

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, December 11, 2008, 2:00 p.m.

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

TELECONFERENCE LOCATION: IHS, Inc.
15 Inverness Way E
Englewood, Colorado 80112

Supervisor John Moorlach
Member

Supervisor Patricia Bates
Member

David Sundstrom
Chairman

Thomas G. Mauk
Member

Dr. David Carlson
Vice Chairman
Public Member

Chriss Street
Ex-Officio Member (non-voting)

ATTENDANCE: John Moorlach, Patricia Bates, David Sundstrom, Chriss Street, Bob Franz
(Proxy for Tom Mauk), Dr. David Carlson

EXCUSED: Tom Mauk

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

2:00 P.M.

1. Roll Call:

Internal Audit Department: Peter Hughes, Eli Littner, Mike Goodwin, Autumn McKinney, Alan Marcum, Renee Aragon; Auditor-Controller and staff: David Sundstrom, Claire Moyinhan, Nancy Ishida, Dat Howard, Shawn Skelly; Second District Supervisor: John Moorlach, Fifth District Supervisor: Patricia Bates; Treasurer Tax Collector and staff: Chriss Street, Paul Gorman; County Executive Office: Bob Franz Proxy for Tom Mauk; County Counsel Office: Ann Fletcher; Public Member: Dr. Dave Carlson; Grand Jury Members: Darlene Hibbs, Don Hauptman, Terry Fleskes; Vavrinek, Trine, Day & Co.: Kevin Pulliam, Roger Alfaro

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2. Approve Audit Oversight Committee Minutes of September 17, 2008

Approved with amended changes.

VOTE: Moorlach-Moved, Bates-Abstained, Franz (CEO proxy)-Abstained, Sundstrom-Yes, as amended, Carlson-Seconded

Mr. Sundstrom took exception with language and requested changes on page 3, paragraph 4. Mr. Sundstrom recalled discussion during the Sept. 17, 2008 meeting where the role of the audit committee in reviewing footnotes in financial statements was talked about. Mr. Sundstrom did not agree and did not support that the AOC would review the draft of the CAFR and that all footnote disclosures would be presented to the AOC prior to finalization of the CAFR. He reviewed the tape for clarification and stated Mr. Moorlach asked what the AOC's role would be in reviewing the CAFR. Mr. Sundstrom stated that a review committee would be established and those recipients would receive drafts of the CAFR. He stated it was not specified that the footnotes or the CAFR would be reviewed by this committee and requested correction in the minutes.

Mr. Moorlach's recollection was he understood that Mr. Sundstrom affirmed that we could look at the CAFR beforehand as he did in his other positions such as serving as Chair of the Audit Committee for OCERS (Orange County Employees Retirement System). He felt the minutes without changes reflected close to what he recalled. Mr. Moorlach requested what the revised language would be. Mr. Sundstrom stated he asked if it would be the pleasure of the AOC to forward copies of the draft CAFR to the members but it was never his intent to open up a draft copy for the public discussion in a public meeting and he was advised not to do so by County Counsel. Mr. Moorlach stated his request was only to get a copy of the draft to review it and not to put it on the agenda.

Mr. Sundstrom requested a correction to the language to read: Mr. Moorlach inquired whether committee members could receive copies of the CAFR prior to distribution. Mr. Sundstrom stated his support can remain as stated.

Mr. Sundstrom stated Internal Audit would be putting machinery in place so that the official record would be the recorded copy and that action minutes similar to the Board's minutes would be done for the future.

Mr. Moorlach moved to approve the minutes as amended, Dr. Carlson seconded the motion. The item passed 3-2.

3. Receive Status of the SIVs Held in the County's Investment Pool and related 2007/2008 CAFR Draft Footnotes and direct staff (continued from AOC 9/17/08, Item 6, 5/29/08, Item 5, 2/28/08, Items 6 and 8)

No reportable action taken.

Mr. Sundstrom stated there would be no detailed discussion of the CAFR Draft Footnotes, but questions concerning values and other things were fine.

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Mr. Street provided a hand-out and stated the only change in the status from the last AOC meeting was a partial payment for SIVs received from Whistlejacket amounting to 22.62%. Mr. Paul Gorman stated the hand-out provided brief status for holdings in Sigma, Five Finance, Tango Finance, Whistlejacket Capital, CC USA, K2 (USA) LLC. Mr. Gorman stated their position was closed on September 12th, 2008. On Five Finance their position was closed out and there was a down grade and they remained on credit watch because of Citi Bank. On Tango, they have a remaining position of \$50 million. Mr. Gorman stated their final maturity of \$50 million was expected June 10, 2009. Mr. Gorman stated they received approximately \$18.1 million partial distribution from Whistlejacket that reduced the claim of Whistlejacket holdings to approximately \$62 million in principal. He stated the Receiver delayed an auction of securities to 2009 and would reassess the market in January 2009. Mr. Gorman stated CC USA also received a down grade equivalent to the Citi Bank rating. He stated \$100 million remained with \$50 million maturing on January 23, 2009 and \$50 million maturing on February 9, 2009. For K2 (USA) LLC, \$50 million remained in holdings and \$25 million expected to mature on February 23, 2009 and \$25 million on June 9, 2009. Mr. Gorman stated only Whistlejacket remained uncertain. He stated all other SIVs were current in their payments and maturities.

Mr. Moorlach requested to see the Footnotes of the CAFR. Mr. Sundstrom stated Monday, December 14, 2008, the Footnotes would be available to Mr. Moorlach. Mr. Street stated the valuation was moved from 86 to 84 on the books at June 30, 2008. Mr. Sundstrom stated the external auditor's, Vavrinek, Trine, Day, requested clarification on a qualified opinion because Ms. Toni Smart issued a qualified opinion on the 12-31-07 report. He was asked why VTD should not consider issuing a qualified opinion as well. Mr. Sundstrom answered there was more information forthcoming from the Receiver such as balance sheets, listings, every investment in the pool with ratings and a determination of NAV (Net Asset Value) by Deloitte & Touch which is the courts receiver. He added a review of the portfolio to senior debt holders as of November 7, 2008 was approximately 89 after distribution. Mr. Sundstrom felt the 84 write down was fairly conservative.

4. Consider revising AOC Bylaws for AOC membership changes
Item continued to next meeting in 2009.

Mr. Sundstrom stated the AOC approved changes in 2007 to add membership. A hand-out was provided that detailed the changes approved by the AOC in 2007. He said the changes were never presented to the Board for final approval. Mr. Sundstrom stated the Grand Jury recommended membership changes in early 2008. Mr. Moorlach recalled that the Grand Jury wanted to add members representing the schools and he felt that recommendation didn't make sense.

Mr. Sundstrom stated the changes in 2007 were significant changes and because it had been over a year, he felt the changes should be reviewed and approved again. Mr. Sundstrom added that audit committees for publically held corporations were required by SOX to be made up by persons external to the companies which is not the case for Orange County and that was why he supported the membership changes in 2007 to add 5 public members.

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Ms. Bates asked if it was for that reason that the Board members themselves were removed from the membership and Mr. Sundstrom stated yes, with the intent that each Board member would choose a public representative for the committee. Ms. Bates requested qualifications be clarified when considered again.

Mr. Moorlach stated that 4 of the 6 current AOC members were elected persons and already independently represented the tax payers in the spirit of Sarbanes Oxley. He felt the AOC was close to the objective of SOX. Dr. Carlson stated in the publicly held company area (you) protect against too much insider influence by putting on the audit committee outsiders; but in this case with elected officials he felt that model wasn't particularly compelling and Mr. Moorlach agreed.

Mr. Moorlach requested to continue the item to next meeting because the Board of Supervisors recently held discussion about the sizes of Boards, Commissions and Committees. Because the AOC was considering increasing the size of the AOC from 5 to 11 the matter should be reconsidered. Mr. Moorlach felt he wasn't sure the increase was necessary after all.

5. Receive and file OC Internal Audit Department Status Report for Period July 1, 2008 through September 30, 2008, Executive Summaries of Audit Finding Summaries for the Period July 1, 2008 through September 30, 2008 and Calendar Year 2008 Audit Alert/High Impact Audit Summaries

Received and filed with changes to the 2008 Audit Alert/High Impact Report

VOTE: Sundstrom-Yes, Moorlach-Yes, Bates-Abstain, Franz (Proxy)-Abstain, Carlson-Yes

Dr. Hughes provided a brief description of the Status Report. Dr. Hughes identified one overrun on page 3, under Revenue Generating Leases, OC Parks, Mile Square Golf Course. Mr. Goodwin stated one audit was dropped because the Sheriff Department dropped the grant.

Mr. Moorlach asked how audits were prioritized and about IT coverage. Dr. Hughes explained the risk assessment process and rating system from which the audit plan was derived. Mr. Moorlach asked if the new 5-year IT Strategic Plan would be monitored by Internal Audit. Dr. Hughes stated he was aware of the IT strategic plan and input was provided, but that a formal review was not in the current audit plan. Mr. Moorlach asked for the Internal Audit to review it and provide feedback to him. Mr. Sundstrom stated he was pleased with the auditor's recent PTMS Audit Alert #2. Ms. McKinney stated the same format used for PTMS Audit Alert would also apply to CAPS.

Dr. Hughes discussed the Executive Summaries of Audit Findings Summaries. He stated the summaries pointed out successful implementation of recommendations from AOC meeting to AOC meeting.

Dr. Hughes explained the 2008 Audit Alert/High Impact Summary. This report was designed to point out the more significant audits of the year. Mr. Sundstrom requested a correction to page 3, Internal Audit Elevated Issue, Status, first paragraph and a redistribution of the report. Mr. Sundstrom presented a hand-out detailing substitute language for consideration and approval. The substitute language would be to strike the second sentence in the last paragraph page 3.

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Mr. Sundstrom moved to receive and file the two reports OC Internal Audit Department Status Report for Period July 1, 2008 through September 30, 2008 and Executive Summaries of Audit Findings for the Period July 1, 2008 through September 30, 2008 and approve the 2008 Audit Alert/High Impact Report with the substitute language as presented. Mr. Carlson seconded the motion.

6. Receive and file External Audit Coverage 1st Quarter Status Report FY 08/09 and Receive Status of Information on Disallowed POST Costs for Sheriff-Coroner
Received and filed.
VOTE: Moorlach – moved to approve, Bates-Yes, CFO (proxy for Tom Mauk)-Yes, Sundstrom-Yes, Carlson-Yes

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.

AOC COMMENTS & ADJOURNMENT:

AOC COMMENTS: none.

ADJOURNED: 3:25 p.m.

NEXT MEETING:

The next Regular Meeting of the AOC will be scheduled following the appointment of the Board Chair and Vice-Chair in 2009.