

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, March 15, 2012, 10:00 a.m.

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

Supervisor John Moorlach
Chairman of the Board
AOC Member

Supervisor Shawn Nelson
Vice-Chairman of the Board
AOC Member

Shaun Skelly
Chief Deputy Auditor-Controller
AOC Vice-Chairman

Thomas G. Mauk
County Executive Officer
AOC Chairman

Dr. David Carlson
Public AOC Member

Shari Freidenrich
Treasurer-Tax Collector
Ex-Officio AOC Member (non-voting)

Steve Danley
Ex-Officio AOC Member (non-voting)

ATTENDANCE: Shaun Skelly, Tom Mauk, Shawn Nelson, John Moorlach,
Dave Carlson, Shari Freidenrich, Steve Danley

EXCUSED: None

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

10:05 A.M.

1. Roll Call

Internal Audit staff – Mike Goodwin, Autumn McKinney, Alan Marcum, Eli Littner, Michael Dean; Auditor-Controller Staff – Nancy Ishida, Christine Young, Claire Moynihan, Shaun Skelly; Second District Staff – Lindsay Brennan; Fourth District Staff – David Zenger; Third District Staff: Louis Bronstein; Fifth District Staff: Brian Probolski; External Auditors Vavrinek, Trine & Day – Kevin Pulliam, Roger Alfaro, David Showalter.

2. Approve Audit Oversight Committee regular meeting minutes of December 7, 2011 Motion-Carlson, Second-Mauk, Abstained-Moorlach, Yes-Skelly, Excused-Nelson ***Approved as Recommended***

Supervisor Nelson arrived at 10:08 a.m.

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3. **Receive SAS 114 Required Communication from External Auditors Vavrinek, Trine, Day & Company, LLP**
Received required communication, no reportable action.
4. **Receive verbal status from Auditor-Controller on Voluntary Contract Cost Reduction Program with External Auditors, Vavrinek, Trine, Day & Company, LLP and Contract #MA-003-11012006 for the addition of the 6th year with Vavrinek, Trine, Day & Company, LLP (AOC Meeting, February 23, 2011, item 5)**
Received discussion, no reportable action.

Mr. Shawn Skelly provided an update of activities related to the contract with VTD. 4/27/11 VTD signed a voluntary cost reduction program agreement. 6/21/11 the program agreement was approved by the Board of Supervisors. VTD completed their audit for FY10-11 with a 10% reduction in cost in accordance with the agreement. The 5th year of the contract will be performed by VTD at the original cost of last contract.

5. **Receive and file status on Dissolution of Redevelopment Agencies (RDA) and County of Orange Auditor-Controller planned external audits**
Received discussion, no reportable action.

Mr. Skelly stated the Auditor-Controller's office was in the process of soliciting bids for conducting AUP regarding the dissolution of RDA's. The legislation, AB26, abolished RDA's and required the Auditor-Controller's across the state to cause to be conducted Agreed Upon Procedures (AUP) that were set forth by the State. The AUPs were to ensure any asset transfers were accounted for, the enforceable obligations listed out for payment were proper and more. The open bids included the 25 RDA's into three groups of 8 or 9 each and all three groups were open for bids, RFP went out on 3/11/12. The final responses were due 3/19/12. The process was extremely accelerated and almost unprecedented due to the new legislation. It was broken up to the three groups in the event a single firm could not do all 25 RDA's under the tight deadline. They were hoping to make a selection by March 27. The AUP reports were due for completion by July 1, 2012 and submitted to the State by July 15, 2012. Mr. Mauk asked what the budget impact was for the activity. Mr. Skelly stated some of the costs were offset against the tax increment that comes out of the former RDA's and didn't expect it to be a net county cost. He stated they were tracking costs and would be charging against the tax increment. He was hopeful he wouldn't need to seek additional resources from the Board. Supervisor Nelson asked if any RDA was not able to cover its debt and was there a priority claim for reimbursement and suggested County Counsel could assist with those.

Mr. Skelly stated the administrative costs were priority and come off the top. Supervisor Moorlach asked if caps applied to those costs. Ms. Moynihan stated there was a cap for RDA administrative costs however there were no caps for the Auditor-Controller administrative costs.

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Mr. Skelly stated it was a tremendous effort and ongoing efforts will follow and payments would be made for bond-indebtedness that would continue on for a long period of time. Mr. Steve Danley asked if it was fully understood what was required by the process. Mr. Skelly stated the full effort was yet unknown and many questions remained. He explained the legislation was never intended to resolve the RDAs. AB27 was intended to reinstate the RDAs and pay the state and stay in existence however the supreme courts said AB27 was unconstitutional and therefore fell back upon AB26 which dissolved the RDAs. Many organizations were involved to get the AUP finalized and provided by the State. Additionally, there was another requirement by the State for the Auditor-Controller's to certify the Recognized Obligation Payment Schedule (ROPS). The State hasn't defined how to do that and the procedures don't include the requirement. The matter was with Legal counsel and Mr. Skelly stated they were hopeful to include it in the AUPs but until then it was unanswered. Lastly, all the Counties were preparing for these requirements and all competing with each other to have the AUPs audited. The State will not post-pone any deadlines.

Ms. Shari Freidenrich stated one item in the legislation affected the Treasurer's office. She said the County Treasurer may loan the RDA temporary transfers and she had received one request. Counsel is working with her about those requirements. Mr. Skelly stated there may be cash-flow problems because the State they may defer or slow down their reimbursements to schools until increments from RDAs released which could cause the cash flow problems at the schools. The schools were expecting the cash sooner and the State was forcing the wait. Ms. Freidenrich stated there was an agreement signed in December 2011 for school transfers. She feels the requests maybe manageable so far and the cash would come from school funds only not County funds.

6. Receive and file status from Internal Audit on Board of Supervisors Requested Computer-Assisted Audit Techniques (CAATs) of County Employees/IHSS Provider Match (Audit Nos. 1139/1140)
Discussion was held, no reportable action.

Ms. McKinney stated the Board requested a specific computerized match between employee addresses and IHSS (In-Home Support Services) provider addresses looking for County employees also working as IHSS provider to identify any conflicts of interest. IHSS is a State mandated program administered by SSA where home care is provided to disabled or elderly individuals. The County determines eligibility and service hours and the client hires the provider. The CAAT revealed 92 County employees working as IHSS providers. Of the 92, the majority held no conflict. 13 were referred to the DA for further review. Of the 92, 31 were SSA employees

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7. Discuss the Clerk-Recorder Fund 12D and direct staff

Motion-Moorlach, Second-Mauk, Yes-Carlson, Yes-Skelly, Yes-Nelson

Directed Internal Audit and CEO to perform a review of transactions in Fund 12D sources and uses and purchase of Building 433 Civic Center West

Supervisor Moorlach directed a review of account activity in Fund 12D and justify how the building purchase at 433 Civic Center West was related to the core purpose of the Clerk-Recorder. Mr. Mauk agreed and said the Clerk-Recorder may have a concern about the audit, but there was \$4 million in reserves and \$8 million in fund balance. There was discussion on possible uses of the Fund 12D such as ATS. Supervisor Moorlach stated the Clerk-Recorder had fees set by the State. Mr. Mauk and Dr. Hughes agreed to do the review jointly and set a time line of two-weeks. It was noted that it was possible the review would take more time and it was agreed to use appropriate time as needed. A formal report would be released.

8. Discuss AOC Charter Schedule of Compliance and consider establishing a Subcommittee to evaluate language and compliance issues (AOC Meeting, December 7, 2011, Item 4) and direct staff

Moved-Moorlach, Second-Mauk, Yes-Carlson, Yes-Skelly, Yes-Nelson

Appointed Public Member Dave Carlson and Ex-Officio Member Steve Danley to Subcommittee for 6 months to evaluate language changes and revisions to AOC Charter and report status at next AOC meeting

Dr. Hughes requested a subcommittee be established to examine language and requirements of the AOC charter. Dr. Hughes state the Subcommittee could consist of only two members and should last six months at most. Ex-officio members could sit on the subcommittee. Internal Audit would provide administrative support to the subcommittee and report to the AOC at the next quarterly meeting. Supervisor Moorlach nominated Dave Carlson and was seconded by Shawn Nelson. Mr. Mauk nominated Steve Danley and was seconded by Supervisor Moorlach. Mr. Danley and Dr. Carlson accepted.

9. Approve OC Internal Audit Department 1st Quarter Status Report of FY 11/12 for the period July 1, 2011 through December 31, 2011, and approve 1st Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2011 through December 31, 2011

Moved-Moorlach, Seconded- Carlson, Yes-Nelson, Yes-Mauk, Yes-Skelly

Approved as Recommended

Additional audit of Sheriff Department Service Contract Cost Study for FY12-13

Moved-Moorlach, Seconded-Nelson, Yes-Carlson, Yes-Mauk, Yes-Skelly

Dr. Hughes provided an overview of the Internal Audit activity from July 1 through December 31, 2011. Dr. Hughes explained the current status and activity of the period covered. Discussion was held over various audits. Supervisor Moorlach expressed frustration over the former Treasurer Tax Collector activity (overcharge of the School Districts for joint costs) as reported by the IAD audit in their Treasurer's Cost Allocation review. Supervisor Moorlach expressed concern about the error forcing a budget augmentation request before the Board. Supervisor Moorlach requested information from Ms. Freidenrich on any corrective action taken as a result of the IAD audit. Ms. Freidenrich stated she would work to get it right and provide a memo as requested.

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NOTE: Item 9 was reopened during the AOC Comment Section to add an audit to the audit plan. Supervisor Moorlach requested for Internal Audit to immediately conduct a an audit to ensure contract cities with the Sheriff's Department were "full costing: contracts and included all relevant costs and the growing costs of UAAL. Supervisor Moorlach moved the addition of the audit to the audit plan, Supervisor Nelson seconded the item, none opposed, item carried. Dr. Hughes was directed to make any necessary changes to the audit plan to accommodate the new audit.

10. Approve External Audit Coverage 1st Quarter Status Report FY 11/12 for the period July 1, 2011 through December 31, 2011.

Moved-Carlson, Second-Moorlach, Yes-Mauk, Yes-Nelson, Yes-Skelly

Approved as Recommended, excluding HRD item, page 9

Internal Audit to report clarification of HRD item at next AOC meeting

Dr. Hughes informed the AOC of one material issue reported in the HCA/Behavior Health. HCA was disagreeing with findings from the State. Ms. Kim Engelby, from Auditor-Controller's office and Health Care Agency Accounting Manager addressed the AOC and explained the issue. She stated the finding was from a mandated cost claim and became aware of the finding in FY 07-08 from an audit of prior FY 00-01 through FY 05-06. HCA disagreed with the basis of the finding and the program was funded by federal IDEA money. The program was for seriously emotionally disturbed pupils and we placed them in out-of-state homes. The finding was that the County placed them in for-profit homes. The State disallowed for-profit home placements and the Federal level allowed for best-placement and federal money was the first payer on the program. Ms. Engelby stated HCA filed incorrect reduction claims for FY 00-01 through FY 05-06 and plan to do the same for FY 06-07 through 08-09. The arguments were legal based and cited all cases. When the HCA filed the incorrect reduction claim, the Commission on State Mandates would conduct a hearing. The last hearing process took approximately four years. If the results were not favorable, HCA would bring the item to the Board to consider further legal action.

Supervisor Nelson questioned page 9 of 18, HRD on-going research on policies and procedures, audit by VTD. Mr. Pulliam stated he didn't believe that was something VTD performed. Ms. Claire Moynihan stated it was possible when CAFR testing was done by VTD, HRD could have submitted that involvement under this report. Dr. Hughes stated HRD would be contacted to clarify the issue and Internal Audit would report back at the next AOC meeting.

11. Receive and file Summary Highlights of Audit Reports Issued by Month for July 1, 2011 to February 29, 2012

Received summary, no reportable action.

12. Nominate and appoint Chairman and Vice-Chairman for 2012 Audit Oversight Committee

Moved-Moorlach, Second-Mauk, Yes-Nelson, Yes-Skelly, Yes-Nelson

Appointed Shawn Nelson as 2012 AOC Chairman and David Carlson as 2012 Vice-Chairman

Supervisor Moorlach motioned for Supervisor Shawn Nelson as 2012 AOC Chairman and Dr. Dave Carlson as 2012 AOC Vice-Chairman The motion was seconded by Tom Mauk. No objections. Item carried.

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PUBLIC COMMENTS: NONE

AOC COMMENTS:

Member Shaun Skelly asked for correction to Item 4 on Agenda, third sentence, 5th year not 6th year.

Supervisor Moorlach discussed contract cities and Sheriff Department services. Dr. Hughes suggested to open item 9 and add the audit to the audit plan. Item 9 was reopened and Supervisor Moorlach requested for Internal Audit to conduct a full accounting of costs of contract cities with the Sheriff Department and include all indirect costs and the growing costs of UAAL. Currently the County only included charges to OCERS. We do not want to subsidize contract cities to the County's detriment. Supervisor Moorlach stated the contracts were due to be before the Board in June 2012 and therefore, the full costing accounting should be performed prior to those contracts if possible. Dr. Hughes was directed to make any necessary changes to the audit plan to accommodate the new audit. Motion to open item 9 and add the audit to the audit plan by Supervisor Moorlach. The motion was Seconded by Supervisor Nelson.

Supervisor Moorlach reminded the AOC of the vacant Auditor-Controller position and that Shaun Skelly was acting as the Interim Auditor-Controller. Supervisor Moorlach stated there was a recruitment process and a subcommittee performed interviews. Mr. Moorlach announced he would add an item on the Board of Supervisors agenda for March 27 to appoint Mr. Skelly to the position of Auditor-Controller.

ADJOURNMENT: 1:50 P.M.

NEXT MEETING: MAY 2, 2012, 10:00 a.m. REGULAR MEETING