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Commission of Orange County
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CLERK OF THE BOARD
ORANGE COUNTY
BOARD OF SUPERVISORS

Executive Officers Report
July 2, 2008 Meeting

DATE: June 24, 2008

TO: Children and Families Commission of Orange County

FROM: Michael M. Ruane, Executive Director

SUBJECT: Executive Officer Report

The Executive Officers Report for July 2, 2008 will include the following items.

A. Informational Items *(Report)*
1. Financial Highlights (Attachment 1)
2. State Association and State Commission Meetings

B. State Budget and Legislative Update *(Report and Action)*
There will be a report and any necessary actions presented at the July 2, 2008 Commission meeting.

C. Update on Annual Financial Audit *(Report)*
Staff and Vavrinek, Trine & Day (VTD) held a planning meeting on April 3, 2008 to discuss schedules, documentation requests, new pronouncements and federal program audit requirements for Fiscal Year 2007-2008.

VTD completed their initial review of the Commission's internal controls, including an examination of payroll records and contracts, during May 2008. The auditors did not identify any major issues during their initial review. VTD is scheduled to return in July 2008 to begin fieldwork on federal program audit requirements, and in August to begin fieldwork on all other financial related areas. The financial statements will be issued and scheduled for review by the Administrative sub-committee in September and will be presented to the Commission for final approval at the October Commission meeting.

Roger Alfaro from Vavrinek, Trine & Day (VTD) met with Commissioners Minon, Snyder & Poulson on May 7, 2008 to provide a brief update on new audit requirements and their impact to the Commission. The presentation discussed during this meeting is attached for your review.

D. Early Development Instrument (EDI) Pilot *(Report)*
The Commission funded EDI pilot project is being implemented in the Newport-Mesa Unified School District (N-MUSD) within five elementary schools that volunteered to participate. The pilot involves 23 teachers and approximately 430 kindergarten children. In preparation for the pilot, UCLA received the license to use the EDI instrument from the Offord Centre in Child

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Studies at McMaster University in Canada and received Institutional Review Board (IRB) approval for the project. Additionally, the N-MUSD School Board voted to approve launching the pilot in their district.

In May, participating teachers received a one-hour orientation on completing the EDI checklists. During the orientations, teachers were provided with a brief background on the project and step-by-step instructions on how to complete the data forms. Data collection was completed June 6 and UCLA has begun analyzing the data. Two Teacher Focus Groups were held mid-June, to solicit feedback about the EDI implementation process and ways to improve future EDI implementation efforts. Overall, teachers felt that implementing the EDI checklist with their students was a positive experience and it gave them a sense of satisfaction knowing that the effort could provide information to help others in the community prepare children for their classrooms. Teachers emphasized the importance of compensation / incentives and the voluntary nature of the project as key components of their participation and for future teacher buy in.

A Final Report documenting the process of implementing the EDI pilot as well as recommendations for moving towards full-scale implementation of the EDI in Orange County will be submitted to the Commission by December 2008. The EDI activities and deliverables have all been met on time and, thus far, teachers have been enthusiastic about the project.

E. Financial / Investment Advisory Services *(Report)*
Last year the Commission authorized the Executive Director to execute an agreement with Sperry Capital for independent financial advisory services in connection with the monitoring and reporting on the Commission's investments administered by the Orange County Treasurer. In follow-up to Commission direction earlier this year to conduct a competitive bid process for future services, staff has prepared and released an RFQ to the ten firms on the County CEO's current qualified panel of financial advisor firms. Proposals are due on July 18 and will be evaluated by a panel which includes the Chairman of the Commission's Investment Oversight Committee. Recommendations will be submitted for Commission action at your September 3 meeting.

F. Orange County's United Way *Success by Six* Program *(Report and Action)*
There will be a report and recommended action plan regarding the *Success by Six* programs currently administered by United Way and potential consolidation of the literacy and facility development programs with Commission early learning programs.

Attachments:

1. Financial Highlights
2. Audit Entrance Meeting PowerPoint

COUNTY OF ORANGE

OFFICE OF THE TREASURER-TAX COLLECTOR

HALL OF FINANCE & RECORDS
12 CIVIC CENTER PLAZA, ROOM G76
P. O. BOX 4515
SANTA ANA, CA 92701

June 24, 2008

STATEMENT OF ACTIVITY
For the Month Ended May 31, 2008

Orange County Children and Families Commission
c/o Michael Ruane, Executive Director
17320 Redhill Ave #200
Irvine, CA 92614

Cash in Treasury - Fund 225

Date / Description	Beginning Balance	Deposits	Withdrawals	Investment Income	Treasury Admin Fee	Ending Balance
	$119,332,853.15	$2,874,409.26	($8,686,857.12)			
5/01/08, April Admin Fee					(9,921.07)	
5/28/08, March Interest				372,903.93		
	$119,332,853.15	$2,874,409.26	($8,686,857.12)	$372,903.93	($9,921.07)	$113,883,388.15

Accrued Investment Income - Fund 225

Date / Description	Beginning Balance	Accrual	Payment	Ending Balance	Apportionment Annualized Yield (Gross)
	$681,942.64				
5/28/08, March Interest			(372,903.93)		
6/02/08, May Interest		287,119.85			
	$681,942.64	$287,119.85	($372,903.93)	$596,158.56	2.837%, May

FINANCIAL HIGHLIGHTS
May 31, 2008

Investment Update

The Children and Families Commission of Orange County investment portfolio consisting of U.S. Treasury bills is $ with laddered maturities extending through October 2009. The Commission's investment portfolio report is included in Attachment 1C. Unrealized gains and losses that are noted have not become actual. They become realized gains and losses when the security in which there is a gain or loss is actually sold. The U.S. Treasuries in the Commission's investment portfolio are held until maturity.

Revenue Update

The Children and Families Commission of Orange County received and recorded **$4,091,837** in total revenues year to date. The detail of all revenues received is included in Attachment 1B.

- $29,653,801 – Tobacco Tax Revenues for July 2007 through April 2008. As reported by the state, Prop 10 revenues for July 2007 through April 2008 were approximately -$346,199 or 1.15% lower than the year to date estimated budget plan of $30,000,000. Commission cash receipts for tobacco tax revenue include payments through March totaling $26,680,883 as included in Attachment 1B.

- $7,009,210 – Interest Revenues received for July 2007 through May 2008 are approximately $592,543.33 or 9% higher than the year to date estimated budget plan of $6,416,667. The increase in rate of return earned by the Commission's funds on deposit at the County Treasurer has contributed to the higher than expected interest earnings.

Expenditure Update

The total actual operating expenditures and encumbrances year to date are **$68,139,074**. Overall budgeted expenditures and encumbrances were approximately $1,148,167 or 1.7% higher than the year to date current operating budget plan of $66,990,908. This variance is due to timely contract executions resulting in encumbrance reservations against the fiscal year 2007-2008 budget.

The following is an overview of the actual operating expenditures and encumbrances for the year to date ended May 31, 2008:

- $68,139,074 – Total Year To Date Actual Operating Expenditures and Encumbrances
  - $62,409,610 for Children's Programs
    - $35,209,271 – Healthy Children Programs
    - $5,461,238 – Strong Families Programs
    - $15,914,237 – Ready to Learn (School Readiness) Programs
    - $5,824,864 – Quality Services including Capacity Grants, AmeriCorps/VISTA, POMS (Evaluation costs of $2,251,135)
  - $5,729,464 for Administrative Functions

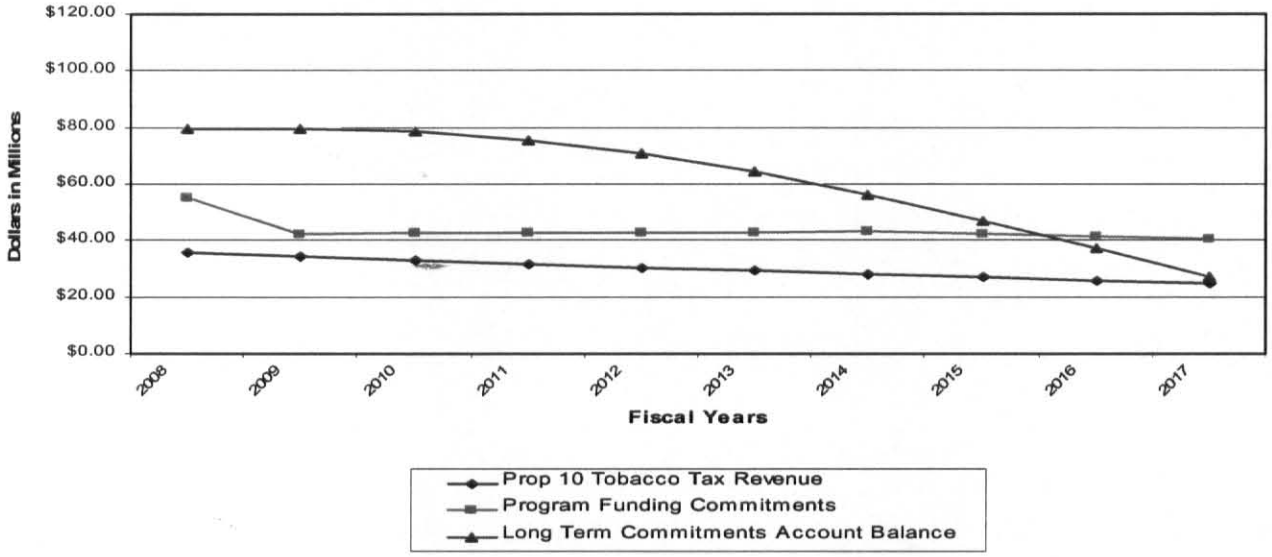
Administrative costs and functions are defined by State Commission guidelines (Fiscal Memorandum No. 05-01, dated April 14, 2006) pursuant to Chapter 284, Statutes of 2005 (AB 109). Actual Administrative expenditures and encumbrances of $5,729,464 were 5% of the year to date ended May 31, 2008 Operating Budget of $107,708,288.

Consistent with 10-Year Financial Plan

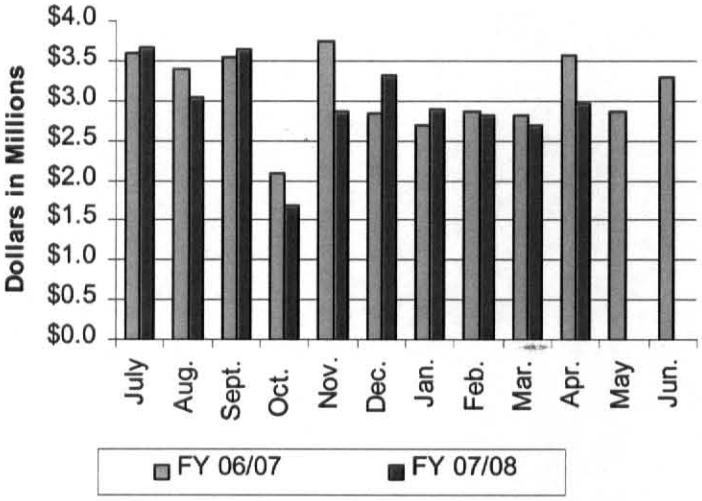
The Commission has dedicated funding for long-term support of programs consistent with the current Ten-Year Financial Plan.

Children and Families Commission of Orange County
Snapshot Period Ended May 31, 2008

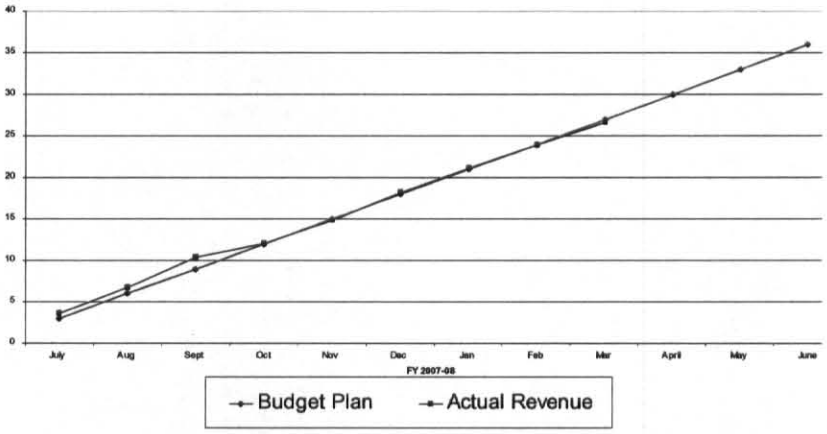
1) Ten-Year Financial Plan Projections



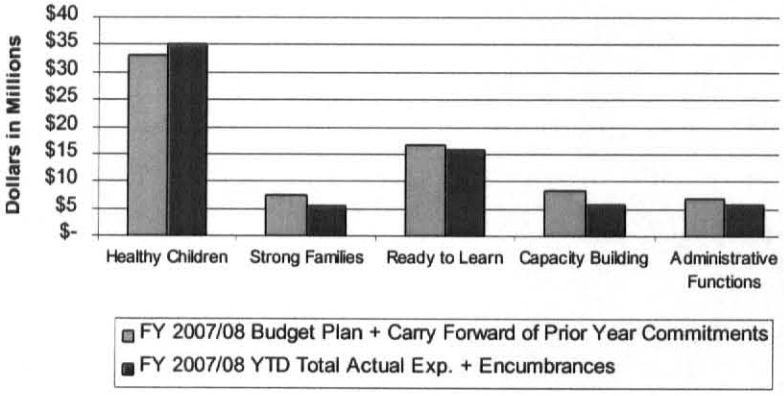
2) FYS 06/07 & 07/08 Tobacco Monthly Revenues *



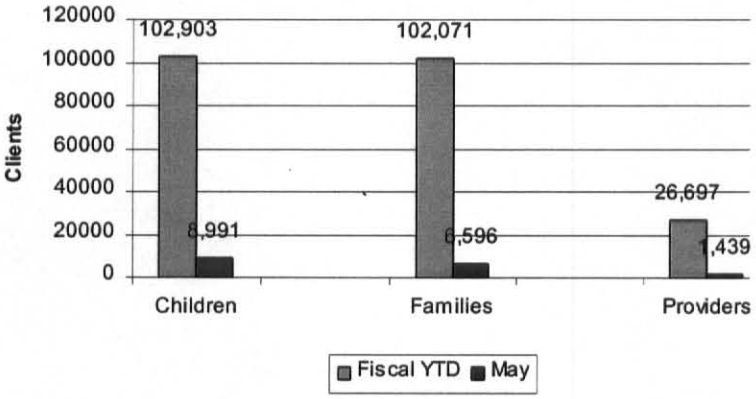
3) FY 2007-08 Cumulative Tobacco Tax Revenue Budget Plan Vs. Actuals To Date *



4) FY 2007-08 Budget Plan Vs. YTD Total Actuals



5) Clients served in May and Fiscal YTD



* SOURCE: County Funds Distribution Report (July 07 – April 08) First 5 California

Attachment 1B

Children and Families Commission of Orange County
Comparison of FY 2007-08 Budget vs. Actuals - Unaudited
Period Ended 5/31/08

High Level Summary

	FY 2007-08 (budget + carry forward for prior year commitments)	FY 2007-08 YTD Total Actual Expend. & Encumb. Thru 5/31/08	Budget vs. Actuals	Actuals % of Final Budget Amount
FINANCING				
General Purpose Revenues				
Tobacco Tax Revenue	36,000,000	26,680,883	-9,319,117	74%
All Other General Purpose Revenues	8,070,000	7,410,954	-659,046	92%
General Purpose Revenues Subtotal	44,070,000	34,091,837	-9,978,163	77%
Special Purpose Revenues	5,649,564	2,690,815	-2,958,749	48%
TOTAL REVENUES	49,719,564	36,782,652	-12,936,912	74%
Multi-Year Commitments - Operating Budget	0	0		
Fund Balance Available	46,500,000	43,587,439		
PY Carry forward Encumbrances	11,488,724	14,087,217		
TOTAL FINANCING	107,708,288	94,457,308	-12,936,912	88%
REQUIREMENTS				
PROGRAM SERVICES				
Healthy Children	33,059,512	35,209,271	2,149,759	107%
Strong Families	7,632,423	5,461,238	-2,171,186	72%
Ready to Learn	16,643,485	15,914,237	-729,247	96%
Capacity Building	8,395,398	5,824,864	-2,570,534	69%
TOTAL PROGRAM SERVICES	65,730,819	62,409,610	-3,321,209	95%
Administrative Functions	6,850,172	5,729,464	-1,120,708	84%
Contingency Funding	500,000	0	-500,000	0%
TOTAL OPERATING EXPENSES	73,080,990	68,139,074	-4,941,917	93%
Transfer to Long Term Commitments Account	10,000,000	0	-10,000,000	0%
Undesignated/Unreserved	24,627,298			
TOTAL REQUIREMENTS	107,708,288	68,139,074	-14,941,917	63%
FINANCES LESS EXPENSES	0	26,318,234	26,318,235	

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

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Commission of Orange County

Audit Entrance Meeting

May 7, 2008

The VTD Team

Children & Families
Commission of Orange County

Roger Alfaro	Audit Partner
Kevin Pulliam	Technical Review Partner
Kinnaly Soukhaseum	Engagement In-Charge Supervisor

Audit Scope

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Perform the audits of the:

- Orange County Children and Families Commission Basic Financial Statements
- 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)

Our Responsibility Under GAAS

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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)

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

- 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

Planned Scope and Timing

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Timeline:

- Planning and Interim Fieldwork – May 19
- Final Fieldwork and Single Audit– August
- Report Delivery – September 19

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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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

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Exit

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

Audit and Accounting Standards

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- **SAS 104-111 – Risk Assessment Standards**
  - Will require a more in-depth look at your internal controls over significant accounts and transactions
  - Requires to the auditor to assess the risk of misstatement at the assertion level
  - A risk based approach to planning the audit will be required under the new auditing standards
- **SAS No. 114, The Auditor's Communication With Those Charged With Governance (AICPA, Professional Standards, vol. 1, AU sec. 380)**
  - This standard requires that we communicate with those charged with governance regarding the planning and conclusion of the audit. This communication can be made to the governing body, or those delegated by the governing body to provide oversight of the audit.

Audit and Accounting Standards

Children & Families
Commission of Orange County

Effective June 30, 2008

- **GOVERNMENTAL ACCOUNTING STANDARD No. 45**
  - In June 2004, the GASB issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The requirements of this Statement are effective for financial statements for periods ending after June 30, 2008.

- **GOVERNMENTAL ACCOUNTING STANDARD No. 48**
  - In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement addresses accounting and financial reporting standards for transactions where governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. This statement establishes criteria and reporting standards regarding the exchange as either a sale or collateralized borrowing, resulting in a liability. This statement is effective June 30, 2008.

Audit and Accounting Standards

Children & Families
Commission of Orange County

Effective June 30, 2008, continued

- **GOVERNMENTAL ACCOUNTING STANDARD No. 50**
  - In May 2007, the GASB issued Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This statement is effective June 30, 2008.

Effective subsequent to June 30, 2008

- **GOVERNMENTAL ACCOUNTING STANDARD No. 49**
  - In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Effective June 30, 2009.
- **GOVERNMENTAL ACCOUNTING STANDARD No. 51**
  - In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Effective June 30, 2010.
- **GOVERNMENTAL ACCOUNTING STANDARD No. 52**
  - In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Effective June 30, 2009.

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- **Questions**