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EXHIBIT A

APRIL 2010 AUDITS BY IAD

MONTHLY AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda May 25, 2010

- Continuing Bond Disclosure Process We made (4) recommendations to improve disclosure policies and procedures. (14 OUTSTANDING BONDS TOTALING \$912 MILLION).
- Countywide Fee Development Monitoring Process Monitoring/oversight of department fee requests by A-C, CEO, and COB DEPARTMENTS/AGENCIES GENERATED \$461 MILLION IN REVENUE DURING FY08/09 FROM NON-PROPERTY TAX SOURCES) is generally adequate to ensure compliance with County fee policy.
- CAATs IAD found no duplicate payments made to vendors out of 14,857 invoices paid in April 2010
- First Follow Up of Probation Department Title IV-E Foster Care Claims Process - (\$16 MILLION IN EXPENDITURES AND \$5.7 MILLION IN CLAIMED REIMBURSEMENTS) One (1) recommendation fully implemented; three (3) recommendations in process; one (1) recommendation not yet implemented.
- Close-Out First Follow-Up of OC Dana Point Harbor Revitalization Plan Contract Administration - (\$14 MILLION IN CONTRACTS AND \$2 MILLION IN CONTRACT PAYMENTS) All six (6) recommendations were implemented.
- Close-Out First Follow-Up of JWA/Host International (\$23 MILLION IN RENT PAID TO JWA FROM 4/90 - 3/09) All three (3) recommendations were implemented.
- Close-Out First Follow-Up of JWA/JCDecaux (OVER \$7 MILLION IN RENT PAID TO JWA DURING THE 5 YEAR LEASE TERM) All two (2) recommendations were implemented.

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

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

Project No. 2907-10

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Hughes for the Most Outstanding Article of the Year



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach

Letter from Dr. Peter Hughes, CPA





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RISK BASED AUDITING

GAO & IIA Peer Review Compliant 2001, 2004, 2007



May 25, 2010

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Audit Activity Report for the month of April 2010. Each report has an overview and a detailed briefing for your review.

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

Respectfully submitted,

Dr. Peter Hughes, CPA

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

Board Date: May 25, 2010 Exhibit A, Page 2 of 13

Executive Summary

Exhibit AUDITS

- B. Audit of Continuing Bond Disclosure Process: AT 6/30/08, THE COUNTY HAD 14 OUTSTANDING BONDS TOTALING \$912 MILLION. We found that CEO/Public Finance disseminated continuing disclosure documents in a timely manner. We identified four (4) Significant Issues and made four (4) recommendations to enhance existing controls and processes for continuing bond disclosures.
- Countywide Fee Development Monitoring Process County Executive Office, Auditor-Controller and Clerk of the Board. WE AUDITED 10 DEPARTMENT FEE REQUESTS WITH EXPECTED REVENUE OF \$43M SUBMITTED FOR BOARD APPROVAL IN FY 08/09. We found that monitoring and oversight processes were generally adequate to ensure compliance with policy for developing fees on a cost-recovery basis. We identified eight (8) recommendations to ensure continued compliance and to enhance the County fee policy.

Exhibit Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques):

D. Auditor-Controller, Human Resources, Treasurer-Tax Collector, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – April 2010: We analyzed **14,857** vendor invoices paid in March 2010 amounting to about **\$190** million and found **99.99%** of the invoices were only paid once.

Of the \$190 million vendor invoices, we identified **one (1)** duplicate payment of \$1,140 made to a vendor. To date we have identified **\$940,463** in duplicate vendor payments, of which **\$893,962** has been recovered and is a noteworthy achievement by the County.

Exhibit FOLLOW UP AUDITS:

E. OC Dana Point Harbor: \$14 MILLION IN CONTRACTS AND \$2 MILLION IN CONTRACT PAYMENTS. First and Final Close-Out Follow-Up — Internal Control Audit of OC Dana Point Harbor (OCDPH) Revitalization Plan Contract Administration and Contract Payments. The original audit report contained six (6) recommendations.

Our First Follow-Up found OCDPH fully implemented all **six (6)** recommendations. As such, this report represents the final close-out of the original audit.

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Executive Summary

F. <u>Probation Department</u>: \$16 MILLION FOSTER CARE ADMINISTRATIVE EXPENDITURES AND \$5.7 MILLION CLAIMED MATCHING REIMBURSEMENTS. The original audit report contained **five (5) recommendations**.

Our First Follow-Up found Probation fully implemented one (1) recommendation, has three (3) recommendations in process, and did not yet implement one (1) recommendation. Management is working towards implementing the remaining recommendations. A Second Follow-Up Audit will be conducted in October 2010.

G. <u>John Wayne Airport – Host International, Inc.:</u> \$23 MILLION IN RENT PAID TO JWA DURING 4/90 TO 3/09. First and Final Close-Out Follow-Up Audit of JWA/Host International, Inc. The original audit report contained three (3) recommendations.

Our First Follow-Up Audit found that all **three (3)** recommendations were fully implemented. As such, **this report represents the final close-out of the original audit**.

H. <u>John Wayne Airport – JCDecaux Airport, Inc.:</u> Over \$7 MILLION IN RENT WILL BE PAID TO JWA DURING THE 5 YEAR LEASE TERM. First and Final Close-Out Follow-Up Audit of JWA/JCDecaux Airport, Inc. The original audit report contained two (2) recommendations.

Our First Follow-Up Audit found that all **two (2)** recommendations were fully implemented. As such, **this report represents the final close-out of the original audit**.

Board Date: May 25, 2010 Exhibit A, Page 4 of 16

Detailed Report

New Audit Findings by Risk Category

Description	Results
Material Weaknesses Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.	None issued during April 2010. None issued since July 2009.
Significant Findings Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.	4 issued in April 2010. 5 issued since July 2009.
Control Findings Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.	8 issued in April 2010. 109 issued since July 2009.

Total Audit Findings for FY 2009-10: 114

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Detailed Report

NON-MATERIAL FINDINGS

	Description	Comments
В.	DEPT: CEO/Public Finance	Scope: We audited the County's continuing bond disclosure process required by the Securities Exchange Act to ensure compliance.
	TITLE: Internal Control Audit of Continuing Bond Disclosure Process	Conclusion: We found that CEO/Public Finance disseminated continuing disclosure documents in a timely manner. However, we identified four (4) Significant Issues and made four (4) recommendations to enhance existing controls and processes for continuing bond disclosures.
	AUDIT NO: 2814 ISSUED: April 20, 2010	Background: The County's long-term obligations totaled \$912 million as of June 30, 2008. During fiscal year ending June 30, 2008, the County retired long-term obligations totaled \$99 million. Interest scheduled for long-term service requirements totaled \$57 million.
		The Securities and Exchange Commission (SEC) requires issuers of municipal bonds to make regular continuing disclosures to the municipal bond market. Investors and other municipal market participants obtain current continuing disclosure information regarding bonds in order to make more knowledgeable investment decisions, effectively manage and monitor their investments, and better protect themselves from misrepresentations and fraudulent activities. Accordingly, municipal bond issuers are primarily responsible for the accuracy, completeness, and timeliness of their continuing disclosure documents and are subject to federal securities laws.
		Recommendations: We made recommendations to improve disclosure policies and procedures; disclosures should be reviewed and approved by supervisory management to ensure there accuracy and completeness; and that adequate supporting evidence should be retained to support continuing bond disclosures.

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Detailed Report

	Description	Comments
C.	DEPT: County Executive Office Auditor-Controller Clerk of the Board TITLE: Internal Control Audit of Countywide Fee Development Monitoring Process AUDIT NO: 2922 ISSUED: April 20, 2010	Scope: Our audit evaluated internal controls in the County Executive Office, Auditor-Controller and Clerk of the Board for the countywide fee development monitoring process to ensure compliance with County Accounting Manual (CAM) No. R-3, Revenue Policy Requirements & Responsibility for the period July 1, 2008 through June 30, 2009. We also evaluated for efficiency/effectiveness of fee monitoring and oversight by observing for backlogs, duplication of work, and manual processes that could be automated. Conclusion: We found that monitoring and oversight processes are generally adequate to ensure fees are developed in compliance with County Accounting Manual No. R-3, Revenue Policy Requirements & Responsibility. However, we identified eight (8) Control Findings and recommendations to ensure continued compliance with fee policy. No material or significant findings were noted. Background: County departments and agencies generated \$461 million in revenue in Fiscal Year 2008/09 from non-property tax sources (Licenses, Permits and Franchises - \$18 million; and Charges for Services - \$443 million) by charging fees to cover the cost of the services they provide to the public. Fees are established based on estimated costs required to provide the service (cost-recovery basis). The County Executive Office, Auditor-Controller, and Clerk of the Board have monitoring and oversight responsibilities of department/agency fee requests submitted for Board of Supervisors' approval to ensure proposed revenues are related to the services and do not exceed estimated costs to provide the services. Recommendations: Auditor-Controller (A-C) evaluate ways to ensure they receive all fee studies and Fee Checklist forms; A-C determine and document their appropriate level of review required for fee studies; CEO/Budget ensure they sign all Fee Checklist forms to document their review/approval; CEO/Budget, A-C, and COB jointly ensure department Fee Checklist forms accompany the ASRs; CEO/Budget and COB jointly ensure department Fee Checklist

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Detailed Report

	Description	Comments
D.	DEPT: Auditor-Controller Human Resources Treasurer-Tax Collector County Procurement Office TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – April 2010 AUDIT NO: 2941-J ISSUED: April 28, 2010	Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform 4 on-going CAAT routines utilizing selected payroll and vendor data. Depending on the nature of the CAAT, we perform them monthly, annually, or as necessary. We are also in the process of performing a new routine for employee delinquent receivables (started in February 2010). Upon completion, we will evaluate the merits of continuing this routine periodically. Conclusion: • Duplicate Payments to Vendors: We analyzed 14,857 vendor invoices paid in March 2010 amounting to about \$190 million and found 99.99% of the invoices were only paid once. Of the \$190 million vendor invoices, we identified one (1) duplicate payment of \$1,140 made to a vendor. The County currently has a recovery rate from vendors of about 95% on these duplicate payments. Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$893,962, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost. • Multiple Payroll Direct Deposits: No findings noted. • Employee Vendor Match: In 11/09 and 1/10, we identified a total of 12 potential employee-vendor matches. These matches were provided to HR for evaluation as to whether any employee vendor conflicts exist. As of 4/21/10, HR determined that 8 were not a conflict. Their review is in process for the remaining 4 matches. • Retiree/Extra Help Hours: As of 4/17/10, no working retirees exceeded the annual limits of 960 or 720 hours for FY 09-10, as mandated by Government Code Sections 31680.6 and 31641.04. • Employee Delinquent Receivables - Centralized Receivables: We reported the results from our analysis of delinquent property taxes in February 2010.
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Detailed Report

Description	Comments
CONTINUED, DEPT: Auditor-Controller Human Resources Treasurer-Tax Collector County Procurement Office TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer Assisted Audit Techniques) – April 2010	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 Auditor-Controller, Human Resources, or County Procurement Office 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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Detailed Report

	Description	Comments
E	E DEPT: OC Dana Point Harbor TITLE: First and Final Close-Out Follow-Up – Internal Control	Scope: First and Final Close-Out Follow-Up Audit of contract administration and contract payments at OC Dana Point Harbor (OCDPH) for the Harbor Revitalization Plan to determine the implementation status of six (6) Control Findings and Recommendations made in our original audit. No material or significant issues were noted in that audit. We audited <u>all</u> Harbor Revitalization Plan contracts in effect at the time of the original and Follow-Up audits.
	Audit of OC Dana Point Harbor Revitalization Plan Contract Administration and Contract Payments	Conclusion: Our First Follow-Up found OCDHP fully implemented all six (6) recommendations. We commend OCDPH on their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit .
	AUDIT NO: 2927-C ISSUED: April 8, 2010 Original Audit No. 2820, Issued September 16, 2009	Background: During our audit, there were four contracts for the Harbor Revitalization Plan totaling \$11.6 million and related contract payments of \$1.2 million. Because the Harbor Revitalization Plan was in its early design phase, we audited other OCDPH contracts and payments to determine effectiveness in administering future harbor revitalization contracts. During the audit period, OCDPH administered 84 contracts totaling over \$14 million and paid over \$2 million in contract expenditures, which includes the above amounts for the Harbor Revitalization Plan.
		Recommendations: Include Contract Payment Spreadsheets in all contract files; update Contract Payment Spreadsheets to reflect current expenditures; date-stamp contractor invoices upon receipt; ensure contractor invoices are processed within established 15-day timeframes; obtain verification of contracted services and agree billing rates with contract terms prior to payment; establish a Memorandum of Understanding for work performed by OC Public Works Accounting on behalf of OCDPH.

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Detailed Report

	Description	Comments
F.	DEPT: Probation Department	Scope: First Follow-Up Audit of Probation's Title IV-E Foster Care Program Claims Process to determine the implementation status of five (5) Control Findings and Recommendations made in our original report. No material or significant issues were noted in that audit.
	TITLE: First Follow-Up Audit – Internal Control Audit of Probation Department Title IV-E Foster Care Program Claims Process	Conclusion: Our First Follow-Up Audit indicated that the Probation Department took satisfactory correction action to fully implement one (1) recommendation; three (3) recommendations are in-process of implementation; and one (1) recommendation is not yet implemented. Probation management concurs with the remaining recommendations and is working towards implementing them. A Second Follow-Up Audit is scheduled in October 2010.
	AUDIT NO: 2927-B ISSUED: April 20, 2010 Original Audit No. 2822,	Background: The Foster Care Program authorized under Title IV-E of the Social Security Act helps counties to provide safe and stable out-of home care for minors until they are safely returned home, placed permanently with adoptive families or placed in other planned arrangements for permanency. The Probation Department and Social Services Agency (SSA) have an Interagency Operation Agreement to claim Title IV-E costs. Total costs for Probation's administrative activities during the audit period from October 1, 2007 through September 30, 2008 were about \$16 million, and claimed
	Issued September 16, 2009	Recommendations: Establish written procedures to ensure time study forms are prepared, documented and submitted by relevant personnel; establish written procedures for quarterly fiscal claiming; reconcile fiduciary fund accounts holding Title IV-E funds on a monthly basis; implement data storage controls for Title IV-E claiming spreadsheets; update Interagency Operating Agreement between Probation and Social Services Agency.

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Detailed Report

	Description	Comments
G.	DEPT: John Wayne Airport	Scope: First and Final Follow-Up Audit – JWA/Host International, Inc. to determine the implementation status of three (3) recommendations from our original audit dated August 27, 2009. No material or significant issues were identified in the original audit report.
	TITLE: First and Final Close-Out Follow-Up Audit of Host International, Inc.	Conclusion: Our First Follow-Up Audit found the all three (3) recommendations were fully implemented. We commend JWA and Host International, Inc. on their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit.
	AUDIT NO: 2937-D ISSUED: April 27, 2010	Background: The County of Orange entered into a lease agreement with Host International, Inc. (Host), dated April 6, 1990 for the operation of the central food and beverage concession located at JWA. Currently, Host operates 11 food locations at JWA including 1 sit-down restaurant/bar, 1 bakery/café, 2 bars/lounges, 3 Starbucks concessions, 2 snack bars, and 2 Wolfgang Puck kiosks. The Agreement expired on June 30, 2008 and currently Host is on a month-to-month tenancy. During the audit
	Original Audit No. 2833, Issued August 27, 2009	period, Host reported approximately \$16 million in gross receipts and paid JWA approximately \$2.5 million in rent. From the lease inception date of April 1990 through March 2009, JWA has received approximately \$23 million in rent .
		Recommendations: Record keeping, internal control, and/or lease compliance improvements regarding: retention of daily balancing documentation, cash register grand total accumulator differences, and clarification of reporting category for merchandise sales.

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Detailed Report

	Description	Comments
H.	DEPT: John Wayne Airport	Scope: First and Final Follow-Up Audit – JWA/JCDecaux Airport, Inc. to determine the implementation status of two (2) recommendations from our original audit dated August 25, 2009. No material or significant issues were identified in the original audit report.
	TITLE: First and Final Close-Out Follow-Up Audit of JCDecaux Airport, Inc.	Conclusion: Our First Follow-Up Audit found the all two (2) recommendations were fully implemented. We commend JWA and JCDecaux Airport, Inc. on their responsiveness in addressing our recommendations. As such, this report represents the final close-out of the original audit .
	AUDIT NO: 2937-C ISSUED: April 27, 2010	Background: The County entered into a lease agreement with JCDecaux Airport, Inc., dated November 1, 2004, for the operation and management of an advertising program at the JWA terminal. Over its 5-year term, this lease agreement is estimated to generate over \$7 million in rent to the County.
	Original Audit No. 2834, Issued August 25, 2009	Recommendations: Lease compliance regarding additional rent owed for the phone board technical charges amounting to \$25,220 (\$2,202 for the audit period and \$23,018 for the pre-audit period).

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