

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

EVALUATION OF AUDITOR-CONTROLLER CAFR FOOTNOTE DISCLOSURE PROCESS

ORIGINAL AUDIT No. 2767

AS OF JANUARY 19, 2011

Our First and Final Follow-Up Audit found four (4) recommendations fully implemented and two (2) recommendations closed from our original audit where we completed an evaluation of selected aspects of the Auditor-Controller’s CAFR Footnote Disclosure Process.

During the original audit, the County had outstanding short and long-term debt of approximately \$1.91 billion. The CAFR helps investors and bond-rating agencies assess the County’s ability to service this debt. The CAFR footnote disclosures are critical in helping explain a more comprehensive assessment of the County’s financial condition. It is used by the public, bond-rating agencies (Fitch, Moody’s and Standard & Poor’s), governments, and internally to examine and understand the financial position of the County.

AUDIT NO: 1016-A
REPORT DATE: FEBRUARY 7, 2011

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Deputy Director: Eli Littner, CPA, CIA
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Audit Manager: Kenneth Wong, CPA, CIA

RISK BASED AUDITING

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



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



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



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

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

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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Transmittal Letter



Audit No. 1016-A February 7, 2011

TO: David E. Sundstrom
Auditor-Controller

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

SUBJECT: **First and Final Close-Out** Follow-Up
Audit of an Evaluation of Auditor-
Controller CAFR Footnote Disclosure
Process, Original Audit No. 2767, Issued
March 13, 2009

We have completed a First Follow-Up Audit of an evaluation of the Auditor-Controller's CAFR footnote disclosure process. Our audit was limited to reviewing, as of January 19, 2011, actions taken to implement the **six (6) recommendations** from our original audit. 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 Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our First Follow-Up Audit found that four (4) recommendations were fully implemented and two (2) recommendations were closed. As such, this report represents the final close-out of the original audit. We commend the Auditor-Controller on their responsiveness in taking corrective actions to implement the applicable audit recommendations.

Each month I submit an **Audit Status Report** to the BOS where I detail any material 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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Evaluation of Auditor-Controller
CAFR Footnote Disclosure Process
Audit No. 1016-A*

As of January 19, 2011

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Audit No. 1016-A

February 7, 2011

TO: David E. Sundstrom
Auditor-Controller

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

SUBJECT: First and Final Close-Out Follow-Up Audit of Evaluation of Auditor-Controller
CAFR Footnote Disclosure Process, Original Audit No. 2767, Issued March 13,
2009

Scope of Review

We have completed a First Follow-Up Audit of an Evaluation of Auditor-Controller CAFR Footnote Disclosure Process. Our audit was limited to reviewing, as of January 19, 2011, actions taken to implement the **six (6) recommendations** from our original audit report.

Background

We completed an evaluation of selected aspects of the Auditor-Controller's CAFR Footnote Disclosure Process. The original audit identified three (3) control findings resulting in six (6) recommendations pertaining to an undocumented analysis of mandated requirements, not clearly defined CAFR review instructions, and possible enhancements for the newly established CAFR Review Committee.

During the original audit, the County had outstanding short and long-term debt of approximately \$1.91 billion. The CAFR helps investors and bond-rating agencies assess the County's ability to service this debt. The CAFR footnote disclosures are critical in helping explain the computation of specific items in the financial statements as well as provide a more comprehensive assessment of the County's financial condition. It is used by the public, bond-rating agencies (Fitch, Moody's and Standard & Poor's), governments, and internally to examine and understand the financial position of the County.

Results

Our First Follow-Up Audit indicated that **four (4) recommendations were fully implemented and two (2) recommendations were closed**. Based on the First Follow-Up Audit we conducted, the following is the implementation status of the three (3) findings and resulting six (6) recommendations:

1. Finding No. 1 – Detailed Analysis of the Respective Financial Reporting Standards is Not Documented (Control Finding)

Recommendation No. 1 – We recommended that the Auditor-Controller consider documenting the requirements mandated in the respective financial reporting standards for CAFR footnote disclosures. The documentation could be maintained within the existing project files supporting the specific CAFR footnote disclosures.

Current Status: Fully Implemented. During our review of project documentation supporting certain CAFR footnote disclosures, we found that the Auditor-Controller developed a detailed analysis of the respective financial reporting standards.



It was noted that the documented procedures for preparing the CAFR footnote disclosures for Long-Term Obligations and Postemployment Health Care Benefits cite the applicable sections of the financial reporting standards relative to the respective footnote disclosure. The Auditor-Controller took action to address our recommendation, the respective financial reporting standards were documented in detail within the project files supporting specific CAFR footnote disclosures, therefore; we consider this recommendation fully implemented.

2. Finding No. 2 – CAFR Review Instructions are Not Clearly Defined

(Control Finding)

Recommendation No. 2 – We recommended that the Auditor-Controller consider enhancing the instructions to more clearly define the criteria and level of the CAFR review by specific managers. A detailed matrix of expertise, expectations, and financial reporting standards by subject matter expert and statement component could be helpful.

Current Status: **Fully Implemented.** We noted that the Auditor-Controller provided CAFR review instructions to various County department managers. The review instructions assigned individual County department managers with a specific CAFR footnote disclosure; referenced financial reporting standards now available on the Auditor-Controller's intranet website; and also provided deadlines to submit comments, recommendations, and other pertinent information. The Auditor-Controller communicated the roles and responsibilities by distributing a matrix showing the subject matter expert department and the footnote disclosure. The Auditor-Controller took action to address our recommendation, the CAFR review instructions were clearly defined, therefore; we consider this recommendation fully implemented.

3. Finding No. 3 – Newly Established CAFR Review Committee Enhancement

(Control Finding)

Recommendation No. 3 – We recommended that the proposed CAFR Review Committee consider establishing bylaws that specify rules, duties, order and scheduling of meetings, public participation (if any), authority, objectives, and reporting relationship to the Audit Oversight Committee.

Current Status: **Closed.** During our original audit, we noted that the Auditor-Controller commenced formation of a CAFR Review Committee to enhance the existing controls over financial disclosure. The planned composition of the committee was representatives from departments currently providing review and comment on the CAFR. The roles and responsibilities of the committee were under development and we recommended the proposed CAFR Review Committee consider establishing bylaws that govern the regulation of the committee's actions. However, the Auditor-Controller's response indicated that the purpose of the CAFR Review Committee was to provide more structure to the CAFR review and approval process and the committee's role was strictly advisory with no reporting relationship to the Audit Oversight Committee. We found that the Auditor-Controller recognized the need to define the objectives of the committee and addressed the reporting relationship with the Audit Oversight Committee. We concluded that the Auditor-Controller's response to the recommendation addressed the intent of our recommendation and consider it closed.



**4. Finding No. 3 – Newly Established CAFR Review Committee Enhancement
(Control Finding)**

Recommendation No. 4 – We recommended that the proposed CAFR Review Committee maintain on file meeting agendas and minutes.

Current Status: **Fully Implemented.** We noted that the CAFR Review Committee convened with the external auditor to discuss the scope of the CAFR for the year ending June 30, 2010 and the new financial reporting standards. The meeting activities were documented and maintained on file by the Auditor-Controller. The Auditor-Controller took action to address our recommendation, the CAFR Review Committee's meeting activities were maintained on file, therefore; we consider this recommendation fully implemented.

5. Finding No. 3 – Newly Established CAFR Review Committee Enhancement (Control Finding)

Recommendation No. 5 – We recommended the newly established CAFR Review Committee consider the benefits and appropriateness of providing a briefing of the committee's results to the Audit Oversight Committee.

Current Status: **Closed.** See a description of the Current Status for Recommendation No. 3 above.

**6. Finding No. 3 – Newly Established CAFR Review Committee Enhancement
(Control Finding)**

Recommendation No. 6 – We recommended the CAFR Review Committee Coordinator facilitate training, on a regular basis, for the review committee members and Auditor-Controller staff, regarding their obligations relating to disclosure matters and regulations and new technical pronouncements and developments.

Current Status: **Fully Implemented.** We noted that the CAFR Review Committee Coordinator communicated by e-mail an announcement of training on financial reporting standards. Training on financial reporting standards was made available to committee members and Auditor-Controller staff in May 2010, September 2010, and November 2010. The Auditor-Controller took action to address our recommendation, training on financial reporting standards was made available, therefore; we consider this recommendation fully implemented.

We appreciate the cooperation and assistance extended to us by the personnel of the Auditor-Controller's office 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
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Thomas G. Mauk, County Executive Officer
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Shaun Skelly, Chief Deputy Auditor-Controller
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