

COUNTY OF ORANGE  
AUDIT OVERSIGHT COMMITTEE

DRAFT MEETING MINUTES  
Thursday, May 4, 2006, 2:00 p.m.

The Audit Oversight Committee of the County of Orange met on May 4, 2006 at 2:00 p.m., at the Hall of Administration, Building 10, Fifth Floor, Conference Room A, Santa Ana, California.

Members Present/Absence Noted:

Present: Supervisor Bill Campbell, Chairman, Board of Supervisors  
Mr. David Sundstrom, Auditor-Controller  
Dr. Dave Carlson, Public Member, Chair, Audit Oversight  
Tom Mauk, County Executive Office  
Absent: Supervisor Chris Norby, Vice-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 May 4, 2006 at 3:30 p.m. Dr. Carlson asked for roll call before proceeding with the agenda.

Committee Members: Mr. Sundstrom, Dr. Carlson, Mr. Mauk, Supervisor Campbell

Guests:

Internal Audit Staff: Peter Hughes, Ph.D., Eli Littner, Alan Marcum, Autumn McKinney, Michael Goodwin, Camille Gackstetter; Auditor-Controller Staff: Denise Steckler; Claire Moynahan, Shaun Skelly; Macias, Gini and Company, James Godsey, Jean Horimoto; County Counsel: Ann Fletcher; District Three staff: Bryan Rayburn; Treasurer Tax Collector's Office: Walter Daniels and Chriss Street Treasurer Tax-Collector-Elect

**2. Approval of Minutes from February 23, 2006, (Dave Carlson, Ph.D., Chair, Audit Oversight Committee)**

**Recommended Action: Approved with minor correction**

Non-sentence deleted.

**3. Single Audit and Management Letter (Macias, Gini and Company, Mr. Godsey)**

**Recommended Action: Discussion**

Mr. Godsey reported the single audit report was completed in accordance with OMB Circular A-133. Ms. Horimoto reported two findings in the report on the TANF program. (Pages 25 and 27 of the single audit report.) The County has concurred on the two findings pertaining to controls and strengthen documentation.

The Management Letter had three noted items for the current year. Ms. Horimoto stated the County brought to the attention one item pertaining to reconciliation process between fixed assets and accounting records. One item related to Litigation Liability Accrual. The law suit was settled. A reserved had been set up but it was not adequate to cover the amount and an adjustment was needed. One item related to insurance claims liability. The balance used was derived from estimates. Yet the department obtained the actuary reports. It was recommended the actuary reports be used and not estimates to derived the balance.

Additional noted comments of prior years reported related to Information Technology. The IT administration, logical security and continuations of computer operations on the comprehensive disaster recovery program was noted as still in process. Mr. Carlson asked when they escalate a concern if the items were open too long. Mr. Godsey stated as long as positive progress in right direction and explanation of implementation status, there was no elevated concern. He stated technology changes presents problems and is a moving target and progress was closely monitored. Mr. Mauk reported the new CIO was appointed and was working on the IT recommendations as stated in the report.

Mr. Sunstrom raised concern over an IT audit staff departure. Dr. Hughes stated he would contact Human Resources to address the IT Auditor salary struggles. Mr. Mauk requested the item should be flagged for attention. Dr. Carlson requested the item return to the next AOC meeting. Mr. Sundstrom stated the IT environment was rapidly expanding and IT auditing requirements would be great. Mr. Mauk requested that when proposals were sent through the CEO office to add auditing into the projects costs.

**4. Outsourcing Options of OC Fraud Hotline (Dr. Peter Hughes, Director, Internal Audit Dept.)**  
**Recommended Action: Discussion**

Dr. Hughes stated that Mr. Sundstrom requested outsourcing options for the OC Fraud Hotline. One vendor, currently used by the county, was identified and a proposal would be sought. There were still discussions over the details of the type of coverage. Mr. Mauk suggested a personal contact when calling.

**5. Internal Audit Department 2007 Peer Review**  
**Recommended Action: Continued to August 17, 2006**

**6. Report to AOC Regarding Open Audit Finding from the Tax Redemption Audit of June 30, 2005, Issued February 22, 2006**  
**Recommended Action: Discussion**

Dr. Hughes reported on the open item concerning refunding for interest accrued on excess payments over and above tax amount. If the total amount is less than ten dollars, is interested due on that amount was the question. Legislative action effective last year exempted the treasurer tax collector from having to make refunds however it was not retroactive to prior years and there was no clarity for prior year refunds. Dr. Hughes recommended seeking counsel opinion.

Mr. Street informed the committee there were 906 items of concern, 67 items of which were interest on refunds in excess \$10 that were refunded, 181 items on interest for refunds for over \$1 and less than \$10 and 658 items for interest of less than \$1 dollar. The approximate cost per check from the treasurer's office is \$2.76. The cost does not include the Auditor-Controllers costs. Approximate exposure was \$2,000. We are looking for direction from the AOC or counsel.

It was recommended an opinion from legal counsel be sought and pursue action accordingly.

**7. Draft 2006/07 Audit Plan**  
**Recommended Action: Approve**

Dr. Hughes presented the 06/07 Audit Plan. It was noted the coverage follows the fiscal year rather than calendar year. He explained the audit planning process derived from the risk assessment. High risk areas are identified in all 23 departments and coverage is then provided. Major business cycles and activity was identified in each department for Internal Control Reviews.

Dr. Carlson expressed concern over high risk colored areas providing audit covered every 10 years. He requested clarity of the areas audited every 3-5 years within high risk colored items so that the frequency of audits providing cyclical review could be identified. Mr. Sundstrom suggested identifying major systems audit coverage.

Motion was made to approve only the detail audit plan and narrative was approved.

It was requested the risk assessment schedules to be brought back for further review at the next AOC meeting.

**8. Status Report #6, Period 1/1/05 to 3/31/06 (Dr. Peter Hughes, Director, Internal Audit Dept.)**  
**Recommended Action: Receive and File**

Dr. Hughes provided an overview of the status report. There were no significant issues identified.

Approved as recommended.

**9. External Audit Coverage, First Quarter, FY 05/06 Status Report (Dr. Peter Hughes, Director, Internal Audit Dept.)**  
**Recommended Action: Receive and File**

Approved as recommended.

**10. Executive Summaries of Audit Assignments, Period 1-1-06 to 3-31-06 (Dr. Peter Hughes, Director, Internal Audit Dept.)**  
**Recommended Action: Receive and File**

Approved as recommended.

**11. Next Meeting: August 17, 2006, 3:30 p.m.:**

- Agenda Item Suggestions/Action:
  - OC Fraud Hotline status
  - 06/07 Audit Plan – Risk Assessment Schedules
  - Item 5 - Internal Audit Department 2007 Peer Review

**10. Public Comments**

Mr. Sundstrom discussed investigations of government irregularities and his role as Auditor-Controller about monitoring the internal control structure in the County of Orange. He'd like to see a modification of the control structure. He is working with the CEO, County Counsel and Internal Audit to come up with a monitoring structure.

**11. Adjournment**

The meeting was adjourned at 4:00 p.m.