

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

EXHIBIT A

MAY 2011 AUDITS BY IAD MONTHLY INTERNAL AUDIT ACTIVITY REPORT

Presented on Board of Supervisors' Agenda June 28, 2011

- **Annual Audit of Treasurer's Investment Compliance.** In our opinion, except for the two instances of material non-compliance, the OC Treasurer complied in all material respects with selected investment regulations of the CA Government Code and the OC Treasurer Investment Policy Statement for the year ended 12/31/09.
- **Health Care Agency Disbursement Approval Process.** Audit finds controls are appropriate, effective and provide reasonable assurance that objectives are met and risks are managed involving HCA disbursements.
- **Annual Audit Plan and Risk Assessment for FY 2011-2012.** (Approved by AOC on 4/27/11). We present our audit coverage planned for FY 11/12 based on our comprehensive risk assessment of all County departments. The Audit Plan was updated to include 3 AOC requested audits.
- **OC Waste & Recycling Disbursement Approval Process.** Audit finds controls are appropriate, effective and provide reasonable assurance that objectives are met and risks are managed involving OCWR disbursements.
- **Monthly CAAT Reveals 99.99% of Vendors Payments Were Only Paid Once:** We found 2 duplicate payments for \$399 out of 21,656 invoices paid in April 2011.
- **Second and Final Close-Out Follow-Up Audit of Countywide Pension Practices:** Our Second and Final Follow-Up Audit found the remaining two (2) recommendations were satisfactorily implemented.
- **First and Final Close-Out Follow-Up Audit of OCCR/OC Parks - Santiago Equestrian Center:** Follow-Up Audit found all three (3) recommendations from the original audit were satisfactorily implemented.
- **First and Final Close-Out Follow-Up of OC DPH - Dolphin Safari:** Follow-Up Audit found all three (3) recommendations from the original audit were satisfactorily implemented.

Dr. Peter Hughes, MBA, CPA, CIA, CFE, CFF, CITP, CCEP
Director of Internal Audit

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Project No. 1007-11

RISK BASED AUDITING
GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government



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



2008 Association of Local Government Auditors' Bronze Website Award



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

Letter from Dr. Peter Hughes, CPA



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RISK BASED AUDITING



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June 28, 2011

Honorable Board of Supervisors,

It is my pleasure to submit to you the Monthly Internal Audit Activity Report for the month of May 2011. For each internal audit report we provide an overview and a detailed briefing for your review.

I would like to note that the FY 2011-12 Annual Audit Plan and Risk Assessment, as approved by the Audit Oversight Committee are also presented in this report. It details the audit coverage planned in the upcoming year and includes 3 additional AOC requested audits. Also, it details past audit coverage for the prior 10 years.

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.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit

Reports:

- B. Annual Audit of Treasurer's Investment Compliance: In our opinion, except for the two instances of material non-compliance described in the report, the Orange County Treasurer complied in all material respects with selected investment regulations of the California Government Code and the Orange County Treasurer Investment Policy Statement for the year ended December 31, 2009. We identified two (2) Material Non-Compliance Exceptions, one (1) Material Weakness in Internal Control, and eleven (11) other non-compliance exceptions that we do not consider to be material resulting in fourteen (14) recommendations. The two (2) Material Non-Compliance Exceptions dealt with purchasing unauthorized investments. The one (1) Material Weakness in Internal Control relates to the adequacy of internal controls to prevent and detect the purchase of prohibited investments.
- C. Health Care Agency Disbursement Approval Process: Our audit found internal controls are appropriate, effective and provide reasonable assurance that disbursements are valid, supported, comply with County and HCA policies. HCA's disbursement approval process is aligned with disbursement processes in A-C Claims & Disbursing; is efficient and effective; and measures were taken to improve compliance with IRS 1099 reporting requirements. During the audit period, HCA disbursed over **\$659 million in expenditures** for services and supplies; salaries and employee benefits; equipment; structures and improvements; other charges; and other financing uses.
- D. Annual Audit Plan and Risk Assessment for Fiscal Year 2011-2012: I am pleased to present the approved *Fiscal Year 2011-12 Audit Plan and Risk Assessment*. This comprehensive report details our plan for audits in the upcoming fiscal year and incorporates the results of our extensive risk assessment. Per Resolution No. 95-271, the Board directed the Audit Oversight Committee (AOC) to act in an oversight capacity to the Internal Audit Department and to approve the Annual Audit Plan. The AOC reviewed and approved the FY 11-12 Audit Plan and Risk Assessment on April 27, 2011, with the following additions: 1) Follow-Up of CAFR/Single Audit Recommendations; 2) Sheriff-Coroner Immigration and Customs Enforcement (ICE) Contract Administration; and 3) Probation Department GPS Bracelet Administration. Accordingly I am presenting our *FY 11-12 Audit Plan and Risk Assessment* to the Board of Supervisors as part of my required Monthly Internal Audit Activity Status Report.
- E. OC Waste & Recycling Disbursement Approval Process: Our audit found internal controls are appropriate, effective and provide reasonable assurance that disbursements are valid, supported, timely, and comply with County and OCWR policies; the disbursement approval process is aligned with disbursement processes in A-C Claims & Disbursing; and the OCWR disbursement approval process is efficient and effective. During the audit period, OCWR disbursed over **\$54 million in expenditures** for negotiated contracts, price agreements, purchase orders, request for checks, and wire transfers.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Executive Summary

Exhibit **MONTHLY RESULTS OF CONTINUOUS AUDITING USING CAATS (COMPUTER ASSISTED AUDIT TECHNIQUES):**

- F. Auditor-Controller, Human Resources, and County Procurement Office – Duplicate Vendor Payments and Other Periodic Routines – May 2011: We analyzed **21,656** vendor invoices paid in April 2011 amounting to about **\$317 million** and found **99.99%** of the invoices were only paid once. Of the \$317 million vendor invoices, we identified **2** duplicate payments totaling **\$399** made to vendors. To date we have identified **\$979,823** in duplicate vendor payments, of which **\$918,138** has been recovered and is a noteworthy achievement by the County.

Exhibit **Follow-Up Reports:**

- G. Second and Final Close-Out Follow-Up Audit of Countywide Pension Practices (Original Audit No. 2913): Our original audit contained three (3) findings and recommendations. One (1) recommendation was closed in our First Follow-Up Audit report dated October 18, 2010. Our Second and Final Follow-Up Audit found the remaining two (2) recommendations were satisfactorily implemented.
- H. First and Final Close-Out Follow-Up Audit of OCCR/OC Parks - Santiago Equestrian Center (Original Audit No. 2934): We found that all three (3) recommendations from the original audit were satisfactorily implemented.
- I. First and Final Close-Out Follow-Up Audit of OC DPH - Dolphin Safari, Inc. (Original Audit No. 2936): We found that all three (3) recommendations from the original audit were satisfactorily implemented.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

New Audit Findings & Recommendations by Risk Category

	Description	Results
	<p>Critical Control Weaknesses A serious audit finding or a combination of Significant Control Weaknesses that represent critical exceptions to the audit objective(s) and/or business goals. Management is expected to address “Critical Control Weaknesses” brought to their attention immediately.</p> <p>* Material Weaknesses is used for an audit conducted under AICPA Attestation Standards.</p>	<p>No critical control weaknesses issued during May 2011.</p> <p>2 material non-compliance exceptions* and 1 material weakness* in internal control issued during May 2011.</p> <p>8 total recommendations issued since July 2010.</p>
	<p>Significant Control Weaknesses Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses generally will require prompt corrective actions.</p>	<p>No significant control weaknesses issued during May 2011.</p> <p>18 total recommendations issued since July 2010.</p>
	<p>Control Findings Audit findings concerning <u>internal controls</u>, <u>compliance issues</u>, or <u>efficiency/effectiveness issues</u> 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.</p>	<p>19 control findings issued during May 2011.</p> <p>94 total recommendations issued since July 2010.</p>

Total Audit Recommendations for FY 2010-11: 120

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
B.	<p>TITLE: Annual Audit of Treasurer's Investment Compliance for year ending December 31, 2009</p> <p>DEPT: Treasurer-Tax Collector</p> <p>Audit No: 2953</p> <p>Issued: May 12, 2011</p>	<p>Scope: We have examined the Orange County Treasurer's compliance with the California Government Code Sections 27130 through 27137 and related provisions of the Orange County Investment Policy Statement (IPS) for the Money Market and the Extended Funds for the year ended December 31, 2009. In addition, we examined compliance with certain requirements contained within the Resolution for the Establishment of the Treasury Oversight Committee, Bylaws and Rules of Procedures of the Treasury Oversight Committee, and County policies and procedures.</p> <p>Our examination was made in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA), and accordingly included examining on a test basis, evidence about the Orange County Treasurer's compliance with those requirements and performing such other procedures as considered necessary in the circumstances. Our examination includes consideration of internal control over compliance as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Treasurer's internal control.</p> <p>Conclusion: In our opinion, except for the material noncompliance exceptions described in the following paragraph, the Orange County Treasurer complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2009.</p> <p>Our examination disclosed material noncompliance exceptions with Orange County IPS and Board Resolution applicable to the Treasurer during the year ended December 31, 2009. In addition, our examination disclosed a material weakness in internal control over compliance. The material noncompliance exceptions dealt with the purchasing of prohibited investments. The material weakness in internal control dealt with the adequacy of internal controls to prevent and detect the purchase of prohibited investments. In addition, we identified other noncompliance exceptions that we do not consider to be material.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
	<p>Annual Audit of Treasurer’s Investment Compliance for year ending December 31, 2009 – cont’d</p>	<p>Background: The Internal Audit Department was directed by the Board of Supervisors to conduct the required annual audit to determine the degree the Treasurer has complied with both the California Government Code and the Orange County Treasurer IPS approved by the Board of Supervisors. The primary purpose of this audit is to provide reasonable assurance to the Board of Supervisors that the Treasurer has purchased only those high quality and safe investments that have been authorized by policy. As the public stewards of over \$7 billion of taxpayers’ monies, compliance with the IPS is of the highest priority for the Board of Supervisors.</p> <p>Type of Recommendations: We identified two (2) Material Non-Compliance Exceptions and recommended that the T-TC ensure that purchases of debt securities have the minimum required rating by at least two Nationally Recognized Statistical Rating Organizations at the time of purchase; and ensure that purchases of commercial paper and medium term notes are only from issuers organized within the United States. We indentified one (1) Material Weakness in Internal Control and recommended that the T-TC reconfigure the pre-trade parameters in the Bloomberg Investment System to include the requirement to purchase only investments with two current credit ratings and issued by entities organized within the United States. In addition, we made eleven (11) other recommendations that dealt with instances of non-compliance by the Treasury Oversight Committee (TOC) and the T-TC with other sections of the IPS and the TOC Bylaws.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
C.	<p>TITLE: Internal Control Audit of Disbursement Approval Process</p> <p>DEPT: Health Care Agency</p> <p>Audit No: 1025</p> <p>Issued: May 17, 2011</p>	<p>Scope: We audited the Health Care Agency (HCA) disbursement approval process to evaluate internal controls used for approving and processing disbursements (e.g., payments to vendors for commodities and services); to determine if the disbursement approval process is efficient and effective; and to evaluate compliance with Internal Revenue Service 1099 reporting requirements.</p> <p>Conclusion: Our audit found internal controls are appropriate, effective and provide reasonable assurance that disbursements are valid, supported, and comply with County and HCA policies; the disbursement approval process is efficient and effective; and measures were taken to improve compliance with IRS 1099 reporting requirements. We identified six (6) Control Findings to enhance existing controls with regards to the disbursement approval process.</p> <p>Background: HCA is one of the County's largest agencies with numerous programs and services provided to the community. HCA Accounting Services (an Auditor-Controller Satellite Accounting Office) is authorized to approve certain HCA disbursements on behalf of the Auditor-Controller. In June 2009, the Auditor-Controller implemented an upgraded financial system (CAPS+) that is used in HCA's disbursement approval process. During the audit period, HCA disbursed over \$659 million in expenditures for services and supplies; salaries and employee benefits; equipment; structures and improvements; other charges; and other financing uses.</p> <p>Type of Recommendations: HCA Accounting Services ensure segregation of duties in processing and approving payments; HCA and HCA Accounting Services enhance processes to obtain and review supporting documentation and to verify payment authorization signatures; establish written procedures defining supervisory/management review and approval of payment requests; Auditor-Controller (A-C) evaluate the feasibility of work-flowing the disbursement approval process in CAPS+; A-C Claims & Disbursing evaluate delegating certain disbursement approval responsibility to HCA Accounting Services; HCA Accounting Services continue to ensure disbursements subject to IRS 1099 reporting are accurately defined.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments								
D.	<p>TITLE: Annual Audit Plan and Risk Assessment FY 2011-2012</p> <p>DEPT: Internal Audit Department</p> <p>Project No: 1001</p> <p>Approved by the Audit Oversight Committee on April 27, 2011, Item 4</p>	<p>I am pleased to present the <i>Annual Fiscal Year 2011-12 Audit Plan and Risk Assessment</i>. This comprehensive report details our plan for audits in the upcoming fiscal year and incorporates the results of our extensive risk assessment. Per Resolution No. 95-271, the Board directed the Audit Oversight Committee (AOC) to act in an oversight capacity to the Internal Audit Department and to approve the Annual Audit Plan. The AOC reviewed and approved the <i>FY 2011-112 Audit Plan and Risk Assessment</i> on April 27, 2011, <u>with the following additions</u>: 1) Follow-Up of CAFR/Single Audit Recommendations; 2) Sheriff-Coroner Immigration and Customs Enforcement (ICE) Contract Administration; and 3) Probation Department GPS Bracelet Administration. Accordingly I am presenting it to the Board of Supervisors as part of my required Monthly Internal Audit Activity Status Report.</p> <p>Background: Government Auditing Standards and the Institute of Internal Auditors' Standards require the chief audit executive to establish a risk-based approach to determine the priorities for internal audit activities. The Internal Audit Department has completed a Risk Assessment as a means to help identify, measure, and prioritize potential audits based on the level of risk to the County and to prepare the FY 2011-12 Audit Plan.</p> <p>There are several approaches to defining an audit universe (all areas subject to risk assessment and audits). We defined the County audit universe as 22 departments/agencies (excluding Internal Audit and the Office of the Performance Auditor) and the following seven business processes/cycles:</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Cash Receipts & Receivables</td> <td style="text-align: center;">Cash Disbursements & Payables</td> </tr> <tr> <td style="text-align: center;">Fee-Generated Revenue</td> <td style="text-align: center;">Purchasing and Contracts</td> </tr> <tr> <td style="text-align: center;">Revolving Funds</td> <td style="text-align: center;">Payroll</td> </tr> <tr> <td style="text-align: center;">Fiduciary Funds</td> <td></td> </tr> </table>	Cash Receipts & Receivables	Cash Disbursements & Payables	Fee-Generated Revenue	Purchasing and Contracts	Revolving Funds	Payroll	Fiduciary Funds	
Cash Receipts & Receivables	Cash Disbursements & Payables									
Fee-Generated Revenue	Purchasing and Contracts									
Revolving Funds	Payroll									
Fiduciary Funds										

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
E.	<p>TITLE: Internal Control Audit of Disbursement Approval Process</p> <p>DEPT: OC Waste & Recycling</p> <p>Audit No: 1027</p> <p>Issued: May 23, 2011</p>	<p>Scope: We audited the OC Waste & Recycling Disbursement Approval Process to evaluate internal controls used for approving and processing disbursements (e.g., payments to vendors for commodities and services), and to determine if the disbursement approval process is efficient, effective, and aligned with the disbursement approval process in Auditor-Controller Claims & Disbursing.</p> <p>Conclusion: Our audit found internal controls are in place to ensure disbursements are valid, supported, authorized, timely, and comply with County and OCWR policy and procedures; the disbursement approval process is efficient, effective and is aligned with the disbursement approval process in Auditor-Controller Claims & Disbursing. We identified two (2) Control Findings concerning efficiency and effectiveness of OCWR Accounting Services' disbursement approval process.</p> <p>Background: OC Waste & Recycling (OCWR) operates a network of three active landfills and four household hazardous waste collection centers. OCWR core services are to provide solid waste disposal, manage former County waste disposal sites, coordinate countywide waste-related programs, and provide unincorporated area collection and recycling services on behalf of 34 cities and over three million residents. OCWR Accounting Services (an Auditor-Controller Satellite Accounting Office) is authorized to approve OCWR's disbursements on behalf of Auditor-Controller Claims & Disbursing. In June 2009, the Auditor-Controller implemented an upgraded financial system (CAPS+) that is used in OCWR's disbursement approval process. During the audit period, OCWR disbursed over \$54 million in expenditures for negotiated contracts, price agreements, purchase orders, request for checks, and wire transfers.</p> <p>Recommendations: A-C Claims & Disbursing evaluate delegating disbursement approval responsibility for DPA agreements and purchase orders to OCWR Accounting Services; Auditor-Controller evaluate establishing a workflow in CAPS+ for approving disbursements.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
F.	<p>DEPT: Auditor-Controller Human Resources CEO/County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – May 2011</p> <p>AUDIT NO: 1041-L</p> <p>ISSUED: May 18, 2011</p>	<p>Scope: The monthly CAAT routines are automated queries applied to large amounts of electronic data searching for specified characteristics. We currently perform four (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</p> <p>Conclusion:</p> <ul style="list-style-type: none"> • <u>Duplicate Payments to Vendors</u>: We analyzed 21,656 vendor invoices paid in April 2011 amounting to about \$317 million and found 99.99% of the invoices were only paid once. Of the \$317 million vendor invoices, we identified 2 duplicate payments totaling \$399 made to vendors. The County currently has a recovery rate from vendors of about 94% on these duplicate payments. <p>Our prior research has indicated that duplicate payments are typically caused by a human clerical error. Based on the to-date recoveries of \$918,138, this CAAT routine has paid for itself and is returning monies to the County that may otherwise be lost.</p> <ul style="list-style-type: none"> • <u>Employee Vendor Match</u>: At May 5, 2011, no potential employee-vendor conflicts were identified in the employee-vendor matches we reviewed. Our next analysis will be performed as of June 30, 2011. • <u>Retiree/Extra Help Hours</u>: As of April 28, 2011, no individuals have exceeded the annual limits for FY 10-11. • <u>Multiple Payroll Direct Deposits</u>: No findings noted.

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
	<p>CONTINUED,</p> <p>DEPT: Auditor-Controller Human Resources County Procurement Office</p> <p>TITLE: Monthly Results of Continuous Auditing Using CAATS (Computer-Assisted Audit Techniques) – May 2011</p>	<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 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.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
G.	<p>TITLE: Final Close-out Second Follow-Up Audit of Countywide Pension Practices</p> <p>DEPT: County Executive Office</p> <p>AUDIT NO: 1017-A (original audit no. 2913)</p> <p>Issued: May 9, 2011</p>	<p>Scope: We have completed a Second and Final Follow-Up Audit of Countywide Pension Practices. Our audit was limited to reviewing, as of April 13, 2011, actions taken to implement the remaining two (2) recommendations from our original audit report.</p> <p>Conclusion: Our original audit contained three (3) findings and recommendations. One (1) recommendation was closed in our First Follow-Up Audit report dated October 18, 2010. Our Second and Final Follow-Up Audit found the remaining two (2) recommendations fully implemented.</p> <p>Background: We performed an audit of certain Human Resources records and related documents for the period from July 1, 2006 through June 30, 2009 in response to the recommendation made to the Internal Audit Department in the Orange County Grand Jury report entitled "The Guardian of Last Resort" on the Public Administrator/Public Guardian, dated May 9, 2009. We determined if additional instances of questionable pension practices exist in agencies other than the Public Administrator/Public Guardian's Office. In addition, we identified internal control weaknesses for which we provided recommendations for improvement.</p> <p>Type of Recommendations: None</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
H.	<p>TITLE: Final Close-out First Follow-Up Audit of OCCR/OC Parks - Santiago Equestrian Center</p> <p>DEPT: OC Community Resources/ OC Parks</p> <p>AUDIT NO: 1038-D (original audit no. 2934)</p> <p>Issued: May 25, 2011</p>	<p>Scope: We have completed a First and Final Follow-Up Audit of OCCR/OC Parks – Santiago Equestrian Center. Our audit was limited to reviewing actions taken as of April 5, 2011 to implement the three (3) recommendations made in our original audit report.</p> <p>Conclusion: Our First Follow-Up Audit found that all three (3) recommendations were satisfactorily implemented. 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 Southern Sierra Land & Cattle Company dba Santiago Equestrian Center, dated December 8, 2009 for the operation of an equestrian center located within Limestone Canyon & Whiting Ranch Wilderness Park. During the 12-month audit period, Santiago Equestrian Center reported approximately \$199,000 in gross receipts and paid the County approximately \$16,000 in rent. Over its twenty (20) year term, this lease agreement is estimated to generate over \$274,000 in rent to the County. The original audit reviewed whether Santiago Equestrian Center’s records adequately supported gross receipts and rent owed to the County was properly paid. This was the first audit of the lease. The goal of our review was to help ensure the lessee’s records were on the “right track” and to make any necessary corrections timely in the lease term.</p> <p>Type of Recommendations: Compliance with lease agreement or improving records including: pre-numbering horse boarding and trailer storage agreements; updating accounts receivable records for billing amount changes; and reporting gross receipts on the accrual basis rather than cash basis accounting methodology.</p>

MONTHLY INTERNAL AUDIT ACTIVITY STATUS REPORT

Detailed Report

Exhibit	Description	Comments
I.	<p>TITLE: Final Close-out First Follow-Up Audit of OC DPH - Dolphin Safari, Inc.</p> <p>DEPT: OC Dana Point Harbor</p> <p>AUDIT NO: 1038-E (original audit no. 2936)</p> <p>Issued: May 26, 2011</p>	<p>Scope: We have completed a First and Final Follow-Up Audit of OC Dana Point Harbor – Dolphin Safari, Inc. Our audit was limited to reviewing actions taken as of April 29, 2011 to implement the three (3) recommendations made in our original audit report.</p> <p>Conclusion: Our First Follow-Up Audit found that all three (3) recommendations were satisfactorily implemented. 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 Dolphin Safari, Inc., dated July 18, 2007 for the operation of vessel charters and the sale of merchandise, food, and beverages at OC Dana Point Harbor. During the audit period, Dolphin Safari, Inc. reported approximately \$823,000 in gross receipts and paid the County approximately \$137,000 in rent. Over the five (5) year term, this lease agreement is estimated to generate about \$788,000 in rent to the County. This was the first audit of the lease. The goal of our review was to help ensure the lessee’s records were on the “right track” and to make any necessary corrections timely in the lease term.</p> <p>Type of Recommendations: Compliance with lease agreement or improving records including: need for consistent source documentation for recording open charter vessels; minor amount of rent owed for DVD sales and clarification needed for “At Sea” sales; and minor amount of rent owed for employee purchases.</p>