

COUNTY OF ORANGE
AUDIT OVERSIGHT COMMITTEE

MEETING MINUTES
Wednesday, December 15, 2004, 4:00 p.m.

The Audit Oversight Committee of the County of Orange met on December 15, 2004 at 4:00 p.m., in the Hall of Administration, Building, 5th 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
Supervisor Jim Silva, Vice-Chair, Board of Supervisors
Absent: Supervisor Tom Wilson, Chair Board of Supervisors
Mr. John Moorlach, Treasurer-Tax Collector, Ex-Officio Member

1. Call to Order: (Dave Carlson, Ph.D., Chair, Audit Oversight Committee)

Dr. Carlson, Chair, called to order the meeting on December 15, 2004 at 4:00 p.m. Dr. Carlson asked for roll call before proceeding with the agenda.

Committee Members:

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

Guests:

Ed Corser, CFO; Internal Audit Staff: Peter Hughes, Ph.D., Eli Littner, Michael Goodwin, Autumn McKinney, Alan Marcum, Renee Aragon, Scott Suzuki, Toni Smart, Camille Gackstetter; Auditor-Controller Staff: John Nakane, Claire Moynahan, Suzanne Luster; Macias, Gini and Company, Jean Horimoto, James Godsey; Third District Staff: Patty Gorczyca; Fourth District Staff: Eric Norby; County Counsel: Thomas Again

2. Approval of Minutes from June 9, 2004 (Dave Carlson, Ph.D., Chair, Audit Oversight Committee)

Recommended Action: Approve

Approved as recommended.

3. Monthly Status Report on Audit Activity to Board of Supervisors and EA Briefings (Dr. Peter Hughes, Director of Internal Audit)

Recommended Action: Discussion

Dr. Hughes reported on the success of the monthly status report to the Board and the communication to the EA's through the monthly EA briefings.

4. Draft 2005 Audit Plan (Dr. Peter Hughes, Director, Internal Audit Department)

Recommended Action: Receive and File

Dr. Hughes presented the audit plan noting the department currently has three vacant audit positions and were only successful in adding one new staff member with the last recruitment effort.

He noted that the market for experienced auditors was very tight and that he would try to recruit less experienced auditors in the upcoming year and see if this is more successful. Dr Hughes said the plan now reflects only the hours of the auditors he has on hand and he will modify the audit plan once the vacancies are filled, and also notify the Board and the AOC when this occurs.

Approved as recommended.

5. **Control Self-Assessment Process (Cont'd from 10/6/04, Item 5) (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Discussion

Dr. Hughes summarized the objectives, purpose, and success of the CSA program over the past five years. He noted that the CSA program was highly regarded and valued by the Board.

The chair of the Board, Tom Wilson, shared his thoughts on the CSA process and its delivery method as designed and facilitated by the Internal Audit Department. He said the current process was sound and should continue as is. He sought only one enhancement—having the CEO and his staff review and validate the implementation of the issues addressed in the action plan to ensure process closure.

6. **Operational Audits (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Discussion

Dr. Hughes discussed the nature of audit coverage he provides to the County. He pointed out that his auditors conduct financial, compliance, and operational audits. He noted operational audits are any evaluation or assessment of a process with the eye towards improvement.

The types of operational audits can be broken into two major categories: financial and programmatic. He conducts five to ten audits that are operational in scope of the County's financial systems each year and these are identified under the heading of "Departmental Control and Information Technology Reviews." The Internal Audit Department evaluates both the adequacy and integrity of the financial controls that have the objectives such as: accuracy, timeliness, consistency, and reporting revenues and expenditures.

Dr. Hughes noted his auditors are assessing the effectiveness and efficiency of these business processes and systems. The auditors look to see if the process has unnecessary redundancies, duplications of effort or efforts at cross purposes in the way financial data is handled, recorded or reviewed. They also evaluate if the organization is accomplishing or achieving the management goals of safeguarding assets from theft and loss.

Dr. Hughes said the department would make the reports next year more explicitly reflect operational audit language and the conclusions or recommendations. This would aid when future reviewers perform the required triennial peer review.

Dr. Hughes also mentioned that he is going to start validating the reported performance measure accomplishments reported by each County department and agency. This newly implemented initiative will be an operational audit on the Program Side. He discussed the fact that the County is one of the few counties with a rigorous strategic financial planning process, annual business plans and departmental performance measures. The benefit of conducting in depth performance audits was limited, because the Board is already holding the departments and agencies accountable with the performance measures disclosed in the annual business plans. It is however, the majority opinion of the Board to have the Internal Audit Department conduct reviews to validate the accuracy of performance reporting as a way to ensure their continued validity and acceptability.

Mr. David Sundstrom, supported this approach as constructive. His personal experience in conducting performance audits convinced him that these audits were extremely difficult to conduct, resulted in hostile and cantankerous relations with the auditee, and often resulted in a report of questionable value.

7. **Status Report #3 – Period 01-01-04 to 09-23-04 (Cont'd from 10/6/04, Item 6) (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Receive and File

Approved as recommended.

8. **Status Report #4 – Period 01-01-04 to 12-02-04 (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Receive and File

Approved as recommended.

9. **External Audit Activity Third Quarter FY 03/04 Status Report (Cont'd from 10/6/04, Item 7) (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Receive and File

Approved as recommended.

10. **External Audit Activity Fourth Quarter FY 03/04 Status Report (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Receive and File

Approved as recommended.

11. **Executive Summaries of Audit Assignments, Period 6/09/04 to 10/6/04 (Cont'd from 10/6/04, Item 8) (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Receive and File

Approved as recommended.

12. **Executive Summaries of Audit Assignments, Period 10/07/04 to 12/15/04 (Dr. Peter Hughes, Director, Internal Audit Department)**
Recommended Action: Receive and File

Approved as recommended.

13. **Next Meeting**

◆ To be determined after the selection of Board of Supervisors Chair and Vice Chair
Agenda Item Suggestions/Action

14. **Public Comments**
None.

15. **Adjournment**

The meeting was adjourned at 5:11 p.m.