

# 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, December 17, 2015, 10:00 a.m.*

HALL OF ADMINISTRATION  
333 W. Santa Ana Blvd., 5<sup>th</sup> 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 Todd Spitzer**  
**Third District, Board Chairman**  
Member

**Supervisor Lisa Bartlett**  
**Fifth District, Board Vice-Chair**  
Member

**Eric Woolery, CPA**  
**Auditor-Controller**  
Member

**Shari L. Freidenrich, CPA**  
**Treasurer-Tax Collector**  
Member

**Frank Kim**  
**County Executive Officer**  
Member

**VACANT**  
**Performance Audit Director**  
Member

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

**Dr. Dave Carlson**  
Private Sector Member

ATTENDANCE: Mark Wille, AOC Chairman and Private Sector Member; Gary Caporicci, AOC Vice-Chair and Private Sector Member, Shari Freidenrich, Treasurer-Tax Collector; Supervisor Todd Spitzer; Eric Woolery Auditor-Controller; Frank Kim, CEO; Proxy Paul Walters for Supervisor Lisa Bartlett; Dr. Dave Carlson, AOC Private Sector Member

PRESENT: Director of Internal Audit: Toni Smart, CPA  
County Counsel: Mark Servino  
Clerk: Maribel Garcia

## 10:00 A.M.

### 1. Roll Call

AOC Chairman Wille called the meeting to order at 10:00 a.m.  
Attendance of AOC members is noted above.

### 2. Approve Audit Oversight Committee regular meeting minutes of September 17, 2015.

Motion to approve September 17, 2015 minutes of the Audit Oversight Committee by Supervisor Spitzer, second by Mr. Caporicci.

All in favor, none opposed. The item carried.

**Approved as recommended.**

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- 3. Receive Oral Report from External Auditor on Required communications; provide description of Opinion Units the County of Orange as well as Internal Controls, specifically in the area of Cyber Security requested at AOC Meeting on May 7, 2015; provide oral status of External Auditor Coordination with CA Counties that have Internal Audit Functions Organizationally included in the Auditor-Controller's Department; and Clarification of the Single Audit Programs Selected to be Audited this FY 15-16 versus the Programs Selected last FY 14-15**

Linda Hurley, MGO, stated she would be signing and issuing the opinion for the CAFR today, December 17, 2015. Ms. Hurley stated that she was asked to report on a number of items. The first item was opinion units, what they are and why they are important. Due to the complexity of governmental financial statements, MGO has a framework to determine materiality or significance if a misstatement was to occur. Ms. Hurley stated that an opinion unit represents a component of the financial statements that would be of interest to a financial statement user. The county has eleven opinion units for the CAFR; MGO provides an opinion on all eleven units and determines materiality. The materiality calculation range from 1% – 5% of a particular benchmark and are defined as assets, revenues, expenses or expenditures. Ms. Hurley stated that the percentage of a benchmark is determined by risk of material misstatement and the nature of a particular opinion unit. Ms. Hurley stated that the General Fund is one of the eleven opinion units. Seven of those opinion units represent individual funds and significant funds of the County; General Fund, Roads Fund, Flood Control, Public Protection, and Teeter Plan Notes. There are also two Proprietary or Enterprise Funds, John Wayne Airport and OC Waste and Recycling. The other four opinion units include the governmental activities and aggregate of business type activities or enterprise funds. The third opinion unit is discreetly presented as component units. Ms. Hurley stated that these are related organizations that meet criteria to be reported. The last opinion unit, all other funds are lumped together; the internal service funds, trust and agency funds and all governmental funds considered non-significant. Mr. Caporicci stated that it's important for the committee to hear that there are eleven opinion units and the materiality is calculated on each one of them and not calculated on the total of the county.

Ms. Hurley stated that the next item MGO was asked to discuss was internal controls, specifically cyber security. Ms. Hurley introduced Mr. Jim Godsey, head of MGO's advisory unit to speak on cyber security. Mr. Godsey stated that MGO conducts research calls where they sit down with people at different levels and ask what is the chief risk. The most common response has been cyber security or lack of cyber security. MGO is required to understand the control environment necessary to plan their audit. Mr. Godsey stated that records have to be tested to get to a low level of risk and stated that once the controls are identified then they can test the controls. The auditor decides at this point whether to test the identified controls. Mr. Godsey stated that in governments the size of Orange County, there is a huge impact of technology on day to day accounting, which leads to the process of financial statements. These controls are referred to as general controls over IT. MGO identifies these controls and looks for risk in financial reporting. If it's not going to result in a potential material misstatement in the financial statement, it's below their threshold. Mr. Godsey stated this is where the change is now coming in controls over IT/cyber security. He stated that the big push right now is to document within your organization what the risks are and what are the controls put in place to minimize those risks. Mr. Godsey stated that the AICPA is looking into mandating the SOC 2 (Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality or Privacy) approach for all organizations across the board. Ms. Freidenrich gave an example of monies being allocated to charities and later identifying these monies were never received by the charity. Mr. Godsey agreed that this was a great example given by Ms. Freidenrich. Mr. Wille stated that for years CPAs have audited around the computer as opposed to through the computer. As we move forward, auditors need to have a certain IT competency for any of the departments in the County.

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Ms. Anderson asked Mr. Godsey if MGO was to do the IT review, would that impair MGO's independence of doing the audit. Mr. Godsey responded that it would not impair MGO's independence because both attestation and assurance work fall within the AICPA and Yellow Book as allowable activities.

Mr. Wille stated that he spoke with Ms. Hurley and she made a commitment for the next year to take a couple of internal audits and coordinate with Ms. Smart so she can use them more fully in her audit. Ms. Hurley stated she wanted to say a few remarks regarding the use of Internal Audit. Ms. Hurley stated that regarding other County Internal Audit functions and their work/audit plans, the focus has evolved to more performance based audits. For the audits relating to financial statements, the scope of these audits is much smaller from a materiality and timing perspective. Ms. Hurley stated that she met with Ms. Smart and under the current work plan; there isn't much they can use to plan their 2016 audit. Ms. Hurley stated that they may want to discuss the 2017 audit plan, since Ms. Smart is working on putting together her internal audit work plan for 2017. Ms. Hurley stated that this would make more sense in looking at how they consider controls within the organization. She stated that if MGO was to consider alliance on internal audit work, the competency of the Internal Audit Division would have to be documented. MGO would have to look into planning procedures, risk assessment, and internal policies and how internal audit manage their engagements. Also, a level of effort of re-performance, MGO has to consider a validation process to consider the risks associated with these policies. Ms. Hurley stated that MGO has to evaluate whether this effort is going to alleviate the effort of MGO performing their own procedures. She stated that there is a lot of consideration, but at the end of the day MGO may not want to go down that path.

Ms. Hurley stated that regarding the Single Audit Programs, MGO reported that they were auditing 10 programs, but now they are at 9 programs. She stated that last year they audited 15 programs; the programs selected fluctuate year to year based on a risk assessment. Ms. Hurley stated that the jump in last year's selection was due to the high dollar programs, these are programs over \$3 million. These programs have to be audited once every three audit periods, regardless of a risk assessment. Ms. Hurley stated this single audit determination is very cyclical and the number of single audits may fluctuate from year to year.

#### **4. Oral Status of Implementation of Audit Recommendations, Third Follow-Up Financial and Internal Control Audit of Treasury Cost Allocations to Pool Participants (AOC meeting September 17, 2015, Item 6; and AOC meeting February 20, 2015, Item 7)**

Ms. Smart stated there were three open items pertaining to the travel policy. She stated the policy went to the Board of Supervisors on November 17, 2015 and was approved. Ms. Smart stated that the approved travel policy was reviewed as it relates to the open audit findings and all open items were resolved.

#### **5. Approve Auditor-Controller Internal Audit Division FY 15-16 1<sup>st</sup> Quarter Status Report for the period July 1, 2015 through September 30, 2015 and approve 1<sup>st</sup> Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2015 through September 30, 2015**

Ms. Smart presented item number 5 to the AOC. Ms. Smart stated in the first quarter, five treasury audits were issued. She stated that the plan is to issue all treasury audits within 60 days of the quarter end. Ms. Smart stated a follow-up report on the Clerk-Recorder was issued and all open items were implemented. Also issued was the Auditor-Controller report regarding ARA, which is the controls over county employee's access to the CAPS+ system. Ms. Smart stated a couple of items still remain open and should be implemented by January 2016. She stated that the Auditor-Controller Internal Audit Division lost their IT Auditor in early October 2015.

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Recruitment is currently open and the plan is to fill this position by January 2016. As a result of losing the IT auditor, the Probation IT audit had to be cancelled and hope to reconvene that audit in early 2016, pending the hiring of a new IT Auditor.

Dr. Carlson asked Ms. Smart if she is being limited by salary limits on the open IT Auditor position. Ms. Smart responded that this will be a challenge once a candidate is selected and reviewing the salary offer and position level. Supervisor Spitzer stated that the Board had a similar issue at OC Animal Control; it was difficult to hire veterinarians due to salary limits. He stated the Board addressed this problem and the hole was filled. Supervisor Spitzer asked Mr. Frank Kim, CEO what the salary range should be for this type of position. Mr. Kim responded that the management positions have a wide salary range. He stated that they normally go out with a recommended dollar amount and if the skills don't fit the job position then you come back and discuss to increase the salary range. There are benefits that the County offers that don't exist in the private sector. Supervisor Spitzer asked Ms. Smart for an update on the hiring of the new IT Auditor at the next AOC meeting.

Ms. Freidenrich asked Ms. Smart if the Treasurer-Tax Collector compliance audit is included in the 60 day timeline. She stated that this audit will take longer; she wants to make sure she has enough staff available to cover the areas required in this audit and comply with the 60 day timeline. Ms. Smart stated that the success in reaching the 60 day goal is the coordination with the TTC staff in evaluating the opportunities in having an efficient process to reach this goal.

A motion was made by Dr. Carlson; seconded by Ms. Anderson to approve the Auditor-Controller Internal Audit Division FY 15-16 1<sup>st</sup> Quarter Status Report for the period July 1, 2015 through September 30, 2015 and approve 1<sup>st</sup> Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2015 through September 30, 2015.

All in favor; none opposed.

**Approved as recommended.**

## **6. Approve 1<sup>st</sup> Quarter FY 15-16 External Audit Activity Quarterly Status Report for the Quarter Ended September 30, 2015**

Ms. Smart stated that in the External Audit Activity report, no material issues were reported, no findings reported by the departments and 10 audits were completed in this quarter.

Mr. Wille complimented Ms. Smart and her staff for the huge effort during the transition of the Internal Audit Department to the Auditor-Controller.

A motion was made by Mr. Caporicci; seconded by Mr. Kim to receive the 1<sup>st</sup> Quarter FY 15-16 External Audit Activity Quarterly Status Report for the Quarter Ended September 30, 2015.

All in favor; none opposed.

**Approved as recommended.**

## **7. Receive and File Discussion Paper regarding Audit Oversight Committee Structure; Approve Audit Oversight Committee Resolution; and Direct Staff to Present to the Board of Supervisors for Final Approval**

Mr. Kim stated that this is a follow up item from the September 17, 2015 AOC meeting regarding the changes with the Internal Audit Department transitioning to the Auditor-Controller and the Performance Audit Department that was created.

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He stated that over time, these departments have taken on more responsibilities and therefore considered changes to the existing structure. He also stated that the Auditor-Controller and the Treasurer-Tax Collector requested to step down from voting member status from the AOC since they were the departments being audited and didn't feel comfortable voting on a review and follow up actions on those items. Mr. Kim stated that there was consideration of the existing public members and the structure of the AOC to maintain the existing public/private mix on the AOC. In addition, request to the Board of Supervisors that each board member appoint one private member and the internal members would be composed of the Board Chair, Board Vice Chair, the CEO; the non-voting members would be composed of the Treasurer-Tax Collector, the Auditor-Controller, the Internal Audit Director and the Performance Audit Director. Mr. Kim stated this is the structure to be recommended to the Board of Supervisors, pending a recommendation from the AOC.

Mr. Kim suggested that the current by-laws and charter need to be reviewed for consistency. Mr. Wille stated that once the resolution is passed by the Board of Supervisors, the by-laws and charter will be reviewed to reflect the new structure.

A motion was made by Dr. Carlson; seconded by Ms. Anderson to approve the discussion paper regarding Audit Oversight Committee Structure, as adjusted and approve the Audit Oversight Committee Resolution, as adjusted.

All in favor; none opposed.  
**Approved as recommended.**

## 8. Discuss Accountability for Appointment of AOC Private Sector

Mr. Wille asked Ms. Anderson if she agrees to another four year term on the Audit Oversight Committee. Ms. Anderson stated that she is willing to accept another four year term. Mr. Wille stated there will be one other public seat vacant and Supervisor Bartlett will most likely be the Chair next year and will be included. He stated that Mr. Caporicci also needs to be reappointed as a public member and one additional new member.

### **Public Comments –**

None

### **AOC COMMENTS & ADJOURNMENT**

AOC COMMENTS: None

*AOC Chairman,  
Mark Wille, CPA*

ADJOURNMENT: 11:33 a.m.

**NEXT MEETING:** Regular Meeting, May 26, 2016