

COUNTY OF ORANGE
AUDIT OVERSIGHT COMMITTEE
APPROVED MEETING MINUTES
Thursday, March 15, 2007, 3:30 p.m.

The Audit Oversight Committee of the County of Orange met on March 15, 2007 at 3:30 p.m., in the Hall of Administration, Building 10, Fifth Floor, Conference Room A, Santa Ana, California.

Members Present/Absence Noted:

Present: Supervisor Chris Norby, Chairman, Board of Supervisors
Supervisor John Moorlach, Vice-Chairman, Board of Supervisors
Honorable David Sundstrom, Auditor-Controller
Dr. Dave Carlson, Public Member, Chair, Audit Oversight Committee
Tom Mauk, County Executive Office
Honorable Chris Street, Ex-Officio Member, Treasurer Tax-Collector

1. Call to Order: (Dave Carlson, Ph.D., Chair, Audit Oversight Committee)

Dr. Carlson, Chair, called to order the meeting on March 15, 2007 at 3:30 p.m. Dr. Carlson asked for roll call before proceeding with the agenda.

Committee Members: Hon David Sundstrom, Auditor-Controller; Dr. David Carlson, Public Member; Honorable John Moorlach, Supervisor Second District; CEO Tom Mauk, Honorable Chris Norby, Supervisor, Fourth District; Honorable Chriss Street, Treasurer Tax-Collector

Guests:

Internal Audit Staff: Dr. Peter Hughes, Eli Littner, Alan Marcum, Autumn McKinney, Michael Goodwin, Camille Gackstetter; Auditor-Controller Staff: Denise Steckler; Claire Moynahan, Jan Grimes, Toni Smart, Shaun Skelly; Macias, Gini & O'Connell; James Godsey, Jean Horimoto; Third District staff: Bryan Rayburn; Fourth District Staff: Eric Norby, Jessica O'Hare; Second District Staff: Ian Rudge, Fifth District: Patti Gorczyk; County Counsel: Ben DeMayo and Ann Fletcher; SSA staff: Ben Blank; three Grand Jury Members.

2. Approval of Minutes from November 16, 2006, (Dave Carlson, Ph.D., Chair, Audit Oversight Committee)

Recommended Action: Approved

(Vote: Chris Norby =Moved, David Sundstrom =Seconded, John Moorlach =Abstained, Tom Mauk =Yes, David Carlson =Yes)

APPROVED AS RECOMMENDED.

3. Required Communications (SAS), (Macias, Gini, & O'Connell)

Recommended Action: Discussion

(Vote: John Moorlach=Moved, Chris Norby =Seconded, David Sundstrom =Yes, Tom Mauk =Yes, David Carlson =Yes)

MOTIONED TO RECEIVE AND FILE. DIRECTED AUDITOR-CONTROLLER TO PREPARE AN ASR FOR BOARD APPROVAL THAT AUTHORIZES A ONE-YEAR CONTRACT EXTENSION WITH THE COUNTY'S CURRENT EXTERNAL AUDITOR MACIAS, GINI & O'CONNELL AS SOON AS POSSIBLE. Note: As directed, this extension was approved as ASR S63C, Board Date: March 27, 2007.

4. **A-C Plan for Mandated Audits (Honorable David Sundstrom, Auditor-Controller)**

Recommended Action: Discussion

DISCUSSION HELD, NO ACTION TAKEN

5. **Internal Audit Department 2007 Peer Review Status (Continued from 5/4/06, Item 5; 8/17/06, Item 4) (David Sundstrom, Auditor-Controller)**

Recommended Action: Status

(Vote: David Sundstrom =Moved, John Moorlach =Seconded, Chris Norby =Yes, Tom Mauk =Yes, David Carlson =Yes)

DIRECTED INTERNAL AUDIT TO CONTACT THE CALIFORNIA AUDIT CHIEFS ASSOCIATION AND ARRANGE FOR A PEER REVIEW THROUGH THEIR PROGRAM AND TO NOTIFY AUDITOR-CONTROLLER OF THE RESULTS.

6. **Revision of the Bylaws of the Audit Oversight Committee (David Sundstrom, Auditor-Controller)**

Recommended Action:

- a. Change the membership of the AOC as follows: Change the Treasurer-Tax Collector from ex-officio to standing voting member, retain the Auditor Controller and County Executive Officer and remove Chairman and Vice-Chairman of the Board and add five public members, to be selected by each Member of the Board of Supervisors representing each district; and
- b. Revise Rule 12, paragraph a, to delete the AOC's authority to "oversee the establishment and maintenance of the county's internal control structure."

Discussions regarding the advantages and disadvantages were held regarding the membership composition of the Audit Oversight Committee. The three options receiving most attention: 1) excluding all county employees elected and non-elected from the AOC, 2) excluding just the Board of Supervisors and 3) excluding all elected from the AOC. The justification for the change in composition of the committee's membership was that it should more closely mirror the private sector audit committees. In the course of the discussion concern was raised regarding the exclusion of the Supervisors from the Committee while leaving Countywide elected officials on the Committee. Questions were raised regarding the merits of that proposal given the Committee was established by the Board to better fulfill its stewardship responsibilities. Concern was expressed regarding the degree of effectiveness of having citizens or staff appointees working with Countywide elected officials on the committee. It was recognized that the proposal wasn't raised because there was a problem with the current composition of the committee, but that David Sundstrom felt that it should more closely mirror the private sector audit committees. It was debated as to whether it could be left up to each supervisor to attend or send a voting proxy in his place as an alternative to permanently excluding the supervisors from permanently participating on the committee.

Chairman Chris Norby left meeting at 4:30pm.

(Vote: John Moorlach =Moved, David Sundstrom =Seconded, Chris Norby =Excused, Tom Mauk =No, David Carlson =Yes)

APPROVED RULE 2 TO READ:

Rule 2: The membership of the Committee shall consist of the following: the Auditor-Controller, the County Executive Officer, the Treasure-Tax Collector, and five public members. Each member of the Board of Supervisors will nominate a public member for appointment by the Board of Supervisors. No public member shall be an elected official. Each Public Member serves at the pleasure of the nominating Supervisor.

DIRECTED STAFF TO ADD TO THE AOC BYLAWS EXPLICIT LANGUAGE THAT IT IS THE AOC'S OVERSIGHT RESPONSIBILITY TO EVALUATE AND SELECT THE EXTERNAL AUDITOR AND TO RECOMMEND APPROVAL TO THE BOARD OF SUPERVISORS FOR CONTRACT EXTENSIONS RELATED TO THE EXTERNAL AUDITOR. APPROVED CHANGES TO RULE 12 a., b. AS RECOMMENDED AND MAKE g. as h. AND INSERT NEW LANGUAGE TO RULE 12 g. CHANGES TO READ AS FOLLOWS:

- a. To oversee the activities of the Internal Audit Department.
- b. To oversee the quality of financial reporting activities which portray the County's financial condition, results of operations, internal controls, and plans and long-term commitments, primarily through oversight of the public accounting firm providing the external audit coverage of the County's consolidated financial statements. In addition, the Committee shall review audit results of County programs for which the Board has responsibility.
- g. To evaluate and select the County's external auditor and recommend authorization to Board of Supervisors any contract extensions.
- h. Such other duties as the Board shall prescribe from time to time.

(Proposed changes to AOC Bylaws are valid when approved by Board of Supervisors majority.)

7. Election of Officers MOVED TO ITEM 11 (Dr. David Carlson, Public Member)

Recommended Action: Nominate and Elect Chairman and Vice-Chairman

(Vote: John Moorlach =Moved, David Sundstrom =Seconded, Chris Norby =Excused, Tom Mauk =Yes, David Carlson =Yes)

NOMINATED AND ELECTED AUDITOR-CONTROLLER DAVID SUNDSTROM AS AOC CHAIRMAN AND TREASURER TAX-COLLECTOR CHRISS STREET EX-OFFICIO NON-VOTING MEMBER AS AOC VICE-CHAIRMAN.

8. Status Report #2, Period 9/30/06 (Dr. Peter Hughes, Director, Internal Audit Dept.)

Recommended Action: Receive and File

(Vote: John Moorlach =Moved, David Sundstrom =Seconded, Chris Norby =Excused, Tom Mauk =Yes, David Carlson =Yes)

APPROVED AS RECOMMENDED, DIRECTED IAD STAFF TO PROVIDE A RECONCILIATION OF HOURS WITH CHANGES FROM LOSS OF STAFF FOR THE NEXT STATUS REPORT TO THE AOC.

9. **External Audit Coverage, Second Quarter, FY 06/07 Status Report (Dr. Peter Hughes, Director, Internal Audit Dept.)**
Recommended Action: Receive and File
 (Vote: Tom Mauk =Moved, John Moorlach =Seconded, Chris Norby =Excused, David Sundstrom =Yes, David Carlson =Yes)
 APPROVED AS RECOMMENDED.
10. **Executive Summaries of Audit Assignments, Period 7-1-06 to 9-30-06 (Dr. Peter Hughes, Director, Internal Audit Dept.)**
Recommended Action: Receive and File
 (Vote: John Moorlach =Moved, Tom Mauk =Seconded, Chris Norby =Excused, David Sundstrom =Yes, David Carlson =Yes)
 APPROVED AS RECOMMENDED.
11. **Next Meeting: Set AOC Meeting Date**
 • Agenda Item Suggestions/Action:
 (Vote: Tom Mauk =Moved, David Carlson =Seconded, Chris Norby =Excused, John Moorlach =Yes, David Carlson =Yes)
 MOTION TO REMOVE THIS ITEM AS STANDING AGENDA ITEM FROM ALL FUTURE AOC AGENDAS.
12. **Public Comments:** None
13. **Adjournment:** 5:00 p.m.

*****VOTE KEY*****

Name refers to AOC position (1st name = Moved by; 2nd name = seconded by)

Chris Norby = Chairman of the Board of Supervisors, Fourth District Supervisor
 John Moorlach = Vice-Chairman of the Board of Supervisors, Second District Supervisor
 David Sundstrom = Auditor-Controller
 Tom Mauk = County Executive Officer
 David Carlson = Public Member