

FY 2006/2007 INTERNAL AUDIT REPORT

FOR THE OC BOARD OF SUPERVISORS



Orange County

Internal Audit Department



**Independence,
Objectivity,
Integrity**



THE INTERNAL AUDIT DEPARTMENT REPORTS DIRECTLY TO THE ORANGE COUNTY BOARD OF SUPERVISORS

This reporting structure is unique as Orange County is the only county in the State of California with this reporting relationship. In addition, the Board's continuing support allowed the Orange County Internal Audit Department (IAD) to become a model high-performing audit department under the leadership of Dr. Peter Hughes and through the support, commitment, and dedication of his staff.

The Board also created the Audit Oversight Committee (AOC) to provide quarterly update of the progress of the Internal Audit Department in completing its annual audit plan.

The AOC is an advisory arm of the Board and is comprised of the following voting members: the Chairman and Vice Chairman of the Board of Supervisors, the County Executive Officer, the Auditor-Controller, and a public member. The AOC reviews and approves the Annual Audit Plan as well as selects the peer reviewer.

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A Message from

ORANGE COUNTY'S DIRECTOR OF INTERNAL AUDIT

Greetings,

We had a very productive year. We provided audit coverage, presence or services to all of 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.

Of particular noteworthiness this year was our contribution to the success of the Board of Supervisors' new Countywide Strategic Focus initiative. Over the course of the year we partnered with the County Executive Officer, his Executive Staff, and his Strategic Planning Steering Committee by facilitating and leading interviews with Key County Stakeholders, developing and leading the County's Strategic Vision and Focus Workshops, and in compiling and reporting the results to the Board.

In addition, this year we achieved a milestone in the tenure of any internal audit department by completing 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.

As experienced in past years, we received the full support and cooperation from all levels of County personnel and management in answering our questions, facilitating our audits, and promptly addressing our audit concerns.

It has been my pleasure to serve you.

☐ Sincerely,



Dr. Peter Hughes, CPA
OC's Director of
Internal Audit Department



DR. PETER HUGHES

Internal Audit Director

Ph.D., MBA, CPA, CIA,
CFE, CITP, CCEP

- Find us at:
www.ocgov.com/audit
- E-mail your comments to:
peter.hughes@iad.ocgov.com

TRANSPARENCY

The Internal Audit Department reports directly to the Board of Supervisors on a monthly basis in a public forum. Additionally, the Internal Audit Department reports quarterly to the Board-appointed advisory group known as the Audit Oversight Committee.

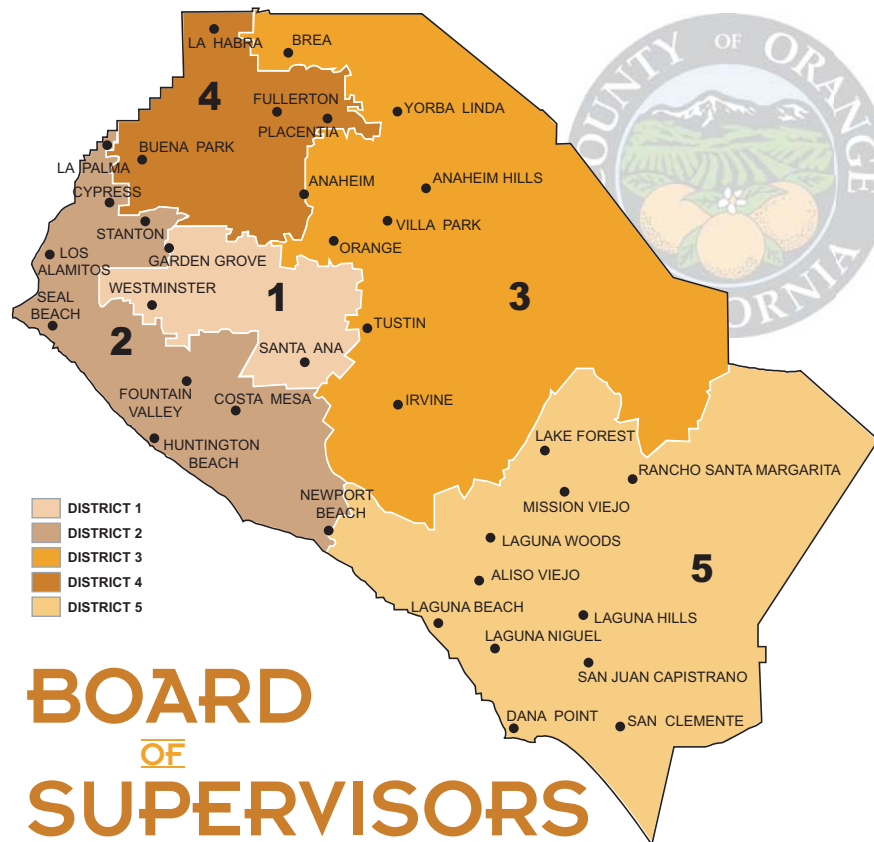
IAD MISSION

The mission of the Orange County Internal Audit Department (IAD) is to provide reliable, independent and objective evaluations of business processes to the Board of Supervisors and County management in order to assist them in making business and financial decisions and to protect and safeguard the County's resources and assets.

PROVIDING FACTS AND PERSPECTIVES COUNTYWIDE



MEET OC'S BOARD OF SUPERVISORS



BOARD OF SUPERVISORS



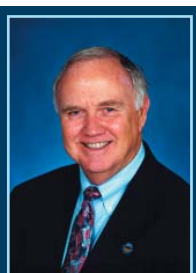
Supervisor
Janet Nguyen
First District

Garden Grove
(portions of),
Santa Ana, West-
minster



Vice Chairman
John M. W. Moorlach
Second District

Costa Mesa, Cypress,
Fountain Valley,
Garden Grove (por-
tions of), Huntington
Beach, La Palma, Los
Alamitos, Newport
Beach, Seal Beach,
Stanton



Supervisor
Bill Campbell
Third District

Anaheim (portions
of), Brea, Irvine,
Orange, Tustin, Villa
Park, Yorba Linda



Chairman
Chris Norby
Fourth District

Anaheim (por-
tions of), Buena
Park, Fullerton, La
Habra, Placentia

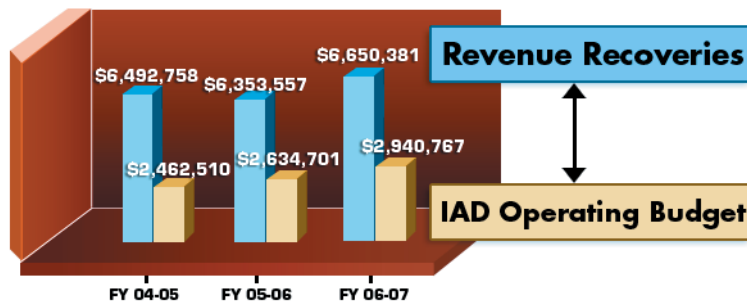


Supervisor
Patricia C. Bates
Fifth District

Aliso Viejo, Dana
Point, Laguna Beach,
Laguna Hills, La-
guna Niguel, Laguna
Woods, Lake Forest,
Mission Viejo, Ran-
cho Santa Margarita,
San Clemente, San
Juan Capistrano

ACTUAL AND POTENTIAL REVENUE RECOVERY

Estimated and Actual Revenue Recoveries



The OC Internal Audit Department aggressively audits and reviews for revenue recoveries whenever the opportunity presents itself. We look for under-recovered revenues as a critical component of assisting management in safeguarding the County's assets. We conduct numerous audits of businesses contracted by agencies such as John Wayne Airport, Resources and Development Management Department, and the Dana Point Harbor Department to ensure all revenues due to the County are properly calculated and received. In addition, we audit to determine if any double payments to vendors have been mistakenly made; and we evaluate if accounts receivable are being properly recorded and collected.

INTERNAL AUDIT RECOVERS AT LEAST 200% OF ITS BUDGET

Although the amounts vary each year, the OC Internal Audit Department's economic benefit (estimated savings or actual revenue recoveries) has been exceeding **200%** of the department's budget. This clearly demonstrates our budget is an investment that generates an impressive rate of return.

DANA POINT: Our greatest achievement to date has been the Board of Supervisors' adoption of the Internal Audit Department's recommendation to retain Dana Point Harbor as a County-owned harbor operation. This decision is estimated to result in the County recovering, at a minimum, an additional **\$250 million** over 40 years on behalf of the public tax payers.

DANA POINT HARBOR, DANA POINT



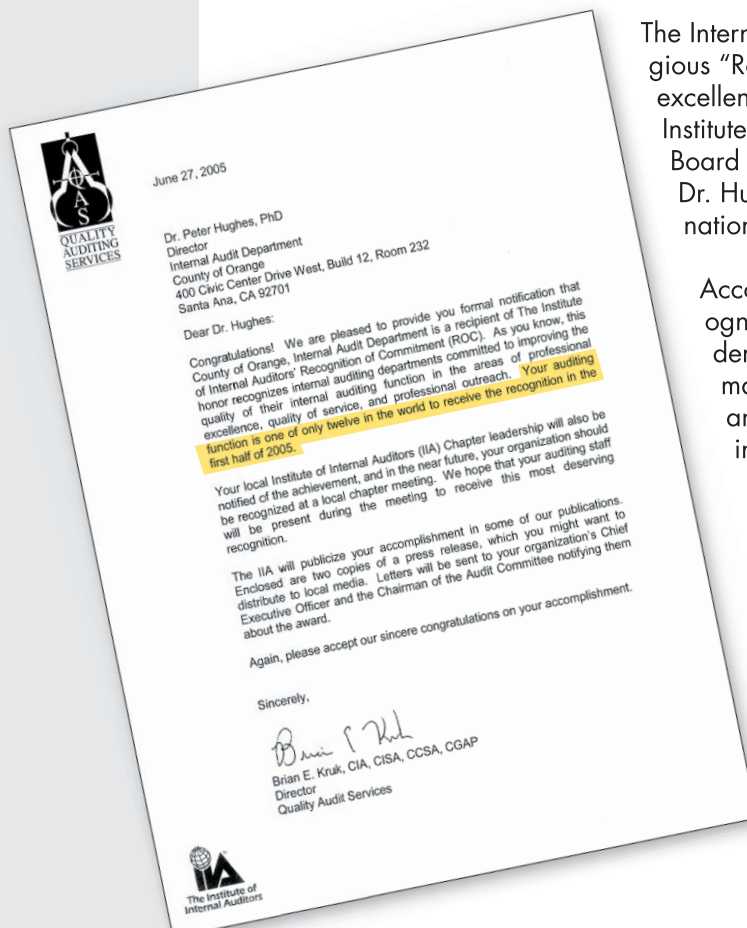


THE BOARD OF SUPERVISORS' AUDIT OVERSIGHT COMMITTEE

The Board of Supervisors' Audit Oversight Committee (AOC) members for 2006 were Chairman Bill Campbell, Vice Chairman Chris Norby, Auditor-Controller David Sundstrom, County Executive Officer Thomas G. Mauk and Public Member Dr. David Carlson. The 2007 AOC members are Chairman Chris Norby, Vice Chairman John M. W. Moorlach, Auditor-Controller David Sundstrom, County Executive Officer Thomas G. Mauk and Public Member Dr. David Carlson. The AOC meets quarterly and is primarily charged with approving the annual audit plan and annual risk assessment as well as providing oversight to the Internal Audit Department.

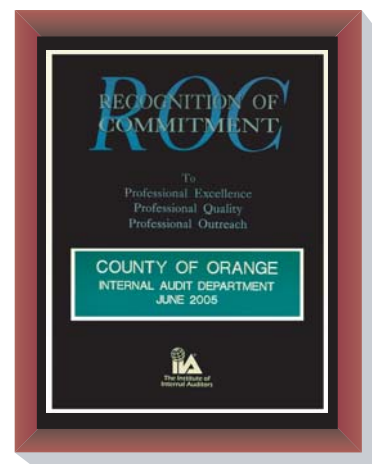
INTERNAL AUDIT RECEIVES IIA AWARD

**(ONLY 12 AWARDS ISSUED IN THE WORLD
IN THE FIRST HALF OF 2005)**



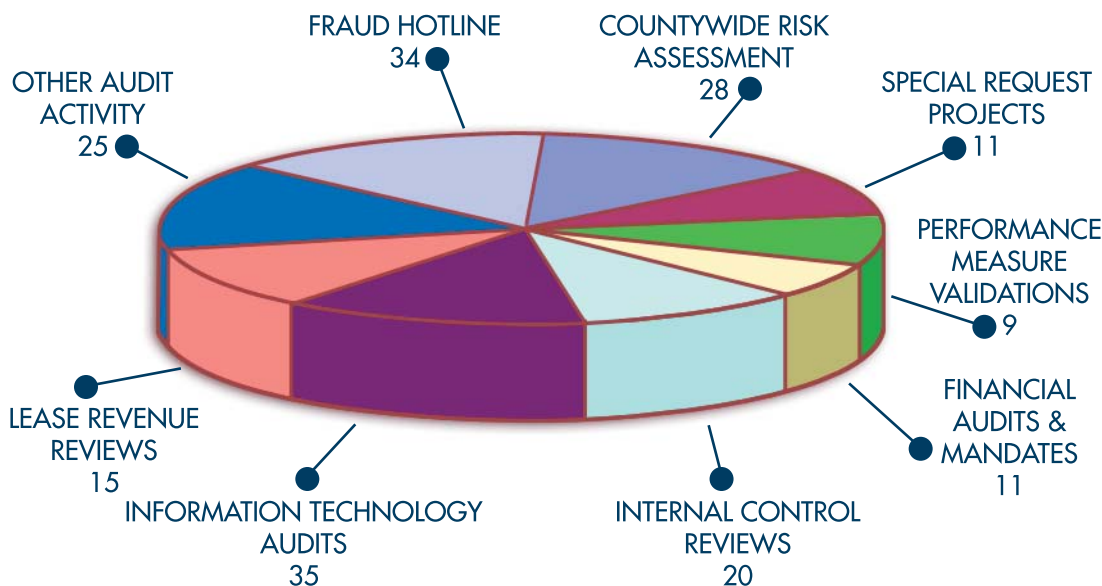
The Internal Audit Department has received the highly prestigious "Recognition of Commitment" to professional excellence, professional quality, and outreach from the Institute of Internal Auditors (IIA). On behalf of the OC Board of Supervisors and the Internal Audit Department, Dr. Hughes was presented with a plaque at the IIA's International Conference on July 12, 2005 in Chicago.

According to the IIA, this award is designed to recognize internal audit departments worldwide that demonstrate excellence in management and performance. The OC Internal Audit Department is the first and only county audit department out of 58 counties in California to receive this honor.



FY 2006/2007 DETAILED ACCOMPLISHMENTS

188 AUDIT PROJECTS COMPLETED



COUNTYWIDE RISK ASSESSMENT

(COMPLETED 28 ASSESSMENTS)

Internal Audit Department conducts a comprehensive, interactive countywide Risk Assessment for purposes of establishing the Annual Audit Plan.

The Risk Assessment consists of a General Risk Assessment for critical business processes throughout the County (e.g. cash receipts and disbursements, receivables and payables, purchasing and contract administration, payroll, budgets, etc.) and an Information Technology Inventory and Assessment where key systems are identified and rated as to levels of risk.

The Risk Assessment includes reviews of Business Plans and corresponding with members of the Board of Supervisors, the County Executive Office, and departments/agencies to obtain their input on risks affecting their respective areas.





SPECIAL REQUEST PROJECTS

(COMPLETED 11 REQUESTS)

COUNTY OF ORANGE STRATEGIC FOCUS PLANNING PROCESS (PARTICIPATED IN 5 PHASES)

In 2006, the Orange County Board of Supervisors identified the need for a countywide strategic planning effort and launched the Countywide Strategic Focus Planning Process.

The Strategic Focus Planning Process has been implemented under the direction of County Executive Officer Thomas G. Mauk, Chief Financial Officer Robert J. Franz, Strategic Focus and Special Projects Manager Patti Gorczyca, and the Strategic Focus Steering Committee. To date, the Strategic Focus Planning Process has included: informational meetings with external stakeholders, public survey conducted at the 2006 Orange County Fair, countywide electronic employee survey, two-day Strategic Focus Summit in October 2006, and 5 Strategic Planning Workshops.

IAD partnered with the County Executive Office on all **5** critical phases since the inception of this process and has delivered the following:

- 1.** IAD facilitated meetings between County representatives and over 30 external stakeholders which included CEOs and other executive officers from entities such as the Disney Corporation and the Irvine Company.
- 2.** IAD Facilitation Team participated in the Strategic Focus Summit by capturing, analyzing, facilitating, and summarizing information that helped lead to the development of the County Mission Statement, two Core Business Strategies, two Core Cultural Strategies and sixteen County Detailed Strategies.

3. IAD developed a Strategic Planning Workshop process for employees to participate in anonymous electronic voting and group discussion on all sixteen County Detailed Strategies.

4. IAD Facilitation Team developed, designed, and led all 5 of the Strategic Planning Workshops.

IAD Facilitation Team:

- Dr. Peter Hughes, CPA
- Alan Marcum, CPA
- Nancy Ishida, CPA
- Michael Dean, CPA

5. IAD summarized the results of the workshops by identifying common themes and developing various graphs and appendixes, and drafted the report for the Strategic Focus Steering Committee's review and approval for distribution to the Board of Supervisors and County departments.

Five workshops were conducted involving 81 selected employees from the following departments: *Health Care Agency, Housing and Community Services Department, Social Services Agency, Integrated Waste Management Department, and Probation*. These five departments' total personnel equal approximately **72** percent of non-elected budgeted staff positions and approximately **49** percent of total budgeted staff positions in the County.

IAD participation in the future: The Strategic Focus Steering Committee has requested IAD's assistance with a second Strategic Focus Summit in FY 2007/2008.

SPECIAL REQUEST AUDITS

During FY 2006/2007, Internal Audit Department performed the following special request audits/reviews for the Board of Supervisors, the CEO, and certain Departments/Agencies:

1. Audit of John Wayne Airport Public Works Contract Administration. At the request of John Wayne Airport, we conducted 1 audit of procedures, processes, and internal controls related to the management of public works contracts. Processes reviewed included bidding, development of plans/specifications, project administration, change orders, and pay requests.

2. Audit of John Wayne Airport Cash Disbursements. At the request of the Audit Oversight Committee, we conducted 1 Internal Control Review of cash disbursements at John Wayne Airport that included a review of financial and accounting records, evaluation of internal controls, compliance with applicable procedures, evidence of process efficiencies and effectiveness, and safeguarding of County assets.

3. Audit of Integrated Waste Management Department Contract Administration. At the request of Integrated Waste Management Department, we conducted 1 audit to evaluate the adequacy of internal controls over contract administration processes at Integrated Waste Management Department Headquarters and the three operating landfills. Our audit included comparing and contrasting contract administration processes at each location to determine if they are uniform and consistent.

4. Audit of Probation Department Grant Claiming. At the request of the Probation Department, we conducted 1 audit to determine if internal controls over the claiming process for the Residential Substance Abuse Treatment (RSAT) Grants were in place and operating to ensure compliance with grant claiming requirements at the Youth Guidance Center.

5. Audit of Sheriff/Coroner Contract Administration and Cash Disbursements. At the request of the Audit Oversight Committee, we conducted 1 Internal Control Review of contract administration and cash disbursements to determine if contracts are appropriately monitored to prevent overruns and if contract expenditures are adequately reviewed, approved, supported, and in compliance with contractual requirements.

6. Validation Review of Orange County Election Study. At the request of the County Executive Officer, we completed a validation review of the Orange County Election Study to determine that objectives stated in the Board of Supervisors Directive were responded to by the Election Center consultants in their conclusion.





PERFORMANCE MEASURE VALIDATIONS

(COMPLETED 9 AUDITS)



In 2005 we added a new audit area called Performance Measure Validation (PMV) to our Audit Plan. These audits validate the performance measure results reported by the County departments in their annual business plans.

During FY 2006/2007, we completed 7 PMVs in the following departments/agencies: *Child Support Services, Public Library, Registrar of Voters, Social Services Agency, Resources and Development Management Department, Health Care Agency, and Housing and Community Services.* In addition, we completed 2 First Follow-up PMVs in *Auditor-Controller and John Wayne Airport.*

An example of the type of performance measures tested include such measures as the Child Support Services – Percent of Collections on Current Support, which is also a Federal performance measurement. Since inception we audited a total of **105 performance measures** for the nine departments/agencies and plan to perform PMV audits for all departments by June 30, 2008.

FINANCIAL AUDITS & MANDATES

(COMPLETED 11 AUDITS)

Financial Audits and Mandates (FAM) are audits that determine whether the financial statements are fairly stated in accordance with applicable professional standards, financial statements are supported by sound internal controls, and that management complied with applicable laws, regulations, and grant requirements. These audits are conducted in accordance with generally accepted auditing standards of the United States of America, and/or Government Auditing Standards issued by the Comptroller General of the United States.

We completed the following FAMs during FY 2006/2007:

- 5 Treasury Funds Audits of approximately **\$7 billion** in investments for quarters ending 12/31/05, 6/30/06, 9/30/06, 12/31/06, and 3/31/07
- 1 District Attorney Auto Insurance Fraud Grant Audit
- 1 District Attorney Workers' Compensation Fraud Grant Audit
- 1 District Attorney Spousal Abuser Prosecution Grant Audit
- 1 District Attorney Health & Disability Insurance Fraud Grant Audit
- 1 First Follow-up Probation Audit
- 1 Second Follow-up Treasury Funds Audit for the quarter ending 12/31/04

INTERNAL CONTROL REVIEWS

(COMPLETED 20 AUDITS)

Internal Control Reviews (ICRs) are audits that determine whether controls and processes are in place over critical business processes in order to accomplish department/agency objectives and minimize risks in accomplishing the objectives. Some of our ICRs include a review of multiple areas, issues and activities. For example, one audit report may address contract administration and related vendor payments. We have also incorporated reviews of business process efficiencies and effectiveness, and Auditor-Controller's core business systems into our ICRs. We performed the following ICRs during FY 2006/2007:

1. Cash Disbursements – 1 completed. We performed a cash disbursements review of vendor/contract payments at Resources and Development Management Department.

2. Revolving Funds – 4 completed. We performed reviews of revolving funds at the Assessor, District Attorney, Probation, and Social Services Agency.

3. Procurement and Contract Administration – 2 completed. We performed a review of CEO/Purchasing's administration of the County purchasing card (Cal Card) program. We also completed a review of controls and processes over contract administration at Resources and Development Management Department to ensure effective monitoring is in place and contract payments are adequately supported, reviewed, and approved.

4. Payroll – 2 completed. We conducted reviews of controls and processes over bi-weekly payroll in the Auditor-Controller's Claims and Disbursing unit and at Health Care Agency to ensure payroll is processed completely, accurately, and timely; and that supplemental pay is adequately supported and approved.

5. Follow-Up Audits of Internal Control Reviews – 11 Follow-Up Audits were completed. Follow-Up Audits are necessary to ensure that audit recommendations from the ICRs are implemented satisfactorily. We perform our First Follow-Up Audit six months from the date of the original audit report. If any items are not fully implemented, a Second Follow-Up Audit is conducted 12 months from the date of the original audit report. The Audit Oversight Committee is notified of any recommendations not fully implemented after our Second Follow-Up Audit. We conducted Follow-Up Audits in the following departments: Assessor, District Attorney, Health Care Agency, John Wayne Airport, Public Administrator/Public Guardian, Public Defender, Resources and Development Management Department, and Social Services Agency.



INFORMATION TECHNOLOGY AUDITS

(COMPLETED 35 PROJECTS)

Information Technology (IT) Audits are reviews of controls in a variety of information technology areas including general IT controls, application controls, and system developments. We performed audit work in the following IT areas during FY 2006/2007:

1 IT Component of a Financial Audit: As part of the 12/31/06 Treasury Funds Audit, we completed documentation of IT related risks and controls in compliance with applicable Auditing Standards.

5 IT Component of ICRs: Occasionally, the Internal Control Reviews (ICRs) may include a limited review of selected IT controls. We completed 5 ICRs that included an IT component as described below:

2 Payroll Reviews – Health Care Agency and Auditor-Controller: We conducted 2 Internal Control Reviews of the bi-weekly payroll processes that included a limited review of process and controls in the Virtual Timecard Interface (VTI) time reporting system.

1 Revolving Funds – Social Services Agency: We conducted 1 Internal Control Review of revolving funds which included a limited review of user access controls and security profiles for the CalWORKS Welfare Information Network (CalWIN).

2 Follow-Up Audits – Public Administrator/Public Guardian: We conducted 2 (First and Second) ICR Follow-Up Audits to determine the implementation status of IT related recommendations for PA/PG's accounting and case management system known as ePAGES.



3 Follow-Up of IT Audits: We completed 1 First Follow-Up Audit for the Limited Review of Health Care Agency's IT Self Assessment Questionnaire and 2 Second Follow-Up Audits of the Auditor-Controller/Laser Check Application Audit and the Countywide Accounting and Personnel System (CAPS)/Payroll Risk Assessment.

We also started 2 IT Follow-Up Audits for the Integrated Waste Management Department LIST Implementation Review and the Auditor-Controller IT Accounts Receivable/Collections Review. At the request of the applicable department, the 2 Follow-Up Audits will be carried-over to FY 2007/2008.

26 Computer Assisted Audit Techniques (CAATs): We completed 26 projects in this category. We use a proprietary, state-of-the-art/best practice software product to help us analyze data for payroll and vendor payments. The audit work is commonly known as Computer Assisted Audit Techniques (CAATs). We perform the following CAAT routines on a regular basis:

- ▶ **Duplicate Vendor Payments:** We conducted 12 monthly computer routines to identify potential duplicate vendor payments. Since the inception of this routine in May 2002, **duplicate payments identified are \$680,151 and amounts recovered are \$580,904**, for a recovery rate of about **87%**.
- ▶ **Deleted Vendors:** We performed 12 monthly routines to identify vendors deleted or removed from the Vendor Master List.
- ▶ **Working Retirees/Extra Help Hours:** We reviewed available working retiree activity reports to identify retirees who exceed hour limits for FY 2005/2006.
- ▶ **Annual Risk Assessment:** We performed several CAAT routines to obtain financial information (transaction amounts and activity) that we utilize in the annual risk assessment. For example, we compile cash receipt activity by the department that processed the cash receipt rather than by the department/fund where the money was deposited (some departments process monies for other departments).



BEST PRACTICE BY OC IAD

OC IAD is one of the few counties to have developed an ongoing CAAT Program.



LEASE REVENUE REVIEWS

(COMPLETED 15 PROJECTS)

Lease Revenue Reviews:

Lease Revenue Reviews are audits to determine if all revenues due to the County are properly calculated, recorded, and received. These reviews were requested by the Resource and Development Management Department (RDMD), John Wayne Airport (JWA), and Dana Point Harbor Department (DPHD). We completed the following 5 Lease Revenue Reviews during FY 2006/2007:

- JWA/Atlantic Aviation
- JWA/Hertz Rent A Car
- JWA/Newport Beach Golf Course
- RDMD/Science Enrichment Services
- DPHD/Ocean Institute

Follow-Up Audits of Lease Revenue Reviews:

We completed 7 First Follow-Up Audits, 3 Second Follow-Up Audits, and initiated 6 Follow-Up Audits that were in process as of June 30, 2007, as listed below:

1. First Follow-Up Audits:

- JWA/Avis Rent a Car
- JWA/Advantage Rent a Car
- RDMD/Newport Dunes
- RDMD/Swales Anchorage
- DPHD/Aventura Sailing
- DPHD/Dana Point Marina Inn
- DPHD/Rancho Beach House

2. Second Follow-Up Audits:

- RDMD/Bayshore Marina
- RDMD/Canyon RV
- RDMD/Strawberry Farms Golf Club

3. In Process Follow-Up Audits:

- RDMD/PCI Parking (First)
- DPHD/Dana West Marina (First)
- DPHD/Dreamcatcher Yachts (First)
- DPHD/Ship to Shore Insurance (First)
- DPHD/Noel Marine Canvas (First)
- DPHD/Dana Point Marina Inn (Second)

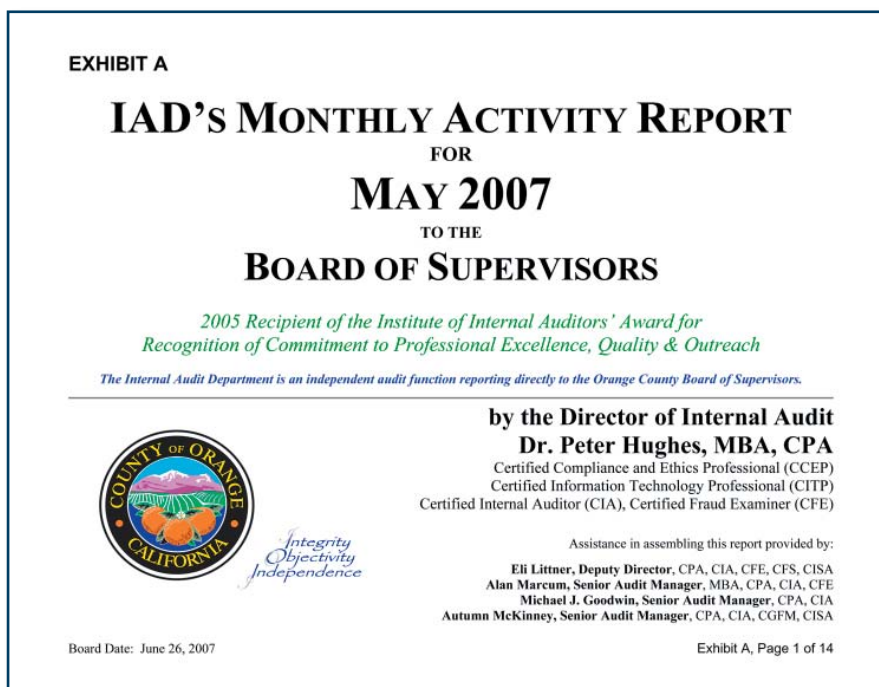
OTHER AUDIT ACTIVITY

(COMPLETED 25 REPORTS)

IAD's Monthly Activity Report, 12 prepared. We prepare each month for the Board of Supervisors the IAD's Monthly Activity Report. This report identifies all audits and follow-ups completed for the month, and includes a detailed description of the scope, conclusion, background, and type of recommendation. In addition, the Monthly Activity Report identifies any material findings in the audits.

Audit Oversight Committee (AOC) Reports, 12 prepared. For each quarterly AOC meeting we prepare the following reports: Status Report (4), External Audit Activity (4), and Executive Summaries of Audit Assignments (4). The Status Report lists all audits, follow-ups, and other assignments, along with the budget, actual hours incurred, variance between budget and actual hours, and milestone comments. The External Audit Activity Report identifies third-party audits conducted in the County, as reported to us by the department/agencies. Typically there are over 100 external third-party audits conducted each year. The Executive Summaries of Audit Assignments provides a list of findings noted in audits, follow-ups, and other assignments.

We completed 1 Limited Review of a Duplicate Vendor Payment. 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 reviewed the cause and circumstances of this duplicate vendor payment to determine whether internal controls and processes related to this specific instance of invoice approval and payment could be enhanced.






FRAUD HOTLINE

(PROCESSED 34 INCIDENTS)

The IAD established and manages the Orange County Fraud Hotline as part of its ongoing fraud detection and prevention effort. 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, and violations of County policy.

The Hotline is monitored live for calls twenty-four hours a day, seven days a week. Callers can leave anonymous information or identify themselves. The Hotline telephone system also provides the callers with a list of Hotline numbers for reporting frauds that are not handled by the County Fraud Hotline such as Welfare Fraud.


In FY 2006/2007, we processed 34 Hotline incidents: 13 incidents were referred to County departments/agencies for investigation, 13 incidents were referred to the Welfare Fraud Hotline for investigation, 5 were referred to outside agencies, and 3 were information requests and "other."





24/7 Fraud Hot-Line

"Because Our Vigilance Never Sleeps!"

The Board of Supervisors Independent Internal Audit Department
2005 Recipient of the Institute of Internal Auditor's Award for
Recognition of Commitment to Professional Excellence, Quality and Outreach

 Call us 714.834.3608 and remain anonymous.

 Call anytime, anyplace, day or night.

 Report to us about questionable behavior, waste, and abuse involving County vendors, employees, and processes.

→ **Hot-Line Website Information:** <http://www.ocgov.com/audit/fraud.asp>

→ **Hot-Line Phone Number:** 714.834.3608

→ **Online Submission:** <http://www.ocgov.com/audit/hotline.asp>

→ **Address to send documentation:**

Fraud Documentation
400 Civic Center Drive West, Building 12, Room 232
Santa Ana, CA 92701

Other Hotline Numbers:

Child Abuse
714.940.1000

Consumer Fraud
714.648.3600

County Safety Hazards
714.834.2817

County Worker's Compensation Fraud
714.834.2817

Welfare Fraud
714.347.8400

Medi-Cal Fraud
800.822.6222

Help us keep the County honest, fair, and efficient.

The Orange County Fraud Hotline is intended for the use by County employees, the general public, or vendors reporting suspected waste, fraud, violations of County policy or misuse of County resources by vendors, contractors or County employees. County employees wishing to report complaints are protected under the New Whistleblower Law, California Labor Code 1102.5 and 1106. The California State Attorney General's Whistleblower Hotline number is 1-800-952-5225.

SUMMARY OF AUDIT RECOMMENDATIONS

SINCE 2003

The Internal Audit Department established a report that tracks all audit report recommendations, types of audit recommendations (e.g., material weakness, significant issue, control finding, or efficiency/effectiveness issue), the implementation status of all audit recommendations as determined in follow-up audits, and the percentage of audit recommendations that were followed-up. Generally, **95%** or more of all audit recommendations are implemented. The report includes all audits and follow-up audits that were started after January 2003.

Below are some key points noted from the report:

Number of Recommendations:

Between January 2003 and June 2007, Internal Audit Department made **775** audit recommendations. Of those recommendations, there was **1** Material Weakness, **22** Significant Issues and the remainder were Control Findings or Efficiency/Effectiveness Issues.

Management Concurrence:

Of the **775** audit recommendations, we obtained full or partial management concurrence on **99%** of the recommendations.

FY 2006/2007

For our follow-up audits completed during FY 2006/2007, we verified the implementation status of **199** audit recommendations. Of the **199** recommendations:

- **175** recommendations (**88%**) were either fully implemented or closed.
- **9** recommendations (**5%**) were partially implemented.
- **8** recommendations (**4%**) were in process of implementation.
- **7** recommendations (**3%**) were not fully implemented.





PROFESSIONAL CREDENTIALS

The IAD is the only large county in the USA whose audit staff has the combination of **100% CPA's: 80% possessing double certifications** and **50% of staff with triple certifications.**

The Internal Audit Department and its individual auditors are members of many prestigious professional audit and accounting associations. These memberships ensure that we will receive up-to-date technical training, guidance, and other professional support that is critical to maintaining our professional effectiveness. However, our training is not limited to these organizations. Codes and standards change and the auditing world adjusts to these changes. The OC Internal Audit Department follows the professional standards of: the Institute of Internal Auditors (IIA), the U.S. Government Accountability Office (GAO), and the American Institute of Certified Public Accountants (AICPA).

INTERNAL AUDIT DEPARTMENT PROFESSIONAL STAFF

Director, Dr. Peter Hughes, Ph.D., MBA, **CPA**, CIA, CFE, CITP, CCEP
Deputy Director, Eli Littner, **CPA**, CIA, CFE, CFS, CISA

Senior Audit Manager, Michael J. Goodwin, **CPA**, CIA
Senior Audit Manager, Alan Marcum, MBA, **CPA**, CIA, CFE
Senior Audit Manager, Autumn McKinney, **CPA**, CIA, CISA, CGFM
Audit Manager, Lily Chin, **CPA**
Audit Manager, Michael Dean, **CPA**, CIA, CCSA, CISA
Audit Manager, Camille A. Gackstetter, **CPA**
Audit Manager, Nancy N. Ishida, **CPA**, CIA, CCSA, CISA
Audit Manager, Winnie Y. Keung, **CPA**, CIA
Audit Manager, Carol L. Swe, **CPA**, CIA, CCSA, CISA
Audit Manager, Kenneth Wong, **CPA**, CIA
Senior Auditor, Abdul Khan, **CPA**
Senior Auditor, Susan Nestor, **CPA**, CIA

ADMINISTRATIVE STAFF

Administrative Manager, Vangie Ortiz
Executive Assistant, Renee Aragon
Staff Specialist, Maribel Garcia

CERTIFICATION LEGEND

CPA
Certified Public Accountant

CCEP
Certified Compliance and Ethics Professional

CIA
Certified Internal Auditor

CCSA
Certification in Control Self-Assessment

CFE
Certified Fraud Examiner

CFS
Certified Fraud Specialist

CISA
Certified Information Systems Auditor

CITP
Certified Information Tech. Professional

CGFM
Certified Government Financial Manager

CPA AND OTHER PROFESSIONAL CERTIFICATIONS

During FY 2006/2007, 3 auditors received their Certified Information Systems (CISA) designation, and 1 auditor received the Certified Internal Auditor (CIA) designation. The Director received 1 certification as a Certified Compliance and Ethics Professional (CCEP) from The Society of Corporate Compliance and Ethics Officers.



STAFF TRAINING

Professional staff completed the minimum continuing professional education required for their professional licenses. Training was received in a variety of topics including government accounting and auditing standards updates, information technology auditing, and computer assisted audit techniques.





PROFESSIONAL ORGANIZATIONS



CALIFORNIA BOARD OF ACCOUNTANCY

The Internal Audit Department has the privilege of staffing **14** Certified Public Accountants (CPAs) under the State of California and follows the guidelines of the (AICPA) American Institute of Certified Public Accountants.



THE INSTITUTE OF INTERNAL AUDITORS

The Internal Audit Department has an annual sustaining membership with the Institute of Internal Auditors. **11** of our staff are Certified Internal Auditors (CIA) and **3** staff earned the Certification in Controlled Self-Assessment (CCSA).



THE INSTITUTE OF INTERNAL AUDITORS, RESEARCH FOUNDATION

Dr. Peter Hughes, Ph.D., CPA, Director of Internal Audit, served another term on the IIA's important Board of Research and Education for 2006 and 2007.



ASSOCIATION OF LOCAL GOVERNMENT AUDITORS (ALGA)

The Internal Audit Department also has an annual sustaining membership with ALGA. Also, the Internal Audit Department has published articles in the past in their Audit Abstracts Category of their quarterly publication.

ASSOCIATION OF CERTIFIED FRAUD EXAMINERS

The Internal Audit Department has **3** staff that are Certified Fraud Examiners (CFE) and are members of the Association of Certified Fraud Examiners. Dr. Peter Hughes is pleased to serve as a member of the ACFE's prestigious Editorial Advisory Committee.



ASSOCIATION OF CERTIFIED FRAUD SPECIALISTS

The Internal Audit Department has 1 staff member that is a Certified Fraud Specialist. This professional organization has asked Dr. Peter Hughes to be a featured speaker at its 8th Annual National Fraud Conference in San Diego, CA in August 2007.



SOCIETY OF CORPORATE COMPLIANCE AND ETHICS

Dr. Peter Hughes added the Certified Compliance and Ethics Professional (CCEP) designation to his list of credentials. He will also be a speaker at the International Compliance & Ethics Institute this year in New Orleans, LA in September 2007.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Dr. Peter Hughes was a guest Speaker for the GFOA 101st Annual National Conference in Anaheim, CA in June 2007. Several of our staff are members of this organization.





OUTSTANDING FEEDBACK ON AUDIT SERVICES PROVIDED



"We appreciate the support offered by the Senior Audit Manager in working out possible solutions to audit findings."

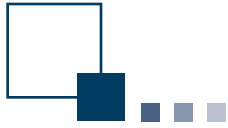
"Overall, excellent service was provided by Internal Audit staff."

"These Auditors are to be commended for their work involved in conducting this particular audit... ...their understanding of the history and issues related to the agreements... and ...their tenacity in searching for the data needed."

"The Audit Manager went above and beyond in trying to help my department with responses to the recommendations. Her help is greatly appreciated."

"The Auditor did an excellent job reviewing findings and discussing the issues at several levels in our organization."

"Department staff involved in the audit appreciated the professionalism of the auditor."



WHO AUDITS THE AUDITORS?

Have you ever wondered who audits the Orange County Internal Audit Department? Government Code and the audit profession require that auditors be audited at least every three years. This audit is called a Peer Review or Quality Assessment. A Peer Review assesses an audit department's adherence to over 150 professional audit standards. The OC Internal Audit Department was given the best rating possible by its independent Peer Reviewers for all three reviews in the past five years. These audits were conducted by the internationally recognized firms of Thompson, Cobb, Bazilio and Associates and Jefferson Wells International.

FY 2006/2007 INTERNAL AUDIT REPORT

FOR THE OC BOARD OF SUPERVISORS

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Visit us online: Go to www.ocgov.com/audit

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Contact us by mail at:
400 Civic Center Drive West
Bldg. 12, Room 232
Santa Ana, California 92701-4521

▶ **PHONE**

Contact us by phone at:
(714)834-5475

▶ **FAX**

(714)834-2880

▶ **OCIAD'S FRAUD HOTLINE**

Countywide Fraud Hotline number:
(714)834-3608