

# 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, February 23, 2010, 10:30 a.m.*

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

**Supervisor Patricia Bates**  
Member

**Supervisor Janet Nguyen**  
Member

**David Sundstrom**  
Chairman

**Thomas G. Mauk**  
Member

**Dr. David Carlson**  
Vice Chairman  
Public Member

**Chriss Street**  
Ex-Officio Member (non-voting)

ATTENDANCE: David Sundstrom, Dr. David Carlson, Bob Franz (Proxy for Tom Mauk), Don Hughes (Proxy for Pat Bates), Matthew Harper (Proxy for Janet Nguyen), Chriss Street

EXCUSED: None

PRESENT: Director of Internal  
County Counsel:  
Clerk:

Dr. Peter Hughes  
Ann Fletcher  
Maribel Garcia

**10:30 A.M.**

1. Roll Call

Auditor-Controller and staff: David Sundstrom, Nancy Ishida, Claire Moyinhan, Christina Young; Shawn Skelly; County Executive Office: Bob Franz (Proxy for Tom Mauk); Vice Chairman – Supervisor Bill Campbell and staff Louis Bronstein, Chair of the Board – Proxy Matthew Harper; Treasurer Tax-Collector – Chriss Street; Public Member – Dave Carlson; Internal Audit Department - Peter Hughes, Eli Littner, Alan Marcum, Autumn McKinney, Mike Goodwin; County Counsel Office - Ann Fletcher; Vavrinek, Trine, Day & Co. – Roger Alfaro and Kevin Pulliam;

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2. Approve Audit Oversight Committee Regular Meeting Minutes of November 12, 2009  
VOTE: Motion-Franz (proxy for Mauk), Second-Carlson, Sundstrom-Yes, Campbell-abstain, Nguyen-Absent  
**Approved**

Proxy for Chair Nguyen, Matthew Harper, arrived at meeting at 3:10 p.m.

3. Approve Audit Oversight Committee Special Meeting Minutes of December 10, 2009  
VOTE: Motion-Carlson, Second-Franz (proxy for Mauk), Sundstrom-Yes, Campbell-abstain, Nguyen-proxy Harper-Yes  
**Approved**

4. Receive SAS 114 Required Communication from External Auditors Vavrinek, Trine, Day & Company, LLP  
**Received**

Kevin Pulliam addressed the AOC and stated his presentation was the annual communication required by SAS 114. Mr. Pulliam stated the hand-out listed the reporting entities. The single audit was still on going. He noted originally estimated 8 programs, but up to 13 programs now. He stated that more testing would be done. The letter explains VTD responsibilities under generally accepted auditing standards and OMB circular A133.

Mr. Pulliam stated VTD identified 3 significant audit findings. He explained the County adopted 3 new GASB pronouncements during the fiscal year 08/09. The first was GASB 49 – Accounting and Financial Report for Pollution Remediation Obligations. The adoption of that standard required a Re-Statement as detailed in Note 2 of the CAFR. Mr. Pulliam stated two additional GASB pronouncements were adopted, GASB 55 and GASB 56. He explained the pronouncements cleaned up the hierarchy of GAAP as well as the codification of some of GAAP bringing them up the purview of GAP. He noted there was no financial impact. Mr. Sundstrom asked if any of VTD clients that had pollution remediation that have required restatement as well. Mr. Pulliam answered that was correct. He noted it was required by the pronouncement itself. Mr. Sundstrom added that the restatement was an example of something positive not negative because it complied with GAAP.

Mr. Pulliam noted significant estimates on page 3. He added there were no difficulties encountered in performing the audit and they attached a list as required of the audit adjustments that were posted. Mr. Pulliam said the County was very good at posting items when adjustments were discovered. He also stated there were no disagreements with management as part of the audit process. Mr. Pulliam stated VTD had obtained a management representation letter and they were not aware of the County seeking consultation or an additional opinion as related to County pronouncements or technical issues. Mr. Pulliam stated there were no other findings or audit issues that had an impact from VTD perspective that needed reporting. Mr. Campbell asked about Schedule A, the posted audit adjustments, if the dollars were absolute dollars. Mr. Pulliam stated it was correct.

Mr. Sundstrom stated he asked VTD if there were ways to save costs on fee billings. He noted VTD submitted a proposal and he was reviewing it with staff and planned to bring it back to the AOC for oversight. He thanked VTD for their support.

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5. 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)

## **Received**

Mr. Street referenced the hand-out and explained the activity. Mr. Sundstrom asked what the Net amount was. Mr. Street answered the Net from principal was about 60% and added that Net from principal and pay down was near 52%. Mr. Campbell stated the hand-out detailed principal outstanding of \$48 Million and portfolio principal of \$332 Million. What was the amount owed to the investor class that the County was in and was there any one that held priority above the County. Mr. Street answered no, the County was in the highest class. The principal number represented principal plus capital notes. Mr. Campbell asked with the issue of risk of lower quality of debt we might get most of the money back. Mr. Street responded yes. Mr. Franz stated that the down grades alarmed him that the percentage of A-rated securities or better went from 90 to 82% in a short period of time. Mr. Street felt it was the time of year. Mr. Franz asked if he felt it was a trend. Mr. Street didn't believe it would be worse than 08/09. He felt the County was well reserved. He felt most of the assets were performing.

Mr. Sundstrom asked the Committee what their pleasure was if they felt the item continue to be presented as a regular item. Mr. Sundstrom noted the status of Serpentine was also presented at the Treasury Oversight Committee. Mr. Campbell stated he felt it was best to keep it an item and Mr. Carlson agreed.

6. Receive, discuss and approve revisions to draft New Audit Oversight Committee Charter VOTE: Motion-Campbell, Second-Carlson, Sundstrom-Yes, Harper (proxy for Nguyen)-yes, Franz (proxy for Mauk)-Yes

## **Approved**

Mr. Sundstrom stated the Audit Charter for the AOC had not been revised for a long time. He felt a new Audit Charter would allow for the AOC to conform better with the GFOA standards as well as the industry tool box published by AICPA in the government arena.

Mr. Sundstrom stated Committee members presented some changes at an interim meeting and County Counsel also provided editorial changes. The revised draft was handed-out. Mr. Sundstrom stated additional changes were made related to the AOC advising the Board of Supervisors on the Director of Internal Audit's performance. He noted Counsel stated that it was not possible for the AOC to evaluate Dr. Hughes' performance as Dr. Hughes reported to the Board and not the Committee therefore that language was stricken.

Mr. Sundstrom defined the blue in the package was equal to the green in the hand-out. The red in the document were additional comments based primarily on conversations with County Counsel. Mr. Franz asked if the changes were of the existing charter. Mr. Sundstrom stated it was very different from the first charter. Mr. Campbell stated he was struggling with the differences in the hand-out verses what was provided in the package. Mr. Sundstrom stated he would go over item per item. Mr. Harper (proxy for Nguyen) asked when he should present Supervisor Nguyen's changes. Mr. Sundstrom answered when each item was discussed would be best.

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Item 1.2 – Mr. Sundstrom addressed Mr. Carlson and stated it was an editorial change. “The Board of Supervisors established the AOC pursuant to Board resolution 95-271 dated April 25, 1995.” Mr. Sundstrom thanked Ann Fletcher for the editorial change.

Item 2.0 – Mr. Sundstrom stated it was generally the original purpose of the original charter. He noted Supervisor Pat Bates requested the language remain the same and did not want to deviate from the original charter.

Item 3.1 – Mr. Sundstrom stated this item would read, “The AOC shall consist of the following: the Chair and Vice Chair of the Board of Supervisors, the Auditor-Controller, the Treasurer Tax-Collector (non-voting), the County Executive Officer and one Public Member.” The language was the preference of two sitting Board members of the Committee.

Item 3.1.1 – Mr. Sundstrom stated the item was to reflect a singular public member. Mr. Campbell stated his did not reflect that and asked if he would change engaged to appointed. Mr. Sundstrom stated he would be sure to make the change. Mr. Harper (proxy for Nguyen) requested the language read, “The public member should be appointed by the Board for the term of four years and may be reappointed or removed by the Board of Supervisors.” Mr. Harper said although implied, she requested it be clearly stated.

Item 4.1 – Mr. Sundstrom stated the item was a reminder that all meetings were subject to the Brown Act.

Mr. Sundstrom stated number changes were made beginning at item 4.3.

Item 4.3 - Mr. Campbell referenced County Counsel's changes “decisions made by the majority of the Members shall be regarded as acts of the AOC”, was it meant for Members present? Ann Fletcher stated it could be clarified but that yes, it was the intent. The language would reflect Members present. Mr. Campbell clarified that when there was a quorum, it would take the majority of the quorum to pass an item.

Item 4.4 - Mr. Sundstrom stated the item was at the request of Supervisor Nguyen. He added prior language that he presented would not allow proxy's for the Board Members of the AOC. He said he hoped to keep the member representation at high level as possible at the table. Mr. Sundstrom stated it was the request of Supervisor Nguyen to allow the Board Members of the AOC to choose whomever they want to represent them at the AOC meetings. No language changes to item 4.4 were made.

Item 4.7 – Mr. Sundstrom stated the item read, “Reports distributed in conjunction with the AOC agenda shall be distributed sufficiently in advance to allow their review.” Mr. Campbell clarified except for modifications by County Counsel. Renee Aragon, clerk, asked for clarification in the distribution of material. She stated material was currently distributed according to Brown Act requirements (48 hours advanced of meeting dates) and asked if the AOC was asking for more time. Mr. Campbell recommended and the others agreed to replace the word sufficiently with the words Brown Act to clarify the matter.

Item 5.1 – Mr. Sundstrom stated the language should read “submitted to the Board for approval” for clarification.

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Item 5.2 – Mr. Sundstrom stated the item was stricken. Mr. Harper (proxy for Nguyen) wanted the committee to consider, rather than strike the item to replace it with possible language, “it is expected the AOC will routinely brief the Board of Supervisors via written annual report or another periodic summary.” Mr. Sundstrom stated the intent was covered under another item 7.1 on page 5, the item reads, “the AOC shall prepare an annual report...” Mr. Harper stated he believed it addressed the intent of Supervisor Nguyen. Given Mr. Harper’s comments, Mr. Sundstrom stated the item would be stricken.

Mr. Sundstrom stated the words “it is expected that the AOC shall routinely notify the Board” would be stricken. The language, “it is expected that the AOC specify a person such as the Chair” was also stricken.

Item 5.5 – Mr. Sundstrom read the item, “The role of the AOC can be fulfilled only if its members are well informed. Members shall be briefed on the Committee’s purpose, responsibilities, objectives, and on the discussion, providing insight on the topics and subtopics discussed.” and asked for comments. Chriss Street stated the words “AOC can be fulfilled only if its members are well informed” was a problematic. He suggested the role of the AOC can be fulfilled if its members are briefed on its purpose rather than the word well-informed. Specifically he suggested to strike “can be fulfilled... to the point of ...are informed on the committee’s purpose. Mr. Sundstrom stated he would strike the first sentence, “The role of the AOC can be fulfilled only if its members are well informed.”

Item 5.6 – Mr. Sundstrom stated was for new members and training related (blue/red version) and most importantly for a new Board member. Mr. Street suggested to leave formal in or formal out of training. Mr. Sundstrom stated the language was to avoid any violations of the Brown Act.

Item 5.7 – Mr. Sundstrom stated the words “pursuant to County purchasing policy and procedures” was added at the suggestion of County Counsel.

Item 6.1.1 – Mr. Sundstrom stated the word, County was added before management for clarification.

Item 6.1.5 – Mr. Sundstrom stated he felt the AOC should have a role in selecting the Director of Internal Audit should the position become vacated rather than the performance of the Director.

The clerk asked if the item would be presented back to the AOC and Mr. Sundstrom stated no, it was not his intent. Mr. Sundstrom stated he would mail the changes to each member and present it to the Board for their approval. He added if he didn’t capture everything he wanted the AOC to let him know. Mr. Franz asked if it would be added to the agenda and Mr. Sundstrom stated yes. Mr. Sundstrom stated he would stop the ASR if there were any issues. Mr. Franz asked for the time line and Mr. Sundstrom answered by the end of the week. Mr. Campbell requested for a strike-out version as well as a final version and the changes referenced in a new color. He stated it would help him to compare the document with the changes discussed. Mr. Sundstrom clarified that a new color would be used in addition to the red, blue and green. Mr. Sundstrom stated he would send to the clerk all the changes and asked for it to be carefully compared to the discussion and noted changes made during the meeting. Dr. Hughes stated the charter was a best practice recognized by the industry.

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7. Receive and approve Status of Peer Review for Internal Audit Department for the year ending 06/30/10.

## **Received**

Dr. Hughes stated professional standards required the Internal Audit Department to subject themselves to a Peer Review every three years. Three years ago, the AOC directed the IAD to participate in the California County Chief Auditor's Association Peer Review Program. The 58 counties in California meet quarterly under this organization and they set up the Peer Review program to accomplish two objectives: the expertise most familiar with county audit functions were brought to bear in Peer Review process and to make it affordable. Three years ago the County of Riverside came in and performed the last Peer Review at no cost. In exchange for the service, IAD performed a Peer Review for the County of San Bernardino. Dr. Hughes the next IAD Peer Review would be conducted by the County of San Diego during the summer of 2010. He stated the reviews were not reciprocal or it would give the appearance of bias. Dr. Hughes stated the Peer Review answers the question "who audits the auditors." He added the Peer Review would give the AOC an independent confirmation of the quality of our audits which spoke to the integrity of the function and the confidence of the oversight provided by the AOC. Mr. Campbell asked how the County of San Bernardino performed. Mr. Campbell asked for a copy for the Peer Review for the County of San Bernardino. Mr. Campbell stated that OCTA had their first Peer Review and although it wasn't as clean as IAD, it was something they were pleased with.

Mr. Sundstrom noted that his internal audit function would have a peer review done this year too. Dr. Hughes offered assistance as needed. Mr. Sundstrom stated he felt it was important that he have a Peer Review done to provide a level of assurance to the AOC and Board as well as to the Auditor-Controller that his group also functioned as it should.

8. Receive and file semi-annual OC Fraud Hotline Activity Report dated January 11, 2010

## **Received**

Dr. Hughes presented the hotline activity for the six month review period. He noted policies and procedures were in place since 1995. The procedures had been reviewed by County Counsel, the Grand Jury and the Peer Reviewers. In the reviews, it was determined IAD had adequate process and procedures and the IAD was in compliance with them. Dr. Hughes stated the existence of the hotline was communicated on the payroll website portal and posters were also disseminated countywide and through the County Connection.

Mr. Street stated he was confused by the process. He asked how IAD protected the confidentiality of a whistleblower. Dr. Hughes stated the complainant could request to remain anonymous or not. If they choose not to remain anonymous, it may be their anonymity would preclude a thorough investigation of the situation because it involved them specifically. Dr. Hughes stated that IAD did its best to provide anonymity but could not guarantee it given that IAD was not in complete control of material when circulation or distribution went beyond IAD control. He added if there also was a legal dimension the Hotline material could be obtained by subpoena.

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Dr. Hughes stated the procedure was to notify the department head of the complaint for their review and investigation without editing the material. He added IAD did not have the resources to follow-up on all complaints, but would do so if requested by any Department. The Department, after their review, would then relay the results of the investigation. If IAD was satisfied the matter was not further pursued.

Mr. Street stated he felt the AOC should review the policy because he felt confidentiality was of concern. Dr. Hughes stated he welcomed anyone to look at the policy. IAD supports the preservation of confidentiality as much as possible.

Mr. Alan Marcum, Senior Audit Manager of Internal Audit Department responded to the confidentiality concern. He stated that if a complainant requested anonymity during the hotline process, nothing was released from the office that disclosed the individual's name. The ability to provide online reports was designed to protect the respondent if they chose that avenue to report fraud.

Mr. Sundstrom gave an example of a deputy department head contacted the hotline and reported his department head was using county resources to run a political campaign, and asked how the matter would be handled. Dr. Hughes responded that the credibility of the complainant was a factor and there was a difference between County employees blowing the whistle vs. an outside citizen blowing the whistle. If the individual was an employee and had credibility and given the processes and procedures then that was weighed and County Counsel would be contacted on how to proceed given the fact the allegation was about the Department Head from a credible source. In contrast a complaint from a citizen against an elected official where there was no knowledge of their credibility, the credibility of their claims would be evaluated against what the auditors knew to be the process and processes of the operation under complaint Citizens frequently made complaints about process and procedure that may not have any credibility. Dr. Hughes stated one-size didn't fit all. The process was designed to allow some individual judgment in assessing the merits of the case as well as IAD's degree of involvement. He noted that the key factor in managing the hotline was that it was handled in a timely manner and brought the appropriate level of expertise to bear. Dr. Hughes stated that he would be agreeable to have the processed reviewed again if needed. He added that in the course of all the cases in the past eleven years there had not been any problems.

Mr. Street requested the matter be discussed at the next meeting for an evaluation again. Dr. Hughes stated he was not opposed. Mr. Sundstrom requested the item be added to the agenda as well. Mr. Campbell suggested discussions between the Tax Collector and Internal Audit to discuss the specifics of Mr. Streets concerns.

9. Approve OC Internal Audit Department Status Report for Period July 1, 2009 through December 31, 2009, and approve Executive Summaries of Audit Finding Summaries for the Period July 1, 2009 through December 31, 2009  
VOTE: Motion-Franz (proxy for Mauk), Second-Campbell, Sundstrom-Yes, Harper (proxy for Nguyen)-yes, Carlson-Yes  
**Approved**

Dr. Hughes addressed the committee about the status of the quarterly report on the audit plan activity. He spoke of the impact results of the furlough and directed audits by the Board and noted where changes were made because available hours were reduced.

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Dr. Hughes stated for any audits that were removed, they would be reassessed during the risk assessment process for inclusion in the next audit plan. He added that the Board awarded the Internal Audit Department the Annual Treasury Compliance Audit for the Treasurer Tax Collector's office and it was underway.

10. Approve External Audit Coverage 2nd Quarter Status Report FY 09/10  
VOTE: Motion-Carlson, Second-Campbell, Sundstrom-Yes, Harper (proxy for Nguyen)-yes, Franz (proxy for Mauk)-Yes  
**Approved**

Dr. Hughes discussed the external audit coverage as presented in the status report. No new materials were identified in the report.

11. Nominate and appoint Chair and Vice-Chair for 2010 Audit Oversight Committee

At the request of Mr. Franz (proxy for Mauk) the item was continued until a quorum of sitting members was present for a selection and vote.

**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

ADJOURNED: The meeting adjourned at 4:35 p.m.

## **NEXT MEETING:**

June 3, 2010, 10:30 a.m., Regular Meeting