

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, February 25, 2016, 10:00 a.m.

HALL OF ADMINISTRATION
333 W. Santa Ana Blvd., 2nd Floor
Human Resources Conference Room
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

VACANT
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 Michelle Steel; Sarah J. "Sally" Anderson, Private AOC Private Sector Member; Dr. Dave Carlson, AOC Private Sector Member

10:00 A.M.

1. Roll Call

AOC Chairman Wille called the meeting to order at 10:05 a.m.
Attendance of AOC members is noted above.

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

Motion to approve December 17, 2015 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 Oral Report from External Auditor and Auditor-Controller on the CAFR

Mr. Woolery stated this was his first CAFR as the Auditor-Controller. Mr. Woolery stated that we are doing a little better than a few years ago and there were a few windfalls in revenue this year, about \$46 million because of the Teeter reserve used to pay for property taxes that are delinquent. The methodology that was used for the reserve tied up too much money that was not necessary. The other one time money was for the state mandates which were caught up through 2005, resulting in \$48 million one-time revenue. Long term debt went down about \$76 million and property taxes were up 4.9% this year. Mr. Woolery mentioned the redesigned Citizens Report that was sent to everyone and welcomed any feedback. Supervisor Steel asked Mr. Woolery what the current average Teeter tax reserve is. Ms. Moynihan responded that she would get those numbers to her after the meeting.

The Auditor-Controller responded to Supervisor Steel's question regarding the Tax Loss Reserve Fund by providing her with correspondence dated March 18, 2016.

Ms. Hurley stated that MGO has issued an audit opinion on the basic financials statements included in the CAFR and issued an unmodified opinion, which is the highest level of assurance that they are able to provide. Ms. Hurley mentioned that the biggest challenge this year with the CAFR was the implementation of GASB 68. Ms. Hurley mentioned this was one of the smoothest implementations they have participated in. MGO is also the auditor for OCERS which was also a very smooth implementation of GASB 67 and GASB 68. Ms. Hurley stated that MGO has not issued their report on Internal Controls and Compliance yet, it will come with the Single Audit Report expected to be issued mid-month in March 2016.

4. Receive Oral Report from External Auditor on Annual Required Communications Letter; provide a verbal update on Single Audit

Ms. Hurley stated that MGO issued a letter on the required communications which is normally issued at the end of an engagement. These communications summarize the overall audit results and the process. Ms. Hurley stated that the significant audit finding noted was the implementation of the two GASB standards related to pensions (GASB 68 and GASB 71). Ms. Hurley mentioned the impact of the new GASB standards on major enterprise funds; John Wayne Airport, Waste Management and the internal service funds. There was one uncorrected misstatement or past adjustment that related to a classification of capital assets. This was identified as equipment recorded in a depreciable category that was not complete or ready to be placed in service. This was \$20 million in assets which is immaterial to the financial statements, only a classification issue and did not impact the opinion.

Ms. Hurley provided a brief update on the single audit and that they would be issuing their report mid-month in March 2016. Ms. Hurley stated they had nine major programs that were selected for testing, from a finding perspective, nothing new was identified. Because of the new complex uniform guidance requirements, they are expecting that most agencies will have to address findings relating to compliance because of this new implementation.

Ms. Hurley stated that she will meet with Ms. Smart to discuss Risk Assessment and incorporating Internal Audit within their audit process. There are two ways they can work with Ms. Smart, look at her plan and rely on the work that was already planned out as part of Ms. Smart's Risk Assessment, or if Ms. Smart has resources available Ms. Hurley suggested that Ms. Smart's staff can be added to MGO's staff and have direct oversight of those individuals as part of MGO's audit team for a set number of hours. Mr. Wille suggested a third way is to have Ms. Smart modify her schedule to assist Ms. Hurley in this process. Ms. Hurley and Ms. Smart stated they are considering all options.

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5. Discuss Auditor-Controller Internal Audit Division's Government Auditing Standards (Yellow Book) Peer Review for the three fiscal years ending 6-30-16

Ms. Smart mentioned that the Internal Audit Division is required to have a peer review in accordance with the Yellow Book. Ms. Smart stated that we issue certain reports that require the Internal Audit Division to have a peer review every three years. We have two options: one is to partner with a peer county and have the County review the Internal Audit Division's work to ensure the standards are being followed and provide us with a report, the other option is to find an external vendor to perform a peer review or quality assessment. Ms. Smart suggested the Internal Audit Division partner with a peer county, this would allow for the Internal Audit Division to provide a review to another peer county and this would also provide valuable experience for her staff.

Mr. Wille stated that Maricopa County is the fourth largest county by population and should be considered. Mr. Wille suggested that Ms. Smart look into the cost for an outside vendor to perform the peer review.

Ms. Anderson asked if there is a training program available for peer reviewers. Ms. Smart stated that yes there is a training program available. Ms. Smart stated that several of her staff have participated in peer reviews and her plan is to have her experienced peer reviewers train the junior level staff as part of her succession plan for the future.

6. Approve Auditor-Controller Internal Audit Division FY 15-16 2nd Quarter Status Report for the period October 1, 2015 through December 31, 2015 and approve 2nd Quarter Executive Summary of Audit Finding Summaries for the period October 1, 2015 through December 31, 2015

Ms. Smart mentioned that she has hired a junior level IT manager to fill one of the vacancies in the Internal Audit Division. Mr. Wille asked Ms. Smart how many vacancies she currently has in this division. Ms. Smart stated she will have vacancies for an Assistant Director, a Senior IT Audit Manager III, Administrative Manager I and an IT Audit Manager II. Ms. Smart mentioned they are looking into adding two Auditor/Accountant I level positions. Ms. Smart mentioned again that this is part of her succession planning for the future.

Ms. Smart mentioned that she was asked by Mr. Wille to report back to the committee if she planned on canceling any audits. Ms. Smart stated she would be canceling the Countywide Accounts Receivable audit due to limited resources available to perform this audit.

Ms. Smart mentioned she is working on the Risk Assessment process and a countywide department survey will be sent soon. This gives county departments an opportunity not only to provide their response and/or questions regarding risk areas, but also areas they would like audited.

All in favor; none opposed.

Approved as recommended.

7. Approve 2nd Quarter FY 15-16 External Audit Activity Quarterly Status Report for the Quarter Ended December 31, 2015

Ms. Smart stated the Internal Audit Division has issued ten audit reports, three follow-up audit reports, and twenty four audits are in process. Ms. Smart thanked her staff for all their hard work during the merge. Ms. Smart mentioned that they have one financial fraud referral from County Counsel and will provide a report to County Counsel once it's completed.

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Mr. Wille mentioned there were a few significant findings on the status report and asked if those have been resolved. Ms. Smart referred to the OC Expediter System report that had significant findings. The County Procurement Office requested the Internal Audit Division to perform the audit of the Expediter System before it was rolled out countywide. Ms. Smart stated there were two critical and four significant findings. The County Procurement office took immediate action and implemented the recommendations for the critical findings; two significant findings were implemented and two are in progress. There was a total of thirteen findings and they are working on implementing the remaining findings.

All in favor; none opposed.

Approved as recommended.

8. Discuss the renewal of the existing contract with Macias Gini and O'Connell LLP for independent auditing and related services for years ending June 30, 2016 and 2017

Ms. Moynihan stated that the Auditor-Controller initially contracted with Macias Gini and O'Connell (MGO) for the 2013 audit and it was for 3 years: 2013, 2014, and 2015 with an option to renew for 2 years. The Auditor-Controller received a proposal from MGO for the FY 2015-16 audit for \$551,995 which includes a very modest increase from the initial year. Ms. Moynihan stated that they will be going to the Board of Supervisors for final approval of this contract. She is responsible for the financial statements and is the project manager for this audit and is very pleased with MGO and the work they have provided. Mr. Woolery stated that MGO has been very attentive and has no objections with their performance. Supervisor Steel asked how long the Auditor-Controller has used MGO's service for this audit. Ms. Moynihan responded to Supervisor Steel that MGO has performed three audits for 2013, 2014, and 2015.

Mr. Wille stated that he and Mr. Caporicci would like to get a copy of the draft financial statements before they are released to the public in order for the AOC to review. Ms. Hurley stated that this will be a decision Mr. Woolery will have to make. Mr. Woolery stated that the Auditor-Controller's office is working on that request.

Ms. Moynihan stated she will bring the MGO contract renewal to the next AOC meeting.

9. Receive and Discuss Approved AOC Structure; discuss Internal Control Mandate under new structure and update of AOC By-Laws/Charter

A motion was made by Supervisor Steel to have the subcommittee, that was created by Mr. Wille to update the AOC By-Laws and Charter.

All in favor; none opposed.

Approved as recommended.

10. Election of Audit Oversight Committee Chair

Mr. Wille stated that the new AOC Chair and Vice Chair should be a private sector member with a two year term and since there was no quorum to vote on this item, he would tentatively nominate Mr. Caporicci as AOC Chairman and Dr. Carlson as AOC Vice Chairman. Mr. Wille stated he would run the next meeting and the committee will vote on the new AOC Chairman and Vice Chairman at the beginning of the June 2nd meeting. Mr. Servino stated that Mr. Wille remains the AOC Chairman by default until there is an official vote, due to no quorum. Mr. Servino also stated that Ms. Anderson and Mr. Caporicci remain on the committee by default until they are appointed permanently.

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Public Comments –

None

AOC COMMENTS & ADJOURNMENT

AOC COMMENTS: None

*AOC Chairman,
Mark Wille, CPA*

ADJOURNMENT: 11:33 a.m.

NEXT MEETING: Regular Meeting, June 2, 2016