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BY: _____

September 18, 2018

Honorable Patricia L. Kelly
Presiding Judge
Santa Barbara Superior Court
County Courthouse
1100 Anacapa Street
Santa Barbara CA 93101

Reference: Response to Santa Barbara Civil Grand Jury report titled, "Internal Controls in the County of Santa Barbara" published June 20, 2018.

Judge Kelley:

Please find attached the Santa Barbara County Board of Supervisors (Board) response to the above referenced Civil Grand Jury Report. As directed by the Grand Jury, all responses are provided in accordance with Section 933.05 of the California Penal Code.

The Board appreciates the work conducted by the Auditor-Controller, District Attorney, Clerk-Recorder-Assessor, Treasurer-Tax Collector and Sheriff's Departments for their assistance in responding to this matter.

Sincerely,

Das Williams, Chair
Santa Barbara County Board of Supervisors

CC: Santa Barbara County Board of Supervisors

Santa Barbara County Board of Supervisors
Response to the Santa Barbara County Grand Jury 2017-2018 Report
“Internal Controls in the County of Santa Barbara”

Finding 1

The Internal Audit Division of the Santa Barbara County Auditor-Controller's Office had a funded and filled staff of 10 FTE prior to the 2008 recession. Just prior to the discovery of the 2017 fraud, the funded staff had fallen to 5 FTE, and only 2.5 of those were filled.

The Board of Supervisors agrees with this finding.

Finding 2

The financial management guidelines issued by the County of Santa Barbara Auditor-Controller are not applied consistently in operational departments, nor is compliance with those guidelines routinely audited by the Auditor-Controller.

The Board of Supervisors partially disagrees with this finding. There is compliance monitoring by the Auditor-Controller's office for contract compliance, credit card use, petty cash transactions and cash counts at cash handling locations. The Auditor-Controller has also implemented an internal controls review of departments with “agency funds” to test for compliance with the Auditor's agency fund policy and procedures. In addition, Departments report on out-of-compliance contracts to the County Executive Office as part of quarterly operations and financial review meetings.

Recommendation 2a

That County Board of Supervisors direct staff to use the consistent application of financial guidelines issued by the Auditor-Controller's Office as part of the annual personnel management process.

The recommendation will be implemented as part of the annual review process for managers to ensure compliance with their staff in the next review period. Currently, all staff are provided guidelines through FIN newsletters, fiscal updates and the FIN News section of the Home tab when users log into the financial system. Updates to FIN policies and procedures are highlighted on the FIN homepage when users log in so they are aware of the latest changes.

Finding 3

Knowledge of financial management and risks by managers in some departments in the County of Santa Barbara is insufficient.

The Board of Supervisors partially disagrees with this finding. It is unclear how managers' knowledge sufficiency or insufficiency is being defined; however, we agree that improvements can be made in some areas.

Recommendation 3a

That the Santa Barbara County Board of Supervisors direct staff to require training in financial management (including County financial guidelines, FIN, and reporting and accountability procedures) for all department and program heads.

The recommendation requires further analysis over the next 6 months to review the most effective type of training for department directors and their leaders. Staff intends to implement the recommendation. Some departments already provide various types of financial training, depending on their business and functions. Training on FIN and the Auditor's guidelines will be implemented for new hires into those positions involving financial transactions (where access and use of FIN is a primary duty), and for existing staff involved in similar activities as training is offered by the Auditor-Controller's Office and as part of the annual budget development process.

Recommendation 3b

That the County Board of Supervisors direct staff to make successful completion of this training a part of staff evaluations.

The recommendation requires further analysis over the next 6 months in conjunction with the determination of the type of training that may be offered in Recommendation 3a. Staff intends to implement the recommendation. For employees in the leadership (management) classifications, adherence to financial guidelines and management will be part of the annual review process, as discussed in Recommendation 2a. For department directors, their annual evaluations already include an assessment of Financial Resiliency, which includes implementation of sound financial practices and regular reviews of these practices; ensuring department's resources are efficiently utilized and deployed for maximum effectiveness; and ensuring accountability and financial responsibility.

Finding 4

Knowledge of potential conflicts of interest among some senior County of Santa Barbara employees is inadequate.

The Board of Supervisors disagrees partially with the finding. The County has an adopted Conflict of Interest Code whereby senior employees are subject to Fair Political Practices Certified Statement of Economic Interests Form 700 on an annual basis. The Form 700 requires that potential conflicts of interest be identified and declared. In addition, there are links to the FPPC guidelines available that review conflict of interest issues so that appropriate disclosures can be made.

Recommendation 4

That the Board of Supervisors develop procedures for the conduct of annual training on conflict of interest policy for all relevant categories of employees.

This recommendation will be implemented within the fiscal year. Procedures for annual training on conflict of interest will be developed.

Finding 5

There is no consistent policy of requiring program heads, division heads, or department heads within Santa Barbara County departments to account for spending under their control to their superiors and/or to the CEO through an annual formal and written statement.

The Board of Supervisors disagrees wholly with the finding. All department heads, including elected officials, along with each department's chief financial officer, sign an annual Fiscal Year End Certification and Representation Letter that makes assertions as to fiscal oversight, revenue and expenditure accounting, expenditures of federal awards, capital assets under their purview, long term liabilities incurred, theft or fraud experienced, and any related party transactions. The department head and CFO signatures are representative for their whole department.

Additionally, the County Executive Office requires quarterly budget-to-actual reporting for all departments. The CEO's office compiles this data and reviews it for significant variances. In the event that a department anticipates to materially exceed their budget, they are required to submit an explanation for the budget overrun. The departmental responses are then compiled into the Quarterly Report and presented to the Board of Supervisors.

The CEO's office regularly monitors each department's actual budget performance against their legally adopted budget. The County's FIN system has built-in controls that will not allow any expenditure that would exceed each department/fund legal level of budgetary control, which is the expenditure object level.

Recommendation 5a

That the Santa Barbara County Board of Supervisors direct all program heads, division heads, and department heads to sign annual statements to their managers, stating that all funds under their control have been managed in compliance with County financial management guidelines and the County's Internal Control Policy.

The recommendation will not be implemented as it is not warranted, as fiscal year-end certifications are already signed by the Department Director and CFO, as well as quarterly budget updates to the Board of Supervisors. However, to ensure all managers within a department are complying, adherence to financial guidelines will be included in annual performance reviews, which are signed by the employee.

Finding 6

The Jury found that the importance of the work of the Internal Audit Division within the Office of the Auditor-Controller and of internal controls generally has a low priority across County government.

The Board of Supervisors disagrees wholly with this finding. Each year the Auditor-Controller files their office's internal audit plan with the Board of Supervisors. The Board receives periodic updates and reports on the work and findings of the Internal Audit Division in open session. The Board reviews these reports carefully.

Recommendation 6

That the Board of Supervisors direct staff to incorporate performance measures into the budget process to highlight the importance of internal controls for every department in County government.

The recommendation will not be implemented as it is not warranted. Budget performance measures cannot effectively measure or convey the importance of internal controls; instead, reports to the Board by the Internal Audit Division, pursuant to its internal audit plan, are the best way to highlight this issue. In addition, quarterly reports to the Board are made as to departmental spending to highlight areas where expenditures exceed sources of funding, for which department directors can be held personally liable for the overage. Additionally, each department head along with their chief financial officer signs a certification and representations letter as part of the annual fiscal year end process attesting that all transactions have been properly accounted for and known instances of fraud have been disclosed.

Finding 7

It was stated by senior staff that a comprehensive investigation into the strengths and weaknesses of the internal controls in the County would be conducted by an outside consultant after the fraud; no such investigation took place.

The Board of Supervisors disagrees wholly with the finding. The County hired a third-party accounting firm to investigate and document the fraud. The same firm has been engaged to provide an independent assessment of the County's existing budget and financial policies and to identify additional policies, if any, which should be considered. This project is expected to be completed in November 2018.

In March 2018, the Auditor-Controller presented, and the Board adopted, an updated Internal Control policy followed by the Board's adoption of a new Whistleblower policy in June 2018. The County's whistleblower hotline was activated in July 2018. Finally, the Auditor-Controller's office is in the process of conducting a review of the internal controls over agency funds in each department has worked with each department on an individualized operational risk assessment.

Recommendation 7

That the Board of Supervisors direct staff to contract a complete independent evaluation and audit of internal controls, including the issuance of an opinion on the effectiveness of such controls and recommendations for improvement.

This recommendation will be implemented, and is in process, as noted in the response to Finding 7.

Finding 8

The Jury found that the actions taken by Santa Barbara County management in response to the 2017 fraud in the Department of Public Works were slow and inadequate.

The Board of Supervisors wholly disagrees with the finding. A thorough investigation was commenced immediately by the Auditor-Controller's staff upon the initial suspicion of fraud. County management and staff worked closely with the District Attorney's office to provide all records, documentation and evidence in support of their independent criminal investigation. County Management from the CEO's

Office, County Counsel, Auditor-Controller and the Public Works Department were kept apprised throughout the internal and external investigatory processes and took corrective actions once the full extent of the fraud was determined. In addition, the Auditor-Controller's office instituted several policy and security changes in the FIN system including; requiring password changes, multiple review and approvals of claims and related financial transactions, and the additional support documents for claims and refunds.

Recommendation 8

That the Santa Barbara County Board of Supervisors direct staff to issue a public report stating the steps taken and their effective dates to strengthen public financial management in the County following the 2017 Department of Public Works fraud.

The recommendation has been implemented. The Auditor-Controller reported to the Board on March 20, 2018, its revised internal control policies, which include actions to strengthen and improve financial management by County departments. A presentation was also made to department directors on February 16, 2018, on this issue and a training for department CFOs and Business Managers was held on May 24, 2018. Internal controls discussion has been added to the Employee University accounting courses. In addition, the Auditor Controller is returning to the Board of Supervisors on September 18, 2018, asking for approval of a charter formalizing the purpose, authority, and responsibilities of the County of Santa Barbara Internal Audit Division. The Clifford-Larson-Allen firm has been engaged to assist in the review and improvement of financial policies.

Finding 9

The Financial Information Network is an insufficient and inefficient system with many weaknesses that have caused most departments to create, or to have created, complementary financial software. Some of the weaknesses in FIN may have contributed to the 2017 Department of Public Works fraud.

The Board of Supervisors disagrees partially with this finding. FIN functions as designed and serves as a valuable tool for both financial operations/reporting and budget development/monitoring. While it is not considered a weakness of FIN, the system is not robust enough to meet the total financial accounting and payment processing needs of all departments, thereby requiring the addition of complementary systems to meet specialized needs within some departments. Although previous insufficient mandatory policies and security protocols related to the *use* of FIN may have increased the risk of fraud in the past, the *functionality* of FIN was not identified by the County's outside forensic accounting firm to be a contributing factor to the recently discovered fraud within the Public Works Department.

Recommendation 9a

That the Santa Barbara County Board of Supervisors direct staff to commission an independent evaluation of the benefits and costs of acquiring, installing and maintaining Enterprise Resource Planning software from a major vendor. The evaluation should:

- be procured competitively and should exclude any firm or individual that has previously worked with the County to avoid conflicts of interest;
- compare major software options, analyze where such options have been used in governments of comparable size to the County;

- **present a full analysis of the costs of and benefits of current financial management software used in the Auditor-Controller's Office and throughout the County Government; and**
- **give a proper comparison to the costs and benefits of Enterprise Resource Planning software.**

The recommendation will be implemented within the next two Fiscal Years as part of the County's broader Renew 2022 efforts. The need to invest in improved and expanded technology was identified, in general, as an important strategy to position the County to provide key public services in the most cost-efficient and effective manner. Specifically, the implementation of an ERP system to streamline and improve the integration of the County's financial, payroll and human resource technology needs, will be evaluated as part of our re-design efforts. An evaluation team comprised of representatives from the CEO's and Auditor-Controller's offices, the Human Resources and General Services departments, as well as a cross-section of stakeholders from other County departments will spearhead this effort and present their findings and recommendations to the Board of Supervisors for consideration.

Recommendation 9b

That the Enterprise Resource Planning evaluation be presented at an open session of the Santa Barbara County Board of Supervisors to allow public comment.

The recommendation will be implemented within the next two Fiscal Years. As noted above, the results related to the potential implementation of an ERP system for the County would be considered at a regularly scheduled Board of Supervisor's meeting and will provide the opportunity for public comment. FIN serves not only the County, but also Independent Special Districts, the County Education Office and School Districts who keep their money in the County Treasury. Prior to an evaluation of an ERP system, a needs assessment of all the users must be conducted to determine the necessary features and components of the County's financial system.

Recommendation 9c

That all Santa Barbara County staff using FIN, or its eventual successor, submit annual financial disclosure.

The recommendation will not be implemented, as all staff who are required by the Santa Barbara County Single Comprehensive Conflict of Interest Code to submit annual financial disclosure statements ("Form 700") already do so.

Finding 10

The Jury found that minimum professional and academic qualifications for financial staff positions are not standardized nor consistent throughout departments in Santa Barbara County.

The Board of Supervisors disagrees wholly with the finding. Financial job classifications have standard, minimum qualifications. Applicants are screened to confirm they meet these qualifications as part of the hiring review process through the County Human Resources Department.

Recommendation 10

That policy throughout Santa Barbara County be standardized with respect to the minimum academic and other professional qualifications of financial staff.

The Recommendation will not be implemented as it not warranted. Financial job classifications have minimum qualifications and are standard through the county, and staff are screened as to these qualifications as part of the hiring review process through the County Human Resources Department.

Finding 11

Some Santa Barbara County staff commented that there might be significant other potential financial risks in Santa Barbara County, including management of property tax reimbursements and warrant payments through the Sheriff's Civil Bureau.

The Board of Supervisors disagrees partially with this finding. The Treasurer-Tax Collector-Public Administrator's office (TTC), Sheriff's Office or Auditor-Controller have not reported any potential risks in these areas. The Treasurer-Tax Collector initiates property tax refunds for certain situations such as duplicate payments. The TTC has internal controls to mitigate potential risks. All refunds are prepared by an accountant, reviewed and approved by the Treasury Finance Chief, and subsequently reviewed by the Auditor-Controller's office before any payment is issued.

Warrant payments issued through the Sheriff's Civil Bureau are processed through the FIN system. The warrants are generated by the Teleosoft Civil Management system, and then electronically sent to the Auditor-Controller's office for processing. They are reviewed by two employees in the Civil Bureau, the Sheriff's business office and the Auditor-Controller prior to issuance. The civil bureau warrant process was developed with the input and cooperation of the Auditor-Controller's office.

Recommendation 11a

That the Santa Barbara County Board of Supervisors direct staff to commission an independent audit of the property tax reimbursements made through the Santa Barbara County Assessor's Office during the past 10 years.

The Recommendation requires further analysis in consultation with the Auditor-Controller's Internal Audit Division within the next six months. As explained in our response to Finding 11 above, sufficient internal control measures are in place within the Treasurer-Tax Collector-Public Administrator's Office to ensure that property tax reimbursements are properly safeguarded but consultation with Internal Audit will occur to determine whether this is warranted.

Recommendation 11b

That the Board of Supervisors direct staff to commission an independent audit of civil warrant payments made through the County Sheriff's Office during the past 10 years.

The Recommendation requires further analysis in consultation with the Auditor-Controller's Internal Audit Division within the next six months. As explained in our response to Finding 11 above, sufficient internal review measures are in place within the Sheriff's Department to ensure that civil warrant payments

are properly safeguarded but consultation with Internal Audit will occur to determine whether this is warranted.