarding annual limit; monitor IRS maximum limits for non-taxable income.</p>

Board Date: February 26, 2008

Exhibit A, Page 10 of 14

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MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

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G.	DEPT: Auditor-Controller TITLE: Claims & Disbursing Processes Issues Concerning Employee Social Security Numbers <u>Audit No.:</u> 2720-3 ISSUED: January 29, 2008	<p>Scope: We conducted an Internal Control Review of Auditor-Controller Claims & Disbursing Unit's processes to reimburse employees for educational and travel claims, where we identified issues concerning access and use of employee Social Security Numbers (SSN) in various documents and systems used in the claiming and reimbursement processes.</p> <p>Conclusion: No material weaknesses were identified. However, we noted three Significant Issues resulting in four recommendations where improvement is needed to protect confidentiality and restrict access to employee SSN in documents and systems used in the claiming and reimbursement processes.</p> <p>Background: We conducted an Internal Control Review of selected core, centralized processes performed in A-C Claims & Disbursing that have Countywide impact. We issued a series of reports including audits of the Educational and Professional Reimbursement process, Mileage & Other Expenses claim reimbursement process, and Vendor Payments. During the course of our audits, we noted the use of SSN in various documents, processes and systems, which resulted in issuance of a separate audit report specifically addressing these concerns.</p> <p>Type of Recommendations: CEO/IT consult with County Counsel to evaluate the adequacy of contract language and safeguards concerning data entry services involving employee SSN; Auditor-Controller and CEO/IT jointly identify alternatives for eliminating or restricting SSN in CAPS; restrict SSN on payroll documents according to Labor Code requirements; obtain assurance on eliminating use of SSN in the CAPS+ Upgrade Project.</p>

MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

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H.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: Computer Assisted Audit Techniques December 2007 <u>Audit No.:</u> 2713-G ISSUED: January 24, 2008	<p>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.</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • Duplicate Payments to Vendors: We identified 7 duplicate payments made to vendors totaling \$2,410 or .0027% of the \$88 million vendor invoices processed during December 2007. We analyzed 15,697 vendor invoices paid in December 2007 amounting to \$88,326,569. The Auditor-Controller currently has a recovery rate of about 92% on these duplicate payments. Our prior research has indicated that the duplicate payments are typically caused by a compounded human clerical error. <p>Based on the to-date recoveries of \$651,040 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.</p> <ul style="list-style-type: none"> • Deleted Vendors: No findings. <p>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.</p>

Board Date: February 26, 2008

Exhibit A, Page 12 of 14

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MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

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I.	DEPT: Social Services Agency TITLE: Final Close-Out Internal Control Review of Social Services Agency Revolving Funds Original Audit No. 2635 <u>Audit No.:</u> 2727-B ISSUED: January 23, 2008	<p>Scope: First Follow-Up Audit of revolving fund processes and controls to determine the implementation status of three recommendations made in our original audit report dated May 24, 2007. No material weaknesses or significant issues were identified in the original audit report.</p> <p>Conclusion: We are pleased to report that satisfactory corrective action was taken on all three recommendations. As such, this report represents the final close-out of the original audit.</p> <p>Background: SSA maintained two revolving funds totaling \$247,750 for general operations, which was allocated into three areas. During the period under review, SSA incurred approximately \$661,285 in Welfare and Assistance revolving fund expenditures, \$474,190 in Services and Supplies expenditures, and \$113,912 in Family Discretionary Fund expenditures.</p> <p>Type of Recommendations: Segregate duties of expenditure approval and check signing at district offices; ensure employees submit travel advance claim forms timely; cancel supporting documents upon payment.</p>

MONTHLY AUDIT ACTIVITY – January 2008
 Status Report to the Board of Supervisors by IAD

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J.	DEPT: Probation Department TITLE: Final Close-Out Internal Control Review of Revolving Funds Original Audit No. 2598 <u>Audit No.:</u> 2728-A ISSUED: January 29, 2008	<p>Scope: Second Follow-Up Audit of revolving fund processes and controls to determine if satisfactory corrective action was taken on four recommendations remaining from our First Follow-Up Audit dated August 30, 2007. No material weaknesses or significant issues were identified in the original audit.</p> <p>Conclusion: We are pleased to report that satisfactory corrective action was taken on all four recommendations. As such, this report represents the final close-out of the original audit.</p> <p>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.</p> <p>Type of Recommendations: Submit timely travel cash advance claims with proper authorization per CAM procedures; process all outstanding travel advance claims to reimburse employees for expenses and to collect monies due back to Probation; ensure timely processing of all future travel advance claims.</p>