



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

515 South Figueroa Street
Suite 325
Los Angeles, CA 90071

213•612•0200
213•286•6426 FAX
www.maciasgini.com

September 24, 2003

Audit Oversight Committee and
Board of Supervisors
County of Orange
12 Civic Center Plaza
Santa Ana, CA 92701

Government Auditing Standards require that we communicate, during the planning stage of an audit, certain information to the auditee, the Audit Oversight Committee, Board of Supervisors, and certain other parties. That information follows.

As stated in our audit contract with you dated May 29, 2003 for fiscal years ended June 30, 2003, 2004 and 2005, we reconfirm our understanding of the services we are to provide to the County of Orange, California (County) for the fiscal year ended June 30, 2003. We understand that the basic financial statements will be presented in accordance with the financial reporting model described in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Also, the County’s Comprehensive Annual Financial Report and Single Audit Report will include the following additional information that will be subjected to the auditing procedures applied in our audit of the basic financial statements:

1. Management’s Discussion and Analysis
2. Supplemental Combining Statements and Schedules
3. Schedule of Expenditures of Federal Awards

The CAFR will also include a Statistical Section that will not be subject to the auditing procedures applied in our audit of the basic financial statements, and for which our auditor’s report will disclaim an opinion.

In addition, we will also audit the financial statements of the following departments and component units: John Wayne Airport, Integrated Waste Management Department, Orange County Development Agency and the Orange County Special Financing Authority. The information set forth in this letter also applies to the financial statements of these departments and component units.

Audit Objectives

The objective of our audit is the expression of an opinion as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the Audit Oversight Committee, Board of Supervisors, County management, specific legislative or regulatory bodies, federal awarding agencies, and as applicable, pass-through entities.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major programs in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such an opinion and to render the required reports. If our opinion on the basic financial statements or the Single Audit compliance opinion is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for establishing and maintaining internal control and for compliance with the provisions of contracts, agreements, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of basic financial statements in accordance with generally accepted accounting principles, and that federal award programs are managed in compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is responsible for making all financial records and related information available to us. We understand that you will provide us with such information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will assist in the preparation of your basic financial statements, including the schedule of expenditures of federal awards, but the responsibility for the financial statements remains with you. That responsibility includes the establishment and maintenance of adequate records and effective internal control over financial reporting and compliance, the selection and application of accounting principles, and the safeguarding of assets. Management is responsible for adjusting the basic financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. As required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, our audit will include test of transactions related to major federal award programs for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, fraud, other illegal acts, or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial errors, fraud, or other illegal acts or illegal acts that do not have a direct effect on the basic financial statements or to major programs. However, we will inform you of any material errors and any fraud that comes to our attention. We will also inform you of any other illegal acts that come to our attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that might arise during any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement. At the conclusion of our audit, we will also require certain written representations from you about the basic financial statements and related matters.

Audit Procedures—Internal Controls

In planning and performing our audit, we will consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinions on the County's basic financial statements and on its compliance with requirements applicable to major programs.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the basic financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the basic financial statements. Tests of controls relative to the basic financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements, applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify reportable conditions. However, we will inform the Board of Supervisors and the Audit Oversight Committee of any matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. We will also inform you of any nonreportable conditions or other matters involving internal control, if any, as required by OMB Circular A-133.

Audit Procedures—Compliance

Our audit will be conducted in accordance with the standards referred to in the section titled Audit Objectives. As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the County's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the County has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect of each of the County's major programs. The purpose of those procedures will be to express an opinion on the County's compliance with requirements applicable to major programs in our report on compliance issued pursuant to OMB Circular A-133.

Single Audit Data Collection Form

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide a signed Data Collection Form; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

Peer Review Report

Government Auditing Standards require that we provide you with a copy of our most recent quality control review report. We have previously provided our most recent peer review report for 2000.

We appreciate the opportunity to be of service to the County and believe this letter accurately summarizes the significant responsibilities of our engagement. If you have any questions, please let us know.

Very truly yours,

Macias, Gini & Company LLP

Macias, Gini & Company LLP