

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, September 17, 2015, 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 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

Dr. Peter Hughes, CPA
Performance Audit Director
Member

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

Dr. Dave Carlson
Private Sector Member

ATTENDANCE: Mark Wille, AOC Chairman; Proxy Paul Gorman for Shari Freidenrich, Treasurer-Tax Collector; Supervisor Todd Spitzer; Proxy Mark Rosen for Eric Woolery Auditor-Controller; Frank Kim, CEO; Proxy Paul Walters for Supervisor Lisa Bartlett; Peter Hughes, Performance Audit Director; Gary Caporicci, AOC Vice-Chair and Private Sector Member

EXCUSED: Dr. Dave Carlson observed the meeting by teleconference.

ABSENT: Sally Anderson, 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 May 7, 2015.

Motion to approve May 7, 2015 minutes of the Audit Oversight Committee by Supervisor Spitzer, second by Mr. Walters.

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Linda Hurley stated a misspelled name on page 2, "Catherine" is spelled with a "K" and also stated that under item number 3, it was herself, not Ms. Lai, who discussed the engagement letter in the previous AOC packet.

Mark Rosen, Proxy for the Auditor-Controller abstained; all others in favor, none opposed. The item carried.

Approved as recommended with amendments by Linda Hurley, MGO.

Mr. Wille stated that information was requested at the Audit Oversight Committee meeting on May 7, 2015 that was not presented on the agenda. Supervisor Spitzer stated that information may be presented and received, but may not be deliberated because those items are not agendized. Mr. Servino concurred and stated that the item would need to be brought up under the comments section of the agenda. Mr. Wille requested that all follow-up items to be agendized in order for those items to be addressed.

3. Receive Oral Report on Required Communication from External Auditors, Macias Gini & O'Connell (MGO)

Linda Hurley, MGO, stated that final fieldwork for John Wayne Airport (JWA) and Orange County Waste and Recycling has been completed and they are wrapping up the final field work for OC Development Agency (OCDA). She stated that MGO is planning to issue the reports concurrently with the Comprehensive Annual Financial Report (CAFR) in December 2015.

Ms. Hurley stated that for the Single Audit, ten programs were selected to be audited in the upcoming year. Ms. Hurley stated that they completed fieldwork for two of those programs and looking into finalizing the fieldwork for the remaining programs by the end of this calendar year. Mr. Caporicci requested information regarding why there was thirteen programs audited last year and asked to have an item on the following agenda to address the topic.

Ms. Hurley stated that there will be a discussion item added to the AOC December agenda clarifying the 10 major programs to be audited in FY 15-16 and why there was 13 programs audited in FY 14-15. She stated that an oral report will be provided however it was likely that the physical reports would not be available for the scheduled December 17, 2015 AOC meeting.

Mr. Caporicci stated that under SAS 128 external auditors can use the work of the internal auditors. He requested a discussion item to be on the agenda for the next meeting on the relationship of External Audit (MGO) and Internal Audit now that Internal Audit is part of the Auditor-Controller.

Mr. Rosen requested Ms. Hurley provide information regarding how MGO coordinates with other California Counties when the internal audit activity is part of the Auditor-Controller.

4. Auditor-Controller Oral Status of GASB 68 Implementation

Ms. Claire Moynihan, Director of Central Accounting Operations, Auditor-Controller, presented this item to the AOC. Ms. Moynihan discussed some of the major changes resulting from the GASB 68 and GASB 71 implementation. She stated that under GASB 68 and 71, contributions made after December 2013 would be recognized as deferred outflows of resources rather than prepaid costs. She also stated that deferred outflows of resources includes the County's contributions after the measurement date. Ms. Moynihan stated that deferred outflows/inflows of resources also records amortization amounts provided by the actuarial study.

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Ms. Moynihan stated that the County's share of ending Net Pension Liability now is presented on the County's financial statements and that the County is required to restate the beginning unrestricted net position in order to record the County's share of the Net Pension Liability and the restated beginning net position is presented on the Statement of Activities.

Mr. Wille thanked Ms. Moynihan for her work on the CAFR, GASB 68 and stated that he would like the information on GASB 68 and GASB 71 available to the public and press.

5. Oral Status of the Consolidated FY 2015-16 Audit Plan and Organizational Chart

Ms. Toni Smart introduced herself and gave a brief history of her experience with the County. She stated that as of August 4, 2015 the BOS approved the move of the Internal Audit Department to the Auditor-Controller's office. Ms. Smart stated effective August 21, 2015, she was appointed the Director of the Internal Audit function; and the fraud hotline along with 3 staff was transferred to County Counsel. Ms. Smart stated that Auditor-Controller Internal Audit will still work with County Counsel on fraud hotline issues if they relate to financial fraud, waste and abuse. Ms. Smart introduced her senior management team: Nancy Ishida, Autumn McKinney, Mike Goodwin, and Carol Swe.

Ms. Smart referred the AOC to item No. 5, the new organizational chart and how her team would work to merge the functions together. She stated that IT and Revenue Generating Lease audits would remain under the direction of Ms. McKinney; new to the existing organizational chart is the Fiscal Monitoring unit. She gave a brief description stating that this unit would be under the direction of Nancy Ishida and the team members are funded through the Orange County Community Resources Department. Mr. Frank Kim asked for a follow-up in the future regarding the effectiveness of this approach.

Ms. Smart acknowledged Ms. McKinney for the work she did on the Audit Plan. She stated that her team was able to identify duplication efforts in areas and are now able to consolidate and free up roughly 1200 hours.

Supervisor Spitzer requested clarification as to which investigations would be handled by A-C Internal Audit versus County Counsel. Mr. Leon Page, County Counsel stated that the hotline team has put together draft policies and procedures on how the complaints will be investigated and these are currently being reviewed by Mr. Woolery. He stated that complaints would be handled in the area of expertise and stated that the Auditor-Controller will only handle financial hotline complaints/allegations.

6. Receive AOC Directed Third Follow-Up Financial and Internal Control Audit of Treasury Cost Allocations to Pool Participants and Recommend Memo to Audit File (AOC meeting February 20, 2014, Item 7)

Ms. Smart stated that out of the six open recommendations, two were implemented and four remain outstanding and in process. She said that of the four open recommendations, one was in the Treasurer-Tax Collector (TTC) department and the remaining three were in the CEO's office. Mike Goodwin stated that TTC recommendation has been completed as of today's AOC meeting. Mr. Kim stated that personnel changes have caused a delay to the CEO's open recommendations. He also stated that he anticipates implementation within two months.

Mr. Wille requested a follow-up on the implementation status of item 6 at the December 17, 2015 AOC meeting.

A motion was made by Mr. Caporicci; second by Mr. Kim to receive the AOC Directed Third Follow-Up Financial and Internal Control Audit of Treasury Cost Allocations to Pool Participants and add an

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agenda item to the December 17, 2015 to follow-up on the implementation status of the remaining items.

All in favor; none opposed.

Approved as recommended with amendments by Frank Kim, DIRECTIVE: CEO to provide status of this item at the December 17, 2015 AOC meeting.

- 7. Approve OC Internal Audit Department FY14-15 4th Quarter Status Report for the period July 1, 2014 through June 30, 2015 and approve 4th Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2014 through June 30, 2015 and receive and file Summary Highlights of Audit Reports Issued by Month for FY14-15 July 1, 2014 to June 30, 2015.**

Ms. Smart presented item number 7 to the AOC. At the request of Mr. Wille, Mr. Goodwin presented summary highlights and stated that Internal Audit stayed within the budgeted hours. He stated that there were a few audits that were canceled, postponed or carried forward and those were highlighted on the status report.

Mr. Goodwin stated that there was nothing significant on the executive summary.

A motion was made by Dr. Hughes; seconded by Mr. Caporicci to approve the OC Internal Audit Department FY14-15 4th Quarter Status Report for the period July 1, 2014 through June 30, 2015 and approve 4th Quarter Executive Summary of Audit Finding Summaries for the period July 1, 2014 through June 30, 2015 and receive and file Summary Highlights of Audit Reports Issued by Month for FY14-15 July 1, 2014 to June 30, 2015.

All in favor; none opposed.

Approved as recommended.

- 8. Approve 4th Quarter FY14-15 External Audit Activity Quarterly Status Report for the Quarter Ended June 30, 2015.**

Ms. Smart presented this item to the AOC. She stated that there were eight new findings but no material issues found.

A motion was made by Mr. Kim; seconded by Mr. Caporicci to approve the 4th Quarter FY14-15 External Audit Activity Quarterly Status Report for the Quarter Ended June 30, 2015.

All in favor, none opposed.

Approved as recommended.

- 9. Review and Discuss AOC Proposal**

Mr. Wille opened item number nine and stated that throughout the structural changes within the County, the AOC needs to be re-structured as well. Mr. Wille stated that he would like to discuss and accept written suggestions on how the AOC should structurally move forward in accordance with the new AC-Internal Audit structure. He stated that he ultimately wants to take the information to the Board for approval. Mr. Wille referred the AOC to the Item nine discussion paper and read through the following topics: Establishment of Audit Coordination Committee (ACC); suggested members of the ACC; ACC functions; separate functions including Performance Audit and administration of the Fraud Hotline; Performance Audit functions; reporting structure of previously stated functions; membership and roles of the AOC; and non-voting AOC members.

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Proxy Rosen stated his objection to proceeding any further with this discussion as Mr. Woolery is not present nor is Supervisor Do.

Mr. Wille stated that he wanted to get the process started and this discussion is only intended as possibilities to the new structure.

Discussions on this item continued and a motion was made by Supervisor Spitzer; seconded by Mr. Walters to form an AOC Ad Hoc Committee for a term of 6 months relating to the structure of the AOC comprised of the CEO, Auditor-Controller or his designee, AOC Chair and AOC Vice-Chair; and County Counsel as a staff member along with invitations being extended to the Board of Supervisors in non-voting roles.

Public Comments –

None

AOC COMMENTS & ADJOURNMENT

AOC COMMENTS: None

*AOC Chairman,
Mark Wille, CPA*

ADJOURNMENT: 11:50 a.m.

NEXT MEETING: Regular Meeting, December 17, 2015