



**AUDITOR-CONTROLLER
COUNTY OF ORANGE**

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July 31, 2009

The Honorable Kim Dunning
Presiding Judge of the Superior Court
700 Center Drive West
Santa Ana, CA 92701



Dear Presiding Judge Dunning:

Enclosed is my response to the 2008-2009 Orange County Grand Jury Report: "Orange County Investments: The Need for Stronger Oversight." In accordance with California Penal Code §933.05, the response was limited to the findings and recommendations as requested by the Grand Jury. Accordingly, my lack of response to the detailed information contained elsewhere in the report should not be construed to imply my agreement with that information.

I would like to thank the members of the Grand Jury who participated in this important review. Please note that the lack of concurrence with some of the findings and recommendations resulted from the complexity of the subject and my limited ability to respond to the draft report prior to issuance. Although I was allowed to review the detailed section of the report within the confines of the Grand Jury Offices, I was not privy to the summary findings (conclusions) and report recommendations. A complete response was only possible by comparing the report to detailed source documents in my office. Although I did not concur with some of the findings and recommendations, I found the examination useful and appreciate the opportunity to improve the processes.

Respectfully submitted,

David E. Sundstrom, CPA
Auditor-Controller

Enclosure

Auditor-Controller Response to 2008-2009 Orange County Grand Jury Report: "Orange County Investments: The Need for Stronger Oversight"

c: Grand Jury
Board of Supervisors
Members of the Treasury Oversight Committee

2008-09 Grand Jury Report
“Orange County Investments: The Need for Stronger Oversight”
Auditor-Controller
Responses to the Findings and Recommendations

Responses to findings F.6., F.9., and F.10., and R.7.

F.6.

The Treasurer produced financial statements with mark-to-market values for the County's investments in SIVs that were unsupported according to the County's own internal auditors.

Auditor-Controller Response:

Disagree partially with the finding. The finding implies that a significant portion of the County's investment in SIVs had unsupported values. In fact, there were three SIVs with a stated value of approximately \$140 million of the total \$837 million for which market values could not be reasonably determined. It is important to note that the Treasurer attempted to determine fair value. Unfortunately data necessary to support the Treasurer's estimates were neither available to the Treasurer nor the auditor.

F.9.

The CAFR, released in December, 2008, states in the Notes to the Basic Financial Statement section that “the SIV investments were purchased in compliance with the IPS.”

Auditor-Controller Response:

Concur.

F.10.

County Counsel issued a legal opinion in November, 2008, stating that the SIVs facially meet the requirements of Government Code Section 53601, subsection (k) and the provisions of the County's 2007 IPS relating to medium-term notes. The opinion letter is qualified by stating that County Counsel has no experience or expertise in the legal structure of SIVs.

Auditor-Controller Response:

Concur.

R.7.

The Auditor-Controller should insure that financial statements prepared by the Treasurer's Office showing investment balances be regularly audited. In the event any future investment balances or values are called into question, there will be an immediate response or restatement consistent with good accounting principles and practices. (F-6)

Auditor-Controller Response:

The recommendations will not be implemented because it is not warranted:

The Auditor-Controller is required by Government Code Section 26920 to perform an annual audit of the Treasurer's Office financial statements and to perform quarterly reviews. These audits and reviews have been consistently performed in accordance with appropriate auditing standards for the past thirteen years. In addition, the Treasurer's investment pool is included in that annual audit of the County's Comprehensive Annual Financial Report. Accordingly, the first recommendation is not warranted.

Auditing standards do not allow the *auditor* to restate financial statement balances. That is the exclusive role of management. The auditor's role is limited to opining on the fairness of management's representations. As noted in F-6., the internal auditors were unable to prove the values established by the Treasurer. Accordingly, the internal auditors appropriately qualified their opinion. Accordingly, the second recommendation is not warranted.