

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, August 9, 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

Jan Grimes
Chief Deputy Auditor-Controller
AOC Member

Robert J. Franz
Interim County Executive Officer
AOC Member

Dr. David Carlson
AOC Vice-Chairman, Public Member

Shari L. Freidenrich
Treasurer-Tax Collector
Ex-Officio AOC Member (non-voting)

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

ATTENDANCE: John Moorlach, Steve Danley, Frank Kim (Proxy for Bob Franz), Jan Grimes, Shari Freidenrich, Dave Carlson (attendance by teleconference)

EXCUSED: Shawn Nelson

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

2:35 P.M.

1. Roll Call

Attendance of AOC members is noted above.
Internal Audit staff – Mike Goodwin, Autumn McKinney, Alan Marcum, Eli Littner;
Auditor-Controller Staff – Nancy Ishida, Richard Son, Claire Moynihan, Denise Steckler;
Second District Staff – Lindsay Brennan; Fourth District Staff – David Zenger, Mark Lopez; HCA Chief Compliance Officer – Thea Bullock; CEO/IT – Lynn Halverson;
County Counsel Intern – Jessika Myer; External Auditors Vavrinek, Trine & Day – David Showalter, Kevin Pulliam, Roger Alfaro

- ## 2. Approve Audit Oversight Committee regular meeting minutes of May 2, 2012
- Motion-Grimes, Second-Kim (proxy for Franz), Yes-Moorlach, Yes-Carlson, Absent-Nelson
Approved as Recommended

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3. **Approve revised Audit Oversight Committee 2011 Annual Report to be presented to Board of Supervisors in compliance with AOC Charter (Section 7.1) (Continued from May 2, 2012, Item 8)**

Moved-Moorlach, Second-Kim (proxy for Franz), Yes-Grimes, Yes-Carlson, Absent-Nelson

Approved as Recommended

4. **Approve proposed changes to AOC Charter from the AOC Subcommittee established to evaluate language and compliance issues of the AOC Charter (AOC Meeting March 15, 2012, item 4; May 2, 2012, Item 9)**

Motion-Moorlach, Second-Grimes, Yes-Carlson, Yes-Kim (Proxy for Franz), Absent – Nelson

Approved as Recommended with Amendment

There was an error on page 3, paragraph 6.2.a, second sentence. The word Consolidated was incorrect. The correct word was Comprehensive. Supervisor Moorlach motioned to approve as recommended with amendment.

5. **Approve the use of the California Counties Audit Chiefs' Committee to conduct the 2013 External Quality Assessment/Peer Review of the Internal Audit Department**

Moved-Moorlach, Second-Kim (proxy for Franz), Yes-Carlson, Yes-Grimes, Absent-Nelson

Approved as Recommended

6. **Discuss the Countywide OC Fraud Hotline Survey and direct staff**

Motion-Moorlach, Second-Grimes, Yes-Carlson, Yes-Kim (Proxy for Franz), Absent – Nelson

Received Discussion

DIRECTIVE: Dr. Hughes to address suggestions to the Countywide OC Fraud Hotline Survey, route to County Counsel for review and return to the AOC before conducting the Survey.

Dr. Hughes stated the industry best practice was to survey employees on their awareness of the hotline and the employees preferred method of reporting misconduct. Dr. Hughes stated he had not conducted a survey in the recent past and felt it was an opportune time to conduct a survey. Dr. Hughes stated that in the process of the survey, he hoped to bring more exposure to the hotline for the employees. Dr. Hughes stated he would use Survey Monkey software with the assistance and insights of the Health Care Agency. Dr. Hughes introduced Thea Bullock, HCA Chief Compliance Officer, to speak about their compliance survey process.

Ms. Bullock addressed the AOC and stated that HCA had been conducting employee surveys to assess their employee awareness of their compliance program that includes their own hotline in addition to the OC Fraud Hotline. She stated HCA conducts a biennial survey for all its employees. She stated their response rate was approximately 40-44%.

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Ms. Bullock stated HCA believes the surveys were a useful reminder to its employees. She said when their survey was launched they noticed hotline activity also increased. She also stated HCA reports their survey results in their newsletter so that employees can see their responses were received and valued. The HCA compliance committee and executive team focused on areas that were identified as needing improvement. Ms. Bullock stated those improvement areas were targeted and included in future training. In some cases, focus groups were also created to address improvement areas. She stated their survey questions were based on the national business ethics survey so that HCA results could be bench marked against other industries nationwide. Ms. Bullock reported that in 12 years of compliance program surveys, the survey responses indicating a fear of retaliation in the HCA workforce was 40% compared to the national average of 35-40%. She said HCA identified their staff employed six-to-ten years had the highest fear of retaliation. She said HCA had a strict non-retaliation policy but recognized retaliation could still happen. Dr. Hughes stated the statistics and research demonstrated it was very difficult to get below the 35-40% fear of retaliation threshold. It seemed more of a personal issue than organizational. Dr. Hughes also stated the ad hoc Compliance Oversight Committee currently was vetting and modifying the survey.

Ms. Freidenrich stated the OCERS Audit Committee was in the process of establishing a hotline. She said OCERS staff may contact either their Hotline or Internal Audit Department's OC Fraud Hotline. Vender selections were being considered for service, responsiveness and costs by OCERS. Both Ms. Bullock and Dr. Hughes offered to assist OCERS as needed.

Supervisor Moorlach asked what software HCA used for their surveys. Ms. Bullock answered Survey Monkey. Dr. Hughes stated IAD asked HCA if IAD could use their Survey Monkey service and HCA agreed. Supervisor Moorlach said question No. 3 had multiple indicators and suggested breaking down types of incidents, such as "in case of fraud, I would ___ blank", "in case of abuse, I would ___ blank", "in case of sexual harassment, I would ___ blank," and lastly, "in case of improper business conduct, I would ___ blank." The blank option content would be listed. Supervisor Moorlach felt the clarity would reinforce the questions. Additional suggestions were made to replace the selection of "I will handle it myself" with "I would take no action." Dr. Hughes said he would take all suggestions into consideration and make appropriate changes. He appreciated this feedback.

- 7. Approve OC Internal Audit Department 4th Quarter Status Report of FY 11/12 for the period July 1, 2011 through June 30, 2012, and approve 4th Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2011 through June 30, 2012**

Moved-Grimes, Seconded-Kim (proxy for Franz), Yes-Carlson, Yes-Moorlach, Absent-Nelson

Approved as Recommended

DIRECTIVE:

Dr. Hughes and Mr. Danley to meet with Supervisor Nelson to consider a review of a letter concerning Alisa Drakodaidis.

Ms. Freidenrich and Dr. Hughes to meet and review risk assessment matrix to determine audit coverage over cash receipting Countywide and consider adding the audit to the FY12-13 audit plan and return to AOC for approval.

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Dr. Hughes stated the status report was for the reporting period July 1, 2011 to June 30, 2012 and closed-out the audit plan. He said the vast majority of audits were completed. Some however, were canceled or postponed with AOC approval throughout the course of the year. Dr. Hughes reported Audit No. 2947, title: CAPS+ Finance – User Access/Segregation of Duties, page 1, Information Technology, Item 8, was closed during the 4th quarter (period April 1 to June 30, 2012). Other related audits, specifically payroll, were included in the FY 12-13 Audit Plan. He said this audit was not being dropped, but integrated into other audits for efficiencies.

Dr. Hughes stated Sheriff Hutchens sent a very complimentary letter to the Internal Audit Department citing the names of the auditors that performed the work on the Sheriff-Coroner Law Enforcement Services Contract Cost Study audit.

Supervisor Moorlach suggested adding another column to the status report to show the total hours for the year.

Supervisor Moorlach said the Fourth District requested the Internal Audit Department review the Alisa Drakodaidis letter. Supervisor Moorlach suggested Dr. Hughes meet with Mark Lopez and the Supervisor for the specifics of the review. Mr. Danley asked if it was concerning the attorney letter. Supervisor Moorlach stated yes. Mr. Danley said coordination of departments were addressing the letter. Supervisor Moorlach suggested Mr. Danley and Dr. Hughes both meet with Supervisor Nelson about the specifics.

Mr. Danley asked for a status of the four significant issues identified in the Sheriff-Coroner Inmate Fund Audit from the Executive Summaries Status Report. Dr. Hughes stated IAD had not yet begun the follow-up audit. Dr. Hughes stated the follow-up audit would begin six months following the release of the audit. The four significant findings were not driven by dollar amount, but rather their business objective. Recording deposits or performing reconciliations were accounting issues. The Sheriff-Coroner would be redirecting their resources to address the issues. Dr. Hughes said the items did not elevate to a critical nature to warrant starting the follow-up audit process sooner.

Ms. Freidenrich said her department identified one of the County agencies that had cash coming in that was not being reported. She would like to request a review of agencies that receive cash be performed. She felt it was a critical area in fiduciary funds, but did not have specific details. She said the dollar amount was not material to the financial statements of the County; however as the Treasurer she was responsible for the deposit of all funds. She said she wasn't sure if the review should be directed to the Internal Audit Department or an outside firm. She said it came up in the second quarter of FY 11-12. Ms. Freidenrich said her department was in the process of identifying how much cash was received from each location to determine where the significant dollars were received. Dr. Hughes said the AOC could approve the audit. Dr. Hughes said IAD could provide a summary of the audits performed in cash receipts for the past three-to-five years to the Treasurer. Dr. Hughes said any areas Ms. Freidenrich felt needed coverage could then be identified and she could request an audit or outsource the review. Ms. Freidenrich said that option was acceptable. Dr. Carlson recommended Dr. Hughes and Ms. Freidenrich review the risk assessment matrix to determine the areas of concern. If Ms. Freidenrich felt a review should be added to the audit plan she should return to the next AOC meeting and request the audit. Ms. Freidenrich and Dr. Hughes both agreed.

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8. **Approve External Audit Coverage 4th Quarter Status Report FY 11/12 for the period July 1, 2011 through June 30, 2012**
Moved-Moorlach, Second-Kim (proxy for Franz), Yes-Carlson, Yes-Grimes, Absent-Nelson
Approved as Recommended

Dr. Hughes said the external audit activity status report listed Countywide audit coverage in departments and agencies. There were no new material issues identified or reported by any department or agency.

9. **Receive and file Summary Highlights of Audit Reports Issued by Month for FYE July 1, 2011 to June 30, 2012 and July 1, 2012 to July 31, 2012**
Moved-Moorlach, Second-Grimes, Yes-Carlson, Yes-Kim (Proxy for Franz), Absent-Nelson
Received and Filed.

Supplemental Item:

- S9-A Consider Expanding Public Membership of Audit Oversight Committee and Direct Staff**
DIRECTIVE: Internal Audit Department to present at the next AOC meeting amended AOC Bylaws to reflect membership changes of the Treasurer-Tax Collector as a voting member and the addition of one public member.

Supervisor Moorlach asked the AOC to consider expanding the private sector membership. He stated he has several professionals that have expressed interest and a willingness to join the AOC. He also requested changing the Treasurer-Tax Collector from an ex-officio non-voting to a voting member of the AOC. Dr. Carlson stated he was encouraged and supportive of the changes. Supervisor Moorlach motioned for Internal Audit to return to the AOC with revised Bylaws to add one additional private sector member and make the Treasurer-Tax Collector a voting member. The motion was seconded by Frank Kim (Proxy for Bob Franz).

PUBLIC COMMENTS: None

AOC COMMENTS:

DIRECTIVE: Dr. Carlson request for Internal Audit include an item on agenda to address External Auditor findings related to Business Continuity Implementation status.

Supervisor Moorlach asked Jan Grimes about accrual periods changing from 90 to 60 days. Ms. Grimes clarified that 60 days has been the traditional accrual period for a number of years. It is the most appropriate accrual period for the next accounting cycle timed and paired with the payroll cycle. She said two years ago the State was delaying payments for many programs and it had negative implications for net cost in June. It created an artificial negative impact on fund balance. At that time, the Auditor-Controller decided to allow for State and Federal Grants for a two-year period an accrual extension from 60 days to 90 days in order allow revenues and expenditures to match and not create budget problems. The two year period has now expired and the extension has lapsed and we are now back to the 60 day accrual period. Supervisor Moorlach expressed some concern for departments that may be impacted. The Auditor-Controller's experience in monitoring cash flow is that they feel the State is in a better position and has a more stable and predictable cash flow pattern now than they have in the recent past.

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Mr. Kim stated that over time the accrual timeline for revenue has become more restrictive or more fixed to the 60 day period. Some departments were concerned that if we do not maintain a 90 day accrual period there could be another one-time impact because of a timing issue.

Dr. Hughes stated at the last AOC meeting in May 3, 2012, item 3, a long-standing external audit finding pertaining to business continuity and disaster recovery was shown. In response to the item, he invited Ms. Lynn Halverson from CEO IT to address the open item. Dr. Hughes stated the County has made progress on the complex issue. Survey software has been distributed to various departments. Some departments have completed their entries while others have not due to resources and technical expertise. CEO/IT will assist where needed to complete surveys. When the surveys are completed, it would satisfy the findings raised by the external auditors. Dr. Carlson thanked Dr. Hughes and Ms. Halverson for the update and directed the item to be included as an agenda item at the next AOC meeting. The report should include a review of what the audit findings were over the years and focus the comments to the context of those findings.

ADJOURNMENT: 3:48 P.M.

NEXT MEETING: November 7, 2012, 10:00 a.m. REGULAR MEETING