

S U M M A R Y M I N U T E S

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA



Wednesday, September 17, 2008, 2:00 p.m.

HALL OF ADMINISTRATION
333 Santa Ana Blvd., 5th Floor
Conference Room A
Santa Ana, California

TELECONFERENCE LOCATION: IHS, Inc.
15 Inverness Way E
Englewood, Colorado 80112

Supervisor John Moorlach
Member

Supervisor Patricia Bates
Member

David Sundstrom
Chairman

Thomas G. Mauk
Member

Dr. David Carlson
Vice Chairman
Public Member

Chriss Street
Ex-Officio Member (non-voting)

ATTENDANCE: John Moorlach, David Sundstrom, Chriss Street, Tom Mauk, Dr. David Carlson

EXCUSED: Patricia Bates

PRESENT: Director, Internal Audit Department: Dr. Peter Hughes
County Counsel: Ann Fletcher
Clerk: Renee Aragon

2:00 P.M.

1. Roll Call:
Internal Audit Department: Eli Littner, Alan Marcum, Autumn McKinney, Mike Goodwin, Camille Gackstetter, Wilson Crider; Auditor-Controller Office: Shaun Skelly, Nancy Ishida, Christine Young, Claire Moynihan, Megan Nguyen, Ila Patel; Treasurer Tax-Collector Office: Paul Gorman; Grand Jury Members: Terry Fleskes, Darlene Hibbs, Gloria Wildman; Vavrinek, Trine, Day & Co.: Kevin Pulliam, Roger Alfaro, David Showalter
2. Approve Audit Oversight Committee Minutes of May 29, 2008
VOTE: Motion -Moorlach, 2nd -Carlson, Yes -Sundstrom, Yes -Mauk, Excused -Bates
Approved.

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3. Receive communication required in accordance with SAS 114 from External Auditor – Vavrinek, Trine, Day & Co., LLP
Received.

Mr. Kevin Pulliam addressed the committee and said there were new standards. The Statement of Auditing Standards (SAS) 114 was about communications with those charged with governance. It required open dialogue and two way conversation with those charged with governance. Specifically it denoted the audit committee or for Orange County, the Audit Oversight Committee (AOC) for open dialogue. Mr. Pulliam presented slides. Slides 10 -14 were about other new standards, board pronouncements and were for informational purposes. Slides 1-9 were designed to walk through SAS 114 to allow for the two-way communication with the Committee as required.

Mr. Pulliam stated Slide 1 outlined the partners in charge of the audit team. Slides 2 and 3 summarized the scope of the audit and what they were contractually bound to do. It outlined the scope for CAFR, trust funds, pension funds, post employment benefits, single audit, and others. On Slide 4, Vavrinek, Trine and Day (VTD) communicated their responsibility under generally accepted auditing standards. Bullet one detailed that VTD was required to express an opinion on the fair presentation of the financial statements for reasonable but not absolute assurance. The second bullet stated that VTD considered internal controls but no opinion was expressed for internal controls. He stated VTD was doing a detailed look at the internal control systems for each component they were auditing. Because of the standards, they must document as if there were going to test those systems. If weaknesses or deficiencies were identified, they would bring it to the attention of the AOC. VTD would express an opinion on major federal programs as required by the single audit.

Mr. Pulliam stated other matters brought to attention were aspects of accounting policies and accounting estimates with which so far no difficulties were encountered. Any uncorrected misstatements and material corrected misstatements would be included in the wrap-up phase. Any adjustments or disagreements with management would all be brought to the attention of the AOC. VTD would require the different components to sign the management representation letter at the end. Additionally, if consultations took place with other auditors, it would have to be brought to the attention of the AOC.

Mr. Pulliam said they started work in June. He felt they could meet those dates as defined and deliver reports as scheduled in the contract. The planning stage was June, July and August. He said they were developing the audit plan and at the same time were conducting part of their interim field work. The final field work started in August and he expected it to continue through December for the CAFR and some components, and through January for the Single Audit component of the contract.

Mr. Pulliam said slide 7 detailed the items that took place during the phases of the audit, the risk assessment phase and the interim work. He stated they met with management and identified for their audit plan what they felt the audit risks were. He stated they went through and inspected lots of financial information and data that had been provided by the departments.

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He said under Statement of Auditing Standards (SAS) 99 they were required to document the tone at the top in the County in their risk assessment from the perspective of fraud. Therefore they had been documenting that as part of their work as well. For the interim, they were documenting internal control systems and in some cases testing controls. He stated they identified key business cycles and were well under way in testing several Single Audit programs or major programs as required by the single audit.

Mr. Pulliam stated slide 8 “year end field work” started for some of the smaller components. Within that field work they would substantiate the year end numbers provided by management. Within the financial statements they would look at the adequacy of disclosures and assessed whether the accounting principles and estimates used were reasonable in order for them to opine on the financial statements and complete their testing on the single audit.

Mr. Pulliam said slide 9 “audit adjustments” if any would be discussed with both management and AOC.

Mr. Sundstrom stated that good reports from throughout the county were received about VTD. Mr. Street asked about estimating the hours to complete their reviews. Mr. Pulliam said they were right on plan and where they expected to be. Mr. Sundstrom stated they did revise their hours from the first bid. Mr. Moorlach asked about the exit interview and requested a meeting date. Mr. Pulliam stated they would work with his calendar. Mr. Moorlach requested to review the draft CAFR. Mr. Moorlach inquired whether committee members could receive copies of the CAFR prior to distribution. Mr. Sundstrom supported the request and also noted that he was expanding the review to include CEO Public Finance, CFO, Treasurer’s office, County Counsel and Internal Audit and would also include Mr. Moorlach on this newly established CAFR Review Committee.

Item 6 was heard before Item 4.

4. Receive presentation on Internal Audit OC Employee Fraud Hotline Program
Received.

Dr. Hughes presented a report for year ending 06/30/08. The report summarized the six month report of 24/7 hotline activity and discussed the allegation types, investigations and resolutions. It was reported that all the Department Heads were cooperative and responsive without exception. Hotline anonymity and privacy was explained. Dr. Hughes informed the AOC about advertising of the Hotline on employee paystub portal and in the County Connection and outside the standard distribution of posters. Dr. Hughes also stated his intent to survey county employees about knowledge and use of the hotline.

5. Receive and file Annual OC Internal Auditor’s Report FY Ending 6/30/08
VOTE: Motion–Moorlach, 2nd-Mauk, Yes-Sundstrom, Excused-Carlson, Excused-Bates
Received and filed.

Dr. Hughes presented the annual report and results for the FY ending 06/30/08. Highlights included the post audit survey of audit services resulted in a high rating of 4.9 out of 5. The other highlight was the seven completed reviews that were requested by the Board of Supervisors and the AOC with minimal disruption to the audit plan.

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Mr. Sundstrom said the Grand Jury review mentioned on page 5 suggested adding additional members to the AOC. He felt membership should be discussed. Mr. Sundstrom stated it was once recommended to add 5 public members (one from each supervisorial district) and felt the issue should be revisited and requested the issue be added to the agenda for the next AOC meeting. The CEO said he opposed it in the past because it was getting away from having people who have accountability for oversight from within the County.

Item 6 was heard before Item 4.

6. Receive Status of the SIVs Held in the County's Investment Pool and direct staff (continued from AOC 2/28/08, Items 6 and 8, 5/29/08, Item 5)
Received.

Item 6 was heard before Item 4.

Mr. Street informed the AOC that TTC sold holdings of Sigma and other securities.

Mr. Street provided a hand out that showed the portfolio value at June 30, 2007 and at September 10, 2008. The differences between them were the replacement of financial and ABCP holdings with government agency holdings. Mr. Street spoke about the holdings for the extended fund, JWA portfolio, school fund and county fund.

Mr. Mauk asked about the outstanding SIV and the WhistleJacket holding and if risk was associated with it. Mr. Street stated WhistleJacket sponsored by Standard Charter was in default. They last communicated that they would make interim distributions in the near term, near term meaning weeks and not months. Mr. Mauk asked if Mr. Street was concerned about SIVs taken onto or off balance sheets. Mr. Street stated he felt they were as good as the underlying banks and that if the banks were still around then the investments would be good.

Mr. Moorlach asked what would necessitate selling Sigma six weeks before it had matured. Mr. Street stated the information he received from the prior week was there was turmoil so he decided to sell. Mr. Street stated they took a loss of over \$6 million on Sigma but when the interest earned on it over the past three years was used to offset the loss, OC still netted about \$400,000 on it. Mr. Moorlach asked about WhistleJacket maturing in January 2009 and when would VTD conclude field work for the CAFR. Mr. Pulliam stated sometime mid-December 2008.

Mr. Sundstrom said he was hoping by December they would have enough information to make an appropriate balance sheet notation. Mr. Sundstrom wasn't sure what the receiver would do or if there would be a reorganization or if there would be a liquidation that would pay-out over the term of the underlying assets. He doesn't know.

Mr. Street stated that if they don't get a final resolution by that time, it would be treated as a wind down meaning it would collect its securities over time. The average length of the portfolio was 3.3 years. They were getting pricing on the securities and assumed after the turmoil was over they would get good pricing. Mr. Street felt they would have a market price by that time or it would be in wind down and collect status.

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7. Receive and file OC Internal Audit Department Status Report for Period April 1, 2008 through June 30, 2008 and Executive Summaries of Audit Finding Summaries for the Period April 1, 2008 through June 30, 2008
VOTE: Motion-Mauk, 2nd-Moorlach, Yes-Sundstrom, Excused-Carlson, Excused-Bates
Received and filed.

Dr. Hughes said the status report concluded the audit plan for fiscal year ending 06/30/08. He stated the vast majority of the audit plan was accomplished. No material overruns or outstanding issues were reported. Dr. Hughes said there was a really good average on implementing corrective action on audit findings within the first 6 months. The success was the responsiveness from departments and agencies.

Mr. Street complimented IAD on exit interviews to review the results of the audit and discuss the issues especially on the IT side. Dr. Hughes introduced the new IT Auditor, Mr. Wilson Crider. Mr. Crider last worked for UCI and he would fill a critical role for us. Wilson introduced himself. He was a graduate of Cal Poly Pomona with an accounting and computer operation systems degree. He also holds CPA and CISA certifications. His experience started in 1991 with First Interstate Bank and has spent the last six years with UC Irvine. He was a published author writing articles for the Information Systems Audit & Control Journal as well as the Association of College and University Auditors publication. Dr. Hughes stated IAD would propose modifications to FY 08-09 audit plan at the next AOC meeting and would pursue IT audits within the existing schedule or bump a review. There was no adjustment to the total budgeted hours for the FY 08-09 Audit Plan as Nancy Ishida went to Auditor-Controller and Wilson Crider filled those hours.

8. Receive and file External Audit Coverage 4th Quarter Status Report FY 07/08
VOTE: Motion-Mauk, 2nd-Moorlach, Yes-Sundstrom, Excused-Carlson, Excused-Bates
Received and filed.

Dr. Hughes stated the report represented a best practice model. The activity revealed where audits were at any point in time throughout the County. Dr. Hughes stated one item was presented as a material item. He stated a disallowance of travel costs of \$114,000 in Sheriff Department was material, but the finding was not material with countywide impact. Mr. Mauk requested follow-up status. Dr. Hughes stated IAD would follow-up and report to the CEO. Mr. Mauk requested the follow-up to this item at the next AOC meeting. Dr. Hughes would follow-up to any material item and stated IAD found no additional exceptions.

Public Comments – *At this time members of the public may address the AOC on any matter not on the agenda but within the jurisdiction of the AOC. The AOC may limit the length of time each individual may have to address the Committee.*

AOC COMMENTS & ADJOURNMENT:

AOC COMMENTS: none.

ADJOURNED: 3:25 p.m.

NEXT MEETING:

November 13, 2008 rescheduled to December 11, 2008, 2:00 p.m., Regular Meeting