

COUNTY OF ORANGE  
AUDIT OVERSIGHT COMMITTEE

MEETING MINUTES  
Wednesday, December 3, 2003, 3:00 p.m.

The Audit Oversight Committee of the County of Orange met on December 3, 2003 at 3:00 p.m., in the Hall of Administration, Building, 5<sup>th</sup> Floor, Conference Room A, Santa Ana, California.

Members Present/Absence Noted:

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

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

Mr. Sundstrom called to order the meeting on December 3, 2003 at 2:00 p.m. Mr. Sundstrom asked for roll call before proceeding with the agenda.

Committee Members:

Mr. Ruth, Mr. Sundstrom, Dr. Carlson

Guests:

Internal Audit Staff: Dr. Peter Hughes, Eli Littner, Michael Goodwin, Autumn McKinney, Alan Marcum, Dan Melton, Scott Suzuki, Toni Smart, Renee Aragon,  
Auditor-Controller Staff: John Nakane, Claire Moynahan; Interim CFO: Fred Branca;  
Fifth District Staff: Lisa Smith

**2. Approval of Minutes from September 24, 2003 (David Sundstrom, Chairman, Audit Oversight Committee)**

**Recommended Action: Approve**

Approved as recommended.

**3. Audit of Treasury Investment Compliance for the Two Years Ending December 31, 2003; Open Item – Investment Policy Statement (Dr. Peter Hughes, Director, Internal Audit Department)**

**Recommended Action: Discussion**

Dr. Hughes briefly explained the open item and professional difference of opinion on the interpretation of a provision in the Investment Policy Statement as stated in the audit. Dr. Hughes stated this audit was as a result of SB866 mandate. Mr. Sundstrom said he spoke with Mr. Moorlach about the issue and said that Mr. Moorlach was in the process of preparing a response. Dr. Hughes stated Internal Audit was seeking language clarification from County Counsel and would report back to the AOC at the next meeting.

Mr. Marcum explained aspects of the audit and said 100 investments were usually reviewed however 200 were audited during the review period. Mr. Marcum added that the Treasurer's office had previously contracted with Fitch for quarterly reviews, however IAD was now also performing the quarterly reviews. The quarterly reviews assist in the annual compliance review. The benefit of doing both the compliance audit and the quarterly reviews allowed for good corporate memory and consistency. Treasurer staff had been transparent and very cooperative. Dr. Carlson asked about reducing scope of annual review because of quarterly review. Mr. Littner said the scope would not change but the extent of substantive testing could be reduced. Mr. Ruth stated it was a good investment to keep the reviews going from IAD.

**4. Draft Internal Audit 2004 Audit Plan (Dr. Peter Hughes, Director, Internal Audit Department)**  
**Recommended Action: Approve**

Dr. Hughes provided a brief explanation of the planning process of audit coverage. He stated the AOC initially requested systematic coverage in critical areas in the county. The schedules detailed where the department had been and where they plan on going and coverage through key functions. The department had been able to provide limited coverage in identified high-risk areas in a reasonable amount of time. Reasonable was defined as 3-5 years. Dr. Hughes said if the AOC or BOS requested shorter turn-around time the department would seek additional resources. By comparison to other counties, cities and UC systems, IAD had stood the test of time. The usual findings identified countywide were to enhance controls and no areas or opportunities for material weaknesses or defalcations were yet identified. On positive reflection, IAD was seeing department's progressive efforts toward control minded environments.

Dr. Hughes discussed the enhanced risk assessment process. Mr. Sundstrom asked about inventory on coverage and asked about methodology. Mr. Sundstrom said the recently extreme issues over property taxation and that the Auditor-Controller's staff made an error in calculating a bond payment. He added that the A-C would ask the Board of Supervisors to advance 9 Million so as not to default on Bond. By volume, Mr. Sundstrom expected it should have had a focus on the risk assessment detail. Dr. Hughes explained the annual risk assessment evaluation process that was used. As a result of meeting with departments/agencies and their designees, IAD determine where the best coverage may benefit. IAD asked Departments to provide their own rankings and IAD would sought to address that coverage in a reasonable time frame. Dr. Hughes added that the IT inventory was the first in recent county history that was assembled by Mr. Scott Suzuki and Ms. Autumn McKinney. They worked very closely with Departments and the CIO. Dr. Hughes noted that while the inventory identified 120 key systems, more existed. IAD had in the audit plan. Mr. Ruth asked how IAD covered an area was that was not identified by department. Dr. Hughes said IAD actively sought the cooperation of departments and usually not opposed to do a review. Dr. Carlson asked about state coverage of IT. Ms. McKinney stated the departments provided copies of where the State had audited. Mr. Sundstrom noted ATS in three areas on the inventory in relation to the taxation issue. Dr. Hughes asked Mr. Sundstrom if he would like a tax allocation audit added to the 2004 audit plan. Mr. Sundstrom agreed and asked that focus be given to controls. It was noted and added to the 2004 audit plan.

Approve as recommended with addition of tax allocation audit in the Auditor-Controller's office.

5. **Draft Internal Audit 2004 Business Plan (Dr. Peter Hughes, Director, Internal Audit Department)**

**Recommended Action: Approve**

Dr. Hughes stated the business plan included aspects of the audit plan and the two go hand in hand. Mr. Sundstrom said the plan was well written and requested clarification to page 1, paragraph 4, to specify the oversight of financial responsibility was a shared responsibility with all elected officials. It was noted defalcations were symptomatic of a degenerated system of internal controls. Such controls were essential to ensure public resources were protected.

Approved as recommended.

6. **Status Report #4 – Period 01-01-03 to 11-17-03 (Dr. Peter Hughes, Director, Internal Audit Department)**

**Recommended Action: Receive and File**

Dr. Hughes said there were no significant overruns to report. He said the department was on target complete the audit plan for the year.

Approve as recommended.

7. **External Audit Activity Third Quarter FY 02/03 Status Report (Dr. Peter Hughes, Director, Internal Audit Department)**

**Recommended Action: Receive and File**

There were no noted significant items to report during the quarter.

Approved as recommended.

8. **Executive Summaries of Audit Assignments, Period 9/24/03-12/03/03 (Dr. Peter Hughes, Director, Internal Audit Department)**

**Recommended Action: Receive and File**

Dr. Hughes stated the department continued to provide advice and counsel for follow up reviews when requested.

Approved as recommended.

9. **Next Meeting:** February 26, 2004.

Agenda Item Suggestions/Action: Follow up to Item 3 above.

10. **Public Comments**

No comments were made.

11. **Adjournment**

The meeting was adjourned at 4:50 p.

Approved 2-26-04, Item 2.