

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

SPECIAL MEETING OF THE AUDIT OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA



Tuesday, November 16, 2010, 1:30 p.m.

HALL OF ADMINISTRATION
333 Santa Ana Blvd., 3rd Floor
CEO Main Conference Room
Santa Ana, California

Supervisor Janet Nguyen
Member

Supervisor Bill Campbell
Member

David Sundstrom
Vice-Chairman

Thomas G. Mauk
Chair

Dr. David Carlson
Public Member

Chriss Street
Ex-Officio Member (non-voting)

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

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

1:30 P.M.

1. Roll Call

Internal Audit Department: Peter Hughes, Autumn McKinney, Mike Goodwin, Eli Littner, Alan Marcum; Auditor-Controller and staff: David Sundstrom, Nancy Ishida, Dat Thomas, Shaun Skelly; County Executive Office: Bob Franz (Proxy for Tom Mauk); Second District Staff: Lindsay Brennan; Third District Staff: Louis Bronstein; Fifth District Staff: Brian Probolski, Matthew Harper (Proxy for Supervisor Nguyen); County Counsel Office: Ann Fletcher; Office of Performance Auditor: Steve Danley and Ian Rudge; Vavrinek, Trine, Day & Co.: Kevin Pulliam

Item 3 was heard before Item 2.

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2. Discuss and approve changes to the AOC Charter and present changes to the Board of Supervisors for final approval at a future Board meeting (AOC meeting, September 29, 2010, item 4; AOC Meeting June 3, 2010, item 4).

Approved

VOTE: Moved-Campbell with modifications, Second-Carlson, Yes-Sundstrom, Yes-Harper (proxy for Nguyen), Yes-Franz (proxy for Mauk)

Supervisor Campbell stated the Internal Auditor had a concern with certain sections of AOC Charter, Section 7.0 - Accountability Reporting by the AOC. Dr. Hughes requested clarification on the implementation of 7.1.b and 7.1.f.2.

He stated that in the Industry there were macro opinions required by the SEC for publically listed companies under the Sarbanes Oxley Act. He added the CEO and CFO provide annual and quarterly certifications regarding the status and adequacy of internal controls. Dr. Hughes stated that was a "big push up" to make assertions of that nature in that they were required to make all "positive assertions" that to the best of their knowledge and being in a position to know there were no material weaknesses in internal controls and if there were, they were required to report it.

Dr. Carlson, being from the private sector, added that they assert that the internal controls were effective for the period being reported. Dr. Hughes stated the Industry spends lots of money on public accounting firms to make those positive affirmations and have an auditable basis for it.

Dr. Hughes noted the SOX requirements are to be made by the CFO and CEO and overseen by the Audit Oversight Committee. Dr. Hughes said he was leery of the "push up" involved to get to a positive affirmation and that he was not sure the oversight body should be making those assertions instead of management. He further added that the External Auditors obtain a signed Management Representation Letter where any control deficiencies would be disclosed. Dr. Hughes asked how the AOC would assert the adequacy or inadequacy of financial reporting. He felt it was an assertion already made by the external auditors because their opinion states "in all material regards" according to GASB.

Dr. Hughes stated the annual Management Letter provided to the External Auditors where the County's Chief Financial Officer, Auditor-Controller, County Executive Officer and Treasurer Tax Collector all sign and make very affirmative assertions of full disclosure and instances of fraud that they were aware of and also the adequacy of internal controls. Dr. Hughes suggested the Management Letter be presented to the AOC as a way of making the AOC aware of management making the affirmations as well as the management representation letter over the adequacy of internal controls.

Mr. Pulliam stated unlike in SEC, they as the External Auditors, were not opining on internal controls. He noted their auditing standards require they document the controls, but they do not issue an opinion over internal controls. Mr. Pulliam said, they had the responsibility that if they see deficiencies they are to bring them to the AOC's attention. He wanted to be clear that they as the External Auditors, were not opining on internal controls, they were held to government auditing standards. Dr. Hughes asked if their testing would reveal if there were material findings or was it a "negative assurance". Mr. Pulliam stated, if there were to come to their attention, they would bring the matter before the AOC but there was no "positive" assurance whatsoever.

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Dr. Hughes stated the Internal Audit Department audits were discrete that were of specific operations or business cycles. We do give an opinion regarding the adequacy over those internal controls or the inadequacy of them but they were not a basis for extrapolating them over all the County's business systems controls.

Mr. Sundstrom agreed that the clause should not be the responsibility of the AOC to make those assertions. He added that at the state had to make certain assertions of the quality of their statements. He suggested striking "provide the committees" and replaced it with "review County management's assessment of the County's systems of controls." Dr. Hughes asked, as the Internal Auditor, who would have to help implement the change, what was expected? Mr. Sundstrom stated a review of the management letter. Supervisor Campbell clarified the AOC would review the management representation letter with those four County executives' signatures. Mr. Sundstrom agreed. Supervisor Campbell read the changed language for 7.1.b as, "state that the Committee had reviewed the County Management's Representation Letter submitted annually to the external auditors." Dr. Hughes asked for clarity on 7.1.f.2. Mr. Sundstrom stated to strike 7.1.f.2. and change to read 7.1.f "assert the audit committee had discussed the financial statements with both management and the independent auditor."

Mr. Sundstrom discussed the remaining changes.

Items 1.2 language change. Strike "The Board is responsible for establishing the AOC. Authority is derived from" was discussed. Language was added, "established the Audit Oversight Committee. General provisions, appointments, scope, authority and objectives are contained in the Bylaws of the Orange County Audit Oversight Committee as approved by the Board of Supervisors DATE."

3.1 and 3.1.1 removed and referenced in the Bylaws in Rule 2.

3.2 became 3.1 and language considered "shall" instead of "should" was discussed. It was decided "should" would remain and no changes were made beyond renumbering. 3.2 had no numerical change and language considered "shall or will" over "should" was discussed. "Shall" was selected and the word "brief" was stricken from formal training. It was agreed the Auditor-Controller and the Internal Audit Department would create an orientation and comments from legal counsel for training.

4.7 considered adding language from the Bylaws. 4.7.a. was language from 5.4 and 4.7.b considering adding language from Bylaws. Renumbered 4.7 as 4.8 and 4.8 as 4.9. discussion was held and changes accepted as presented.

5.4 was language moved to 4.7.a. 5.5 renumbered from 5.6; 5.6 renumbered from 5.7; and 5.7 renumbered from 5.8.

6.1.5.a considered adding language from Bylaws and add language to read, "Ensure that an external quality control review of the Internal Audit Department be conducted every three years by an organization not affiliated with the internal audit department in accordance with the United State General Accounting Office's Government Auditing Standards and/or Institute of Internal Auditor's Standards at the discretion of the department head.

No further discussion or changes were made.

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3. Discuss and approve AOC Bylaws to remove any inconsistencies with AOC Charter and present changes to the Board of Supervisors for final approval at a future Board meeting (AOC Meeting, September 29, 2010, item 4)

Approved

VOTE: Moved- Carlson with modifications, Second-Campbell, Yes-Sundstrom, Yes-Franz (proxy for Mauk), Yes-Harper (proxy for Nguyen)

Mr. Sundstrom stated that Supervisor Moorlach asked the AOC to consider adding membership in Rule 2 to include the Performance Audit Director as an ex-officio non-voting member and increase public membership from 1 to 3. Mr. Sundstrom stated he agreed with the suggested changes. Mr. Carlson stated that as the Public Member, he endorsed and was supportive of adding public membership.

Mr. Sundstrom stated Rule 3 and Rule 7 were procedural changes. Mr. Sundstrom stated Rule 9 changes were for procedural clarification.

Mr. Street stated in the Indemnification clause (Rule 10) there was no mention of "advance". He clarified that he felt "advance" meant that legal defense was paid during the penalty of an action and indemnification meant it would be paid at some point. He added others may be concerned about having their legal fees paid during an action and suggested adding language to clarify the matter. Ms. Fletcher, County Counsel, stated usually indemnity clauses generally included defense costs during litigation. She offered to provide clarifying language in regards to an advance defense clause.

The remaining changes were discussed and agreed upon with no further discussion.

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:

ADJOURNED: The meeting adjourned at 2:11 p.m.

NEXT MEETING:

To be determined after the selection of the Chair and Vice-Chair of the Board of Supervisors, Regular Meeting