

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, June 2, 2016, 10:00 a.m.

HALL OF ADMINISTRATION
333 W. Santa Ana Blvd., 5th Floor
Conference Room A
Santa Ana, California 92701

Mark Wille, CPA
AOC Chairman, Private Sector Member

Gary Caporicci, CPA
AOC Vice Chair, Private Sector Member

Supervisor Lisa Bartlett
Fifth District, Board Chairwoman
Member

Supervisor Michelle Steel
Second District, Board Vice Chair
Member

Frank Kim
County Executive Officer
Member

Dr. Dave Carlson
Private Sector Member

Sarah J. "Sally" Anderson, CPA
Private Sector Member

Drew Atwater
Private Sector Member

Present Non-Voting Members

Treasurer-Tax Collector:
Auditor-Controller:
Performance Audit Director:

Shari Freidenrich, CPA
Eric Woolery, CPA
VACANT

Present Staff

Director of Auditor-Controller Internal Audit:
Deputy County Counsel:
Clerk:

Toni Smart, CPA
Mark Servino
Maribel Garcia

ATTENDANCE: Mark Wille, AOC Chairman and Private Sector Member; Gary Caporicci, AOC Vice Chair and Private Sector Member; Supervisor Lisa Bartlett; Arie Dana, Proxy for Supervisor Michelle Steel; Sarah J. "Sally" Anderson, Private Sector Member; Dr. Dave Carlson, AOC Private Sector Member, Drew Atwater, Private Sector Member

10:00 A.M.

1. Roll Call

AOC Chairman Wille called the meeting to order at 10:03 a.m.
Attendance of AOC members is noted above.

2. Approve Audit Oversight Committee regular meeting minutes of February 25, 2016.

Motion to approve February 25, 2016 minutes of the Audit Oversight Committee by Ms. Anderson, second by Dr. Carlson.

All in favor, none opposed. The item carried.

Approved as recommended.

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3. Receive and file 2015 Single Audit Report and 2015 Management Letter, and an overview of the upcoming accounting and compliance standards, from the External Auditors, Macias Gini & O'Connell

Ms. Hurley stated the Single audit report was issued in March 2016. The County for 2015 reported \$685 million in expenditures and MGO audited 31 percent of those expenditures over nine major programs. The County was considered a low risk auditee where 25 percent coverage needed to be achieved and based on the risk assessment that was achieved. An unmodified opinion was provided on all nine major programs and there were no significant findings or deficiencies for the financial statement audit. There was one finding noted in the Medicaid program. A contracting requirement was not in place and has been a continuing finding from the previous year. The County is addressing this finding and it may be addressed again the following year depending on how quickly these policies are implemented. For the prior year there were nine findings that MGO reported status' on and seven of them have been resolved, two findings are pending. One of those findings is similar to the contracting requirement and the second was a cash management finding.

Ms. Hurley stated that there was one control deficiency finding noted in the Management Letter related to a documentation requirement in the Treasury department that was missing an approval. Ms. Hurley mentioned that MGO included three informational comments in this year's Management Letter, two comments relate to the new pronouncement's that the County will be required to implement, Fair Value requirement that will be effective FY 2016 financial report, and the second is the implementation of the OPEB unfunded liability. The last informational comment had to do with the implementation of the new uniform guidance requirement. Ms. Hurley stated that MGO had two prior year management letter comments related to IT general controls and those are still in process.

4. Discuss Audit Oversight Committee Governance and Appointments

Dr. Carlson stated that he joined the Audit Oversight Committee in 1997 and has been the chair and vice chair for 12 of his 19 years with the AOC. Dr. Carlson mentioned that throughout this time with the AOC, establishing a quorum has been a continuous problem. The public members have been very reliable in attendance yet the Supervisors on the AOC have been less than reliable in attendance. Dr. Carlson mentioned that all of the AOC members have been diligent in their participation of the AOC activities. Dr. Carlson stated that Mr. Wille has set a new standard in governance, and has aggressively been able to get the committee to operate appropriately. He mentioned the \$4 million fraud reported in one of our municipalities and that this should serve as a reminder that we need to continue to be diligent in our vigilance of the County.

Mr. Wille stated that the AOC is an important function of the County and because the Supervisors are very busy throughout the year, the eyes and ears of the Supervisors are the appointments of the public members. Mr. Wille stated that Gary Caporicci and Sally Anderson's terms have expired and need to be reappointed. Mr. Wille stated that Supervisor Nelson's office has not reappointed Mr. Caporicci or anyone else. Mr. Wille stated that Board of Supervisors Chairwoman, Lisa Bartlett has not reappointed Sally Anderson or anyone else. Chairwoman Lisa Bartlett mentioned she is moving forward with her appointment. Frank Kim, CEO, mentioned that they have had a number of individuals who have expressed interest in becoming AOC public members. Mr. Kim has forwarded the resumes of these individuals to each of the Board offices that have an open appointment slot.

5. Approve Audit Oversight Committee Bylaws

Mr. Caporicci stated that the subcommittee had two meetings to discuss the AOC Bylaws and the primary items discussed were financial reporting and internal controls. Mr. Caporicci stated that Mr. Servino took the lead and did a great job revising the AOC Bylaws. Mr. Caporicci had a question regarding the CAFR that comes out annually. Mr. Caporicci is requesting that the AOC Chair and AOC Vice Chair get a draft copy of the CAFR for review before the final version is issued. Mr. Servino stated

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that Mr. Kim would also receive a draft copy of the CAFR and therefore, as long as less than five members receive the draft copy, a quorum is not required.

Mr. Wille asked Mr. Servino to go over the proposed amendments to bylaws with the committee. Mr. Servino stated that one of the amendments is to 4.3, as mentioned before, to add the AOC Chair and AOC Vice Chair to receive a draft copy of the CAFR. The second is a new proposed amendment 4.5, that the chair and vice chair may only be selected from the private members of the AOC. The third amendment would be to 7.1, the County Executive Office will provide the AOC with an annual signed compliance statement. Mr. Kim stated that he has a concern regarding the 7.1 amendment because there's a large number of elected officials that are responsible for their own departments in the County. Mr. Kim stated that technically he cannot direct these departments to comply when he has limited authority over elected departments. Mr. Wille asked Mr. Servino to add, "under the authority of the CEO" and add a similar amendment for the elected departments. The last amendment is to 7.6, this is to expand the coverage of peer review to the performance audit function.

Mr. Kim suggested that for future AOC meetings, a redline copy of any proposed changes be included in the AOC package.

All in favor; none opposed.

Approved as recommended.

6. Approve Auditor-Controller Internal Audit Division's Charter

Ms. Smart stated that the Internal Audit Department Charter was revised to reflect the merge with the Auditor-Controller's office. Ms. Smart pointed out a few highlights including the independence of the Internal Audit Division. Ms. Smart also mentioned that another highlight noted in the charter is that the Internal Audit Division will report its independence to the Audit Oversight Committee on an annual basis. In addition, it is noted in the charter that there is unrestricted access of information to all County files in order to conduct the audits. If there are any barriers to access any information, Ms. Smart will report this to the AOC Chair.

Mr. Kim stated that he feels the County has a few auditing components already in place, Performance Audit, County Procurement Office and Internal Audit; all three of these components are conducting similar audits. Mr. Kim wants to be reassured that there isn't redundancy in these audits. Mr. Wille stated that there was discussion that the Performance Audit function and Internal Audit would coordinate their efforts regarding audits. Mr. Wille asked what the status is on the vacancy of the Performance Audit Director position. Mr. Kim stated that the recruitment is open and is expected to close the first week of July 2016. Mr. Kim stated that he expects a new Performance Audit Director to be on board by mid-August 2016.

Dr. Carlson asked how the word "may" made its way into this document, usually the words "do" or "do not" are used in these types of documents. Mr. Caporicci asked Ms. Smart if she conducts economy and efficiency audits. Ms. Smart's response was that the Internal Audit Division's focus are financial internal control audits. Mr. Caporicci asked if there will be coordination between MGO and Internal Audit in the future. Ms. Smart responded that she met with Ms. Hurley and discussed the risk areas of the County and how the Internal Audit function can support the external auditors and incorporated this in the audit plan. Ms. Smart stated that the same type of coordination would be conducted with the new Performance Audit Director.

All in favor; none opposed.

Approved as recommended.

7. Receive Oral Report on Auditor-Controller Internal Audit Division's Independence

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Ms. Smart stated that as of August 21, 2015, which is when the Internal Audit Department merged with the Auditor-Controller's office, until today, June 2, 2016, the Internal Audit Division was independent to perform all the work that was completed with no interference on scope.

8. Nominate and appoint Chair and Vice Chair for the 2016 Audit Oversight Committee

Mr. Wille recommended that Dr. Carlson becomes the Chair and Mr. Wille becomes the Vice Chair of the AOC.

All in favor; none opposed.

Approved as recommended.

9. Receive Oral Communication on the Renewal of the All Funds Audit Contract (Macias Gini & O'Connell LLP) for fiscal years 2015-16 and 2016-17

Ms. Moynihan stated that on May 10, 2016 the MGO contract was approved by the Board of Supervisors. Mr. Wille mentioned that he is very pleased with how well MGO has coordinated efforts with all functions and always putting the County first. Dr. Carlson mentioned that initially he had great reservations in regards to the transfer of responsibilities (merger of the Internal Audit Department with the Auditor-Controller). Dr. Carlson stated that he has no concerns at this point; the Auditor-Controller Eric Woolery and Ms. Smart have since been able to convince Dr. Carlson through their actions that his concerns have no place in the future.

10. Receive Oral Report from Health Care Agency on HCA's Annual Compliance Plan

Ms. Rajalingam stated that she is the HCA Chief Compliance Officer, replacing Thea Bullock as of mid-February 2016. Ms. Rajalingam stated that they provide guidance to all HCA employees about their compliance responsibilities. The goal is to ensure all HCA employees are educated about the compliance program, code of conduct, policies and procedures, and reporting channels for any issues that may arise. Ms. Rajalingam stated that she currently has thirty-two compliance issues open. Most of the open issues are related to billing, coding, or HR concerns. Ms. Rajalingam stated that on the privacy side, she has forty-seven compliance issues open. Most of these open issues are related to breaches of confidentiality. Ms. Rajalingam stated that in order to limit the number of open compliance issues, HCA is training staff on the compliance program on a continuous basis.

11. Approve the Auditor-Controller Internal Audit Division's FY 2016-17 Annual Audit Plan and Risk Assessment

Ms. Smart introduced Scott Suzuki, the new Assistant Director for the Internal Audit Division. Ms. Smart also introduced Jimmy Nguyen, the new IT Audit Manager for the Internal Audit Division. Ms. Smart mentioned that the Internal Audit Division has a very good risk assessment process in place and one of the key elements in this process is going out and surveying the County departments, and getting their input on areas of risk, which is also considered in the audit plan. The other key element in this process is that departments are requesting the Internal Audit Division to conduct audits in their high risk areas. Ms. Smart stated that she tries to accommodate those requests with the current limited resources available. Ms. Smart mentioned that the other key element of the risk assessment is meeting with the CEO and members of the Board of Supervisors. Ms. Smart mentioned that she has met with Ms. Hurley from MGO to discuss the risks and audits that could be conducted in relationship to the partnership with the external auditors. Ms. Smart stated that she has hired an Auditor I (junior level staff) that will be working with the external auditors. This Auditor I will get valuable experience in auditing the CAFR and possibly working with single audit.

Ms. Smart pointed out a few high risk areas noted on page 3 of the risk assessment document. One of those areas was that ninety percent of departments reported significant reorganization. The other area

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was that fifty-five percent of departments reported significant new system implementations. Ms. Smart mentioned that thirty-eight percent of the departments noted an area of audit interest. Ms. Smart stated that the traditional auditors will be expanding their audit scope and looking at applications and partnering up with the technical IT side by working together.

Ms. Smart mentioned another area which is fiscal monitoring and revenue generating lease audits. This entire area is work performed on behalf of the Orange County Community Resources Department (OCCR). OCCR pays for all these positions and the work is geared to providing fiscal monitoring, which is the review of sub recipients receiving federal dollars, required by uniform guidance.

Ms. Smart mentioned that the Internal Audit Division will be expanding in the areas of internal controls and operational audits. Mr. Kim asked how this will coordinate with Performance Audit, when both Internal Audit and Performance Audit will be performing operational audits. Ms. Smart responded that these audits were included since currently there is not a Performance Auditor in place. Ms. Smart plans to talk about these audits as the audit plan is put together. Mr. Kim stated that his concern is that with Ms. Smart's limited resources, thousands of hours are being dedicated to operational audits when the Performance Auditor will be able to perform these audits in the fall of 2016. Mr. Kim expressed that he wants the Internal Audit Division to focus on internal control and financial audits. Mr. Woolery stated that the idea was, if an item was seen during a financial audit, preliminary investigative work would be done and it would be passed on to the Performance Auditor to do the entire performance audit.

Mr. Wille suggested that once the Performance Auditor is in place the Internal Audit Division will work with the Performance Auditor to coordinate efforts. Mr. Kim suggested coordination when there is a cross over to an existing compliance audit or operational audit function, and reporting back to the AOC on those coordination efforts.

Mr. Kim requested that Mr. Wille direct the CEO's office to work with Mr. Woolery and Ms. Smart to go through each of the items listed in the audit plan, prior to it going to the Board of Supervisors for approval.

All in favor; none opposed.

Approved as recommended.

12. Discuss City of Placentia Embezzlement

Mr. Woolery stated that since the report came out regarding the embezzlement in the City of Placentia, he directed his controller staff to look into the wire transfer procedures that are currently in place. Mr. Woolery stated that the Auditor-Controller's office has a very robust system that expands across two elected departments, the Auditor-Controller and the Treasurer-Tax Collector. Mr. Woolery mentioned that in July 2016, he will host an anti-fraud symposium. The participants will include decision makers elected from cities, school districts, and special districts. Mr. Woolery stated that the idea behind this is to prevent something like this from happening in cities and school districts.

13. CEO discussion on Audit Alert

Mr. Kim mentioned the audit alert issued by the Auditor-Controller Internal Audit Division related to the lease audit performed at Dana Point Harbor. Mr. Kim acknowledged Ms. Smart and her staff for a job well done on this audit alert. Mr. Kim stated that the CEO's office has embarked on a countywide comprehensive review of the types of concerns that were identified in the Dana Point Harbor audit alert.

14. Approve Auditor-Controller Internal Audit Division's FY 2015-16 3rd Quarter Status Report for the period January 1, 2016 through March 31, 2016 and approve 3rd Quarter Executive Summary of Findings for the period January 1, 2016 through March 31, 2016

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Ms. Smart stated that the Internal Audit Division has issued thirty-five final audit reports and twenty four federal sub recipient monitoring reports to providers, a total of fifty-nine reports. Ms. Smart stated that fourteen draft reports have been issued as of today and twenty-nine audits are in progress. Ms. Smart mentioned that there are two new audits in the audit plan. One of those audits will be looking into GASB 72 implementation. Ms. Smart mentioned that Mr. Woolery received information from a tax payer watch dog relating to a provider at the Health Care Agency that filed bankruptcy. Ms. Smart stated that the Internal Audit Division is in the process of reviewing the information provided.

All in favor; none opposed.
Approved as recommended.

15. Approve 3rd Quarter FY 2015-16 External Audit Activity Quarterly Status Report for the Quarter Ended March 31, 2016

Ms. Smart stated that there was one material issue reported to the Internal Audit Division. Ms. Smart referred the committee to the first page of the external audit summary where an overview is provided. Mr. Robert O'Brien from CEO/Human Resource Services was present and provided background on the material issue.

All in favor; none opposed.
Approved as recommended.

Public Comments –

None

AOC COMMENTS & ADJOURNMENT

AOC COMMENTS: None

*AOC Chairman,
Mark Wille, CPA*

ADJOURNMENT: 12:06 p.m.

NEXT MEETING: Regular Meeting, September 15, 2016