

A G E N D A

REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE
ORANGE COUNTY, CA



Thursday, February 11, 2021, 10:00 a.m.

Join Online:

<https://zoom.us/j/6093687935>

Join by Phone:

1-669-900-6833, Meeting ID: 609 368 7935

MEETING HELD BY TELECONFERENCE

****PURSUANT TO THE PROVISIONS OF CALIFORNIA GOVERNOR'S EXECUTIVE ORDER N-29-20, ISSUED ON MARCH 17, 2020, THIS MEETING WILL BE HELD BY TELECONFERENCE ONLY****

ROBERT BROWN (2023)
AOC CHAIR
Private Sector Member, Fifth District

MARK WILLE, CPA (2022)
AOC VICE CHAIR
Private Sector Member, Third District

SUPERVISOR ANDREW DO
BOARD CHAIRMAN
First District
Member

SUPERVISOR DOUG CHAFFEE
BOARD VICE CHAIRMAN
Fourth District
Member

FRANK KIM
COUNTY EXECUTIVE OFFICER
Member

DREW ATWATER (2021)
Private Sector Member, First District

VACANT
Private Sector Member, Second District

STELLA ACOSTA (2023)
Private Sector Member, Fourth District

Non-Voting Members

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

Frank Davies, CPA
Aggie Alonso, CPA
Shari Freidenrich, CPA

Staff

Assistant Internal Audit Director:
Deputy County Counsel:
AOC Clerk:

Scott Suzuki, CPA
Ronnie Magsaysay
Mari Elias

All supporting documentation is available for public review 72 hours before the meeting. Documents are available online at <https://ia.ocgov.com/audit-oversight-committee/agendas-and-minutes>.

This agenda contains a general description of each item to be considered. If you would like to speak on a matter that does not appear on the agenda, you may do so during the Public Comments period at the end of the meeting. When addressing the AOC, please state your name for the record. Except as otherwise provided by law, no action shall be taken on any item not appearing in the agenda.

In compliance with the Americans with Disabilities Act, those requiring accommodation for this meeting should notify the Internal Audit Department 72 hours prior to the meeting at (714) 834-5475.

A G E N D A

10:00 A.M.

Speaker

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| 1. Roll call | <i>Robert Brown
AOC Chair</i> |
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| 2. Approve Audit Oversight Committee Regular Meeting Minutes of November 19, 2020 | <i>Robert Brown
AOC Chair</i> |
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| 3. Receive Report on the County's Cybersecurity Program | <i>Joel Golub
Chief Information Officer
County Executive Office</i> |
| a. Consideration of partnering opportunities between OCIT and IAD | |
| b. Communicating common IT audit findings and IT best practices Countywide | |
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| 4. Receive Report on Required Communication from External Auditors | <i>Roger Alfaro, CPA
Partner, Eide Bailly LLP</i> |
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| 5. Approve Internal Audit Department's FY 2020-21 2 nd Quarter Status Report and Approve Executive Summary of Internal Audit Reports for the Quarter Ended December 31, 2020 | <i>Aggie Alonso, CPA
Director
Internal Audit Department</i> |
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| 6. Receive Report on Status of External Audit Recommendations Implementation and Approve Quarterly External Audit Activity Status Report for the Quarter Ended December 31, 2020 | <i>Scott Suzuki, CPA
Assistant Director
Internal Audit Department</i> |
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| 7. Discuss the Renewal of the Existing Contract with Eide Bailly LLP for Independent Auditing and Related Services for the Year Ending June 30, 2021 | <i>Bertalicia Tapia
Financial Reporting Manager
Auditor-Controller</i> |
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| 8. Receive Best Practices Subcommittee Report | <i>Mark Wille, CPA
AOC Vice Chair</i> |
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| 9. Discuss Audit Oversight Committee File Sharing Request | <i>Aggie Alonso, CPA
Director
Internal Audit Department</i> |
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| 10. Discuss Budget Resource Requirements for Performance Audit, Auditor-Controller, and Internal Audit Department | <i>Michelle Aguirre
Chief Financial Officer
County Executive Office</i> |
| | <i>Frank Davies, CPA
Auditor-Controller</i> |
| | <i>Aggie Alonso, CPA
Director
Internal Audit Department</i> |
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| 11. Discuss Countywide Procurement System Upgrade | <i>Michelle Aguirre
Chief Financial Officer
County Executive Office</i> |
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A G E N D A

Speaker

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| 12. Receive Report on Status of Auditor-Controller Mandated Audits | <i>Frank Davies, CPA
Auditor-Controller</i> |
| 13. Receive Report on Status of Performance Audits | <i>Lilly Simmering
Deputy County Executive Officer
County Executive Office</i> |
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PUBLIC COMMENTS: At this time, members of the public may address the AOC on any matter not on the agenda but within the jurisdiction of the AOC. The AOC may limit the length of time each individual may have to address the Committee.

*Robert Brown
AOC Chair*

AOC COMMENTS: At this time, members of the AOC may comment on agenda or non-agenda matters and ask questions of, or give directions to staff, provided that no action may be taken on off-agenda items unless authorized by law.

*Robert Brown
AOC Chair*

ADJOURNMENT:

NEXT MEETING:

Regular Meeting, May 13, 2021, 10:00 a.m.



Memorandum

February 11, 2021

AOC Agenda Item No. 2

TO: Audit Oversight Committee Members

Recommended Action:

Approve Audit Oversight Committee Regular Meeting Minutes of November 19, 2020

Approve Audit Oversight Committee Regular Meeting Minutes of November 19, 2020, as stated in the recommended action.

ATTACHMENT(S):

Attachment A – Summary Minutes for November 19, 2020 Meeting

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



REGULAR MEETING OF THE AUDIT OVERSIGHT COMMITTEE
ORANGE COUNTY, CA

Thursday, November 19, 2020, 10:00 A.M.

Meeting Held by Teleconference

****PURSUANT TO THE PROVISIONS OF CALIFORNIA GOVERNOR'S EXECUTIVE ORDER N-29-20, ISSUED ON MARCH 17, 2020, THIS MEETING WILL BE HELD BY TELECONFERENCE ONLY****

ROBERT BROWN (2023)
AOC CHAIR
Private Sector Member, Fifth District

MARK WILLE, CPA (2022)
AOC VICE CHAIR
Private Sector Member, Third District

SUPERVISOR MICHELLE STEEL
BOARD CHAIR
Second District
Member

SUPERVISOR ANDREW DO
BOARD VICE CHAIR
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
Ronnie Magsaysay
Gabriela Cabrera

ATTENDANCE: Robert Brown, AOC Chairman, Private Sector Member
Mark Wille, AOC Vice Chair, Private Sector Member
Drew Atwater, Private Sector Member
Stella Acosta, Private Sector Member
Michelle Aguirre, Proxy for CEO Frank Kim
Chris Gaarder, Proxy for Supervisor Andrew Do
Natalie Medvedev, Proxy for Supervisor Michelle Steel

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

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

1. Roll call

Mr. Robert Brown, Audit Oversight Committee (AOC) Chair, called the meeting to order at 10:00 A.M. Attendance of AOC Members noted above.

2. Approve Audit Oversight Committee Regular Meeting Minutes of August 13, 2020

Mr. Brown asked for a motion to approve the Audit Oversight Committee Regular Meeting Minutes of August 13, 2020.

Motion to approve the minutes by Mr. Mark Wille, seconded by Mr. Drew Atwater.

Via roll call, seven in favor; none opposed.

Approved as recommended.

3. Approve Special Meeting Audit Oversight Committee Virtual Retreat Minutes of October 1, 2020

Mr. Brown asked for a motion to approve the Special Meeting Audit Oversight Committee Virtual Retreat Minutes of October 1, 2020.

Motion to approve the minutes by Mr. Mark Wille, seconded by Mr. Drew Atwater.

Via roll call, seven in favor; none opposed.

Approved as recommended.

4. Receive Report on the County's Cybersecurity Program

Mr. Joel Golub, Chief Information Officer, advised that OCIT has not experienced major cybersecurity issues during the pandemic and discussed OCIT's active monitoring of the recent election cycle during which no events occurred. Next, Mr. Golub introduced Mr. Rafael Linares, Chief Information Security Officer, to address questions recently raised by the AOC.

Mr. Linares began by addressing the AOC's question on OCIT's "new normal" considering the County's recently increased remote workforce. Mr. Linares mentioned OCIT prepared for the larger remote workforce by increasing remote architectures and bandwidth, as well as increasing options for employees to access work data. Mr. Linares noted OCIT is managing a larger risk landscape due to employees teleworking on potentially unsecured home networks, while using personal devices. Examples of risks introduced by using personal devices include County data being accessed by non-employees and increased email cyber-attacks, which has been the most reported incident during COVID-19 (approximately 75% of reported incidents). Mr. Linares advised OCIT is in the process of enhancing email protections as well as working on a project to transition employees to County-owned devices, which would help OCIT identify vulnerabilities and contain events.

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

Next, Mr. Linares discussed how the County is documenting changes brought on by COVID-19. For example, OCIT recently modified and created documentation in response to COVID-19 related to remote work guidelines, telecommuting, secured videoconferencing, Security Operations Center incident responses, self-service password resets, and ransomware protection including off-site data storage options. Mr. Linares also confirmed that remote user-focused training was added to the required annual cybersecurity training.

Mr. Linares proceeded to discuss how OCIT's annual cybersecurity training is the County's first line of defense in combating attacks, and that training is tailored to include Department of Justice and HIPAA training sections for departments needing that coverage. Mr. Linares confirmed that 100% of the OCIT department and 96% of all County employees have completed this year's training and that OCIT is very pleased with those results.

5. Receive Report on Required Communication from External Auditors

Mr. Roger Alfaro, Partner at Eide Bailly, discussed attachments reflecting Eide Bailly's status on audits in progress, as well as those recently completed. Mr. Alfaro noted that among the recently completed Treasurer-Tax Collector's Schedule of Assets audit and the District Attorney's grant audits, there are no significant findings to report to the AOC.

6. Agile Auditing

Mr. Scott Suzuki, Assistant Internal Audit Director, defined agile auditing and noted reasons this engagement approach may benefit certain audits. Mr. Suzuki discussed that agile audits require frequent communication and prompt actions by both the audit and client teams. The auditors must clearly assess client goals and compile concise documentation to set and deploy fieldwork testing stages. Mr. Suzuki explained the audit team quickly adapts to a changing strategy by meeting with the audit team daily and setting deadlines with the clients to complete various testing cycles. Mr. Suzuki noted comparisons between an agile and traditional audit, as well as guiding principles to be applied during future agile audits. Lastly, Mr. Suzuki discussed stages of the agile workflow, which are flexible to allow quick adaptations of audit goals and deliverables to the client.

7. Business Process Improvement Workshop

Mr. Michael Dean, Senior Audit Manager for Internal Audit, began with an overview of Facilitated Workshops and discussed resources needed to conduct a successful event. Mr. Dean noted that because this is a voluntary process, Internal Audit had to really champion workshop benefits to encourage department participation and currently has two departments interested in the process. Mr. Dean discussed that department selection includes identifying which teams would benefit most from the workshop, as well as meeting with executive management to identify the department's objectives for the workshop. Mr. Dean noted workshop rules, and stages, which include a "Post-It Notes" exercise to identify group concerns, a voting phase, to decide which group concerns will be further explored, and the results of the team's discussions. As an example, Mr. Dean discussed the process and results of the workshop completed for Internal Audit when Mr. Alonso began working at the department.

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

8. Overview of Strategic Financial Plan and County Budget Process

Ms. Michelle Aguirre, Chief Financial Officer (CFO), began with an overview of the County's Budget and Strategic Financial Plan (SFP) process, including Board priorities, and examples of her involvement in this process. Ms. Aguirre explained the current budget landscape and how factors such as impacts from COVID-19 are accounted into the SFP process. While the SFP generally considers a five-year forecast, some departments consider ten-year forecasts to account for large infrastructure resource needs, such as new road constructions. Next, Ms. Aguirre explained the process departments follow to submit budget modification requests, as well as Budget's consideration of individual department allocations in comparison to the overall County budget. Ms. Aguirre noted that budgets are appropriated based on three program categories: Dedicated Revenue, General Purpose Revenue, and Other General Fund. Lastly, Ms. Aguirre discussed the Board-approved Integrated Services Strategy Vision for 2025 that focuses on reducing the number of individuals dependent on the County's system of care and noted the current goals between various departments working together towards this vision.

Note: Mr. Brown noted that in the interest of time, the AOC would address items that need AOC voting action prior to remaining items on the agenda (items addressed in order below).

14. Confirm AOC Best Practices Subcommittee Members

Mr. Brown requested a confirmation of the members of the AOC Best Practices Subcommittee. Gabriela Cabrera, Audit Oversight Committee Clerk, confirmed the members consisted of Mark Wille, Stella Acosta, Michelle Aguirre, Chris Gaarder, Ronnie Magsaysay, and Aggie Alonso. The first meeting is being held December 1, 2020.

15. Election of AOC Officers

Mr. Brown asked for recommendations for the election of AOC Officers.

Motion to nominate Mr. Brown as AOC Chair by Mr. Mark Wille, seconded by Mr. Chris Gaarder.

Via roll call, seven in favor; none opposed.

Approved as recommended.

Mr. Brown asked for a recommendation for the AOC Vice Chair.

Motion to nominate Mr. Wille as AOC Vice Chair by Ms. Stella Acosta, seconded by Mr. Drew Atwater.

Via roll call, seven in favor; none opposed.

Approved as recommended.

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

12. Approve Internal Audit Department's FY 2020-21 1st Quarter Status Report and Approve Executive Summary of Internal Audit Reports for the Quarter Ended September 30, 2020

Mr. Suzuki discussed attachments detailing findings noted by the Internal Audit Department in eight reports issued during the quarter ended September 30, 2020.

Motion to approve by Mr. Mark Wille, seconded by Ms. Stella Acosta.

Via roll call, seven in favor; none opposed.

Approved as recommended.

9. Discuss Member Vacancies in Audit Oversight Committee, and Staff Vacancies in Internal Audit Department and Auditor-Controller

Mr. Brown briefly discussed the AOC's Second District member vacancy, which he anticipates may be filled once a new Supervisor replaces Michelle Steel's position, and he also encouraged future member recommendations to ensure good membership is retained at the AOC. Mr. Brown introduced Mr. Frank Davies, Auditor-Controller, to provide an update on department vacancies. Mr. Davies began by confirming that due to the current budget, the A-C department has opted to only fill urgent position needs, which they identify based on upcoming assignments and projects. Mr. Brown requested a vacancy update from Internal Audit. Mr. Suzuki confirmed that while there are still vacancies related to administrative roles, he is happy to report Ms. Mari Elias will be returning to Internal Audit to support the administrative functions.

13. Receive Report on Status of External Audit Recommendations Implementation and Approve Quarterly External Audit Activity Status Report for the Quarter Ended September 30, 2020

Mr. Suzuki discussed attachments related to External Audits and noted there were no significant findings to report for the quarter ended September 30, 2020. In addition, Mr. Suzuki advised that Social Security Agency recently confirmed full implementation of the recommendations that were identified during the SNAP audit noted in the attachments.

Motion to approve by Mr. Mark Wille, seconded by Mr. Drew Atwater.

Via roll call, seven in favor; none opposed.

Approved as recommended.

10. Receive Report on Status of Auditor-Controller Mandated Audits

Mr. Davies presented attachments reflecting the status of mandated audits and noted the Auditor-Controller recently issued their final report for the Schedule of Assets audit as of June 30, 2018.

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

11. Receive Report on Status of Performance Audits

Ms. Aguirre confirmed the County's policy related to Performance Audits was recently finalized and she will be sending a copy for distribution to AOC members. In addition, Ms. Aguirre noted that for the next AOC Meeting, this Performance Audit item will likely be covered by Lily Simmering, Deputy County Executive Officer, or Lala Ragen, Deputy Chief Operating Officer, as they take over these duties. Next, Ms. Aguirre confirmed two performance audits from FY 2018-19 were recently completed and resulted in no significant findings. Lastly, Ms. Aguirre discussed the status of audits for both FY 2019-20 and FY 2020-21.

PUBLIC COMMENTS: None

AOC COMMENTS: Ms. Acosta requested use of an application such as Dropbox to receive AOC member documents such as the agenda and other materials for ease of access. Mr. Brown agreed this would be beneficial, and Mr. Alonso advised this is something that can be researched and discussed at a future AOC Best Practices Subcommittee meeting to which Mr. Brown concurred. Mr. Suzuki also noted this topic should be discussed with OCIT and County Counsel to vet out any potential PRA issues or document confidentiality issues. Lastly, Mr. Brown asked whether the AOC Retreat video has been posted to the website, and Ms. Cabrera confirmed the video had not been uploaded yet as related minutes were approved at today's meeting.

ADJOURNMENT: Meeting adjourned at 12:29 p.m.

NEXT MEETING:

Regular Meeting, February 11, 2021, at 10:00 a.m.



Memorandum

February 11, 2021

AOC Agenda Item No. 3

TO: Audit Oversight Committee Members

Recommended Action:

Receive Report on the County's Cybersecurity Program

Receive report on the County's cybersecurity program from OC Information Technology, as stated in the recommended action.



Memorandum

February 11, 2021

AOC Agenda Item No. 4

TO: Audit Oversight Committee Members

Recommended Action:

Receive Report on Required Communication from External Auditors

Receive Report on Required Communication from External Auditors, as stated in the recommended action.

ATTACHMENTS:

Attachment A – External Audit Update Memo

Attachment A-1 – Projects and Timelines

Attachment B – Eide Bailly County of Orange AU-C 260 Conclusion Presentation

Attachment C – Generally Accepted Government Auditing Standards Report

Attachment D – Management Letter June 20, 2020

Attachment E – AU-C 260 Letter



County of Orange Audit Oversight Committee

Date: February 11, 2021
Re: External Audit update

- 1) **Audit Plan – Refer to Attachment A:**
 - Outline of projects and timelines

- 2) **Audits Completed:**
 - Schedule of Assets – June 30, 2019 – Issued – Report dated 12/24/2020
 - Financial Statement Audits:
 - Comprehensive Annual Financial Report (CAFR) – Issued 12/22/2020
 - County of Orange Redevelopment Successor Agency – Issued 12/16/2020
 - Orange County Waste and Recycling – Issued 12/16/2020
 - John Wayne Airport – Issued 12/21/2020
 - GANN Agreed Upon Procedures – County and OC Flood Control District – Issued 12/22/2020

- 3) **Follow-up Items:**
 - Management Letter comments – IT Policies and Procedures

Department / Agency / Division	Audit/Project	Audit/Project Date	Audit Scope	Anticipated Dates			Status
				Planning	Fieldwork	Reporting	
All	Financial Statement Audit - Comprehensive Annual Financial Report (CAFR)	6/30/2020	Financial Statements of the County CAFR, including audit of investment trust funds, and pension/OPEB trust funds	April/May 2020	May 2020 through November 2020	December 2020	Report issued - dated 12/22/2020
All	Agreed Upon Procedures (AUP) over GANN Limit calculations	6/30/2020	GANN Limit Calculation -for County and OC Flood Control District	April/May 2020	May 2020	December 2020	Reports issued - dated 12/22/2020
All	Single Audit	6/30/2020	Audit over compliance in accordance with Uniform Guidance of the County, including components of JWA, OCWR, OCDA	October 2020	January through February 2021	March 2021	Fieldwork in progress
John Wayne Airport (JWA)	Financial Statement Audit	6/30/2020	John Wayne Airport (JWA), including Passenger Facility Charge	April/May 2020	August through November 2020	December 2020	Reports issued - dated 12/21/2020
Orange County Waste & Recycling	Financial Statement Audit	6/30/2020	Orange County Waste & Recycling	April/May 2020	August through November 2020	December 2020	Report issued - dated 12/16/2020
OC Community Resources / Redevelopment Successor Agency	Financial Statement Audit	6/30/2020	Redevelopment Successor Agency	April/May 2020	August through November 2020	December 2020	Report issued - dated 12/16/2020
District Attorney	Grant Audits	6/30/2020	District Attorney Grant Audits	July 2020	September 2020	October 2020	Reports issued - dated 10/23/2020
CEO; HCA and Sheriff's Department	Tobacco Settlement Funds Agreed Upon Procedures	6/30/2020	HCA and Sheriff Tobacco Settlement Funds disbursements	November 2020	December 2020 through January 2021	February 2021	Fieldwork in progress
TTC	Agreed Upon Procedures over compliance	6/30/2019, 6/30/2020	Compliance with Government Code and Investment Policy	February 2021	March 2021	April 2021	Planning in progress
TTC	Schedule of Assets	6/30/2019	Report on the Schedule of Assets	August 2020	September 2020	November 2020	Report issued 12/24/2020
TTC	Schedule of Assets	6/30/2020	Report on the Schedule of Assets	February 2021	March 2021	April 2021	Planning in progress



CPAs & BUSINESS ADVISORS

COUNTY OF ORANGE

Independent Auditor's Communication to those Charged with Governance (AU-C 260) for the fiscal year ended June 30, 2020

February 11, 2021

OUR RESPONSIBILITIES UNDER GENERALLY ACCEPTED AUDITING STANDARDS (GAAS) AND GOVERNMENT AUDITING STANDARDS (GAGAS)

- Perform an audit of the County's governmental activities, business-type activities, each major fund and aggregate remaining fund information as of and for the year ended June 30, 2020, including separate financial reports of:
 - County of Orange Redevelopment Successor Agency
 - OC Waste & Recycling
 - John Wayne Airport
- Consider internal control to the extent necessary to design an effective and efficient audit approach, not for the purpose of providing assurance on internal control.
- Design and implement audit procedures based on our understanding of the County to gain reasonable, not absolute, assurance as to the absence of material misstatements in the financial statements.
- Perform tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, in accordance with *Government Auditing Standards*.

DELIVERABLES

Scope of Work	Results
Audit of the Comprehensive Annual Financial Report (CAFR)	Unmodified Opinion
County of Orange Redevelopment Successor Agency	Unmodified Opinion
OC Waste & Recycling	Unmodified Opinion
John Wayne Airport	Unmodified Opinion
GANN Agreed Upon Procedures – County and Flood Control District	No exceptions identified
Single Audit	Audit in progress; expecting to complete by March 31, 2021

AUDITOR'S COMMUNICATIONS

- Accounting policies – Adoption of GASB Statement No. 95 *Postponement of the Effective Dates of Certain Authoritative Guidance.*
- Sensitive estimates and significant disclosures.
- No significant difficulties encountered during the audit.
- No disagreements with management.
- There were no consultations with other accountants.

AUDITOR'S COMMUNICATIONS

- Corrected misstatements:
 - \$1.8 million – Construction in Progress/ Accounts Payable – OC Waste & Recycling.
 - Footnote 13 – Increase disclosure by \$20.5 million for future lease payments for County's operating leases.
- Uncorrected misstatements were individually and in aggregate not material to the financial statements as a whole.
 - Overstatement of prepaids/Understatement of Deferred Outflows of Resources for pensions – by \$5 million.
- There were no material weaknesses or significant deficiencies reported in relation to the financial statement audit.

QUESTIONS?

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.

THANK YOU

Roger Alfaro

Partner

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949.768.0833

Jessica Andersen

Partner

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CPAs & BUSINESS ADVISORS



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Supervisors
County of Orange, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Orange, California (County), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 22, 2020. Our report includes a reference to other auditors who audited the financial statements of the Orange County Health Authority, a Public Agency/dba Orange Prevention and Treatment Integrated Medical Assistance (CalOptima), as described in our report on the County's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California
December 22, 2020

County of Orange, California
Schedule of Findings and Responses
For the Year Ended June 30, 2020

None reported.

County of Orange, California
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2020

<u>Finding No.</u>	<u>Program Name</u>	<u>Current Status</u>
2017-001, 2018-001, 2019-001	Information Technology General Controls (ITGC)	Implemented



Management Letter
June 30, 2020

County of Orange, California



To the Board of Supervisors
and Management
County of Orange, California

In planning and performing our audit of the financial statements of the County of Orange, California (County), as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

We have issued our Report on Internal Control Over Financial Reporting and on Compliance, in accordance with *Government Auditing Standards*, dated December 22, 2020. This letter does not affect our report dated December 22, 2020, on the financial statements of the County.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

CURRENT YEAR OBSERVATIONS

IT POLICIES AND PROCEDURES

OBSERVATION:

We observed many Auditor-Controller Information Technology (A-C IT) policies and procedures are formally documented. However, these written policies are outdated, or not reviewed annually, as summarized below:

- Vendor management policies – we inspected applicable documentation in place, noting AC-IT does not have formal vendor management policies, but does mitigate risk through remote access forms and other procedures. We recommend a policy is formalized and reviewed annually.
- Business Continuity Plan – AC-IT does have a documented plan, but it was last updated in 2017. We recommend the policy is reviewed and updated annually. Further, the Business Continuity Plan and disaster recovery should be formally tested at minimum on an annual basis. This could consist of table top exercise as well as a full restore of backups to evidence the ability to recover from backups.
- Incident Response Policy – AC-IT has a documented policy, but it was last updated in 2018. We recommend the policy is reviewed and updated annually.
- CAPS+ Log Data Retention – We observed that the log data with CAPS+ is retained for 5 months. We would suggest the County retain for at least 12 months for incident response or investigative reasons. This is also a National Institute of Standards and Technology (NIST) best practice.

STATUS OF CORRECTIVE ACTION:

A-C IT policies and procedures have recently been reviewed and updated, or being developed as appropriate. These policies and procedures will be reviewed on a more regular basis. An additional review will ensure that vendor management, incident response, and log data policies and procedures are already included, or queued for development if missing.

The A-C IT Business Continuity and Disaster Recovery Plan will be reviewed and updated. It will also be reviewed, updated and tested on an annual basis.

PRIOR YEAR OBSERVATIONS**PATCHING****OBSERVATION:**

The Orange County Auditor-Controller Office (ACO) is in the process of applying patches to the Information Systems (IS) environment but needs to establish a more sustainable patch management framework that includes third party applications. We noted inconsistent Microsoft patching, and unpatched and unnecessary software installed on workstations that have access to CAPS+.

STATUS OF CORRECTIVE ACTION:

Implemented

END-OF-LIFE SOFTWARE AND BASELINE DEPLOYMENT IMAGES**OBSERVATION:**

Testing and observation in the ACO indicated that there was end-of-life (unsupported) software installed on workstations within the production environment. The largest risk of using unsupported software is security, compatibility issues and feature updates that cannot be leveraged. Once software has reached the end of its life, the manufacturer no longer provides security updates for it or enhancements to mitigate usability of the software. That means that any vulnerabilities found by attackers will never be patched, so they can be continually exploited. Even with the malware prevention practices, firewalls and mitigating controls, it may not protect against attackers if end-of-life software is being utilized.

Secondly, base images, used for workstation deployment, should be routinely updated and unnecessary software should be removed from the image. In our sample, we did observe unnecessary and outdated applications or software that was part of the base image.

STATUS OF CORRECTIVE ACTION:

Implemented

IT CONTROLS: COMPREHENSIVE DISASTER RECOVERY PLAN

OBSERVATION:

While the County performs regular backups and testing of system and data files using the County of Los Angeles' system resources, no formal disaster recovery plan has been implemented. The County has developed an agreement with Science Applications International Corporation (SAIC) to provide both backup and recovery services, which should be implemented in the first quarter of calendar year 2014.

STATUS OF CORRECTIVE ACTION:

Refer to current year observations

IT CONTROLS: PASSWORD CONTROLS

OBSERVATION:

A County-wide Password Standard is not enforced. The County Security Director has been tasked by the County's Technology Council to address this new initiative.

STATUS OF CORRECTIVE ACTION:

Implemented

NEW FINANCIAL REPORTING STANDARDS**INFORMATIONAL ONLY****GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 84**

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2019.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 87

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. This Statement is effective for reporting periods beginning after June 15, 2021.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 90

GASB Statement No. 90 – In September 2018, the GASB issued Statement No. 90, *Majority Equity Interests, An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2019.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 91

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement is effective for reporting periods beginning after December 15, 2021.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 92

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Except for certain provisions, which are effective upon issuance. This statement is effective for fiscal years beginning after June 15, 2021.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 93

GASB Statement No. 93 – In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. The Statement is effective for reporting periods beginning after June 15, 2021.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 94

GASB Statement No. 94– In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement is effective for reporting periods beginning after June 15, 2022.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 96

GASB Statement No. 96– In May 2020, the GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The Statement is effective for reporting periods beginning after June 15, 2022.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT No. 97

GASB Statement No. 97– In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting For Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statement No.14 and No.84 and A Supersession of GASB Statement No.32*. The objective of this Statement is (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The Statement is effective for reporting periods beginning after June 15, 2021.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Supervisors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Laguna Hills, California
December 22, 2020



December 22, 2020

To the Audit Oversight Committee,
Board of Supervisors, and
Frank Davies, Auditor-Controller
County of Orange, California

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Orange, California (County), and the financial statements of the County of Orange Redevelopment Successor Agency, OC Waste & Recycling and John Wayne Airport as of and for the year ended June 30, 2020, and have issued our reports thereon dated as indicated below:

<u>Report</u>	<u>Audit Report Date</u>
County of Orange	December 22, 2020
County of Orange Redevelopment Successor Agency	December 16, 2020
OC Waste & Recycling	December 16, 2020
John Wayne Airport	December 21, 2020

We are currently performing the audit of the County's federal award programs (Single Audit) and anticipate issuing our reports thereon prior to March 31, 2021.

We did not audit the financial statements of the Orange County Health Authority, a Public Agency/dba Orange Prevention and Treatment Integrated Medical Assistance (CalOptima), which is included as a discretely presented component unit in the County's basic financial statements. Those financial statements were audited by other auditors as stated in our report on the County's basic financial statements. This communication does not include the results of the audit of CalOptima.

We did audit the Children and Families Commission of Orange County (CFCOC), which is included as a discretely presented component unit in the County's basic financial statements. Separately issued audit reports and communication were issued directly to the CFCOC. Accordingly, this communication does not include the results of the audit of CFCOC.

Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards* and our Compliance Audit under the Uniform Guidance

As communicated in our letter dated May 12, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America and to express an opinion on whether the County complied with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs. Our audit of the financial statements and major program compliance does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the County solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated December 22, 2020.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the County is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2019-20, aside from the adoption of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which delayed the implementation for certain accounting standards. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Landfill closure and postclosure care liabilities are based on management's analysis of landfill capacity used and total closure and postclosure costs, as well as the landfill maximum capacity;
- Pollution remediation obligations are based on management's analysis of remediation time periods, type of remediation needed and historical trend data;
- Net pension and net other postemployment benefits (OPEB) liabilities, disclosures, related deferred inflows/outflows of resources, and expenses are based on actuarial valuations which include assumptions adopted by the Orange County Employees Retirement System (OCERS) and the County; and
- Self-insured claims liabilities are based on actuarial studies performed by the County's independent actuaries.

We evaluated the key factors and assumptions used to develop these estimates and determined that they were reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the County's financial statements relate to:

- Pension and OPEB liabilities in Notes 18 and 19, respectively, are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate. As disclosed in Notes 18 and 19, a 1% increase or decrease in the discount rate has a material effect on the Pension and OPEB liabilities.
- Estimated liabilities for self-insurance claims in Note 16 are based on actuarial valuations.
- Landfill closure and postclosure costs, and pollution remediation in Notes 14 and 17, respectively, are based on management's analysis.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

The following misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Adjustment to increase Construction in Progress and Accounts Payable of \$1.8 million for OC Waste & Recycling
- Adjustment to the disclosures within Note 13 to include \$20.5 million of future lease payments that were omitted from the operating leases disclosure within the County's financial statements.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Overstatement of prepaid balance with offsetting understatement of deferred outflows of resources for pensions of \$5 million within the County's financial statements (Governmental Activities)

The uncorrected misstatements as of and for the year ended June 30, 2020, has no impact to net position or change in net position.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated as follow:

County of Orange	December 22, 2020
County of Orange Redevelopment Successor Agency	December 16, 2020
OC Waste & Recycling	December 16, 2020
John Wayne Airport	December 21, 2020

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the County, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the County's auditors.

Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the County's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

However, in accordance with such standards, we will review the information inputted into the data collection form and will consider whether such information, or the manner of its presentation, is materially consistent with the financial statements.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Group Audits

The County's financial statements include the financial activity of the Orange County Flood Control District, a blended component unit, which was audited as a major fund. The County's financial statements also include the financial activity of the following blended component units:

- Orange County Housing Authority
- Orange County Public Financing Authority
- South Orange County Public Financing Authority
- Capital Facilities Development Corporation
- Orange County Public Facilities Corporation
- County Service Areas, Special Assessment Districts, and Community Facilities Districts
- In-Home Supportive Services (IHSS) Public Authority
- Orange County Housing Finance Trust (fiduciary component unit)

For the purposes of our audit, we do not consider these blended or fiduciary component units to be significant components of the County's financial statements.

Our audit included obtaining an understanding of these component units and their environment, including internal control, sufficient to assess the risks of material misstatement of the financial activity of the component units and completion of further audit procedures.

This report is intended solely for the information and use of the Audit Oversight Committee, Board of Supervisors, and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.



Laguna Hills, California



Memorandum

February 11, 2021

AOC Agenda Item No. 5

TO: Audit Oversight Committee Members

Recommended Action:

Approve Internal Audit Department's FY 2020-21 2nd Quarter Status Report and approve Executive Summary of Internal Audit Reports for the Quarter Ended December 31, 2020

Approve Internal Audit Department's reporting, as stated in the recommended action.

ATTACHMENT(S):

Attachment A – Internal Audit Department Status Report Memo

Attachment B – Executive Summary of Internal Audit Reports

Attachment C – Quarterly Status Report



INTERNAL AUDIT DEPARTMENT

January 21, 2021

To: Audit Oversight Committee Members

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Fiscal Year 2020-21 Internal Audit Department Status Report for the Quarter Ended December 31, 2020

Attached for your review and approval is Internal Audit's status report on audit activity for the quarter ended December 31, 2020. Specifically, Attachment B is our "Executive Summary of Internal Audit Reports," which provides a summary of audits and follow-up audits conducted during the reporting period with a breakdown of the finding type (e.g., critical, significant, etc.). Attachment C is our "Quarterly Status Report," which is a listing of all audits scheduled for the year, along with the budgeted hours, actual hours, variance between budget and actual, and milestone comments for each audit.

For the quarter ending December 31, 2020, Internal Audit issued seven final reports (four original reports and three follow-up reports) and six draft/pre-draft reports. The four final original audits included two Critical Control Weaknesses, seven Significant Control Weaknesses, and 18 Control Findings.

If you have any questions, please contact me at 714.834.5442, or Assistant Director Scott Suzuki at 714.834.5509.

INTERNAL AUDIT DEPARTMENT
EXECUTIVE SUMMARY - FINDING TYPE CLASSIFICATION
FOR THE QUARTER ENDED DECEMBER 31, 2020

CATEGORY	ISSUED THIS PERIOD	ISSUED FOR FY 2020-21
<p>Critical Control Weaknesses These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p>	2	3
<p>Significant Control Weaknesses These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p>	7	12
<p>Control Findings These are audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that require management's corrective action to implement or enhance processes and internal controls. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>	18	34
TOTAL	27	49



EXECUTIVE SUMMARY
INTERNAL AUDIT REPORTS
FOR THE QUARTER ENDED DECEMBER 31, 2020

JOHN WAYNE AIRPORT

1. Information Technology Audit: John Wayne Airport Selected IT General Controls

Audit No. 1941 dated December 17, 2020 for the year ended December 31, 2019

OBJECTIVES	RESULTS	CRITICAL CONTROL WEAKNESS/ SIGNIFICANT CONTROL WEAKNESS	CONTROL FINDINGS
1. Provide reasonable assurance that regular and privileged access to critical systems is limited to authorized individuals.	We concluded controls over regular and privileged logical access should be improved.	<p>One (1) Critical Control Weakness Due to the sensitive nature of the specific finding, the details for the finding have been redacted from this report.</p> <p>Two (2) Significant Control Weaknesses Due to the sensitive nature of the specific findings, the details for four findings have been redacted from this report.</p>	6
2. Provide reasonable assurance that regular and privileged access to critical systems is disabled timely.	We concluded controls over deprovisioning access to critical systems should be improved.		
3. Provide reasonable assurance that physical access to IT server rooms or other sensitive IT areas is limited to authorized individuals.	We concluded controls over physical access to IT assets should be improved.		
4. Provide reasonable assurance that data backups are complete and data can be recovered in an emergency.	We concluded controls over data backup and data recovery should be improved.		
5. Provide reasonable assurance that changes to critical systems are authorized and appropriately tested before being deployed into production.	We concluded controls over change management were sufficient to provide adequate protection of critical systems.		



OC PUBLIC WORKS**2. Internal Control Audit: OC Public Works Purchasing & Contracts**

Audit No. 1911 dated October 21, 2020 for the year ended November 30, 2019

OBJECTIVES	RESULTS	CRITICAL CONTROL WEAKNESS/ SIGNIFICANT CONTROL WEAKNESS	CONTROL FINDINGS
1. Evaluate the effectiveness of internal control over the purchasing and contracting process to ensure requisitions and purchase of goods are executed in accordance with management's directives; adequately supported and properly authorized; and properly recorded.	OCPW's internal control over the purchasing and contracting process is generally effective to ensure requisitions and purchase of goods and services are executed in accordance with management's directives; adequately supported and properly authorized; and properly recorded.	None	3
2. Review the purchasing and contracting process for efficiency.	The purchasing process is generally efficient.		

OC SHERIFF-CORONER**3. Internal Control Audit: Sheriff-Coroner Revolving Funds**

Audit No. 1917 dated October 23, 2020 for the year ended September 30, 2019

OBJECTIVES	RESULTS	CRITICAL CONTROL WEAKNESS/ SIGNIFICANT CONTROL WEAKNESS	CONTROL FINDINGS
1. Evaluate the effectiveness of internal control over the revolving funds process to ensure revolving fund transactions are complete (recorded/ reported), accurate, valid (authorized), processed timely, and in compliance with County policy and duties are adequately segregated, and assets are adequately safeguarded.	OCSD's internal control over the revolving funds process was generally effective to ensure revolving fund transactions are complete (recorded/reported), accurate, valid (authorized), processed timely, and in compliance with County policy and duties are adequately segregated, and assets adequately safeguarded.	One (1) Significant Control Weakness Issues with OCSD fund and bank reconciliations including discrepancies, long outstanding checks, and improper supervisory review.	5
2. Review the revolving funds process for efficiency.	We concluded the revolving funds process is generally efficient.		



PUBLIC DEFENDER

4. Information Technology Audit: Public Defender Selected Cybersecurity Controls

Audit No. 1942 dated December 9, 2020 for the year ended February 29, 2020

OBJECTIVES	RESULTS	CRITICAL CONTROL WEAKNESS/ SIGNIFICANT CONTROL WEAKNESS	CONTROL FINDINGS
1. Provide reasonable assurance that regular and privileged access to critical systems is limited to authorized individuals	We concluded controls provided reasonable assurance that data recorded, processed and reported remains complete, accurate and valid throughout the data backup (update and storage) process.	<p>One (1) Critical Control Weakness Due to the sensitive nature of the specific finding, the details for the finding have been redacted from this report.</p> <p>Four (4) Significant Control Weaknesses Due to the sensitive nature of the specific findings, the details for four findings have been redacted from this report.</p>	4
2. Provide reasonable assurance that regular and privileged access to critical systems is disabled timely upon termination	We concluded controls were generally effective to provide reasonable assurance that inventory of IT hardware assets is performed to ensure that only authorized systems are connected to the network.		
3. Provide reasonable assurance that data recorded, processed, and reported remains complete, accurate and valid throughout the data backup (update and storage) process.	We concluded controls over provisioning and deprovisioning of user access should be improved.		
4. Provide reasonable assurance that anti-malware software prevents the installation, spread, and execution of malicious code at multiple points in the enterprise, while optimizing the use of automation to enable rapid updating of defense, data gathering, and corrective action.	We concluded controls over privileged user access management should be improved.		
5. Provide reasonable assurance that vulnerabilities are appropriately managed to identify, remediate, and minimize the window of opportunity for attackers.	We concluded controls over malware defense should be improved.		
6. Provide reasonable assurance that inventory of IT hardware assets is performed to ensure that only authorized systems are connected to the network.	We concluded controls over vulnerabilities management should be improved.		



EXECUTIVE SUMMARY
INTERNAL AUDIT FOLLOW-UP REPORTS
FOR THE QUARTER ENDED DECEMBER 31, 2020

COUNTY EXECUTIVE OFFICE/OC INFORMATION TECHNOLOGY

5. First & Final Close-Out Follow-Up Internal Control Audit: OC Information Technology Capital Assets

Audit No. 1939-D (Reference 1732-F1) dated October 16, 2020 as of August 31, 2020; original audit dated December 30, 2019

ORIGINAL AUDIT – 3 FINDINGS		FOLLOW-UP STATUS		PLANNED ACTION FOR RECOMMENDATIONS NOT IMPLEMENTED/IN PROCESS
CRITICAL CONTROL WEAKNESS/ SIGNIFICANT CONTROL WEAKNESS	CONTROL FINDINGS	IMPLEMENTED/ CLOSED	NOT IMPLEMENTED/ IN PROCESS	
1	2	3	0	NA
<p>One (1) Significant Control Weakness OCIT had not completed an inventory of all of their capital assets under the contract and had not fully recorded the capital assets in CAPS+ due to the department not having control over the capital assets that were owned and managed by the vendor.</p>				



OC COMMUNITY RESOURCES

6. First Follow-Up Internal Control Audit: OC Animal Care Cash Receipts

Audit No. 1939-I (Reference 1815-F1) dated December 18, 2020 as of August 31, 2020; original audit dated September 30, 2019

ORIGINAL AUDIT – 7 FINDINGS		FOLLOW-UP STATUS		PLANNED ACTION FOR RECOMMENDATIONS NOT IMPLEMENTED/IN PROCESS
CRITICAL CONTROL WEAKNESS/ SIGNIFICANT CONTROL WEAKNESS	CONTROL FINDINGS	IMPLEMENTED/ CLOSED	NOT IMPLEMENTED/ IN PROCESS	
0	7	2	5	<p>Recommendation No. 1 (Control Finding). OCAC is in the process of performing a formal management user-access certification review. OCAC is also developing written policy and procedures for this process, which is anticipated for completion by April 2021.</p> <p>Recommendation No. 2 (Control Finding). OCAC contacted the POS system vendor and confirmed the system has the capability to enforce automated, mandatory password changes. OCAC is working with OCIT to enable these features and to identify the best process to ensure compliance with the County password policy. In addition, OCAC is developing formal policy and procedures to include this process, which is anticipated for completion by April 2021.</p> <p>Recommendation No. 3 (Control Finding). OCAC is updating their policy and procedures regarding this process, which is anticipated for completion by April 2021.</p> <p>Recommendation No. 5 (Control Finding). OCAC is in the process of developing a written policy and procedure detailing a business continuity plan in the event the POS system becomes inoperable. The policy and procedure are anticipated for completion by April 2021.</p> <p>Recommendation No. 6 (Control Finding). OCAC is updating their policy and procedure for this process, which is anticipated for completion by April 2021.</p>



OC SHERIFF-CORONER

7. First Follow-Up Information Technology Audit: Sheriff-Coroner Selected IT General Controls

Audit No. 1949-D (Reference 1845-F1) dated December 31, 2020 as of July 30, 2020; original audit dated December 30, 2019

ORIGINAL AUDIT – 7 FINDINGS		FOLLOW-UP STATUS		PLANNED ACTION FOR RECOMMENDATIONS NOT IMPLEMENTED/IN PROCESS
CRITICAL CONTROL WEAKNESS/ SIGNIFICANT CONTROL WEAKNESS	CONTROL FINDINGS	IMPLEMENTED/ CLOSED	NOT IMPLEMENTED/ IN PROCESS	
6	1	0	7	<p>Recommendation Nos. 1 to 5 (Significant Control Weaknesses). Due to the sensitive nature of the findings, details have been redacted from this report.</p> <p>Recommendation No. 6 (Significant Control Weaknesses). OCSD is in the process of implementing a new IT Service Management (ITSM) software solution that includes a change management module. This module is designed to manage the documentation and records of testing performed, backout plans, and other key details and information for each change request to critical systems. Per OCSD, they are planning to fully implement the module by January 2021.</p> <p>Recommendation No. 7 (Control Finding). OCSD has drafted several IT policy and procedures documents including policies governing the user access management life cycle process, change management, and privileged account management. OCSD is reviewing drafts and is planning to finalize and approve them by the end of January 2021.</p>
<p>Six (6) Significant Control Weaknesses</p> <p>1. OCSD indicated changes were tested prior to deployment into production. However, none of the six (0%) changes to the tested critical application production environment or network had support documentation to evidence that testing of changes was done prior to deployment into the production environment.</p> <p>Due to the sensitive nature of the other five (5) findings, details have been redacted from this report.</p>				



EXECUTIVE SUMMARY
APPENDIX A: DRAFT REPORTS
FOR THE QUARTER ENDED DECEMBER 31, 2020

The following pre-draft/draft reports were issued during the reporting period:

1. **Internal Control Audit: OC Sheriff-Coroner Purchasing & Contracts**, Audit No. 1912
2. **Internal Control Audit: OC Public Works Toll Road & Transponder Usage**, Audit No. 2022
3. **First Follow-Up Internal Control Audit: HCA Purchasing & Contracts**, Audit No. 1939-J
4. **First Follow-Up Internal Control Audit: Probation P-Cards**, Audit No. 1939-M
5. **Second Follow-Up Internal Control Audit: Health Care Agency Payroll**, Audit No. 2039-N
6. **Second Follow-Up Information Technology Audit: OC Information Technology General Controls**, Audit No. 1949-F





Internal Audit Department
 2nd Quarter Status Report for the Audit Oversight Committee
 For the Quarter Ended 12/31/20
 AOC Meeting Date: February 11, 2021

Audit Category and Name ^{1,2,3}	Audit Number	Start Date	End Date	Multi-Yr Projects		Current Audit Plan										FU Due	FU Number	Milestones & Comments ⁴	
				Total Budget	Actuals To Date	Budget	Changes	Revised Budget	Actuals to Date Per Quarter				Est Remain	Budget Variance					
									#1	#2	#3	#4	Total						
Internal Control Audits (ICA)																			
OCIT Contract Administration (FY 2017-18 carryover)	1624	3/28/20		500	500	200	55	255	167	92			259	11	15			In process	
SSA Fiduciary Funds (FY 2018-19 carryover)	1823	7/29/20				300	150	450	156	229			385	65	0			In process	
OCPW Purchasing & Contracts (FY 2019-20 carryover)	1911	12/03/19	10/21/20	530	533	80		80	79	3			82	0	2	4/30/20	2039-D	Completed. Final report issued 10/21/20	
OCSA Purchasing & Contracts (FY 2019-20 carryover)	1912	10/08/19		610	625	80	130	210	199	22			221	9	20			Draft report issued 11/20/20	
HCA/PG CIMS (Department Request)	1914	11/20/19		620	394	120	200	320	23	72			95	225	0			In process	
T-TC Accounts Receivable Controls (1729)	2011	9/24/20				400		400	66	168			234	166	0			In process	
CEO Cash Disbursements & Payables	2012	9/03/20				400		400	61	67			128	272	0			In process	
JWA Cash Disbursements & Payables	2013					0		0	0	0			0	0	0			Deferred until FY 2021-22	
OCCR Cash Disbursements & Payables	2014	9/24/20				400	150	550	133	260			393	157	0			In process	
OCCR/OC Parks/OC Dana Point Harbor Purchasing & Contracts	2015					400	(400)	0	0	0			0	0	0			Deferred until FY 2021-22	
SSA Purchasing & Contracts	2016	9/09/20				400		400	52	160			212	188	0			In process	
PD Revolving Funds	2017	9/03/20				400	150	550	121	293			414	136	0			In process	
CEO Fiduciary & Special Revenue Funds	2018					400		400	0	0			0	400	0			Not started	
OCPW Fiduciary & Special Revenue Funds	2019	12/30/20				400		400	0	82			82	318	0			In process	
CEO Contract Policy Manual Review	2020					200		200	11	2			13	187	0			Not started	
OCPW Design & Construction Procurement Manual Review	2021					200		200	6	8			14	186	0			Not started	
OCPW Toll Road and Transponder Usage for County Vehicles Compliance	2022	7/08/20				400	150	550	356	226			582	18	50			Pre-draft report issued 12/31/20	
COVID Advisory (1920)	2023	4/21/20				400	(200)	200	0	0			0	200	0	NA	NA	In process	
Follow-Up Audits (FY 2019-20 carryover)																			
OCIT Capital Assets (1732)	1939-D	7/23/20	10/16/20					280	(75)	205	173	12		185	20	0	NA	NA	Completed. Final close-out report issued 10/16/20
A-C Claims (1811)	1939-F	7/31/20	9/3/20														3/31/21	2039-Q	Completed. Final report issued 9/3/20
OCCR/Animal Care Cash Receipts (1815)	1939-I	6/12/20	12/18/20														4/30/20	2039-O	Completed. Final report issued 12/18/20
HCA Contracts & Procurement (1819)	1939-J	11/17/20																	Draft report issued 12/15/20
Probation P-Card (1822)	1939-M	11/18/20																	Draft report issued 12/30/20
CEO/Real Estate Procurement/Contract Administration (1730/1939-C)	1939-S	7/13/20	7/28/20														NA	NA	Completed. Final close-out report issued 7/28/20
First Follow-Up Audits																			
OCIT Procurement/Contract Administration (1624)	2039-A							894	(110)	784		37		37	747	0			Not started
A-C Fiduciary (1818)	2039-B																		Not started; follow-up due 2/28/21
SSA Fiduciary (1823)	2039-C																		Not started
OCSA Purchasing & Contracts (1911)	2039-D																		Not started
OCSA Purchasing & Contracts (1912)	2039-E																		Not started
OCDA Revolving Fund (1913)	2039-F																		Not started; follow-up due 1/31/21
HCA Department Request (1914)	2039-G																		Not started
HCA FGR (1915)	2039-H	11/18/20																	In process
OCPW Payroll (1916)	2039-I	NA	NA														NA	NA	Cancelled; 1916 contained no recommendations
OCSA Revolving Cash Fund (1917)	2039-J																		Not started; follow-up due 4/30/21
OCSA Cash Receipts (1918)	2039-K																		Not started; follow-up due 2/28/21
C-R Department Request (1919)	2039-L																		Not started; follow-up due 2/28/21
Second Follow-Up Audits																			
OCPW Billing of Public Works Services to County Departments (1734/1939-E)	2039-M																		Not started
HCA Payroll (1812/1939-G)	2039-N	12/15/20																	Draft report issued 12/30/20
OCCR/Animal Care Cash Receipts (1815/1939-I)	2039-O																		Not started
OCWR Fee Generated Revenue (1821/1939-K)	2039-P																		Not started; follow-up due 1/31/21
A-C Claims (1811/1939-F)	2039-Q																		Not started
Summary Close-Out						0	200	200	130	74			204	0	4				Completed. Final reports issued for 1818, 1913, 1917, 1918, 1919, 1839-P, 1939-G, 1939-K, 1939-L
Total Internal Control Audits						6,354	400	6,754	1,733	1,807	0	0	3,540	3,305	91				
Mandated & Financial Audits (MFA)																			
Tax Redemption Officer	2024	9/21/20				0	400	400	101	113			214	186	0				In process
Total Mandated & Financial Audits						0	400	400	101	113	0	0	214	186	0				
Business Process Improvement (BPI)																			
General	2061	NA	NA			315		315	6	6			12	303	0	NA	NA		In process
Total Business Process Improvement						315	0	315	6	6	0	0	12	303	0				



Internal Audit Department
 2nd Quarter Status Report for the Audit Oversight Committee
 For the Quarter Ended 12/31/20
 AOC Meeting Date: February 11, 2021

Audit Category and Name ^{1,2,3}	Audit Number	Start Date	End Date	Multi-Yr Projects		Current Audit Plan										FU Due	FU Number	Milestones & Comments ⁴
				Total Budget	Actuals To Date	Budget	Changes	Revised Budget	Actuals to Date Per Quarter				Est Remain	Budget Variance				
									#1	#2	#3	#4	Total					
Information Technology Audits (IT)																		
TTC Sungard/Quantum upgrade (Department Request) (FY 2017-18 carryover)	1647	6/12/17		360	351	50	50	100	25	25			50	50	0		In process	
PTS System Implementation (FY 2017-18 carryover)	1754	7/01/18		75	43	50		50	2	2			4	46	0		In process	
HCA Cybersecurity (FY 2019-20 carryover)	1943					400		400	0	0			0	400	0		Not started	
COB Cybersecurity (FY 2019-20 carryover)	1944					400	(400)	0	0	0			0	0	0		Pending AOC cancellation approval	
OCDA Cybersecurity	2041	8/03/20				400	150	550	254	257			511	40	1		In process	
ROV Cybersecurity	2042					0		0	0	0			0	0	0		Not started	
Probation Cybersecurity	2043					0		0	0	0			0	0	0		Not started	
County Counsel Cybersecurity	2044					0		0	0	0			0	0	0		Not started	
CEO/HRS Data Portal Access	2045					0		0	0	0			0	0	0		Not started	
(A-C) CAPS+ Application Security	2046					400		400	0	0			0	400	0		Not started	
Countywide Cybersecurity Advisory	2047	7/01/20				50	50	100	32	27			59	50	9		In process	
A-C Workforce/VTI Replacement	2048	6/12/20				50		50	12	8			20	30	0		In process	
Follow-Up Audits (FY 2019-20 carryover)						280	275	555	282	247			529	25	(1)			
OCSD ITGC (1845)	1949-D	7/08/20	12/31/20													6/30/21	2059-H	Completed. Final report issued 12/31/20
SSA ITGC (1846)	1949-E	7/08/20																In process
OCIT (1644/1748-A)	1949-F	2/03/20																Draft report issued 12/31/20
First Follow-Up Audits:						565	(325)	240	0	14			14	226	0			
JWA ITGC (1941)	2059-A																	Not started; follow-up due 6/30/21
PD Cybersecurity (1942)	2059-B																	Not started; follow-up due 6/30/21
COB Cybersecurity (1944)	2059-C																	Not started
HCA Cybersecurity (1943)	2059-D																	Not started
Assessor ITGC (1844)	2059-E																	Not started
Second Follow-Up Audits																		
A-C ITGC (1741/1949-A)	2059-F																	Not started
C-R Department Request (1840/1949-B)	2059-G	NA	NA													NA	NA	Not required, all recommendations implemented
OCSD ITGC (1845/1949-D)	2059-H																	Not started
Summary Close-Out						0	200	200	119	100	0	0	219	0	19			Completed. Final reports issued for 1941, 1942
Total Information Technology Audits						2,645	0	2,645	726	680	0	0	1,406	1,267	28			
Total Audits Before Other Activities & Administration						9,314	800	10,114	2,566	2,606	0	0	5,172	5,061	119			
Other Activities & Administration																		
Annual Risk Assessment & Audit Plan	2001					300		300	0	8			8	292	0			In process
Cash Losses	2002					100		100	0	0			0	100	0			In process; no referrals received for Q2
External Audit Reporting	2004					200		200	50	46			96	104	0			In process; Q2 reporting completed
On-Demand Department Advisory Services	2005					100		100	0	0			0	100	0			In process; no requests received for Q2
Annual Report	2006					100		100	0	0			0	100	0			Not started
Board & AOC Services	2007					100	736	836	501	285			786	50	0			In process; Q2 reporting + retreat completed; Q1 admin svc vacancy
Special Projects	2008					700		700	223	58			281	419	0			In process; Ransomware (1908-F) issued 9/08/20
CWCAP	2009					100		100	100	0			100	0	0			Completed. Submitted to A-C
Total Other Activities & Administration						1,700	736	2,436	874	397	0	0	1,271	1,165	0			
Reserve for Board Directives/Contingency						1,658	(1,536)	122	0	0	0	0	0	122	0			
Total Budget						12,672	0	12,672	3,440	3,003	0	0	6,443	6,348	119			
						Footnote 5												
Productive Time Diverted to Administrative Services (in addition to 2007)									257	105			362					

Footnotes

- The mission of the Internal Audit Department (IA) is to provide highly reliable, independent, objective evaluations and business and financial consulting services to the Board of Supervisors (Board) and County management to assist them with their important business and financial decisions. The director of Internal Audit shall report directly to the Board and be advised by the Audit Oversight Committee (AOC) designated by the Board. The director of Internal Audit and staff shall have complete and unrestricted access to all of the County's financial records, files, information systems, personnel, and properties, except where prohibited by law. The AOC is an advisory committee to the Board and provides oversight of IA and the external auditors. The scope of IA shall include reviews of the reliability and integrity of financial, compliance, property and business systems, and may include appraising the efficiency of operations and the achievement of business and program goals and objectives.
- IA generates several different types of reports including audit reports, summary reports, and status reports. In addition, IA undertakes several different projects including audits of internal controls, audits of lessee compliance with County contracts, and audits of IT controls. IA also serves the AOC by providing clerk services (meeting agenda preparation, minutes, etc.) and by preparing summary reports.
- The annual Audit Plan is subject to change for such events where the director of Internal Audit or Board majority assesses it is warranted, to substitute, postpone, or cancel a scheduled audit due to timing, priority, resource, or risk considerations. Such modifications will be noted in the Milestones & Comments section of this Quarterly Status Report for review by the AOC. **The acceptance of the Quarterly Status Report by the AOC authorizes both the content herein and any changes noted.** During the course of the year, the director of Internal Audit has discretion to research issues of interest to members of the Board, AOC, or County management and provide them with Technical Assistance. When charged, these projects will be directed either to advisory services or to a separate project. Assistance of this nature generally involves between 10 and 80 hours and results are generally communicated through discussions, memos, or a written report for public distribution.
- For purposes regarding fiscal year-end reporting, we consider assignments completed (**Completed**) as of the official release of an audit report to the department head, and are shown as such in our Milestones & Comments column of this Quarterly Status Report.
- The initial FY 2020-21 Annual Audit Plan of 12,672 hours is based on 9,314 direct hours to be provided by seven senior auditors/audit manager I's, one audit manager II, and one senior audit manager plus 1,700 hours for other activities and administration/special projects and 1,658 hours reserved for Board directives/contingency. The direct hours exclude time charges for vacation, sick leave, holidays, training, administrative time, and other time not directly charged to an engagement.



Memorandum

February 11, 2021

AOC Agenda Item No. 6

TO: Audit Oversight Committee Members

Recommended Action:

Receive Report on Status of External Audit Recommendations Implementation and Approve Quarterly External Audit Activity Status Report for the Quarter Ended December 31, 2020

Receive Report on Status of External Audit Recommendations Implementation and Approve Quarterly External Audit Activity Status Report for the Quarter Ended December 31, 2020, as stated in the recommended action.

ATTACHMENT(S):

- Attachment A – External Audit Activity Status Report Memo
- Attachment B – Executive Summary of External Audit Activity
- Attachment C – External Audit Activity Quarterly Status Report
- Attachment D – External Audit Report, Implementation Status of Prior Quarter Significant & Material Issues

INTERNAL AUDIT DEPARTMENT

January 20, 2021

To: Audit Oversight Committee Members

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: External Audit Activity Status Report for the Quarter Ended December 31, 2020

Attached for your review and approval is our External Audit Activity Status Report for the Quarter ended December 31, 2020. Pursuant to Audit Oversight Committee (AOC) Administrative Procedure Number 2, Reporting on External Audits, County departments are required to communicate the status of all third-party audits, including any significant audit findings identified, to Internal Audit on a quarterly basis. The procedure was established to keep the AOC informed of all third-party audits being performed and any significant findings identified. In addition, as requested by the AOC at its May 9th, 2019 meeting, we have included County department reported corrective action taken to implement recommendations related to significant audit findings identified.

To facilitate the AOC's review, we are pleased to include an Executive Summary that presents the total audit additions and deletions from the prior quarter, the total current audits in process, references any new significant findings, and provides a summary of any material issues reported for the quarter, please see Attachment B. For individual report details, see Attachment C. Finally, for corrective action taken to implement recommendations, see Attachment D.

For the quarter ended December 31, 2020, no new material issues were reported.

If you have any questions, please contact me at 714.834.5442, or Assistant Director Scott Suzuki at 714.834.5509.

EXECUTIVE SUMMARY OF EXTERNAL AUDIT ACTIVITY
For the Quarter Ended 12/31/20

<u>SUMMARY ACTIVITY</u>		
Total Audits Prior Quarter (09/30/20)		113
Additions:		
In Progress		2
Planned		2
Started and Completed		1
Deletions:		
Canceled		0
Completed		14
Removed		<u>2</u>
Total Audits Current Quarter (12/31/20)		<u>102</u>
(In Progress, Planned, and/or Completed this Quarter)		

Results for the Quarter:

Audits Completed, Canceled and to be Removed Next Quarter **26**

New Findings/Issues Reported by the Departments **0**

Material Issues: (Includes Disallowances over \$100K) **0**

EXTERNAL AUDIT ACTIVITY
Quarterly Status Report
2nd Quarter FY 2020-21 (12/31/20)

Results:

No material issues were reported to the Internal Audit Department this quarter.

The schedule below identifies the status of external audits as of 12/31/20, including any significant findings, as reported to us by Orange County Departments/Agencies. This schedule does not include reviews performed by the OC Grand Jury.

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Assessor		State Board of Equalization	All Property Assessment and Valuation Practices	Every 5 Years	2015	Compliance with property tax legal requirements and samplings of property valuation data.	In progress.	
Auditor-Controller	Financial Reporting	Eide Bailly, LLP	CAFR	6/30/20 Annual	6/30/2019	Annual Financial GAAP Audit	Completed.	None.
		Eide Bailly, LLP	Agreed Upon Procedures (AUP) over GANN Limit calculations	6/30/20 Annual	6/30/2019	GANN Limit Calculation - for County and OC Flood Control District	Completed.	None.
		Eide Bailly, LLP	Single Audit	6/30/20 Annual	6/30/2019	Uniform Guidance Expenditures of Federal Assistance	In progress.	
		Moss Adams	Department-wide	FY 19/20	N/A	Performance/ Operations Audit	In progress.	
Child Support Services	Program Support Services	Federal Office of Child Support (OCSE)	Data Reliability	2019 Annual	4/1/20	OCSE will conduct a Data Reliability Review audit of 2019 data. This consists of reviewing case data without case samples.	Completed.	None.
		Office of Audits and Compliance State of California Department of Child Support Services (DCSS)	Review of Local Child Support Agency CS 356 Administrative Expense Claim.	Every 4 Years	11/16	Review of expenditures, abatements, internal control, and records related to Child Support Program claims for FY 2014-15. Also, review of walk up payments.	Planned.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Clerk of the Board of Supervisors		No audits in progress.						
Clerk-Recorder	Information Systems	Lawrence R. Halme	SECURE: Modified System Audit	As Needed	05/20	Review substantive changes to the SECURE Multi-County ERDS system for compliance with the CA Attorney General ERDS certified system requirements.	Planned.	
County Counsel		No audits in progress.						
County Executive Office	Finance	NIGP	County Procurement Office	One-Time	07/14	Performance/ Operations Audit	In progress.	
	Information Technology	KPMG	Information Technology	One-Time	N/A	IBM Mainframe License Usage & Installation	In progress.	
	Corporate Real Estate	No audits in progress.						
	Human Resource Services	CPS HR Consulting	Human Resource Services	FY 19/20 One-Time	08/15	Performance/ Operations Audit	Completed.	None.
District Attorney		Eide Bailly, LLP	Insurance Fraud Programs for Workers' Compensation, Automobile, and Disability & Healthcare (Grant Audits)	7/01/19 - 6/30/20 Annual	FY 19/20	Program Audit	Completed.	None.
		CA Department of Insurance (CDI)	Insurance Fraud Programs for Workers' Compensation, Automobile, Disability & Healthcare, High Impact, and Life & Annuity Consumer Protection	7/01/17 - 6/30/19 Biennial	FY 18/19	Program Audit	Completed.	None.
		State of CA, Office of Program Oversight & Accountability	CA Witness Relocation Program	7/01/14 - 6/30/19	FY 15/16	Program Audit	In progress.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Health Care Agency	Administration	Eide Bailly LLP	Measure H - Tobacco Settlement Revenue	FY 19/20 Annual	FY 18/19	Ensure funding allocations are in compliance with Measure H	In progress.	
	Behavioral Health	State Department of Health Care Services	DMC-ODS Desk Review	FY 19/20 Annual	FY 18/19	Review of operation process and regulatory compliance	Completed.	None.
		State Department of Health Care Services (DHCS) contracted External Quality Review Organization (EQRO)	Drug Medi-Cal Organized Delivery System (DMC-ODS) EQRO	FY 20/21 Annual	FY 19/20	Service quality and management.	Completed.	None.
		State Department of Health Care Services	Mental Health Cost Report; Short-Doyle/Medi-Cal Cost Report	FY 11/12 Annual	FY 10/11	Adjusting Short Doyle Medi-Cal units of service/time, the distribution of administrative costs between Medi-Cal and non-Medi-Cal, the distribution of utilization review costs between Medi-Cal and non-Medi-Cal, crossover revenues, contract maximums, and the overall accuracy of computations in the cost report	In progress.	
		State Department of Health Care Services (DHCS)	Mental Health Cost Report; Short-Doyle/Medi-Cal Cost Report	FY 12/13 Annual	FY 11/12	Adjusting Short Doyle Medi-Cal units of service/time, the distribution of administrative costs between Medi-Cal and non-Medi-Cal, the distribution of utilization review costs between Medi-Cal and non-Medi-Cal, crossover revenues, contract maximums, and the overall accuracy of computations in the cost report.	In progress.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Health Care Agency (continued)	Behavioral Health (continued)	State Department of Health Care Services (DHCS)	Mental Health Cost Report; Short-Doyle/Medi-Cal Cost Report	FY 13/14 Annual	FY 12/13	Adjusting Short Doyle Medi-Cal units of service/time, the distribution of administrative costs between Medi-Cal and non-Medi-Cal, the distribution of utilization review costs between Medi-Cal and non-Medi-Cal, crossover revenues, contract maximums, and the overall accuracy of computations in the cost report.	In progress.	
		State Department of Health Care Services (DHCS) contracted External Quality Review Organization (EQRO)	Mental Health Plan (MHP)	FY 20/21 Annual	FY 19/20	Service quality and management.	Planned.	To be deleted next quarter. Audit not anticipated to be completed this FY.
		State Department of Health Care Services	Mental Health Services Act/Prop 63 (MHSA) Revenue and Expense Report	FY 09/10 Annual	FY 08/09	Reconciliation of costs and revenues and documentations needed to support the MHSA Revenue and Expense Report	Completed.	None.
		State Department of Health Care Services	Mental Health Services Act/Prop 63 (MHSA) Revenue and Expense Report	FY 10/11 Annual	FY 09/10	Reconciliation of costs and revenues and documentations needed to support the MHSA Revenue and Expense Report	Planned.	To be deleted next quarter. Audit not anticipated to be completed this FY.
		State Department of Health Care Services	SABG Desk Review	FY 19/20 Annual	FY 18/19	Review of operation process and regulatory compliance	Completed.	None.
		State Department of Health Care Services (DHCS)	SABG Desk Review	FY 20/21 Annual	FY 19/20	Review of operational process and regulatory compliance.	Planned.	To be deleted next quarter. Audit not anticipated to be completed this FY.
		State Department of Health Care Services (DHCS)	Substance Use Disorder Cost Report (SUDCR); Drug Medi-Cal (DMC); Substance Abuse Prevention and Treatment Block Grant (SABG)	FY 15/16 Annual	FY 14/15	Review the cost funded by SABG and DMC as reported on the SUDCR.	Planned.	To be deleted next quarter. Audit not anticipated to be completed this FY.

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Health Care Agency (continued)	Correctional Health	Board of State Community Corrections (BSCC)	Juvenile Hall/Camps	Biennial	FY 17/18	State Compliance of Title 15 Minimum Standards for Juvenile Correctional Facilities	In progress.	
	Public Health	CDPH Childhood Lead Poisoning Prevention Branch	Childhood Lead Poisoning Prevention Program (CLPPP)	FY 18/19 Every 3-5 years	05/15	Contract Cycle Site Review compliance and enforcement review	Planned.	
		Gilbey and Associates	Community and Nursing Services Division	FY19/20 Annual	FY 18/19	Fiscal and Program Compliance	In progress.	
		State Department of Resources Recycling and Recovery (CalRecycle)	Environmental Health - Solid Waste, Local Enforcement Agency	Every 2-3 years	12/18	Program, not financial. Ensure LEA's implement effective programs in accordance with laws, regulations, and Enforcement Program Plan and verify LEA compliance with certification requirements.	Planned.	To be deleted next quarter. Audit not anticipated to be completed this FY.
		California Office of State Controller	Environmental Health Services - Local Oversight Program (LOP)	FY 17/18 & FY 18/19 Biennial	FY 15/16 & FY 16/17	Financial, not program. Program costs claimed by local agencies under the LOP program.	In progress.	
		State NEOP	Family Health - NEOP Desk Review	Annual	05/20	Desk review of all documents related to fiscal compliance for charges claimed on the NEOP invoice to the State.	Planned.	To be deleted next quarter. Audit not anticipated to be completed this FY.
		State WIC Program	Family Health, Women, Infants and Children (WIC) program	FFY 18/19 Biennial	FFY 17/18	Program Compliance	In progress.	
		California Department of Health Care Services, Cancer Detection and Treatment Branch	Health Promotion Division, Every Woman Counts (EWC)	Annual	FY 18/19	Non-monetary Program Monitoring site visit which includes: PWPT and training materials presentation, PHI storage/HIPPA compliance, Patient navigation	In progress.	
		State Office of AIDS	Ryan White Part B	Annual	02/20	Programmatic Site visit to ensure compliance with Ryan White legislation.	Planned.	To be deleted next quarter. Audit not anticipated to be completed this FY.
		DHCS Audits & Investigations - Targeted Case Management	Targeted Case Management, Program Financial Audit of the TCM Cost Report	FY 16/17 Annual	FY 15/16	All aspects related to fiscal compliance for charges claimed on the cost report	In progress.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Health Care Agency (continued)	Public Health (continued)	DHCS Audits & Investigations - Targeted Case Management	Targeted Case Management, Program Financial Audit of the TCM Cost Report	FY 17/18 Annual	FY 16/17	All aspects related to fiscal compliance for charges claimed on the cost report.	In progress.	
	Regulatory / Medical Services	California Emergency Management Agency (Cal EMA)	Health Disaster Management - State Homeland Security Funds; HCA is subrecipient through OCSA	GY 2006; Varies	N/A	Compliance field review - Grant Year 2006, 2007 and 2008 Note: OCSA is the lead on this audit and is coordinating all findings and responses.	Draft report issued 2/2/12. As of 01/2021, OCSA has continued to contact Cal OES and requested a status of the close out for this audit. Cal OES' final determination of the matter is pending and on hold until post COVID.	Reported in Prior Quarters: Estimated findings total \$742,852 (\$183,101.51 leases and \$559,750.23 equipment), of which HCA requests clarification of approximately \$41,000 pertaining to subgrantee charged expenditures belonging to another grant year. HCA does not concur with the remaining estimated findings of \$701,852. Since the draft report is being discussed with the State and HCA disagrees, we will not yet consider this a finding (same status as several prior fiscal years).
John Wayne Airport	Finance Administration	Eide Bailly LLP	Financial Statements	Annual	06/30/2019	Financial position and changes in financial position and cash flows in accordance with generally accepted accounting principles	Completed.	None.
		Eide Bailly LLP	Schedule of Passenger Facility Charge Revenues and Expenditures	Annual	06/30/2019	Schedule of Passenger Facility Charge (PFC) revenues and expenditures in accordance with PFC Audit Guide issued by the Federal Aviation Administration	Completed.	None.
	Operations	Federal Aviation Administration	Airport Certification Inspection	Annual	01/20	Compliance with Title 14, Code of Federal Regulations, Part 139, the Airport Certification Manual and the Airport Operation Certificate	Planned.	
		Tevora	Common Use Passenger Processing System	Annual	12/19	Compliance with Payment Card Industry Data Security Standard	In progress.	
		Transportation Security Administration	Airport Security	Annual	03/20	Compliance with Title 49, Code of Federal Regulations, Part 1542, Airport Security	Planned.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
OC Community Resources	Housing Community Development	HUD	CDBG & ESG Financial & Procurement	FY 17/18	N/A	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, property management, etc.	In progress.	
		Eide Bailly LLP	County of Orange Redevelopment Successor Agency	FY 19/20 Annual	09/19	Financial Statement Audit	Completed.	None.
		Measured Resource Company	Grant-related Operations	FY 19/20	N/A	Review effectiveness in drawing down competitive funding for homeless services, and affordable and permanent supportive housing relative to other California counties	In progress.	
	Orange County Housing Authority (OCHA)	Eide Bailly LLP	Orange County Housing Authority (OCHA)	FY 19/20 Annual	03/20	Attestation of Annual Financial Statements	Planned.	
	Office on Aging (OoA)	California Dept of Aging	Office on Aging	FY 16/17 - FY 18/19 Triennial	FY 15/16	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, property management, etc.	In progress.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
OC Community Resources (continued)	Community Investment Division	Employment Development Department (EDD) - State Workforce Innovation & Opportunity Act (WIOA) Development Area	WIOA - Fiscal and Procurement	FY 16/17 Annual	FY 15/16	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, property management, etc.	In progress.	
		Employment Development Department (EDD) - State Workforce Innovation & Opportunity Act (WIOA) Development Area	WIOA - Fiscal and Procurement	FY 17/18 Annual	FY 16/17	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, methods of procurement, property management, etc.	In progress.	
		Employment Development Department (EDD) - State Workforce Innovation & Opportunity Act (WIOA) Development Area	WIOA Fiscal & Procurement	FY 18/19 Annual	FY 17/18	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, property management, etc.	In progress.	
		Employment Development Department (EDD) - State Workforce Innovation & Opportunity Act (WIOA) Development Area	WIOA (NEG Fire) - Fiscal and Procurement	FY 17/18 One-Time	N/A	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, property management, etc.	In progress.	
		Employment Development Department (EDD), Department of Labor (DOL), & Office of Inspector General (OIG)	WIOA (NEG Fire) - Fiscal and Procurement	FY 17/18 N/A	N/A	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, property management, etc.	In progress.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
OC Community Resources (continued)	Community Investment Division (continued)	Employment Development Department (EDD) - State Workforce Innovation & Opportunity Act (WIOA) Development Area	WIOA Fiscal & Procurement	FY 19/20 Annual	18/19	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, property management, etc.	Planned.	
		Employment Development Department (EDD) - State Workforce Innovation & Opportunity Act (WIOA) Development Area	WIOA Fiscal & Procurement	FY 20/21 Annual	FY 19/20	Fiscal policies and procedures, accounting system, program income, expenditures, internal control, procurement policies and procedures, property management, etc.	Planned.	
		Employment Development Department (EDD) - State Workforce Innovation & Opportunity Act (WIOA) Development Area	WIOA Section 188 Nondiscrimination and Equal Employment	FY 20/21 Annual	FY 19/20	To determine level of compliance by OCDB with applicable federal and state laws, regulations and direction related to WIOA grant regarding nondiscrimination and equal opportunity provision. Interviews with representatives, policies and procedures, and review of documentation retained by CID.	Planned.	
		Employment Development Department (EDD) - State Workforce Innovation & Opportunity Act (WIOA) Development Area	WIOA Program Monitoring PY	FY 20/21 Annual	FY 19/20	To determine OCDB's compliance with applicable federal and state laws, regulations, and policies specific to program operations and systems related to WIOA. Interviews with OCDB staff, training and service providers staff, and participants, review of selected participant case files, review of policies and procedures pertaining to program operations.	Planned.	
	OC Parks	No audits in progress.						
	OC Libraries	No audits in progress.						
	OC Animal Care	No audits in progress.						

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
OC Public Works	Accounting	California Department of Transportation	San Juan Creek Bike Trail, 17th Street at Esplanade, Antonio Parkway	12/31/13	N/A	Audit of incurred costs	In progress.	
	Accounting/ Construction / Infrastructure Programs	California Department of Transportation	La Pata Avenue Phase I	12/1/2013-12/31/2018 One-time	N/A	1. Prop 1b expenditures were incurred and reimbursed per program guidelines. 2. Deliverables/ outputs were consistent with the project scopes and schedules. 3. Benefits/outcomes were achieved and reported in Final Delivery Reports. 4. La Pata Avenue Phase I construction costs	In progress.	
	Accounting and Infrastructure Programs	N/A	Live Oak and Trabuco Canyon	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Grant project completed in FY 19/20.	Planned.	
		N/A	Department of Water Resources - Trabuco Creek Channel (L02) Levee Protection Phase 7	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Grant project completed in FY 19/20.	Planned.	
	Administrative Services	Transportation Corridor Agency (TCA)	Road Fee Programs (TCA Fees specific)	CY 2020 Annual	May 2020	TCA Fee Program for CY 2020. Audit of major thoroughfare fees collected by the County of Orange.	Planned.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
OC Public Works (continued)	OC Environmental Resources	N/A	Proposition 84 Integrated Regional Water Management Implementation Grant Round 2	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Final Retention payment received 1/30/19.	Planned.	
		N/A	Proposition 84 Integrated Regional Water Management (IRWM) 2014 Drought Grant	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Final Retention payment received 12/28/18.	Planned.	
		N/A	Certified Farmers Market Program	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as last claim for FY 18/19 agreement was sent to the State on 7/25/19.	Planned.	
		N/A	High Risk Pest Exclusion	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as last claim for FY 18/19 agreement was sent to the State on 7/25/19.	Planned.	
		N/A	Organic Program	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as last claim for FY 18/19 agreement was sent to the State on 7/25/19.	Planned.	
		N/A	Sudden Oak Death	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as maxed out award on the March 2019 claim.	Planned.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
OC Public Works (continued)	OC Environmental Resources (continued)	N/A	Asian Citrus Psyllid	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as last claim for FY 18/19 agreement was sent to the State on 7/25/19.	Planned.	
		N/A	Nursery Inspection Program	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as last claim for FY 18/19 agreement was sent to the State on 7/25/19.	Planned.	
		N/A	Weighmaster Program	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as last claim for FY 18/19 agreement was sent to the State on 7/25/19.	Planned.	
		N/A	Petroleum Products Program	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as last claim for FY 18/19 agreement was sent to the State on 7/25/19.	Planned.	
		N/A	Light Brown Apple Moth	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as maxed out award on the March 2019 claim.	Planned.	
		N/A	Bee Safe	TBD	N/A	To verify the accuracy and appropriateness of charges and expenditures. Closed in FY 18/19 as last claim for FY 18/19 agreement was sent to the State on 7/25/19.	Planned.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
OC Waste & Recycling	Accounting	Eide Bailly LLP	Financial Statements	06/30/20 Annual	06/30/2019	Financial and compliance audit	Completed.	None.
Probation	Administrative and Fiscal	California Dept. of Education	Nutrition Services Division - Food contracts	2018-2019	N/A	Review of food contracts and the procurement/ solicitation methods	Completed.	None.
Public Defender		No audits in progress.						
Registrar of Voters		No audits in progress.						
Sheriff-Coroner	Financial/ Administrative Services	Cal EMA / Grants Management Section	Homeland Security Grants	FY 06 through 08	FY 06/07	Financial / Compliance	In progress. As of 12/2020, OCSO has contacted Cal OES and requested a status of the close out for this audit. A response from Cal OES is pending.	This audit is also reported under HCA / Regulatory/Medical Services.
		Cal EMA / Grants Management Section	Homeland Security Grants	FY 17 through 19	FY 09/10	Financial / Compliance	Completed.	None.
		Arroyo Associates	AB 109	FY 14/15 - FY 18/19	N/A	Performance Audit	In progress.	
		Eide Bailly LLP	Tobacco Settlement Fund	FY 19/20	FY 18/19	Agreed Upon Procedures	In progress.	
		OCERS	Payroll Transmittals	01/20 to 10/20	N/A	Compliance	In progress.	
	Custody Operations	Disability Rights Commission (DRC)	Theo Lacy, Central Men's Jail, Intake Release Center, James A Musick Facility	Current	N/A	Disability Rights	In progress.	
	Technology	Dimension Data	Service continuity, disaster recovery	06/18 to 08/18	N/A	Review business critical applications, provide recommendations and documents for BC/DR.	Completed.	None.
		Tech Advisory Committee (TAC)	IT	10/19 to 03/20	2017	Operational Review	In progress.	
	Records	Federal Bureau of Investigation (FBI)		Triennial	2013	Adherence to Criminal Justice Information System (CJIS) Security Policy	Planned.	
	Orange County Crime Lab	No audits in progress.						

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Social Services Agency	Administrative Services	CDSS Fiscal Monitoring Bureau	County Expense Claim (CEC) and Assistance Claims	As Needed	12/16	Review of the CEC and Assistance Claims.	Planned.	
		Social Security Administration	Supplemental Security Income (SSI) Retirement and Survivors Disability Insurance (RSDI)	TBD Every 3 to 4 years	04/17	Review of compliance with Children & Family Services representative payee responsibilities for SSI. RSDI eligible dependent children in and out of home care.	Planned.	
		California Department of Social Services (CDSS) Welfare Fraud Bureau (WFB)	Administrative Services, Adult Services & Assistance Programs, and Family Self-Sufficiency	Varies	04/19	Determine County's effectiveness in processing Income & Eligibility Verification System (IEVS) matches, identifying and collecting CalWORKs Overpayments and CalFresh Over Issuances, and reviewing SSA processes intersecting with District Attorney Public Assistance Division (DAPAD).	Planned.	
		California Office of Emergency Services (CalOES)	Child Abuse and Treatment (CHAT)	Varies	05/17	Review of County's grant processes and documentation related to Grant sub awards.	Planned.	
		CDSS Civil Rights	Civil Rights	Every 2-3 years	04/18	CDSS Compliance review of SSA's Civil Rights implementation.	Planned.	
		CDSS	Welfare Fraud	Every 3 years	11/17	To review welfare fraud processes and processing IEVS criminal matches to ensure compliance with Federal and State regulations.	Planned.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Social Services Agency (continued)	Assistance Programs	California Department of Social Services (CDSS)	CalFresh	08/19 Annual	08/17	Management evaluation of CalFresh Program access with an emphasis on the recertification process and timeliness of application processing, payment accuracy, and assessment of corrective action.	Completed.	None.
		California Department of Social Services (CDSS)	CalFresh	Annual	08/19	Management evaluation focuses on reviewing several areas including Payment Accuracy, Assessment of Corrective Action, Program Access, and Timeliness of Application Processing.	Completed.	None.
		California Department of Social Services (CDSS)	CalFresh Employment & Training (CF E&T)	3/27/19 Annual	N/A	Management evaluation of the County's CF E&T program to determine the compliance of the program rules and regulations, and the County's approved CF E&T plan.	In progress.	
	Family Self-Sufficiency & Adult Services	California Department of Social Services (CDSS)	Adoption Assistance Program (AAP)	Annual	09/19	Monitoring to ensure the AAP program administration eligibility determination to benefit issuance is in compliance with federal and state regulations, which includes the review of AAP eligibility and AAP case files to verify appropriateness and accuracy of forms being used.	Planned.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Social Services Agency (continued)	Family Self-Sufficiency & Adult Services (continued)	California Department of Social Services (CDSS)	Foster Care Title IV-E Audit	Every 3 years	07/18	To ensure compliance with Title IV-E of the Social Security Act program requirements. The review elements include the determination of appropriate documentation for meeting requirements of authority for placement and care; Aid to Families with Dependent Children-Foster Care (AFDC-FC) eligibility of the home of removal (based on July 16, 1996 requirements); placement in an approved foster family home or child care institution; criminal records check and other safety requirements for foster care providers, etc.	Planned.	
		Administration for Children, Youth and Families (ACYF)	Foster Care Title IV-E Audit	Every 3 years	07/18-08/18	Eligibility Review to ensure compliance with Title IV-E of the Social Security Act program requirements. The review elements include the determination of appropriate documentation for meeting requirements of authority for placement and care; Aid to Families with Dependent Children-Foster Care (AFDC-FC) eligibility of the home of removal (based on July 16, 1996 requirements); placement in an approved foster family home or child care institution; criminal records check and other safety requirements for foster care providers, etc.	Planned.	

Department / Agency	Division	Name of Third Party Auditor	Program, Process, or Area	Audit Period & Frequency	Date Last Audited	Audit Scope	Status as of December 31, 2020	Significant Findings
Social Services Agency (continued)	Family Self-Sufficiency & Adult Services (continued)	Christy White Associates, Inc.	California State Preschool Program (CSPP) Grant	FY19/20 Annual	10/19	Financial audit to be conducted based on the California of Department of Education (CDE) Audit Guide for Child Care and Development Programs Attendance and Fiscal Reports.	In progress.	
		California Department of Social Services (CDSS) County Partnership and Performance Monitoring (CCPM) Research, Automation, and Data Division	Work Incentive Nutritional Supplement (WINS) Work Participation Rate (WPR)	FFY2019	02/19	To ensure compliance with federal WINS data reporting requirements and work verification procedures, CPPM reviewed county's procedures and case files to determine the accuracy of the WPR data reported to CDSS for Federal Fiscal Year 2019.	Completed.	None.
		California Department of Social Services (CDSS), Family Engagement & Empowerment Division, CalWORKs Early Engagement & Eligibility Bureau	CalWORKs Eligibility Case File Review	10/20 Every 5 years	05/15	Assess Temporary Assistance for Needy Families (TANF) eligibility determinations, redeterminations and terminations of benefits made by counties and to monitor the implementation of recent CalWORKs eligibility policy changes.	In progress.	
Treasurer-Tax Collector	All	Arroyo Associates	Department-wide	FY 19/20	N/A	Performance Audit	In progress.	
	Treasury and Investments	Eide Bailly, LLP	Annual IPS Compliance	FY 18/19 Annual	6/30/2018	Required Annual Examination of the Treasurer's Investment Compliance with Government Code 27130-27137 and County Investment Policy Statement	In progress.	

EXTERNAL AUDIT REPORT
 Implementation Status of Prior Quarter Significant & Material Issues
 Quarter Ended December 31, 2020

No.	Department	Audit Name	Finding	Recommendation	Material or Significant	Implementation Status* & Actions Taken or Planned
				<p>All prior recommendations noted have been implemented.</p>		

* Implementation status reported as (1) implemented, (2) in progress, or (3) not yet implemented.



Memorandum

February 11, 2021

AOC Agenda Item No. 7

TO: Audit Oversight Committee Members

Recommended Action:

Discuss the Renewal of the Existing Contract with Eide Bailly LLP for Independent Auditing and Related Services for the Year Ending June 30, 2021

Discuss the Renewal of the Existing Contract with Eide Bailly LLP for Independent Auditing and Related Services for the Year Ending June 30, 2021, as stated in the recommended action.

ATTACHMENT(S):

Attachment A – Auditor-Controller Auditing and Related Services Contract Renewal Memo

OFFICE OF THE
ORANGE COUNTY AUDITOR-CONTROLLER**MEMORANDUM**FRANK DAVIES, CPA
AUDITOR-CONTROLLER

DATE: January 21, 2021

TO: Audit Oversight Committee Members

FROM: Bertalicia Tapia
Auditor-Controller/Financial Reporting & Mandated Costs

SUBJECT: Renewal of the existing contract with Eide Bailly LLP for independent auditing and related services for the year ending June 30, 2021

On April 28, 2018, the County and Vavrinek, Trine, Day & Co., LLP (VTD) executed contract number MA-003-18011512 for independent auditing and related services for Fiscal Years ending June 30, 2018, 2019, 2020. On August 27, 2019, the Board approved the "Assignment and Consent Agreement" to contract with VTD changing the vendor name to Eide Bailly LLP. Eide Bailly has substantially completed all milestones, tasks and/or services in accordance with the terms and conditions of the existing contract. The following are the pending items under the current contract:

- FY 2019-20 Single Audit – expected to be completed by March 2021
- 2020 – Annual Financial Audit of the Treasurer's Schedule of Assets
- 2019 & 2020 Annual Treasurer's Compliance Audits

The current contract, provides for a renewal of two additional one-year terms. The Auditor-Controller will request Board approval to retain Eide Bailly for another one-year term by renewing the existing contract for the year ending June 30, 2021.



Memorandum

February 11, 2021

AOC Agenda Item No. 8

TO: Audit Oversight Committee Members

Recommended Action:

Receive Best Practices Subcommittee Report

Receive Best Practices Subcommittee Report, as stated in the recommended action.

ATTACHMENT(S):

Attachment A – Best Practices Subcommittee Meeting Minutes



INTERNAL AUDIT DEPARTMENT

Meeting Minutes

Audit Oversight Committee Best Practices Subcommittee

December 01, 2020 at 1:00 PM

ATTENDANCE: Mark Wille, Subcommittee Chairman, Third District
 Chris Gaarder, Proxy for Supervisor Andrew Do
 Michelle Aguirre, Proxy for Chief Executive Officer Frank Kim
 Aggie Alonso, Internal Audit Director
 Ronnie Magsaysay, Deputy County Counsel
 Gabriela Cabrera, AOC Clerk

ABSENT: Stella Acosta, Private Sector Member, Fourth District

1. COVID-19 – Countywide Internal Controls – Documentation of Internal Control Changes During COVID-19 and Post-COVID-19.

Best Practices Subcommittee Chair Mark Wille discussed the importance of reviewing controls used during COVID-19. Mark requested updates from Aggie Alonso, Internal Audit Director, regarding audits that assess related controls, as well as those that were impacted due to COVID-19. Aggie advised the largest noted impact is with procurement audits as hardcopy files are maintained at department locations. Chief Financial Officer Michelle Aguirre agreed and discussed similar reasons for delays with CPO's compliance audits. Michelle further noted that CPO is in the process of researching a feasible transition to electronic documentation.

Mark asked if it would be beneficial to recommend a Countywide, interconnected procurement/payment system for efficiency. Michelle noted the Auditor-Controller already has a project on their radar except that funding has been a setback. Policy Advisor for Supervisor Do's Office, Chris Gaarder, agreed that an interdepartmental system would be ideal and suggested Internal Audit consider this during the annual risk assessment.

Mark requested that Aggie draft an evaluation/recommendation for the County to enhance the CAPS+ system to include functionality for an automated procurement system. However, Ronnie recommended that the AOC should first recommend an audit of the current system and could discuss recommendations following the audit. Mark noted this should be discussed at our next meeting.

Michelle added that due to the County's limited resources, it may be best to revisit this project when funding is assigned for the next CAPS+ upgrade or possibly a new system implementation. Mark subsequently asked whether funding can be prioritized. Michelle explained the County must adhere to projects outlined in the Strategic Financial Plan, which may change based on submitted budget requests. Michelle also suggested that instead of the AOC recommending this, they should indicate they support this since this is already being pursued by the County.

Since everyone is in agreement that a new automated paperless procurement system is needed, rather than the AOC request an audit of the old system, the AOC should request that Internal Audit be a part of the County's e-procurement implementation team in an advisory capacity to ensure the new system has the necessary internal controls.

Action Item: Include Countywide Procurement System for discussion at next AOC meeting.

2. Annual Report on Necessary Internal Audit Resources to AOC

Mark requested feedback from Chris and Michelle on this item. Chris stated the annual report currently notes two distinct staffing levels, the minimum level needed for essential operations and the level needed for efficient operations. Michelle proceeded to explain that as part of this annual report process, budgets are reviewed to first identify resources necessary to provide basic services. Then, additional resources may be allocated to provide enhanced services. Lastly, it was discussed that at future AOC meetings, Michelle will provide a general update on resource needs identified for CEO, A-C, and IAD and then each department head can provide more details. In addition, Mark asked that both the Auditor Controller and Internal Audit provide a report on their necessary staffing at the second AOC meeting of each year.

Action Item: At the 2nd AOC meeting of each fiscal year:

- 1. CFO will provide a general update on resource needs identified for CEO, A-C, and IAD for budget purposes.**
- 2. CFO, A-C, and IAD Director will report to the AOC on their resource needs.**

3. External Audit Evaluation of Internal Audit Reports

Mark discussed how the County's External Auditors should review Internal Audit's reports during their risk assessments. Mark wants to ensure the External Auditors are aware of this resource, and requested they advise how Internal Audit reports are currently influencing their work. Currently, Internal Audit provides the External Auditor copies of all audit reports and meets with them quarterly to discuss any significant findings.

Action Item: At the next AOC meeting, the External Auditors will report back on how they are using Internal Audit's reports. Internal Audit will coordinate this with the External Auditors.

4. AOC Member Role Restrictions

Mark advised the intent of this discussion is to identify reasonable AOC member role restrictions/requirements that wouldn't limit the Board of Supervisors' ability to appoint future members. Mark noted it might be beneficial to always have a CPA on the panel and requested Chris' feedback. Chris responded that while having a CPA is great for purposes such as reviewing the Comprehensive Annual Financial Report (CAFR), he doesn't share Mark's concern since the Board has a good idea of the type of membership needed for AOC. Ronnie added that this would require a Bylaws revision, so it may be best to review this during the next revision. Aggie read the excerpt from the Bylaws pertaining to the requirement that members possess financial and accounting knowledge.

No further action.

5. Chief Audit Executive Evaluation, Hiring and Firing

Mark started by requesting Aggie's input on this item. Aggie noted that one of the best practices that was identified at the Retreat related to audit committees providing input into the CAE's evaluation, hiring, and firing. Aggie also mentioned that although this is a best practice and should be implemented whenever possible, it applies more to the private sector than it does to a government entity. Michelle discussed that department head performance is a matter discussed during closed-session Board meetings. Mark proposed the idea of inviting the AOC Chair and Vice Chair to the closed-session meetings. Michelle disagreed and noted she was unsure if that was legal. Chris also disagreed, and Ronnie mentioned he would need to research this further. Mark advised reviewing this item in the future. No further action.

No further action.

6. AOC Chair Recommendation on Virtual Meetings

Mark inquired whether there's any formal process for taking voting role virtually. Ronnie advised the only Brown Act requirement is that we track who voted yes, no, or didn't vote by roll call. Aggie mentioned this item stemmed from Bob's recommendation to activate cameras during virtual meetings. Mark suggested the cameras should become a requirement. Michelle added this would need to become a requirement to justify a camera purchase because her priorities include saving unnecessary costs to curtail the impact of the County's revenue losses. Chris stated that while virtual meetings are likely the new normal, he doesn't agree camera use should be required. Mark subsequently asked whether video should be required for AOC voting members, and Chris responded that even though it's ideal, it shouldn't be required.

Action Item: Sub-committee Chair requests a legal analysis of Brown Act requirements as it relates to virtual AOC meetings. Specifically, in live meetings, we know if we have a quorum but for virtual meetings, if a participant is not visible on camera, we would not have knowledge of presence. Additionally, if we can't see them and then call on them and they are not present what is the legal opinion as to their presence at a meeting from a brown act perspective. (i.e. are they considered present for the time until the inquiry or when are they considered not present) As we have AOC quorum issues we request a specific answer.

7. AOC Member Materials Storage and Distribution

Aggie confirmed that while Ms. Stella Acosta was unable to attend today's meeting, she formerly recommended use of Dropbox or another option for AOC membership file sharing. Chris noted it sounds like a good idea especially if it can be implemented without an added cost.

Action Item: At the next AOC meeting, Internal Audit will provide file sharing options for consideration. There are some Brown Act concerns that we will discuss with County Counsel.



Memorandum

February 11, 2021

AOC Agenda Item No. 9

TO: Audit Oversight Committee Members

Recommended Action:

Discuss Audit Oversight Committee File Sharing Request

Discuss Audit Oversight Committee File Sharing Request, as stated in the recommended action.



Memorandum

February 11, 2021

AOC Agenda Item No. 10

TO: Audit Oversight Committee Members

Recommended Action:

Discuss Budget Resource Requirements for Performance Audit, Auditor-Controller, and Internal Audit Department

Discuss Budget Resource Requirements for Performance Audit, Auditor-Controller, and Internal Audit Department, as stated in the recommended action.



Memorandum

February 11, 2021

AOC Agenda Item No. 11

TO: Audit Oversight Committee Members

Recommended Action:

Discuss Countywide Procurement System Upgrade

Discuss Countywide Procurement System Upgrade, as stated in the recommended action.



Memorandum

February 11, 2021

AOC Agenda Item No. 12

TO: Audit Oversight Committee Members

Recommended Action:

Receive Report on Status of Auditor-Controller Mandated Audits

Receive Report on Status of Auditor-Controller Mandated Audits, as stated in the recommended action.

ATTACHMENT(S):

Attachment A – Status of Mandated Audits as of December 31, 2020



Auditor-Controller Internal Audit
 Status of Mandated Audits
 As of December 31, 2020
 AOC Meeting Date: February 11, 2021

Audit Name	Audit No.	Budget Hours	Actual Hours	Variance	Draft Report	Final Report	Status
Audit of Schedule of Assets as of 6/30/19	N/A	N/A	N/A	N/A	N/A	12/24/2020	Completed
Audit of Schedule of Assets as of 6/30/20	N/A	N/A	N/A	N/A	N/A		Not started
Cash Shortages FY 20-21	2001	100	100	0	N/A	N/A	0 in process, 5 complete
JPAs and Special Districts FY 18-19*	1913	100	110	-10	N/A	N/A	Collection in process
JPAs and Special Districts FY 19-20*	2012	100	31	69	N/A	N/A	Collection in process
Review of Schedule of Assets as of 9/30/20	2006	280	222	58			Review in process
Review of Schedule of Assets as of 12/31/20	2007	280	10	270			Planning in process

*We collect copies and post them online.



Auditor-Controller Internal Audit
 Status of Mandated Audits
 As of December 31, 2020
 AOC Meeting Date: February 11, 2021

Audit of Schedule of Assets as of 6/30/19

Objective	Status/Results	Material Weaknesses or Significant Deficiencies	Control Deficiencies
To perform an annual audit to express an opinion on whether the Schedule of Assets is presented fairly, in all material respects, in accordance with the modified-cash basis of accounting. This engagement has been contracted out to Eide Bailly LLP.	Report was issued by Eide Bailly on December 24, 2020.	0	0

Audit of Schedule of Assets as of 6/30/20

Objective	Status/Results	Material Weaknesses or Significant Deficiencies	Control Deficiencies
To perform an annual audit to express an opinion on whether the Schedule of Assets is presented fairly, in all material respects, in accordance with the modified-cash basis of accounting. This engagement has been contracted out to Eide Bailly LLP.	Not started yet.	0	0

Cash Shortages FY 20-21

Objective	Status/Results	Critical/Significant Control Weaknesses	Control Findings
To perform an investigation to determine whether to approve replenishment of cash shortages.	0 investigation(s) in process and 5 complete. Department(s) in process: None	0	0



Auditor-Controller Internal Audit
 Status of Mandated Audits
 As of December 31, 2020
 AOC Meeting Date: February 11, 2021

JPAs and Special Districts FY 18-19

Objective	Status/Results	Number of Modified Reports Reviewed	
To ensure all JPAs and Special District within the County file their annual audits within 12 months of their fiscal year end.	Collection of audited financial statements is in process. JPAs remaining: 18 of 72. Reminder email was sent on 7/20/20. Special Districts remaining: 12 of 34. Reminder email was sent on 7/20/20.	0	

JPAs and Special Districts FY 19-20

Objective	Status/Results	Number of Modified Reports Reviewed	
To ensure all JPAs and Special District within the County file their annual audits within 12 months of their fiscal year end.	Collection of audited financial statements is in process. JPAs remaining: 42 of 73. Special Districts remaining: 22 of 34.	0	

Review of Schedule of Assets as of 9/30/20

Objective	Status/Results	Material Weaknesses or Significant Deficiencies	Control Deficiencies
To perform a quarterly review to express a conclusion on whether we are aware of any material modifications that should be made to the Schedule of Assets for it to be in accordance with the modified-cash basis of accounting.	Review in process.	0	0



Auditor-Controller Internal Audit
 Status of Mandated Audits
 As of December 31, 2020
 AOC Meeting Date: February 11, 2021

Review of Schedule of Assets as of 12/31/20

Objective	Status/Results	Material Weaknesses or Significant Deficiencies	Control Deficiencies
To perform a quarterly review to express a conclusion on whether we are aware of any material modifications that should be made to the Schedule of Assets for it to be in accordance with the modified-cash basis of accounting.	Planning in process.	0	0



Memorandum

February 11, 2021

AOC Agenda Item No. 13

TO: Audit Oversight Committee Members

Recommended Action:

Receive Report on Status of Performance Audits

Receive Report on Status of Performance Audits, as stated in the recommended action.

ATTACHMENT(S):

Attachment A – Performance Audit Activity Quarterly Status Report

PERFORMANCE AUDIT ACTIVITY

Quarterly Status Report

February 11, 2021

Department	Division/Program	Third Party Auditor	Previous Audit	Audit Scope	Status	Significant Findings
FY 2019-20						
Auditor-Controller	Department-Wide	Moss Adams	N/A	Review organizational structure, operations, staffing levels, mandated vs. non-mandated services, policies/practices/procedures, use of technology, training	In progress	
OC Community Resources	Grant-related Operations	Measurement Resources Company	N/A	Review effectiveness in drawing down competitive funding for homeless services, and affordable and permanent supportive housing relative to other California counties	In progress	
Treasurer-Tax Collector	Department-Wide	Arroyo Associates	N/A	Review operations, policies, practices, and procedures to identify opportunities for enhancing service delivery, streamlining processes, expanding efficiencies, applying best practices, etc.; review existing staffing levels for adequacy	In progress	
Sheriff, Probation, District Attorney, Public Defender, Health Care Agency, Social Services Agency, and OC Community Resources	AB109-Related Operations	Arroyo Associates	N/A	Identify resources allocated to the AB109 population above and beyond that provided by the State through 2011 Realignment	In progress	

PERFORMANCE AUDIT ACTIVITY

Quarterly Status Report

February 11, 2021

Department	Division/Program	Third Party Auditor	Previous Audit	Audit Scope	Status	Significant Findings
FY 2020-21						
OC Community Resources	Procurement	National institute of Governmental Purchasing (NIGP)	N/A	Review procurement functions for compliance with County policy and procedures, compliance with government statutes, and recommendation for streamlining	In progress	
OC Public Works	Administration	TBD	N/A	Review administrative operations, policies, practices and procedures and make recommendations to streamline, reduce costs, expand efficiencies, apply best practices	RFP closed 1/7/21; proposals to be evaluated	
Probation	Administration	TBD	N/A	Review administrative operations, policies, practices and procedures and make recommendations to streamline, reduce costs, expand efficiencies, apply best practices	RFP closed 1/7/21; proposals to be evaluated	
Public Defender	Administration	TBD	N/A	Review administrative operations, policies, practices and procedures and make recommendations to streamline, reduce costs, expand efficiencies, apply best practices	RFP closed 1/7/21; proposals to be evaluated	