

County of Fresno
Auditor-Controller/Treasurer-Tax Collector
Audit Committee Minutes
Board of Supervisors' Chambers
August 31, 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
Debbie Paolinelli, Assistant County Administrative Officer sitting in for Jean Rousseau, County Administrative Officer
Manuel Vilanova, Public Member
Kulwinder Brar, Public Member

Call to Order: Chairman Magsig called to order the regular meeting of the Audit Committee (Committee) on August 31, 2018 at 10:00 a.m. in the Board of Supervisors' Chambers.

1. Pledge of Allegiance

- This portion of the meeting began with Debbie Paolinelli leading all in attendance with the Pledge of Allegiance.

2. Approve Agenda

- A motion was made by Supervisor Quintero, seconded by Elizabeth Diaz and carried 7-0 to receive and approve the August 31, 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 July 27, 2018 Audit Committee Meeting Minutes

- A motion was made by Kulwinder Brar, seconded by Debbie Paolinelli, and was carried 7-0 to receive and approve the July 27, 2018 Audit Committee Meeting Minutes.

5. Agenda Items

Consent Items

a) Approve Quarterly Fraud Report Covering April 1, 2018 to June 30, 2018.

- A motion was made by Debbie Paolinelli, seconded by Elizabeth Diaz and was carried 7-0 to approve Agenda Item 5a.

Discussion and Action Items

b) Review and Accept the Independence Certification

- Oscar J. Garcia, CPA, Auditor-Controller/Treasurer-Tax Collector (ACTTC), said that staff is independent in regards to department audits. He indicated that Independence Certification has not been done in the past. He will come to the Committee every year to certify independence. He also said if any issue arises during the year, he would notify the Committee.

- Chairman Magsig asked what statute requires certification of independence. Mr. Garcia stated the Red Book Standards require staff to certify independence on an annual basis.
- Vice Chairman Cederborg asked for clarification of independence when certification is made. Mr. Garcia said it certifies staff is not auditing their own work. He said auditors in Financial Reporting and Audits (FR&A) have not done any of the work; they audit someone else's work.
- Chairman Magsig asked if there was a motion needed to approve the item. Mr. Garcia said it was only to accept the item. Chairman Magsig accepted the item.

c) Review and receive Fresno County In-Home Supportive Services Public Authority Independent Auditor's Reports and Financial Statements for the year ended June 30, 2017.

- Eliz Manoukian, Accounting and Financial Manager, FR&A, introduced the item and Thomas Young, Audit Partner, Brown Armstrong Accountancy Corporation, presented the item via telephone.
- Mr. Young gave a background of an independent audit of financial statements. He explained the Independent Auditor's Report and stated that an unmodified or clean opinion was given. On the Statement of Net Position, he said there were assets of \$6.2 million, primarily from grants receivable from State and Federal Government, liabilities of \$4.2 million, primarily due to County of Fresno advancing money, and salaries and benefits, leaving an unrestricted net position of approximately \$2 million. On the Statement of Activities, the majority of revenue is due to State and Federal Grants and Realignment revenue at \$49 million. For expenditures, he said the largest expenditure is salaries and benefits. He said this resulted in a change in net position of (\$142,000) from prior year. He briefly described the notes disclosures for anyone wanting additional details. He finished the presentation with the final report issued, an 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. He said an unmodified or clean opinion was issued.
- Chairman Magsig asked about the change in net position from 2016 to 2017. Delfino Neira, Director, Department of Social Services (DSS), said he would come back with specific information but it was most likely due to staffing changes such as long vacancies being filled in the year increasing expenditures or, it could be due to timing of being reimbursed for expenditures. Chairman Magsig also asked if there was a trend where net position would continue to decrease. Mr. Neira said there is a Maintenance of Effort (MOE) calculation that is very complicated, and the State has increased County responsibility for the MOE. The funds that were being used to pay for the MOE are based on prior year expenditures, and information received regarding Realignment costs and caseload growth is not always timely. Mr. Neira expects significant budget changes for the County during the next fiscal year. Chairman Magsig mentioned there was approximately a 13% to 14% County contribution for 2017 fiscal year and asked if County contribution to IHSS will continue to grow; Mr. Neira said it is targeted to grow. Mr. Neira stated that the County had always funded the program. He said the base amount owed by the County to the program was set at 3.5%, increased to 5% this year, and next year it is going to be 7% which is on top of any increase in costs that the County has to pay. He also indicated the County has a higher expected contribution rate compared to other counties.
- Debbie Paolinelli said that IHSS issues will be addressed during budget hearings on September 17, 2018 and there is a reopener regarding the MOU that is going to the State Department of Finance. The State Department of Finance will issue a report on the effects of redirection of 1991 Realignment funds which will be issued by January 2019. She said there would be findings issued but no recommendations. She said recommendations would be issued when a new administration comes in. She also said when talking with San Diego County, their growth rate for the MOE was 6% compared with Fresno County at 10%.

- Paul Dictos, Assessor-Recorder, spoke on the public portion of this item. He asked who are being paid for salaries and benefits. Thomas Young said they are paid to the workers providing in-home services. Mr. Dictos said in doing tax returns, he found out that many people, professionals such as doctors receiving W-2s from the County for \$24,000 to \$25,000. He said he had evidence that there is a lot of fraud in that area and that parents sign fake timesheets. He asked if anyone has done any tests to find how many fake timesheets are in that area. Mr. Young stated that he was not aware of that. Mr. Dictos asked what kind of tests were done to support \$48 million expense. Mr. Young said they looked at salaries and benefits expenses and did control testing and check samples of 60 and did not find any issues. Mr. Dictos asked if he interviewed some of the timekeepers. Mr. Young said that they do review that as well and in addition would take Mr. Dictos' concerns into consideration for the next audit and perform additional tests. Mr. Dictos stated that this is a disgrace for the County and that he knows many people are faking the timesheets so they can get the money to their families.
- Mr. Neira wanted to clarify on some of the comments that were made. He said the County is the employer of record for approximately 13,000 IHSS providers. He said clients, such as elderly or disabled, could be cared for at home and select who provides their care. He said that allows IHSS to have access to Medicaid money to fund the program. He said there is a registry for those that do not have family members, but it is up to the client to select their caregiver from the registry. He said it is the client's right to choose and we cannot impede that right. That is why doctors, lawyers, and accountants are service providers for their families because their "grandmother asked them to." He said the hours are formulas prescribed by the State and social workers assess per that formula. It is up to the client to decide how they want to use those hours with the care providers. He said electronic timesheets are submitted to the State for processing. For discrepancy between hours, he said it gets resolved through an administrative claiming process. Administrative Law Judges review those cases and take action. If fraud is suspected, it is referred to a unit within the District Attorney's (DA) office and occasionally charges have been brought against people. If there is a dispute amongst providers, County staff reviews and makes a decision. If there is a dispute amongst payees, it goes to the labor commission. Mr. Neira said if a County employee suspects fraud, he believes they have a legal obligation to make a referral to the fraud unit. If that has not happened, he said it would be on the person that should have reported it. He said there is a lot of review and it is very structured. He stated that the Board of Supervisors is the employer of record but does not directly hire the providers.
- Chairman Magsig asked Mr. Dictos if there are issues of elevated concern that he can provide to Mr. Neira. Mr. Dictos said that he cannot provide information from his clients; he said it is up to the outside auditors to find any issues. He brought up a situation where a grandson never stepped foot in his grandmother's house and was still being paid for his caregiving services. Chairman Magsig asked Mr. Dictos to confide with him outside the Committee meeting; Mr. Dictos said he is unable to do so. Mr. Dictos also said that 90% of the salaries and benefits paid are based on fraudulent timesheets.
- Elizabeth Diaz asked Mr. Dictos if the title he holds does not allow him to report such fraud. Mr. Dictos said he is a CPA doing taxes outside of County work; he would not report his clients. Ms. Diaz said there are responsibilities to report such issues and asked if there was a process in reporting fraud. Ms. Paolinelli said there is a fraud hotline in ACTTC and a unit in the DA's office to investigate allegations. She asked Mr. Dictos if the AICPA requires him to report fraud if he knows about it or if the rule has changed. Mr. Dictos declined to comment on the question. He said that you (County) had a CPA who did an audit and got paid, his question was how much work has the auditor done in checking the timekeepers and he did not receive an answer. Mr. Dictos also stated that this is a well-known issue and that people are laughing at the County.
- Chairman Magsig offered to work with anybody that is aware of any fraud issues and would work with Mr. Neira to investigate everything. Mr. Dictos suggested hiring a forensic accountant to look

into that area. Chairman Magsig asked Mr. Dictos to send him individuals that he could talk with; Mr. Dictos did not agree and reiterated a forensic accountant should be hired.

- Kulwinder Brar asked if there were checks and balances, and an audit trail regarding timesheet approvals. Mr. Neira said a care recipient has to approve each time sheet. He said if there was a discrepancy, it would go through an administrative process to resolve the discrepancy. If staff suspects fraud or a possibility of a fraud, it is referred to the DA's office for further review to see if charges could be brought against individuals. He said interviews are conducted and they do independent evaluations. He said that ultimately the recipient is responsible for the accuracy of the hours on the timesheet. He noted that there is an audit trail in the timekeeping system that is done through the administrative process within the department. He said aside from independent auditors, there are State audits, Federal audits, and management evaluations. He said that during his first budget there were over 39 reviews of operations for all of their programs.
- Vice Chairman Cederborg said the audit process would not catch fraudulent activities by the caregiver and recipient. Mr. Young said additional testing could be done but that type of fraud will be difficult to catch in a financial audit. Mr. Cederborg stated that only investigations by DA's office could catch those because they have other investigative tools.
- Ms. Diaz asked if there is training to catch suspicious activity. Mr. Neira said staff receives regular training that is provided by the State. Each care recipient is reevaluated annually. Ms. Diaz asked for an example of a discrepancy, Mr. Neira stated a few examples:
 - Having two timesheets for the same person. She asked how often that type of discrepancy occurs; Mr. Neira estimated approximately 10% of the time.
 - There may be a delay in paper work because everything is backed up with paper documentation. It may cause staff to question possible discrepancies.
 - When staff does a home assessment, they might see something suspicious and follow up on it or make recommendations.
 - He said most of the discrepancies are regarding the hours allowed for services. There may be a reduction in hours given to a recipient because their condition could be improving. He mentioned the care recipient could ask for a reassessment if they wanted more hours.
- Chairman Magsig asked if there are records available for discrepancies. Mr. Neira said there is a reporting system in place. If there is a discrepancy, there's a process to determine who caused the discrepancy such as provider signing off for too many hours or recipient was responsible, it goes through an administrative process where they repay the County and the State. There is a monthly report that tracks overpayments and the County goes after all of the overpayments. If it reaches a certain dollar threshold, the DA's office reviews it to see if it was done intentionally. Individuals can pay back the County by reducing their pay over a period of time. For cases that are referred to the DA's office, in lieu of a trial, they can agree to a settlement to pay the money back.
- Chairman Magsig asked how many cases during the year are referred to the DA out of the 13,000 providers. Mr. Neira said that he would like to research that and bring back accurate information. Chairman Magsig asked the Committee if they would be interested in getting more information at a later date from DSS regarding their practices; Elizabeth Diaz indicated she was interested.
- Mr. Neira reiterated that if there are instances of abuse or fraud, he has an obligation to report it.
- Mr. Dictos asked if a grandmother that lives in Fresno has a grandson living in Chowchilla, would he really come every day to take care of her.
- Chairman Magsig invited a motion on the item. Supervisor Quintero asked if motion was to accept report with additional information to follow that was requested; Chairman Magsig confirmed.
- A motion was made by Vice Chairman Cederborg, seconded by Elizabeth Diaz and was carried 7-0 to accept the report with additional information to be provided by DSS as soon as reasonably possible regarding IHSS processes.

d) Review and approve Assessor-Recorder's Social Security Number Truncation Program AUP #2

- Eliz Manoukian presented the item. She said the item was originally presented on May 25, 2018 and subsequently presented to the Committee on July 27, 2018. She also indicated the fiscal year 2017-2018 Indirect Cost Rate Proposal was presented to the Committee on July 27, 2018 by Paul Dictos, Assessor-Recorder. A copy is included in the Audit Committee Meeting materials.
- A motion was made by Vice Chairman Cederborg, seconded by Manuel Vilanova and was carried 7-0 to approve the item.

e) Review and Approve 2019 Audit Committee Meeting Dates

- Eliz Manoukian presented the 2019 Audit Committee Meeting dates. They were scheduled for February 8, May 17, August 16, and December 13, 2019.
- Chairman Magsig indicated some dates might be cancelled or added. He also asked Committee if there were any issues.
- Debbie Paolinelli said May 17 and August 16, 2019 might need to be changed due to possible conflicts with Debt Advisory Committee meetings.
- Chairman Magsig asked if Debt Advisory Committee meetings have been scheduled; Eliz Manoukian said they are scheduled at the beginning of the year, she will advise of any conflicts with Committee meeting dates.
- A motion was made by Elizabeth Diaz, seconded by Debbie Paolinelli and was carried 7-0 to approve the meeting dates as presented.

6. Staff Updates

- Oscar J. Garcia said it has been nine years since ACTTC has had a peer review on the auditors and their workpapers. He said they have entered into a contract with Price Paige and Company to conduct a peer review for the three years ending June 30, 2016. He indicated that Red Book Standards require peer reviews to be done every five years and that the reviews will continue on a timely basis after this review.
- Chairman Magsig asked why review has not been done in the past. Mr. Garcia said he was unable to answer for his predecessor; he stated last review was issued in 2011. He said ACTTC was part of a reciprocal peer review program with other counties; other counties have not agreed to come out to conduct a review. ACTTC did enter into an agreement with Orange County, but he believes that should not have happened because ACTTC was not compliant at the time. He said he has looked at past audits, and said they were not compliant, and made aware to the Committee that there would be findings. He mentioned there was a new Manager and Chief in the audits division and a new Deputy Auditor-Controller and he is hoping to rebuild the audits division from the ground up.
- Elizabeth Diaz asked when the peer review would be completed. Mr. Garcia said he is hoping to have the review completed by the end of this year. The signed contract was received from the CPA firm, so hopefully they will begin the peer review soon.

7. Adjournment

- A motion was made by Manuel Vilanova, seconded by Debbie Paolinelli and was carried 7-0 to adjourn the meeting at 10:41 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