

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

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA



Thursday, June 3, 2010, 2:30 p.m.

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

Supervisor Bill Campbell
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), Bill Campbell, Matthew Harper (Proxy for Janet Nguyen)

EXCUSED: Chriss Street

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, Dat Thomas, Claire Moyinhan, 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; Public Member – Dave Carlson; Internal Audit Department - Peter Hughes, Eli Littner, Alan Marcum, Autumn McKinney, Wilson Crider, Mike Goodwin; County Counsel Office - Ann Fletcher; Vavrinek, Trine, Day & Co. – Kevin Pulliam

2. Approve Audit Oversight Committee Regular Meeting Minutes of February 23, 2010
VOTE: Motion-Carlson, Second-Harper (proxy for Nguyen), Franz (proxy for Mauk)-Yes, Campbell-Yes, Sundstrom,-Yes
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)

Received

Mr. Paul Gorman provided a hand-out on the status of Serpentine Funding. He explained that Serpentine was the restructured entity from the Whistlejacket structured security in April 2009. He stated over the last year they had been receiving monthly payments. The assets were performing and paying down. A total recovery was at 89% which resulted in an unrealized loss of approximately \$9M. Supervisor Campbell asked if there were interest earnings. Mr. Gorman responded the underlying assets pay principal and interest payments and their policy was to treat all principal and interest payments as principal until total recovery of original investment.

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

Approved

Mr. Sundstrom stated he brought this item back for a final approval and for additional comments or concerns to be received. Mr. Carlson stated he was supportive of 3.1.1 regarding terms for members. There was clarification on item 3.1.1 that there was no term limits, it allowed for reappointment.

Mr. Sundstrom stated adopting the New AOC Charter was not replacing the current AOC Bylaws. He stated he would be presenting to the Board of Supervisors for approval as a future agenda item.

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

Received

Dr. Hughes stated the Internal Audit Department (IAD) complied with the Institute of Internal Auditing Professional Standards as well as the GAO Yellow Book Standards. The Yellow Book standards required a review every 3 years. The IAD was participating in the California Chief Auditors Association Peer Review Program. We expect the Peer Review to be completed in August 2010. Dr. Hughes notified the AOC members that they would be contacted by Peer Reviewers as part of the process for a possible interview. Fieldwork is scheduled during the month of July 2010.

Mr. Sundstrom stated Nancy Ishida was taking classes and preparing for a Peer Review as well for the Auditor-Controller. They expected their Peer Review to be completed next year.

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6. Approve Annual Audit Plan and Risk Assessment for Fiscal Year 2010/2011
VOTE: Motion-Franz (proxy for Mauk), Second-Campbell, Sundstrom-Yes, Harper (proxy for Nguyen)-yes, Carlson -Yes
Approved with one additional audit in Fee Generating Revenue Audits

Dr. Hughes explained the annual risk assessment process in the development of the annual audit plan. The areas selected to audit were driven mostly by risk. Dr. Hughes stated the complexity of the County in all 22 departments and individual processes. The size of the County had limits on the ability to audit the smaller departments. Dr. Hughes stated all audit reports would be provided to each department for all departments to learn from one another.

Supervisor Campbell referenced the matrix on A-1 and stated another fee generated revenue audit in the area of OC Parks should be considered. They have a new vendor for handling parking lot fees and entry to parks. He felt an audit in the area would be appropriate. Mr. Goodwin, Senior Audit Manager stated the audit would be included in the audit plan.

Dr. Carlson stated the risk assessment had matured and he was pleased with the progress detailed in the supporting schedules. Mr. Sundstrom noted that he had reviewed the Internal Audit Department budget and he was pleased that the CEO was recommending an augmentation to make the budget whole. He was supportive of the augmentation as necessary in the difficult financial times.

7. Discuss Grand Jury Report *DNA: Whose Is It, Orange County Crime Lab's or the District Attorney's* (released on May 24, 2010) Recommendations R.2, R.3, R.4 (pages 6 &7) and direct staff

Dr. Hughes stated the Grand Jury issued their report and asked IAD to conduct a fee study on an annual basis. He stated IAD may not be the appropriate group to do the study because of limited resources and there maybe other options. Ms. Autumn McKinney, Senior Audit Manager stated the recommended study was more of a management function and wondered if there were available resources in the Auditor-Controller's Cost Studies Unit as the fee study might fit more in-line with the A-C's Cost Studies Unit mission and objectives. Mr. Sundstrom stated he agreed it was a management area and if the Board elected to have the Auditor-Controller do it, he can provide an estimate for the cost to do the study. Mr. Franz stated he wasn't sure where the study would fit in the priorities and it was a difficult message to relay. Supervisor Campbell asked Mr. Sundstrom what the cost would be to do the study. Mr. Sundstrom stated he would provide an estimate to the CEO on the study. Dr. Hughes stated his response to the recommendations would state it required further analysis.

8. Approve OC Internal Audit Department 3rd Quarter Status Report for Period July 1, 2009 through March 31, 2010, and approve 3rd Quarter Executive Summaries of Audit Finding Summaries for the Period July 1, 2009 through March 31, 2009
VOTE: Motion-Franz (proxy for Mauk), Second-Campbell, Sundstrom-Yes, Harper (proxy for Nguyen)-yes, Carlson-Yes
Approved

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Dr. Hughes stated the executive audit summaries highlighted the audit activity for the quarter. He added the status report detailed the hours on the budget. Mr. Sundstrom asked who received the reports in the item.

Dr. Hughes stated the Board of Supervisors, the Audit Oversight Committee, the Grand Jury, the Clerk of the Board, County Counsel and regular attendees of the AOC meetings. Supervisor Campbell was asked if he would like more detail from the AOC meetings such as the status reports or the executive summaries presented as part of the monthly status reports. Supervisor Campbell responded the audit activity presented was fine as it was. Mr. Sundstrom suggested and requested the control findings information or a modified version would be helpful to other departments and a wider electronic distribution should be considered. He felt there was applicability across multiple units that would be beneficial and helpful.

9. Approve External Audit Coverage 3rd 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. Hughes stated there was one item to report on. Ms. McKinney stated there was one material issue during the quarter that was identified by the State auditors in a prior year audit (FY 04-05) so it was a continuation issue that reappeared. She stated there were other counties that may have had the same issues. Supervisor Campbell requested a follow-up with HCA for corrective action and to report back to the AOC at the next meeting.

10. Nominate and appoint Chair and Vice-Chair for 2010 Audit Oversight Committee
VOTE: Motion-Carlson, Second-Sundstrom-Yes, Campbell-Yes, Harper (proxy for Nguyen)-Yes, Franz (proxy for Mauk)-Abstained
Appointed Tom Mauk as Chair of AOC for 2010 and David Sundstrom as Vice-Chair of AOC for 2010

Supervisor Campbell nominated Mr. Dave Carlson as Chair. Mr. Carlson stated he would pass on the Chair nomination because of his current position. Supervisor Campbell nominated Tom Mauk as Chair and David Sundstrom as Vice-Chair.

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: Dr. Dave Carlson requested for a presentation from JWA on their expansion project to be presented at the next AOC meeting.

ADJOURNED: The meeting adjourned at 3:35 p.m.

NEXT MEETING: September 28, 2010, Regular Meeting