Stanislaus County
Striving to be the Best
Auditor - Controller

AUDITOR-CONTROLLER

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August 30, 2004

The Honorable David G. Vander Wall
Presiding Judge of the Superior Court
800 11th Street
Modesto, CA 95354

SUBJECT: **AUDITOR-CONTROLLER RESPONSE**
2003-2004 STANISLAUS COUNTY CIVIL GRAND JURY
FINAL REPORT

This letter will serve as the Auditor-Controller's response to the Grand Jury's Final Report for the 2003-2004 year. The Auditor-Controller's Office is unable to comment on all of the findings and recommendations contained in the report. In some instances, a finding or recommendation deals with a specific issue the Auditor-Controller's Office has no previous knowledge of, on which to base a response.

On July 12, 2004, a written request was made under Penal Code 933 for clarification of a finding and recommendations contained in Grand Jury Case # 04-26. This request was made to ensure that responses to the finding and recommendations were appropriate and accurate. I would like to thank Mr. Charles Lindner for his response.

We have included the Grand Jury's findings and recommendations followed by our response.

Grand Jury Case No. 04 - 26

FINDINGS

- External Certified Public Accountant representatives reported on the County's major Federal programs; their Governmental Accounting Standards Board Statement 34 auditing disclosure standards, as well as collection disbursement of County taxpayer dollars.

The respondent agrees with the finding.

- Many County department heads, or their representatives, attended the Audit Entrance and Audit Exit conferences.

The respondent agrees with the finding.

- Stanislaus County, whose total budget exceeds $600,000,000 annually, is a major employer with more than 4,500 employees in 35 departments.

The respondent agrees with the finding.

- The External Auditor's report validated the Stanislaus County financial statement prepared by the Auditor-Controller.

The respondent agrees with the finding. The independent certified public accounting firm, Bartig, Basler & Ray, issued an opinion confirming that the respective financial statements presented fairly, the financial position of the County.

- There is no central source for accounting, contracts, and employees. No one oversees the department heads approval of departmental bills and accounting for departmental income. The Auditor/Controller depends exclusively on each department's management to report their respective expenses and receivables.

The respondent disagrees partially with the finding. Under the County Budget Act, Chapter 1, Division 3, Title 3 of the Government Code, estimates shall be submitted by each County official to the Chief Executive Office. This information is then used to develop the proposed budget for the coming fiscal year. On or before September 18, the Board must hold a public hearing to receive public input and allow any County official whose estimates have been or are proposed to be revised, reduced, or increased, or who desires to change his or her estimates, be given the opportunity prior to the adoption of the final budget. Budget estimates include both expenditures and revenues by legal budget unit and are used as a monitoring tool of fiscal activity within a department.

The budget process and related budgetary controls are used to hold departments accountable for the use of public resources. At a minimum, monthly reports comparing actual expenditures and revenues to Board of Supervisor adopted budgets are produced. This is in addition to the "on demand" reporting capabilities of the existing financial accounting system.

- The Internal and External Audit reports are identical in all information therein.

The respondent disagrees partially with the finding.

The American Institute of Certified Public Accountants (AICPA), which represents the independent auditing profession, has officially designated the Governmental Accounting Standards Board (GASB) as the authoritative standard-setting body for General Accepted Accounting Principles (GAAP) for State and local governments. GASB follows carefully designed due-process procedures to ensure that they adequately consider all relevant information as well as the opinions of all interested parties before reaching a final decision on any accounting or financial reporting issue. These standards provide for uniform reporting and disclosure for all State and local entities.

The primary objective of the independent auditor is to determine whether the financial statements present fairly the financial position of the entity and the results of its operations for the period under review. Also they must satisfy themselves that the statements are prepared in conformity with generally accepted accounting principles applied consistently with those applied in the previous audit period. As such, reporting and disclosure information may appear similar.

The focus of an internal auditor is to provide an independent appraisal of the diverse operations and controls within an organization to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, and the organization's resources are being safeguarded.

The management report developed by the internal auditor will be formatted similar to the management report provided by the external auditor. This typically includes a condition or finding, the effect of the condition or finding, followed by a recommendation, and management's response. While the format of the report will be similar, the scope and depth of review are different as previously discussed.

- The Civil Grand Jury has not been involved in the selection of the independent auditor.

The respondent disagrees wholly with the finding. As an interested party, an invitation was extended to the Civil Grand Jury, and was accepted to participate in the audit firm selection process. The "Request for Proposal" process was facilitated through the Chief Executive Office, Purchasing Division. Under Government Code 25250, the board of supervisors shall examine and audit, or cause to be audited, the financial accounts and records of all officers having responsibility for the care, management, collection, or disbursement of money belonging to the county or money received or disbursed by them under authority of law.

Penal Code 925, states, "the grand jury shall **not** duplicate any examination of financial statements which has been performed by or for the board of supervisors pursuant to Section 25250 of the Government Code."

- Staff from the internal auditor's office reported that they do not have a budget sufficient to allow for an internal audit of any departments.

The respondent disagrees wholly with the finding. The Internal Audit Division has completed the following audits of departments:

Three reviews
Eight purchasing card audits
Three internal control reviews of cash receipts
Ten financial and/or compliance audits

Copies of these audits were previously provided to the Grand Jury.

RECOMMENDATIONS

- There should be one central source for tracking all of the contracts, incomes and expenses of Stanislaus County.

The recommendation has been implemented. All disbursements and receipts flow through the County's centralized financial management system. Contracts are also recorded in the centralized financial management system through the issuance of purchase orders.

- External audits should be certified as to the accuracy and originality of the audit report.

The recommendation has been implemented. As stated previously, the primary objective of the independent auditor is to determine whether the financial statements present fairly the financial position of the entity and the results of its operations for the period under review. Also they must satisfy themselves that the statements are prepared in conformity with generally accepted accounting principles applied consistently with those applied in the previous audit period. They are, in fact, rendering their opinion on the accuracy of the statements.

Government Accounting Standards define the responsibilities of external auditors and management as follows:

1.101 Management is involved in the day-to-day operation of the organization. It is responsible for establishing internal controls that restrict access to assets and that record, process, summarize, and report the entity's transactions consistent with management's assertions in the financial statements. Management is ultimately responsible for the financial statements, even though the auditor may help to draft them or make suggestions about their content. The financial statements summarize management's activities over time and, accordingly, present management's representations.

1.102 The auditor is responsible for the conduct of the audit, including adherence to the profession's generally accepted auditing standards (GAAS). This responsibility includes planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. The auditor can only obtain reasonable, not absolute, assurance.

- Perform an internal audit of at least one department at random each year.

The recommendation will be implemented. In addition to the regularly scheduled department audits, at least one department will be selected at random each year.

- Increase the funding and staffing to allow the Auditor to perform an internal audit.

The recommendation has been implemented. In the early 1990's, due to budget constraints, the Internal Audit Division was eliminated and internal audit services were contracted out. During the Final Budget for fiscal year 2001-2002 the Board of Supervisors approved funding for two initial positions for a new Internal Audit Division. The Board of Supervisors made a further commitment to internal auditing by authorizing two additional positions, for a total of four staff, on September 16, 2003. Since the beginning of this calendar year, the Internal Audit Division has been at full staff.

As mentioned above under "Findings," the Internal Audit Division has completed numerous reviews and audits of County departmental operations and programs. Audits are performed of all County employees' purchasing card transactions. Completed audits have been previously provided to the Grand Jury.

Grand Jury Case No. 04 – 47

FINDINGS

- Section 29741 of the California Government Code requires the County Auditor to "allow or reject claims" for expenditures by County officials.

The respondent agrees with the finding.

- The Policies and Procedures of the Stanislaus County Auditor titled "Trip Authorization, Travel and Purchasing Cards" and "A/P Claims Process" require that all claims for payment to an employee or an outside source be backed up by supporting documentation explaining and justifying the expense.

The respondent agrees with the finding.

- An independent audit of the CEO's expenses, conducted in September 2003 by the independent accounting firm, after the CEO's employment ended, cited claims that were paid by the County Auditor without proper documentation.

The respondent disagrees partially with the finding. Based on the amended employment agreement entered into by the Board of Supervisors and Mr. Wilson, Chief Executive Officer, County employment did not end until October 16, 2003.

The claims being cited by the independent auditor were for purchasing card transactions authorized by Mr. Wilson. Mr. Wilson did not submit a separate claim to the County Auditor for these transactions. The independent auditor found a total of $10, 319.02 of questionable charges without receipts and without a documented business purpose.

Based on the findings of the independent auditor's report, additional audit work was requested by the Board of Supervisors. The Internal Audit Division of the Auditor Controller's Office performed this work. They identified two criteria, which were applicable. The two criteria were:

1. The County Purchasing Card Policy dated February 28, 2000, and
2. The County Code at Chapter 2.08, section 2.08.030.

Pared to its essentials, the Purchasing Card Policy required every employee to receive a receipt/charge slip from the merchant to document and justify that charge. Since this time the Board of Supervisors has approved a revised purchasing card policy further strengthening this requirement.

On October 28, 2003, the Board of Supervisors authorized the Auditor-Controller to withhold $20,120.05 from Mr. Wilson's final pay. Mr. Wilson requested by letter on October 27, 2003, to the Board of Supervisors that he be given additional time to locate missing receipts and documentation. The Board approved this request. A final accounting was presented to the Board on November 25, 2003, by which time, Mr. Wilson provided an additional $9,218.08 worth of verifiable receipts for authorized County activities.

It is important to understand that purchasing card transactions are verified and audited after the vendor has processed the payment. As such, these claims are "allowed or rejected" after the payment has been made.

RECOMMENDATIONS

- The County Auditor's staff must be diligent in scrutinizing claims for credit card payments, regardless of who the payee is. They must adhere to all state and county codes as well as all policies it establishes.

The recommendation has been implemented.

On August 12, 2003, a revised County Purchasing Card Policy was approved by the Board of Supervisors. The highlights of the policy include:

- ♦ Departments are encouraged to add additional restrictions to their own department's County Purchasing Card Policy to address specific situations.

- ♦ To obtain a County Purchasing Card an employee must complete a "Purchasing Card Authorization" form. The original of this form must be sent to the Auditor-Controller's Office, Accounts Payable Division. The CEO-Purchasing Agent must approve requests for card limits of $5,000 and over.

- Purchasing Card expenditures for spouses, traveling companions, or any unauthorized individual (including travel expenses for airline tickets, meals, hotel accommodations, etc.) are prohibited.

- County Purchasing Cards are not to be used for personal purposes. Should a County Purchasing Card inadvertently be used for an unallowable purpose, the employee shall immediately reimburse the County.

- Employees are cautioned not to carry the County Purchasing Card during off duty hours. (I.e. on vacation.)

- County Purchasing Cards must be returned to the respective department upon termination of employment.

- When a receipt is misplaced, a Missing Receipt Form must be completed by the employee to certify the charge was a valid county expenditure. The Missing Receipt Form must have Department Head approval.

- When an employee has been requested in writing by the department's Purchasing Card clerk to submit an itemized charge receipt, or a missing receipt form has not been approved by the department head, and still no receipt has been provided within 10 days of the date of the request, then the department may initiate a payroll deduction for the amount of the charge.

- Allowable charges shall not exceed the approved credit limit established by the Department Head or designee(s) for that specific charge card.

- Itemized receipts for all transactions are required.

- A receipt for more than one (1) County employee must list all participants' names on the receipt.

- All Purchasing Card charges are subject to annual audit requirement.

- "Intentional misuse of Purchasing Card may result in disciplinary action including termination." was added to the Purchasing Card application form.

- A listing of **all** Purchasing cards will be provided every six months to the department head. The listing will include employee name and monthly credit limit. Departments must verify the ongoing need for the use of the Purchasing Card. A change in job task, assignment, or transfer to another division may require modification or termination of the Purchasing Card account.

In addition to this, the Internal Audit Division of the Auditor-Controller's Office has completed eight Purchasing Card Audits. These audits will be presented to the Board of Supervisors during a regularly scheduled meeting.

Larry D. Haugh
Auditor-Controller

C: Honorable Pat Paul, Supervisor – District 1
Honorable Thomas W. Mayfield, Supervisor – District 2
Honorable Jeff Grover, Supervisor – District 3
Honorable Ray Simon, Supervisor – District 4
Honorable Paul W. Caruso, Chairman of the Board of Supervisors – District 5
Patty Hill Thomas, Interim Chief Executive Officer