

**County of Fresno
Auditor-Controller/Treasurer-Tax Collector
Audit Committee Minutes
Board of Supervisors' Chambers
July 27, 2018 – 10:00 a.m.**

MEMBERS PRESENT:

Supervisor Nathan Magsig, Audit Committee Chairman
Daniel Cederborg, County Counsel, Audit Committee Vice-Chairman
Supervisor Sal Quintero
Elizabeth Diaz, Public Defender, Co-Department Heads Council
Jean Rousseau, County Administrative Officer
Kulwinder Brar, Public Member

Call to Order: Chairman Magsig called to order the regular meeting of the Audit Committee (Committee) on July 27, 2018 at 10:01 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 Jean Rousseau, seconded by Elizabeth Diaz and carried 6-0 to receive and approve the July 27, 2018 agenda.

3. Public Presentations

- This portion of the meeting is reserved for persons desiring to briefly address the Committee 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. Approval of May 25, 2018 Audit Committee Meeting Minutes

- A motion was made by Jean Rousseau, seconded by Elizabeth Diaz, and was carried 5-0 to receive and approve the May 25, 2018 Audit Committee Meeting Minutes. Supervisor Quintero abstained, because he did not attend the May 25, 2018 meeting.

5. Agenda Items

Discussion and Action Items

a) Response to Fresno County Grand Jury Report of June 2018, as pertaining to the Fresno County Audit Committee

- Oscar J. Garcia, CPA, Auditor-Controller/Treasurer-Tax Collector (ACTTC), stated that according to the Grand Jury report, the Audit Committee (Committee) chair needs to make a recommendation. ACTTC is currently working on a response to the Grand Jury. The ACTTC response will be reviewed by County Counsel before the response is sent to the Grand Jury.
- Chairman Magsig stated that the Committee serves at the direction of the Board of Supervisors (BOS), according to the Committee's bylaws and charter. He stated the Committee has no oversight over special districts as those districts have their own elected board; they are a separate entity from the County. Committee only has oversight and authority over departments or entities under control of the BOS. Chairman noted that the Committee's responsibility is not to direct ACTTC how they should function. He said they work with the ACTTC, recommending certain audits of County

departments, not including special districts. He provided copies of a draft response that has been vetted by County Counsel to be sent to the Grand Jury on behalf of the Committee.

- Vice Chairman Cederborg asked if the letter needed approval from the Committee; Chairman Magsig invited a motion to have Committee approve the letter (See Attachment A).
- A motion was made by Jean Rousseau, seconded by Mr. Cederborg, and was carried 6-0 to approve the letter to be presented to the Grand Jury.

b) Discussion of upcoming audit engagement with Assessor-Recorder's Department in regards to its cash receipts and cash disbursements processes.

- Chairman Magsig noted for the record that subject item was requested by Paul Dictos, Assessor-Recorder, to present this item before the Committee.
- Paul Dictos discussed a summary of the Property Tax Administration Program (PTAP) trust fund and provided findings and results of study, which are included as Attachment B. He asked for an outside auditor to perform an audit in regards to Assessor-Recorder's cash receipts and cash disbursements.
- Chairman Magsig said the BOS might need to approve for outside auditors to perform an audit. He mentioned an outside auditor may look at every aspect of the Assessor-Recorder, which may include critical findings. He also clarified that the audit work done by the ACTTC was to review departments' process and recommend any improvements. An internal audit is not punitive, but an effort to strengthen departments, and find improvements for departments to make. Paul Dictos restated that he wants to have outside auditors look at every aspect of his department.
- Jean Rousseau clarified there was no particular fund in mind when he made his suggestions in the prior Audit Committee meeting on May 25, 2018. He was concerned about incorrect allocations that occurred for 15 years that were discovered recently. He wanted to see if those issues have been corrected and how funds are allocated currently to avoid such issues in the future.
- Vice Chairman Cederborg reiterated Mr. Rousseau's comments. He wanted to make sure issues in the past are corrected and to avoid any disconnect in allocation processes in the future. Mr. Cederborg said auditors should look at allocation of monies, not really cash handling.
- Paul Dictos stated that starting March 1, 2017, no more PTAP funds are being transferred to the General Fund.
- Jean Rousseau suggested the possibility of having current external auditors, Brown Armstrong, perform an audit engagement related to the money allocation issue for the Assessor-Recorder's department. Paul Dictos indicated he is in full agreement with such an audit.
- Paul Dictos discussed an item from the May 25, 2018 Audit Committee meeting (the Assessor-Recorder's Social Security Number Truncation Program Agreed Upon Procedures #2), stating that in the agreed upon procedures engagement, there was a finding, item #3. He provided a cost study document to the Committee to be considered for the next Audit Committee meeting. The document provided by Mr. Dictos is included as Attachment C. Mr. Dictos stated that his department just completed the Indirect Cost Rate Proposal (ICRP), which was approved by ACTTC. The new ICRP rate is 72.76% and Mr. Dictos stated that he should have transferred \$94,500 rather than \$30,000 for labor hours based on their time study. If the ACTTC approves, he will go back and transfer the remaining amount.
- No motion was made on this item; received and filed per Chairman Magsig.

c) Review and approve suggested updates to the Internal Audit Charter and the Bylaws of the Fresno County Audit Committee

- Oscar J. Garcia presented changes to charter and bylaws. He mentioned changes are mostly grammatical or cosmetic changes and made some clarifications in a few sections.

- Vice Chairman Cederborg asked for clarification of independence. Oscar J. Garcia stated that auditors performing engagements must not have performed work for any entity under review or audit.
 - Chairman Magsig asked if ACTTC would submit Audit Charter and Bylaws to the BOS as consent receive and file item; Oscar J. Garcia confirmed item would be submitted to the BOS as a consent receive and file item.
 - Elizabeth Diaz asked for clarification of training hours. Oscar J. Garcia said they are continuing professional education courses for staff to comply with standards.
 - A motion was made by Jean Rousseau, seconded by Elizabeth Diaz, and was carried 6-0 to approve and accept updates to Internal Audit Charter and Bylaws.
- d) Receive direction regarding how to report to the Board of Supervisors upon the audit activities**
- Chairman Magsig said Audit Committee minutes will be presented to the BOS as a consent item quarterly.
 - A motion was made by Jean Rousseau, seconded by Vice Chairman Cederborg and was carried 6-0 to present Committee minutes to the BOS as a consent item quarterly.

6. Staff Updates

- Oscar J. Garcia working with County Counsel to provide response to the report from the Grand Jury. He asked if Committee needs to review the response, and Chairman Magsig said it does not.

7. Adjournment

- A motion was made by Elizabeth Diaz, seconded by Jean Rousseau, and was carried 6-0 to adjourn the meeting at 10:35 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



County of Fresno

BOARD OF SUPERVISORS
SUPERVISOR NATHAN MAGSIG – DISTRICT FIVE

July 27, 2018

The Honorable Alan M. Simpson, Presiding Judge
Fresno County Superior Court
1100 Van Ness Avenue
Fresno, CA 93724-0002

RE: Fresno County Audit Committee Chair Response to 2017-18 Fresno County Grand Jury Report No. 3 on Audits of Special Districts by Fresno County Auditor Controller Treasurer Tax Collector

Dear Judge Simpson:

As Chair of the Fresno County Audit Committee, I have been requested to provide a response to Finding 9 in the 2017-18 Fresno County Grand Jury Report No. 3 entitled "Special Districts Non-Compliance – System Failure." The Grand Jury's Finding No. 9 reads as follows:

"F9. Per the Fresno County Audit Committee's Bylaws it appears the committee, although advisory in nature, can oversee and monitor the Fresno County Auditor-Controller/Treasurer-Tax Collector's Office with regards to special district financial audit requirements, but has failed to provide oversight and monitoring."

Response: Respectfully, and for the reasons set forth in this response, I must disagree with Finding No. 9 of the Grand Jury.

Discussion

I want to first begin by saying the County is very appreciative of the Grand Jury's concerns over the functioning and audit compliance of the many special districts within the County of Fresno. The County also wishes to inform the Grand Jury that both the Auditor Controller Treasurer Tax Collector and the County Counsel are working on initiatives and possible additional training that will help address the problem with special district audit compliance the Grand Jury identified in its report. As the Grand Jury was made aware during its investigation, the County has a great number of special districts, many of which are relatively small or have very limited function. Special districts in most counties in the state struggle to meet the compliance standards contained in Government Code §26909 and there are very limited staffing and financial resources available to auditor controllers throughout the state to assist with the districts' compliance. This is particularly true in Fresno County which contains a larger number of special districts with restricted finances. Still, many of the findings and recommendations contained in the Grand Jury's report are useful, and the County will be looking for opportunities to engage underfunded or poorly functioning special districts to encourage any consolidations or dissolutions that might be warranted.

The function of the Fresno County Audit Committee, however, does not encompass audits of third party governmental entities such as the special districts, nor oversight of the Auditor Controller Treasurer Tax Collector, an independent elected County official in performance of any actions pursuant to Government Code §26909. The Grand Jury reads the Audit Committee bylaw provisions too broadly and out of context. Audit committees in general are established as a best practice among government and large corporate entities to provide a somewhat more independent review of the internal audit functions of that entity. The Fresno County Audit Committee bylaws referenced by the Grand Jury are "Appendix A" to the County of Fresno Internal Audit Charter adopted by the Board of Supervisors. That Charter lists the mission of the Fresno County Internal Audit Division as providing "independent and proactive auditing and consulting services to the administration and departmental management of the County." (Emphasis added). The entire focus of the Charter and the establishment of an Audit Committee is on the internal functioning and fiduciary financial responsibilities of the specific entity, in this case the County of Fresno. Nothing in statute or practice gives the Fresno County Audit Committee the obligation, authority or ability to direct independent governmental entities with respect to their audit obligations, nor to direct the Auditor Controller Treasurer Tax Collector with respect to any effort under Government Code §26909.

Paragraph V of the Internal Audit Charter defines the function of the Audit Committee:

"The Audit Committee is an advisory committee to the Board of Supervisors and provides oversight to the County's Internal Audit Division and external audit coverage. The Committee assists the Board of Supervisors in ensuring the independence of the internal audit function and ensuring that appropriate action is taken on audit findings. The Committee helps to promote and enhance effective internal controls for County operations, and serves as an important communication link between external auditors, internal auditors, and operating management. The Committee establishes its own bylaws to govern the makeup and responsibilities of its members."

It is possible that the Grand Jury's misapprehension of the purpose and scope of authority of the Audit Committee arises from two sources. The first is the general perception of the citizenry that because the County of Fresno is the governmental entity with full geographic coverage of the county, and because the County is seemingly situated in a governmental hierarchy between the State of California and smaller municipalities and districts within the County that the County government has some plenary authority over other local agencies within the geographic boundaries of the County such as special districts. This is incorrect. All cities, and with few exceptions, most districts function completely independently of the County and are separate legal entities. The second misperception may be caused by references to "external" auditors in Paragraph V of the Charter (quoted above), or to "external quality control review" in the Bylaws themselves. These terms refer to the use of external auditors to audit the records of or review the audit procedures of the County itself, and not to any responsibility of the Audit Committee to assure that other governmental entities within the County are complying with their own audit requirements.

I wish to conclude by repeating that, although the County respectfully disagrees with the Grand Jury's Finding No. 9, the County takes very seriously the issues raised overall by the Grand Jury's report. As resources are available, the County will look for opportunities to assist the special districts in the County reach compliance with audit requirements or, in the alternative to encourage consolidation or dissolution of special districts when appropriate.

Respectfully submitted,

NATHAN MAGSIG
Supervisor, District 5
Fresno County Board of Supervisors
Chair, Fresno County Audit Committee

cc: Oscar J. Garcia, Fresno County Auditor-Controller/Treasurer-Tax Collector
Members of the Fresno County Board of Supervisors

DRAFT

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| PTAP TRUST FUND | | | | | | | | | | | | | | | |
|-----------------|--|--------------|----------------|--------------|-----------------------|---------------------------|------------------------|-----------------------------------|------------------|-------------------|---------------------|-----------|--------------------|--------------------|--|
| DATE | DESCRIPTION | DEBIT | CREDIT | FUND BALANCE | GIS Mapping - Sidwell | Document Scanning Viatron | Office Furniture- Core | New Property Tax System- Megabyte | Megabyte - Labor | Megabyte - Travel | Property Tax System | SDR | Market Data Costar | Check Figure/Total | |
| | BEGINNING BALANCE 2011 | | | \$ 5,417,322 | | | | | | | | | | | |
| June-11 | Repay PTAP funds | \$ 400,456 | | \$ 5,817,778 | | | | | | | | | | | |
| | INTEREST FY 10-11 | \$ 111,661 | | \$ 5,929,439 | | | | | | | | | | | |
| | INTEREST FY 11-12 | \$ 90,101 | | \$ 6,019,540 | | | | | | | | | | | |
| | INTEREST FY12-13 | \$ 75,723 | | \$ 6,095,263 | | | | | | | | | | | |
| October-14 | FY 14/15 1st quarter PTAP Expenditures | | \$ (73,173) | \$ 6,022,090 | \$ 73,173 | | | | | | | | | | |
| December-14 | FY 14/15 2nd quarter PTAP Expenditures | | \$ (229,513) | \$ 5,792,577 | \$ 127,289 | \$ 102,224 | | | | | | | | | |
| | INTEREST FY13-14 | \$ 75,477 | | \$ 5,868,055 | | | | | | | | | | | |
| | INTEREST FY 14-15 | \$ 82,388 | | \$ 5,950,442 | | | | | | | | | | | |
| March-15 | FY 14/15 3rd quarter PTAP Expenditures | | \$ (239,361) | \$ 5,711,081 | \$ 56,243 | \$ 115,556 | \$ 67,562 | | | | | | | | |
| June-15 | FY 14/15 4th quarter PTAP Expenditures | | \$ (222,724) | \$ 5,488,357 | \$ 84,440 | \$ 130,000 | \$ 8,284 | | | | | | | | |
| March-16 | FY 15-16 Period 1-6 PTAP Expenditures | | \$ (763,114) | \$ 4,725,243 | \$ 144,104 | \$ 551,699 | \$ 59,298 | | | | | | | | |
| June-16 | FY 15-16 Period 7-12 PTAP Expenditures | | \$ (511,269) | \$ 4,213,974 | \$ 46,752 | \$ 196,018 | \$ 268,499 | | | | | \$ 8,014 | | | |
| | INTEREST 2016 | \$ 77,177 | | \$ 4,291,151 | | | | | | | | | | | |
| June-17 | FY 16/17 PTAP Expenditures | | \$ (520,089) | \$ 3,771,062 | \$ 147,245 | | \$ 44,045 | \$ 315,000 | | | | \$ 8,014 | \$ 5,785 | | |
| | INTEREST 2017 | \$ 62,255 | | \$ 3,833,317 | | | | | | | | | | | |
| | INTEREST 2018 | \$ 66,459 | | \$ 3,899,776 | | | | | | | | | | | |
| June-18 | FY 17/18 PTAP Expenditures | | \$ (559,199) | \$ 3,340,577 | \$ 16,756 | \$ 158,975 | \$ 9,069 | \$ 25,225 | \$ 32,822 | \$ 1,394 | \$ 291,828 | \$ 15,292 | \$ 7,838 | | |
| | Totals | \$ 1,041,698 | \$ (3,118,443) | | \$ 696,002 | \$ 1,254,472 | \$ 456,757 | \$ 340,225 | \$ 32,822 | \$ 1,394 | \$ 291,828 | \$ 31,320 | \$ 13,623 | \$ 3,118,443 | |

| | |
|--------------------|-----------------|
| Beginning Balance | \$ 5,417,322 |
| Repayment | \$ 400,456 |
| Total Expenditures | \$ (3,118,443) |
| Total Interest | \$ 641,241.58 |
| Ending Balance | \$ 3,340,576.99 |

PREPARED WITHOUT AUDIT

INDIRECT COST RATE PROPOSAL
Assessor-Recorder
FISCAL YEAR 2017-18 RECORDER ONLY

| | (1) | (2) | (3) | (4) | (5) |
|---|--|--|---|------------------------------------|--|
| | Total Cost Components | | | | |
| Description of Costs | Total Costs (Based on Actual Costs Incurred) | Total Unallowable Excludable Costs | Total Allowable Indirect Costs | Total Allowable Direct Costs | Remaining Costs Should be Zero (0) |
| | | | | + (1) - (2) - (3) | - (1) - (2) - (3) - (4) |
| Salaries & Benefits: | | | | | |
| Salaries/Wages | 932,858 | | \$246,283 | \$686,575 | \$0 |
| Extra Help | 1,231 | | | \$1,231 | |
| Overtime/Comp. Time | 6,055 | | 0 | \$6,055 | \$0 |
| Benefits | 809,884 | | | \$809,884 | \$0 |
| Total Salaries & Benefits | 1,750,028 | 0 | 246,283 | 1,503,745 | 0 |
| | | | + (1) - (2) - (3) (Data is manually entered.) | | |
| Services & Supplies: | | | | | |
| General Liability Insurance | 896 | | 896 | 0 | 0 |
| Property Insurance | 566 | | 566 | 0 | 0 |
| Maintenance - Equipment | 2,767 | | 2,767 | 0 | 0 |
| Memberships | 27,989 | | 27,989 | 0 | 0 |
| Office Expense | 41,553 | | 41,553 | 0 | 0 |
| Interoffice Messenger Mail | 6,045 | | 6,045 | 0 | 0 |
| Postage | 22,169 | | 22,169 | 0 | 0 |
| Printing | 20,480 | | 20,480 | 0 | 0 |
| Peoplesoft HR Charges | 4,323 | | 4,323 | 0 | 0 |
| Peoplesoft Fin Charges | 46,484 | | 46,484 | 0 | 0 |
| Prof. & Spec. Services | 2,056,118 | 1,885,000 | 171,118 | 0 | 0 |
| Data Processing | 262,120 | | 262,120 | 0 | 0 |
| Operating Leases Buildings | 32,788 | | 32,788 | 0 | 0 |
| Facility Operations & Maint | 68,881 | | 68,881 | 0 | 0 |
| Mileage | 3,327 | | 3,327 | 0 | 0 |
| Trans, Travel & Education | 6,714 | | 6,714 | 0 | 0 |
| Trans & Travel County Garage | 49 | | 49 | 0 | 0 |
| Travel Advances | (3,218) | | (3,218) | 0 | 0 |
| Offset Travel Adv - No Travel TRN | 0 | | 3,218 | 0 | 0 |
| Utilities | 38,139 | | 38,139 | 0 | 0 |
| Dues and Subscriptions | 300 | | 300 | 0 | 0 |
| Security Services | 12,927 | | 12,927 | 0 | 0 |
| Total Services & Supplies | 2,651,419 | 1,885,000 | 769,637 | 0 | 0 |
| | | | | + (1) - (2) - (3) | |
| Other Expenditures | 0 | | | 0 | 0 |
| | | | | + (1) - (2) - (3) | |
| Capital Expenditures (Fixed Assets) | | 0 | | 0 | 0 |
| Total Budgetary Expenditures | 4,401,446 | 1,885,000 | 1,015,920 | 1,503,745 | 0 |
| Cost Plan Costs: | | | | | |
| 0120 CAO | 7,510 | | 7,510 | | 0 |
| 0410 ACTTC | 18,433 | | 18,433 | | 0 |
| 0440 Purchasing | 1,425 | | 1,425 | | 0 |
| 0710 County Counsel | 16,192 | | 16,192 | | 0 |
| 1010 Personnel | 16,057 | | 16,057 | | 0 |
| 285002 Archives | (61) | | (61) | | 0 |
| 7910 Parks and Grounds | 3,492 | | 3,492 | | 0 |
| 013800 Equip Use | 3,756 | | 3,756 | | 0 |
| 013900 Bldg Use Allowance | 3,017 | | 3,017 | | 0 |
| Roll Forward | 3,067 | | 3,067 | | 0 |
| | | | 0 | | 0 |
| | | | 0 | | 0 |
| | | | 0 | | 0 |
| Total Cost Plan Costs | 72,888 | 0 | 72,888 | 0 | 0 |
| Total Allowable Indirect Costs (AIC) | | | 1,088,808 | | |
| Dist. of AIC Based on Salary/Wages | 0 | | (1,088,808) | 1,088,808 | 0 |
| Totals | \$4,474,334 | \$1,885,000 | \$0 | \$2,592,553 | \$0 |

Indirect Cost Rate (AIC/Salary and Benefits) 72.76% Benefits Ratio = Benefits/Salaries 86.82%

Prepared by-

Paul Dictos

6/19/2018 14:59

| | | | |
|---------------------------|--------------|-----------|---|
| Operating costs- Assessor | \$11,019,084 | 71.4423% | |
| Operating Costs-Recorder | \$4,404,664 | 28.5577% | *-Reflects the adjustment for Travel Advances |
| | \$15,423,748 | 100.0000% | |