

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



SPECIAL MEETING OF THE AUDIT OVERSIGHT COMMITTEE  
ORANGE COUNTY, CA

**Thursday, October 1, 2020, 9:30 A.M.**

Zoom Virtual Meeting:

<https://zoom.us/j/99135346034>

Join by Phone: 1-669-900-6833, Meeting ID: 991 3534 6034

**ROBERT BROWN (2023)**

AOC CHAIRMAN

Private Sector Member, Fifth District

**MARK WILLE, CPA (2022)**

AOC VICE CHAIRMAN

Private Sector Member, Third District

**SUPERVISOR MICHELLE STEEL**

BOARD CHAIRWOMAN

Second District

Member

**SUPERVISOR ANDREW DO**

BOARD VICE CHAIRMAN

First District

Member

**FRANK KIM**

COUNTY EXECUTIVE OFFICER

Member

**DREW ATWATER (2021)**

Private Sector Member, First District

**VACANT**

Private Sector Member, Second District

**STELLA ACOSTA, CPA (2023)**

Private Sector Member, Fourth District

**Non-Voting Members**

Treasurer-Tax Collector:

Auditor-Controller:

Internal Audit Director:

Shari Freidenrich, CPA

Frank Davies, CPA

Aggie Alonso, CPA

**Staff**

Assistant Internal Audit Director:

Deputy County Counsel:

AOC Clerk:

Scott Suzuki, CPA

James Steinmann

Gabriela Cabrera

ATTENDANCE: Robert Brown, AOC Chairman, Private Sector Member  
Mark Wille, AOC Vice Chair, Private Sector Member  
Chris Gaarder, Proxy for Supervisor Andrew Do  
Drew Atwater, Private Sector Member  
Stella Acosta, Private Sector Member  
Arie Dana, Proxy for Supervisor Michelle Steel

PRESENT: Shari Freidenrich, Treasurer-Tax Collector  
Frank Davies, Auditor-Controller  
Aggie Alonso, Internal Audit Director  
James Steinmann, Deputy County Counsel  
Gabriela Cabrera, AOC Clerk

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## 1. Roll call

Mr. Robert Brown, Audit Oversight Committee (AOC) Chair, called the special meeting to order at 9:30 A.M. Attendance of AOC Members noted above, with the exception of Drew Atwater who joined the meeting at 9:45 A.M. and Stella Acosta who joined at 10:03 A.M.

## 2. Agenda Walkthrough, Goals, and Logistics

Mr. Aggie Alonso, Internal Audit Director, discussed items on the AOC Retreat agenda and noted logistics for instant messaging and unmuting features to facilitate attendee participation. Mr. Alonso also noted virtual distribution of the AOC Retreat Binder with resources such as the agenda, speaker presentation materials, and AOC orientation materials including copies of AOC Bylaws, the Internal Audit Charter, and the Risk Assessment & Audit Plan for FY 2020-21.

## 3. Orientation and Overview of Internal Audit

Mr. Alonso discussed some of Orange County's history in relation to the formation of Internal Audit and the AOC. Next, Mr. Alonso discussed the AOC's purpose including assisting the Board as their advisory committee, ensuring the independence of the internal audit function, approving annual audit plans, and ensuring corrective action is taken on audit recommendations. Regarding AOC membership, Mr. Alonso discussed member composition, public member terms, and attendance as well as the duties of the AOC Chair and Vice Chair. Lastly, Mr. Alonso noted AOC compliance with the Brown Act, examples of AOC responsibilities, examples of oversight of Internal Audit, and required member ethics training.

## 4. Audit Oversight Committee Duties

Mr. Mark Wille, AOC Vice Chair, presented AOC history including voting and non-voting membership composition. Next, Mr. Wille discussed areas of AOC oversight that support the Board of Supervisors as they manage this large County. Examples included collaboration with external auditors, internal auditors, CEO for performance audits, A-C for mandated audits, T-TC for treasury audits, and OCIT for discussions on latest innovations and best practices. Mr. Wille proceeded to explain the duties of the members including understanding AOC Bylaws to facilitate robust Q&A discussions, reviewing the County's Comprehensive Annual Financial Reports prepared by external auditors, being skeptical of large and unusual items, understanding the Risk Heat Map, and monitoring internal control findings for corrective action.

Mr. Wille proceeded to discuss that as things change throughout the County, the AOC must be flexible in their oversight and collaboration approaches. Regarding the time commitment to the AOC, members must be proactive about attending meetings (or send a qualified proxy) and meeting with County employees when needed. Lastly, Mr. Wille noted member's moral commitment includes acknowledging the AOC as the last line of oversight and working to continuously improve County processes.

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## **5. Overview of the County's Annual External Audit and Financial Reporting**

Mr. Roger Alfaro, Partner at Eide Bailly, provided details on Eide Bailly's strategy for auditing the County such as criteria for determining audit scope and areas receiving an audit opinion. Next, Mr. Alfaro discussed external auditor responsibilities including using U.S. Generally Accepted Auditing Standards, providing reasonable and not absolute assurance, reporting compliance with federally funded programs for Single Audit, assessing material misstatements of financial statements, and reporting discoveries to management as appropriate. Mr. Alfaro also noted Eide Bailly's typically annual timeline for all County audits and their collaborative approach with County staff to complete those audits. Lastly, Mr. Alfaro discussed County management responsibilities to further distinguish areas where Eide Bailly does not hold responsibility as well as various GASB statements that will impact the County's financial reporting in the future.

## **6. Overview of Mandated Audits/Financial Statements & Reporting**

Mr. Frank Davies, Auditor-Controller, confirmed A-C's responsibility regarding mandated audits and financial statements including collaboration with Eide Bailly on financial reporting. Mr. Davies introduced Michael Steinhaus, Audit Manager for the Auditor-Controller Internal Audit Division, who further elaborated on mandated audits which include Cash Shortage Replenishment audits, review of Schedule of Assets, audit of Juvenile Books and Accounts, and the Collection of JPA and Special District Audited Accounts and Records.

Mr. Davies introduced Bertalicia Tapia, Auditor-Controller Financial Reporting Manager, to discuss Financial Statements and Reporting including the Comprehensive Annual Financial Report (CAFR), Single Audit for federally funded programs, and the Gann Limit Agreed Upon Procedures. Ms. Tapia provided background on the A-C's preparation for these financials, including how A-C collaborates with the external auditors for reporting aspects and how results are communicated to the Board.

## **7. Overview of Performance Audits**

Michelle Aguirre, Chief Financial Officer, began with an overview of the Office of the Performance Auditor which was established from 2007 to 2015 and reported directly to the Board. Ms. Aguirre noted Performance Audit report copies are available on the County internet for review. Next, Ms. Aguirre discussed the redirection of funds from this small office to external consulting services for continuation of these audits which are all budgeted and approved by the Board. Ms. Aguirre noted a draft policy and procedure is being routed for approval which will address the transition of Performance Audits to the Deputy Chief Operating Officers (one of which is currently vacant) and a team of two staff who will review departments under Programs 1-2 and Programs 3-7 (Programs 1-2 oversee public protection and community service departments and Programs 3-7 oversee general governance, infrastructure & environmental resource departments). Ms. Aguirre also discussed that in response to consultants not meeting County needs, the solicitation process for future consulting services will be expanded from a predetermined list of providers to an open solicitation for proposals in hopes of obtaining a better pool of qualified consultants. Lastly, Ms. Aguirre confirmed the performance audit reporting channels and their follow-up process for corrective action on resulting recommendations.

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## 8. Review of Bylaws

Mr. Brown acknowledged that due to the Retreat running longer than anticipated, he will be abbreviating the Bylaw items considering that both Mr. Alonso and Mr. Wille discussed aspects of the Bylaws. Mr. Brown noted it is important for members to have a thorough understanding of the Bylaws, in particular Article 7 regarding the purview of the AOC. Lastly, Mr. Brown echoed Mr. Wille's remarks regarding continuous improvement of the Bylaws to ensure they are clear, such as recently accomplished with the Bylaws revision approved by the Board in July 2020.

## 9. Review of Audit Committee Best Practices Survey Results and Recommend Potential Changes to AOC and Internal Audit Department Procedures in the following categories:

a. Comprehensive Framework of Internal Control and Countywide Training

b. Internal Audit Resources

c. External and Internal Audit Coordination and Coverage

d. AOC Member Requirements

Mr. Brown discussed a recent self-assessment survey taken by AOC members to identify how the AOC compares with the 35 best practices for audit committees. Mr. Brown noted consensus between members rating exceeds for majority of the practices; however, some of the lowest scores related to areas discussed in Article 7 of the Bylaws. Instead of holding a round table discussion on the lower scores, Mr. Brown proposed the formation of a subcommittee. The subcommittee will also review the new virtual environment brought upon by the pandemic, and how to minimize impact to AOC communications and meetings. Lastly, Mr. Brown nominated the following individuals as subcommittee members: Mark Wille (AOC Vice Chair), Stella Acosta (AOC Private Sector Member), Chris Gaarder (Proxy for Supervisor Do), Michelle Aguirre (Chief Financial Officer), Ronnie Magsaysay (County Counsel), and Aggie Alonso (Internal Audit Director).

## 11. Information Technology Audits

Jimmy Nguyen, IT Audit Manager II for the Internal Audit Department, began with a brief introduction on his background and history working for Orange County. Mr. Nguyen proceeded to explain IT audits including how these audits help mitigate cybersecurity risk by evaluating the IT infrastructure including policies and operations. Next, Mr. Nguyen discussed specific components of IT general controls, cybersecurity, integrated audits, and advisory services. Lastly, Mr. Nguyen concluded by noting how Internal Audit's IT team approaches these areas and collaborates with departments to recommend beneficial corrective action.

**PUBLIC COMMENTS:** None

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## AOC COMMENTS & ADJOURNMENT:

**AOC COMMENTS:** Mr. Wille learned new aspects of AOC and feels it's important to release Retreat conversations for future access on the AOC website. Mr. Brown also noted this was a beneficial and informative event, and appreciates the contributions by everyone involved.

**ADJOURNMENT:** Meeting adjourned at 12:40 p.m.

## NEXT MEETING:

Regular Meeting, November 19, 2020, at 10:00 a.m.