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**County of Orange
Audit Oversight Committee
Presentation Agenda
February 26, 2004**

- 1. Required communications to Audit Oversight Committee**
- 2. Independent Auditor's Report on the Basic Financial Statements**
- 3. Draft Single Audit Reports**
- 4. Draft Management Letter**
- 5. Future auditing matter**
 - 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.



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December 16, 2003

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, 2003 and have issued our reports thereon dated as indicated below.

<u>Reporting Entity</u>	<u>Audit Report Date</u>
Basic Financial Statements	December 16, 2003
Orange County Special Financing Authority	December 1, 2003
Orange County Development Agency	December 13, 2003
John Wayne Airport	October 24, 2003
Integrated Waste Management Department	October 23, 2003

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 September 24, 2003, 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 misstatements, 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 opinions 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 2002 audited financial statements in the following documents: Official Statement for the \$49,040,000 Airport Revenue Refunding Bonds, Series 2003, John Wayne Airport Annual Report; and Integrated Waste Management Annual Report. The County expects to include the fiscal year 2003 financial statements in similar documents during 2004.

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 May 2003, the County adopted the provisions of Governmental Accounting Standards Board Statement (GASB Statement) No. 41, *Budgetary Comparison Schedules - Perspective Differences - an amendment of GASB Statement No. 34*. The County does not have significant budgetary perspective differences, therefore the County was unaffected by this standard. In addition, effective June 2003, the County adopted Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*. The County is not involved in any derivative activities, therefore no additional disclosures are required.

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 litigation and claims are based on legal representations provided by County Counsel and attorneys utilized by the County. We evaluated the status of pending litigation to determine that the amounts recorded or disclosed 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.

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.

Macias, Fini & Company LLP

Certified Public Accountants
Los Angeles, California

County of Orange
 Schedule of Significant Audit Adjustments Recorded
 For the Year Ended June 30, 2003

	Debit	Credit
FUND FINANCIAL STATEMENTS		
General Fund		
1 Deferred Revenue	\$ 1,031,929	
Fines, Forfeitures and Penalties		\$ 1,031,929
To recognize fines and forfeiture revenue in the current year.		
2 Due to Other Governmental Agencies	10,580,362	
Deferred Revenue		10,580,362
To reclassify from other governmental agencies to deferred revenue.		
3 Investment Expense	108,533	
Intergovernmental Revenue	3,058,964	
Interest Income		3,167,497
To reclassify to interest income in the current year.		
Total	14,779,788	14,779,788
GOVERNMENT - WIDE FINANCIAL STATEMENTS		
Governmental Activities		
4 Salaries	3,058,560	
Compensated Employee Absences Payable		3,058,560
To adjust compensated employee absences payable to reflect rate increase effective June 27, 2003.		
Governmental Activities - Internal Service Funds		
5 Net Assets Restricted - Self Insured Benefits	4,046,485	
Net Assets Restricted - Unemployment Insurance	5,660,312	
Net Assets Restricted - County Indemnity Health Plans	29,333,605	
Net Assets Restricted - Workers' Compensation	21,155,038	
Net Assets Restricted - Property & Casualty Risk	3,401	
Net Assets Unrestricted - Self Insured Benefits		4,046,485
Net Assets Unrestricted - Unemployment Insurance		5,660,312
Net Assets Unrestricted - County Indemnity Health Plans		29,333,605
Net Assets Unrestricted - Workers' Compensation		21,155,038
Net Assets Unrestricted - Property & Casualty Risk		3,401
To reclassify net assets from restricted to unrestricted.		
Total	\$ 63,257,401	\$ 63,257,401

County of Orange
Schedule of Passed Adjustments
For the Year Ended June 30, 2003

	Statement of Activities Effect Debit	Statement of Net Assets Effect Credit	Description
GOVERNMENT - WIDE FINANCIAL STATEMENTS			
GOVERNMENTAL ACTIVITIES			
1 Interest on Long-Term Debt Net Assets	\$ 27,536,157	\$ 27,536,157	Excess interest expense in prior year.
2 Estimated Litigation and Claim Expense Liabilities	2,000,000	2,000,000	Unrecorded litigation claim liability
Total Governmental Activities	<u>\$ 29,536,157</u>	<u>\$ 29,536,157</u>	

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COUNTY OF ORANGE, CALIFORNIA

Single Audit Reports

For the Year Ended June 30, 2003

COUNTY OF ORANGE, CALIFORNIA

Single Audit Reports

For the Year Ended June 30, 2003

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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, 2003, and have issued our report thereon dated December 16, 2003. 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 financial statements, which collectively comprise the County's 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 16, 2003.

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.

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Certified Public Accountants

Los Angeles, California

December 16, 2003

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, 2003. 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, 2003.

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, 2003, and have issued our report thereon dated December 16, 2003. 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.

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Certified Public Accountants

Los Angeles, California
January 30, 2004

COUNTY OF ORANGE, CALIFORNIA
 Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
<u>Department of Agriculture</u>				
Food Stamps Incentive (indirect)	10.551	1946001347 A7	\$ 262,338	Social Services Agency
Value of Food Stamps Issued (indirect)	10.551	1946001347 A7	61,419,051	Social Services Agency
Non-Assisted Food Stamp (indirect)	10.561	1946001347 A7	11,460,533	Social Services Agency
Project Lean and Bone Health (indirect)	10.561	02-25773	108,130	Health Care Agency
Nutrition Network (indirect)	10.561	02-25773	242,272	Health Care Agency
Subtotal 10.551 and 10.561 (Food Stamp Cluster)			<u>73,492,324</u>	
School Breakfast, Lunch, and Milk Program (indirect)	10.553	30-34306-9003500-01	932,918	Probation
Women, Infants, and Children (WIC) (indirect)	10.557	99-85735-04/ 02-25694	5,434,213	Health Care Agency
Basic Meal Reimbursement - Orangewood (indirect)	10.558	1946001347 A7	89,766	Social Services Agency
Title IIIIC1-Congregate Meals for Seniors (indirect)	10.570	FF 0203-22	321,928	CSA/Office on Aging
Title IIIIC2-Home Delivered Meals for Seniors (indirect)	10.570	FF 0203-22	766,599	CSA/Office on Aging
Subtotal 10.570			<u>1,088,527</u>	
Subtotal - Department of Agriculture			<u>81,037,748</u>	
<u>Department of Defense</u>				
Cooperative Agreement with United States Navy (direct)	12.999		790,000	Sheriff-Coroner
Subtotal - Department of Defense			<u>790,000</u>	

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
<u>Department of Education</u>				
English Literacy and Civics Education Grant (indirect)	84.002		\$ 41,221	Orange County Public Library
Agents of Change (indirect)	84.186	SDF03-07	99,880	Health Care Agency
Prevention Power (indirect)	84.186	SDF03-08	99,760	Health Care Agency
Subtotal 84.186			<u>199,640</u>	
Subtotal - Department of Education			<u>240,861</u>	
<u>Department of Health and Human Services</u>				
Title VII B-Elder Abuse Prevention (indirect)	93.041	FF 0203-22	34,494	CSA/Office on Aging
Title VII A-Ombudsman (indirect)	93.042	FF 0203-22	90,965	CSA/Office on Aging
Title III D-Preventive Health (indirect)	93.043	FF 0203-22	132,912	CSA/Office on Aging
Title III B-Senior Supportive Services (indirect)	93.044	FF 0203-22	2,195,487	CSA/Office on Aging
Title III C 1-Congregate Meals for Seniors (indirect)	93.045	FF 0203-22	1,525,351	CSA/Office on Aging
Title III C 2-Home Delivered Meals for Seniors (indirect)	93.045	FF 0203-22	1,841,691	CSA/Office on Aging
Subtotal 93.044 and 93.045 (Aging Cluster)			<u>5,562,529</u>	
Nation Family Caregiver Support Program (indirect)	93.052	FC 0204-22	1,109,919	CSA/Office on Aging

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
Tuberculosis Targeted Testing and Treatment (indirect)	93.116	95TAR-23-30	\$ 153,263	Health Care Agency
Tuberculosis Local Assistance (Base Award) (indirect)	93.116		904,687	Health Care Agency
Tuberculosis Food, Shelter, Incentives, Enablers (FSIE) Allotment (indirect)	93.116		24,839	Health Care Agency
Subtotal 93.116			<u>1,082,789</u>	
PATH Grant (indirect)	93.150		203,889	Health Care Agency
Childhood Lead Poisoning Prevention Program (CLPPP) (indirect)	93.197	02-25061	125,947	Health Care Agency
Family Planning Title X (Basic Contraceptives) (indirect)	93.217		261,934	Health Care Agency
Family Planning Integration of HIV, Title X (indirect)	93.217		145,295	Health Care Agency
Subtotal 93.217			<u>407,229</u>	
Pediatric Immunization (indirect)	93.268	02-25173	829,987	Health Care Agency
Breast Cancer Early Detection Program (BCEDP) (indirect)	93.394	01-16408	457,953	Health Care Agency
Family Preservation (indirect)	93.556	1946001347 A7	926,096	Social Services Agency
TANF Block Grant (indirect)	93.558	TANF-Probation	16,403,329	Probation
TANF Performance Incentive (indirect)	93.558	1946001347 A7	17,454,867	Social Services Agency
Cal Works (Admin) (indirect)	93.558	1946001347 A7	96,618,695	Social Services Agency
Cal Works (indirect)	93.558	1946001347 A7	62,253,669	Social Services Agency
Subtotal 93.558			<u>192,730,560</u>	

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
Welfare Absent Parent Contribution (indirect)	93.563	1946001347 A7	\$ 527,572	Social Services Agency
Child Support Enforcement Program (indirect)	93.563	06-059	37,978,883	Department of Child Support Services
Support Enforcement Incentive Fund (indirect)	93.563	06-059	2,998,938	Department of Child Support Services
IV-D Subvention, Child Support (indirect)	93.563	06059	590,246	Probation
Subtotal 93.563			<u>42,095,639</u>	
Refugee Cash Assistance (indirect)	93.566	1946001347 A7	109,685	Social Services Agency
Refugee Employment Social Services (indirect)	93.566	0004, 0104	805,510	Social Services Agency
Welfare Aid to Refugees (indirect)	93.566	1946001347 A7	281,232	Social Services Agency
Subtotal 93.566			<u>1,196,427</u>	
Refugee Health Assessment Program (indirect)	93.567	01-37-9460-1/ 02-30-9460-1	294,457	Health Care Agency
Refugee Health Medical Interpreter Program (MIP)(indirect)	93.567	01-30-4467-01/ 02-30-9460-1	15,266	Health Care Agency
Subtotal 93.567			<u>309,723</u>	
Targeted Assistance (indirect)	93.584	TATRT0104, TART0204, TAFO0102, TARL0106, TARL0206	1,087,964	Social Services Agency
Adoption Incentive (indirect)	93.603	1946001347 A7	702,328	Social Services Agency
Child Welfare System Title IVB (indirect)	93.645	1946001347 A7	2,172,008	Social Services Agency

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
Welfare Aid to Children in Boarding Homes (indirect)	93.658	1946001347 A7	\$ 31,596,813	Social Services Agency
Children Welfare System Title IV E (indirect)	93.658	1946001347 A7	26,790,068	Social Services Agency
Children Welfare System Title IV E (indirect)	93.658	2282D	4,841,260	Probation
Subtotal 93.658			<u>63,228,141</u>	
Adoptions (indirect)	93.659	1946001347 A7	2,779,252	Social Services Agency
Independent Living Skills (indirect)	93.674	1946001347 A7	845,086	Social Services Agency
Child Health and Disability Prevention (CHDP) Program Title XIX (indirect)	93.778		420,048	Health Care Agency
Children in Foster Care Title XIX (indirect)	93.778		455,310	Health Care Agency
Medi-Cal Administrative Activities (MAA) (indirect)	93.778	00-90502	1,816,683	Health Care Agency
Medi-Cal Targeted Case Management (TCM) (indirect)	93.778	30-9899	2,109,359	Health Care Agency
California Children Services (CCS) Title XIX (indirect)	93.778		2,837,557	Health Care Agency
Medi-Cal (indirect)	93.778	1946001347 A7	32,370,386	Social Services Agency
Subtotal 93.778			<u>40,009,343</u>	
Health Care Financing Research, Demonstrations and Evaluations (indirect)	93.779	CB 0203-22	41,612	CSA/Office on Aging
Ryan White Title I Uniform Reporting System (direct)	93.914		141,426	Health Care Agency
Ryan White Title I (direct)	93.914		5,979,959	Health Care Agency
Subtotal 93.914			<u>6,121,385</u>	

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
Ryan White Title II (indirect)	93.917	00-91681, A01	\$ 709,069	Health Care Agency
Ryan White Title III (HIV Primary Care) (direct)	93.918		850,572	Health Care Agency
Substance Abuse and Mental Health Services Administration (SAMSHA) (indirect)	93.958		1,993,398	Health Care Agency
Alcohol and Drug Program (indirect)	93.959	SCC30 (00/01)	18,594,968	Health Care Agency
314D Federal Health Incentive Funding (direct)	93.991		13,182	Health Care Agency
Adolescent Family Life Program (AFLP) Title V & XIX (indirect)	93.994	200230	707,754	Health Care Agency
Adolescent Sibling Pregnancy Prevention Program (ASPPP) Title V & XIX (indirect)	93.994	200230	29,193	Health Care Agency
Maternal and Child Health (MCH) Allocation Title V & XIX (indirect)	93.994	200230	433,494	Health Care Agency
Subtotal 93.994			<u>1,170,441</u>	
Subtotal - Department of Health and Human Services			<u>387,615,807</u>	
<u>Department of Housing and Urban Development</u>				
Community Development Block Grant (direct)	14.218		6,466,814	Housing & Comm. Dev. Dept.
Emergency Shelter Grant Program (direct)	14.231		192,291	Housing & Comm. Dev. Dept.
Supportive Housing Program (direct)	14.235		929,286	Housing & Comm. Dev. Dept.
HOME Investment Partnership Act (direct)	14.239		1,037,654	Housing & Comm. Dev. Dept.
Housing Opportunities for Persons with AIDS (HOPWA) (indirect)	14.241		496,781	Health Care Agency

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
Section 8 New Construction and Substantial Rehabilitation (direct)	14.182		\$ 1,959,904	Housing & Comm. Dev. Dept.
Shelter Plus Care (direct)	14.238		1,634,875	Housing & Comm. Dev. Dept.
Section 8 Housing Choice Vouchers (direct)	14.871		85,694,514	Housing & Comm. Dev. Dept.
Subtotal 14.182, 14.238, and 14.871 (Section 8 Cluster)			89,289,293	
Subtotal - Department of Housing and Urban Development			98,412,119	
<u>Department of the Interior</u>				
Federal Forest Reserve Fund (direct)	15.916		16,133	Public Fac. & Resources Dept.
Subtotal - Department of the Interior			16,133	
<u>Department of Justice</u>				
Juvenile Drug Court (indirect)	16.523	IP 01 A1 0300	336,398	Probation
Juvenile Offender Accountability Program (indirect)	16.523	IP 01 B1 0300	405,338	District Attorney/Probation
Subtotal 16.523			741,736	
Child Abuse Treatment Services (indirect)	16.575	AT01010300, AT02020300	222,779	Social Services Agency
Victim Witness Assistance Program (indirect)	16.575	VW00190300	1,050,257	Superior Court
Gang Victim Services-Special Emphasis (indirect)	16.575	SE99090300	118,696	Superior Court
Subtotal 16.575			1,391,732	

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
Orange County Methamphetamine Lab-Investigation Team (indirect)	16.579	DC 01 15 0300	\$ 1,146,493	Sheriff-Coroner
Drug Endangered Children Response Team (DEC) (indirect)	16.579	DG 01 04 0300	128,899	District Attorney/SSA
Subtotal 16.579			<u>1,275,392</u>	
C-FIC Anti-Money Laundering (direct)	16.580		206,872	District Attorney
Strategies in Communities Prosecution (direct)	16.580		74,209	District Attorney
Regional Mobile Gang Enforcement Team (RGET) (direct)	16.580		886,369	District Attorney
Subtotal 16.580			<u>1,167,450</u>	
Drug Court (direct)	16.585		85,909	County Executive Office
Violence Against Women Act (direct)	16.588		197,758	Sheriff-Coroner
Substance Abuse Education, Recognition and Intervention Program (indirect)	16.593	RT01030300	450,215	Probation
Care of Federal Prisoners - U.S. Marshal (direct)	16.602		8,893	Sheriff-Coroner
State Criminal Alien Assistance Program (direct)	16.606		2,900,918	Sheriff-Coroner
Bulletproof Vest Program (direct)	16.607		8,740	Sheriff-Coroner

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
COPS Technology (direct)	16.710		\$ 229,305	District Attorney
2001 COPS Technology (direct)	16.710		320,127	Sheriff-Coroner
COPS MORE 2002 (direct)	16.710		750,000	Sheriff-Coroner
COPS Universal Hiring (direct)	16.710		125,000	Sheriff-Coroner
COPS More 96 (direct)	16.710		8,416	Sheriff-Coroner
COPS - Grant to DUI/A (direct)	16.710		183,012	Sheriff-Coroner
Subtotal 16.710			1,615,860	
High Intensity Drug Trafficking Area (HIDTA) (direct)	16.728		1,296,146	Sheriff-Coroner
RNSP Forfeitures (direct)	16.999		360,795	Sheriff-Coroner
SNP Forfeitures (direct)	16.999		208,420	Sheriff-Coroner
Subtotal 16.999			569,215	
Subtotal - Department of Justice			11,709,964	
<u>Department of Labor</u>				
Title V-Senior Employment Program (indirect)	17.235	TV 0203-22	642,989	CSA/Office on Aging
Senior Community Services Employment Program (2002) (indirect)	17.235	AD-12523-02-55	520,818	Community Services Agency
Subtotal 17.235			1,163,807	
Welfare to Work 99 GC #801 (indirect)	17.253	W965819	537,457	Community Services Agency

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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
Workforce Investment Act Title I Adult Program (2001) (indirect)	17.258	R275857	\$ 315,422	Community Services Agency
Workforce Investment Act Title I Adult Program (2002) (indirect)	17.258	R380523	2,030,138	Community Services Agency
Workforce Investment Act Title I Youth Activities (2001) (indirect)	17.259	R275857	245,279	Community Services Agency
Workforce Investment Act Title I Youth Activities (2002) (indirect)	17.259	R380523	1,877,769	Community Services Agency
Workforce Investment Act Title I Dislocated Worker (2001) (indirect)	17.260	R275857	2,064,254	Community Services Agency
Workforce Investment Act Title I Dislocated Worker (2002) (indirect)	17.260	R380523	<u>5,846,336</u>	Community Services Agency
Subtotal 17.258, 17.259, and 17.260 (WIA Cluster)			<u>12,379,198</u>	
Subtotal - Department of Labor			<u>14,080,462</u>	
<u>Department of Transportation</u>				
Airport Improvement Programs 0233-25, 26, 28, 30 & 31 (direct)	20.106		14,973,300	John Wayne Airport
Acoustical Insulation Program 0233-17 & 22 (direct)	20.106		<u>709,888</u>	John Wayne Airport/OCDA
Subtotal 20.106			<u>15,683,188</u>	
Transportation Equity Act for the 21st Century (TEA) (indirect)	20.205	12-5955	67,351	Public Fac. & Resources Dept.
Avoid South County Regional DUI Task Force (indirect)	20.600	AL0329	71,047	Sheriff-Coroner

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

Federal Grantor County Program Name Direct or Indirect (I)	Catalog of Federal Domestic Assistance Number	Pass-Through Entity's Identifying Number (Z)	Disbursements/ Expenditures	Responsible County Department/Agency
Transportation Securities Administration (TSA) - Law Enforcement Officers/Screening Checkpoints (direct)	20.999		\$ 486,300	John Wayne Airport
Transportation Securities Administration (TSA) - Explosives Detection Canine Team Program (direct)	20.999		120,500	John Wayne Airport
Subtotal 20.999			606,800	
Subtotal - Department of Transportation			16,428,386	
<u>Department of Treasury</u>				
SNP Forfeitures (direct)	21.999		2,358	Sheriff-Coroner
Subtotal - Department of Treasury			2,358	
<u>Environmental Protection Agency</u>				
BEACH Act Grant (indirect)	66.472	02-26034	28,034	Health Care Agency
Local Oversight Program (indirect)	66.805	02-007-550-0	389,099	Health Care Agency
Subtotal - Environmental Protection Agency			417,133	
<u>Federal Emergency Management Agency</u>				
1995 Storm (indirect)	83.544	059-00000	1,829,230	Public Fac. & Resources Dept.
1995 Storm (indirect)	83.544	059-00000	9,786	IWMD
1998 Storm (indirect)	83.544	059-00000	53,680	Public Fac. & Resources Dept.
Subtotal 83.544			1,892,696	

COUNTY OF ORANGE, CALIFORNIA

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2003

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	\$ 86,838	Sheriff-Coroner/Emergency Mgmt.
Supplemental Grant Emergency Operations Planning (indirect)	83.562	2003-313 OES# 059-00000	110,000	Sheriff-Coroner/Emergency Mgmt.
Subtotal - Federal Emergency Management Agency			<u>2,089,534</u>	
<u>General Services Administration</u>				
Election Reform Payment - Help America Vote Act of 2002 (HAVA) (indirect)	39.011		<u>1,150,489</u>	Registrar of Voters
Subtotal - General Services Administration			<u>1,150,489</u>	
Grand Total			<u>\$ 613,990,994</u>	

LEGEND:

- (1) Indirect refers to Federal monies passed through various non-federal 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 Federal and State Portion
of the Office of Criminal Justice Planning Grant Programs

Year Ended June 30, 2003

Program Name	CFDA#	Grant #	Categorical Expenditure Distribution				Total
			Personal Services	Operating Expenses	Equipment		
Juvenile Drug Court	16.523	IP01A10300	Federal \$ 316,845	\$ 19,553	\$ -	\$	336,398
			Match 35,205	2,172	-		37,377
			<u>352,050</u>	<u>21,725</u>	<u>-</u>		<u>373,775</u>
Juvenile Offender Accountability Program	16.523	IP01B10300	Federal 358,800	46,538	-		405,338
			Match 39,867	5,171	-		45,038
			<u>398,667</u>	<u>51,709</u>	<u>-</u>		<u>450,376</u>
Child Abuse Treatment Program	16.575	AT01010300	Federal -	126,550	-		126,550
			Match -	31,638	-		31,638
			<u>-</u>	<u>158,188</u>	<u>-</u>		<u>158,188</u>
Child Abuse Treatment Program (CHAT)	16.575	AT02020300	Federal -	96,229	-		96,229
			Match -	24,058	-		24,058
			<u>-</u>	<u>120,287</u>	<u>-</u>		<u>120,287</u>
Victim Witness Assistance Program (1)	16.575	VW00190300	921,466	128,791	-		1,050,257
Gang Victim Services - Special Emphasis	16.575	SE99090300	Federal 106,045	12,651	-		118,696
			Match 21,261	6,239	-		27,500
			<u>127,306</u>	<u>18,890</u>	<u>-</u>		<u>146,196</u>
Drug Endangered Children Program (1)	16.579	DG01040300	105,630	15,923	7,346		128,899

COUNTY OF ORANGE, CALIFORNIA

Supplementary Schedule of Categorical Expenditure Distribution for the Federal and State Portion
of the Office of Criminal Justice Planning Grant Programs

Year Ended June 30, 2003

Program Name	CFDA#	Grant #	Categorical Expenditure Distribution				Total
			Personal Services	Operating Expenses	Equipment		
Orange County Methamphetamine Lab - Investigation Team (1)	16.579	DC02150300	437,577	708,916	-		1,146,493
Substance Abuse Education, Recognition and Intervention	16.593	RT01030300	Federal \$ 190,752	\$ 255,988	\$ 3,475	\$	450,215
			Match 63,583	85,330	1,158		150,071
			<u>254,335</u>	<u>341,318</u>	<u>4,633</u>		<u>600,286</u>
High Tech Crime (2)		PR01010300	-	88,692	-		88,692
California Cold Hit Program (2)		CG00010300	440,453	36,132	-		476,585
Career Criminal Prosecution Program (2)		CP01120300	266,755	4,976	-		271,731
Child Abuser Vertical Prosecution Program (2)		SP02010300	144,603	5,397	-		150,000
Local Forensic Lab Improvement Program (2)		LF01010300	-	44,100	742,605		786,705
Major Narcotics Vendors Prosecution Program (2)		NV02040300	164,936	2,463	-		167,399
Regional Law Enforcement Training Center (2)		RG01010300	-	939,605	-		939,605
Statutory Rape Vertical Defense of Indigents (2)		V102010300	24,568	-	-		24,568
Statutory Rape Vertical Prosecution Program (2)		SR02060300	229,555	45,265	-		274,820
			<u>\$ 3,867,901</u>	<u>\$ 2,732,377</u>	<u>\$ 754,584</u>		<u>\$ 7,354,862</u>

LEGEND:

(1) Federal = 100%

(2) State = 100%

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, 2003

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 pages 17 and 18.

COUNTY OF ORANGE, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards and Supplementary Schedule (Continued)

For the Year Ended June 30, 2003

6. PASS-THROUGH AWARDS TO SUBRECIPIENTS

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

<u>County Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Amount Provided to Subrecipients for the Year Ended June 30, 2003</u>
Title III C-1 Congregate Meals for Seniors	10.570 & 93.045	\$ 1,613,443
Title III C-2 Home Delivered Meals for Seniors	10.570 & 93.045	2,493,401
Community Development Block Grant	14.218	4,078,771
Emergency Shelter Grants Program	14.231	192,291
Supportive Housing Program	14.235	856,622
HOME Investment Partnership Act	14.239	706,070
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	461,781
Section 8 Housing Choice Vouchers	14.871	227,336
Child Abuse Treatment Services	16.575	222,779
Victim Witness Assistance Program	16.575	1,050,257
Gang Victim Services - Special Emphasis	16.575	118,696
Orange County Methamphetamine Lab-Investigation Team	16.579	520,418
RNSP Forfeitures	16.999	10,579
Title V – Senior Employment Program	17.235	617,173
Senior Community Services Employment Program	17.235	19,376
Welfare to Work 99 GC #801	17.253	419,779
Workforce Investment Act Title I Adult Program	17.258	1,616,761
Workforce Investment Act Title I Youth Activities	17.259	1,639,774
Workforce Investment Act Title I Dislocated Worker	17.260	4,891,436
Emergency Management Performance Grant – Non-Terrorism	83.552	37,137
Agents of Change	84.186	99,880
Prevention Power	84.186	99,760
Title VIIB – Elder Abuse Prevention	93.041	34,494
Title VIIA – Ombudsman	93.042	90,965
Title IIIB – Senior Supportive Services	93.044	1,789,392
Nation Family Caregiver Support Program	93.052	840,917
PATH Grant	93.150	203,889
Pediatric Immunization	93.268	266,715
Breast Cancer Early Detection Program (BCEDP)	93.394	42,207
TANF Performance Incentive	93.558	14,664,451
Refugee Employment Social Services	93.566	510,379
Targeted Assistance	93.584	738,131
Medi-Cal Administrative Activities (MAA)	93.778	1,163,676
Medi-Cal Targeted Case Management (TCM)	93.778	1,429,660
Health Care Financing Research, Demonstrations and Evaluations	93.779	41,612
Ryan White Title I	93.914	4,363,517

COUNTY OF ORANGE, CALIFORNIA

Notes to Schedule of Expenditures of Federal Awards and Supplementary Schedule (Continued)

For the Year Ended June 30, 2003

6. PASS-THROUGH AWARDS TO SUBRECIPIENTS (Continued)

<u>County Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Amount Provided to Subrecipients for the Year Ended June 30, 2003</u>
Substance Abuse and Mental Health Services Administration (SAMSHA)	93.958	\$ 1,321,392
Alcohol and Drug Program	93.959	10,529,877
Maternal and Child Health (MCH) Allocation Title V & XIX	93.994	<u>63,726</u>
		<u>\$ 60,088,520</u>

COUNTY OF ORANGE, CALIFORNIA

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2003

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>
10.551, 10.561	Food Stamp Cluster
93.658	Foster Care Title IV-E
93.914	Ryan White Title I
14.182, 14.238, 14.871	Section 8 Cluster

COUNTY OF ORANGE, CALIFORNIA

Schedule of Findings and Questioned Costs (Continued)

For the Year Ended June 30, 2003

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, 2003

December 16, 2003

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, 2003, we considered the County's internal control in order to determine our auditing procedures for the purpose of expressing opinions on the 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 16, 2003, in conjunction with our audit of the County's basic financial statements for the year ended June 30, 2003. 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,

DRAFT

Certified Public Accountants

**COUNTY OF ORANGE
REPORT TO MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2003**

1. Year-end Accruals

Condition

Estimating employee related accruals at year-end is an important element of ensuring that the financial statements are fairly stated and that costs are recorded in the proper year. The County currently accrues salaries and wages, extra help, overtime, other pay and retirement at year-end.

- The accrual for salaries and compensated absences did not include the 3.5% cost-of-living allowance (COLA) that was effective on June 27, 2003. This resulted in accrued salaries being understated by \$298,143 and compensated absences by \$3,194,345. Audit adjustments were recorded by the County.
- Due to escalating health insurance costs, the County should evaluate the recording of health insurance costs at year-end.

Recommendation

The County should evaluate its year-end accrual process to ensure that all significant items are recorded.

Management Response (provided by the Auditor-Controller)

Concur.

- Auditor-Controller staff has modified its calculations for the accrual for salaries and compensated absences to include any cost of living allowances that become effective before the end of the fiscal year.
- The Auditor-Controller will evaluate its current salary and benefits accrual calculations to determine whether to modify the procedures to include health care costs.

2. Capital Asset Reconciliation

Condition

The County reconciles the additions in the capital asset system (AC42) to the expenditures recorded in the CAPS accounting system monthly. However, the beginning capital asset balance in the AC42 at July 1, 2002 did not agree with the audited June 30, 2002 balance. The correction and reconciliation of the prior year balance caused a delay in receiving information on capital assets until late November.

Recommendation

We recommend that the County ensure that the balance at July 1, 2003 in the AC42 reconciles with the audited balance at June 30, 2003, and audit adjustments are recorded into the AC42 to ensure the balances agree.

**COUNTY OF ORANGE
REPORT TO MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2003**

Capital Asset Reconciliation (continued)

Management Response (provided by the Auditor-Controller)

Concur. Auditor-Controller staff is currently in the process of making the necessary adjustments to the AC42 capital asset system so that the AC42 will reconcile with the June 30, 2003 audited balance.

3. Recognition of Penalty Assessments on Fines and Forfeitures

Condition

Penalty assessments on certain fines and forfeitures provide funding for emergency health care costs in accordance with the California Health and Safety Code Section 1797. The County currently recognizes revenue when allowable expenditures are incurred. However, generally accepted accounting principles require the recognition of revenue when the earnings process is complete, that is when revenue is measurable and available. The County recorded an adjustment of \$1,031,929 to recognize penalty assessment revenue for the year ended June 30, 2003.

Recommendation

The County should evaluate the deferred penalty assessment revenue balances at year-end and ensure that all revenue is properly recognized.

Management Response (provided by the Auditor-Controller)

Concur. The Auditor-Controller currently analyzes the balances in the County's deferred revenue accounts at year-end to ensure that all revenue is recorded properly in the correct accounting period. Beginning with fiscal year ending June 30, 2004, we will be refining the analysis by determining the source of the dollars reported in deferred revenue to ensure that revenues are recognized when the earnings process is complete.

4. Information Technology (IT)

a) Information Technology Administration

Condition

All the main IT functions such as overall WAN administration, help desk support, and application support are managed by the County's IT contractor, ACS, with County oversight. Local area network administrators though, report to their local departments and are not in the IT reporting structure. This has the potential for conflicts of interest between the departmental IT personnel and central IT personnel and problems with segregation of duty issues such as security administration.

**COUNTY OF ORANGE
REPORT TO MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2003**

Information Technology Administration (continued)

Recommendation

The County needs to ensure that the proper segregation of duties are in effect for its local area network administrators. This should be accomplished through oversight of the departments or directly by the IT department.

Response

Response pending.

b) Logical Security

Conditions

- While unique user IDs and passwords are required for access to the County computer network, there is not a minimum standard for password and user ID configuration. Each of the 23 different LANs within the County administers its own password security. This has the potential for differing levels of security depending upon the department.
- The County does not have an official policy and procedure dictating the timely notification of the network and application managers of a departing employee or temporary worker. Disabling or removing the accounts of inactive employees in a timely manner is essential to inhibit possible malicious activity on the computer systems.

Recommendations

- The County should consider adopting a minimal set of configuration standards for user IDs and passwords to be followed by the individual LANs. These standards should address a minimum password length, format (alpha and numeric requirements), expiration period, and the number of changes before a password can be reused. The County IT department should also periodically audit each of the individual LANs for compliance.
- An official policy and the associated procedures should be instituted to provide for the timely notification of the IT department and the application managers of a departing employee or contractor with system access. Notification should be provided by the human resources department and should be completed as soon as the departure is recognized.

Response

Response pending.

**COUNTY OF ORANGE
REPORT TO MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2003**

c) Accounting System Development and Maintenance

Condition

The introduction of new programs or modifications to existing programs into the IT environment requires uniform procedures and controls to ensure that all changes are properly authorized. This process is referred to as “change management.”

The County relies upon manager oversight to enforce proper change management procedures. Manual oversight by management cannot ensure proper procedures are always being used by programmers when developing and assessing programs and modifications.

Recommendation

The County should consider implementing an electronic change management and configuration system to ensure that programs are modified by one programmer at a time and that changes to programs after approval and prior to their move into production are prevented.

Response

Response pending.

d) Continuance of Computer Operations

Condition

While the County has a comprehensive disaster recovery program and business continuity plan, it has not been tested.

Recommendation

The County should consider conducting periodic tests of their disaster preparedness program. Only through live tests can a proper evaluation of the plan be accomplished. Follow-up to deficiencies identified during the testing should be implemented in the revised plans.

Response

Response pending.

**COUNTY OF ORANGE
PRIOR YEAR COMMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

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.
- The Health Care Agency (HCA) did not accrue \$1,292,171 for services rendered in May and June 2002.
- The Flood Control District did not accrue \$78,137 for services rendered as of June 30, 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.

Current Year Status

Implemented

**COUNTY OF ORANGE
PRIOR YEAR COMMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

2. Recording of Bond Issuance Costs

Condition

Bond issuance costs reported in the statement of activities do not require the use of current financial resources and should not be reported as expenditures. 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 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.

Management Response (provided by 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.

Current Year Status

Implemented

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.

**COUNTY OF ORANGE
PRIOR YEAR COMMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

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.

Current Year Status

Implemented