

COUNTY OF ORANGE
Board of Supervisors'
AUDIT OVERSIGHT COMMITTEE
DRAFT MEETING MINUTES
Thursday, March 15, 2007, 3:30 p.m.

The Audit Oversight Committee of the County of Orange met on March 15, 2007 at 3:30 p.m., in the Hall of Administration, Building 10, Fifth Floor, Conference Room A, Santa Ana, California.

Members Present/Absence Noted:

Present: Supervisor Chris Norby, Chairman, Board of Supervisors
Supervisor John Moorlach, Vice-Chairman, Board of Supervisors
Honorable David Sundstrom, Auditor-Controller
Dr. Dave Carlson, Public Member, Chair, Audit Oversight Committee
Tom Mauk, County Executive Office
Honorable Chris Street, Ex-Officio (non-voting) Member, Treasurer Tax-Collector

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

Dr. Carlson, Chair, called to order the meeting on March 15, 2007 at 3:30 p.m. Dr. Carlson asked for roll call before proceeding with the agenda.

Committee Members: Hon David Sundstrom, Auditor-Controller; Dr. David Carlson, Public Member; Honorable John Moorlach, Supervisor Second District; CEO Tom Mauk, Honorable Chris Norby, Supervisor, Fourth District; Honorable Chriss Street, Treasurer Tax-Collector

Guests:

Internal Audit Staff: Dr. Peter Hughes, Eli Littner, Alan Marcum, Autumn McKinney, Michael Goodwin, Camille Gackstetter; Auditor-Controller Staff: Denise Steckler; Claire Moynahan, Jan Grimes, Toni Smart, Shaun Skelly; Macias, Gini & O'Connell; James Godsey, Jean Horimoto; Third District staff: Bryan Rayburn; Fourth District Staff: Eric Norby, Jessica O'Hare; Second District Staff: Ian Rudge, Fifth District: Patti Gorczyk; County Counsel: Ben DeMayo and Ann Fletcher; SSA staff: Ben Blank; three Grand Jury Members.

2. **Approval of Minutes from November 16, 2006, (Dave Carlson, Ph.D., Chair, Audit Oversight Committee)**

Recommended Action: Approved

(Vote: Chris Norby =Moved, David Sundstrom =Seconded, John Moorlach =Abstained, Tom Mauk =Yes, David Carlson =Yes)

APPROVED AS RECOMMENDED.

3. **Required Communications (SAS 61), Draft Single Audit and Draft Management Letter from Macias, Gini, & O'Connell**

Recommended Action: Discussion

(Vote: John Moorlach=Moved, Chris Norby =Seconded, David Sundstrom =Yes, Tom Mauk =Yes, David Carlson =Yes)

MOTIONED TO RECEIVE AND FILE.

DIRECTED AUDITOR-CONTROLLER TO PREPARE AN ASR FOR BOARD APPROVAL THAT AUTHORIZES A ONE-YEAR CONTRACT EXTENSION WITH THE COUNTY'S CURRENT EXTERNAL AUDITOR MACIAS, GINI & O'CONNELL AS SOON AS POSSIBLE.

Note: As directed, this extension was approved as ASR S63C, Board Date: March 27, 2007.

Discussion was held regarding the selection of the external auditor for the County. It was unanimously agreed upon that the AOC as a whole should evaluate and select the external auditors and that this language should be made explicit in the AOC By-Laws and continued under Agenda Item 6.

4. A-C Plan for Mandated Audits (Honorable David Sundstrom, Auditor-Controller)

Recommended Action: Discussion

DISCUSSION HELD, NO ACTION TAKEN

THE A-C ANNOUNCED THAT HE WAS GOING TO DISCONTINUE CONTRACTING WITH THE INTERNAL AUDIT DEPARTMENT TO PERFORM THE A-C'S MANDATED AUDITS OF THE TREASURERS' FUNDS AND OF THE PROBATIONS DEPARTMENT'S JUVENILE PROGRAM. INSTEAD, THE A-C STATED HE WOULD CONDUCT THESE AUDITS UTILIZING HIS OWN STAFF STARTING JULY 1, 2007.

5. Internal Audit Department 2007 Peer Review Status (Continued from 5/4/06, Item 5; 8/17/06, Item 4) (David Sundstrom, Auditor-Controller)

Recommended Action: Status

(Vote: David Sundstrom =Moved, John Moorlach =Seconded, Chris Norby =Yes, Tom Mauk =Yes, David Carlson =Yes)

Concern was expressed over the high cost of hiring an external firm to conduct the "Peer Review" of the Internal Audit Department as well as to the relevance of having a for profit CPA firm review an internal audit department of a not for profit governmental entity. Observations were shared that there was considerable benefits to having a "true" Peer Review by internal auditors working for other California counties. After discussion, it was agreed that the AOC should pursue having such a "no net cost" exchange of professional services as provided for by the California Audit Chiefs Association for all the other counties in California.

DIRECTED INTERNAL AUDIT TO CONTACT THE CALIFORNIA AUDIT CHIEFS ASSOCIATION AND ARRANGE FOR A PEER REVIEW THROUGH THEIR CALIFORNIA WIDE PROGRAM AND TO NOTIFY AUDITOR-CONTROLLER OF THE RESULTS.

6. Revision of the Bylaws of the Audit Oversight Committee (David Sundstrom, Auditor-Controller)

(All proposed changes to the AOC By-laws must be reviewed and approved by a Board of Supervisors majority prior to becoming valid. The action of the AOC is to either recommend or not to recommend to the Board of Supervisors proposed Bylaw changes.)

Original Recommended Action:

- a. Change the membership of the AOC as follows: Change the Treasurer-Tax Collector from ex-officio to standing voting member, retain the Auditor Controller and County Executive Officer and remove Chairman and Vice-Chairman of the Board and add five public members, to be selected by each Member of the Board of Supervisors representing each district; and
- b. Revise Rule 12, paragraph a, to delete the AOC's authority to "oversee the establishment and maintenance of the county's internal control structure."

Discussion Held:

It was recognized that the proposal wasn't raised because there was a problem with the current composition of the committee, but that David Sundstrom raised the issue because he thought that the membership of the AOC should more closely mirror the private sector audit committees. It was offered that publicly listed companies are now required to have only non-company employees serve on the Audit Committee. In addition, the appointees must have considerable financial and accounting expertise. The discussion included comments regarding important differences between public, governmental bodies and private for profit companies and the wisdom of excluding knowledgeable County executives such as the CEO and the elected Supervisors from overseeing the County Internal Audit function.

Discussions regarding the advantages and disadvantages were held regarding the membership composition of the Audit Oversight Committee. The three options receiving most attention were: 1) excluding all county employees elected and non-elected from the AOC, 2) excluding just the Board of Supervisors and 3) excluding all elected from the AOC. In the course of the discussion different opinions were presented regarding the merits of excluding the elected Supervisors from the Committee while leaving other Countywide elected officials on the Committee. Questions were raised regarding the merits of that proposal given the Committee was established by the Board to better fulfill its stewardship responsibilities. It was debated as to whether the Bylaws should be changed to enable the two Supervisor already appointed to the committee to decide for themselves whether or not to send a voting proxy in their place as an alternative to permanently excluding the Supervisors from personally participating on the committee.

Departures of AOC Members

Chairman Chris Norby left the meeting at 4:30pm prior to the vote.

(Vote: John Moorlach =Moved, David Sundstrom =Seconded, Chris Norby =Excused, Tom Mauk =No, David Carlson =Yes)

APPROVED PROPOSED BYLAW REVISION TO RULE 2

Rule 2: The membership of the Committee shall consist of the following voting members: the elected Auditor-Controller, the County Executive Officer, the elected Treasure-Tax Collector, and five public members. Each member of the Board of Supervisors will nominate a public member for appointment by the Board of Supervisors. No public member shall be an elected official. Each Public Member serves at the pleasure of the nominating Supervisor and the public member may be a County employee, such as a County Department Head or an Executive Assistant to the nominating Supervisor or a non-County employee.

In addition to the above Bylaw revisions, the AOC also addressed the AOC's responsibility for selecting the County's external auditors.

THE AOC DIRECTED STAFF TO ADD TO THE AOC BYLAWS EXPLICIT LANGUAGE THAT IT IS THE AOC'S OVERSIGHT RESPONSIBILITY TO EVALUATE AND SELECT THE EXTERNAL AUDITOR AS WELL AS TO APPROVE ANY CONTRACT EXTENSIONS AND TO RECOMMEND THIS REVISION FOR APPROVAL TO THE BOARD OF SUPERVISORS.

THE FOLLOWING BYLAWS REVISIONS WERE APPROVED, AS RECOMMENDATIONS TO THE BOARD OF SUPERVISORS, TO RULE 12 a., b. AS RECOMMENDED AND MAKE g. as h. AND INSERT NEW LANGUAGE TO RULE 12 g.

CHANGES TO READ AS FOLLOWS:

- a. To oversee the activities of the Internal Audit Department.
- b. To oversee the quality of financial reporting activities which portray the County's financial condition, results of operations, internal controls, and plans and long-term commitments, primarily through oversight of the public accounting firm providing the external audit coverage of the County's consolidated financial statements. In addition, the Committee shall review audit results of County programs for which the Board has responsibility.
- g. To evaluate and select the County's external auditor and recommend authorization to Board of Supervisors for any contract extensions.
- h. Such other duties as the Board shall prescribe from time to time.

7. Election of Officers MOVED TO ITEM 11 (Dr. David Carlson, Public Member)

Recommended Action: Nominate and Elect Chairman and Vice-Chairman

(Vote: John Moorlach =Moved, David Sundstrom =Seconded, Chris Norby =Excused, Tom Mauk =Yes, David Carlson =Yes)

NOMINATED AND ELECTED AUDITOR-CONTROLLER DAVID SUNDSTROM AS AOC CHAIRMAN AND TREASURER TAX-COLLECTOR CHRISS STREET EX-OFFICIO NON-VOTING MEMBER AS AOC VICE-CHAIRMAN.

8. Status Report #2, Period 9/30/06 (Dr. Peter Hughes, Director, Internal Audit Dept.)

Recommended Action: Receive and File

(Vote: John Moorlach =Moved, David Sundstrom =Seconded, Chris Norby =Excused, Tom Mauk =Yes, David Carlson =Yes)

APPROVED AS RECOMMENDED, DIRECTED IAD STAFF TO EXPLAIN THE IMPACT TO THE AUDIT PLAN OF A HIGHER VACANCY FACTOR THAN ORIGINALLY BUDGETED FOR AT THE BEGINNING OF THE FISCAL YEAR AND TO REPORT TO THE AOC AT ITS NEXT MEETING.

9. External Audit Coverage, Second Quarter, FY 06/07 Status Report (Dr. Peter Hughes, Director, Internal Audit Dept.)

Recommended Action: Receive and File

(Vote: Tom Mauk =Moved, John Moorlach =Seconded, Chris Norby =Excused, David Sundstrom =Yes, David Carlson =Yes)

APPROVED AS RECOMMENDED.

10. 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

(Vote: John Moorlach =Moved, Tom Mauk =Seconded, Chris Norby =Excused, David Sundstrom =Yes, David Carlson =Yes)

APPROVED AS RECOMMENDED.

11. Next Meeting: Set AOC Meeting Date

- Agenda Item Suggestions/Action:

(Vote: Tom Mauk =Moved, David Carlson =Seconded, Chris Norby =Excused, John Moorlach =Yes, David Carlson =Yes)

MOTION TO REMOVE THIS ITEM AS STANDING AGENDA ITEM FROM ALL FUTURE AOC AGENDAS.

12. Public Comments: None

13. Adjournment: 5:00 p.m.

*******VOTE KEY*******

Name refers to AOC position (1st name = Moved by; 2nd name = seconded by)

Chris Norby = Chairman of the Board of Supervisors, Fourth District Supervisor

John Moorlach = Vice-Chairman of the Board of Supervisors, Second District Supervisor

David Sundstrom = Auditor-Controller

Tom Mauk = County Executive Officer

David Carlson = Public Member