

COUNTY OF ORANGE
AUDIT OVERSIGHT COMMITTEE
MEETING MINUTES
Thursday, April 3, 2003, 10:30 a.m.

DRAFT

PLEASE NOTE: The audio recording of the meeting was faulty and the minutes are based upon accumulated notes taken during the meeting.

The Audit Oversight Committee of the County of Orange met on April 3, 2003 at 10:30 a.m., in the Hall of Administration, Building, 5th Floor, Conference Room B, Santa Ana, California.

Members Present/Absence Noted:

Present: Supervisor Tom Wilson, Chair Board of Supervisors
Supervisor Jim Silva, Vice-Chair, Board of Supervisors
Mr. David Sundstrom, Auditor-Controller
Dr. Dave Carlson, Public Member
Absent: Mr. John Moorlach, Treasurer-Tax Collector
Mr. James Ruth, Interim CEO

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

Mr. Sundstrom called the meeting to order on April 3, 2003 at 10:35 a.m. Mr. Sundstrom asked for roll call before proceeding with the agenda.

Committee Members:

Supervisor Wilson, Supervisor Silva, Mr. Sundstrom, Dr. Carlson

Guests:

CEO staff: Fred Branca; Internal Audit Staff: Dr. Peter Hughes, Eli Littner, Alan Marcum, Michael Goodwin, Autumn McKinney, Renee Aragon, Shirad Gima, Auditor-Controller Staff: John Nakane, Claire Moynahan, Suzanne Luster, Megan Nguyen; Macias, Gini & Company: James Godsey, Jean Horimoto; Fifth District Staff: Lisa Smith; Second District Staff: Steve Franks

2. Approval of Minutes from December 12, 2003 (Mr. David Sundstrom, Chairman, Audit Oversight Committee):

Recommended Action: Approve

Supervisor Silva abstained because he was not in attendance at the meeting. Approved as recommended.

3. Election of Chairman and Vice Chairman for Audit Oversight Committee – 2003

Recommended Action: Receive nominations and elect Chair and Vice-Chairman

Dr. Carlson nominated David Sundstrom as Chairman. The nomination was seconded and approved. Supervisor Wilson nominated Dr. Dave Carson as Vice-Chairman. The nomination was seconded and approved.

4. Macias, Gini & Company Required Communications (James Godsey, Partner, MGC)
Recommended Action: Discussion Only

Mr. Godsey addressed the committee about the Independent Auditor's Report on the Basic Financial Statements. He stated the audit standards were in accordance with all county policies. He stated that management approved GASB 34 accounting policies. No Prior issues to discuss or preexisting conditions or difficulties to report. The opinion of the financial statements was issued on December 2, 2002. Also any organization that received government assistance had a separate single audit report. There were no material weakness identified or reportable conditions related to audit.

Mr. Godsey reported that the management audit was made final since the distribution of the AOC material. Mr. Godsey thanked the Auditor Controller Department, and especially Claire Moynahan for their tremendous effort as a government agency to issue their GASB 34. All the advanced planning allowed for a completion without requesting an extension.

Dr. Carlson asked if there was any related item that would cause a rating agency to "focus" on MGC, Mr. Sundstrom said no, because of internal changes from the bankruptcy, this makes OC a strong secure position.

Mr. Sundstrom thanked MGC through the GASB 34 and an RFP to solicit bid on external audit and publicly acknowledge Claire Moynahan and her group for their tremendous effort to work with all enterprise agencies to gather the information. Great effort!

Discussion was held, no reportable action taken.

5. Planning and Development Services Department Expenditure Plan Status
Recommended Action: Discussion Only

Interim Director, Larry Leaman was not available to attend the meeting. Mr. Sundstrom stated that the new rate was based on time and materials that went into effect on 4-2-03. There was still concern over the old structures affects and how to manage them. Supervisor Wilson expressed concern over service impacts. Mr. Sundstrom said extensive work by Dr. Hughes had enriched the level of service involved to perform partial inspection, which was not the industry standard. Supervisor Wilson sought clarification of standard service vs. enriched levels and working with BIA to understand the differences. Mr. Sundstrom stated it would be a complex management issue.

Much general discussion was held about monitoring, trend analysis, lines of defense, responsibility and notification. Dr. Carlson asked what controls should have been in place to prevent the level of financial surprise involved in the incident and what could be done to rectify and prevent such surprises in the future. Dr. Hughes stated it was a global issue and Auditor-Controller monitoring and notification to all departments should continue. The budget offices and each dept could have accesses on the IT system that would give a better opportunity to address observations. Mr. Sundstrom suggested training and it be developed with Dr. Hughes and Budget on courses in Internal Controls to ledger use, ERMI system and what is expected. Also certification training or re-certify if needed. Mr. Sundstrom suggested the FMF meetings should be used to departments of intended training.

6. Year End Status Report – Period 01-01-02 to 12-31-02

Recommended Action: Receive and File

Dr. Hughes stated the year-end status report covered the last three weeks of the calendar year. There was nothing other than clerical effort to wrap up the reports in which some projects exceed projected budget hours for expanded scope and additional testing allowed for more coverage. Mr. Sundstrom asked about the under funding in information technology area and if resources were an issue. Dr. Hughes said it was difficult to predict actual hours on some systems reviews and that resources were not yet an issue. Dr. Hughes stated the check writing process review would carry over of some hours. Dr. Carlson asked if any project had any material findings to report. Dr. Hughes stated there were none. (Supervisor Silva left the meeting at 11:30 a.m.)

Approved as recommended.

7. Status Report #1– Period 01-01-03 to 4-3-03

Recommended Action: Receive and File

Dr. Hughes stated the status report contained the projects identified as part of audit plan for the year. The current year was on target. Some hours increased in a couple areas such as treasury. A new General Ledger system (Quantum) was sophisticated system and required further understanding of their process for an adequate review and 500 hours were added to do that for new system. The Internal Audit Department recently filled two vacancies.

Approved as recommended.

8. External Audit Activity Second Quarter FY 02/03 Status Report

Recommended Action: Receive and File

Dr. Hughes said the external audit activity report serves as part of risk assessment and coverage of avoiding duplicated reviews. We work with departments to analyze the findings of federal and state.

Approved as recommended.

9. Executive Summaries of Audit Assignments

Period 12/12/02-04/03/03

Recommended Action: Receive and File

Dr. Hughes stated the follow-up process was a big focus and corrective action sought for implementations. The departments do benefit from ongoing presence, and utilize the expertise to assist in the follow-ups. He noted that if a issue was carried over into a secondary follow-up, it usually dealt with complex area and time to fully implement. He explained partial implementations that addressed that at acceptable levels. Dr. Carlson asked if risk or exposure were identified, would it be brought to the attention of Audit Oversight Committee. Dr. Hughes reported no exposure was identified to report.

Approved as recommended.

10. Next Meeting:

The next meeting was scheduled for July 23, 2003.

11. Public Comments

Ms. Suzanne Luster, A-C/Manager of Finance and Staff Services addressed the Audit Oversight Committee. She requested an evaluation committee be established and a future special meeting be scheduled in response to the Request for Proposal for the all funds audit. The proposals were due to the Auditor Controller's office on 4-4-03. The committee comprised of Dr. Peter Hughes, Mr. David Sundstrom and Dr. Dave Carlson. The evaluation committee would have two weeks to review proposals and then make recommendations for primary and alternative. A special meeting of Audit Oversight Committee would then be schedule to approve the primary and alternate selection. Followed by seeking approval by the Board of Supervisors to negotiate a contract and then return for final approval of the contract. The special Audit Oversight Committee meeting was scheduled for May 6, 2003.

Mr. David Sundstrom proudly informed the committee that the Auditor Controller's office won a 2003 Best Practices Award by Association of Information Management for ERMI.

12. Adjournment

Adjourned at 11:50 a.m.