

EXHIBIT A

IAD'S MONTHLY ACTIVITY REPORT
FOR
OCTOBER 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
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November 5, 2007

Honorable Board of Supervisors,

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

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

Respectfully submitted,


Dr. Peter Hughes, CPA

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

OCTOBER AUDIT ACTIVITY:

THE FOLLOWING PROJECTS ARE SUMMARIZED BELOW:

Exhibit **Audits:**

- B. County Counsel: Based on our audit of the 2006-07 Results reported in County Counsel's 2007-08 Business Plan, we rated 89% or eight (8) of County Counsel's reported Performance Indicator Results as 5 Star, and one (1) as 4 Star.
- C. Internal Audit Department: Based on our audit of the 2005/2006 Results reported in IAD's 2007 Business Plan, we rated 67% or two (2) of IAD's reported Performance Indicator Results as 5 Star, and one (1) as 4 Star.

Jefferson Wells International, Inc. was engaged by IAD to conduct an independent validation of IAD's self assessment conclusions reported in the Performance Audit of Internal Audit Department's 2005/2006 Performance Measure Results, report dated September 20, 2007. Jefferson Wells International, Inc. concurred with Internal Audit's conclusions in the above report.

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

- D. Auditor Controller – Duplicate Payments to Vendors – October 2007:
We did not identify any duplicate payments made to vendors during September 2007. The Auditor-Controller continues to investigate all prior duplicate payments and is pursuing collection.

Exhibit **Follow-Up Audits:**

- E. Resources and Development Management Department: **Second and Final Close-Out Follow-Up Audit** of Review of Lease Revenue for Newport Dunes Waterfront Resort. Corrective actions were taken on all three (3) remaining recommendations.

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Detailed Breakout

MATERIAL FINDING:

	Department and Description	Comments
		None issued during October 2007.

Board Date: November 20, 2007

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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 – October 2007
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NON-MATERIAL FINDINGS

Exhibit	Description	Comments
B.	DEPT: County Counsel TITLE: Performance Measure Validation <u>Audit No.:</u> 2749 ISSUED: October 2, 2007	<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 2006-07 Business Plan contained a total of 9 Performance Indicator Results; we selected all 9 for testing County Counsel’s supporting documentation. Our audit scope did not include an assessment of the appropriateness of County Counsel’s Performance Indicators 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 2006-07 Results reported in County Counsel’s 2007-08 Business Plan, we rated 89% or eight (8) of County Counsel’s reported Performance Indicator Results as 5 Star, and one (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: Reported results did not match the key outcome indicator.</p>

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Exhibit	Description	Comments
C.	<p>DEPT: Internal Audit Department</p> <p>TITLE: Jefferson Wells Report on Independent Validation of Performance Measures Audit of Internal Audit Department's 2005/2006 Performance Measure Results Report (2710)</p> <p><u>Audit No.:</u> 2710</p> <p>ISSUED: September 20, 2007</p>	<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 a total of 3 Performance Indicator Results; we selected all 3 for testing IAD's supporting documentation. Our audit scope did not include an assessment of the appropriateness of County Counsel's Performance Indicators 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 IAD's 2007 Business Plan, we rated 67% or two (2) of IAD's reported Performance Indicator Results as 5 Star, and one (1) as 4 Star.</p> <p>Jefferson Wells International, Inc. was engaged by IAD to conduct an independent validation of IAD's self assessment conclusions reported in the Performance Audit of Internal Audit Department's 2005/2006 Performance Measure Results, report dated September 20, 2007. Jefferson Wells International, Inc. concurred with Internal Audit's conclusions in the above report.</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: It was recommended that IAD ensure the results for each performance indicator be reported.</p>

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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/>

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Exhibit	Description	Comments
D.	DEPT: Auditor-Controller Human Resources CEO/Purchasing TITLE: Computer Assisted Audit Techniques October 2007 <u>Audit No.:</u> 2713-D ISSUED: October 26, 2007	<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 did not identify any duplicate payments made to vendors during September 2007. We perform this analysis monthly to identify duplicate payments made to vendors. We analyzed 16,550 invoices paid in September 2007 amounting to \$141,389,327. 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. <p>Based on the to-date recoveries of \$606,960 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>

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Exhibit	Description	Comments
E.	<p>DEPT: Resources and Development Management Department</p> <p>TITLE: Final Close-Out Second Follow-Up Audit of Limited Review of Lease Revenue for Newport Dunes Waterfront Resort (Original Audit No. 2462)</p> <p><u>Audit No. 2742-A</u></p> <p>ISSUED: October 26, 2007</p>	<p>SCOPE: Second and Final Close-Out Follow-Up Audit of the Review of Lease Revenue for Newport Dunes Waterfront Resort to determine the implementation status of 3 recommendations not fully implemented at the time of our first Follow-Up Audit, dated April 9, 2007.</p> <p>CONCLUSION: We are pleased to report that satisfactory corrective action has been taken on the 3 remaining recommendations. As such, this report represents the final close-out of the original audit.</p> <p>BACKGROUND: The County of Orange entered into a lease agreement with Newport Dunes Partnership, a California General Partnership, dated February 16, 1989, which has been subsequently amended, assigned, and modified on various dates. The current tenants as of August 2002 are Waterfront Resort Properties, LP and Newport Dunes Marina, LLC (referred to as Newport Dunes Waterfront Resort or NDWR). The Agreement is primarily to operate and maintain Newport Dunes Waterfront Resort, a public recreation facility located in Newport Beach.</p> <p>For the year ended October 31, 2004, NDWR and its sublessees generated over \$13.6 million in gross receipts and paid the County approximately \$2.2 million in rent. Sublessee Resort Watersports generated over \$220,000 in gross receipts and paid over \$22,000 in rent. Sublessee Aquarius Training & Development generated approximately \$12,000 in gross receipts and paid \$600 in rent.</p> <p>TYPE OF RECOMMENDATIONS: The original audit had 19 recommendations in the areas of lease compliance or improving controls regarding: financial statements, mobile registers, trade-out credits, incorrect credits, supporting records, past-due balances, and advance deposits.</p>

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