

AUDIT AND FINANCE

The Grand Jury is especially grateful to the Auditor-Controller and his capable staff for their assistance in the performance of our duties.

LEGAL RESPONSIBILITIES

Under California Government Code 25250, the County Board of Supervisors is required to “audit or cause to be audited, the financial accounts and records of the County” each fiscal year. For the year July 1, 2001 to June 30, 2002, the Board once again selected KPMG, one of the four large independent CPA firms, to conduct this annual audit. In keeping with this prior practice, a local CPA firm conducted a major portion of the audit function, in conjunction with KPMG.

The Santa Barbara County Grand Jury, under Penal Code 925, is charged with the duty to “investigate and report on the operations, accounts, and records of the officers, departments, or functions of the County. . .”. The Jury feels that this requirement was met through our review, analysis and study of the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002, as submitted by the Auditor-Controller. Our meetings with the Auditor-Controller’s Office and the public auditors satisfied the Jury that the financial affairs of the County are in good order.

The fiscal year ended June 30, 2002 found the County to be in excellent financial condition. It was a difficult year due to cityhood for Goleta but the County still managed to improve its credit rating from A+ to AA-. Neither the State of California nor any other of its counties has a higher rating. Other than Certificates of Participation, which are covered elsewhere in this report, the total long term debt of the County was less than \$2 million at June 30, 2002. The Jury feels that while California is in a deep financial morass, Santa Barbara County is in as good a position as possible to ride out the current fiscal storm.

The Auditor-Controller’s Office has issued a brief, concise twelve page booklet, Financial Highlights for Santa Barbara County, for the year ended June 30, 2002. The Jury urges all citizens concerned with the County’s operations to contact the Auditor-Controller’s Office to obtain a copy of this informative and very readable report. This report can be accessed on the internet at www.countyofsb.org/auditor/publications.

MANAGEMENT LETTER

Each year when the County’s outside auditors render their opinion as to the fairness of the financial statements prepared by the Auditor-Controller, they also submit a “Management Letter”. This letter sets out certain operating functions and management

procedures which, in the opinion of the auditors, require action by County agencies to resolve the perceived problems indicated. The Grand Jury has chosen to highlight what we consider to be the most pressing problems mentioned in the “KPMG Management Letter”. These vital areas relate to “Risk Management” and to the auditors’ suggestions for improvements to existing procedures in these areas. For the sake of brevity, we have summarized KPMG’s recommendations and the corresponding replies from County agencies.

Case Reserve Authority Limits

The County has established case reserve authority limits for workers’ compensation claims but should also institute such a system for general liability and medical malpractice claims.

Management Response: The County agrees with the suggestion and will develop the reserve authority by June 30, 2003.

Claims Data to Actuary

The Risk Management Department provides claims’ data to the independent actuary. We noted that there are no formally documented procedures in place with regard to the extraction process and the maintenance of controls over the complete population of data. We recommend that a formal process be implemented to help insure that:

1. The data sent to the actuary is complete; and
2. The search criteria utilized to generate the data provided to the actuary is consistent from period to period.

Management Response: We concur with the recommendation. We have all the information available and will retain it in the future in the manner requested in the “Management Letter”.

Workers’ Compensation Fund Deficit

As of June 30, 2002, the Workers’ Compensation Fund had a retained deficit of approximately \$11 million, an increase of \$1.1 million from the prior year. The increase is the result of new and existing claims, dramatic increases in medical costs and civil liability exposures. To shrink the existing deficit, the County increased premiums charged to departments, became more aggressive in claims’ adjustments, increased adjuster training, actively pursued fraudulent claims and set out on a ten year program to eliminate the deficit. We recommend that the County continue to monitor its projections and the Fund’s estimated future funding needs.

Management Response: We are very focused on this issue. We have made a mid-year adjustment of \$1 million in fiscal year 2002/2003 to keep the deficit from growing. In addition, we have \$1.5 million in added premiums to the various departments to also help reduce the deficit.

Grand Jury Comment: Santa Barbara County uses the conservative method of putting aside reserves for claims based upon “estimated future costs”. Many California counties merely record claims as they become due and payable, without setting aside reserves for future liabilities. We commend the practices employed by the County in this matter.

Reserve Oversight Committee: We recommend that the County establish a Reserve Oversight Committee for the review of all large claims. A small number of large claims constitute a major portion of the cost of claims’ settlements.

Management Response: We concur that a Reserve Oversight Committee should exist. This Committee, comprised of the County Administrator, County Counsel, Risk Management and the Auditor-Controller, will meet quarterly to discuss reserve requirements on large liability cases.

FINDINGS AND RECOMMENDATIONS

None

AFFECTED AGENCIES

None