

**Stanislaus County Audit Report
Grand Jury Case # 04-26
2003-2004**

REASON FOR INVESTIGATION

California Penal Code Sections 925, 925(a), 931.1 and 933.5 mandates that the Civil Grand Jury investigate and undertake operational audits of county functions. These audits include, but are not limited to, reporting operations, accounts and records of the County departments/offices and division agencies.

BACKGROUND

The Single Audit includes management's discussion and analysis, as well as changes occurring within the past fiscal year. It provides an overall financial picture, the meaning of figures, and forecasts the next year's budget.

This audit uses the newly required Governmental Accounting Standards Board statement 34 (GASB 34) which includes assets such as County roads, bridges and parks as fixed assets; which can then be depreciated in the County budget.

A "Management Letter", prepared by the independent accountant, discusses any weaknesses or suggestions for the County to improve their budget. The independent accountants examine how the County processes and approves demands for payments. The independent accountants check that all claims are presently adequately reviewed and contain sufficient back up documentation to prevent payment of questionable demands.

PROCEDURES FOLLOWED

The Civil Grand Jury:

1. Conducted a review of (2000 through 2004) general funds, special revenues, debt services capital projects, various enterprises and trust, agency and account group budgets.
 2. Evaluated internal controls over the safeguarding of grant requirements.
 3. Examined audit findings of various financial statements by the Auditor/Controller and the County, as well as the 2002-2003 Independent Single Audit.
- Members of the Grand Jury attended the Entrance Audit conference on September 17, 2003 and the Exit Audit conference on December 19, 2003.

The Grand Jury interviewed and met with the following:

1. Employees from the Auditor/Controller's office.
2. Employees from the Purchasing department.
3. Employees from the office of the Chief Executive Officer.
4. Employees from Strategic Business Technology (SBT), formerly MIS.

The Grand Jury reviewed the following Documents:

1. Policies and procedures for the use of County issued credit cards.
2. Accounts payable policies for goods and services requiring purchase orders, recurring expenses, and Refund/Trust Voucher disbursement.
3. Internal controls for transactions larger than \$75,000.
4. Government Internal Audit Policies and Standards.
5. The management report for the year ending June 30, 2003.
6. The Auditor/Controller's response to management recommendations as of June 30, 2003.
7. The County Single Audit dated June 30, 2003.
8. External auditor's planning memo dated June 30, 2003.
9. County's Information Technology Strategic Plan, September 2003.
10. County Mid-Year reports and adjustments, mid-year 2003-2004.
11. Auditor/Controller's biennial inventory and certification memo, March 2004.
12. County Capital Improvement Plan, March 2004.

FINDINGS

1. 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.
2. Many County department heads, or their representatives, attended the Audit Entrance and Audit Exit conferences.
3. Stanislaus County, whose total budget exceeds \$600,000,000 annually, is a major employer with more than 4500 employees in 35 departments.
4. The External Auditor's report validated the Stanislaus County financial statement prepared by the Auditor/Controller.
5. 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.

6. The Internal and External Audit reports are identical in all information therein.
7. The Civil Grand Jury has not been involved in the selection of the independent auditor.
8. 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.

CONCLUSIONS

1. Department heads approve their expenses with no tracking.
2. The current method of conducting external and internal audits is meaningless.
3. Stanislaus County has seen fit to appoint a member of the Civil Grand Jury to the independent auditor selection committee.
4. A member of the Civil Grand Jury should always be involved in the selection of the independent auditor.

RECOMMENDATIONS

1. There should be one central source for tracking all of the contracts, incomes and expenses of Stanislaus County.
2. External audits should be certified as to the accuracy and originality of the audit report.
3. Perform an internal audit of at least one department at random each year.
4. Increase the funding and staffing to allow the Auditor to perform an internal audit.