

COUNTY OF ORANGE
AUDIT OVERSIGHT COMMITTEE

DRAFT MEETING MINUTES
Thursday, November 16, 2006, 2:00 p.m.

The Audit Oversight Committee of the County of Orange met on November 16, 2006 at 2:00 p.m., at the Hall of Administration, Building 10, Fifth Floor, Conference Room B, 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 Committee
Tom Mauk, County Executive Office
Supervisor Chris Norby, Vice-Chair, Board of Supervisors

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 November 16, 2006 at 2:00 p.m. Dr. Carlson asked for roll call before proceeding with the agenda.

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

Guests:

Internal Audit Staff: Dr. Peter Hughes, Alan Marcum, Autumn McKinney, Michael Goodwin, Camille Gackstetter; Toni Smart; Auditor-Controller Staff: Denise Steckler; Claire Moynahan, Shaun Skelly; Macias, Gini & Oconnell; James Godsey, Jane Yan; District Three staff: Bryan Rayburn; Fourth District Staff: Jessica O'Hare, JWA: Alan Murphy, Director, Loan Leblow, Deputy Director; Treasurer Tax-Collector Elect - Chriss Street

2. Approval of Minutes from August 17, 2006, (Dave Carlson, Ph.D., Chair, Audit Oversight Committee)

Recommended Action: Approved

Approved as recommended.

3. John Wayne Airport Improvement Program Status (Alan Murphy, Director, John Wayne Airport)

Recommended Action: Presentation

Alan Murphy provided a presentation of the current status of the airport expansion plans and the critical oversight committees, internal controls and internal and external audits of JWA. Total program expansion is estimated to be close to \$500 million dollars. Mr. Murphy stated that there was extensive oversight provided by the Airport Commission, the CEO Office and JWA. The A-C was under contract to provide accounting services to JWA and in essence was a second party reviewer. Internal Audit has had a frequent audit presence in terms of auditing the internal audit controls over contract management and lease revenues. Mr. Murphy stated the extensive and impressive experience he and his key staff had in successfully managing large expansions of this nature. FAA and TSA also audited aspects of their programs. JWA was also audited separately by Macia, Gini & O'Connell.

4. Revised 2006/07 Audit Plan and Risk Assessment Schedules (Continued from 5/4/06, Item 7; 8/17/06, Item 4)

Recommended Action: Approve

Dr. Hughes stated the two additional audits suggested for consideration were included. He noted that he was assisting with the Countywide Strategic Planning initiative and would continue to manage his resources so as to support this endeavor. He indicated it was on the quarterly status report along with a preliminary budget.

Approved as Recommended

5. Internal Audit Department 2007 Peer Review (Continued from 5/4/06, Item 5; 8/17/06, Item 4)
Recommended Action: Establish Timeline

Dr. Hughes spoke about the process of selecting the reviewer. At the last review, IAD provided staff administrative support to A-C to present and select a peer reviewer. There was a Motion, a second and approval to create a subcommittee: Members Dr. Carlson and the Hon. David Sundstrom and Tom Mauk, CEO were selected. In addition, the Hon. Sundstrom stated they would release an RFP and select a vendor by the Spring. Dr. Hughes mentioned that he was told that all the other Counties in California had their Peer Reviews done by one another instead of hiring an outside CPA firm like Orange County does. Dr. Hughes offered this option as something for the Subcommittee to consider. He noted that the AOC spent approximately \$60,000 for the last Peer Review from a Washington D.C. firm and that the Counties only charge one another for out of town expenses which can be as little as \$1500 in total.

Timeline and Subcommittee Established

6. COSO/SOX Oral Presentation (Dr. Peter Hughes, Director, Internal Audit Dept.)
Recommended Action: Oral Presentation

Dr. Hughes proposed establishing a workshop that would help management identify their top three financial controls, type of oversight exercised over them and any recommendations for improvements. Dr. Hughes reported that the Federal government was expected to require its agencies to certify as to the adequacy of their internal controls and he was told that this expectation will find its way to the State and Counties within the next three years. A key step in providing certification was well documented internal controls and risk assessments. Dr. Carson spoke very supportively about management accepting responsibility for conducting their own risk assessments and embracing the spirit of COSO. Dr. Hughes pointed out that LA County's Controller required that all the County Departments certify the adequacy of their internal controls each year. Dr. Hughes said while he recommended a similar program, it was up to management to adopt and implement it. Dr. Hughes said he just wanted to be on record of promoting and recommending that the County move in the direction of being fully COSO compliant and that he was willing and able to assist in that endeavor when so directed.

7. Status Report #1, Period 7/1/05 to 9/30/06 (Dr. Peter Hughes, Director, Internal Audit Dept.)
Recommended Action: Receive and File

IAD received full cooperation from management and nothing material was reported during the last quarter.

Approved as recommended.

8. External Audit Coverage, First Quarter, FY 06/07 Status Report (Dr. Peter Hughes, Director, Internal Audit Dept.)
Recommended Action: Receive and File

Dr. Hughes provided an overview of federal and state either completed or in process. He noted that there were no new material issues.

9. Executive Summaries of Audit Assignments, Period 7-1-06 to 9-30-06 (Dr. Peter Hughes, Director, Internal Audit Dept.)
Recommended Action: Receive and File

These summaries provided a streamline report to identify audit status from one meeting to the next between quarters. Dr. Hughes said that by a rough count that management agreed with about 90% of their audit findings and recommendations. Dr. Hughes handed out four very informative and useful tables identifying audit implementation, ranking of audit risk, allocation of hours and follow up process coverage. Dr. Hughes said that by the end of the fiscal year they estimated providing audit coverage of about 90% of the high risk areas identified in the Auditors Risk Coverage Matrix of the County's main business processes.

10. Next Meeting: Set AOC Meeting Date

- Agenda Item Suggestions/Action:
Peer Review status
Selection of Chair and Vice Chair

11. Public Comments

Mr. Chriss Street, Treasurer-Tax Collector Elect, stated that he would be a beta test sight for the balanced score card development.

12. Adjournment

The meeting was adjourned at 2:50 p.m.