

**County of Fresno**  
**Auditor-Controller/Treasurer-Tax Collector**  
**Audit Committee Minutes**  
**Board of Supervisors' Chambers**  
**February 8, 2019 – 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 February 8, 2019 at 10:01 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 Debbie Paolinelli, seconded by Kulwinder Brar and carried 7-0 to receive and approve the February 8, 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**

- Chairman Magsig stated that the Board of Supervisors took action regarding the appointment.
- Oscar J. Garcia, CPA, Auditor-Controller/Treasurer-Tax Collector (ACTTC), stated that County Counsel should have information regarding the reappointment of a public member.
- Vice-Chairman Cederborg stated that he did not have the requested information at this time.
- Chairman Magsig suggested that Vice-Chairman Cederborg comment on the appointment at the next meeting. Chairman Magsig stated that the item should be removed from the agenda for the next meeting. Chairman Magsig stated for the record that the Board of Supervisors and the Committee both took action regarding the reappointment of the public member and no further action needs to be taken at this time.
- Vice-Chairman Cederborg stated that he thinks the correct process is for the Board of Supervisors to appoint public members to the Audit Committee, but he will verify.

**5. Approval of January 25, 2019 Audit Committee Meeting Minutes**

- A motion was made by Elizabeth Diaz, seconded by Manuel Vilanova, and was carried 7-0 to receive and approve the January 25, 2019 Audit Committee Meeting Minutes.

## **6. Agenda Items**

### **Consent Items**

#### **a) Approve Quarterly Fraud Report Covering October 1, 2018 to December 31, 2018.**

- A motion was made by Debbie Paolinelli, seconded by Kulwinder Brar and was carried 7-0 to approve Agenda Item 6a.

### **Discussion and Action Items**

#### **b) Review and receive 2017-2018 First Five Comprehensive Annual Financial Report (CAFR)**

- Shelly Dorn, Supervising Accountant, Financial Reporting & Audits (FR&A), introduced the item and Alix Hillis, Business Director, First Five California, and Brian Henderson, Partner, Hudson Henderson & Company, presented the item.
- Alix Hillis provided background on the First Five CAFR. California Proposition 10 created Children and Families Commission, also known as First Five. Per this legislation, an audit is required to be completed each year and submitted along with their programmatic annual report to both the State Controller's office and First Five California. Additionally, based on Fresno County ordinance, First Five Fresno County is required to present its annual audit to the Fresno County Board of Supervisors.
- Brian Henderson stated that Hudson Henderson & Company issued an unmodified opinion, also known as a clean opinion, in regards to the governmental activities, major funds, and discretely presented component unit, Lighthouse for Children. Mr. Henderson stated that Hudson Henderson & Company also issued an unmodified opinion for the internal control report and a compliance report for First Five. The financial statements were presented fairly in all material respects. Hudson Henderson & Company had no major disagreements with management. The ending fund balance of the Commission was \$26.7M. That was a net increase of just over a million from last year. Revenues slightly decreased \$218,000 as compared to the prior year. This was mostly due to a decrease in Prop 10 funding. Expenses decreased as well, mostly in program expenses. [Page 6 of the report actually indicates a \$218,000 increase in total revenues.]
- Chairman Magsig asked about the relationship between First Five and the Lighthouse for Children.
- Mr. Henderson stated that Hudson Henderson & Company completed a full audit of Lighthouse for Children and issued a separate statement.
- Chairman Magsig indicated page 6 on the First Five CAFR and asked if each entity is stable on its own.
- Mr. Henderson directed the Committee to review page 10 of the First Five CAFR. Mr. Henderson stated that the Lighthouse for Children is heavily reliant on First Five as their major tenant. Mr. Henderson stated that there would be a problem if there was a discontinuance between the two entities but there is no going concern noted for Lighthouse for Children in that regard.
- A motion was made by Kulwinder Brar, seconded by Elizabeth Diaz, and was carried 7-0 to receive and approve the 2017-2018 First Five CAFR.

#### **c) Review and receive Price Paige & Company Quality Control Review, Fiscal years ended June 30, 2013 through June 30, 2016**

- Oscar J. Garcia introduced the item and Fausto Hinojosa, Managing Partner, Price Paige & Company, presented the item.
- Mr. Hinojosa explained the difference between this Quality Control Review for the County of Fresno and a peer review report for the AICPA and CalCPA programs. The County is not part of those peer review programs. Mr. Hinojosa stated that he relied on his experience as a peer reviewer for the CalCPA program and applied the AICPA standards as much as possible with respect to the quality control review report under discussion. He stated that the FR&A division's internal quality control system was not suitably designed and operating effectively to provide reasonable assurance of the conformance with the standards. Mr. Hinojosa stated that one of the challenges was that the internal auditors who performed the engagements were not available for questions since those internal auditors are no longer with FR&A. However, Mr. Hinojosa further stated that a system of quality control should

be able to stand on its own and there should be very little inquiry of people necessary to determine whether or not the standards were followed.

- Chairman Magsig reiterated that the review was for the fiscal years ended June 30, 2013 through June 30, 2016.
- Mr. Hinojosa agreed with Chairman Magsig's reiteration. Mr. Hinojosa explained the most significant findings in the report:
  1. Cal-ID RAN audit had an independence lapse. The department completing the audit was also the department that was doing the accounting for the entity. There was also an absence of documented supervisory review.
  2. Department of Public Health/EPU audit report stated that the audit was done in accordance with the standards of the Institute of Internal Auditors (IIA), but there was no documentation that indicated compliance with IIA standards.
  3. Sheriff's Cash Replenishment audit had no evidence of review by the Auditor-Controller.
  4. Department of Social Services audit included workpapers from the prior year and incomplete or blank items.
  5. Year-end Procedures for June 30, 2014 had no findings.
  6. County-Wide Travel Reimbursement audit did not document any planning in accordance with generally accepted government auditing standards. The planning and risk assessment phases are critical components of an audit.
  7. A general quality control item was that continuing professional education requirements were not met.
- Mr. Hinojosa further stated that all of this was communicated to the current Auditor-Controller, and although he did not review the subsequent period, and is not reporting on that, he has seen evidence of changes, of moving in the right direction.
- Vice-Chairman Cederborg asked Mr. Hinojosa if he had done a similar review in the past.
- Mr. Hinojosa stated that he has not done a peer review of a public agency's internal audit department before this one but has completed about 20 peer reviews of CPA firms.
- Vice-Chairman Cederborg asked Oscar J. Garcia if it was easier to have an outside auditor complete the peer review instead of another county.
- Mr. Garcia stated that the County was in a program with other counties to complete peer reviews. Mr. Garcia stated that the program had failed and that was why an external auditor was hired to complete the peer review. Mr. Garcia stated that a peer review will be completed every 5 years, and that we have been implementing some good changes.
- Ms. Paolinelli stated that even though Mr. Hinojosa has not completed a peer review of a government agency, he has completed many governmental audits.
- Ms. Brar asked if the 5-year peer review is a standard practice.
- Mr. Garcia stated that the Red Book standards allow the County to do a peer review every 5 years.
- Chairman Magsig asked about the difference between the Yellow Book and the Red Book.
- Mr. Garcia stated that the Yellow Book is required when, for instance, Brown Armstrong completes an audit of the County CAFR. Mr. Garcia stated that the ACTTC has the latitude on using the Red Book since the internal audits division is reviewing internal departments and not performing financial statement audits.
- Chairman Magsig asked if the last peer review was completed for fiscal year ended June 30, 2008.
- Mr. Garcia stated that the last peer review was completed in 2011 for the three years ended June 30, 2009. The next peer review should be completed after fiscal year 2021.
- A motion was made by Supervisor Sal Quintero, seconded by Debbie Paolinelli, and was carried 7-0 to receive and approve the Price Paige & Company Quality Control Review for fiscal years ended June 30, 2013 through June 30, 2016.

**d) Review and receive Brown Armstrong Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting dated December 19, 2018**

- Shelly Dorn introduced the item and Thomas Young, Audit Partner, and Joe Peters, IT Specialist, Brown Armstrong, presented the item via telephone.
- Thomas Young stated that the report is an offshoot of the general audit of the County as a whole. Mr. Young stated that this year Brown Armstrong focused on the County's Information Technology (IT) division and made 10 recommendations.
- Joe Peters stated that the purpose of the IT audit is to inform the County's financial team preparing the CAFR if there are any IT-based risks that can possibly affect the financial statements. Mr. Peters stated that Brown Armstrong mainly focused on the PeopleSoft Financials application, and supporting systems such as the related databases. They looked at four (4) general areas: IT general controls, operations, logical security (onboarding, offboarding, passwords), and change management. Mr. Peters stated that Brown Armstrong established a scope by having the County IT staff complete a survey. Next Mr. Peters completed in-person interviews, and requested and tested documentation. Mr. Peters reiterated that there are a total of ten (10) recommendations, which are fairly common recommendations. Mr. Peters briefly described a few of the recommendations and stated that he could go into more detail or answer any questions. The recommendations included shoring up user administration procedures, documenting policies, yearly reviews, having a vulnerability assessment by another company to evaluate information security, and formalization of existing processes.
- Robert Bash, Chief Information Officer, Internal Services Department (ISD), stated that ISD agrees with most of the recommendations and is working on improving and updating the IT system.
- A motion was made by Elizabeth Diaz, seconded by Vice-Chairman Daniel Cederborg, and was carried 7-0 to receive and approve the Brown Armstrong Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting dated December 19, 2018.

**7. Staff Updates**

- Oscar J. Garcia stated, related to the peer review, that there are five (5) engagements that were completed before his appointment that are being revised by current staff to ensure that the engagement workpapers are following the correct standards.
- Chairman Magsig stated for the record that Mr. Garcia was appointed to fill the Auditor-Controller/Treasurer-Tax Collector position during October 2016, so the engagements that are currently being revised to follow the proper standards were not initially completed during Mr. Garcia's leadership.
- Mr. Garcia stated that staff will work on a few new engagements in the near future.

**8. Adjournment**

- A motion was made by Debbie Paolinelli, seconded by Elizabeth Diaz and was carried 7-0 to adjourn the meeting at 10:36 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