

County of Fresno
Auditor-Controller/Treasurer-Tax Collector
Audit Committee Minutes
Board of Supervisors' Chambers
December 13, 2019 – 10:00 a.m.

MEMBERS PRESENT:

Supervisor Nathan Magsig, Audit Committee Chairman

Brian Melikian, Chief Deputy County Counsel, sitting in for Daniel Cederborg, County Counsel, Audit Committee Vice-Chairman

Debbi Paolinelli, Assistant County Administrative Officer, sitting in for Jean Rousseau, County Administrative Officer

Elizabeth Diaz, Public Defender, Co-Department Heads Council

Kulwinder Brar, Public Member

Call to Order: Chairman Nathan Magsig called to order the regular meeting of the Audit Committee (Committee) on December 13, 2019 at 10:00 a.m. in the Board of Supervisors' Chambers.

1. Pledge of Allegiance

- This portion of the meeting began with Elizabeth Diaz leading all in attendance with the Pledge of Allegiance.

2. Approve Agenda

- A motion was made by Chairman Magsig, seconded by Elizabeth Diaz and carried 5-0 to receive and approve the December 13, 2019 agenda.

3. Public Presentations

- This portion of the meeting is reserved for persons desiring to address the Committee briefly on any matter not on this agenda within the Committee's subject matter jurisdiction.
- There being none, the Committee proceeded to hear the next item on the agenda.

4. Discussion Regarding the Appointment of Public Members to the Audit Committee

- Megan Marks, Accounting and Financial Division Chief, FR&A, stated that one public member's term is expiring this month and asked for the Committee's guidance.
- Chairman Magsig asked the Committee Members for their thoughts. His thought was that if the public member's attendance has been appropriate, then the public member should be offering an opportunity to reapply and informed the public member that the application is necessary. If the public member is interested, informed the public member to apply, and the Committee will act on it.
- Kulwinder Brar agreed.

5. Approval of August 16, 2019 Audit Committee Meeting Minutes

- Chairman Magsig introduce Agenda Item 5.
- Brian Melikian asked if there were any public comment back on Agenda Item 3
- Chairman Magsig stated that the reason he didn't opened to the public because there wasn't any action taken and asked if the Item should be open.
- Mr. Melikian stated that it would be advisable since that was an Agenda Item.
- Chairman Magsig tabled Agenda Item 5, and opened Item 4 for comment. There being none, the Committee proceed to Item 5.

- A motion was made by Chairman Magsig, seconded by Kulwinder Brar, and was carried 4-1 to approve the August 16, 2019 Audit Committee Meeting Minutes with Brian Melikian sustained since he was not present in the previous Audit Committee Meeting.

6. Agenda Items

Consent Items

a) Approve Quarterly Fraud Report covering July 1, 2019 to September 30, 2019

- A motion was made by Chairman Magsig, seconded by Kulwinder Brar, and was carried 5-0 to approve Agenda Item 6a.

Discussion and Action Items

b) Review and Receive 2018-2019 First Five Comprehensive Annual Financial Report

- Megan Marks, Accounting and Financial Division Chief, FR&A, introduced the item and Alix Hillis, Business Director, First Five Fresno County, and Brian Henderson, Partner, Hudson Henderson & Company presented the item.
- Ms. Hillis gave background on First Five Fresno County. She stated that twenty years ago Proposition 10 created the Family and Children Commission, also known as First Five. Ms. Hillis stated that per this legislation, an audit is required to be completed annually and to be submitted with First Five's Programmatic Annual Report to both the State Controller's Office and First Five California. She stated that based on Fresno County ordinances First Five is required to present its annual audit report to the Fresno County Board of Supervisor.
- Brian Henderson stated that Hudson Henderson & Company issued an unmodified opinion, also known as a clean opinion, in regard to the governmental activities, major funds, and discretely presented component unit, Lighthouse for Children (Lighthouse). Mr. Henderson stated that they also provide two additional reports, one being the government odd standard report and a report on compliance regarding the First Five of California requirements. He stated that both reports were issued with no deficiency or material weakness. He stated that Hudson Henderson & Company did not have any difficulty performing the audit due to First Five's openness and cooperation. He stated that no major disagreements regarding the County's principles because First Five gave its representation the same date and right away on any other consultation. Mr. Henderson stated that they started the field work in July 2019 on the evaluation of internal control and compliance for specific compliance opinion, then returned in September 2019 to audit year end substantial testing, vouchers, balances, analytics, and then finalize their report in early October 2019. He stated that the quick turnaround speaks to financial status of the organization. Mr. Henderson stated that, in regard to the financial balance, ending balance was \$20.9 million on the government wide statement looking at the organization on the full accrual and not on the fund basis. He stated that of that amount \$12 million was assigned, not committed, not restricted, or not spendable and it is for future initiative and other items at the discretion of management, the Board, and the Commissioner themselves. He stated that there was a net increase of \$2.1 million compared to the prior year. He stated that revenue increased \$1.2 million. Mr. Henderson noted that Prop 10 money continued to decrease this year as expected due to California's decision to cut down on smoking and the taxes associated with that. He stated that Prop 56 was up \$522,000 and a portion came to First Five Commission, which helped offset the decreased and increased funding for initiatives and funding of the commission.
- Chairman Magsig stated that the variance from 2018 – 2019 is significant, where in fiscal year ended June 2018 showed around \$400,000 received in total and for fiscal year ended June 2019 the total is \$918,000. He asked if the variance will continue to increase, stabilize, or a funding source that will be very volatile.
- Mr. Henderson stated that it would be stabilize. He stated that this was the first full year the money came through. He stated that fiscal year 2018 was a partial year due to the state being behind in getting

the money out due to the passage of Prop 216. He stated that it would stabilize based on what was heard from the state.

- Chairman Magsig asked if this was money that was tied up in the Treasury Pool.
- Mr. Henderson agreed with Chairman Magsig's comment. He stated that First Five also has its own investment outside of Treasury. Mr. Henderson stated that the biggest piece of that growth has to do with the fair market adjustment, which varies back and forth throughout the year.
- Chairman Magsig stated that the Treasury Pool in 2018 earned an average return of around 1.7-1.8 and today it is around 2.1 so he did not think it will be the main driver.
- Mr. Henderson stated that he will have to look into the detail, but the biggest part will be the fair market value adjustment, which is unrealized gain. Mr. Henderson stated that it helped the number and additional type grants which was \$100,000 that has to do with reimburse type grant which were doing better and getting reimbursement. He stated that there was no real major change to the financial as compared to prior year, no major GASB pronouncement, but they saw some in the coming years that will have some minor changes. Mr. Henderson also noted that the inclusion of the Lighthouse as a component of First Five is only present on the government wide and in the foot note.
- Chairman Magsig stated that it is important to see the relationship between the Lighthouse and First Five, even though the Lighthouse is a separate entity. He asked whether to receive or approved the agenda item.
- Mr. Melikian stated that it was just to receive the item.
- Chairman Magsig opened the item for public comments.
- There being none, a motion was made by Kulwinder Brar, seconded by Elizabeth Diaz, and was carried 5-0 to receive the 2018-2019 First Five Comprehensive Annual Financial Report.

- **c) Review and approve the Department of Social Services Food and Nutrition Services (FNS)-209 Report for the quarter ended June 30, 2019**
- Megan Marks, Accounting and Financial Division Chief, FR&A, introduced and presented the item. She stated that this was an agreed-upon procedure report following State's procedures. She stated that the first procedure was to compare the Department of Social Services' (DSS) case level system generated report with what is actually on the report sent to the State. Ms. Marks stated that there were three areas of audit, Intentional Program Violation (IPV), Inadvertent Household Error (IHE), and State Agency Administrative Error (AE). She stated that it should be noted that errors were found when the engagement was started, but DSS was already aware of the errors. Ms. Marks stated that within IPV, there was a difference of eight with the ending balance. She stated that for IHE, there was a difference of 94 between the balances and with AE there was a difference of 15 as a result of accounts beginning balance and the other support documents during the year. She stated that the attachment page one through three, shows the difference for each column. Ms. Marks stated that the second procedure was to use the system generated report and confirm either the beginning or ending balances. She stated that there was a finding of 15 count in the beginning balance, but this was exposed as the audit was started. She stated that there is a line item in the report that allow these types of adjustments to occurred and is supported by Attachment B.
- Chairman Magsig asked regarding the discrepancy that if there is a squash factor or a corridor of certain percentage to stay within to be ok. He asked if there are rules in place that can govern DSS on that.
- Ms. Marks answered that based on the audit, the auditors cannot see standard by which DSS can deviate, but this is information after the quarter has ended and there is no new information that should have been included in the report. She also stated that the report standard knows this that is why there is the ability to make these adjustments.
- Chairman Magsig asked that if the County is in jeopardy of giving the money back.
- Stacy Sandoval, Finance Manager, DSS, stated that DSS is recording the number of over payments that it is collecting on. She stated that the amount is collected, but it was the count of how many active counts DSS has. She stated that for the first situation there were eight counts that was missed, but were

adjusted in the next quarter. Ms. Sandoval stated that this audit has changed the way DSS report, it has tested this out, and are able to prepare for the next quarter. She stated that DSS will continue to watch that. She stated that this is an annual audit so it will come up the next fiscal year and DSS will be able to make sure that those policies are in place.

- Chairman Magsig asked if there is a concern the County would be giving money back to the State.
- Ms. Sandoval stated no. She stated that DSS is collecting on behalf of the federal and state government from the clients. She stated that the County keeps its share and gives the State its share so if there is any type of adjustments DSS will make it, but it is not giving money back to the clients.
- Chairman Magsig asked that if the County makes the payments to the state and federal government if the clients cannot pay.
- Ms. Sandoval stated no and that the account remains active until the clients can pay.
- Kulwinder Brar, Public Member, asked what the general time line is when the error was discovered and the time it was corrected.
- Ms. Sandoval answered that it was about one to two months after the quarter so by the time the new quarter started, and DSS started the new quarter review it has already realized that there was an error.
- Mr. Melikian asked how the amounts are compared to last year.
- Ms. Marks answered that she did not have the data for that because the last time these amounts were looked at was about five years ago and this year these procedures became an annual requirement.
- Chairman Magsig opened the item for public comments.
- There being none, a motion was made by Debbie Paolinelli, second by Kulwinder Brar, and was carried 5-0 to approve the Department of Social Services Food and Nutrition Services (FNS)-209 Report for the quarter ended June 30, 2019.

d) Review and approve the Department of Public Health Emergency Medical Services Authority (EMSA) Report for the fiscal year ended June 30, 2019

- Megan Marks, Accounting and Financial Division Chief, FR&A, introduced and presented the item. She stated that this item may become an annual agreed upon procedure report. She stated that this is a compliance report to determine if the funds received for the Health Emergency Medical Services are in compliance with the contract in MSA 104, which was what the program was referred to. Ms. Marks stated that no exceptions were noted, proper accounting records were maintained, and all reimbursements were proper and reflect actual allowable cost. She stated that there is no physical inventory so there was no exception. She stated that the audit team verified the department's provision for retaining source documentations and there were no exceptions.
- Mr. Melikian asked how much the contract was for.
- Ms. Marks stated that it was for about \$405,000.
- Chairman Magsig opened the item for public comments.
- There being none, a motion was made by Kulwinder Brar, seconded by Debbie Paolinelli, and was carried 5-0 to approve the Department of Public Health Emergency Medical Services Authority (EMSA) Report for the fiscal year ended June 30, 2019.

e) Discuss and approve revisions to 2020 Audit Committee Dates

- Ms. Marks introduced and presented the item. She suggested that going forward the February Audit Committee Meeting date be moved to January to combined with the Special Audit Committee Meeting and not have an Audit Committee Meeting in December.
- Chairman Magsig opened the item for public comment.
- There being none, Chairman Magsig opened the item to Committee Members.
- Mr. Melikian commented that the revised dates will help the County with its preparation of its Comprehensive Financial and Annual Report (CAFR) to the bond market due to the deadline on February 28th annually. He commented that between those two dates, the Board of Supervisor would receive the CAFR. He stated that he has cleared the dates with Vice-chairman Daniel Cederborg.

- A motion was made by Kulwinder Brar, seconded by Debbie Paolinelli, and carried 5-0 to approve the revision to 2020 Audit Committee Dates.

7. Staff Updates

- Oscar J. Garcia, Auditor/Controller-Treasurer/Tax Collector (ACTTC), stated that in late January the Auditor/Controller office will go to the Board of Supervisors (Board) for fund to perform compliance audit for the special districts due to the special districts not complying with completing their audits. The Grand Jury Report stated that it is the Auditor/Controller's office's responsibility to perform the audits. The ACTTC will give the Board some options on how the audits will be perform.
- Chairman Magsig asked how much the cost will be.
- Mr. Garcia stated that he was not sure and the best way was to perform an audit to be able to determine the cost. He stated that this was due to some districts being noncompliant dated back to 2008. He stated that there may not be adequate record, so someone may have to be hired to perform the accounting first before an audit firm can perform the auditing. Mr. Garcia stated that he has consider his staff to help perform the accounting and have a CPA firm perform the audit. He stated that he is not sure about the magnitude of it yet, but he does have the list of noncompliance and the years they are noncompliance.
- Chairman Magsig stated that based on the Charter, the Audit Committee only focus on County departments, such as Sheriff Department, Public Works, or DSS, so this request would have to come through the Committee first.
- Mr. Garcia stated that the Auditor/Controller is unable to do it due to independence in that the special districts have their accounts and investments with County.
- Chairman Magsig suggested that from looking at these if there is an opportunity to dissolve some special districts that the County should work with LAFCO to accomplish dissolution because the County can help the special districts bring up their books, but the issue may appear again the following year.
- Mr. Garcia stated that there are some districts that do have the fund, however, Auditor/Controller has to work with County Counsel to recoup the payments. Mr. Garcia stated that as advised by County Counsel, the special districts are under different guidelines and regulations.
- Mr. Melikian stated that it was correct because each district has its own enabling body.
- Chairman Magsig stated that the special districts have their own board and the County does not have power over the special districts.
- Mr. Garcia stated that he thinks that regarding audit, it is put in the code that he is the cause of the audit. Mr. Garcia stated that the code does not state the funding or what he can do if that does not happen. He stated that he believed if a special district would to go bankrupt, the county that the special district most reside in would be responsible.
- Mr. Melikian stated that the general principle is that special districts are responsible for themselves and the County is not responsible for their physical properties.
- Mr. Garcia asked that even if the district goes bankrupt.
- Mr. Melikian stated that he believes the County would not be responsible for special districts' bankruptcy because the County is not their backstop or guarantor.
- Mr. Garcia stated that he will provide the information to the Board and see what options he has. He stated that regarding the cash disbursement audits on the internal audit side for the January meeting, not all of them will be done, but some of them should be done.
- Chairman Magsig asked for the rate of return for the Treasury Pool in the most recent months.
- Mr. Garcia stated that the rate is holding over two. Mr. Garcia stated that on his last check, the rates were 1.75 per agency and hovering around the 1.60 - 1.75. He stated that half of the portfolio are over two and with the incoming tax revenue it is over 4 million. He stated that this should hold about two for the rest of the year.

8. Adjournment

- A motion was made by Elizabeth Diaz, seconded by Kulwinder Brar, and was carried 5-0 to adjourn the meeting at 10:29 a.m.

Audit Committee Members:

Supervisor Nathan Magsig, Audit Committee Chairman

Daniel C. Cederborg, County Counsel, Audit Committee Vice-Chairman

Supervisor Sal Quintero

Jean Rousseau, County Administrative Officer

Elizabeth Diaz, Co-Department Heads Council

Manuel Vilanova, Public Member

Kulwinder Brar, Public Member