

AUDIT AND FINANCE

INTRODUCTION

Legal Responsibilities

Government Code 25250 requires the County Board of Supervisors to “audit, or cause to be audited the financial accounts and records of the county”. The Board selected KPMG, an independent accounting firm, to conduct this annual audit.

Penal Code 925 requires the Grand Jury to “investigate and report on the operations, accounts, and records of the officers, departments, or functions of the County...”.

Acknowledgements

The Grand Jury wishes to recognize the Auditor-Controller, his staff and the General Services Department for their knowledgeable and conscientious support. It should be noted that once again the County has been awarded a Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association. This award is in recognition for achieving the highest standards in governmental and financial reporting. The Auditor-Controller’s Office leads the State in closing the books at the end of the fiscal year and publishing the Comprehensive Annual Financial Report.

AUDIT RESULTS

The KPMG audit found County financial statements accurately represent the overall financial position, operations, cash flow and proprietary funds for the fiscal year ending June 30, 2001.

The Grand Jury reviewed the Interim Status Reports, Audit Report and Management Letter provided by KPMG and the Comprehensive Annual Financial Report (CAFR) produced by the Auditor-Controller. These documents were discussed with the Auditor-Controller, his staff and KPMG. Certain aspects of the Management Letter were reviewed with the General Services Department.

The use of County auditors to conduct portions of the audit was given special attention by the Grand Jury. This practice was found to be cost effective and in conformity with standard accounting procedures for independent audits.

The Grand Jury recognizes that current events could well shape the future use of independent auditors and their contemporaneous consulting services. This may be

perceived by some as a conflict of interest. Currently there are no clear industry standards on this subject. The Grand Jury believes that any comment as to what that policy should be is premature. Currently, the County employs the independent auditor, KPMG, in a consulting capacity to provide advice on the implementation of General Accounting Standards Board (GASB) 34.

MANAGEMENT LETTER

During the course of its audit, KPMG made certain observations concerning internal control and other operational matters which warranted additional management attention by the County. Their comments and recommendations along with managements' responses are summarized below. It is important to note that the Management Letter is designed to be critical in nature and does not address the positive features of the County's procedures and controls. KPMG's comments are in four areas:

- Risk Management
- Federal Grants
- Government Reporting Model
- Fixed Assets

RISK MANAGEMENT

General Litigation Designation

An accurate evaluation of potential litigation liability, recorded in the General Long-Term Debt Account Group (GLTDAG), would be improved by the adoption of more formal procedures. Participation of the offices of the County Administrator, Auditor-Controller, Risk Management and County Counsel is essential. A standard, accurate procedure is particularly important for year-end reports and to avoid unexpected expenditures.

Management Response: The County has initiated such a process, which will be fully implemented this fiscal year.

Case Reserve Monitoring

There is no formalized communication process between Risk Management and County Counsel regarding establishment and monitoring of individual case reserve estimates.

Management Response: Formalized quarterly meetings will be established.

Workers' Compensation Fund Deficit

As of June 30, 2001, the County has an unplanned retained deficit of \$9.9 million. It is recommended that the County review their initial projections and perform an updated analysis of the fund's estimated future funding needs and adjust the departmental premium rates. They should implement additional measures as may be necessary in order to fund the related liability and reassess their original deficit reduction goal.

Management Response: Management will reassess its estimates and time lines for future funding needs.

Reserve Oversight Committee

Establish a Reserve Oversight Committee to review all large claims (new claims with serious loss potential as well as existing claims that have developed in such a way that there is potential for a large loss).

Management Response: The Reserve Oversight Committee should be a sub-committee of the general litigation liability group and would serve in an oversight capacity. The reserves are to be set by Risk Management personnel.

Actuarial Analyses

The County should obtain limited scope actuarial analyses using current data as of the end of the fiscal year. Utilization of more current data would improve the accuracy of the loss and LAE (loss adjustment expense) reserve estimates.

Management Response: The actuarial report, which is generally completed in the month of October for the upcoming fiscal year-end, provides valuation data as well as rates and premium data used by the County in the budgeting process for the following fiscal year. The completion of a semi-annual "roll-forward" of the reserve estimate by the actuary in January could provide a more timely and accurate valuation of the Risk Management and Insurance Fund's liabilities.

Workers' Compensation Risk Management Alternatives

The County should continue to explore all options in order to address its workers' compensation issues.

FEDERAL GRANTS

Identification of Federal Grants and Audit Requirements

The County has no formal county-wide grants application process or grants maintenance function.

Management's Response: The Auditor-Controller's Office has a project underway to develop and implement a web-based application for use by County departments to enhance the management of Federal, State and local grant entitlements.

Substance Abuse Prevention and Treatment (SAPT) Block Grant Program

Program Income -- The County does not have a formal process to ensure all fees collected by the service providers are reported to the County and in turn, to the State.

Federal Financial Reports -- A master list of reporting requirements of the grant should be maintained by the supervisor to ensure the reports are submitted when due.

Sub-recipient Monitoring -- Formal documentation and procedures to monitor service providers should be completed as soon as possible to ensure providers are in compliance with related grant program requirements.

Management's Response: A new director and the filling of a number of key fiscal positions should provide the necessary oversight and direction to improve contract development and monitoring of third party providers.

Foster Care Program

Implement procedures to review all foster care participant files to ensure the participant has been properly re-certified every six months.

Managements' Response: Due to vacancies and turnover in the Foster Care unit, the renewals lapsed. The action plan for the past due renewals is to have the supervisor and the lead worker complete them by September 30, 2001.

Food Stamps Program

Federal Financial Reports and Food Stamps Inventory -- A master list of reporting requirements of the grant should be maintained by the supervisor to ensure the reports are

submitted by the required due dates. The County should perform a daily reconciliation of the coupon physical inventory to the perpetual inventory system.

Management's Response: The County is currently developing a master listing of reports and their due dates. All food stamp locations will include a daily reconciliation of the coupon physical inventory to the perpetual inventory system.

Temporary Assistance to Needy Families (TANF) Program

Eligibility -- The County should clarify established policies and procedures to ensure eligibility requirements are satisfied.

Management Response: Procedures will be reviewed with supervisors.

Income Eligibility and Verification System (IEVS) Discrepancy Investigations

When a case is being reactivated, the IEVS eligibility worker should reference the list of past discrepancies to determine if the case has a pending discrepancy investigation.

Management's Response: A new State-wide welfare computer system, California Works Information Network (CalWIN), which will be implemented by the County in fiscal year 2004, will automate this process.

GOVERNMENTAL REPORTING MODEL

The Governmental Accounting Standards Board (GASB) issued Statement No.34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". Implementation by the County is required by June 30, 2002.

The County has developed a GASB 34 Implementation Team, which consists of four project teams as follows:

- The Policy Group,
- The Auditor Group,
- The Capital Asset Management System (CAMS) Group and
- The Financial Reporting Group.

The County has engaged KPMG to assist in the Implementation Process (GRIP) methodology. KPMG recommends that the County consider the cost of the required changes to ensure adequate funding in its upcoming budget.

Management's Response: The Auditor-Controller planned to pro forma the fiscal year 2000-01 financial statements using the new model by December 2001. This will put the County in a position to retool its systems to timely produce next year's financial statements with the same time line.

FIXED ASSETS

The County implemented a new fixed assets database in fiscal year 2000. Records should be brought up to date by a new inventory of all physical fixed assets. Follow-up inventories should be scheduled on a regular basis.

Management's Response: As part of the GASB 34 implementation project, the project team will review the policies, procedures and systems governing the land and structures components of the County's fixed assets, as well as the infrastructure component now required by GASB 34. The Auditor-Controller Internal Audit Division has audit plans to focus a review of major control cycles in the County.