

SUMMARY OF PROCEEDINGS

KERN COUNTY AUDIT ADVISORY COMMITTEE

County Administrative Center
1115 Truxtun Avenue
3rd Floor Multipurpose Room
Bakersfield, California 93301

Regular Meeting
Wednesday, April 5, 2017

10:15 A.M.

Committee Convened

Board Action Displayed In Caps

The vote is displayed in bold below each item.

Consent agenda/opportunity for public comment: all items listed with a "CA" or "C" were considered to be routine and approved by one motion.

Note: Supervisor Maggard requested Item Number 6 be pulled off consent for separate consideration

- 1) Call to order –

THE MEETING WAS CALLED TO ORDER BY MARK NATIONS AT 10:15 A.M.

- 2) Roll call –

COMMITTEE MEMBERS PRESENT: MIKE MAGGARD, DAVID COUCH, GEOFFREY KING, RYAN ALSOP, JORDAN KAUFMAN

COMMITTEE STAFF PRESENT: MARY BEDARD, MARK NATIONS

Others in Attendance: County Administrative Office: Nancy Lawson, Assistant County Administrative Officer; Katrina Balbuena, Compliance and Accountability Officer; Alex Alva, Fiscal and Policy Analyst. Auditor-Controller-County Clerk: Susan Rooney, Assistant Auditor-Controller; Tony Jones, Audit Division Chief. District Attorney: Scott Spielman, Assistant District Attorney, Scott Johnson, Administrative Services Officer. Public Health Department: Cheryl Bauer, Accountant III.

- CA-3) Minutes from January 11, 2017 Kern County Audit Advisory Committee meeting –

APPROVED

King – Couch: All Ayes

- CA – 4) Report on Audit Activity by the Auditor-Controller-County Clerk for the six months ended December 31, 2016 –

RECEIVED AND FILED
King – Couch: All Ayes

- CA – 5) December 31, 2016 Compliance and Accountability Report –

RECEIVED AND FILED
King – Couch: All Ayes

- CA – 6) Fraud and Ethics Activity Report for the six months ended December 31, 2016 –

KAUFMAN REPORTED ON FRAUDULENT ACTIVITY. KAUFMAN REPORTED ACTIVITY DATED BACK TO FEBRUARY 2014. LAW ENFORCEMENT WAS CONTACTED FOR INVESTIGATION AND LAW ENFORCEMENT HAVE SUBPOENAED FOR INFORMATION BUT THEY HAVE NOT IDENTIFIED PERPETRATORS. THEY HAVE NOT DETERMINED IF ATTACK WAS RANDOM OR IF FRAUDSTERS ARE ASSOCIATED WITH ANY AGENCY. WELLS FARGO IS WORKING WITH TREASURER-TAX-COLLECTOR AND SCHOOL DISTRICTS ON RECOVERY EFFORTS AND REVERSING FRAUDULENT CHARGES. THE RECOVERY EFFORTS ARE ONGOING AND AS OF 4/4/17, 80 PERCENT WAS RECOVERED. CONTINUING TO REVERSE TRANSACTIONS BRINGING MONEY BACK TO SPECIFIC ACCOUNTS TO CREDIT THOSE ACCOUNTS. TREASURER-TAX COLLECTOR CONTINUING TO WORK WITH WELLS FARGO TO RECOVER THE REMAINING AMOUNT. RECOVERY HAS SLOWED DOWN AND THE FURTHER IT GOES BACK THE HARDER IT IS GETTING THOSE TRANSACTIONS REVERSED.

MAGGARD ASKED IF THERE WAS A STATUTORY DATE TO STOP.

KAUFMAN REPORTED, NO. THERE IS NO DATE TO STOP AND WILL CONTINUE RECOVERY EFFORTS.

COUCH ASKED TO WHAT EXTENT WOULD WELLS FARGO BE COOPERATIVE OF RECOVERY EFFORTS.

KAUFMAN REPORTED WELLS FARGO HAS BEEN MORE THAN COOPERATIVE AND THEY ARE HIGHLY MOTIVATED AND ENTIRE TEAM IS WORKING ON RECOVERY.

KING REPORTED FROM CONTROL PERSPECTIVE IT WOULD APPEAR RESPONSIBILITY IS WITH AGENCIES OVERSIGHT AND RECONCILIATIONS. SO FROM CONTROL PERSPECTIVE IT WOULD APPEAR THEY DID NOT FULFILL THEIR RESPONSIBILITY. IS THERE ANYTHING THAT COULD HAVE BEEN DONE.

KAUFMAN REPORTED YES, PRIOR TO 2005 AUDITOR-CONTROLLER'S OFFICE RECONCILED THESE ACCOUNTS. TREASURER-TAX COLLECTOR HAS NEVER TOOK PART OF RECONCILING THOSE ACCOUNTS OR ANY OTHER FUNCTION AND NEVER HAVE AND NEVER WILL RECONCILE ANYONE ELSE'S ACCOUNTS. MANY OFFICES HAVE PROVIDED DOCUMENTS THAT SHOW RECONCILIATIONS WERE TURNED OVER. THE DISTRICT HAS HIRED A FORENSIC ACCOUNTANT TO LOOK AT THEIR PROCESS AND OURS.

BEDARD REPORTED RECONCILIATION WOULD HAVE NOT BEEN DONE. THE AUDITOR-CONTROLLER RECONCILES THE COUNTY'S CLEARING FUNDS. BEDARD REPORTED A RECONCILIATION WOULD HAVE FOUND THIS AND IT WAS THE DISTRICT RESPONSIBILITY.

MAGGARD ASKED IF CLIENT BANK BALANCE WENT NEGATIVE. DID THE BANK EVER SEE IT AS A NEGATIVE BALANCE OR BECAUSE OF POOLED FUNDS DID THIS NOT OCCUR. MAGGARD ASKED WHO CHECKS NEGATIVE CASH BALANCES.

KAUFMAN REPORTED NEGATIVE BALANCE ON ACCOUNTING SIDE.

BEDARD REPORTED SOME ACCOUNTS DO GO NEGATIVE BUT UNTIL RECENTLY AS LONG AS THEY NETTED POSITIVE NOT CALLED OR NOTIFIED.

MAGGARD ASKED IF THE \$19 MILLION IMPACTED THE COUNTY POOLED FUNDS.

KAUFMAN REPORTED NEGATIVE AMOUNTS ON GENERAL LEDGER FUNDS NOT BANK ACCOUNT SIDE. BANK ACCOUNT SIDE GENERAL ACCOUNT BACKFILLING THOSE ACCOUNTS ON A DAILY BASIS. IMPACT ON CASH IN POOL REFLECTS NEGATIVE BALANCE ON GENERAL LEDGER SIDE ONLY. ZBA EVERYTHING CLEARED ON A DAILY BASIS. DESIGNED SO CHECKS CANNOT BOUNCE. WHAT YOU DON'T WANT IS DISTRICT TO ISSUE PAYROLL AND NOT HAVE FUNDS TO COVER IT. TRANSFER AT THE END OF THE DAY IS AGGREGATE NOT ON EACH TRANSACTION. TTC WOULDN'T SEE DETAIL JUST TOTAL. THE AVERAGE PAY TOTAL COULD BE BETWEEN \$100 TO \$200 MILLION A MONTH.

KING REPORTED ONE WAY TO MITIGATE WOULD BE TO REQUIRE END USERS TO HAVE LIMITS ON WITHDRAWALS INSTEAD OF AUTOMATIC PROCESS. KING ASKED IF ALL END USERS ARE OBLIGATED TO RECONCILE ACTIVITY ON DAILY OR MONTHLY BASIS.

MAGGARD ASKED WOULD CONTROLS OR PROCEDURES BE PUT IN PLACE TO PREVENT THIS FROM HAPPENING AGAIN.

KING REPORTED ANOTHER LEVEL WOULD HAVE TO BE ADDED BUT MIGHT NOT BE THE TREASURER-TAX COLLECTOR OR THE AUDITOR-CONTROLLER

TO INPUT THESE ITEMS. IT IS IMPORTANT TO THE TREASURER-TAX COLLECTOR TO HAVE THIS DONE TO PROTECT THE COUNTY.

MAGGARD ASKED HOW DOES THE COUNTY INITIATE TO IMPLEMENT THIS PROCESS AND HOW DOES THE COUNTY KNOW WHEN THIS IS RESOLVED.

KING REPORTED UNLESS YOU CHECK THESE ACCOUNTS REGULARLY IT IS DIFFICULT TO FIX. KING SUGGESTED TTC ASK FOR RECONCILIATION OR BANK RECONCILIATION TO MAKE SURE END USERS ARE ACCOUNTING FOR FUNDS.

MAGGARD ASKED WHO DETERMINES THAT.

KAUFMAN REPORTED TREASURER-TAX COLLECTOR'S OFFICE HAS REACHED OUT TO COUNTY DEPARTMENTS AND DISTRICTS TO SEE IF ALL BANKING SERVICES THEY RECEIVE HAVE FRAUD PROTECTIVE SERVICES AND IF THEY ALL ARE RECONCILING ACCOUNTS. THEY HAVE RESPONDED THEY ARE BUT HAVE NOT RECEIVED CURRENT RECONCILIATIONS.

MAGGARD REPORTED SINCE IT IS THE COUNTY POOL, BOARD OF SUPERVISORS MIGHT WANT TO DO MORE.

KAUFMAN REPORTED TREASURER-TAX COLLECTOR'S OFFICE IS GOING TO REACH OUT TO EVERY ACCOUNT HOLDER ANNUALLY.

KING ASKED IF THEY TREASURER HAS DESCRIBED THE RELATION AND RESPONSIBILITY TO EACH ACCOUNT HOLDER. KING REPORTED TREASURER SHOULD OUTLINE EACH OTHER'S RESPONSIBILITY AND GET SIGNED INDEPENDENCE AGREEMENT.

KING ASKED IF ACH IS COMMON AMONG USERS.

KAUFMAN REPLIED IT IS COMMON. ABOUT HALF ACCOUNTS HAVE ACH ACTIVITY.

COUCHED ASKED IF COUNTY HAS LEGAL AUTHORITY TO AUDIT USERS.

BEDARD REPORTED NO, THEY HAVE OUTSIDE AUDITORS.

MAGGARD ASKED IF THERE WAS A WAY TO PUT A FILE TOGETHER OF ACCOUNTS OR VENDORS THAT CAN BE PAID.

KAUFMAN REPLIED YES, THERE IS A LEVEL OF FRAUD FILTERS AND NOW ARE ON HIGHEST LEVEL.

MAGGARD REQUESTED IF STAFF COULD GET TOGETHER AND COME BACK WITH SUGGESTION/RECOMMENDATIONS TO BEST DEAL WITH THIS.

RECEIVED AND FILED
King – Couch: All Ayes

- 7) Presentation By Auditor-Controller-County Clerk on proposed transition from American Institute of Certified Public Accountants and General Accounting Office's Government Auditing Standards to Institute Of Internal Auditors' Standards –

HEARD PRESENTATION BY BEDARD

BEDARD REPORTED PREVIOUS COUNTY POLICY REQUIRED AUDITS BE PERFORMED USING GENERAL ACCOUNTING OFFICE'S (GAO) GOVERNMENT AUDITING STANDARDS. BEDARD REPORTED GAO IS MORE FOR FINANCIAL AUDITS. BEDARD REPORTED TRANSITIONING TO INSTITUTE OF INTERNAL AUDITORS' STANDARDS (RED BOOK) WILL ALLOW HER OFFICE TO ASSIST MORE DEPARTMENTS THAN IN THE PAST. BEDARD REPORTED THEY HAVE PERFORMED AN AUDIT OF PARKS AND RECREATION DEPARTMENT USING REDBOOK STANDARDS AND DEPARTMENT AGREED IT WAS MORE HELPFUL.

RECEIVED AND FILED
King – Couch: All Ayes

- 8) Proposed revisions to Kern County Administrative Policy and Procedures Manual Chapter 6 to define various types of audits and revisions to the audit standards followed by the Auditor-Controller-County Clerk –

HEARD PRESENTATION BY BALBUENA

KING ASKED IS COMMITTEE HAD ADVISORY OVERSIGHT OVER 6.11. KING ASKED IS GUIDANCE IN 6.06 COVERED ITEM IN 6.11 OF POLICY.

NATIONS REPLIED IT IS BROAD AND COVERAGE IS COVERED.

RECEIVED AND FILED AND RECOMMEND ADOPTION TO BOARD OF SUPERVISORS.

Couch – King: All Ayes

- 9) Presentation by the Auditor-Controller-County Clerk regarding countywide risk assessment and annual audit plan, for fiscal year 2017-18 –

HEARD PRESENTATION BY BEDARD

KING ASKED IF AUDITOR-CONTROLLER REACHED OUT FOR ANY INPUT FROM BOARD OF SUPERVISORS OR COUNTY ADMINISTRATIVE OFFICE (CAO).

JONES REPORTED OFFICE HAS REACHED OUT TO ALL BOARD OF SUPERVISORS AND CAO.

BALBUENA REPORTED SHE DID NOT RECEIVE INDIVIDUAL EMAIL AND DID NOT THINK LAWSON RECEIVED EMAIL.

LAWSON REPORTED SHE RECEIVED ONLY SURVEY QUESTIONNAIRE.

KING REPORTED IT WOULD BE HELPFUL TO HAVE TOTAL BUDGETED HOURS ON PAGE 5 AND 6. KING ASKED IF THIS COULD BE DONE.

JONES RESPONDED, YES.

KING ASKED A QUESTION ON PAGE 7 AND 8. HE REPORTED THERE WAS TOTAL BUDGETED DIRECT HOURS OF 6,240 ON PAGE 8 AND 6,770 TOTAL PLANNED POTENTIAL AUDIT HOURS ON PAGE 7, WOULD THIS MEAN SOME AUDITS GOING TO GET MISSED.

BEDARD REPLIED AUDIT HOURS WILL VARY AND SOME WON'T GET DONE.

MAGGARD ASKED IF THE AREAS WITH HIGHEST RISK ARE GOING TO BE MISSED.

JONES REPLIED NO, AUDITS CAN BE MOVED.

MAGGARD ASKED IF IT WOULD BE HIGHEST RISK AREAS THAT WILL BE LOOKED AT FIRST.

KING ASKED IF THERE WAS A WAY TO GO AUDIT IN THOSE AREAS WITH HIGHEST RISK AND CONCENTRATE IN THOSE AREAS.

JONES REPLIED, YES. REDBOOK ALLOWS THE AUDITORS TO LOOK AT CERTAIN AREAS AND CONCENTRATE AUDIT IN THOSE AREAS BASED ON HIGHEST RISK.

JONES REPORTED HIGH RISK IS FEDERAL DOLLARS AND THEY ARE WORKING WITH DEPARTMENTS ON COMPLIANCE WITH SINGLE AUDIT REQUIREMENTS. JONES REPORTED SUBRECIPIENT LANGUAGE HAS CHANGED AND COULD PUT RISK ON COUNTY AND VENDORS FOR NON-COMPLIANCE.

KING REPORTED HE WOULD LIKE FOLLOW UP WITH ISSUES THE AUDITORS HAD WITH DEPARTMENTS. KING REPORTED HE WOULD LIKE TO SEE ACCOUNTABILITY. IF AUDITORS GO IN AND HAVE ISSUES AND RECOMMENDATIONS, HE WOULD LIKE TO MAKE SURE THERE IS A FOLLOW UP.

JONES REPLIED AUDITOR-CONTROLLER'S OFFICE HAS BEEN DOING THAT AND REDBOOK WOULD ALLOW HIS OFFICE TO REPORT THAT BACK IN HIS REPORT.

KING REPORTED THAT WOULD BE GOOD FOR THE COMMITTEE FOR JONES TO REPORT COMPLIANCE OR LACK OF COMPLIANCE WITH RECOMMENDATIONS.

JONES REPORTED UNDER REDBOOK FOLLOW UP IS A REQUIREMENT.

MAGGARD ASKED ABOUT RISK ASSESSMENT AND ASKED ABOUT RISK WITH KERN MEDICAL CENTER AND KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (KCERA) AND IF AUDITOR-CONTROLLER HAS STEPS IN PLACE TO EVALUATE RISK.

JONES REPORTED KCERA IS AUDITED BY BROWN ARMSTRONG.

BEDARD REPORTED THE BROWN ARMSTRONG AUDIT IS DIFFERENT.

KING REPORTED HE WOULD LIKE TO SEE STRUCTURE AND THAT COUNTY HAS A SEAT AT THE TABLE AND COUNTY IS ABLE TO DETERMINE HOW THEY WANT TO IMPROVE AND MAINTAIN OVERSIGHT.

LAWSON REPORTED A BOARD REPRESENTATIVE SITS ON THE BOARD OF GOVERNORS. LAWSON REPORTED THERE IS A REQUIREMENT TO HAVE AUDITED FINANCIAL STATEMENTS SUBMITTED TO THE BOARD OF SUPERVISORS BY KERN MEDICAL.

MAGGARD REPORTED BOARD DOES HAVE A REPRESENTATIVE ON KCERA AND HOSPITAL AUTHORITY BUT THAT DOES NOT MEAN COUNTY DOES NOT HAVE RISK. MAGGARD ASKED HOW COUNTY EVALUATES THE RISK.

MAGGARD REPORTED WHEN KCERA MAKES DECISIONS IT IMPACTS THE COUNTY. MAGGARD ASKED HOW DOES THE COMMITTEE LOOK AT THOSE AREAS THAT IMPACT THE GENERAL FUND AND THAT THOSE ITEMS ARE ON THE LIST OF AUDITS. MAGGARD ASKED IF THERE WAS A WAY TO LOOK AT THAT EXPOSURE.

BEDARD RESPONDED HER OFFICE COULD LOOK AT THOSE ITEMS AND COULD COME BACK TO THE COMMITTEE IF THAT IS SOMETHING THEY WANTED TO LOOK AT.

KING REPORTED HOSPITAL AUTHORITY AND KCERA STILL PART OF COUNTY. KING REPORTED CAO, COUNTY COUNSEL, AND AUDITOR-CONTROLLER COMEBACK WITH RISK TO THE COUNTY.

ALSO REPORTED RECOMMENDATION COULD BE MADE TO RUSSELL AND KCERA REPRESENTATIVE TO REPORT BACK TO COMMITTEE AND DISCUSS ANY ISSUES.

MAGGARD REPORTED KCERA AND HOSPITAL AUTHORITY CAN TELL COMMITTEE WHAT RISK IS, BUT WOULD LIKE TO HAVE CAO AND AUDITOR-CONTROLLER REVIEW AND DETERMINE RISK.

KING REPORTED COUNTY SHOULD MAKE SURE OF THE AUDIT PROCESS, FINDINGS AND WHAT IS REPORTED BACK. KING REPORTED COUNTY SHOULD KNOW WHAT THE ISSUES WERE AND THE REPORTING PROCESS.

KAUFMAN REPORTED A LETTER COULD BE SENT TO KCERA TO INCREASE COMMUNICATION. THIS WOULD BE AN OPPORTUNITY TO INCREASE TRANSPARENCY AND COMMUNICATION.

KING REPORTED COUNTY IS STILL MAJOR STAKEHOLDER AND KCERA HAS TO RECOGNIZE THEY ARE STILL ACCOUNTABLE TO MAJOR STAKEHOLDER.

ALSOP REPORTED THERE NEEDS TO BE A STRONG WORKING RELATIONSHIP WITH KCERA AND HOSPITAL AUTHORITY.

MAGGARD ASKED HOW DOES COMMITTEE BEGIN TO SET UP THE PROCESS.

KING REPORTED BOTH AGENCIES ARE COMPLICATED. IF AGENCIES KNOW THEY ARE ON RADAR AND HELD ACCOUNTABLE THAT MIGHT HELP.

RECEIVED AND FILED
Couch – King: All Ayes

10) Committee member announcements or reports –

NO ONE HEARD

11) Public comment –

NO ONE HEARD

12) Adjourned –

MEETING ADJOURNED AT 11:36 AM.
King – Couch: All Ayes

/s/

Alex Alva
Clerk
Audit Advisory Committee

