REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE ORANGE COUNTY, CALIFORNIA



Wednesday, November 7, 2012, 2:30 p.m.

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

Supervisor John M.W. Moorlach Chairman of the Board AOC Member Supervisor Shawn Nelson Vice-Chairman of the Board AOC Chairman

Shari L. Freidenrich

Dr. David Carlson

Bruce Hughes

Jan Grimes Chief Deputy Auditor-Controller AOC Member

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

AOC Vice-Chairman, Public Member

Robert J. Franz Interim County Executive Officer

Sarah J. "Sally" Anderson Public Member

Public Member

Steve Danley Interim Performance Audit Director Ex-Officio AOC Member (non-voting)

- ATTENDANCE: John Moorlach, Shawn Nelson, Jan Grimes, Shari Freidenrich, Bob Franz, Sally Anderson, Bruce Hughes, Steve Danley
- EXCUSED: Dave Carlson (attendance by teleconference)
- ABSENT: None
- PRESENT:
 Director of Internal Audit
 Dr. Peter Hughes, CPA

 County Counsel:
 Ann Fletcher

 Clerk:
 Renee Aragon

<u>10:00 A.M.</u>

1. Roll Call

Attendance of AOC members is noted above. Member Dave Carlson observed the meeting by teleconference with no voting rights as proper meeting notification was not done to allow for Brown Act voting privileges. Dr. Carlson's participation is noted as Excused on all items.

Internal Audit staff – Mike Goodwin, Autumn McKinney, Alan Marcum, Eli Littner, Michael Dean; Auditor-Controller Staff – Richard Son, Claire Moynihan, Denise Steckler; Second District Staff – Lindsay Brennan; Fourth District Staff – David Zenger; CEO/IT – Lynne Halverson; External Auditors Vavrinek, Trine & Day – David Showalter, Kevin Pulliam, Roger Alfaro

- Approve Audit Oversight Committee regular meeting minutes of August 9, 2012 Motion-Moorlach, Second-Nelson, Yes-Grimes, Yes-Franz, Abstain-Anderson, Abstain-B. Hughes, Excused-Carlson Approved as Recommended
- Receive and File current Status of External Auditor's Prior Year Finding No. 3 Continuance of Computer Operations, Management Letter for YE June 30, 2011 (AOC Meeting May 2, 2012, Item 3, reference Audit Project No. 1160). Motion-Moorlach, Second-Franz, Yes-Grimes, Yes-Nelson, Yes-Anderson, Yes-B. Hughes, Excused-Carlson Approved as Receive and File

Dr. Hughes provided the status of the External Auditor's Prior Year Finding No. 3. Dr. Hughes stated six departments completed 100% of the first task to have the written departmental continuity plan. Pages five and six indicate the remaining departments and the status of their progress on the first phase of the plan.

Dr. Hughes stated Ms. Jan Grimes would provide information on the Auditor-Controller's status. Ms. Grimes stated the department was undergoing a transition to fill key management positions. The completion of the plan remains a top priority. Components of the plan were tied to the IT sourcing issue. It was noted, there are plans in place if an emergency were to occur today. However, they were working toward completion of the plan.

Dr. Hughes introduced Ms. Lynne Halverson from CEO/IT to address the overall progress. Ms. Halverson stated there had been good participation from departments. She stated there needed to be a clarification between business continuity and disaster recovery. She referred to Hurricane Sandy and voting issue back East as a good example of the need for business continuity plans. The voting issue was that only Congress could cancel a federal vote. The Registrar had to provide their business continuity plan for voting whether it was paper ballots or moving polling places. They were not asked about their disaster recovery or IT back up. Ms. Halverson stated the County of Orange was tasked to identify what processes were critical then examine the IT dependencies. She stated that business impact analysis has been accomplished as a huge first step. The next steps were to identify the recovery strategies, communication strategies, back-up plans for those communications, etc.

Mr. Bruce Hughes stated there were federal agencies using cloud computing and if the County had considered the same. Ms. Halverson stated there was a similar relationship related to disaster recover IT portion but the County did not have cloud based solutions. However with the new vendor in IT sourcing it was a possibility as they will take over the enterprise aspects of the disaster recovery. The current off-site location in Solano County housed several applications, but there was no reason we couldn't consider going over to a cloud based solution.

Supervisor Moorlach asked why Solano County was selected for a site location. Ms. Halverson stated Solano County was selected because it had space and geographically fit the criteria for distance between locations. She recommended not having a location in Los Angeles because it was geographically close.

4. Approve proposed amendment to AOC Bylaws changing membership of Treasurer-Tax Collector to voting member, adding one additional Public Member and direct Internal Audit to present to the Board of Supervisors for final approval. Motion-Moorlach, Second-Nelson, Yes-Grimes, Yes-Franz, Yes-Anderson, Yes-B. Hughes, Excused-Carlson Approved as Recommended

Directive: Supervisor Moorlach requested discussion at the next meeting to consider making the Performance Audit Director a voting member and amending the Bylaws.

Supervisor John Moorlach motioned for the Treasurer-Tax Collector to become a voting member and adding another public member increasing public membership to four. The total membership of the AOC would be nine voting members and one ex-officio non-voting member. He said the changes would bring additional valued perspective. Ms. Jan Grimes seconded the motion.

Ms. Sally Anderson asked if the County would consider having a majority of outside members. Supervisor Moorlach stated the County historically held majority membership from the inside but the idea could be considered. Ms. Anderson asked why the County would have non-voting members on the Committee. Mr. Moorlach stated the Performance Audit Director was a relatively new position and recommended discussion be held at the next meeting to make the Performance Audit Director a voting member.

5. Receive and File the OC Fraud Hotline Semi-Annual Activity Report to the Board of Supervisors for the Period January 1, 2012 through June 30, 2012, Report No. 1203-A, Issued on October 5, 2012.

Motion-Moorlach, Second-Franz, Yes-Grimes, Yes-Nelson, Yes-Anderson, Yes-B. Hughes, Excused-Carlson

Approved as Recommended

Dr. Hughes explained the OC Fraud Hotline process and how services were provided. He discussed how Internal Audit tracked trends in departments by cases. He said the partnership with the Compliance Oversight Committee (COC) which consists of County Counsel and Director of Human Resource Services and the Director of Internal Audit was valuable. Ms. Anderson asked what not substantiated meant regarding Hotline calls. Dr. Hughes stated there was no merit to support an allegation. Ms. Anderson asked how a complainant was satisfied that their allegations were addressed. Dr. Hughes stated Internal Audit was working with the COC because Internal Audit under the current process does not inform any complainant the results of any cases. Dr. Hughes stated the public report was a mechanism to report the results in general terms.

Supervisor Nelson stated the report indicated one in eight substantiated claims was related to sexual harassment. He said the media reported information suggesting there were more claims. Mr. Danley said the claims presented were only those that related to the OC Fraud Hotline. He said allegations reported to Human Resources Services were not included in the report. Supervisor Moorlach asked if the Human Resources Services issued a similar report revealing results of allegations and Mr. Danley answered no. Mr. Danley said at certain times HRS would provide specific information related to specific requests but did not provide a summary report to the public. Mr. Franz asked if all departments provide data to HR under the decentralized structure. Mr. Danley said departments should provide information but not in all cases. He said under the centralization of HR those issues would be resolved. Mr. Danley stated employees could report in a number of places allegations of sexual harassment that the County would not be aware of such as the state and at federal levels. Supervisor Moorlach asked Mr. Danley to consider an internal tool to report such confidential information to the Board without violating any rules to address the sensitive issues. Mr. Danley agreed. Although the OC Fraud Hotline was designated for fraud, waste and abuse, other employee related issues were received into hotline and as such Internal Audit was responsible to address the allegations.

Ms. Freidenrich recommended Dr. Hughes have an annual information item added to the Department Head meeting to refresh department heads about the Hotline process and allow for dialogue.

Supervisor Nelson stated when the Board considered department head appointments over the summer there were serious allegations made about certain persons that affect some considerations. He said it was unfortunate and someone that was devious could manipulate matters. For example, when allegations were put in the newspaper there was no way of managing any negative implications when those accused were found to be cleared of all allegations. Mr. Danley said it was a frustrating issue because many complaints were anonymous and counsel has stated all serious allegations must be taken seriously. He said unless identity was revealed there was no way of taking disciplinary action for making malicious accusations or false allegations. Dr. Hughes stated the County was in the process of selecting a firm to conduct immediate investigations when needed. He said to have immediate responses was imperative to addressing allegations to clear or find merit of those accused. There was no way to avoid or control similar situations from happening again and that the best way to protect the innocent was to conduct swift, competent, independent investigations.

6. Approve the OC Fraud Hotline Survey to proceed with legal and union reviews and approvals and return to AOC, if required; and approve to proceed with conducting the OC Fraud Hotline Survey if all levels of review are cleared and approved and report results at a future AOC meeting; or direct staff Motion-Franz, Second-Moorlach, Yes-Grimes, Yes-Nelson, Yes-Anderson, Yes-B. Hughes, Excused-Carlson Approve as recommended with modifications from the CEO's office.

Directive: the CEO and IAD to discuss possible changes to the survey and consider name change of OC Fraud Hotline prior to releasing the Survey.

Ms. Anderson asked why there was a gender question on the survey. Dr. Hughes stated he consulted various templates related to the subject and the City of San Diego used a similar survey. Dr. Hughes stated the proposed survey would be the first related to the subject. He said he first wanted to test the awareness of the OC Fraud Hotline. Dr. Hughes stated the profession advised and recommended to gain gender information because some results indicated gender bias in terms of perception such as men can perceive a situation very differently from women. As an example, he said the results of how many males or females responded to the survey could be revealing. If women responded in low number, they could seek out reasons for the low responses. Ms. Anderson stated the survey also asked agency information and if the only women to respond from that agency, it would reveal identity. Dr. Hughes stated it would be known internally, but those results would be presented to protect any such individuals.

Mr. Franz stated he communicated to Dr. Hughes that he would like to make minor changes prior to the survey being finalized. Mr. Franz stated he feels more discussion and consideration should be given to the name of the OC Fraud Hotline. He said he would like to focus on the pros and cons of a name change for better awareness of the Hotline. He would like a better understanding of the role and purpose of the Hotline. Mr. Franz motioned and Supervisor Moorlach seconded that the CEO's office work directly with the Internal Audit Department prior to the survey being finalized. Dr. Hughes agreed. Ms. Freidenrich requested the follow-up results to circulate back through the department heads. Ms. Anderson recommended that the awareness of the OC Fraud Hotline start with new employee orientation.

7. Approve OC Internal Audit Department 1st Quarter Status Report for FYE 12/13 for the period July 1, 2012 through September 30, 2012 and approve 1st Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2012 through September 30, 2012

Motion-Moorlach, Second-Grimes, Yes-Franz, Yes-Nelson, Yes-Anderson, Yes-B. Hughes, Excused-Carlson

Approved as Recommended

Dr. Hughes stated the status report included a cumulative column for all quarters and early activity shows progress of the audit activity of the approved Audit Plan for FY 12-13.

 Approve External Audit Coverage 4th Quarter Status Report FY 11/12 for the period July 1, 2011 through June 30, 2012 Motion-Moorlach, Second-Franz, Yes-Grimes, Yes-Nelson, Yes-Anderson, Yes-B. Hughes, Excused-Carlson Approved as Recommended

Directive: IAD to report back if cost data was available for audits and consider including that information in future external audit coverage status reports.

Dr. Hughes explained the external audit report. Supervisor Moorlach asked if the Internal Audit Department requested any of the audits listed in the report and if Internal Audit has used any outside firms during the quarter. Dr. Hughes responded no to each question.

Ms. Freidenrich suggested including the dollar amount the County pays for each of the audits. Dr. Hughes stated he wasn't sure that data was available but would look into it and report back.

9. Receive and file Summary Highlights of Audit Reports Issued by Month for July 1, 2012 to October 31, 2012

Motion-Franz, Second-Moorlach, Yes-Grimes, Yes-Nelson, Yes-Anderson, Yes-B. Hughes, Excused-Carlson

Approved as recommended.

Directive: Internal Audit to gather dollar impact of significant control weakness on audit No. 1113, Tax Redemption Officer and follow-up with Member Ms. Anderson.

Ms. Anderson referenced the Tax Redemption Audit and asked if there was a dollar impact from the one significant control weakness and two control findings of the delinquent taxes identified. Her concern was that if the one department held a significant control weakness it may also be somewhere else in another department. Mr. Alan Marcum, Senior Audit Manager on the audit stated that he would gather the information and get back with Ms. Anderson.

PUBLIC COMMENTS: None

AOC COMMENTS:

Ms. Freidenrich stated at the AOC meeting of August 9, 2012, she made comments about cash short of the cash amount recorded. She said she met with Internal Audit and examined the prior audits and audit scopes and was satisfied with audit coverage provided and Internal Audit's knowledge and understanding of the processes. She will not request any additional audit resources on this year's audit plan.

Mr. Moorlach asked if the CAFR was on schedule to be issued in December 2012. Ms. Grimes stated there was a draft and not aware of any challenges that would hold up its release. Ms. Grimes will provide a copy of the draft basic financial statement to Supervisor Moorlach.

Supervisor Nelson stated a County employee through OCEA met with him about the recent OC Green Fair. The employee complained about cash handling practices, raffle items and other issues. He forwarded an email to Dr. Hughes for review. Dr. Hughes stated other pressing audits took priority and limited staff however he would follow-up with the item, coordinate with the CEO's office and finish the review. Supervisor Nelson stated he felt a fiduciary responsibility to respond to the employee on the status and/or results of any review.

ADJOURNMENT: 3:35 P.M.

NEXT MEETING: FEB 27, 2013, 1:00 p.m. REGULAR MEETING