Stanislaus County Mandatory Audit
Grand Jury Case No. 03-26AD
2002-2003

REASON FOR INVESTIGATION

The Grand Jury is mandated by Penal Code Section 925 to review the finances of the County.

Section 925a provides discretionary authority to review the finances of any city, or special district within the county.

BACKGROUND

The Grand Jury determined:

(a) to review the "**County Single Audit,"** an independent audit of county finances provided by an outside contractor
(b) to revisit the **Purchase Card Program** reported by the 2001-2002 Grand Jury
(c) to request and review certain pertinent financial information from **selected cities and districts.**

I. COUNTY SINGLE AUDIT

PROCEDURES FOLLOWED

The Grand Jury attended the Exit Conference presented by Bartig, Basler & Ray, Certified Public Accountants. Other county officials also attended. Questions were developed and presented to the Auditor-Controller before his formal response to the audit.

FINDINGS

The outside auditor reported discovering that approximately $3 million of billable receivables in the Public Works Department had not been billed to the State. It was recommended that the Auditor-Controller provide oversight over such receivables for all County Departments.

CONCLUSIONS

The Grand Jury agrees with the County Single Audit recommendation that the Auditor-Controller provide oversight on the significant receivables of other departments.

RECOMMENDATIONS

The Grand Jury recommends:

1. The Auditor Controller establish a system for oversight of revenue collection where other entities are billed for Capital Projects.

II. PURCHASE CARD PROGRAM

PROCEDURES FOLLOWED

1. The Grand Jury reviewed the existing policy, approved in the year 2000, as well as the evolving proposed policy currently in draft form, which is to be presented to the Board of Supervisors along with the results of the recently completed purchase card audit.

2. The Grand Jury also reviewed the credit or purchase card policies of the selected cities and districts.

3. The Grand Jury interviewed the Auditor-Controller following his release of the draft audit for the current year.

FINDINGS

1. The internal audit presented to the Board of Supervisors on October 8, 2002, listed mostly clerical problems at the department level. Staff reported to the Board that for the reporting year there had been an estimated saving of $518,207 in county processing costs.

2. Five employees currently have a monthly credit limit of $50,000 each. Forty-six employees have limits between $5,000 and $50,000. No formal documentation is required to increase credit limits.

3. The County's monthly liability for Purchase Card Debt is limited to $1,400,000.

4. The County Purchasing Agent is responsible for and charged with purchasing quality commodities at the best cost. The purchasing agent negotiates discounts with local vendors and is cognizant of the county's purchasing needs.

5. The County Auditor-Controller is charged with the authority and responsibility of overseeing the County's finances as an independent elected official.

CONCLUSIONS

1. Department heads requesting high limit credit cards do not document their request.

2. There is a potential for conflict of interest with the Auditor- Controller managing the program.

RECOMMENDATIONS

The Grand Jury recommends:

1. The Purchasing Card Program be transferred to the Purchasing Agent, leaving the Auditor-Controller to perform only the fiscal and auditing functions. Part of the savings outlined above can be used to fund staff to ensure continued savings and prevent abuse.

2. Purchasing Cards with limits exceeding $5,000 expire annually and be re-justified for renewal each year. Expanded limits be approved at the department level and recommended to the CEO by the Purchasing Agent.

3. The County's monthly liability should be stated in the policy.

4. The Board of Supervisors review and update the Purchase Card Policy by June 30, 2004.

III. SELECTED CITIES AND DISTRICTS

PROCEDURES FOLLOWED

The Grand Jury requested certain specific financial information, including but not limited to outside audit reports, purchasing policies, travel policies, investment policies, computer security as well as security for other assets.

FINDINGS

1. Oak Valley Hospital District provided a copy of its outside audit, dated June 30, 2002. A General Accounting Issue noted by the auditors was:

   "Physician Notes and Allowances- During the audit we noted that certain physician notes have been carried on the records of the Hospital without any transactions for a period of time. Due to the lack of contact with these groups and the absence of any payments, allowances had to be increased. We suggest that renewed efforts take place to resolve these notes and balances and that specific conditions be implemented through negotiations regarding the repayment process and that 1099's be issued where appropriate."

2. The majority of the receivables are in the form of "promissory notes against income guarantee." This practice, allowed by law, is used by hospitals to encourage physicians to practice in a community. Further, the debt may be reduced by annual forgiveness when the contract has ended and the doctor continues to practice in the community.

3. The Grand Jury directed follow up requests to the hospital. The total amount of debt was disclosed at $387,151 at the fiscal year's end, June 30, 2002. The balance of seven accounts range from $3,447 to $139,826.

4. Oak Valley Hospital District is a public hospital, and any monies advanced potentially affect taxes paid on real property within the district.

CONCLUSIONS

Oak Valley Hospital District Board of Directors has significant receivables. Those receivables, unless carefully monitored, could result in a loss to the taxpayers of the district.

RECOMMENDATIONS

Directors of the Oak Valley Hospital District monitor physicians' debts, and where collection efforts become necessary, act on behalf of district taxpayers.