



Macias, Gini & Company LLP  
Certified Public Accountants and  
Management Consultants

*Partners*

Kenneth A. Macias, Managing Partner  
Ernest J. Gini  
Kevin J. O'Connell  
Richard A. Green  
Jan A. Rosati  
James V. Godsey

515 South Figueroa Street  
Suite 325  
Los Angeles, CA 90071  
213•612•0200  
213•286•6426 FAX  
www.maciasgini.com

**County of Orange  
Audit Oversight Committee  
Presentation Agenda  
April 3, 2003**

- 1. Required communications to Audit Oversight Committee**
- 2. Independent Auditor's Report on the Basic Financial Statements**
- 3. Review of Single Audit Reports**
- 4. Draft Management Letter**
- 5. Future accounting and auditing matters**
  - Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit*. This was issued in October 2002 and is effective for audits of financial statements for periods beginning on or after December 15, 2002. This standard supercedes SAS 85 and establishes standards and provides guidance to auditors in fulfilling their responsibility to plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud.
  - Government Auditing Standards, Amendment No. 3, *Independence* was issued in January 2002 and is effective for audits beginning on or after January 1, 2003. This standard establishes significant changes to the auditor independence requirements under Government Auditing Standards. The standard specifies the types of nonaudit services permitted and prohibited by an audit organization.
  - Sarbanes-Oxley Act of 2002, signed into law on July 30, 2002 and is effective immediately. This Act establishes standards affecting public companies pertaining to financial disclosures, audit committees and auditors and establishes an Accounting Oversight Board to regulate accounting firms.



Macias, Gini & Company LLP  
 Certified Public Accountants and  
 Management Consultants

*Partners*  
 Kenneth A. Macias, Managing Partner  
 Ernest J. Gini  
 Kevin J. O'Connell  
 Richard A. Green  
 Jan A. Rosati  
 James V. Godsey

515 South Figueroa Street  
 Suite 325  
 Los Angeles, CA 90071  
 213•612•0200  
 213•286•6426 FAX  
 www.maciasgini.com

December 2, 2002

To the Audit Oversight Committee  
 of the County of Orange, California

We have audited the following financial statements of the County of Orange (County) and certain departments and component units for the year ended June 30, 2002 and have issued our reports thereon dated as indicated below.

<u>Reporting Entity</u>	<u>Audit Report Date</u>
Basic Financial Statements	December 2, 2002
Orange County Special Financing Authority	November 30, 2002
Orange County Development Agency	December 20, 2002
John Wayne Airport	October 31, 2002
Integrated Waste Management Department	October 23, 2002
Orange County Civic Center Authority	November 30, 2002

Professional standards require that we provide you with the following information related to our audits.

***Our Responsibility under Generally Accepted Auditing Standards and OMB Circular A-133***

As stated in our letter dated February 20, 2002, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audits, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those

requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

### ***Other Information in Documents Containing Audited Financial Statements***

During the year, the County included certain fiscal year 2000 audited financial statements in the following documents: Official Statement for the \$26,700,000 Orange County Development Agency Tax Allocation Refunding Bonds (Neighborhood Development and Preservation Project) Series 2001 and Remarketing Circular for \$34,000,000 Orange County Special Financing Authority Teeter Plan Revenue Bonds, 1995 Series E. Certain fiscal year 2001 audited financial statements were included in the following documents: Official Statement for the \$83,500,000 Orange County Public Financing Authority Revenue Refunding Bonds (Juvenile Justice Center Facility Lease) Series 2002, John Wayne Airport Annual Report; and Integrated Waste Management Annual Report. The County expects to include the fiscal year 2002 financial statements in similar documents during 2003.

Our responsibility for other information in such documents containing the financial statements and our report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in these documents. Our procedures were limited to reading the document and comparing any information derived from the audited financial statements to such statements. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the audited financial statements.

### ***Significant Accounting Policies***

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our contract, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, effective July 1, 2001, the County adopted the provisions of Governmental Accounting Standards Board Statement (GASB Statement) No. 34, *Basic Financial Statements – and Management's Discussion and Analysis—for State and Local Governments*. Accordingly, as described in Note 2, the cumulative effect of the accounting change as of the beginning of the year increased the net assets' by approximately \$444,036,000.

We noted no transactions entered into by the County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements included insurance claims payable, landfill site closure/postclosure liability, and the estimated litigation and claims liability.

Management's estimates of the insurance claims payable are based on annual actuarially determined amounts. We evaluated the key factors and assumptions used by the consulting actuaries to develop the amounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the landfill site closure/postclosure liability is based on the percentage of the landfill capacity used to date applied to the closure/postclosure cost estimates prepared by outside consultants, less actual costs incurred. We evaluated the key factors and assumptions used to develop the amounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the estimated litigation and claims are based on legal representations provided by County Counsel and attorneys utilized by the County. We have evaluated the status of pending litigation to determine that the amounts recorded are reasonable in relation to the financial statements taken as a whole.

#### ***Audit Adjustments***

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County's financial reporting process (that is, cause future financial statements to be materially misstated). The significant audit adjustments proposed by us and recorded by the County are summarized on the attached Schedule A. These audit adjustments indicate matters that could have a significant effect on the County's financial reporting process.

In addition, the attached Schedule B summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### ***Issues Discussed Prior to Retention of Independent Auditors***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Audit Oversight Committee of the County and County management and is not intended to be and should not be used by anyone other than these specified parties.

*Tracy, Jini & Company LLP*

Certified Public Accountants  
Los Angeles, California

County of Orange  
 Schedule of Significant Audit Adjustments Recorded  
 For the Year Ended June 30, 2002

Schedule A

	Debit	Credit
<b>FUND FINANCIAL STATEMENTS</b>		
<b>MAJOR GOVERNMENTAL FUNDS</b>		
<b>1 Major Fund: General Fund</b>		
Professional/Specialized Services	\$ 1,292,171	
Accounts Payable		\$ 1,292,171
<b>To record additional expenditures for FYE 2002.</b>		
<b>2 Major Fund: Flood Control District</b>		
Professional/Specialized Services	78,137	
Accounts Payable		78,137
<b>To record additional expenditures for FYE 2002.</b>		
<b>3 Major Fund: Harbors, Beaches &amp; Parks</b>		
Professional/Specialized Services	223,564	
Accounts Payable		223,564
<b>To record additional expenditures for FYE 2002.</b>		
Total Major Funds	1,593,872	1,593,872
<b>MAJOR ENTERPRISE FUND</b>		
<b>IWMD</b>		
<b>4 Net Assets Restricted</b>		
Net Assets Unrestricted	15,395,299	
<b>To reclassify restricted net assets to unrestricted net assets for encumbrances.</b>		15,395,299
<b>REMAINING FUND INFORMATION</b>		
<b>5 Bond Redemption</b>		
Payments to Refunded Debt Escrow Agent	12,913,709	
<b>To reclassify payments made to escrow agents for principal retirement for the refunding of the 1992 Juvenile Justice Center Facilities COP.</b>		12,913,709
<b>GOVERNMENT - WIDE FINANCIAL STATEMENTS</b>		
<b>GOVERNMENTAL ACTIVITIES</b>		
<b>6 Contributions to Non-County Government Agencies</b>		
Interest Revenue	38,321,634	
Investment with OCERS for future Pension Costs	8,176,764	
<b>To record prepaid pension cost.</b>		46,498,398
<b>7 Retirement Expense - General Government</b>	680,290	
Retirement Expense - Public Protection	3,647,883	
Retirement Expense - Public Ways and Facilities	248,869	
Retirement Expense - Health and Sanitation	1,265,866	
Retirement Expense - Public Assistance	2,029,930	
Retirement Expense - Education	171,719	
Retirement Expense - Recreation and Cultural Services	132,207	
Interest Revenue		8,176,764
<b>To allocate the loss of the OCERS investment earnings.</b>		
Total Governmental Activities	\$ 54,675,162	\$ 54,675,162

County of Orange  
 Schedule of Passed Adjustments  
 For the Year Ended June 30, 2002

	Balance Sheet Effect	Income Statement Effect	Description
	DR (CR)	CR (DR)	
	Assets	Revenue	
<b>FUND FINANCIAL STATEMENTS</b>			
<b>MAJOR GOVERNMENTAL FUNDS</b>			
<i>Major Fund: Roads</i>			
Pooled Cash and Investments	\$ 60,950		
Investment Income		\$ 60,950	GASB 31 fair value allocation
<i>Major Fund: Public Library</i>			
Pooled Cash and Investments	\$ 4,984		
Investment Income		\$ 4,984	GASB 31 fair value allocation
<i>Major Fund: Tobacco Settlement</i>			
Pooled Cash and Investments	\$ 13,373		
Investment Income		\$ 13,373	GASB 31 fair value allocation
<i>Major Fund: Refunding and Recovery COPs</i>			
Pooled Cash and Investments	\$ 24,340		
Investment Income		\$ 24,340	GASB 31 fair value allocation
<i>Major Fund: Flood Control District</i>			
Pooled Cash and Investments	\$ 99,823		
Investment Income		\$ 99,823	GASB 31 fair value allocation
<i>Major Fund: Harbors, Beaches &amp; Parks</i>			
Pooled Cash and Investments	\$ 20,941		
Investment Income		\$ 20,941	GASB 31 fair value allocation
Total Major Funds	<u>\$ 224,411</u>	<u>\$ 224,411</u>	
<b>MAJOR ENTERPRISE FUND</b>			
<i>IWMD</i>			
Pooled Cash and Investments	\$ 147,032		
Investment Income		\$ 147,032	GASB 31 fair value allocation
Total Enterprise Funds	<u>\$ 147,032</u>	<u>\$ 147,032</u>	
<b>REMAINING FUND INFORMATION</b>			
Pooled Cash and Investments	\$ 1,089,395		
Investment Income		\$ 1,089,395	GASB 31 fair value allocation
Total Remaining Funds	<u>\$ 1,089,395</u>	<u>\$ 1,089,395</u>	

County of Orange  
 Schedule of Passed Adjustments  
 For the Year Ended June 30, 2002

	Statement of Net Assets Effect DR (CR) <u>Assets</u>	Statement of Activities Effect CR (DR) <u>Revenue</u>	<u>Description</u>
<b>GOVERNMENT - WIDE FINANCIAL STATEMENTS</b>			
<b>GOVERNMENTAL ACTIVITIES</b>			
Pooled Cash and Investments Investment Income	\$ 761,913	<u>\$ 761,913</u>	GASB 31 fair value allocation
Bond Issuance Cost Debt Issuance Cost	\$ 128,495	<u>\$ 128,495</u>	To record prepaid issuance costs
Total Governmental Activities	<u>\$ 890,408</u>	<u>\$ 890,408</u>	
<b>BUSINESS-TYPE ACTIVITIES</b>			
Pooled Cash and Investments Investment Income	\$ 197,277	<u>\$ 197,277</u>	GASB 31 fair value allocation
Total Business-Type Activities	<u>\$ 197,277</u>	<u>\$ 197,277</u>	
<b>COMPONENT UNIT</b>			
<b>O.C. CHILDREN AND FAMILIES COMMISSION</b>			
Pooled Cash and Investments Investment Income	\$ 49,680	<u>\$ 49,680</u>	GASB 31 fair value allocation
Total Component Unit	<u>\$ 49,680</u>	<u>\$ 49,680</u>	

**COUNTY OF ORANGE, CALIFORNIA**

Single Audit Reports

For the Year Ended June 30, 2002

COUNTY OF ORANGE, CALIFORNIA

Single Audit Reports

For the Year Ended June 30, 2002

*Table of Contents*

	<i>Page(s)</i>
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	1-2
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and the Schedule of Expenditures of Federal Awards and Supplementary Schedule of Categorical Expenditure Distribution for the Office of Criminal Justice Planning Grant Programs in Accordance with OMB Circular A-133 .....	3-4
Schedule of Expenditures of Federal Awards.....	5-14
Supplementary Schedule of Categorical Expenditure Distribution for the Office of Criminal Justice Planning Grant Programs .....	15
Notes to Schedule of Expenditures of Federal Awards and Supplementary Schedule .....	16-17
Schedule of Findings and Questioned Costs.....	18-19



Macias, Gini & Company LLP  
Certified Public Accountants and  
Management Consultants

*Partners*

Kenneth A. Macias, Managing Partner  
Ernest J. Gini  
Kevin J. O'Connell  
Richard A. Green  
Jan A. Rosati  
James V. Godsey

515 South Figueroa Street  
Suite 325  
Los Angeles, CA 90071  
213•612•0200  
213•286•6426 FAX  
www.maciasgini.com

Board of Supervisors  
County of Orange, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the basic financial statements of the County of Orange, California (County), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 2, 2002, except for Note 21 item G, as to which the date is December 12, 2002, which included an explanatory paragraph for the County's adoption of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Compliance*

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the County in a separate letter dated December 2, 2002.

This report is intended solely for the information of the Board of Supervisors, the County's Audit Oversight Committee, County management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Inoué, Fini & Company LLP*

Certified Public Accountants

Los Angeles, California

December 2, 2002



Macias, Gini & Company LLP  
Certified Public Accountants and  
Management Consultants

Partners

Kenneth A. Macias, Managing Partner  
Ernest J. Gini  
Kevin J. O'Connell  
Richard A. Green  
Jan A. Rosati  
James V. Godsey

515 South Figueroa Street  
Suite 325  
Los Angeles, CA 90071  
213•612•0200  
213•286•6426 FAX  
www.maciasgini.com

Board of Supervisors  
County of Orange, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE  
AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND  
SUPPLEMENTARY SCHEDULE OF CATEGORICAL EXPENDITURE DISTRIBUTION FOR  
THE OFFICE OF CRIMINAL JUSTICE PLANNING GRANT PROGRAMS  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

*Compliance*

We have audited the compliance of the County of Orange, California (County), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

*Internal Control Over Compliance*

The management of the County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

*Schedule of Expenditures of Federal Awards and Supplementary Schedule of Categorical Expenditure Distribution for the Office of Criminal Justice Planning Grant Programs*

We have audited the basic financial statements of the County of Orange, California (County), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 2, 2002, except for Note 21 item G, as to which the date is December 12, 2002, which includes an explanatory paragraph for the County's adoption of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. Our audit was performed for the purpose of forming opinions on the financial statements, which collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards and supplementary schedule of categorical expenditure distribution for the Office of Criminal Justice Planning (OCJP) grant programs are presented for purposes of additional analysis as required by OMB Circular A-133 and the OCJP, respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Supervisors, the County's Audit Oversight Committee, County management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Tracur, Fini & Company LLP*

Certified Public Accountants

Los Angeles, California  
February 28, 2003, except for the fifth paragraph,  
as to which the date is December 2, 2002

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
<b><u>Department of Agriculture</u></b>				
Food Stamps Incentive (indirect)	10.551	1946001347 A7	\$ 82,870	Social Services Agency
Value of Food Stamps Issued (indirect)	10.551	1946001347 A7	53,211,416	Social Services Agency
Non-Assisted Food Stamps (indirect)	10.561	1946001347 A7	10,921,916	Social Services Agency
Subtotal 10.551 and 10.561 (Food Stamp Cluster)			64,216,202	
School Breakfast, Lunch, and Milk Program (indirect)	10.553	30-34306-9003500-01	905,519	Probation
Women, Infants, and Children (indirect)	10.557	99-85735-04	5,711,395	Health Care Agency
Basic Meal Reimbursement - Orangewood (indirect)	10.558	1946001347 A7	177,542	Social Services Agency
Title IIIC1-Congregate Meals for Seniors (indirect)	10.570	FF 0102-22	284,263	CSA/Office on Aging
Title IIIC2-Home Delivered Meals for Seniors (indirect)	10.570	FF 0102-22	640,725	CSA/Office on Aging
Subtotal 10.570			924,988	
Subtotal - Department of Agriculture			71,935,646	
<b><u>Department of Defense</u></b>				
U.S. Flood Control District (indirect)	12.106		1,519	Public Fac. & Resources Dept.
Subtotal - Department of Defense			1,519	
<b><u>Department of Education</u></b>				
Alcohol and Drug Program-Drug Free Schools (indirect)	84.186	SCC30 (00/01)	285,020	Health Care Agency
Subtotal - Department of Education			285,020	

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
<b><u>Department of Health and Human Services</u></b>				
Title VII B-Elder Abuse Prevention (indirect)	93.041	FF 0102-22	\$ 32,228	CSA/Office on Aging
Title VII A-Ombudsman (indirect)	93.042	FF 0102-22	83,416	CSA/Office on Aging
Title III F-Preventive Health (indirect)	93.043	FF 0102-22	150,942	CSA/Office on Aging
Title III B-Senior Supportive Services (indirect)	93.044	FF 0102-22	1,956,477	CSA/Office on Aging
Title III C1-Congregate Meals for Seniors (indirect)	93.045	FF 0102-22	1,464,265	CSA/Office on Aging
Title III C2-Home Delivered Meals for Seniors (indirect)	93.045	FF 0102-22	1,710,803	CSA/Office on Aging
Subtotal 93.044 and 93.045 (Aging Cluster)			<u>5,131,545</u>	
Nation Family Caregiver Support Program (indirect)	93.052	FC 0102-22	400,867	CSA/ Office on Aging
PATH Grant (indirect)	93.150		179,434	Health Care Agency
Family Planning Title X (indirect)	93.217	209-526-2000	263,653	Health Care Agency
Pediatric Immunization (indirect)	93.268	01-15219	764,110	Health Care Agency
Breast Cancer Early Detection (indirect)	93.394	96-26673-06	434,021	Health Care Agency
Family Preservation (indirect)	93.556	1946001347 A7	2,365,684	Social Services Agency
TANF Block Grant (indirect)	93.558	TANF-Probation	16,467,893	Probation
TANF Performance Incentive (indirect)	93.558	1946001347 A7	11,739,148	Social Services Agency
Cal Works (Admin) (indirect)	93.558	1946001347 A7	101,916,474	Social Services Agency
Cal Works (indirect)	93.558	1946001347 A7	55,785,188	Social Services Agency
Subtotal 93.558			<u>185,908,703</u>	

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
Support Enforcement Incentive Fund (indirect)	93.563	06059	\$ 4,828,647	District Attorney
Support Enforcement Incentive Fund (indirect)	93.563	06059		
Welfare Absent Parent Contribution (indirect)	93.563	1946001347 A7	4,376	District Atty. For Probation
IV-D Subvention, Child Support (indirect)	93.563	06059	955,680	Social Services Agency
IV-D Subvention, Child Support (indirect)	93.563	06059	38,496,442	District Attorney
Subtotal 93.563			<u>412,346</u>	Probation
Refugee Cash Assistance (indirect)	93.566	1946001347 A7	<u>44,697,491</u>	
Refugee Employment Social Services (indirect)	93.566	0004, 0104	187,337	Social Services Agency
Welfare Aid to Refugees (indirect)	93.566	1946001347 A7	1,023,182	Social Services Agency
Subtotal 93.566			<u>480,649</u>	Social Services Agency
Refugee Health Assessment Program (indirect)	93.567	00-30-9460-1/ 01-37-9460-1	<u>1,691,168</u>	
Targeted Assistance (indirect)	93.584	TART0004, TARL0006, 0103; TART0104, 0003, TARL0106	324,998	Health Care Agency
Adoption Incentive (indirect)	93.603	1946001347 A7	1,064,824	Social Services Agency
Child Welfare System Title IVB (indirect)	93.645	1946001347 A7	443,435	Social Services Agency
Welfare Aid to Children in Boarding Homes (indirect)	93.658	1946001347 A7	1,855,914	Social Services Agency
Children Welfare System Title IV E (indirect)	93.658	1946001347 A7	32,055,898	Social Services Agency
Children Welfare System Title IV E (indirect)	93.658	2282D	20,655,762	Social Services Agency
Subtotal 93.658			<u>3,877,413</u>	Probation
			<u>56,589,073</u>	

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (I)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
Adoptions (indirect)	93.659	1946001347 A7	\$ 2,654,791	Social Services Agency
Independent Living Skills (indirect)	93.674	1946001347 A7	964,442	Social Services Agency
Child Health and Disability Prevention Program (indirect)	93.778		463,669	Health Care Agency
Children in Foster Care (indirect)	93.778		364,839	Health Care Agency
Medi-Cal Administrative Activities (MAA) (indirect)	93.778	00-90502	616,607	Health Care Agency
Medi-Cal Targeted Case Management (TCM) (indirect)	93.778	30-9899	3,405,770	Health Care Agency
Medi-Cal (indirect)	93.778	1946001347 A7	30,154,923	Social Services Agency
Subtotal 93.778			<u>35,005,808</u>	
Health Care Financing Research, Demonstrations and Evaluations (indirect)	93.779	CB0102-22	45,773	CSA/Office on Aging
HIV Emergency Relief Uniform Reporting System - Ryan White Title I (direct)	93.914		137,112	Health Care Agency
HIV Emergency Relief Formula - Ryan White Title I (direct)	93.914		4,992,987	Health Care Agency
Subtotal 93.914			<u>5,130,099</u>	
HIV Care Consortium - Ryan White Title II (indirect)	93.917	96-26879, A-2	477,521	Health Care Agency
AIDS/HIV Primary Care (direct)	93.918		830,457	Health Care Agency
Substance Abuse and Mental Health Services Administration (SAMSHA) (indirect)	93.958		1,838,045	Health Care Agency
Alcohol & Drug Program (indirect)	93.959	SCC30 (00/01)	17,573,476	Health Care Agency
314D Federal Health Incentive Funding	93.991		20,809	Health Care Agency

**COUNTY OF ORANGE, CALIFORNIA**  
 Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
Adolescent Family Life (indirect)	93.994	200030	\$ 621,909	Health Care Agency
Adolescent Sibling (indirect)	93.994	200030	19,962	Health Care Agency
Maternal and Child Health (MCH) Allocation (indirect)	93.994	200030	<u>289,020</u>	Health Care Agency
Subtotal 93.994			<u>930,891</u>	
Subtotal - Department of Health and Human Services			<u>367,853,618</u>	
<b><u>Department of Housing and Urban Development</u></b>				
Community Development Block Grant (direct)	14.218		7,621,788	Housing & Comm. Dev. Dept.
Emergency Shelter Grants Program (direct)	14.231		185,084	Housing & Comm. Dev. Dept.
Supportive Housing Program (direct)	14.235		2,097,446	Housing & Comm. Dev. Dept.
HOME Investment Partnership Act (direct)	14.239		487,616	Housing & Comm. Dev. Dept.
Housing Opportunities for Persons with AIDS (HOPWA) (indirect)	14.241	93-1346	690,152	Health Care Agency
Section 8 New Construction and Substantial Rehabilitation (direct)	14.182		1,925,044	Housing & Comm. Dev. Dept.
Shelter Plus Care (direct)	14.238		808,793	Housing & Comm. Dev. Dept.
Section 8 Housing Choice Vouchers (direct)	14.871		<u>69,892,918</u>	Housing & Comm. Dev. Dept.
Subtotal 14.182, 14.238, 14.871 (Section 8 Cluster)			<u>72,626,755</u>	
Subtotal - Department of Housing and Urban Development			<u>83,708,841</u>	
<b><u>Department of the Interior</u></b>				
Federal Forest Reserve Fund (direct)	15.916		<u>16,005</u>	Public Fac. & Resources Dept.
Subtotal - Department of the Interior			<u>16,005</u>	

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
<b><u>Department of Justice</u></b>				
Office of Justice Programs - Domestic Preparedness Support Program (direct)	16.007		\$ 11,686	Sheriff-Coroner
Juvenile Intake Assessment System (JIAS)/ Juvenile Drug Court (indirect)	16.523	IP 00 AI 0300	357,168	Probation
Juvenile Offender Accountability Program (indirect)	16.523	IP 00 B1 0300	270,452	District Attorney
Juvenile Offender Accountability Program (indirect)	16.523	IP 00 B1 0300	112,368	Probation
Subtotal 16.523			<u>739,988</u>	
High Intensity Drug Trafficking Area (HIDTA)(direct)	16.544		892,614	Sheriff-Coroner
Child Abuse Treatment Services (indirect)	16.575	PV98010300, AT01010300	142,812	Social Services Agency
Victim Witness Assistance Program (indirect)	16.575	VW00190300	996,479	Superior Court
Gang Victim Services - Special Emphasis (indirect)	16.575	SE99090300	96,535	Superior Court
Subtotal 16.575			<u>1,235,826</u>	
Orange County Methamphetamine Lab- Investigation Team (indirect)	16.579	DC 01 14 0300	1,197,442	Sheriff-Coroner
Drug Endangered Children Response Team (DEC) (indirect)	16.579	DG 01 04 0300	42,175	District Attorney
Drug Endangered Children Response Team (DEC) (indirect)	16.579	DG 01 04 0300	2,157	District Attorney for SSA
Subtotal 16.579			<u>1,241,774</u>	

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
C-FIC Anti-Money Laundering Grant Program (indirect)	16.580	2001 DD BX 0073	\$ 64,519	District Attorney
Strategies in Communities Prosecution (indirect)	16.580	2001 PP CX 0014	126,306	District Attorney
Regional Mobile Gang Enforcement Team (RGET) (indirect)	16.580	2001 DD BX 0040	1,924,142	District Attorney
Subtotal 16.580			<u>2,114,967</u>	
Drug Court (direct)	16.585		7,900	County Executive Office
Substance Abuse Education, Recognition & Intervention Program (indirect)	16.593	RT99020300	240,375	Probation
Substance Abuse Education, Recognition & Intervention Program (indirect)	16.593	RT01030300	375,219	Probation
Subtotal 16.593			<u>615,594</u>	
Care of Federal Prisoners - U.S. Marshal (direct)	16.602		4,025	Sheriff-Coroner
State Criminal Alien Assistance Program (direct)	16.606		3,678,281	Sheriff-Coroner
OJP-Bulletproof Vest Program (direct)	16.607		96,037	Sheriff-Coroner
COPS Technology (direct)	16.710		262,937	Sheriff-Coroner
COPS Universal Hiring (direct)	16.710		150,000	Sheriff-Coroner
COPS More 96 (direct)	16.710		41,313	Sheriff-Coroner
COPS School-Based Community Program (direct)	16.710		44,576	Sheriff-Coroner
Subtotal 16.710			<u>498,826</u>	

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
RNSP Forfeitures (direct)	16.999		\$ 745,184	Sheriff-Coroner
SNP Forfeitures (direct)	16.999		86,216	Sheriff-Coroner
Subtotal 16.999			831,400	
Subtotal - Department of Justice			11,968,918	
<b><u>Department of Labor</u></b>				
Title V-Senior Employment Program (indirect)	17.235	TV0102-22	645,636	CSA/Office on Aging
Welfare to Work 99 GC #801 (indirect)	17.253	W965819	2,465,192	Community Services Agency
Workforce Investment Act Title I (1999) (indirect)	17.258	R069125	9,392,779	Community Services Agency
Workforce Investment Act Title I (2001) (indirect)	17.259	R275857	7,420,461	Community Services Agency
Subtotal 17.258 and 17.259 (WIA Cluster)			16,813,240	
Subtotal - Department of Labor			19,924,068	
<b><u>Department of Transportation</u></b>				
Airport Improvement Programs; 0233-16, 24, 25, 26 & 27, 28 & 29 (direct)	20.106		2,311,486	John Wayne Airport
Acoustical Insulation Program 0233-17, 18 & 22 (direct)	20.106		737,247	John Wayne Airport/OCDA
Subtotal 20.106			3,048,733	
TSA - Law Enforcement Officers/ Screening Checkpoints (direct)	20.999		109,000	John Wayne Airport
TSA - Explosive detection Canine Team Program (direct)	20.999		120,500	John Wayne Airport
Intermodal Surface Transportation Efficiency Act (ISTEA) (indirect)	20.205	12-5955	985,739	Public Fac. & Resources Dept.

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
Traffic Violator Apprehension Program (indirect)	20.600	PT 0043	\$ 113,603	Sheriff-Coroner
Portable Evidential Breath Test (PEBT) Program (indirect)	20.600	AL 0013	317,100	Sheriff-Coroner
Subtotal 20.600			430,703	
Subtotal - Department of Transportation			4,694,675	
<b><u>Department of Treasury</u></b>				
RNSP Forfeitures (direct)	21.999		7,440	Sheriff-Coroner
SNP Forfeitures (direct)	21.999		584,874	Sheriff-Coroner
Subtotal 21.999			592,314	
Subtotal - Department of Treasury			592,314	
<b><u>Environmental Protection Agency</u></b>				
State Water Resources Control Board (indirect)	66.454		12,379	Public Fac. & Resources Dept.
Local Oversight Program (indirect)	66.805	01-007-550-0	406,425	Health Care Agency
Subtotal - Environmental Protection Agency			418,804	
<b><u>Federal Emergency Management Agency</u></b>				
1993 Fire (indirect)	83.544	059-00000	26,769	Public Fac. & Resources Dept.
1995 Storm (indirect)	83.544	059-00000	2,779,041	Public Fac. & Resources Dept.
1997 Storm (indirect)	83.544	DSR309/ OES Event #9704	2,046	Sheriff-Coroner/Emergency Mgmt.
1998 Storm (indirect)	83.544	059-00000	62,961	Public Fac. & Resources Dept.
Subtotal 83.544			2,870,817	

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2002

Federal Grantor County Program Name Direct or Indirect (1)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (2)	Disbursements/ Expenditures	Responsible County Department/Agency
Emergency Management Performance Grant - Non-Terrorism (indirect)	83.552	EMF-2001-GF-0102	\$ 316,237	Sheriff-Coroner/Emergency Mgmt.
Subtotal - Federal Emergency Management Agency			<u>3,187,054</u>	
Grand Total			<u>\$ 564,586,482</u>	

**LEGEND:**

- (1) Indirect refers to Federal monies passed through various nonfederal agencies, primarily State of California agencies.
- (2) The State of California does not assign a pass-through identification number for certain programs passed to the County. Accordingly, a pass-through identification number is not listed for certain indirect programs.

See accompanying Notes to Schedule of Expenditures of Federal Awards and Supplementary Schedule.

**COUNTY OF ORANGE, CALIFORNIA**

Supplementary Schedule of Categorical Expenditure Distribution for the  
Office of Criminal Justice Planning Grant Programs

Year Ended June 30, 2002

Program Name	CFDA#	Grant #	Categorical Expenditure Distribution				Total
			Personal Services	Operating Expenses	Equipment		
Juvenile Intake Assessment System (JIAS)/Juvenile Drug Court	16.523	IP00A10300	(1) \$ 205,439	\$ 191,415	\$ -	\$ 396,854	
Orange County Juvenile Offender Accountability Program	16.523	IP00B10300	(2) 292,704	60,949	71,701	425,354	
Child Abuse Treatment Services	16.575	PV98010300	(3) -	24,202	-	24,202	
Child Abuse Treatment Services	16.575	AT01010300	(4) -	154,312	-	154,312	
Victim Witness Assistance Program	16.575	VW00190300	(5) 881,911	114,568	-	996,479	
Gang Victim Services - Special Emphasis	16.575	SE99090300	(6) 104,226	14,190	-	118,416	
Drug Endangered Children Response Team	16.579	DG01040300	(7) 42,121	2,211	-	44,332	
Orange County Methamphetamine Lab - Investigation Team	16.579	DC01140300	(8) 488,900	708,542	-	1,197,442	
Substance Abuse Education, Recognition and Intervention Program	16.593	RT99020300	(9) 104,506	211,013	4,981	320,500	
Substance Abuse Education, Recognition and Intervention Program	16.593	RT01030300	(10) 234,641	259,443	6,208	500,292	
			<u>\$ 2,354,448</u>	<u>\$ 1,740,845</u>	<u>\$ 82,890</u>	<u>\$ 4,178,183</u>	

- (1) Includes Local match = \$39,686, Federal = \$357,168.
- (2) Includes Local match = \$42,534, Federal = \$382,820.
- (3) Includes Local match = \$4,840, Federal = \$19,362.
- (4) Includes Local match = \$30,862, Federal = \$123,450.
- (5) Federal = 100%
- (6) Includes Local match = \$21,881, Federal = \$96,535.
- (7) Federal = 100%
- (8) Federal = 100%
- (9) Includes Local match = \$80,125 Federal = \$240,375.
- (10) Includes Local match = \$125,073 Federal = \$375,219.

See accompanying Notes to Schedule of Expenditures of Federal Awards and Supplementary Schedule.

## COUNTY OF ORANGE, CALIFORNIA

### Notes to Schedule of Expenditures of Federal Awards and Supplementary Schedule

For the Year Ended June 30, 2002

#### **1. GENERAL**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the County of Orange, California (County) including the Orange County Housing Authority and Development Agency. Federal awards received directly from federal agencies as well as federal awards passed through other nonfederal agencies, primarily the State of California, are included on the schedule. The County's reporting entity is defined in Note 1 to the County's basic financial statements.

#### **2. BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting except for programs recorded in the County's enterprise funds, which are presented using the accrual basis of accounting, which is described in Note 1 to the County's basic financial statements.

#### **3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal award expenditures agree or can be reconciled with the amounts reported in the County's basic financial statements.

#### **4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying Schedule of Expenditures of Federal Awards are in material agreement with the amounts reported in the related federal financial reports for the federal award programs.

#### **5. OFFICE OF CRIMINAL JUSTICE PLANNING GRANT PROGRAMS**

At the request of the State of California Office of Criminal Justice Planning, the categorical expenditure distribution for the Office of Criminal Justice Planning grant programs is also included as a supplementary schedule on page 15.

**COUNTY OF ORANGE, CALIFORNIA**

Notes to Schedule of Expenditures of Federal Awards and Supplementary Schedule

For the Year Ended June 30, 2002

**6. PASS-THROUGH AWARDS TO SUBRECIPIENTS**

Included in the total expenditures of federal awards are the following amounts passed through to subrecipients:

County Program Title	Catalog of Federal Domestic Assistance Number	Amount Provided to Subrecipients for the Year Ended June 30, 2002
Title III C-1 Congregate Meals for Seniors	10.570 & 93.045	\$ 1,524,457
Title III C-2 Home Delivered Meals for Seniors	10.570 & 93.045	2,244,248
Community Development Block Grant	14.218	3,437,882
Emergency Shelter Grants Program	14.231	185,084
Supportive Housing Program	14.235	2,022,326
HOME Investment Partnership Act	14.239	166,630
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	690,152
Section 8 Housing Choice Vouchers	14.871	311,256
Juvenile Intake Assessment System (JIAS)/Juvenile Drug Court	16.523	310,814
Child Abuse Treatment Services	16.575	142,812
Victim Witness Assistance Program	16.575	996,479
Gang Victim Services - Special Emphasis	16.575	96,535
Orange County Methamphetamine Lab-Investigation Team	16.579	547,169
Drug Court	16.585	7,900
Substance Abuse Education, Recognition & Intervention Program	16.593	435,563
RNSP Asset Forfeitures	16.999	159,244
Title V – Senior Employment Program	17.235	640,489
Welfare to Work	17.253	1,619,886
WIA Adult Program	17.258	4,279,430
WIA Youth Activities	17.259	4,674,126
Emergency Management Performance Grant – Non-Terrorism	83.552	148,546
Alcohol and Drug Program – Drug Free Schools	84.186	285,020
Title VIIB – Elder Abuse Prevention	93.041	32,228
Title VIIA – Ombudsman	93.042	83,416
Title IIIB – Senior Supportive Services	93.044	1,556,838
Nation Family Caregiver Support Program	93.052	235,071
PATH Grant	93.150	179,434
Refugee Employment Social Services	93.566	524,883
TANF Performance Incentive	93.558	10,980,595
Targeted Assistance	93.584	712,250
Health Care Financing Research, Demonstrations and Evaluations	93.779	41,612
HIV Emergency Relief Formula – Ryan White Title I	93.914	3,577,864
Substance Abuse and Mental Health Services Administration (SAMSHA)	93.958	1,379,939
Alcohol & Drug Program	93.959	11,119,393
		\$ 55,349,571

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2002

---

**Section I      Summary of Auditor's Results**

---

**FINANCIAL STATEMENTS**

Type of auditor's report issued on the basic financial statements of the County:	Unqualified
Internal control over financial reporting:	
◆ Material weakness(es) identified?	No
◆ Reportable condition(s) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs:	
◆ Material weakness(es) identified?	No
◆ Reportable condition(s) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No
Identification of major programs:	

<u>CFDA number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)
20.106	Airport Improvement Program
93.558	Temporary Assistance for Needy Families (TANF)
93.044, 93.045	Aging Cluster
16.606	Alien Assistance
14.182, 14.238, 14.871	Section 8 Cluster

**COUNTY OF ORANGE, CALIFORNIA**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2002

---

**Section I Summary of Auditor's Results (Continued)**

---

Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as a low-risk auditee?	Yes

---

**Section II Financial Statement Findings**

---

No matters were reported.

---

**Section III Federal Award Findings and Questioned Costs**

---

No matters were reported.

***DRAFT***

**COUNTY OF ORANGE, CALIFORNIA**

**Report to Management**

**For the Year Ended June 30, 2002**

December 2, 2002

Board of Supervisors  
County of Orange, California

In planning and performing our audit of the basic financial statements of the County of Orange, California (County), for the year ended June 30, 2002, we considered the County's internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, which collectively comprise the County's basic financial statements, and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. The memorandum also summarizes the status of prior year comments and suggestions. We previously reported on the County's internal control in our report dated December 2, 2002, in conjunction with our audit of the County's basic financial statements for the year ended June 30, 2002. This letter does not affect that report.

This report is intended solely for the information and use of the Board of Supervisors, the Audit Oversight Committee, and County management and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with County personnel and have included management's responses to our recommendations in the attached memorandum. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Certified Public Accountants

**COUNTY OF ORANGE  
REPORT TO MANAGEMENT  
FOR THE YEAR ENDED JUNE 30, 2002**

**1. Accounts Payable Year-End Accruals**

**Condition**

In the prior year we identified instances of non-compliance with the County's year-end accrual procedures. We have seen improvement in the current year; however, we have identified the following accruals that were not recorded at year-end:

- The Public Facilities and Resources Department (PFRD) did not accrue \$220,562 for services rendered as of June 30, 2002.
- PFRD did not accrue \$78,137 for services rendered to the Flood Control District as of June 30, 2002.
- The Health Care Agency (HCA) did not accrue \$1,292,171 for services rendered in May and June 2002.

Audit adjustments were recorded to correct the accounts.

**Recommendation**

We recommend that the Auditor-Controller's Office continue to emphasize their year-end accrual procedures to ensure that liabilities are properly recorded at year-end.

**Management Response (provided by HCA and PFRD)**

Concur. Auditor-Controller staff will continue to work with HCA and CEO staff on procedures to ensure that liabilities are properly accrued at year-end. For the program related to this audit adjustment, the responsibility for monitoring all months of service during the fiscal year, and for recording all necessary accruals, has been reassigned to staff that are more knowledgeable of year-end closing requirements. Auditor-Controller staff will provide additional training to the individuals involved, in order to assist in providing more fiscal oversight for this program. The year-end closing checklist will also include a specific line item for this program.

Concur. PFRD Accounts Payable has an annual volume of approximately \$40 million and PFRD Contracts total approximately \$567 million. In an effort to emphasize the year-end accrual process, the Accounts Payable Supervisor, annually in May, will remind all Accounts Payable and Contracts staff to begin checking contracts and Price Agreements for any necessary year-end accruals. Additionally, all PFRD Divisions will be requested to review their contracts including any new contracts that came into effect in May and June for any possible accruals.

**2. Recording of Bond Issuance Costs**

**Condition**

Bond issuance should not be reported as expenditures in the statement of activities. These issuance costs should be capitalized and amortized over the life of the bond. Bond issuance costs of \$128,495 were not capitalized for the Orange County Development Agency (OCDA) Tax Allocation Refunding

**COUNTY OF ORANGE  
REPORT TO MANAGEMENT  
FOR THE YEAR ENDED JUNE 30, 2002**

Bonds Series 2001 (NDAPP). An adjustment was not recorded and was included on the schedule of passed adjustments for the OCDA.

**Recommendation**

We recommend that procedures be implemented to ensure that all costs associated with the issuance of bonds are capitalized in the government-wide financial statements.

**Management Response (provided CEO)**

Concur. We agree with the recommendation that bond issuance costs should be capitalized and amortized over the life of the bond. Procedures have been established that will capture all costs associated with the issuance of bonds. We will then amortize these costs over the life of the bond.

**3. Use of Estimates for Payroll Costs for the Temporary Assistance to Needy Families (TANF) Program**

**Condition**

The County Department of Probation used the 2nd quarter time studies as the basis to prepare the expenditures reported on the 3rd quarter claim submitted. This estimate was based on the 2nd quarter actual time studies plus one additional pay period. A variance of (\$17,063) was determined when comparing the estimated balance to the revised report using the actual time studies subsequently prepared in February 2003. This grant has incurred \$1,919,291 of excess expenditures over the grant award balance of \$16,467,893, the overstatement of \$17,063 claimed on the 3rd quarter will not result in questioned costs due to the excess expenditures. Although time studies were performed for the quarter, the compilation of the time studies was not completed, which subsequently led to the reporting methodology based on estimates.

**Recommendation**

Per OMB Circular A-133, Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements. All costs claimed should be supported by actual costs.

**Management Response (provided by the Department of Probation)**

Because of time constraints, the referenced third quarter claim was an estimate, based on the previous (2nd) quarter's actual expenses for services provided. Given that the Probation Department surpassed by far its TANF funding allocation for FY 01-02, the need to convert the estimated claim to actual was not deemed an urgent matter. The actual third quarter costs were later determined to be \$2,721,388, coming within 99.4% of the claimed/estimated costs. Despite the proximity of the two amounts and the apparent soundness of the methodology employed for the cost estimate, Probation will make every effort to base its TANF quarterly claims on actual data within the Federally allowed claiming (45 days following quarter's end) and adjustment (nine months following quarter's end) periods.

**COUNTY OF ORANGE  
PRIOR YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**1. Accounts Payable Year-End Accruals**

**Condition**

The Social Services Agency (SSA) accrued \$4,218,000 for services not yet performed under two contracts as of June 30, 2001. The accrual represented the unexpended amounts remaining under the contracts at June 30, 2001. In addition, the Health Care Agency (HCA) did not accrue \$1,981,000 for services rendered as of June 30, 2001 and the related grant revenue for the eligible expenditures incurred. Audit adjustments were recorded to correct the accounts.

**Recommendation**

We recommend that SSA and HCA implement review procedures to ensure that liabilities are properly recorded at year-end in accordance with the Auditor-Controller's Office year-end accrual procedures.

**Management Response (provided by SSA and HCA)**

Concur. SSA has established procedures to review estimated accrual amounts for contracts that are submitted to the Auditor-Controller to record. The review will be conducted by financial staff that are knowledgeable of year-end accrual procedures and are independent of staff estimating the amounts.

Concur. HCA recognizes the importance of recording its liabilities properly at year-end in accordance with the Auditor-Controller Department's year-end accrual procedures, and the agency will continue to make every effort to record all expenditures and revenues in the appropriate fiscal year. We will review our year-end closing checklist and add a specific line item for the program related to the audit adjustment cited in this recommendation, in order to ensure that all necessary accruals have been made.

**Current Year Status**

SSA has implemented, however year-end accrual issues continue to exist in certain County departments/agencies. See current year comment 1.

**2. Revenue Recognition for Nonexchange Transactions under GASB 33**

**Condition**

The County implemented the accounting and reporting provisions of Governmental Accounting Standards Board Statement (GASB Statement) No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* in the current fiscal year. The Auditor Controller's Office held GASB 33 implementation meetings and provided instructions to County departments and agencies for the recording of year-end receivables and related revenue or deferred revenue amounts under the new standard. The major change in recognizing revenue for the current year related to the "availability" criteria under the modified accrual basis of accounting for governmental fund types. Under the

**COUNTY OF ORANGE  
PRIOR YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

County's policy, receivables must be collected within 60 days after year-end to be recognized as revenue; otherwise they should be reported as deferred revenue.

We tested the deferred revenue balance for the General Fund by determining when cash was actually received (prior to August 31 and subsequent to August 31, which is 60 days after fiscal year-end) and compared the timing of the cash receipt to the recorded deferred revenue balance. Based on our testing and further review by the Auditor-Controller's Office, a net adjustment to reduce deferred revenue by \$39,161,000 and recognize revenue of \$30,227,000 in fiscal year 2001 and \$8,934,000 in fiscal year 2000 was recorded to correct the deferred revenue balance as of June 30, 2001. This adjustment represents the net effect from all departments and agencies in the General Fund. The adjustment was necessary because: (1) County departments and agencies use estimates as of July 2001 for purposes of closing the budgetary basis records and actual results differed from those original estimates; and (2) the \$32,600,000 of deferred revenue recorded as of the beginning of the year to implement the new standard was not analyzed for revenue recognition in fiscal year 2001.

**Recommendation**

We recommend that the Auditor-Controller establish an additional year-end procedure to request that departments and agencies review their current year accrual estimates and deferred revenue account balances in September and compare the actual cash receipts within the 60-day availability period to recorded estimates. Revenue adjustments should be recorded for any significant differences between original estimates and actual results.

**Management Response (provided by the Auditor-Controller Department)**

Concur. The Auditor-Controller Department decided to add an additional year-end procedure that will be accomplished during the month of September. This new procedure will require departments and agencies to analyze their year-end closing revenue accrual estimates by comparing those estimates to the actual cash received within the 60-day availability criteria. When there are material differences discovered between the year-end revenue accrual estimate and the actual receipts, our office will prepare an entry to adjust the year-end revenue accrual to the amount actually received within the 60-day availability criteria.

**Current Year Status**

Implemented

**3. Accounting and Reporting for Trust Funds Consolidated into the Integrated Waste Management Department (IWMD) Enterprise Fund for Financial Reporting Purposes**

**Condition**

IWMD utilizes several trust funds to account for certain activities related to its operations, which are consolidated with the enterprise fund for financial reporting purposes. During the consolidation process, duplicate entries for three trust fund activities were not properly eliminated, which resulted

**COUNTY OF ORANGE  
PRIOR YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

in an audit adjustment of approximately \$9,100,000 to increase deposits for others and decrease revenue.

**Recommendation**

We recommend that IWMD evaluate the necessity of the trust funds and consider whether accounting for the activities directly in the enterprise fund or, alternatively, fully budgeting the activities would be a preferable management tool. If management determines that the trust funds are necessary, then consolidation entries should be made to eliminate the duplicate effects of consolidating the trust fund activities with the enterprise fund.

**Management Response (provided by IWMD)**

Concur. IWMD Accounting is currently in the process of evaluating all of the IWMD trust funds and transferring them to enterprise funds. This project is due to be completed by June 30, 2002 and will help us comply with the new GASB # 34 accounting requirements.

**Current Year Status**

Implemented

**4. Use of Electronic Funds Transfer (EFT)**

**Condition**

The County's core financial management system has the capability to electronically transfer funds for payment execution processes, but the County, has opted to generally issue checks for disbursements. While this is an acceptable work process and the County appears to have adequate manual controls in place to ensure financial integrity, the County, by electronically transferring funds, has an opportunity to reduce the workload of its check processing staff and increase efficiencies for this process. In other organizations that use electronic funds transfer, the time needed for payment execution is relatively insignificant as compared to the manual check disbursement process of preparing checks, inserting checks into envelopes, and then preparing them for mailing that could take hours, and even days. By turning the electronic funds transfer on, it will offer the following controls of: (1) capturing, storing, and processing information related to supporting the creation and generation of EFT payments, including American Banking Association (ABA) routing number, recipient bank account number, and account type; and allow for consolidation of multiple payments to a single payee in order to produce one EFT and itemize all payments covered by the EFT.

**Recommendation**

We recommend that the County investigate the possibility of utilizing the electronic transfer of payments function. We feel that once implemented, the County will benefit from enhanced efficiencies and enable resources to be utilized in other areas.

**COUNTY OF ORANGE  
PRIOR YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**Management Response (provided by the Auditor-Controller Department)**

Concur. At present, some large or emergency accounts payable payments are already wire transferred on an exception basis. The County plans to look at EFT payments to vendors, in the future, as part of our planned upgrade to the software vendor's next-generation release.

**Current Year Status (provided by the Auditor-Controller Department):**

No change.

**5. Electronic Processes**

**Condition**

Although the County's core financial management system has sufficient general application controls, the County manually calculates adjustments, tracks invoices, and has limited automated receipting of goods and services. Also, staff manually input into the County's CUBS system transactions that are billed at the department/agency level. Any manually driven process is prone to error. Should the County choose to automate adjustments, the system would then offer system controls, such as determining whether taking the discount is economically justified, recording additional shipping and other charges and then adjusting the payment amount, and automatically adjusting the obligation amount and edit for funds availability to cover increases.

**Recommendation**

We recommend that the County investigate the possibility of automating the calculation of adjustments, invoice tracking, receipting of goods and services, and the input of billings at the department/agency level. By automating these functions, the County will benefit from enhanced efficiencies and enable resources to be utilized in other areas.

**Management Response (provided by the Auditor-Controller Department)**

Concur. The County is working on a project to allow automated vendor invoice tracking. For receipting of goods and services, it was a Purchasing decision to allow only Inventory automated capability. However, we are exploring the feasibility of implementing a three way match, which would include automating the receipting of goods and services at the department/agency level.

**Current Year Status (provided by the Auditor-Controller Department):**

We have been testing out the feasibility of a three way match. It has been determined that the process may not work in the current environment. We are also exploring development of a workflow to process billings. The process is presently being mapped and the County will be purchasing the Accelio workflow tool which will allow us to develop the process.

**COUNTY OF ORANGE  
PRIOR YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

**6. Information Management Reviews of County Systems**

**Condition**

To ensure proper accountability and system integrity, the County should consider having in-house or outsource governmental system auditors perform information management reviews of each major system operated within the County. The types of reviews needed should, at a minimum, include the following:

- ◆ Information security management review
- ◆ Information security controls review
- ◆ Human resources system controls review
- ◆ Payroll system controls review
- ◆ Inventory management review

**Recommendation**

The County should consider on-going system reviews on a cyclical basis to ensure proper accountability and system integrity.

**Management Response (provided by the Internal Audit Department)**

Concur. With the identification by Macias, Gini & Company LLP of the importance and benefits of information system reviews to ensure proper accountability and system integrity, the Internal Audit Department, with the support of the Audit Oversight Committee and the Auditor-Controller, committed to begin a program of integrated audits of the CAPS system in the second half of the calendar year 2002.

The Internal Audit Department will be using the control objectives for information and related technology or COBIT standards as the criteria for these reviews. In addition, we have begun training the audit staff in the techniques of integrated audits as well as the understanding and appreciation of information technology systems and processes. The review areas identified above are included in our planned reviews.

The CEO, at our initiation and in agreement with our integrated audits initiative, funded two additional positions to ensure the planned integrated audits are completed. In addition, we are currently in the process of securing a contracted information technology expertise to conduct an initial risk assessment of the CAPS system using COBIT standards.

**Current Year Status (provided by the Internal Audit Department)**

The Internal Audit Department proceeded as indicated above. Our first action was engaging a technology expert to work with the Internal Audit Department on two critical technology reviews and these reports will be issued by the end of March 2003. The two areas reviewed are (1) the state of readiness for the upcoming CAPS upgrade, and (2) the risks in the CAPS payroll application. Furthermore, the Internal Audit Department trained its staff in information systems and technologies

**COUNTY OF ORANGE  
PRIOR YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

and prepared the staff for the CISA examination in June 2002. Eleven of the staff passed the CISA examination and two of the staff became CISA certified by the end of the year 2002. In addition, the Internal Audit Department conducts computer assisted auditing techniques (CAAT) reviews on an ongoing basis and issues reports on the results monthly. To date, these reviews have uncovered duplicate payments to vendors currently being recovered and other issues being further reviewed by the Human Resources Department.

**7. Electronic Data Processing (EDP) – System Security of Distributed System**

**Condition**

The County, like other large organizations, is investigating the feasibility to migrate certain information system functions to distributed systems. Distributed systems, sometimes referred to as "islands of technology," are essentially data processing applications that operate outside of the physical confines of a central data center and on either a local area network or a wide area network. These applications generally have a data interface with the "mainframe" systems and provide a singular functionality such a utility billings or court systems. As these systems become more prevalent in an organization the operating and financial exposure to the organization will increase, as they will operate and in some cases be located outside of the sphere of control of the central data processing facility. However, since the system functionality and cost generally will decrease, the migration to these distributed systems is generally feasible.

**Recommendation**

During the course of the audit we noted that, like most organizations, the standards set for system security and operations for the distributed systems are not regularly monitored for compliance on a countywide basis. While we did not find any issues that would indicate to us that there was risk or exposure to the County, we do recommend that the County's Internal Audit Department review the procedures for system security and operations for the distributed systems and monitor them on a cycle basis.

**Management Response**

The County's Internal Audit Department agrees with the Auditor's observation that "...the standards set for systems security and operations for distributed systems are not regularly monitored for compliance on a countywide basis." Internal Audit is working to have the County's decentralized and distributed systems personnel reach agreement and establish uniform security standards for County IT systems. To help with this effort, the Internal Audit Department conducted three training classes attended by County IT professionals on the topic of network security. Internal Audit also worked with CEO IT to establish the IT Steering Committee and IT Working Group. One primary purpose of the IT Steering Committee is to ensure countywide security standards are established.

The Internal Audit Department's annual assessment of importance and impact identifies planned implementations or upgrades to systems. Internal Audit then schedules their direct involvement or proceeds through retained expertise as needed to emphasize the importance of adequate control environments. Internal Audit is currently involved with the treasury workstation solicitation and has

**COUNTY OF ORANGE  
PRIOR YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

also retained an expert in the treasury function and operations to assist them. Last year, Internal Audit retained a consultant to initially assess the County's network security and a payroll system expert to review the virtual timecard implementation.

Additionally, once the security model is established, Internal Audit plans to monitor compliance on an ongoing, cyclical basis.

**Prior Year Status**

Implementation Status as reported to the County Board of Supervisors, September 11, 2001:

In progress. The initiatives begun by the County in response to the recommendation provided by Macias, Gini, & Company in their report to Management issued with the Financial Statements for the year ended June 30, 2000 are continuing to address the issues identified.

The County Information Officer has officially launched the IT Steering Committee and IT Working Group and is regularly holding meetings with the purpose of establishing countywide security standards. Additionally, CEO/IT plans to contract with an outside firm to come in and conduct a countywide network assessment in March 2002, which should serve as a baseline for all future resource decisions. Once the security model is established, Internal Audit plans to monitor compliance on an ongoing, cyclical basis.

The Internal Audit Department continues its involvement with the Treasury Workstation solicitation, which now is in the vendor evaluation stage.

Update since the September 11, 2001 Report to the County Board of Supervisors:

The Treasury Workstation solicitation was cancelled because none of the vendors was responsive to the level required. The decision was to upgrade and enhance capabilities with the Bloomberg terminals they currently have in the Treasurer's Office and adding two more terminals. The Internal Audit Department involvement will continue once the upgrade is implemented and the internal controls established for the new aspects of the upgraded system. At that time, the Internal Audit Department will conduct a general controls and application controls review.

The Internal Audit Department with the support of the Audit Oversight Committee and the Auditor-Controller initiated Integrated Audits as the fourth core audit function to complement the current core audits: Financial Audits and Mandates, Departmental Control Reviews, and Control Self-Assessment workshops. The Internal Audit Department will promote the standards in Control and Audit for Information and Related Technology known as COBIT (which is the model for IT governance) in the Integrated Audits of selected issues in the CAPS system. These reviews are planned for the second half of calendar year 2002.

**Current Year Status (provided by the Internal Audit Department)**

See item No. 6 above for related comments. With regard to this finding, the Internal Audit Department is moving forward on plans to provide a self-assessment tool for the managers of the

**COUNTY OF ORANGE  
PRIOR YEAR COMMENTS  
FOR THE YEAR ENDED JUNE 30, 2002**

County's distributed computer systems by the end of April 2003. Allowing for sufficient time to complete the self-assessment tool, we plan to meet individually with each of the departments to go over the responses and to discuss issues and concerns they have. The results of these interviews will become part of the annual risk assessment.

## Statement on Auditing Standards No. 99, Consideration of Fraud in a Financial Statement Audit Summary

The following is an overview of the organization and content of SAS No. 99:

- *Description and characteristics of fraud.* This section describes fraud and its characteristics.
- *The importance of exercising professional skepticism.* This section discusses the need for auditors to exercise professional skepticism when considering the possibility that a material misstatement due to fraud could be present.
- *Discussion among engagement personnel regarding the risks of material misstatement due to fraud.* This section requires, as part of planning the audit, that there be a discussion among the audit team members to consider how and where the entity's financial statements might be susceptible to material misstatement due to fraud and to reinforce the importance of adopting an appropriate mindset of professional skepticism.
- *Obtaining the information needed to identify risks of material misstatement due to fraud.* This section requires the auditor to gather information necessary to identify risks of material misstatement due to fraud, by
  - a. Inquiring of management and others within the entity about the risks of fraud.
  - b. Considering the results of the analytical procedures performed in planning the audit.
  - c. Considering fraud risk factors.
  - d. Considering certain other information.
- *Identifying risks that may result in a material misstatement due to fraud.* This section requires the auditor to use the information gathered to identify risks that may result in a material misstatement due to fraud.
- *Assessing the identified risks after taking into account an evaluation of the entity's programs and controls.* This section requires the auditor to evaluate the entity's programs and controls that address the identified risks of material misstatement due to fraud, and to assess the risks taking into account this evaluation.
- *Responding to the results of the assessment.* This section emphasizes that the auditor's response to the risks of material misstatement due to fraud involves the application of professional skepticism when gathering and evaluating audit evidence. The

section requires the auditor to respond to the results of the risk assessment in three ways:

- a. A response that has an overall effect on how the audit is conducted, that is, a response involving more general considerations apart from the specific procedures otherwise planned.
  - b. A response to identified risks that involves the nature, timing, and extent of the auditing procedures to be performed.
  - c. A response involving the performance of certain procedures to further address the risk of material misstatement due to fraud involving management override of controls. The procedures include
    - Examining journal entries and other adjustments for evidence of possible material misstatement due to fraud.
    - Reviewing accounting estimates for biases that could result in material misstatement due to fraud.
    - Evaluating the business rationale for significant unusual transactions.
- *Evaluating audit evidence.* This section requires the auditor to assess the risks of material misstatement due to fraud throughout the audit and to evaluate at the completion of the audit whether the accumulated results of auditing procedures and other observations affect the assessment. It also requires the auditor to consider whether identified misstatements may be indicative of fraud and, if so, directs the auditor to evaluate their implications.
  - *Communicating about fraud to management, the audit committee, and others.* This section provides guidance regarding the auditor's communications about fraud to management, the audit committee, and others.
  - *Documenting the auditor's consideration of fraud.* This section describes related documentation requirements.

In addition, SAS No. 99 amends SAS No. 1, *Codification of Auditing Standards and Procedures (AICPA, Professional Standards, vol. 1, AU sec. 230, "Due Professional Care in the Performance of Work")*, and SAS No. 85, *Management Representations (AICPA, Professional Standards, vol. 1, AU sec. 336)*.

SAS No. 99 is effective for audits of financial statements for periods beginning on or after December 15, 2002. Early application of the provisions of this Statement is permissible.

---

GAO

United States General Accounting Office

By the Comptroller General of the  
United States

---

January 2002

# Government Auditing Standards

Amendment No. 3

Independence



---

GAO-02-388G

**SARBANES-OXLEY ACT OF 2002**  
**SIGNIFICANT PROVISIONS AND EFFECTIVE DATES**

*Provisions Effective Immediately*

<u>PROVISION AND SECTION NUMBER</u>	<u>BRIEF DESCRIPTION</u>
<b>Failure of CEO or CFO to Certify Financial Reports</b> (Section 906)	Every periodic report filed under the Securities Exchange Act must be accompanied by a written statement by the CEO and CFO certifying that the report fully complies with the requirements of the Exchange Act and fairly presents, in all material respects, the financial condition and results of operations of the issuer. A knowingly false certification is a criminal offense subject to fine or imprisonment.
<b>Forfeiture of Bonuses and Incentive Compensation</b> (Section 304)	CEO and CFO of each public company to forfeit incentive and equity based compensation, and any profits from the sale of securities of the issuer in the year following the issuance of a financial statement containing "material noncompliance".
<b>Loans to Corporate Officers</b> (Section 402)	The Act makes it unlawful for a public company issuer to extend credit directly or indirectly to directors or executive officers, except for certain loans that are available to the general public in the ordinary course of the issuer's business. The Act exempts loans made by insured depository institutions, if the loan is subject to the insider lending restrictions of the Federal Reserve Act.
<b>Audit Partner Rotations</b> (Section 203)	A lead or coordinating audit partner may not provide audit services to an audit client if that partner has provided accounting services in the previous five fiscal years of the public issuer.
<b>Scheme or Artifice</b> (Section 807)	The Act creates the new crime of using a "scheme or artifice" to defraud shareholders and potential investors, punishable by fines and up to 25 years in prison.
<b>Falsifying Records</b> (Section 1102)	Establishes new crime of falsifying or covering up documents relevant to a federal investigation.
<b>Pre-Approval of Audit Services</b> (Section 202)	All audit services be pre-approved by the Audit Committee of the public company, except for certain de minimis exceptions.
<b>Hiring Limitations/ Conflicts of Interest</b> (Section 206)	Issuers are prohibited from employing an auditor from its accounting firm as a CEO, CFO, CAO or any person serving in an equivalent position.
<b>Periodic Review by the SEC of Public Company Filings</b> (Section 408)	Requires the SEC to review periodic filings by all public companies, including a review of each issuer's financial statements. Each issuer must be reviewed no less frequently than every three years.
<b>Whistleblower Protection</b> (Section 806)	Provides new protections to corporate whistle-blowers by creating specific procedures to prevent retaliation by a public company against an employee who has provided information to prevent fraud or a violation of certain laws, including the securities laws and securities regulations.
<b>Debts for Securities Fraud Non-Dischargeable in Bankruptcy</b> (Section 803)	Certain debts related to the violation of the federal securities law, or based on common law fraud, deceit or manipulation in connection with the purchase or sale of any security are to be considered non-dischargeable debt in a bankruptcy proceeding.

*Provisions Effective After Enactment*

<b><u>PROVISION AND SECTION NUMBER</u></b>	<b><u>BRIEF DESCRIPTION</u></b>	<b><u>EFFECTIVE DATE</u></b>
<b>Statute of Limitations for Securities Fraud</b> (Section 804)	Extends the statute of limitations for private lawsuits under the securities laws until the earlier of two years after the discovery of the facts constituting the violation, or five years after the violation.	Applies to all proceedings commenced on or after July 30, 2002.
<b>CEO and CFO Certification Reports</b> (Section 302)	CEOs and CFOs of all public companies are required to certify that each periodic report containing financial statements “fully complies” with the securities laws and “fairly presents, in all material respects, the financial condition and results of operations” of the issuer.	SEC must adopt rules within 30 days; non-compliance with APA not addressed. But see Section 906 certification requirement above, which is effective immediately,
<b>Section 16 Reporting</b> (Section 403)	Directors, executive officers and 10% shareholders will be required to report most transactions in issuer securities under Section 16 of the Securities Exchange Act by the end of the second business days after the transaction.	SEC must adopt rules within 30 days; non-compliance with APA not addressed.
<b>Creation of Public Company Accounting Oversight Board</b> (Section 101)	The Oversight Board oversees the accounting industry, to define standards for the industry, and to discipline violations of those standards. Responsibilities include registering audit firms, establishing audit standards, “ethics” and quality control standards, and conducting inspections of accounting firms.	Initial members must be appointed within 90 days.  Within 270 days, the SEC must make a determination as to whether the Oversight Board is effectively organized.
<b>Accounting Firm Registration</b> (Section 102)	Unlawful for any person that is not a registered public accounting firm with the Oversight Board to prepare or issue, or to participate in the preparation and issuance of, any audit report with respect to any issuer.	Effective 180 days after the determination by the SEC that the Oversight Board has the ability to enforce compliance of the Act.
<b>Registered Public Accounting Firm Prohibitions</b> (Section 201)	It is unlawful for a registered public accounting firm to provide certain accounting records and financial statement services for its audit clients contemporaneously with the audit.	Effective 180 days after the date of commencement of the operations of the Oversight Board.
<b>Audit Committees</b> (Section 407)	Mandates independent audit committees for every company listed on a national securities exchange.	SEC must propose rules within 90 days and issue final rules within 180 days.
<b>Code of Ethics</b> (Section 406)	Requires disclosure related to the “code of ethics for senior financial officers.”	SEC must propose rules within 90 days and issue final rules within 180 days.
<b>Pro Forma Company Financial Information</b> (Section 401)	All pro forma financial information in any report filed with the SEC be reconciled to GAAP, and be presented in a manner that is not misleading.	SEC must issue final rules within 180 days.

<b><u>PROVISION AND SECTION NUMBER</u></b>	<b><u>BRIEF DESCRIPTION</u></b>	<b><u>EFFECTIVE DATE</u></b>
<b>Off-Balance Sheet Financing</b> (Section 401)	Each annual and quarterly financial report shall disclose all material off-balance sheet transactions, arrangements, obligations and other relationships which may have a material current or future effect on a company's financial condition.	SEC must issue final rules within 180 days.
<b>Attorneys</b> (Section 307)	Standards of professional conduct for attorneys "appearing and practicing" before the SEC, including a rule requiring attorneys to report "evidence of a material violation of securities laws or a breach of fiduciary duty" to the general counsel or CEO of a company (not limited to public companies).	SEC must issue rules within 180 days.
<b>Sentencing Guidelines</b> (Section 905)	The Act suggests that the Sentencing Commission "review and amend" the Federal Sentencing Guidelines and related policy statements to comport with the changes proposed by the Act.	US Sentencing Commission is requested to promulgate and is required to issue guidelines or amendments within 180 days.
<b>Notice of Blackout Periods</b> (Section 306)	Requires the plan administrator of any "individual account plan" (such as a 401(k) plan) to provide the plan participants with advance notice of any "blackout period" at least thirty days in advance of any blackout period.	Effective 180 days after July 30, 2002.
<b>Posting Section 16 Statements on Public Company Website</b> (Section 403)	Section 16 statements must be posted on a public company's website within one business day after filing.	Companies must comply within 1 year.
<b>Analyst Protections</b> (Section 501)	Prohibits certain actions by brokers and dealers to retaliate against a securities analyst who prepares an adverse, negative, or otherwise unfavorable research report.	SEC, or a national securities exchange by direction of the SEC, shall adopt rules within 1 year.
<b>Internal Control Report</b> (Section 404)	All public companies must include an "internal control report" in each annual report, stating the responsibility of management for maintaining an adequate internal control structure for financial reporting, and assessing the effectiveness of that structure each year.	No date given for the SEC to prescribe rules.