



**Agenda Item No. 1  
September 7, 2011 Meeting**

**DATE:** August 17, 2011  
**TO:** Children and Families Commission of Orange County  
**FROM:** Michael M. Ruane, Executive Director   
**SUBJECT:** Progress Report on the Annual External Audit Process and Preliminary Year-End Financial Results

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**SUMMARY:**

The Commission’s fiscal year ended June 30, 2011 and preliminary financial year-end information is available, subject to the annual audit. The annual year-end fiscal audit is underway and is conducted consistent with the State Controller requirements by the Commissioner’s auditing firm, Vavrinek, Trine & Day (VTD). This report provides a summary update on the audit process that VTD began in May 2011 and will conclude with the final audit report scheduled to be delivered at the October 2011 Commission meeting.

**Preliminary Year-End Financial Report**

The Commission ended the 2011/12 fiscal year with tobacco revenue higher than previously forecasted. As shown in the table below, actual revenue was 3% below FY 2009/10 actuals and approximately \$600,000 higher than previously forecasted. This will positively contribute to the forecasted fund balance and available funding for the next two fiscal years. Additionally, staff will continue to analyze whether the fiscal year 2011/12 forecast is reasonable through review of first quarter actual disbursements. The forecast, previously estimated at 5% below FY 11/12 forecast, would now be 7% below FY 10/11 actuals. Any recommended adjustments to the forecast will be presented to the Commission as part of the October agenda item.

	<b>FY 09/10 Actual</b>	<b>FY 10/11 Forecast</b>	<b>FY 10/11 Actuals</b>	<b>% Change Year over Year Actuals</b>	<b>FY 11/12 Forecast</b>
Prop 10 Revenue Allocations	<b>\$29,706,126</b>	\$28,200,000	<b>\$28,809,921</b>	-3%	\$26,809,800

Additionally, preliminary financial information indicates that the Commission has reduced administrative expenses consistent with prior direction. The fiscal year administration actual expenses were \$600,000 (13%) less than budgeted, and reflect reductions initiated in FY 10/11 that will be fully realized in FY 11/12. A full report of actual financial results against budget will be included in the fiscal year 10/11 Year-end Financial Report and Audit Results scheduled to be presented to the Commission in October.

**Fiscal Year 2010-11 Annual Financial Audit – Progress Report**

On July 1st, Roger Alfaro, VTD Audit Partner, conducted an audit entrance meeting with Commissioners Minon, Snyder, and Barry to provide a brief overview of the audit process and an

update on new audit requirements and their impact to the Commission. A copy of the meeting handout is attached.

During June and August, VTD completed the majority of their field work at the Commission offices, including testing of various accounting transactions; verifying compliance with federal grant award requirements for the Single Audit Report; and validating AB 109/SB 35 compliance audit requirements. At this point in the process, VTD has made no findings of material weaknesses, significant deficiencies or other audit recommendations.

#### *Impact of AB 99*

Staff has begun work with the auditors to accurately reflect the \$51.4 million due to the State, per AB 99. The FY 10/11 financial statements will reflect a separate line item expenditure on the “Statement of Revenues, Expenditures & Changes in Fund Balance” to reflect this payment due. It will also be specifically identified as a separate liability line item with a subsequent foot note disclosure.

#### **Next Steps**

To keep the Commission fully informed, any new information received since transmittal of this report will be presented at the September Commission meeting. The Comprehensive Annual Financial Report (CAFR) will be issued and scheduled for review in September, and presented to the Commission for final approval at the October Commission meeting. Consistent with prior practice, a briefing on the audit results will be held prior to the October Commission meeting.

As background, staff has provided a copy of VTD’s audit process presentation in compliance with Statement on Auditing Standards, No. 114. This statement establishes standards and provides guidance on the auditor’s communication with those charged with governance in relation to an audit of financial statements. It describes the role of communication, legal considerations, those who are charged with governance, management, and matters to be communicated, the communication process, and documentation. The materials were presented and distributed to staff at the beginning of the audit process.

#### **STRATEGIC PLAN & FISCAL SUMMARY:**

No funding action is proposed for this item.

#### **PRIOR COMMISSION ACTION:**

- October 6, 2010 – Annual financial audit and program reports for fiscal year ending June 30, 2010

#### **RECOMMENDED ACTION:**

Receive and file progress report.

#### **ATTACHMENT:**

1. SAS 114 Meeting Handout

**Contact:** Brenda Manriquez  
Michael Garcell



Vavrinek, Trine, Day & Co., LLP  
Certified Public Accountants

Attachment 1



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Audit Entrance Meeting - SAS 114 Meeting

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## The VTD Team

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**Roger Alfaro**

Audit Partner

**Kevin Pulliam**

Technical Review Partner

**Kinnaly Soukhaseum**

Engagement In-Charge Supervisor

**Lily Tran**

Engagement In-Charge Supervisor

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## Audit Scope and Timing

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Perform the audits of the:

- Orange County Children and Families Commission Comprehensive Annual Financial Report (CAFR)
- State Compliance – *Standards and Procedures for Audits of California Counties Participating in the Children and Families Program* issued by the State Controller’s Office
- OMB A-133 Single Audit (as applicable)

Timeline:

- Planning and Interim Fieldwork – June
- Single Audit – July
- Final Fieldwork – August
- Report Delivery – September

## Our Responsibility Under GAAS

Our Responsibility under U.S. Generally Accepted Auditing Standards :

- Express opinions about whether the financial statements that have been prepared by management with the oversight of the Commission are presented fairly, in all material respects, in conformity with generally accepted accounting principles
  - Reasonable, not absolute assurance
- Consider internal control; no opinion will be expressed
- Express an opinion on compliance applicable to major federal programs (OMB A-133 Single Audit)
- Issue a report on state compliance SCO guidelines
- Communicate other matters:
  - Qualitative aspects of accounting policies and accounting estimates and note disclosures
  - Difficulties encountered
  - Uncorrected misstatements
  - Material corrected misstatements
  - Disagreements with managements
  - Management representations
  - Consultations with other accountants



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## Planning and Interim

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### Planning:

- Meet with Management
- Identify audit risk areas
- Inspect financial and other information

### Interim:

- Internal controls – design and implementation, or test
- Risk assessments
- Key business cycles – receipts, disbursements, payroll, investments/debt, capital assets, financial reporting, IT and budget
- State Compliance – Guidelines issued by State Controller

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## Year-End Fieldwork

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Final:

- Perform substantive tests, on a sample basis on account balances and transactions, including but not limited to:
  - Analytical procedures
  - Third party confirmation
  - Tracing/vouching to supporting documentation
- Determine the adequacy of the financial statements and disclosures
- Assessing accounting principles used and significant estimates

Exit:

- Discuss audit adjustments
- Present findings and recommendations
- Provide required communications

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## Audit and Accounting Standards

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Effective June 30, 2011

■ **GOVERNMENTAL ACCOUNTING STANDARD No. 54**

- In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Effective June 30, 2011.

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Other

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# Questions

