

# S U M M A R Y M I N U T E S

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA



*Wednesday, May 2, 2012, 10:00 a.m.*

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

**Supervisor John 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

**Thomas G. Mauk**  
County Executive Officer  
AOC Member

**Dr. David Carlson**  
AOC Vice-Chairman, Public Member

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

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

ATTENDANCE: Shawn Nelson, John Moorlach, Dave Carlson, Steve Danley,  
Bob Franz (Proxy for Mauk Item 2), Tom Mauk, Jan Grimes

EXCUSED: Shari Freidenrich

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

**10:00 A.M.**

## 1. Roll Call

Attendance of AOC members is noted above.  
Internal Audit staff – Mike Goodwin, Autumn McKinney, Alan Marcum, Eli Littner,  
Michael Dean; Auditor-Controller Staff – Nancy Ishida, Christine Young, Claire  
Moynihan; Second District Staff – Lindsay Brennan; Fourth District Staff – David Zenger;  
Fifth District Staff: Don Hughes; External Auditors Vavrinek, Trine & Day – David  
Showalter, Phil White; public attendance: Katrya Carlson

## 2. Approve Audit Oversight Committee regular meeting minutes of March 15, 2012

Motion-Carlson, Second-Moorlach, Yes-Grimes, Yes-Franz (Proxy for Mauk), Yes-  
Nelson

***Approved as Recommended***

CEO Tom Mauk arrived at 10:05 a.m.

# S U M M A R Y M I N U T E S

### 3. Receive SAS 114 Required Communication from External Auditors Vavrinek, Trine, Day & Company, LLP

Moved-Moorlach, Second-Nelson, Yes-Carlson, Yes-Grimes, Yes-Mauk

***Received required communication.***

***DIRECTIVE: Supervisor Nelson directed the Internal Audit Department to follow-up on the Management Letter for Year Ended June 30, 2011, page 3, item 3 Continuance of Computer Operations, and report back to AOC at a future date.***

Mr. David Showalter from Vavrinek, Trine, Day & Company presented the SAS No. 114 Required Communications entrance letter. The entrance letter included detail from the audit plan and the responsibilities under professional auditing standards for the 2012 audit. Mr. Showalter asked the AOC members if there were any comments or items they wish to be considered for the 2012 audit. None were stated.

Mr. Showalter stated the 2011 Single Audit Report (SAR) audits the federal programs that the County administers. He stated they audited 18 major programs. He said 11 of the programs had American Recovery and Reinvestment Act of 2009 (ARRA) funding. The ARRA Programs required that each program receive a Single Audit. He stated Page 25 of the SAR listed the programs audited in 2011. Supervisor Nelson asked Mr. Showalter to address the significant deficiencies. Mr. Showalter stated the opinion rendered on the financial statements was an unqualified clean opinion. There were no material weaknesses and no significant deficiencies related to the financial statements audit. In SAR there were significant deficiencies noted in internal controls. For each program audited, the external auditor was required to opine on compliance. For the 18 programs audited, all were unqualified clean opinions. Mr. Showalter stated there were instances of non-compliance and significant deficiencies in the 14 findings (see page 27). He explained a finding example as when ARRA dollars were passed out, the sub-recipient needed to be listed specifically under category and there were instances where they were not listed correctly. There were also findings related to some documents being missing or signed incorrectly; and some related reports not being submitted timely. Management responses and corrective action were included in the SAR.

The Management Letter contained prior year observations and the status of those observations. Mr. Showalter stated there were no current year recommendations contained in the Management Letter. Prior year observations in the IT environment had been carried forward from the prior years. It included management responses and their corrective action. Items 1, 2 and 3 were still on-going and not yet fully implemented. There was general discussion about Item 3 (Continuance of Computer Operations) and the management response. Mr. Showalter stated Item 3 was a finding carried over from the prior auditors in 2007. Dr. Carlson stated the management response to Item 3 was inadequate. Ms. Claire Moynihan, Auditor-Controller's office, stated resolution was halted because of a lack of resources and various other reasons. Supervisor Nelson asked the Internal Audit Department to follow-up on the 2011 Management Letter, Item 3 and to provide status updates of the implementation at future AOC meetings. Dr. Hughes agreed to add the item to the Audit Plan and will report at the next AOC meeting.

Supervisor Moorlach asked Mr. Showalter if there were any additional observations in the Management Letter that should be brought to the attention of the AOC. Mr. Showalter stated that they were pleased that nothing rose to the level that required them to bring it to the AOC's attention.

# S U M M A R Y M I N U T E S

AOC members had questions about signatures, headers, footers and report format. The AOC members felt changes to the format would add clarity to the report. Mr. Showalter explained the report format, structure and presentation of the financial statements and material. He explained that they were required by the professional standards under the AICPA and State Board of Accountancy to present their format, reports, letters, in exactly the manner he used and that he could not edit or modify this information. He explained how the Vavrinek, Trine and Day partners and staff could be contacted if needed to further discuss their questions. As such, the AOC recognized that no changes to format would be made by VTD.

- 4. Receive and file status from CFO on Performance Audit Department Audit Recommendation of CEO/Risk Management, Enterprise Risk Management Moved-Moorlach, Second-Carlson, Yes-Nelson, Yes-Grimes, Yes-Mauk  
*Received and filed.***

Mr. Bob Franz discussed the early stages of implementing the recommendation made in the performance audit report. He stated they held one meeting held on April 25, 2012 that included Supervisor Campbell and EAs from each Board office. He said he was coordinating with Internal Audit over the scope and the limited ERM approach. He stated he would be meeting with Mr. Tom Phillips on May 5, 2012 to discuss the timeline. Mr. Franz said they were in the early stages of the implementation and there would be another ERM committee meeting before the matter was brought to the Board of Supervisors.

- 5. Approve Draft Internal Audit Department Fiscal Year 2012-13 Audit Plan and Risk Assessment Moved-Carlson, Second-Moorlach, Yes-Mauk, Yes-Grimes, Yes-Nelson  
*Approved as recommended.***

***DIRECTIVE:***

- 1) Supervisor Nelson requested for the one high-rated area not scheduled for audit to be considered for coverage if resources became available during the FY 12-13 audit period.***
- 2) Supervisor Moorlach directed the Internal Audit Department to prioritize the reverse pension pick-up audit when new audit cycle begins July 1, 2012.***
- 3) Supervisor Moorlach directed the Internal Audit Department to consider outsourcing the reverse pension pick-up audit during the FY13-14 audit planning process.***

Dr. Hughes explained the risk assessment and draft audit plan for FY12-13. The proposed audits categories included financial, compliance, internal controls, lease revenue generating lease audits and information technology. Six of the seven high-rated activities and most of the medium rated activities were planned for coverage. Dr. Hughes explained the risk assessment process. He said it was countywide and also involved comments or feedback from each department and each Board office. He stated the risk assessment was based upon the department's standard criteria that included time between audits, materiality, exposure in terms of dollars, complexity of rules and regulations, and organization changes or mergers of changes and/or reductions of staff. Dr. Hughes stated that Internal Audit also reserved hours for AOC or Board directed audits.

# S U M M A R Y M I N U T E S

Supervisor Nelson asked why six of the seven high-rated activities were audited and not all seven. Dr. Hughes discussed the factors that were elevated in ranking the risks and said he would research this area further. Supervisor Nelson requested for the one high-rated area not scheduled for audit to be identified in the event resources became available and to ensure it would be included in next year's audit plan if it wasn't audited this year. Dr. Hughes stated he would note it in the audit plan for this year or included in next year's audit plan.

Supervisor Moorlach thanked Dr. Hughes for including the calculation of the Reverse Pension Pick-Up audit and asked if the audit could be considered for outsourcing in the future because Internal Audit had performed the audit twice already. Dr. Hughes stated the audit was mechanical and that Internal Audit developed the audit program. He stated work papers would be available for others to follow. Supervisor Moorlach asked when the audit would start. He requested that the Reverse Pension Pick-Up audit be placed as a first priority when the new audit cycle began in July. He said it would be relevant information for employees to have the numbers because of current negotiations. Dr. Hughes agreed to place a priority status to start the audit on the new audit cycle. He also stated the audit would be considered for outsourcing during the next audit planning cycle as suggested by Supervisor Moorlach.

Mr. Steve Danley asked about the proposed coverage and scope of work for the Property Tax Management System (PTMS). Dr. Hughes briefly explained the Internal Audit information technology audit coverage. He said Internal Audit does not provide the technical expertise such as independent verification and validation (IV&V) coverage. He said Internal Audit had clarifying MOU's for IT services with PTMS and CAPS+ Steering Committee.

**6. Receive and file OC Fraud Hotline Activity Report for the Period July 1, 2012 through December 31, 2012 (Audit No. 1103-B)**

Moved-Moorlach, Second-Carlson, Yes-Mauk, Yes-Grimes, Yes-Nelson

***Received and filed.***

Dr. Hughes stated it was a best practice to provide the fraud hotline activity report to the AOC. Dr. Hughes stated Internal Audit provides 24/7 service. He said his staff provides coverage during working hours and a third-party provides coverage during all other hours. Dr. Hughes briefly explained the fraud hotline process and noted a significant increase in hotline complaints as well as an increase in the serious nature of some of the complaints. Dr. Hughes stated they were substantiating some or all the allegations in about 20% to 25% of the complaints investigated over the past three years.

**7. Approve Proposed Amended AOC Bylaws for private sector membership clarification and present to the Board of Supervisors for final approval**

Motion-Moorlach, Second-Carlson, Yes-Grimes, Yes-Nelson, No-Mauk

***Approved as recommended.***

# S U M M A R Y M I N U T E S

8. **Approve Audit Oversight Committee 2011 Annual Report to be presented to Board of Supervisors in compliance with AOC Charter (Section 7.1)**

Motion to continue-Moorlach, Second-Mauk, Yes-Grimes, Yes-Nelson, Yes-Carlson

***DIRECTIVE: Item continued to next AOC meeting to include information about Internal Audit Department monthly activity reports to the Board of Supervisors.***

Supervisor Moorlach moved for the item to be continued to allow Dr. Hughes to add information about the Internal Audit monthly activity reports to the Board of Supervisors.

9. **Receive and file oral status from AOC Subcommittee established to evaluate language and compliance issues of AOC Charter (AOC Meeting, March 15, 2012, Item 4) Received oral status report.**

Dr. Carlson stated the subcommittee reviewed an initial draft and planned to meet and discuss the draft and then return to the AOC with recommendations.

10. **Receive and file Status Report on Auditor-Controller Internal Audit Unit Audit Activity for July 1, 2011 through March 31, 2012**

Motion-Nelson, Second-Carlson, Yes-Grimes, Yes-Nelson, Yes-Moorlach  
***Received and filed.***

***DIRECTIVE:***

- 1) ***Auditor-Controller to provide quarterly Internal Audit Unit reports to the Board of Supervisors on public agenda. (see public comments)***
- 2) ***CEO/Budget to work closely with Treasurer's office on monitoring of the Treasury Cost Allocation to Pool Participants to ensure no overcharges occur.***

Ms. Jan Grimes presented a summary of the mandated audits performed by Auditor-Controller's office. The summary also detailed the findings related to the audits.

Supervisor Moorlach requested for the Auditor-Controller's office to present their reports to the Board of Supervisors on public agenda in the same manner as the Internal Audit Department (see public comments). He also requested for the Auditor-Controller's office to email him all reports as they are issued. Ms. Grimes agreed to provide the Auditor-Controller's office audit reports to the Board of Supervisors on public agenda (see Public Comments for frequency to the Board). Ms. Grimes said all reports were emailed to Supervisor Moorlach and she would confirm the email distribution list.

Supervisor Moorlach raised questions about the over charges on the expense ratio being returned on an annual basis and how it was not detected in the quarterly audits of the Auditor-Controller's Internal Audit Unit. Supervisor Moorlach asked about management's failure to identify and return the overcharge of administrative costs to investment pool participants (Audit of Treasury Cost Allocations to Pool Participants, Audit No. 2915) and related activity of the Treasury Oversight Committee. Dr. Hughes explained the difference in the scope of work that Internal Audit Department uses versus the Auditor-Controller's office Internal Audit Unit. He stated the IAD audit scope differed from the prior auditors and were able to identify items that were not caught in prior years. Mr. Mauk (also a member of the Treasury Oversight Committee) stated he would make certain that the CEO/Budget Office and the Treasurer's Office work closely together in monitoring the related activity to ensure that no more overcharges occur.

# S U M M A R Y M I N U T E S

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

Moved-Moorlach, Seconded-Nelson, Yes-Carlson, Yes-Mauk, Yes-Grimes  
***Approved as Recommended***

12. **Approve External Audit Coverage 3rd Quarter Status Report FY 11/12 for the period July 1, 2011 through March 30, 2012**

Moved-Carlson, Second-Moorlach, Yes-Mauk, Yes-Nelson, Yes-Grimes  
***Approved as Recommended***

Dr. Peter Hughes introduced Dr. Jeff Nagel, Health Care Agency to address the material item. Dr. Nagel stated the material item was about an audit of Mental Health Cost Report for FY 06-07.

Dr. Nagel reported the County was appealing \$249,000 of \$560,000 in audit findings. He stated the \$249,000 pertained to amounts recouped by the State Department of Mental Health for credits processed after the submission of the Cost Report. The total amount of approved cost for the audit period in FY 06-07 was \$190M and Medical revenue was \$49M of that cost.

13. **Receive and file Summary Highlights of Audit Reports Issued by Month for July 1, 2011 to February 29, 2012**

Moved-Carlson, Second-Mauk, Yes-Moorlach, Yes-Nelson, Yes-Grimes  
**Received and filed.**

***DIRECTIVE: Internal Audit directed to place priority of the Follow-Up Probation Department audit on FY12-13 audit schedule.***

Mr. Tom Mauk requested the follow up audit of the Probation Department report (Audit No. 1127) issued in March 2012 be given priority on the follow-up schedule given the costs involved. Dr. Hughes agreed to prioritize the follow-up audit of the Probation Department (Audit No. 1127) for the FY12-13 audit cycle.

Supervisor Moorlach asked Dr. Hughes to provide information on the Special Request Audit of HRD – Employee Benefits Vendor. Dr. Hughes discussed the Special Request Performance Measure Validation Audit of Human Resources Department – Employee Benefits Vendor, Kaiser Permanente (Audit No. 1155). He explained why Kaiser was selected and the testing methodology of the performance measures.

## PUBLIC COMMENTS:

Ms. Nancy Ishida, Audit Manager, Auditor-Controller's office Internal Audit Unit, requested Item 10 be re-opened to consider the frequency of presenting the mandated audits to the Board of Supervisors. She said there were few mandated audits performed to report on a monthly basis. She requested quarterly or semi-annually because of volume. Supervisor Moorlach agreed to quarterly reporting. Supervisor Nelson directed the notation on Item 10.

# S U M M A R Y M I N U T E S

## AOC COMMENTS:

Supervisor Moorlach requested a status of the Auditor-Controller vacancy. Mr. Tom Mauk provided update on recruitment of Auditor-Controller position. One of three firms was being considered to assist the County in the recruitment of the Auditor-Controller position. Until a selection is made by the Board of Supervisors, Ms. Jan Grimes, Chief Deputy Auditor-Controller will act in the Auditor-Controller capacity.

Supervisor Moorlach requested a status of the Redevelopment Agency (RDA) dissolution activity. Ms. Jan Grimes provided an update and status of RDA dissolution activity with the State. She said timelines were approaching and they were where they should be but see troubled areas ahead. Mr. Mauk asked about staffing. She said staffing may be requested in the future because of competing priorities and the RDA activity could translate into a two-year transition.

Supervisor Moorlach requested a status of the Klubnikin Family Trust report. He said more documentation was handed to the Board and he would forward that on to Internal Audit. Dr. Hughes provided an update of the Klubnikin Family Trust report and related activity. He said the report may be issued sometime in June or July 2012.

ADJOURNMENT: 11:13 A.M.

NEXT MEETING: August 9, 2012, 2:30 p.m. REGULAR MEETING