



**INTERNAL AUDIT DEPARTMENT**  
**COUNTY OF ORANGE**

2005 Recipient of the Institute of Internal Auditors  
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*Integrity ♦ Objectivity ♦ Independence*

**FOLLOW-UP AUDIT**  
**OF**  
**MANAGEMENT LETTER &**  
**CONFIDENTIAL SUPPLEMENT**  
**REGARDING**  
**AUDIT OF THE STATEMENT OF ASSETS**  
**HELD BY THE COUNTY TREASURY**  
**AT 12/31/04,**  
**ORIGINAL AUDIT NO. 2409**  
  
**AS OF 3/31/06**

**AUDIT NUMBER: 2571**

**REPORT DATE: MAY 1, 2006**

<b>Audit Director:</b>	<b>Peter Hughes, Ph.D., CPA</b>
<b>Deputy Director:</b>	<b>Eli Littner, CPA, CIA</b>
<b>Audit Manager:</b>	<b>Alan Marcum, MBA, CPA</b>
<b>In-Charge Auditor:</b>	<b>Camille Gackstetter, CPA</b>
<b>Principal Auditor:</b>	<b>Scott Suzuki, CPA, CISA, CIA</b>
<b>Senior Auditor:</b>	<b>Michael Dean, CPA, CIA</b>

**FOLLOW-UP AUDIT OF MANAGEMENT LETTER  
& CONFIDENTIAL SUPPLEMENT REGARDING  
AUDIT OF THE STATEMENT OF ASSETS HELD BY  
THE COUNTY TREASURY AT 12/31/04,  
ORIGINAL AUDIT NO. 2409**

**AS OF 3/31/06**

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**Transmittal Letter**

Audit No. 2571

May 1, 2006

TO: John M. W. Moorlach, Treasurer-Tax Collector

FROM: Peter Hughes, Ph.D., CPA, Director  
Internal Audit Department

SUBJECT: Follow-Up Audit of Management Letter & Confidential Supplement  
Regarding Audit of the Statement of Assets Held by the County Treasury  
at 12/31/04, Original Audit No. 2409

We have completed our initial Follow-Up Audit of Management Letter and Confidential Supplement Regarding Audit of the Statement of Assets Held by the County Treasury at December 31, 2004, Original Audit No. 2409, dated August 31, 2005. Our audit was limited to reviewing actions taken, as of March 31, 2006, to implement the recommendations made in the Management Letter and Confidential Supplement, dated August 31, 2005. The results of our Follow-Up Audit are discussed in the **Internal Auditor's Report** following this transmittal letter.

At the request of the Audit Oversight Committee (AOC), we are to bring to their attention any audit recommendations we find still not addressed, resolved, or implemented after our Second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for their discussion. The Second Follow-Up Audit will be conducted six months from the date of this report (**November 2006**). We have provided a Second Follow-Up Audit Report Form for completion prior to our Second Follow-Up Audit.

As the Director of Internal Audit, I now submit a monthly audit status report to the Board of Supervisors (BOS) where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Because of these visible changes to our follow-up process, the Internal Audit Department is available to partner with all departments and agencies so that they can successfully implement or

address difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report, recommendations or follow-up process.

Attachment

Other recipients of this report:

Members, Board of Supervisors

Members, Audit Oversight Committee

Thomas G. Mauk, County Executive Officer

David E. Sundstrom, Auditor-Controller

Jan Grimes, Assistant Auditor-Controller, Central Operations

Chriss Street, Assistant Treasurer-Tax Collector

Paul Gorman, Deputy Treasurer

Clarissa Adriano-Ceres, Deputy Treasurer-Tax Collector/Information Technology

Foreperson, Grand Jury

Darlene J. Bloom, Clerk of the Board of Supervisors



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**INDEPENDENT AUDITOR'S REPORT**

Audit No. 2571

May 1, 2006

John M. W. Moorlach, Treasurer-Tax Collector  
Office of the Treasurer-Tax Collector  
12 Civic Center Plaza, Ste. G76  
Santa Ana, CA 92701

We have completed an initial Follow-Up Audit of Management Letter and Confidential Supplement Regarding Audit of the Statement of Assets Held by the County Treasury at December 31, 2004, Original Audit No. 2409, dated August 31, 2005. Our audit was limited to reviewing actions taken, as of March 31, 2006, to implement the recommendations made in the Management Letter and Confidential Supplement, dated August 31, 2005.

For the most part, the Treasurer's Office has implemented corrective action that is responsive to the material and significant exposures identified in our original audit. Most remaining issues pertain to procedural documentation regarding implemented corrective action.

The Management Letter and Confidential Supplement contained a total of eighteen recommendations. Our review indicated:

- twelve recommendations have been fully implemented,
- one recommendation is in process,
- two recommendations are partially implemented, and
- three recommendations have not been implemented.

We commend the Treasurer's Information Technology (IT) Unit on the actions taken to implement the recommendations pertaining to their area. We believe our recommendations are still appropriate and further efforts should be made to fully implement them. The recommendations that have not been implemented or fully implemented are noted below along with a comment on the current status. The finding number from the August 31, 2005 Management Letter or Confidential Supplement is shown in parentheses after each heading.

**1. Internal Control Weakness in the Wire Transfer of Funds Process  
(Confidential Supplement - Finding No. 1) (Material Weakness)**

Recommendation No. 1

We recommend the Treasurer improve internal controls over the wire process to ensure that the individuals with system administrator rights cannot override the internal controls of segregation of duties and allow themselves or someone else to enter, on-line approve and release a wire.

Current Status: Partially Implemented.

The Treasurer has enabled a system control that requires two system administrators to be involved in changing a user's permissions. This control reduces the risk of a single individual obtaining complete control over the wire issuance process; however, *procedures for administering the control still need to be documented.*

Treasurer-Tax Collector's Planned Action:

A procedure for administering the dual control feature will be documented and approved by management by October 31, 2006.

**2. Internal Controls Over Granting Network Access  
(Management Letter – Finding No. 5) (Significant Issue)**

Recommendation No. 5

We recommend the Treasurer strengthen internal controls over granting system administrator access to the Treasurer's local area network.

Current Status: Partially Implemented.

In December 2005, the Treasurer's IT Unit recently created a document to gather user account request information, but *the document is not always utilized before granting or changing access to the Treasurer's local area network.* Also, the Treasurer's staff has drafted Computer Security Procedures to ensure that network and application rights are correctly applied; however, *the procedure is in draft form and has not been approved by management.*

Treasurer-Tax Collector's Planned Action:

The Treasurer is now consistently utilizing the document used to gather user account request information and retaining a copy for evidence. The Computer Security Procedures will be approved by management by May 31, 2006.

**3. IT Logical Security Controls  
(Confidential Supplement – Finding No. 8) (Reportable Condition)**

Recommendation No. 8

We recommend the Treasurer ensure that a policy is developed and implemented to configure workstations to automatically log off after a period of inactivity.

Current Status: Not Implemented.

*Workstations on the Treasurer's local area network have not been configured to automatically log off after a period of inactivity.*



Treasurer-Tax Collector's Planned Action:

Although individual computers can be configured to automatically log off (most have been), this setting can be easily changed by the user, thus rendering the exercise useless. The Department is also wary since there is potential data loss if the computer automatically logs off. We are researching and will be coordinating with the Data Center to determine the best way to implement this policy.

**4. IT Security Monitoring Controls  
(Confidential Supplement – Finding No. 9) (Significant Issue)**

Recommendation No. 9

We recommend the Treasurer enable the operating system audit log function to record key system activity, such as failed log on attempts and changes to security settings.

Current Status: **Not Implemented.**

*The local area network's operating system audit log function has not been enabled to record security activity.*

Treasurer-Tax Collector's Planned Action:

The Department has implemented and enabled an audit log function that records security activity. However, the function writes the audit log on the individual computer's drives and is not accessible from the server. The Treasurer-Tax Collector will research further to determine how security activity can be accessible from the server, or find an alternative solution.

**5. IT Security Monitoring Controls  
(Confidential Supplement – Finding No. 10) (Significant Issue)**

Recommendation No. 10

Once the audit logging has been enabled, we recommend the Treasurer's LAN manager review the log daily for security violation activity and the IT manager review the log monthly for changes to security policies.

Current Status: **In Process.**

We have been informed by the Treasurer's IT staff that they are reviewing the security log daily and reporting issues to the IT Manager; however, *there is no documentation of the review and formal procedures have not been established for reviewing and reporting on the security logs.*

Treasurer-Tax Collector's Planned Action:

Effective immediately, the Treasurer's IT staff will document their daily review of the security log. A procedure for reviewing and reporting on security logs will be documented and approved by management by June 30, 2006.

**6. IT Physical Security  
(Management Letter – Finding No. 17) (Reportable Condition)**

Recommendation No. 17

We recommend the Treasurer document procedures for sanitation of equipment and media prior to disposal or reuse.



Current Status: **Not Implemented.**

*The Treasurer has not documented procedures for the sanitation of equipment and media prior to disposal or reuse.*

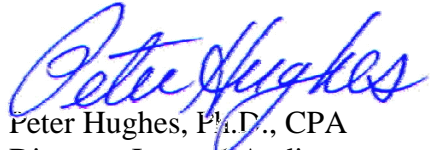
Treasurer-Tax Collector's Planned Action:

The procedure for the sanitation of equipment and media prior to disposal or reuse will be documented and approved by management by May 30, 2006.

Note: See *Attachment A* for a description of audit report items noted in parentheses after each recommendation.

We appreciate the cooperation and assistance extended to us by your staff during our Follow-Up Audit.

Sincerely,



Peter Hughes, Ph.D., CPA  
Director, Internal Audit

Attachment – Report Item Classifications

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors  
Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
David E. Sundstrom, Auditor-Controller  
Jan Grimes, Assistant Auditor-Controller, Central Operations  
Chriss Street, Assistant Treasurer-Tax Collector  
Paul Gorman, Deputy Treasurer  
Clarissa Adriano-Ceres, Deputy Treasurer-Tax Collector/Information Technology  
Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors





## **ATTACHMENT A: Report Item Classifications**

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For purposes of reporting our audit observations and recommendations, we have classified audit report items into three distinct categories:

### **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.

### **Significant Issues:**

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.

### **Reportable Conditions:**

Audit findings 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.

