



County of Orange  
California

Thomas G. Mauk  
County Executive Officer

June 24, 2008

Honorable Nancy Wieben Stock  
Presiding Judge of the Superior Court of California  
700 Civic Center Drive West  
Santa Ana, CA 92702

Subject: Response to Orange County Grand Jury Report, "Bankruptcy  
Controls—Going, Going...."

Dear Judge Stock:

Per your request, and in accordance with Penal Code 933, enclosed please find the County of Orange response to the subject report as approved by the Board of Supervisors. If you have any questions, please contact Theresa Stanberry at (714) 834-3727 in the County Executive Office who will either assist you or direct you to the appropriate individual.

Very truly yours,

Thomas G. Mauk  
County Executive Officer

Enclosure

TGM/tts

County Executive Office  
10 Civic Center Plaza  
Third Floor  
Santa Ana, California  
92701-4062

Tel: (714) 834-2345  
Fax: (714) 834-3018  
Web: [www.oc.ca.gov](http://www.oc.ca.gov)

**2007-08 Grand Jury Report**  
**“Bankruptcy Controls—Going, Going...”**  
**Responses to the Findings and Recommendations**

**Responses to Findings:**

**F-1 Organizational Structure of the Internal Audit Department:** The current organizational structure of the Internal Audit Department satisfies the most rigid of requirements for independence and objectivity required by the U.S. Government Accountability Office and the Institute of Internal Auditors. These organizations specifically state that audit organizations must be free from organizational impairments to independence with respect to the entities they audit.

*Response: Agrees with the finding.*

**F-2 Audit Oversight Committee:** The Audit Oversight Committee structure lacks representation from two of the primary stakeholders of the County Investment Pool: the educational institutions and other governmental entities in Orange County.

*Response: Disagrees partially with the finding.*

Cities are not primary stakeholders of the County Investment Pool. There are currently only two cities in the pool. Collectively, they represent less than \$1 million of a \$6 billion pool.

**F-3 State Mandated Audits:** After a resolution to revoke County Resolution 95-271 and return the Internal Audit Department to the Auditor Controller’s office failed to pass, the Auditor-Controller refused to renew the existing contract with IAD to perform audits mandated by state statutes.

*Response: Agrees with the finding.*

**F.3.1 Although the Auditor Controller’s office has statutory authority to conduct certain mandated audits, the creation of a separate IAD within the Auditor-Controller’s office to perform such audits erodes some of the post bankruptcy controls.**

*Response: Disagrees partially with the finding.*

The Board of Supervisors has statutory responsibility (currently delegated to the Treasurer-Tax Collector) for the conduct of the investment pool. The Board has authorized the Auditor-Controller to perform audits of the investment pool by transferring the quarterly audits to the Auditor-Controller effective July 1, 2007.

## **Responses to Recommendations:**

**R-1 Organizational Structure of the Internal Audit Department:** Preserve the current organization structure of the Internal Audit Department. This is defined in Resolution 95-271 as a separate independent department removed from the Auditor-Controller and reporting directly to the Board of Supervisors.

*Response: The recommendation has been implemented.*

Resolution 95-271 instituted the current reporting structure wherein the Internal Audit Department reports directly to the Board of Supervisors. At its February 6, 2007 meeting, the Board of Supervisors reaffirmed the existing reporting structure.

**R-2 Audit Oversight Committee:** Add additional members to the Audit Oversight Committee such as one appointed by the Orange County Board of Education to represent school districts and one appointed by the Orange County League of Cities to represent cities.

*Response: The recommendation requires further analysis.*

The nature and scope of the Audit Oversight Committee extends far beyond the investment pool. Audits of the pool account for less than 5% of the total audit activity within the county. The Orange County Board of Education actively participates on both the Treasury Oversight Committee and the Treasury Advisory Committee. Cities have minimal funds in the investment pool. A proposal to add four public members in addition to the one public member representing the five supervisors' districts was approved by the Audit Oversight Committee and is currently awaiting submittal for approval by the Board of Supervisors. Any change to the current and proposed membership would require further analysis.

**R-3 Mandated Audits:** Authorize the Internal Audit Department to perform separate Quarterly Audits of the Statements of Assets held by the County Treasury for the Board of Supervisors to re-establish the Board's independent audit presence in the Treasurer's Office, even though the Auditor-Controller has statutory authority to conduct these mandated audits.

*Response: The recommendation will not be implemented because it is not warranted or is not reasonable.*

Although the Auditor-Controller has statutory responsibility to conduct the quarterly audits of the Statements of Assets, the Auditor-Controller contracted with the Internal Audit Department to perform these audits from 1997 to June 30, 2007. During the fiscal year 2007-08 budget hearings, the Board of Supervisors took under consideration transferring the quarterly Treasury audits to the Office of the Auditor-Controller. At that time, the Board voted unanimously to transfer the function to the Auditor-Controller.