



COUNTY OF HUMBOLDT

For the meeting of: 3/16/2021

File #: 21-313

To: Board of Supervisors

From: County Administrative Office

Agenda Section: Time Certain Matter

SUBJECT:

1:30 p.m. - Establishment of Humboldt County Audit Committee

RECOMMENDATION(S):

That the Board of Supervisors:

1. Adopt Resolution No. _____ (Attachment 1) establishing the Humboldt County Audit Committee;
2. Adopt the Audit Committee Charter (Attachment 2);
3. Appoint the Auditor-Controller, Treasurer-Tax Collector and County Administrative Officer as non-voting advisory members of the Committee;
4. Appoint two members of the Board of Supervisors to serve as a voting member of the Committee; and
5. Direct the Clerk of the Board to seek one additional representative from special districts and schools, and two additional qualified Citizen Members of the committee.

SOURCE OF FUNDING:

General Fund 1100

DISCUSSION:

The Board on Feb. 23 directed the County Administrative Officer to return to the Board with appropriate documentation to allow the Board to establish the Humboldt County Audit Committee. This agenda item effectuates that direction.

Prior to discussing various components of the Audit Committee, it is important to note some specific authorities as it will require involvement from multiple county officials.

Authorities

Pursuant to Government Code Section 25303, *“The Board of Supervisors shall supervise the official conduct of all county officers and officers of all districts and other subdivisions of the county, and particularly insofar as the functions and duties of such county officers and officers of all districts and subdivisions of the county relate to the assessing, collecting, safekeeping, management or*

disbursement of public funds. It shall see that they faithfully perform their duties, direct prosecutions for delinquencies, and when necessary, require them to renew their official bond, make reports and present their books and accounts for inspection.”

This state law provides your Board with authority to require county officials, including elected officials, to participate in county functions.

In regards to the Auditor-Controller position in Humboldt County, Board of Supervisors Resolution No. 752 (Attachment 5), passed in 1954, states that the Auditor shall assume and perform the duties of Controller as set forth in Chapter 3.5 of Title 3, Division 2, Part 3 of the California Government Code. Nothing in the proposed Audit Committee charter presumes to supersede this resolution.

Research

In order to develop staff recommendations, staff consulted with various personnel and stakeholders, and the following documents: Government Finance Officers Association best practices on audit committees (Attachment 3), the Institute of Internal Auditors (IIA) Model Audit Committee (Attachment 4), the Association of Local Government Auditors (ALGA) Audit Committee Guidance (Attachment 5), Chartered Global Management Accountant (CGMA) Government Audit Committees, as well as audit committee (or financial oversight committee) charters for several California counties.

Background

An audit committee is a practical means for a governing body to provide much-needed independent review and oversight of a government’s financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management’s practices, and that the independent auditors, through their own review, objectively assess the government’s financial reporting practices.

The GFOA recommends that committee members “should” be members of the governing body, however, the IIA, ALGA and CGMA only state that the committee should be independent. There is value in having other non-governing body members on the committee and provides for a broader perspective on accountability. For example, Placer County, in addition to 2 Board members, also has one member from the public. In addition, Orange County has a public member appointed by each of their five supervisors in addition to two Board members.

The attached resolution establishes the Audit Committee and the attached charter guides committee membership, roles of voting and non-voting members of the committee, as well as staff to the committee. The charter also establishes the committee’s authority, responsibilities, conflict of interest terms, and maximum spending limits.

Committee Purpose

The committee’s primary purpose is to provide leadership on audit and other important fiscal matters.

The primary function of the committee is to assist the Board in its oversight of:

1. The integrity of the county's financial statements
2. The systems of internal controls
3. The qualifications and independence of the county's external auditor (the "Independent Auditors"), and
4. The performance of the county's corrective action plans.

Committee Membership

GFOA best practices states that three main groups are responsible for the quality of financial reporting: the governing body, financial management, and the independent auditors, and of these three, the governing body (in this case the Board of Supervisors) must be seen as first among equals because of its unique position as the ultimate monitor of the financial reporting process.

A best practice for broader perspective on county functions, as well as public functions in general, is to have key stakeholders and members of the public involved in discussions. In this case, special districts or schools are recommended to serve on the committee as they are stakeholders of the fiduciary responsibility the county provides on their behalf, and qualified members of the public can add valuable perspective and accountability.

As such, the attached charter recommends the Humboldt County Audit Committee shall be comprised of five voting members (two members of the Board of Supervisors, one representative from special districts and local schools, and two qualified citizen members, all of whom are appointed by the Board), and several county staff who serve in an advisory role to the Committee.

The recommendation for staff to be advisory to voting members is primarily because this committee assists the Board in fulfilling its oversight responsibilities by monitoring the financial reporting process, the overall systems of internal control and risk mitigation, compliance with laws and regulations, and the independence and performance of the county's external auditors. Independence is a key aspect of membership on the committee, particularly for voting members, and ALGA recommends that members be independent of management.

The independent external auditor reports to the Board as the Board has oversight to ensure appropriate internal controls are in place. Meanwhile, county management, including the County Administrative Officer, Treasurer-Tax Collector and Auditor-Controller, the latter of which is the county's chief accounting officer, implement and have management responsibility to ensure the internal controls are established and executed. For example, the Auditor-Controller signs the Management Representation Letter for the audit representing her management responsibilities. For these reasons, staff recommends the County Administrative Officer, Treasurer-Tax Collector and Auditor-Controller serve as advisory committee members.

However, the size and composition of committee membership varies across the state. Following are some examples:

Butte County Audit Committee Purpose:

To assist the Board of Supervisors in its oversight of (a) the integrity of the financial statements of the County, (b) the systems of internal controls, (c) the qualifications and independence of the County's external auditor (the "Independent Accountants"), and (d) the performance of the County's internal audit function and the Independent Accountants.

Membership:

1. One member of the Board of Supervisors who serves as chair
2. Ex-officio members: Chief Administrative Officer, County Auditor, County Treasurer and the Chief Administrative Officer's Budget Director.

Orange County Audit Oversight Committee

The purpose of the AOC is to serve as an advisory committee to the Board of Supervisors on issues related to the County's internal and performance audit functions. Additionally, the AOC performs the audit committee function for the external audit of the County. The AOC assists the Board of Supervisors in fulfilling their oversight responsibilities of the Internal Audit Department (IAD) with respect to: financial reporting; internal controls; and internal and performance audit activities. The AOC is responsible for ensuring the independence of the internal audit function, reviewing and recommending approval of the IAD Annual Audit Plans, reviewing audit reports, and ensuring that corrective action is taken on audit findings.

Membership (voting members):

1. Chair and Vice Chair of the Board
2. County Executive Officer
3. Five qualified members of the public from the private sector appointed by the Board.

Membership (Non-voting members):

1. Director of Internal Audit, Auditor-Controller, and Treasurer-Tax Collector or their authorized designees.

Placer County Audit Committee

It is the audit committee's responsibility to provide independent review and oversight of:

- A. The county's financial reporting processes;
- B. The county's internal controls including risk assessment; and
- C. The independent audit of the county's financial statements.

Membership (voting members):

1. Two members of the Board of Supervisors
2. One qualified member of the general public

Siskiyou County Audit Oversight Committee

To work with external auditor while conducting annual County audits

Membership:

1. Chair of the Board of Supervisors, or designee
2. County Administrator, or designee

3. Grand Jury Chair, or designee

Tulare County Audit Committee Purpose:

To provide additional accountability and oversight of the County's financial reporting, internal controls, and monitoring activities.

Membership:

1. Two members of the Board of Supervisors
2. County Administrative Officer or his/her alternate
3. County Counsel or his/her alternate
4. One department head

Yolo County Financial Oversight Committee Purpose:

The purpose of the FOC is to provide oversight on treasury operations, deliver leadership and independence over the monitoring, review and audit of the county's business activities; and provide oversight that helps to further ensure accountability and transparency over the budgetary and tax distribution processes to further demonstrate good stewardship of public resources.

Membership:

1. Two members of the Board of Supervisors
2. One representative of a city in Yolo County
3. One representative of the Yolo County Office of Education
4. One representative of the special districts in Yolo County
5. Two members of the public

Counties with no audit committee include (partial list):

Amador, Calaveras, Colusa, Del Norte, Mendocino, Tehama, Tuolumne, Santa Barbara, Santa Cruz, Ventura.

Roles and Responsibilities

The roles and responsibilities detailed within the charter follow GFOA best practices. Of note, the charter as proposed would grant authority to the committee to evaluate, appoint, and dismiss the county's independent accountants, and determine their scope of work. As proposed, the committee would review the annual audits and work plans to address findings. The committee would also have authority to conduct or authorize investigations into complaints regarding accounting, internal controls, or auditing matters. Annually the committee would be required to provide a written report to the Board of Supervisors regarding its actions and how it has fulfilled its responsibilities.

The recommended charter does not include oversight of internal audit activities. It is recommended at this point in time that the Audit Committee focus on the external audit and addressing the 10 findings from the 2018-19 audit, and presumably findings from the 2019-20 audit once it is completed, before moving onto an internal audit function. In the future, an internal audit function can be performed by contracting with an auditor or hiring an internal auditor. Internal audit work plans or corrective action

plans require the approval of the Board of Supervisors.

The charter states that committee meetings will be open to the public and operate under the Ralph M. Brown Act, which provides for closed session meetings under certain circumstances.

FINANCIAL IMPACT:

The bylaws of the Audit Committee state the committee shall make recommendations to the Board to appoint, retain, dismiss, and determine the compensation for independent auditors engaged for the purpose of preparing or issuing an independent audit report. Contracts for such services typically exceed the purchasing limit established in the Purchasing Policy, and as such these contracts will likely need to come before your Board each year prior to engaging the services of an independent auditor. Funding for the independent auditor or other auditors will continue to come from the Board's budget as it has in years past.

The charter also states that the committee has maximum spending authority of up to \$50,000 per year, in addition to the auditor-related costs described above. This funding would be for outside counsel, experts and other advisors as the committee deems appropriate. Such funding would come from the General Fund and staff recommends it be expended through the Board of Supervisor's budget (1100-101), only when authorized by the Audit Committee. There is sufficient funding available in the General Fund to take this action in Fiscal Year 2020-21, though staff would need to return to your Board with a supplemental budget at a future point when expenditures occur. Committee members serve without compensation.

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services and fostering transparent, accessible and user-friendly services.

OTHER AGENCY INVOLVEMENT:

All county departments and local entities who deposit funding in the county treasury.

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Your Board may choose not to establish an Audit Committee, modify the membership, and/or modify the roles and responsibilities of the Audit Committee and/or individual members.

ATTACHMENTS:

1. Resolution establishing the Humboldt County Audit Committee
2. Charter of the Humboldt County Audit Committee
3. GFOA Audit Committee Best Practices
4. Institute of Internal Auditors Model Audit Committee Charter
5. ALGA Audit Committee Guidance
6. CGMA - Government Audit Committees

PREVIOUS ACTION/REFERRAL:

Board Order No.: H-4

File #: 21-313

Meeting of: Feb. 23, 2021

File No.: 21-233