



ATTACHMENT B

Rick Robinson
Chief Executive Officer
CHIEF EXECUTIVE OFFICE

AUDITOR-CONTROLLER

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2005 AUG -9 P 3: 26

August 9, 2005

The Honorable Marie Sovey Silveira
Presiding Judge of the Superior Court
800 11th Street
Modesto, CA 95354

SUBJECT: AUDITOR-CONTROLLER RESPONSE
2004-2005 STANISLAUS COUNTY
CIVIL GRAND JURY FINAL REPORT

This letter will serve as the Auditor-Controller's response to the Grand Jury Final Report for the 2004-2005 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.

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

Grand Jury Case No. 05-11

FINDINGS

5.) Spay and Neuter Fund

- A. The SCAS Department maintains two checking accounts. One account is through the Stanislaus County Auditor's Office and is comprised of monies from the annual budget, fees that are received for services performed at the shelter, and donations. The second account is maintained through a local credit union. This account is a separate fund comprised of donations and fees. A senior administration shelter staff employee stated the funds are to be used exclusively for low-cost spay and neuter procedures and educational expenses associated with the spay and neuter program. The Grand Jury has information that the account has been in existence for more than a year. Testimony indicates that there was approximately \$10,000 in this fund and only one signature is required on checks paid from this account. The representative of the County Auditor's Office was not aware of the spay and neuter account. The auditor testified that county

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departments are not allowed to have accounts that do not contain the signature of the County Auditor.

Auditor-Controller Response - Clarification

The respondent agrees partially with the finding.

On August 8, 1955, the Board of Supervisors passed a resolution directing that the County Treasurer be on all bank accounts maintained in the name of the County or name of any office or officer of the County. (See attachment "A").

RECOMMENDATIONS

The Stanislaus County Auditor shall:

- Within 30 calendar days of the release of this report, review all accounting practices at the SCAS Department with specific concerns about the unauthorized checking account that only requires one signature.
- Provide an accounting of all payments and transactions made on that account.
- Direct the auditor's office to immediately implement an adequate recordkeeping system that will accurately account for all monetary and in-kind donations.
- Report misuse of funds to the District Attorney.

Auditor-Controller Response

The Stanislaus County Auditor Controller is currently implementing the recommendations. An audit of the financial/cash transactions processed by the Animal Services Department is currently underway. A final report will be presented to the Board of Supervisors of the findings and recommendations based on the audit.

- Within 30 calendar days of the release of this report, review all accounting practices at the SCAS Department with specific concerns about the unauthorized checking account that only requires one signature.

The recommendation is currently being implemented

- Provide an accounting of all payments and transactions made on that account.

The recommendation is currently being implemented

- Direct the auditor's office to immediately implement an adequate record keeping system that will accurately account for all monetary and in-kind donations.

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The Auditor-Controller's Office is currently implementing this recommendation. Guidelines for the establishment, use, and control of outside checking accounts were distributed by the Treasurer-Tax Collector and Auditor-Controller in a memo dated December 6, 2002. (See Attachment "B").

- Report misuse of funds to the District Attorney.

This recommendation shall be implemented if a suspected misuse of funds has occurred.

Grand Jury Case No. 05 – 39

FINDINGS

7. Auditing
 - Auditing resources are in short supply.

Specific audit and accounting experience is found at the county staff level and it is in short supply. Only one CPA is currently a full-time employee of the County Auditor's office serving a county of five hundred thousand residents.

Special districts contract directly for independent certified public auditors. In the Grand Jury review of a failing special district, it was this annual audit that prompted the special district head to doubt the independent auditor's results, and ask the County Auditor to review the audit. There was no accounting or auditing expertise employed by the district. So, while the district head had a "good audit" in his hands, even though it reflected the misuse of capital funds, he did not personally understand it nor did he have anyone on his staff that did.

The county conducts a thorough annual outside audit of county operations. There is no formal audit follow-up by any oversight agency for special districts that may have been in trouble in the past.

The policy-makers reported to the Grand Jury that they had to lay off 256 county employees in 1998. Many of the discharged employees were from agencies having government oversight tasks such as Planning, Auditor, and LAFCO. This has had a direct impact on county accounting and audit resources. Policy-makers and staff blamed outside causes including the Proposition 13 in the late 1970's. Currently their complaint is that the state has appropriated too many county tax dollars from the county to allow the county to retain the necessary oversight personnel.

Auditor-Controller Response - Clarification

The respondent agrees partially with the finding. Stanislaus County currently employs nine identifiable Certified Public Accountants. Of these County employees, five are employed in the Auditor-Controller's Office, two assigned to the Internal Audit Division. In addition, one Internal Auditor has passed the CPA exam and is currently obtaining the required audit experience.

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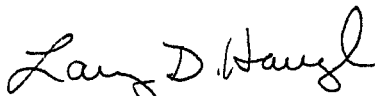
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RECOMMENDATIONS

4. Require all special districts to complete and publish an annual financial audit for the district's taxpayers. The independent auditors to the special districts should be treated as contractors in order to do business in Stanislaus County and should be certified by the Stanislaus County Auditor's office as to their professional credentials. This should put the county in a position to establish minimum standards of performance of the independent auditors when they do business with special districts.

Auditor-Controller Response

The recommendation has been partially implemented. Government Code 26909, section (a) requires that all special districts be subject to audit by a certified public accountant. Government Code 26909, section (a) states further, "In each case, the minimum requirements of the audit shall be prescribed by the Controller (State Controller) and shall conform to generally accepted auditing standards." While the Auditor-Controller's Office does receive requests for references for audit services from special districts, the Auditor-Controller's Office does not have the legal authority to mandate which firms are used or the standard by which the audit will be conducted. It is important to note that only the State of California has the authority to license individuals subject to their legal requirements.



Larry D. Haugh
Auditor-Controller

- C: Honorable William O'Brien, Supervisor – District 1
Honorable Thomas W. Mayfield, Supervisor – District 2
Honorable Jeff Grover, Chairman of the Board of Supervisors –
District 3
Honorable Ray Simon, Supervisor – District 4
Honorable Jim DeMartini, Supervisor – District 5
Honorable Gordon B. Ford, Treasurer/Tax Collector
Rick Robinson, Chief Executive Officer

IN THE BOARD OF SUPERVISORS

SUPERVISORS' ORDER

Date August 8th, 1955

IN RE: AUTHORIZING THE COUNTY TREASURER TO
DRAW UPON BANK ACCOUNTS IN THE NAMES OF COUNTY OFFICES OR OFFICERS
RESOLUTION

BE IT RESOLVED that the County Treasurer be and he is hereby authorized and directed to sign, and appear as joint tenant or co-depositor upon, any and all signature cards and agreements whereby monies held in trust for the County of Stanislaus which may be permitted by law to be and are, or have heretofore been, deposited in banks to the account or standing in the name of any office or officer of the County of Stanislaus or of any judicial district therein; and

BE IT FURTHER RESOLVED that the County Treasurer be and he is hereby authorized and directed to make proper withdrawals from such accounts upon the death, incapacity or absence of the officer in whose name or in the name of whose office such funds may stand.

Upon motion by Supervisor Melugin, seconded by Supervisor Adams, the foregoing Resolution was duly passed and adopted at a regular meeting of the Board of Supervisors of the County of Stanislaus, State of California, this 8th day of August, 1955, by the following called vote:

AYES: Supervisors: Melugin, Wilson, Adams, Delphia and Chairman Bradshaw.
NOES: Supervisors: None
ABSENT: Supervisors: None.

State of California } ss.
County of Stanislaus }

I hereby certify that the foregoing is a true and correct copy of the order made and entered in the Minutes of the Board of Supervisors on the 8th of

August, 1955

In witness whereof I have hereunto set my hand and affixed the seal of said Board of Supervisors on January 4th, 1961

L. W. BITHER, County Clerk and ex-officio Clerk of the Board of Supervisors of the County of Stanislaus, State of California.

By Steve B. Nelson, Depu



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December 6, 2002

MEMO TO: All Department Heads

FROM: *Larry D. Haugh*
Larry D. Haugh, Auditor-Controller
Tom Watson
Tom Watson, Treasurer-Tax Collector

SUBJECT: **OUTSIDE CHECKING ACCOUNTS**

During the last few years several checking accounts have been opened for the benefit of County Departments. While limited to specific purposes, these dedicated checking accounts fulfill specific department needs. Proper control and oversight of these checking accounts is subject to review by the internal audit staff. Since having proper internal controls in place is a concern to us all, we have identified below some common controls which must be in place for handling outside checking accounts.

A. Outside checking accounts should be established for the following reasons only:

1. As required by California Code due to confidentiality or timing.
2. As a clearing account for deposits from outlying locations.
3. In instances where the funds need to be issued immediately.

B. Controls:

1. The banking institution must be a federally insured depository.
2. Requests for the establishment of outside checking accounts must be made through the County Treasurer's Office.
3. Checks should be sequentially pre-numbered.
4. A check register must be kept listing all deposits (date and amount), all checks (date, amount, payee, and check number), and a running balance at all times. The register should also include the coding structure for all transactions (to aid the department in preparing the claim for reimbursement) as well as document the monthly reconciliation to the bank statement and any necessary adjustments.
5. The County Treasurer must be a signer on the account, per Board Resolution No. 816 dated August 8, 1955.

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6. Someone other than the preparer of the check register should be approving the expenditures and signing the checks.
7. After signing, all checks should be forwarded to someone other than the originator of the check, for releasing for mailing or disbursement.
8. Officials other than those who approve the transaction for payment should sign the check. Supporting documentation should accompany checks submitted for signing and the signor should ensure each item has been approved in accordance with procedures.
9. The bank statement should be received unopened by the manager or someone with no check writing or expenditure approval responsibilities. The individual should review the checks included in an attempt to identify any alterations, forgery, etc. The bank reconciliation should be done promptly after receipt of the bank statement. The bank statement should be forwarded to the person responsible for the bank reconciliation and the individual responsible for the reconciliation should be someone with no check writing or approval responsibilities. The reconciliation should include a list of all in-transit deposits, all outstanding checks (check number, date, and amount), accounting for sequence of check numbers, and investigation of checks long outstanding. The bank reconciliation should be reviewed on a periodic basis and the review should be documented.
10. Supporting documentation, i.e. invoices, etc, should be cancelled to prevent having them resubmitted.
11. The checking account should be reimbursed based on the account disbursements and not arbitrary amounts. All claims for reimbursements (i.e. Wire transfers or expenditure voucher) should be supported by proper documentation. This may include a list or a calculator tape of the account disbursements. It is the responsibility of the department to maintain proper support for the claims.
12. At year-end, or more frequently, a claim for reimbursement should be prepared to reimburse the checking account for disbursements made up to June 30. This should be done so the disbursements from the checking account will be recorded in Oracle in the year the disbursements are made.
13. A procedure should be established for canceling checks outstanding for more than six months. Per Government Code Section 29802, unless otherwise provided by ordinance, any check issued is void if not presented to the County Treasurer for payment within six months after its issue date.
14. Cancelled and voided checks that have already been claimed for reimbursement should reduce the next claim submitted by the amount of the cancelled or voided check.
15. If County funds were used to establish the account, and it is periodically reimbursed, a control total reconciliation should be done monthly. This would include summing

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all invoices not yet turned in for reimbursement, plus the current balance, which should equal the control total.

16. All of these records must be available for review.
17. Checks may not be pre-signed.
18. No checks should be made payable to "Cash."
19. Blank check stock should be locked up in a fireproof safe and access should be limited. A blank check control log should be utilized and should include the following:
 - The sequence of checks issued
 - The name of the person to whom the checks are issued
 - The date the checks are issued
 - The signature of the custodian responsible for unused checks

If you have any questions regarding these procedures, please contact the Auditor-Controller's Office or the Treasurer-Tax Collector's Office.

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