

COUNTY OF ORANGE
AUDIT OVERSIGHT COMMITTEE
MEETING MINUTES
Thursday, December 12, 2002, 2:30 p.m.

DRAFT

The Audit Oversight Committee of the County of Orange met on December 12, 2002 at 2:45 p.m., in the Hall of Administration, Building, 5th Floor, Conference Room B, Santa Ana, California.

Members Present/Absence Noted:

Present: Supervisor Cynthia Coad, Chair Board of Supervisors
Supervisor Tom Wilson, Vice-Chair, Board of Supervisors
Mr. David Sundstrom, Auditor-Controller
Dr. Dave Carlson, Public Member
Absent: Mr. John Moorlach, Treasurer-Tax Collector
Dr. Michael Schumacher, CEO

1. Call to Order: (David Sundstrom, Chairman, Audit Oversight Committee)

Mr. Sundstrom called to order the meeting on December 12, 2002 at 2: 40 p.m. Mr. Sundstrom asked for roll call before proceeding with the agenda.

Committee Members:

Supervisor Coad, Supervisor Wilson, Dr. Schumacher, Mr. Sundstrom, Dr. Carlson

Guests:

CEO staff: Tom Beckett; Internal Audit Staff: Dr. Peter Hughes, Eli Littner, Alan Marcum, Michael Goodwin, Autumn McKinney, Renee Aragon, Scott Suzuki, Auditor-Controller Staff: John Nakane, Claire Moynahan, Megan White; Macias, Gini & Company: James Godsey, Jean Horimoto; Fifth District Staff: Lisa Smith

2. Approval of Minutes from October 10, 2002 (David Sundstrom, Chairman, Audit Oversight Committee):

Recommended Action: Approve

Approved as recommended.

3. Macias, Gini & Company Year End Status Report (James Godsey, Partner, MGC)
Recommended Action: Discussion

Mr. Godsey briefed the Committee on the required communications. He stated there were no issues to report. The basic financial statements were in process. He stated they were substantially complete with the audit. Mr. Godsay noted the major changes occurred in the GASB 34 new reporting model. Their opinion would state that the county had implemented GASB 34, 37 and 38. He stated all participating departments and personnel were to be commended for the overall effort over the last two years for the implementations. Economic conditions would be discussed in the financial statements and possible impacts. Additionally, the separate reports status was covered. All the work was done and the final stages were in process. The Audit adjustments were reviewed and booked. The single audit component would be completed in January. The last special assignment discussed was the allocation of tobacco settlement funds from Measure H. An entrance conference was scheduled and a separate audit would be done.

Discussion was held, no reportable action taken.

4. RFP for External Auditor Selection for the CAFR Audit (David Sundstrom, Auditor-Controller)
Recommended Action: Approve Selection Criteria and Appoint a Bid Evaluation Committee

Mr. Sundstrom stated that Macias, Gini & Company performed the CAFR for the last five years. Mr. Sundstrom explained the RFP process and the time to seek another contract with an external firm to perform the CAFR audit. He presented the selection criteria and requested approval for a bid evaluation committee for the selection of a firm. He requested the evaluation committee members as Peter Hughes, David Carlson, David Sundstrom and John Nakane (non-voting member).

Approved as recommended.

5. Approve the AOC By-Laws reflecting changes to membership, term length and other administrative changes (Dr. Peter Hughes, Director of Internal Audit)
Recommended Action: Approve amended By-Laws and Forward to Board of Supervisors for Final Approval

Dr. Hughes stated the changes were mostly clarifications. The most significant change was to membership. Dr. Hughes explained that County Counsel reviewed and indicated that all the changes are within the powers of the Board of Supervisors to approve.

Approved as recommended.

6. **Approve the Internal Audit Department Charter (Dr. Peter Hughes, Director of Internal Audit)**
Recommended Action: Approve proposed changes to Internal Audit Department Charter and Forward to County Counsel for Review

Mr. Sundstrom stated the changes to the draft charter were a considerable improvement. Mr. Sundstrom stated it was compatible with Sorbaines-Oxley. He also stated it helped to ensure the independence of Internal Audit.

Approved as recommended.

7. **Approve the Draft 2003 Audi Plan (Dr. Peter Hughes, Director of Internal Audit)**
Recommend Action: Approve

Approved as recommended.

Mr. Sundstrom stated the audit plan item was a good place to address the PDSO financial situation. He briefly explained his knowledge of the situation. Mr. Sundstrom stated they depleted the reserves before the FY 02-03 started. If the Board members had not floated the loan, Mr. Sunstrom suggested PDSO would have ended the year in a deficit. Supervisor Wilson stated that at the time he was informed there was well-detailed plan in place to repay the loan. Supervisor Coad clarified the focus on accounting and audit practices. Dr. Carlson clarified that the CEO owned the budget process where forecasts and revenue should have been more closely evaluated. Dr. Carlson clarified the committee's role to oversee any independent assessment to ensure adequate controls.

Supervisor Wilson left the meeting at 3:25 p.m.

8. **Status Report #4- Period 01-01-02 to 11-26-02**
Recommended Action: Receive and File

Dr. Hughes stated that most all of the reports were completed. He noted the Risk Assessment for Readiness of CAPS Upgrade and Readiness Assessment for CAPS Payroll Application audits exit conferences was conducted and the draft reports were sent out. Dr. Hughes also stated the Sheriff audit hours were over budget by 140% because they determined a higher volume of funds and accounts and expanded the review to provide adequate testing.

Approved as recommended.

9. External Audit Activity First Quarter FY 02/03 Status Report
Recommended Action: Receive and File

Approved as recommended.

**10. Executive Summaries of Audit Assignments,
Period 10/10/02-12/12/02**
Recommended Action: Receive and File

Approved as recommended.

Supervisor Coad left the meeting at 3:45 p.m.

11. Next Meeting:

To Be Determined after Board Chair and Vice Chair Selection.

12. Public Comments

Representing the CEO, Mr. Tom Beckett addressed the Committee about emergency funding for PDSD. He stated he understood Mr. Mathew's plan was to reduce expenditures and increase revenue and fully expected to repay the loan. The committee requested a status report at the next AOC meeting.

13. Adjournment

The meeting was adjourned at 3:45 p.m.