

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

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE ORANGE COUNTY, CALIFORNIA



Tuesday, September 29, 2010, 2:30 p.m.

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

Supervisor Bill Campbell
Member

Supervisor Janet Nguyen
Member

David Sundstrom
Vice-Chairman

Thomas G. Mauk
Chair

Dr. David Carlson
Vice Chairman
Public Member

Chriss Street
Ex-Officio Member (non-voting)

ATTENDANCE: David Sundstrom, Bill Campbell, Matthew Harper (Proxy for Janet Nguyen), Bob Franz (Proxy for Tom Mauk)

EXCUSED: Chriss Street, Dr. David Carlson

PRESENT: Director of Internal
County Counsel:
Clerk:

Dr. Peter Hughes
Ann Fletcher
Renee Aragon

2:30 P.M.

1. Roll Call

Auditor-Controller and staff: David Sundstrom, Nancy Ishida, Claire Moynihan, Christine Young, Shawn Skelly, (A-C) HCA accounting – Kim Engleby and Howard Thomas; County Executive Office: Bob Franz (Proxy for Tom Mauk); Vice Chairman – Supervisor Bill Campbell and Louis Bronstein, Chair of the Board – Proxy Matthew Harper; Second District Lindsay Brennan; Internal Audit Department - Peter Hughes, Eli Littner, Alan Marcum, Autumn McKinney, Michael Dean, Mike Goodwin; County Counsel Office - Ann Fletcher; OC Public Works - Lance Natsuhara; Performance Audit Director Steve Danley; Vavrinek, Trine, Day & Co. – Kevin Pulliam, Roger Alfaro

2. Approve Audit Oversight Committee Regular Meeting Minutes of June 3, 2010
VOTE: Motion-Franz (proxy for Mauk), Second-Harper (proxy for Nguyen), Sundstrom,-
Yes, Campbell-absent, Carlson-absent
Approved

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3. Receive Status of the Serpentine Funding Limited P-T Notes (formerly Whistlejacket SIV) (continued from AOC 9/17/08-Item 6, 5/29/08-Item 5, 2/28/08-Items 6 and 8, 12/11/09-Item 3, 3/25/09-Item 4, 5/27/09-Item 4, 9/2/09-Item 4, 11/23/09-Item 4, 02/23/10, Item 5; 06/03/10-Item 3, 09/29/10-Item3)

Received

Mr. Paul Gorman provided 4 hand-outs on the status of Serpentine Funding. He stated the first document was a press release on the sale of Serpentine, the second document was a summary of the realized loss and the recovery percentage on the sale, the third and fourth document was a copy of the hand-outs provided at the last AOC meeting as information. He added that at the last AOC meeting, they were evaluating the viability of selling. The later part of summer revealed a good time to sell. It was sold on August 19 and they plan on settling on October 5th. It was required they obtain a legal opinion from a nationally recognized law firm indicating that the sale was consistent with private offering status. The bottom line was the \$80M original investment an asset that went into receivership, they recovered 90.5% of the investment as collections from both the receiver and serpentine of \$37,118,465.00 and the sales proceeds of \$35,258,820 for total of \$72,377,285. It was a realized loss of \$7,622,715 that the market value is consistent with the evaluation in the CAFR. They will have a subsequent event note and will indicate that in the CAFR. They don't feel the need to change the value in the CAFR because it was a small difference in what it was sold at and the valuation. The loss will be allocated to pool participants that were in the pool as of February 12 or 15, 2008. They plan to do the calculation when the sale has settled.

Supervisor Campbell arrived at the meeting at 2:30 p.m.

4. Discuss, review and amend Audit Oversight Committee Bylaws to remove inconsistencies with New AOC Charter and direct staff per Agenda Item 32, ASR No. 10-001363, Board Meeting date 9/28/10
VOTE: Motion-Campbell, Second- Franz (proxy for Mauk), Sundstrom-Yes, Harper (proxy for Nguyen)-yes, Carlson -Yes
Item continued.

Mr. Sundstrom stated the Board sent the item back for consideration to Supervisor Moorlach's suggestions at the Board meeting on 9/28/10. He stated the AOC could not take action. Ms. Ann Fletcher recommended the AOC discuss and report what was raised at the Board meeting however not to take action. Mr. Sundstrom stated he felt the recommendations were to strengthen a good charter. The most significant item was to consider adding more public members and to also place the performance auditor on the committee. Supervisor Campbell noted training also shall be considered rather than should. Mr. Harper representing Supervisor Nguyen stated in addition to the membership raised he referred to 3.1.2 the expertise of the public members to consider a shall or will or should. Supervisor Campbell suggested calling an AOC Special Meeting to resolve the issues quickly and get back to the Board quickly.

Mr. Sundstrom stated a special meeting would be scheduled to address the AOC charter. He requested for the Bylaw amendment to also be agendized for the special meeting as well and get both things done.

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Item 5 was heard before Item 4.

5. Receive Quality Assessment/Peer Review from County of San Diego for Internal Audit Department for the year ending 06/30/10 and receive IAD's Balanced Scorecard, Independent Validation by County of San Diego

Received

Dr. Hughes stated the quality assessment/peer review was performed 3 years ago. It answered the question who audits the auditors. It provided assurance that IAD followed professional standards which were developed to inject objectivity and confidence in the audit results by the specific steps auditors take in researching, investigating, analyzing, evaluating and reporting. The peer review was rigorous. Individual engagements were planned using risk assessment methodology and audit conclusions were supported by work papers. All findings and recommendations were communicated effectively.

Dr. Hughes presented the first Internal Audit Balanced Scorecard to the AOC. Tracking key performance indicators was part of the IAD effort that we practice what we preach. Dr. Hughes noted the performance of the department and the staff. Mr. Sundstrom stated it was a good report and complimented Dr. Hughes on the high rating.

6. Approve OC Internal Audit Department 4th Quarter Status Report for Period July 1, 2009 through June 30, 2010, and approve 4th Quarter Executive Summaries of Audit Finding Summaries for the Period July 1, 2009 through June 30, 2010

VOTE: Motion-Franz (proxy for Mauk), Second-Campbell, Sundstrom-Yes, Harper (proxy for Nguyen)-yes, Carlson-Yes

Approved

Dr. Hughes stated the status report represented the full FY 09/10 audit coverage. There were exceptions in the milestones and comments column. There were some redirections and some changes due to various reasons including unanticipated additional complexity. The quarterly report keeps the AOC briefed on the original audit plan.

7. Approve External Audit Coverage 4th Quarter Status Report FY 09/10
VOTE: Motion-Campbell, Second-Harper (proxy for Nguyen), Sundstrom-Yes, Carlson-yes, Franz (proxy for Mauk)-Yes

Approved

Dr. Peter Hughes stated there were two material items.

The first item was in the OC Public Works Flood Control Program dated June 11, 2010 for audit period 1997 to 2002. He introduced Mr. Lance Natsuhara from OC Public Works. Mr. Natsuhara is the Manager of the Santa Ana River Main Stem Project to address the issue. Claims were filed during the audit period and the disallowances equated to 5.7% of the total claims. The disallowances related to ineligible costs (\$3,823,724), ineligible betterments (\$493,339), and interest income on condemnation deposits not offset against costs (\$622,500). OCPW concurs with the findings and will work with the California Department of Water Resources and OCPW/ Accounting to minimize possible future disallowances.

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The second item was the Health Care Agency/Mental Health. Dr. Hughes Introduced Kim Engleby, A-C/HCA Accounting. The Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services draft audit report, for FY 05-06 SB90 audit finding of \$1.1 million. There are several contributing complexities and factors involved from federal government funding. HCA had changed practices to ensure compliance as required. HCA had appealed the audit and would file a claim if not resolved. Legislation to change the State guidelines was vetoed by the Governor.

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.*

No comments were made by the public.

AOC COMMENTS & ADJOURNMENT:

AOC COMMENTS: none

DIRECTOR OF INTERNAL AUDIT COMMENTS: Dr. Peter Hughes informed the AOC that he was selected as the AICPA 2010 CPA of the Year for Local Government. He received the award in August 2010 at their regional conference.

ADJOURNED: The meeting adjourned at 4:10 p.m.

NEXT MEETING:

November 16, 2010, Special Meeting
December 2, 2010, Regular Meeting