

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 11, 2014, 2:00 p.m.

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

Mark Wille, CPA
Chairman, Private Sector Member

Shari L. Freidenrich, CPA
Treasurer-Tax Collector
Vice-Chair

Supervisor Shawn Nelson
Fourth District
Member

Supervisor Todd Spitzer
Third District
Member

Jan Grimes, CPA
Auditor-Controller
Member

Philip Cheng, CIA
Performance Audit Director
Member

Michael Giancola
County Executive Officer
Member

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

Dr. Dave Carlson
Private Sector Member

Gary Caporicci, CPA
Private Sector Member

ATTENDANCE: Todd Spitzer, Jan Grimes, Proxy Frank Kim for Michael Giancola, Shari Freidenrich, Philip Cheng, Mark Wille, Sally Anderson, Gary Caporicci

EXCUSED: Shawn Nelson, Dave Carlson (observed via teleconference)

ABSENT: None

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

3:00 P.M.

Opening Comments:

AOC Chairman Mr. Wille stated that the Board of Supervisors considered and rejected a proposal to assign the Internal Audit Department to the Auditor-Controller instead of the Board of Supervisors at the November 25, 2014, Board meeting (item 43). The motion to approve the proposal failed 2 to 3, and instead, the Board unanimously requested that the Audit Oversight Committee at their first meeting in 2015 discuss the matter. Mr. Wille asked the AOC members to review the Board Item 43 and position papers that were provided by the Auditor-Controller and Internal Audit Department and listen to the oral discussions of the Board meeting on November 25, 2014, item 43. At the AOC meeting scheduled for February 19, 2015, the AOC will consider and discuss the proposed changes to the Internal Audit Department's placement and make recommendations to the Board as to best placement of IAD: the Board of Supervisors or the Auditor-Controller.

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1. Roll Call

AOC Chairman Wille called the meeting to order at 3:00 p.m.
Attendance of AOC members is noted above.

Guests: Probation Department - Ian Rudge, Third District Staff - Chris Nguyen, Internal Audit staff – Mike Goodwin, Alan Marcum, Michael Dean, Dave Wiggins; Auditor-Controller Staff – Denise Steckler, Victoria Ross, Toni Smart, Tonya Riley, Nancy Ishida, Richard Son; OC Public Works Shane Silsby; External Auditors Macias, Gini, O’Connell – Linda Hurley and Katherine Lai

2. Approve Audit Oversight Committee regular meeting minutes of September 25, 2014.

Motion: Caporicci, Second: Anderson. Supervisors Nelson and Spitzer – Excused, Shari Freidenrich – Excused, All others were in favor, none opposed. The item carried.

Approved as Recommended with noted corrections by Member Sally Anderson.

Ms. Sally Anderson presented various corrections to the summary minutes of September 25, 2014 on page 4, item 4, second paragraph. The corrections were made to the official AOC Summary Minutes of September 25, 2014 and are available upon request.

3. Receive Oral Report on Required Communication from External Auditors, Macias Gini & O’Connell

Received Oral Status Report as Recommended.

Ms. Linda Hurley of Macias, Gini and O’Connell addressed the AOC to provide brief comments on the status of the 2014 audit. She stated MGO was on schedule to issue their opinion on the CAFR on Thursday, December 18, 2014. She stated MGO issued their opinion for the audits in John Wayne Airport and the Orange County Redevelopment Agency. She said that statements for OC Waste & Recycling should be issued along with the CAFR. Additionally, a number of ancillary reports related to the Treasurer and some agreed-upon procedures would be completed by December 31, 2014.

Ms. Hurley stated MGO would be completing the Single Audit Report in early 2015. There were 11 major federal programs identified. Test work for four of those programs was completed and was pending management review.

The management letter from the prior year had four significant deficiencies in FY 2013 that were followed-up during the FY 2014 audit. The deficiencies resolved were related to accredited interest, the Santa Ana River project, revenue recognition and Health Care Agency revenue recognition.

The last pending item in progress was the comments that related to the capital asset process. MGO did not identify any material errors as part of MGO audit procedures and management has revised the policies and procedures regarding accounting for capital assets. However, management was working on implementing the procedures to ensure all departments were similarly accounting for capital assets.

For the current year audit, MGO identified one significant dollar adjustment in the financial statements related to a major public protection fund. The adjustment was approximately \$2 million that essentially eliminating a gross up of revenue and expenses. It was a correction to proper financial reporting. In terms of the use of funding, there were no areas of concern and no impact on the fund balance for that particular fund.

MGO reported management cooperation had been timely and smooth.

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AOC Chairman Wille stated the AOC should expect to see an impact and public interest when the unfunded pension liability is included in the next year's CAFR issued in 2015.

Supervisor Spitzer arrived at 3:10 p.m.

4. Review and approve Audit Oversight Committee Revised Bylaws for Private Sector Member Changes of Staggered terms of office (AOC Meeting September 25, 2014, AOC Comments Directive).

Moved: Anderson, Seconded: Caporicci. Supervisor Nelson – Excused, Shari Freidenrich – Excused. All were in favor, none opposed. The item carried.

Approved as Recommended.

Ms. Ann Fletcher, County Counsel, stated these revisions were at the request of Supervisor Nelson to change the AOC Bylaws to allow for staggered terms for all members. Currently, two of the four private sector members overlap in two terms. She stated the proposed Bylaws would allow the AOC Chair to adjust those terms so that each term would end on a different year.

Third District staff member Chris Nguyen addressed the Committee and commented the language in the proposed Bylaws would grant authority to the AOC Chairman to change the terms rather than to the appointing authority of the Board of Supervisors. It was suggested the Board should retain the exclusive authority. Supervisor Spitzer stated the proposed Bylaws as presented were acceptable and that the issue could be readdressed at a later meeting if necessary.

5. Approve OC Internal Audit Department FY14-15 1st Quarter Status Report for the period July 1, 2014 through September 30, 2014 and approve 1st Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2014 through September 30, 2014.

Motion: Anderson, Second: Caporicci. Supervisor Nelson – Excused, Shari Freidenrich – Excused. All others were in favor, none opposed. The item carried.

Approved as Recommended.

Dr. Hughes stated Internal Audit was on schedule with some minor overruns. Four significant audits were issued. One related to the calculation of the Reverse Pension Pick-up estimated at \$3 million per year. This audit was important to the County because employees agreed to pick-up 100% the enhanced benefits of their pension plan. In addition, Internal Audit completed an audit of Retiree Medical Plan that costs the County \$40 million per year and found the calculations were done correctly and that the transmittal of funds was accurate and on time. The Tri-annual Audit of the Tax Redemption Audit was completed. The County realizes approximately \$250 million dollars for the reporting period and IAD found the calculation accurate and thorough. The last noteworthy audit was the Restricted Revenue Fund in Social Services Agency of approximately \$70 million. Internal Audit was satisfied with the accounting and expenditures of this fund.

Dr. Hughes stated the propriety of the County's approximate \$1.2 billion in fund balances in for Special Revenue Funds. The funds uses are restricted and the department's Internal Audit audits ensure these funds are properly used.

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6. **Approve 1st Quarter FY14-15 External Audit Activity Quarterly Status Report for the Quarter Ended September 30, 2014.**

Motion: Caporicci, Second: Anderson. Supervisor Nelson – Excused, All others were in favor, none opposed. The item carried.

Approved as recommended.

Dr. Hughes stated per AOC procedure all departments and agencies reported on the status of external audit activity in their respective agencies to Internal Audit and the AOC. The schedule was also used in the annual risk assessment so as not to be redundant or duplicative. Internal Audit will report any material items. The threshold for that is a disallowance or costs exceeding \$100,000.

Probation representatives Ian Rudge, Deputy Director Administrative and Financial Services and Chris Beiber, Deputy Director of Field Operations were present to address the AOC. Mr. Beiber stated Title 4E of the Social Security Act reimburses funds to Counties for youth in foster care or for youth in eminent risk of being in foster care. Individuals on probation and dealing with probation officers were determined to be under eminent risk and therefore the federal government Health and Human Services reimburses for funds spent on those youth. To receive the funding the Probation Department must identify the youth, create a case plan to address the issues that place the youth in eminent risk, and determine how much time was spent by probation department staff for that activity. In 2013, the Department of Health and Human Services found serious issues with San Mateo and Sacramento Counties claims. As a result of those issues, the DHHS cut-off the reimbursement for all Counties in the State of California. Chief Probation Offices in the State of California along with the State developed a new case plan and an assessment and ordered that all Counties be trained by the State or Justice Benefits Incorporated (JBI). Orange County contracted with JBI in May 2014 and trained the OC probation officers and introduced the new case plan and assessment. Training was completed in June 2014. JBI conducted an internal compliance review in September 2014 and found that OC Probation Department was less than 10% compliant. The new system and case plans were not integrated into Orange County's data systems. The training was inadequate at that time. The initial claim for reimbursement was \$1.1 million. Subsequent to the JBI internal compliance review, OC Probation department self-corrected the claim and reissued the claim for \$345,000. The IT issues were corrected and the case plans and assessment are working accurately now. The disqualifiers are no longer an issue.

Mr. Frank Kim, CFO (Proxy for CEO Mike Gianola), stated it is his understanding that for Title 4E the guidelines for how the Probation Department identifies the at-risk youth are not clear and do not have a step-by-step criteria. Over history, different counties were audited and depending upon those results, departments and trainings make adjustments along the way and asked if that was the case for Orange County. Mr. Beiber stated that was correct.

Shari Freidenrich joined the meeting at 3:26 p.m.

Mr. Caporicci clarified that the claim was amended for \$345,000 and was submitted replacing the initial \$1.1 million claim. Mr. Rudge stated that was correct. He said claims were submitted every quarter for Title IV-E and claims had been amended in the past. Since JBI was contracted, JBI will submit the claims and perform internal compliance reviews to ensure compliance with future state or federal audits.

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Mr. Rudge stated that although amended claims had been submitted, federal agencies have not made payments. They are waiting for all California Counties to be in compliance. Mr. Rudge stated the Probation Department budgeted conservatively because of the uncertainty and weren't expecting an impact.

7. Receive and file Summary Highlights of Audit Reports Issued by Month for FY14-15 July 1 to November 30, 2014.

Moved: Caporicci, Second: Anderson. Supervisor Nelson – Excused, All others were in favor, none opposed. The item carried.

Received as recommended.

Dr. Hughes stated Internal Audit completed the compliance audit of the Treasurer's investment pool at approximately the \$7.1 billion. The audit found the Treasurer to be in compliance with the Board's investment policy. The County's investment restructure policies were more restrictive than the California government code in order to minimize the loss of any principal. The Treasurer is still a top performer in the State of California.

PUBLIC COMMENTS: None.

AOC COMMENTS:

Mr. Wille thanked Jan Grimes for her service on the AOC. Mr. Wille announced the next AOC meeting on February 19, 2015, 10:00 a.m. Mr. Wille stated the Board of Supervisors directed the AOC discuss the Internal Audit function reporting relationship. Mr. Wille requested for the AOC to read the Board agenda item 43, November 25, 2014 material that was sent to each member and listed to the Board discussion for the link provided. He stated the meeting on February 19, 2015 may run long. Mr. Wille stated changes to the Pension plan in 2015 could be lengthy and said the meeting in May 2015 would also be long.

Supervisor Spitzer thanked Jan Grimes for her years of service on the Audit Oversight Committee. Supervisor Spitzer referenced his past experience post bankruptcy as he served on the Board of Supervisors in 1996 at that time. He stated the issues in the County were significant at that time. He said he holds the institutional knowledge from the bankruptcy for the Board. Supervisor Spitzer looks forward to participating on the AOC and encourages good communication between the AOC and the Board.

ADJOURNMENT: 3:45 p.m.

NEXT MEETING: February 19, 2015, 10:00 a.m.