

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, January 26, 2017, 10:00 a.m.

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

Dr. David Carlson (District 3)
AOC Chairman, Private Sector Member

Mark Wille, CPA (District 2)
AOC Vice Chair, Private Sector Member

Supervisor Michelle Steel
Second District, Board Chairwoman
Member

Supervisor Andrew Do
First District, Board Vice Chair
Member

Frank Kim
County Executive Officer
Member

Drew Atwater (District 1)
Private Sector Member

Robert Brown (District 5)
Private Sector Member

Peter Agarwal (District 4)
Private Sector Member

Present Non-Voting Members

Treasurer-Tax Collector:
Auditor-Controller:
Performance Audit Director:

ABSENT
Eric Woolery, CPA
VACANT

Present Staff

Director of Auditor-Controller Internal Audit: Toni Smart, CPA
Deputy County Counsel: Mark Servino
Clerk: Maribel Garcia

ATTENDANCE: David Carlson, AOC Chairman, Private Sector Member; Mark Wille, CPA, AOC Vice Chair, Private Sector Member; Drew Atwater, Private Sector Member; Robert Brown, Private Sector Member; Frank Kim, County Executive Officer; Supervisor Andrew Do, First District, Board Vice Chair; Chris Gaarder, Proxy for Supervisor Andrew Do; Peter Agarwal, Private Sector Member; Arie Dana, Proxy for Supervisor Michelle Steel

10:00 A.M.

1. Roll Call

AOC Chairman Dr. Carlson 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 January 26, 2017.

Motion to approve January 26, 2017 minutes of the Audit Oversight Committee by Mr. Brown, seconded by Mr. Atwater.

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All in favor, none opposed. The item carried.

Approved as recommended.

3. Receive Oral report on MGO's Financial Statement Audits and Single Audit

Ms. Hurley stated that MGO issued an unmodified opinion on the 2016 CAFR, and that the full CAFR will be available at the next AOC meeting. Ms. Hurley stated that there were no findings for the Financial Statement Audit, and that MGO is still working on the Single Audit.

Ms. Smart asked Ms. Hurley to comment on the partnership that occurred between MGO and the Auditor-Controller Internal Audit Division (A-C/IAD). Ms. Hurley stated that, at the request of the AOC, Ms. Smart and Ms. Hurley worked together to incorporate assistance from A-C/IAD in the financial audit. Ms. Hurley stated that MGO worked closely with A-C/IAD on the Unearned Revenue section. A-C/IAD did a review and MGO relied on A-C/IAD's work. Ms. Hurley stated that Ms. Smart provided one of her staff members to assist in the engagement and that MGO staff provided positive feedback regarding this individual. Ms. Smart added that it was her understanding that the new IT Manager was able to assist as well. Ms. Hurley stated that the new IT Manager helped with Risk Assessment in General IT Controls.

Mr. Willie thanked Ms. Hurley and MGO for being open to creating a partnership with A-C/IAD and using A-C/IAD's work in a different way than in the past. Ms. Hurley stated that MGO will continue to work in partnership with A-C/IAD. Ms. Hurley added that planning for 2017 has started and MGO is considering a new accounting and financial reporting standard. MGO will work with Financial Reporting to talk about the implementation of the new standard.

Dr. Carlson asked Mr. Godsey if he had any comments. Mr. Godsey stated that all the feedback he received was that the audit was progressing as it should. Mr. Godsey added that he has been talking to Ms. Smart about ways in which MGO can assist A-C/IAD with IT General Controls. Mr. Godsey said he will continue the discussions with Ms. Smart.

4. Approve AOC Bylaws and appoint an Ad Hoc Committee to review AOC Training and Internal Controls; and direct CEO to present to the Board of Supervisors for final approval

Dr. Carlson asked for a motion to adopt the proposed AOC Bylaws. Mr. Wille motioned to approve, seconded by Mr. Brown. Dr. Carlson opened the item for debate.

Dr. Carlson asked Mr. Agarwal if he would like to move the Peter Agarwal Proposed Revision document as an amendment. Mr. Agarwal stated that he would. Dr. Carlson asked for a second to the motion. Mr. Brown seconded the motion. Dr. Carlson opened the item for debate.

Mr. Agarwal stated that a resolution was approved by the Board of Supervisors on February 9, 2016, and that he was trying to realign that purpose in the AOC Bylaws. The last paragraph of the Board Resolution states that "[the Board] established an Audit Oversight Committee to provide independent review and oversight of the County's financial reporting process." Mr. Agarwal stated that the current Purpose in the AOC Bylaws does not reflect that language.

Dr. Carlson noted that at the last AOC Meeting, a subcommittee was formed to look at the AOC Bylaws. Dr. Carlson stated that after several meetings, the subcommittee chose the language in the proposed AOC Bylaws, and that Mr. Agarwal created an amendment because he was concerned that some of his recommendations were not incorporated into the proposed Bylaws.

Mr. Wille stated that the differences between Mr. Agarwal's suggestions under Article 2, Purpose, and the committee's proposed AOC Bylaws are subtle, and that he would like to know what

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County Counsel and the County Executive Officer (CEO) think about Mr. Agarwal's changes. Mr. Kim stated that he would have an issue with adopting the word "overseeing" because the Board has not fully defined "overseeing" or what their expectations of performance of that function are. Mr. Kim stated that County Counsel would have information about the Auditor-Controller's statutory duties and responsibilities, and that there is a portion of the Auditor-Controller's duties that are delegated by the Board.

Supervisor Do stated that he agreed with Mr. Kim and that he was concerned with the language of the Article 2 amendment to the proposed AOC Bylaws because the language elevated the function of the AOC. Supervisor Do stated that the language suggests the AOC would be assisting the Board, as opposed to being a way for the Board to look into departments, including the Auditor-Controller. Mr. Wille asked if Supervisor Steel's office had any comments. Arie Dana, proxy for Supervisor Steel, stated that he would agree with Supervisor Do's assessment, and that it was his understanding that the AOC is more of an advisory committee.

Mr. Agarwal stated that the intent of his recommendations was to provide oversight as described in the Board Resolution, and the Resolution already makes clear that the AOC provides oversight for the County's financial reporting process. Mr. Wille stated that the AOC provides a function that the Board of Supervisors (BOS) cannot provide to the external auditors and that the AOC provides oversight for the Internal Auditor (IA) and Performance Auditor (PA). Mr. Wille asked Mr. Agarwal if he would modify his amendment and create two separate amendments because one of the suggestions has to do with the oversight aspect and the other has to do with the Chair and Vice Chair of the AOC.

Mr. Kim stated that his view of the AOC is that they are advisory by reviewing the audit plans of IA and PA, and then providing a recommendation to the BOS. Mr. Kim stated that the area in which the AOC does assist the BOS is in overseeing the work of the External Auditor to maintain independence. Mr. Kim stated it was his opinion that the proposed AOC bylaws were appropriate, and that he would share Mr. Agarwal's concerns about aligning the Purpose to the original Board Resolution, with the BOS.

Dr. Carlson asked Mr. Agarwal to withdraw the amendment on Article 2 in order to continue the discussion on sections 4.1 and 4.5. Mr. Wille stated that he didn't think the AOC meeting was a place to try to come to a consensus about the language for Article 2.

Dr. Carlson stated that it would be best to send the Bylaws back to the subcommittee and Mr. Wille called the question to stop discussion on Article 2. Motion failed due to a tie. Discussion continued.

Mr. Atwater asked for clarification regarding the original AOC Bylaws and the proposed AOC Bylaws. Mr. Servino stated Mr. Agarwal's amendment aligned Article 2, Purpose, with Paragraph 2 of the Board Resolution. However, the current Bylaws were modeled after Paragraph 7 of the Board Resolution, which has details on actual duties. Mr. Servino stated that the Bylaws are not a duplication of the resolution, rather, they provide detail on how the AOC performs its daily operations. Mr. Servino added that the AOC does not have any delegated authority from the Board and acts in an advisory capacity.

Mr. Agarwal stated that the intent of the AOC was to provide "oversight, and that the AOC provides oversight of the Auditor-Controller Internal Audit Division. Mr. Kim stated that regardless of what the AOC does, the Board is still responsible for oversight of elected officials, and that "oversight" and "assist" could be argued interchangeably. Mr. Kim stated that the AOC has a delegated authority to provide direct management and supervision over the external auditors but the rest of its duties are advisory in nature.

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Supervisor Do stated that he does not agree that “oversight” and “assist” could be used interchangeably because the name of the committee is audit “oversight”. Supervisor Do stated that the language should be looked at more closely and suggested that the Bylaws be sent back to the subcommittee with the concerns that have been raised.

Dr. Carlson asked for a motion to stop discussion and refer the issue back to the subcommittee. Mr. Wille motioned, Mr. Atwater seconded.

All in favor, none opposed. The item carried.

Approved as recommended.

5. Receive Oral report on department management responses with “Do Not Concur”, Public Guardian and Flood (Public Works); Audit No. 1421 – Internal Control Audit: OC Public Works/OC Flood Special Revenue Funds for the Year Ended April 30, 2015, Audit No. 1524 – Internal Control Audit: Health Care Agency/Public Guardian Selected Processes and Controls as of December 31, 2015

Ms. Smart stated that “do not concur” responses pertain to facts of a finding or to auditor recommendations. Ms. Smart indicated that when there are issues, those findings are taken to management early on in the audit process to ensure that A-C/IAD has correct facts. A-C/IAD has an exit conference when completing an audit and sends management a pre-draft report. An official draft report is issued and management has 60 days to respond to the findings, providing another opportunity for management to provide input on wording, as well as classification of findings. Ms. Smart stated that when A-C/IAD issues the draft report, there is a cover letter asking management to contact A-C/IAD if they do not concur with any of the findings.

Ms. Smart stated that there is a lack of understanding regarding the role of A-C/IAD. A-C/IAD conducts audits of internal controls, not performance audit, and follows the COSO model. Ms. Smart stated that in the IT function, A-C/IAD uses the COBIT framework. In A-C/IAD reports, the words “efficiency and effectiveness” are often perceived as being performance audit. Ms. Smart stated that although Health Care Agency (HCA) and OC Public Works (OCPW) did not concur with the findings, both agencies’ responses from management indicate that the agency took corrective action and, therefore, did concur with the findings.

Mr. Wille asked Ms. Smart if definitions could be created that are A-COSO issues, B-COSO issues, and C-COSO issues. Ms. Smart stated that this is already in place, and that she would like to meet with Mr. Kim and Mr. Woolery to discuss training management. Ms. Smart stated that she has told staff to discuss COSO at audit entrance meetings so that management understands what the internal control elements are. Management understands segregation of duties and control activities, but does not understand that the control environment is also part of internal controls.

Mr. Kim stated that he thinks the issue is with how the audit findings are described. Mr. Kim stated that he does not mind management comments when it comes to specific findings and the risks to the organization if not addressed. Mr. Kim stated that he does not agree with adding a finding to a report and categorizing “succession planning” as a critical control weakness that needs to be addressed immediately, requiring a formal response. Mr. Kim stated that he is open to management comments as part of the audit, instead of as a recommendation and finding.

Ms. Smart stated that succession planning is categorized as an Efficiency and Effectiveness finding and that it was not categorized as significant. Ms. Smart stated that the succession planning finding being referenced came about in interviews conducted after the Public Guardian/Public Administrator split into Health Care Agency/Public Guardian (HCA/PG) and District Attorney-Public Administrator (OCDA). The audit included asking the question of what

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was and was not working after the split, and multiple managers brought up succession planning as an issue. Ms. Smart stated that A-C/IAD issued a report to OCDA and OCDA concurred with A-C/IAD's findings; the same report was issued to HCA/PG but the response was not the same.

Mr. Agarwal stated that more discussion should be had with the departments, so that department management understands what the scope of the audit will be. Mr. Agarwal disagreed that the problem is with educating the managers and stated that it was a communication issue.

Ms. Smart stated that the new IT Audit Manager, Ms. Stallworth, mentioned that in looking at IT General Controls at the County Executive Office (OCIT), internal control audits are perceived as being performance audits. Ms. Smart stated that there is some overlap with performance audit when conducting internal control audits. Mr. Agarwal stated that he is concerned that a "do not concur" will make other departments think a "do not concur" response and a rejoinder are acceptable. Mr. Wille asked Mr. Kim and Mr. Woolery what they thought about using a different model or having language that is acceptable to both parties. Mr. Kim stated that he is open to meeting with Mr. Woolery. Mr. Kim stated that the concern with the OCIT audit has more to do with the lack of clarity perceived regarding the fieldwork.

Mr. Wille asked Mr. Woolery what he thought about the discussion. Mr. Woolery stated that he was concerned about the HCA/PG response because he wants to create better processes within the county. Mr. Woolery stated that he has discussed with Mr. Kim that A-C/IAD does not want to delve into performance audit but when A-C/IAD sees items that fit the COSO framework, they have to be addressed. Mr. Woolery would like to meet with Mr. Kim and report back to the AOC. Mr. Woolery stated that it sounds like a semantics problem. Mr. Willie stated that it was a model and language problem.

Dr. Carlson directed Ms. Smart and Mr. Woolery to report back at the next AOC meeting.

6. Receive Open Item of Audit Recommendation Not Implemented from Audit No. 1353-F2 (Reference 1652) Second Follow-Up Information Technology Audit of Sheriff-Coroner Computer General Controls

Ms. Smart stated that approximately 6 months after an audit is completed, A-C/IAD conducts a First Follow-up to determine which recommendations have not been implemented. If recommendations are not implemented at the Second Follow-up, they are brought to the attention of the AOC for discussion. Ms. Smart stated that there is still an open item for the IT Audit of the Sheriff-Coroner Computer General Controls.

A representative from the Sheriff-Coroner office stated that there were four audit recommendations from Audit No. 1652. Three recommendations were completed, and the fourth was anticipated to be completed in January of 2017 but there were delays with the equipment. The implementation of the fourth recommendation is now anticipated to be in June 2017.

Ms. Smart asked AOC Chairman Dr. Carlson if he would like A-C/IAD to conduct a Third Follow-up of this recommendation. Dr. Carlson stated that he would like to add receiving a status update on the implementation of this recommendation at the June AOC Meeting.

Mr. Agarwal asked Ms. Smart how often a Third Follow-Up occurs. Ms. Smart stated that it is not very often but that they are conducted at the request of the AOC. Ms. Smart stated that there was a Third Follow-up audit of Countywide Travel. Mr. Agarwal stated that he did not want Third Follow-Up audits to be a part of the regular audit process.

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7. Receive Oral report from Health Care Agency on HCA's Compliance Program

Dr. Rajalingam stated that for 2016, 79 compliance issues and 107 privacy issues were closed out. As of January 26, 2017, HCA Compliance Program has received 6 referrals for compliance issues, and 7 referrals for privacy issues. Dr. Rajalingam stated that it is not unusual and that most of the compliance issues are related to Human Resources, such as employees not getting along or having difficulties with supervisors, and the privacy issues have to do with unauthorized disclosure, such as employees accidentally emailing or faxing protected information to the wrong source. When this occurs, HCA retrieves the email or fax to mitigate any harm or risk.

Dr. Rajalingam stated that annual compliance training was rolled out to all staff and was completed by most as of January 9, 2017. There are about 45 employees HCA-wide that are on leaves of absence but will have 30 days to complete the training upon their return.

Dr. Rajalingam stated that compliance cards have been created and distributed to staff with contact information for the general line, the compliance person, and HCA IT security. The intent is to have staff carry these with their employee badges, so that they can report any concerns or issues. Additionally, a presentation will be given at clinics and programs to explain what the Compliance Program does, what kind of issues should be reported, and to engage staff.

Dr. Carlson asked Dr. Rajalingam if HCA is receiving the support needed from other county agencies, and if there is any way the AOC can help. Dr. Rajalingam stated that HCA is very well-staffed right now, and has the resources to accomplish their goals. Ms. Rajalingam stated that she feels HCA is in a good place. Dr. Carlson thanked Dr. Rajalingam for her attention and dedication to this issue.

8. Receive Oral report on status of hiring Performance Audit Director

Dr. Carlson asked Mr. Wille to substitute for Mr. Kim and provide the status report. Mr. Wille stated that hiring a Performance Audit Director is still in the interview process. Mr. Wille stated that this is a difficult position to fill because it takes a particular skill set and performance audit is not prevalent, leaving a small pool of candidates. Additionally, there are challenges due to the county financial structure.

9. Receive Oral report on status of AOC Website and Contract database

Ms. Smart stated that updates have been made to the Auditor-Controller's website to include the names of the new members. Mr. Agarwal and Mr. Atwater stated that the old names were still on the website. Ms. Smart stated that she worked with Auditor-Controller staff to update the website and that she will follow up on the status. Ms. Smart stated that there is a Request for Proposal out to revise the entire Auditor-Controller website. Ms. Smart stated that she would like a separate page for the AOC and she is looking to revise the way reports are presented on the website so that they are easier to locate.

Mr. Nguyen stated that the Auditor-Controller website is up to date on ac.ocgov.com, which is the Auditor-Controller site but the old Internal Audit website is still active and higher in Google. If a user were to Google "Audit Oversight Committee", the user would end up at the old Internal Audit website. Ms. Smart stated that she would ensure that the old website is shut down.

Ms. Smart stated that she also had an update on the contract database. In talking with Mr. Johnson regarding the issues he had with a contracted vendor with the county, Ms. Smart and Mr. Johnson realized there is no database that contains information on prospective vendors. Ms. Smart is working on a survey that will be sent out to other counties asking for their feedback on what information would be useful in this type of database.

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Mr. Johnson explained that he is a landlord and the tenant was directly funded by the county. The vendor was not forwarding rent payments to Mr. Johnson, and he got the Auditor-Controller involved. Mr. Woolery stated that there is approximately \$340,000 that the county is trying to recover. Mr. Johnson stated that his idea of a centralized database came about because Los Angeles County has awarded the same vendor \$10 million in contracts. Mr. Johnson stated that the vendor has contracts throughout the state, and that there should be a way for counties to communicate this information to each other.

Dr. Carlson stated that he appreciated Mr. Johnson raising this issue because this cross-communication is difficult.

10. Approve Auditor-Controller Internal Audit Division's FY 2016-17 1st Quarter Status Report for the period July 1, 2016 through September 30, 2016 and approve 1st Quarter Executive Summary of Findings for the period July 1, 2016 through September 30, 2016

Ms. Smart introduced Senior IT Audit Manager Betty Stallworth. Ms. Smart stated that she will provide more details on the IT General Controls Audit of the OCIT at the next meeting. Ms. Smart stated that A-C/IAD is looking for consultant help in that area. Mr. Willie stated that, at a prior meeting, Mr. Agarwal stated he would like to get new AOC members some training on cybersecurity so that the members can provide better oversight. Motion to approve by Mr. Wille, seconded by Mr. Atwater.

Mr. Smart stated that she and Ms. Stallworth met with the Chief IT Security Officer, Jake Margolis. Ms. Smart stated that OCIT has an initiative to hire an auditor in the cybersecurity area. Ms. Smart stated that Mr. Margolis indicated OCIT is working on a county-wide look at cybersecurity and remediation and that Ms. Stallworth will be participating in the task force in an advisory role.

Dr. Carlson asked if there was anything material anyone would like to discuss. Ms. Smart stated that she has filled several audit positions and that she will discuss with Mr. Woolery which audits may not be completed. Mr. Agarwal asked when Ms. Smart will start looking at the next Risk Assessment and Audit Plan. Ms. Smart stated that it would begin in February and would focus on the IT area. Ms. Smart stated she would like to modify the approach this year by including interviews with the BOS, CEO, and department heads, looking at how many carryovers there are, and the amount of hours available to use. Mr. Smart will provide an update at the next AOC meeting. The full risk assessment will not be available until closer to the end of the fiscal year.

Mr. Agarwal asked Ms. Smart if the AOC is involved in the Audit Plan. Ms. Smart stated that the AOC is not typically involved but that it is brought to an AOC meeting for review. Ms. Smart stated that she is open to meeting with committee members to discuss how the risk assessment is compiled. Ms. Smart stated that Ms. Hurley from MGO is also a part of the planning.

All in favor; none opposed.

Approved as recommended.

11. Approve 1st Quarter FY 2016-17 External Audit Activity Quarterly Status Report for the Quarter Ended September 30, 2016

Dr. Carlson asked Ms. Smart to explain why there was such a large jump in findings since the last report. Ms. Smart stated that county agencies are audited by the state and federal government on a rotating basis, and that A-C/IAD will notify the AOC if there are any material issues. During this report, there was an Auditor-Controller finding pertaining to supplemental refunds of property tax.

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Mr. Davies, Property Tax Manager, stated that the California Comptroller's Office periodically audits the allocation and apportionment system of counties. The last audit covered 6 years and the state determined that the Supplemental Property Tax Administration Fee was being calculated incorrectly. Mr. Davies stated that the system was calculating fees based on Gross Collections not Net Collections. Mr. Davies stated that Auditor-Controller Property Tax division concurred with the finding and agreed to correct the methodology of calculation immediately, and return the over-recovery of that revenue over three years.

Mr. Agarwal asked Mr. Davies to whom the money would be returned. Mr. Davies replied that it would be returned to those taxing entities that were overcharged. Mr. Agarwal asked Mr. Davies how it was decided to spread out the payments over three years. Mr. Davies stated that the State Comptroller's office allows any financial impact to be spread out over three years.

Dr. Carlson asked Mr. Woolery for comments on the findings. Mr. Woolery stated that the fact that it's mitigated over time is good. Mr. Woolery stated that the Auditor-Controller does not want to have audit findings but that the calculations will be done correctly moving forward.

Mr. Agarwal stated that there should be a separate account for returning these funds so that the funds are not comingled. Mr. Woolery stated that the amount is being taken out of future tax apportionments and that there are no comingled funds.

All in favor; none opposed.

Approved as recommended.

12. Vote for 2017 Audit Oversight Committee Chair and Vice Chair

Mr. Wille made a motion to re-elect Dr. Dave Carlson as the AOC Chair, for his 20th year of service on the AOC.

Mr. Agarwal stated that he would like to discuss his amendment to the AOC Bylaws. Dr. Carlson stated that the members voted to table the entire discussion of the Bylaws. Mr. Agarwal stated that he was asked to separate his amendment and he agreed to do so, and that elections should be postponed because the Board of Supervisors has not approved the updated Bylaws. Dr. Carlson stated that the AOC has had bylaws for 20 years.

Mr. Servino stated that there was no formal separation of Mr. Agarwal's amendment, and that the whole amendment was referred back to the bylaws sub-committee. Mr. Servino stated that Mr. Agarwal could make a motion to continue the elections. Mr. Agarwal made a motion to continue the elections.

Dr. Carlson stated that Mr. Wille's motion is still on the table because Mr. Wille moved first. Mr. Brown seconded the motion to re-elect Dr. Carlson as AOC Chair. Mr. Wille, acting as Chairman, asked if someone would like to second Mr. Agarwal's motion to continue the elections. Motion failed for lack of a second. Mr. Wille opened reelection for discussion. No discussion.

Mr. Wille motioned to reelect Dr. Carlson as AOC Chairman. Mr. Brown seconded. Six in favor; one opposed.

Dr. Carlson motioned to reelect Mr. Wille as Vice Chairman. Mr. Kim seconded. Six in favor; one opposed.

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Public Comments – Mr. Wille thanked Mr. Woolery for sending out the Citizen’s report. Mr. Woolery provided copies of the Internal Audit report.

Ms. Smart asked Dr. Carlson, Chairman of the AOC, if the March AOC meeting could be moved from March 23, 2017 to March 30, 2017. Dr. Carlson approved the request.

Mr. Wille stated that the fourth AOC meeting would be rescheduled to not occur in the month of December.

AOC COMMENTS & ADJOURNMENT

AOC COMMENTS: None

*AOC Chairman,
Dr. Dave Carlson*

ADJOURNMENT: 11:55 A.M.

NEXT MEETING: Regular Meeting, March 30, 2017