

Internal Audit Department

O R A N G E C O U N T Y
 6th Largest County in the USA

FINAL CLOSE-OUT

FIRST FOLLOW-UP AUDIT: CEO/PUBLIC FINANCE CONTINUING BOND DISCLOSURE PROCESS

AS OF JUNE 3, 2011

Our First and Final Close-Out Follow-Up Audit found the County Executive Office/Public Finance implemented all four (4) recommendations from our original audit containing four (4) findings and recommendations. During our original audit, the County's long-term obligations totaled \$912 million as of June 30, 2008. During fiscal year ending June 30, 2008, the County retired long-term obligations totaling \$99 million. Interest scheduled for long-term service requirements totaled \$57 million.

AUDIT NO: 1016-C
 REPORT DATE: JULY 7, 2011
 (Original Audit No. 2814)

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 Deputy Director: [Eli Littner, CPA, CIA](#)
 Senior Audit Manager: [Alan Marcum, CPA, CIA](#)
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RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Director

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Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)

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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1016-C July 7, 2011

TO: Robert J. Franz, Deputy CEO
Chief Financial Officer

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up Audit:
CEO/Public Finance Continuing Bond
Disclosure Process, Original Audit No. 2814,
Issued April 20, 2010

We have completed our First and Final Close-Out Follow-Up Audit of CEO/Public Finance Continuing Bond Disclosure Process. Our audit was limited to reviewing, as of June 6, 2011, actions taken to implement the **four (4) recommendations** from our original audit report dated April 20, 2010. We conducted this First Follow-Up Audit in accordance with the *FY 10-11 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First and Final Close-Out Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter.

Each month I submit an **Audit Status Report** to the BOS where I detail any critical and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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CEO/Public Finance Continuing
Bond Disclosure Process
Audit No. 1016-C***

As of June 6, 2011

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OC Internal Auditor's Report



Audit No. 1016-C

July 7, 2011

TO: Robert J. Franz, Deputy CEO
Chief Financial Officer

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up Audit: CEO/Public Finance Continuing Bond Disclosure Process, Original Audit No. 2814, issued April 20, 2010

Scope of Review

We have completed a First and Final Close-Out Follow-Up Audit of CEO/Public Finance Continuing Bond Disclosure Process. Our audit was limited to reviewing, as of June 6, 2011, actions taken to implement the **four (4) recommendations** from our original audit report.

Background

We conducted an audit of certain records and documents for the year ending March 31, 2009. During the original audit period, the County's long-term obligations totaled \$912 million as of June 30, 2008. During fiscal year ending June 30, 2008, the County retired long-term obligations totaling \$99 million. Interest scheduled for long-term service requirements totaled \$57 million.

Results

Our First and Final Close-Out Follow-Up Audit indicated that all **four (4) recommendations from our original audit report were fully implemented.**

1. Incomplete Policy and Procedural Manuals (Significant Issue)

We recommend that CEO/Public Finance improve policy and procedures to be followed in preparing and disseminating continuing bond disclosures. Documented policy and procedures should be reviewed and approved by management and current versions need to be readily accessible for reference by personnel responsible for the continuing bond disclosure process.

Current Status: **Implemented.** We found that CEO/Public Finance developed new procedures for the continuing bond disclosure process. The revised policies and procedures approved by the Public Finance Director, effective on September 21, 2010, addressed the following:

- Sources for data for preparation of continuing bond disclosure reports.
- Storage, retention, and protection of documents and electronic data.
- Identification, documentation, and reporting of enumerated significant events pursuant to the Securities and Exchange Act.
- Review process for continuing bond disclosure reports that includes final approval from the Public Finance Director.

Because CEO/Public Finance updated their policies and procedures for the continuing bond disclosure process, the recommendation is considered implemented.



2. Lapse of Supervisory Oversight (Significant Issue)

We recommend that CEO/Public Finance ensure that qualified and systematic supervisory review is provided and documented to enhance the integrity of the continuing bond disclosures.

Current Status: **Implemented.** We found that CEO/Public Finance developed new procedures for the continuing bond disclosure process as noted above. The revised policies and procedures approved by the Public Finance Director addressed the review process for continuing bond disclosure reports that includes final approval from the Public Finance Director. The new procedures require the Public Finance Director to evidence final approval by initialing and dating the checklist showing bond issues requiring continuing disclosure reports. We reviewed the continuing disclosure reports checklist and noted that the Public Finance Director initialed and dated the document. Because CEO/Public Finance ensured supervisory review is provided and documented for continuing bond disclosures, the recommendation is considered implemented.

3. Inaccurate and Incomplete Disclosures (Significant Issue)

We recommend that CEO/Public Finance ensure the accuracy and completeness of continuing bond disclosures.

Current Status: **Implemented.** We found that CEO/Public Finance developed new procedures for the continuing bond disclosure process as noted above. The revised policies and procedures approved by the Public Finance Director addressed the review process for continuing bond disclosure reports that includes final approval from the Public Finance Director.

The new procedures require the preparer of the report to forward the completed report along with backup documentation to another CEO/Public Finance staff member for review. The reviewing staff member will ensure accuracy and completeness of the report and document their review by initialing and dating the continuing disclosure reports checklist. The reviewing staff member will return the report to the preparer with any required revisions. The preparer will forward the corrected report to the Public Finance Director for final review and approval.

We reviewed a sample of three continuing bond disclosures filed with the Municipal Securities Rulemaking Board (MSRB) in February and March 2011. During our review, it was noted that for three continuing bond disclosures tested, the majority of the required disclosures were accurate and complete. However, the following exceptions and corrective actions were noted:

- a. Orange County Development Agency Tax Allocation Tax Refunding Bonds – Santa Ana Heights Project Area Series 2003 totaling \$38,465,000 for fiscal year ended June 30, 2010.

Exception and Corrective Action: The initial disclosure dated March 30, 2011 did not provide "Information on Appeals by the Top Ten Taxpayers in the Santa Ana Heights Project Area" as required for the annual report in accordance with Section 4(e). However, an amendment was submitted to the MSRB on June 1, 2011 to correct the inaccurate disclosure.

OC Internal Auditor's Report



- b. Orange County Public Financing Authority – Lease Revenue Refunding Bonds Series 2005 totaling \$419,755,000 for fiscal year ended June 30, 2010.

Exception and Corrective Action: The initial disclosure dated February 23, 2011 included "Table A-8: County of Orange Top Ten Secured Taxpayers Fiscal Year 2009-2010" that agreed to the accounting records. However, the table reported only nine of the ten secured taxpayers and the sum of the tax charges for taxpayers shown on the table was overstated by \$7,295,609. CEO/Public Finance submitted an amendment to the MSRB on June 1, 2011 to correct the inaccurate disclosure.

- c. South Orange County Public Financing Authority Special Tax Revenue Bonds – 2005 Series A Ladera Ranch totaling \$84,015,000 for fiscal year ended June 30, 2010.

Exceptions: None

Because CEO/Public Finance took corrective actions for accurate and complete continuing bond disclosures, the recommendation is considered implemented.

4. **Insufficient Supporting Evidence** (Significant Issue)

We recommend that CEO/Public Finance ensure files evidence the work completed and contain physical and electronic data accumulated in support of the continuing bond disclosures.

Current Status: **Implemented.** We found that CEO/Public Finance developed new procedures for the continuing bond disclosure process as noted above. The revised policies and procedures approved by the Public Finance Director addressed the storage, retention, and protection of documents and electronic data. We reviewed a sample of three continuing bond disclosures filed with the MSRB in February and March 2011. During our review, it was noted that the initial and amended continuing disclosure documents were sufficiently supported with evidence. Because CEO/Public Finance took corrective action for sufficient evidence to support continuing bond disclosures, the recommendation is considered implemented.

We appreciate the cooperation and assistance extended to us by the personnel of CEO/Public Finance during our First and Final Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Alan Marcum, Senior Audit Manager at 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Colleen Clark, Public Finance Director, CEO/Public Finance
Laurie Sachar, Manager, CEO/Public Finance
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors