

COUNTY OF ORANGE  
AUDIT OVERSIGHT COMMITTEE

MEETING MINUTES  
Wednesday, February 23, 2005, 4:00 p.m.

The Audit Oversight Committee of the County of Orange met on February 23, 2005 at 4:00 p.m., in the Hall of Administration, Building, 5<sup>th</sup> Floor, Conference Room A, Santa Ana, California.

Members Present/Absence Noted:

Present: Supervisor Bill Campbell, Chair, Board of Supervisors  
Supervisor Tom Wilson, Vice-Chair, Board of Supervisors  
Mr. David Sundstrom, Auditor-Controller  
Mr. Tom Mauk, CEO  
Dr. Dave Carlson, Public Member

Absent: 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 February 23, 2005 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 Campbell, Supervisor Wilson

Guests:

Ed Corser, CFO; Internal Audit Staff: Peter Hughes, Ph.D., Eli Littner, Autumn McKinney, Alan Marcum, Renee Aragon, Michael Dean; Auditor-Controller Staff: Claire Moynihan; Macias, Gini and Company, Jean Horimoto, James Godsey; Eric Norby; Fifth District Staff: Lisa Smith; County Counsel: Thomas Again

**2. Approval of Minutes from December 15, 2004 (Dave Carlson, Ph.D., Chair, Audit Oversight Committee)**

**Recommended Action: Approve**

Approved as recommended.

**3. Required Communications and Overview of Draft Single Audit and Draft Management Letter (Macias, Gini and Company)**

**Recommended Action: Discussion**

Mr. Jim Godsey reported on the Required Communications. Generally accepted accounting standards and OMB Circular 133 responsibilities were discussed. The external auditors for the financial statements provided reasonable assurance but not absolute assurance. One new significant accounting policy was discussed in that Orange County elected to early implement GASB 40 on deposits and investment risk disclosures.

The County will report on these disclosures for YE 6/30/05 and will be incorporated in the CAFR. The accounting estimates reported within Orange County was insurance claim payables, landfill site closures, and estimated litigation and claims liabilities. These were high-risk areas where management was expected to make estimates and were part of the disclosures. MGC assessed the estimates included in the current years financial statements were on target and reasonable for the County's purposes. No disagreements with management were noted. Revenue recognition to the general fund from OCERS investments was recognized up as part of the Countywide financials, but was not identified in the General Fund. It was identified and will be recognized in the general fund in the future. The CAFR was also discussed for YE 6/30/04. The single audit report for federal financial funding was mostly complete. The Management Letter was pending for management responses. Mr. Godsey concluded that minor items were recommended to improve the overall controls to the county that were not material items. They were identified as follows: cash reconciliation coordination with A-C/Financial Reporting and Internal Audit and revenue recognition.

Supervisor Campbell questioned the time period when the financial statements were issued. Mr. Godsey responded the differences between public and private sectors were different. Engagements started with preliminary work within 30 to 60 days after books close. Mr. Sundstrom stated their closed books don't occur in September of each year. MGC's do not begin until the books are closed. It takes three months to close books because of complex organization including 500 funds rolled into financial statements with limited staff. Supervisor Campbell requested certified financials sooner than 8 months after the year. The CAFR was issued in December at 6 months at the end of the year. Mr. Sundstrom stated they could estimate the cost to include overtime or technical constraints to close books sooner. Dr. Carlson asked Supervisor Campbell for an estimated earlier timeline. Supervisor Campbell requested September 30, which is a 90-day close. Mr. Sundstrom stated in addition to cost, benefits were considered as well. Their important budgetary documents were the 4th quarter estimates to determine the FBA. If the FBA varied, could be problematic.

4. **RFP Status of Treasurer's Annual Compliance Audit (Dr. Peter Hughes, Director)**  
**Recommended Action: Discussion**

Dr. Peter Hughes, provided a status to the annual investment compliance audit for the Treasurer. Internal Audit had been the statutory audit by SB866 for the past 6/7 years. After the bid process, IAD was notified by the Treasurer that they were not selected. Mr. Sundstrom stated his required audits would still be performed by IAD. Mr. Sundstrom stated the TOC had not been informed of the selection status as of the AOC to date.

5. **Control Self-Assessment (CSA) Status (Dr. Peter Hughes, Director, Internal Audit Department and Thomas Mauk, CEO)**  
**Recommended Action: Discussion**

Dr. Peter Hughes stated the CEO, at the request of the Board, was currently evaluating the CSA process. Mr. Mauk stated the Board requested the CSA process and options to be analyzed. There has been a collaborative effort by the CEO and IAD. The CEO suggested that the CSA process stay in IAD however noted there needed to be dialogue with the Board on their ultimate decision. Future status would be provided at the next AOC meeting or as circumstances change.

6. **Draft 2005 Audit Plan (Dr. Peter Hughes, Director, Internal Audit Department)**
  - **Performance Measure Validation Reviews**
  - **Follow Up Audit Procedure****Recommended Action: Receive and File**

Dr. Peter Hughes presented the 2004 Audit Plan. He stated the follow-up audit process was enhanced. He also discussed the Performance Measure Validation Reviews where the self reported performance indicators would be validated. Mr. Sundstrom suggested that his core business functions be separated in the risk assessment. Mr. Sundstrom asked about rotational basis for audit coverage. It was requested a five-year rotation be implemented for the high-risk areas. The payroll function in a certain area had a high rating but was not targeted for coverage because of an external review that was in process. It was suggested footnotes be included in those areas for future explanation

Approved as recommended.

7. **Year End Status Report – Period 01-01-04 to 12-31-04 (Dr. Peter Hughes, Director, Internal Audit Department)**  
**Recommended Action: Receive and File**

Year ending 2004 audit plan coverage status report was presented.

Approved as recommended.

8. **Status Report #1 – Period 01-01-04 to 02-10-05 (Dr. Peter Hughes, Director, Internal Audit Department)**  
**Recommended Action: Receive and File**

Approved as recommended.

9. **External Audit Activity Second Quarter FY 04/05 Status Report (Dr. Peter Hughes, Director, Internal Audit Department)**  
**Recommended Action: Receive and File**

External audit coverage report was presented. Summary document was being developed for easier review. 14 new audits were added, 55 in process, 16 were near completion and 23 planned audits remain of the 103. This external audit coverage augmented the risk assessment schedules of the audit plan.

Approved as recommended.

10. **Executive Summaries of Audit Assignments, Period 12/15/04 to 2/10/05 (Dr. Peter Hughes, Director, Internal Audit Department)**  
**Recommended Action: Receive and File**

Approved as recommended.

**11. Election of Chairman and Vice-Chairman for Audit Oversight Committee – 2005**  
**Recommended Action: Receive nominations and elect Chair and Vice-Chairman**

Dr. David Carlson was nominated and appointed Chairman and Mr. David Sundstrom was nominated and appointed Vice-Chairman for 2005.

**12. Next Meeting**

◆ June 8, 2005

Agenda Item Suggestions/Action

**13. Public Comments**

None.

**14. Adjournment**

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