

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

January 27, 2010



The Regular Meeting of the Treasury Oversight Committee (TOC) held on January 27, 2010 at the Orange County Auditor/Controller's Office, 12 Civic Center Plaza, Conference Room #300, Santa Ana, CA 92701, and called to order by David Sundstrom, Chair, at 3:06PM.

**Committee Members:**

**Present:**

David Sundstrom, Auditor-Controller (Chair)  
Bob Franz for Tom Mauk, CEO, Public Finance  
Wendy Benkert for Bill Habermehl, Department of Education  
George Jeffries, City of Tustin  
Raghu Mathur, SOCCD

Also present were:

**Chriss Street, Paul Gorman, Paul Cocking, Fahad Haider, and Yvette Clark** from the Treasurer's office; **Angie Daftary** from County Counsel; **Nancy Ishida, Kristine Young, & Dat Thomas** from Auditor-Controller's office.

**1) Meeting Called to Order**

Mr. Sundstrom called the meeting to order.

**2) Welcome and Self-introductions**

Introductions were made.

**3) Public Comments**

None.

**4) Approval of December 12, 2009 Meeting Minutes**

- Dr. Mathur **moved** to approve the minutes. Mr. Jeffries **seconded**. **All approved.**

**5) Chairman's Report**

- None

**6) Treasurer's Report**

- Mr. Street gave a status on the County Investment Pools.

**7) Receive & File Treasurer's Monthly Management Reports for October through December 2009**

- Received & Filed

**8) Status Report on the Treasury Compliance Audit RFP**

- Mr. Gorman stated that this was on the BOS agenda for this past week . We got emails from the 2<sup>nd</sup> district office, so on Monday we answered. We ended up continuing the item to next week.
- Mr. Gorman explained the concerns that Mr. Moorlach's office has. One of the things that came up was the bid by VTD \$24,945/year, bid by Internal Audit was \$25,000 and the bid by Macias was \$40,000. The hourly rate by VTD was significantly higher. The 2<sup>nd</sup> issue was that we received questions about our ratings & the methods used to develop these ratings. One of the concerns was the first four areas were used with a 5 point scale, but pricing was based on calculation that took the lowest cost & divided it by the proposed cost & multiplied it by a weight of 20, which didn't convert it to a 5-point scale. I provided their office with what would happen if pricing was converted to a 5-point scale & it turns out to be the same order. The 3<sup>rd</sup> concern was related to whether or not the number of hours and the dollar amount would result in a quality audit. The other concern was the number of financial restatements that VTD had. We checked on the CPA watch website and we found VTD had 96 total, 93 were government. Macias had 57 total, 53 government. Mr. Moorlach also asked for the date stamps on the RFPs. Our process is that when they come in we stamp the sealed envelope. All of the RFPs are then placed in an office cubicle, unsecured, until the closing of the RFP. We have three date stamps here. Two of them seem to be normal. The first one is kind of the odd one out. VTD's date stamp does not have a time on it & was done by a deposit stamp & not signed by the staff member.
- Mr. Franz asked whether the envelopes were sealed. Mr. Gorman said yes they normally remain sealed until the end of the process.
- Mr. Gorman stated that this is scheduled to be on the agenda next week. Because we did not see this as a possibility the group cannot take action today. I'll provide this information as well as information regarding our policy to Mr. Moorlach's office.
- Mr. Mathur asked whether we have heard from Mr. Moorlach's office since providing him with the information. Mr. Gorman stated that he has not seen the summary page, the full schedule of reinstatements & some other information. No other Supervisors raised questions or concerns.
- Mr. Sundstrom asked if there a walkthrough on the RFP. Mr. Gorman stated that there wasn't. Anything provided at the level of involvement of Internal Audit. We told them that Internal Audit had been engaged & that a sample was based upon their judgment. We didn't say that Internal Audit selects 10

- days a month. We may have provided them a copy of the Internal Audit engagement letter. Mr. Gorman stated in the RFP itself we didn't say how many days Internal Audit was doing work.
- Ms. Ishida stated that the Internal Audit department would know that too, so those two groups would know more about the level of compliance monitoring that was going on & who's doing it & basing more reliance on it.
  - Mr. Sundstrom asked whether it would be appropriate to tell VTD and ask why they have a higher rate of restatements so they could explain.
  - Mr. Sundstrom stated that his guess is that they have a significant higher number of government clients.
  - Ms. Benkert stated that VTD is the auditor for the Department of Education and a lot of their school districts. She explained that some of these restatements may be because the State Controller issues information or advice after the close of the year, which happened this year. They may have had to do a lot of them this year. School districts would account for a lot of it.
  - Mr. Sundstrom said we need to know the numerator & the denominator. We don't know how many clients they had.
  - Mr. Franz stated that these questions will be asked in an open public session if we don't do something between now & Tuesday's meeting to address these issues. If you look at the numbers, it does raise that suspicion when you have the time stamp and an open document. That's the one that we can't answer accurately no matter what people testify & say. Mr. Franz continued, So what do we do about that? I don't know what the answer is.
  - Mr. Gorman stated that we are not bounded to take the lowest bid.
  - Mr. Gorman stated just the mailroom & remittance processing personnel, my assumption is that each of them were opened when done the date stamp.
  - Mr. Sundstrom stated that VTD should be there on Tuesday and elect to respond to any questions.
  - Is it legal to start bid process over? Ms. Daftary answered that it can be done because contract has not been awarded. Mr. Jeffries stated that we could then call for new bids as awkward it may be. Mr. Gorman stated that it could be done, but would defer the audit process. He doesn't see that as a significant problem. Dr. Mathur stated that if there is any lingering doubt he rather have the process done over & do it right. Mr. Franz stated he doesn't think we could take action today. Ms. Daftary stated that we could set up a special meeting telephonically.
  - A special meeting will be scheduled to determine whether or not to proceed with the decision of VTD and take it to the board or whether to start the RFP process over.

**9) Review TOC Bylaws Section II, Rule 6 (d) & (e) for possible modification**

- Allow for 2 public members on the committee all of course subject to review.
- Ms. Daftary from COCO explained that the committee can comprise anywhere from 3 - 11 members and the board makes the final decision as to the composition. The statute lays out 7 different categories which you can pick from to create your committee. So looking at the categories you are proposing and the statute this is fine.

- I don't see any additional recommendation. Mr. Jeffries stated since the law has been changed to make the TOC optional & many of the counties have done this, he was wondering if there is any lack of interest. Mr. Sundstrom would be very opposed to that. It's a public perception point of view. We actually have exercised some oversight. We have done a lot. We have done all that work with Serpentine, PFM, etc. We have served a purpose & continue to serve a purpose for a few more years. Ms. Benkert stated that even having the relationship with the Treasurer is important in moving forward. If the BOS wanted to add members they will do so with consultation from the Treasurer. Mr. Street stated that he enjoyed having the committee and having a structured forum. This is serious work. Mr. Franz stated that he doesn't see any reason to disband it. It has been helpful for checks & balances. Ms. Benkert added that it is also helpful when we talk to the municipal rating agencies & important to the schools.
- We currently have two members of the public but bylaws rule 6 (e) states one member of the public.
- The members reviewed a section of the Grand Jury Report in relation to TOC but it was not adopted.
- **Recommended Action:** Amend TOC Bylaws by removing Section II, Rule 6 (d) and modifying Section II, Rule 6 (e) to allow for 2 public members, and direct the Treasurer's staff to submit the amended TOC Bylaws to the Board of Supervisor's for approval
  - Mr. Franz **moved** to approve. **All approved; 5-0.**

#### 10) Public Comments

- None

#### 11) Schedule Next Meeting

- Next meeting is a special meeting via teleconference scheduled for January 29, 2010, 10:30 AM.

#### 12) Adjournment

- Mr. Sundstrom adjourned the meeting at 4:16 PM