

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

558



FROM: EXECUTIVE OFFICE

SUBMITTAL DATE: July 10, 2001

SUBJECT: Response to Grand Jury Report: Riverside County Auditor-Controllers Internal Audit Unit

RECOMMENDED MOTION: That the Board of Supervisors:

- 1) Approve with or without modifications, the attached response to the Grand Jury's recommendations regarding the Riverside County Auditor-Controllers Internal Audit Unit.
- 2) Direct the Clerk of the Board to immediately forward the Board's finalized response to the Grand Jury, to the Presiding Judge, and to the County Clerk-Recorder (for mandatory filing with the State).

BACKGROUND: On May 22 the Board directed staff to prepare a draft of the Board's response to the Grand Jury's report regarding the Riverside County Auditor-Controllers Internal Audit Unit. Section 933(c) of the Penal Code requires that the Board of Supervisors comment on the Grand Jury's recommendations pertaining to matters under the control of the Board, and that a response be provided to the Presiding Judge of the Supervisor Court within 90 days. A separate response to the Grand Jury's findings and recommendations was prepared by the independently-elected Auditor-Controller and transmitted directly by the Auditor-Controller to the Grand Jury as provided for by Section 933.05 of the Penal Code.

TONY CARSTENS
Deputy County Executive Office

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FINANCIAL DATA:

CURRENT YEAR COST	\$	ANNUAL COST:	\$	
NET COUNTY COST	\$	IN CURRENT YEAR BUDGET:	Yes/	No/
		BUDGET ADJUSTMENT FY:	Yes/	No/

SOURCE OF FUNDS:

C.E.O. RECOMMENDATION: APPROVE.

County Executive Officer Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Tavaglione, seconded by Supervisor Mullen and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Buster, Tavaglione, Venable, Wilson and Mullen
 Noes: None
 Absent: None
 Date: July 10, 2001
 xc: E.O., Grand Jury, Auditor, Presiding Judge, Co.Clk. & Recorder

Gerald A. Maloney
 Clerk of the Board
 By:
 Deputy

3.7

Department Recommendation: Consent Policy
 Per Executive Office: Consent Policy

RECOMMENDATIONS:

RECOMMENDATION:

1. Immediately increase funding to hire additional auditors for the Internal Audit Unit.

RESPONSE:

X The recommendation requires further analysis.

The County Executive Office is currently reviewing the most recent FY budget request for a recommended increase of 3.0 FTE positions. An outside survey, independently done by Fairfax County in Virginia, supports that the Riverside County IAU may be understaffed in comparison to other local governments. Further analysis is needed to compare key factors such as cost vs benefit, the coordination of all auditing functions to avoid duplication, the use of outside auditors to co-source with the internal audit unit, and implementation of a Control Self Assessment Program that will focus on the department following a formal process in which the operating department takes responsibility for some of the controls by internal monitoring.

RECOMMENDATION:

2. Initiate an aggressive hiring campaign to fill all vacant auditor positions.

RESPONSE:

X The recommendation has been implemented.

There is currently one full time vacant position. The office is seeking pending and recent graduates of local universities. The Auditor-Controller and the Internal Audit Division Chief serve on the CSUSB Accounting Advisory Board to maintain close contact with graduating students. The Audit Division Chief is putting together a team of internal auditors and educators to go to high schools and junior colleges to publicize accounting/internal audit opportunities and will continue with aggressive efforts to fill the auditor positions.

RECOMMENDATION:

3. Board of Supervisors and Auditor-Controller develop a working plan to ensure full compliance with Government Code 25250 and Board of Supervisors' Resolution 83-338.

RESPONSE:

- X The recommendation as not yet been implemented.

The Auditor Controller office states their concurrence with the need to work with the Board of Supervisors to develop a working plan to allow for compliance with the Board of Supervisors Resolution 83-338. This recommendation will be periodically reviewed in the quarterly budget review reports.

RECOMMENDATION:

4. The independence of the IAU should continue to be a direct function of the Auditor-Controller in order to maintain proper public accountability as required in the standards set forth in Government Code 1236.

RESPONSE:

- X The recommendation requires further analysis.

The Auditor Controller recommends that the internal auditing function continue to be under the direction and control of the independently elected County Auditor-Controller rather than under the direction of the legislative (Board of Supervisors) or executive body in charge of and responsible for county operations subject to audit. The maintenance of proper public accountability is a result of a well coordinated audit function that is based on sound internal controls, a consistent auditing schedule, competent auditing staff and a clearly defined audit plan. This matter will receive periodic review in conjunction with the mid-year budget update reports.

SPECIFIC FINDINGS AND RECOMMENDATIONS

RIVERSIDE COUNTY AUDITOR-CONTROLLERS INTERNAL AUDIT UNIT

FINDINGS:

FINDING:

1. Government Code 25250 and Board of Supervisors' Resolution 83-338 mandate that each department be audited every two years. Staffing shortages within the Internal Audit Unit (IAU) have made it impossible to conduct internal audits and to meet these legal requirements. Numerous agencies of Riverside County have not had an internal audit for at least 6 years.

RESPONSE:

- Respondent disagrees partially with the finding.

The Auditor's office has stated that the provisions of GC 25250 are being satisfied by the comprehensive annual financial report (CAFR) audit performed by the outside CPA firms and that the State Controllers Office concurs with this position.

FINDING:

2. Chronic underfunding by the County of Riverside impacts the Auditor-Controller's Internal Audit Unit staffing needs. Inadequate staffing continues to result in noncompliance with Government Code 25250 and Board of Supervisors' Resolution 83-338.

RESPONSE:

- Respondent disagrees partially with the finding.

The Internal Audit Unit is currently staffed with 3.5 full time equivalents (F.T.E.) Additional auditing resources have been requested in the 2001/02 fiscal year budget and that request is currently being analyzed. As stated above, the provisions of Government Code 25250 are being met by the (CAFR) audit.

FINDING:

3. The Auditor-Controller's Office is responsible to the taxpayers for ensuring that monies are not lost due to theft, fraud, waste and that all legal mandates are upheld.

RESPONSE:

- Respondent disagrees partially with the finding.

The Auditor Controller's office acknowledges its role in a coordinated effort with others and not an exclusive responsibility of the department. The Auditor-Controller's office, per statute, is the chief accounting officer of the County. In the carrying out of its duties, the Auditor-Controllers office shall exercise general supervision over the accounting forms and the method of keeping the accounts of all offices, departments and institutions under the control of the Board of Supervisors and of all districts whose funds are kept in the County treasury.

FINDING:

4. Current efforts by the Board of Supervisors to outsource the internal audit functions of the IAU, could impact and limit the objective audit accountability to the public.

RESPONSE:

- Respondent disagrees partially with the finding.

Further explanation regarding the underlying assumption of this finding is important. Outsourcing the internal audit functions could impact the way that audits are performed but without further analysis of how such a function would be coordinated, the determination that the objective audit accountability is limited or problematic cannot be substantiated.



INTER-DEPARTMENTAL LETTER
COUNTY OF RIVERSIDE
OFFICE OF THE AUDITOR-CONTROLLER

To: David Howitt, Foreperson
Grand Jury

From: Anthony J. Bellanca, Auditor-Controller *Anthony Bellanca*

Date: June 14, 2001

Re: Grand Jury Report dated May 9, 2001: Riverside County Auditor-
Controllers Internal Audit Unit

In response to your 2000-2001 Grand Jury Report on the Riverside County Auditor-
Controllers Internal Audit Unit, the following comments are offered.

FINDING 1: Government Code 25250 and Board of Supervisors' Resolution 83-338 mandate that each department be audited every two years. Staffing shortages within the Internal Audit Unit (IAU) have made it impossible to conduct internal audits and to meet these legal requirements. Numerous agencies of Riverside County have not had an internal audit for at least 6 years.

RECOMMENDATION: Immediately increase funding to hire additional auditors for the IAU.

RESPONSE: Concur. We believe that the provisions of GC 25250 are being satisfied by the comprehensive annual financial report (CAFR) audit performed by the outside CPA firms. The State Controllers Office concurs with this position. Our current audit plan, with limited auditor resources, is responding to cycle audits of departments performed last in 1993/94. This condition agrees with your 6-year finding on cycle audits.

We note that in the latest (June 4, 2001) survey, independently done by Fairfax County, VA, of the 50 largest, local governments in the U.S. with audit staff, there were 44 responses. The average number of audit staff is 21. Riverside County, CA, is number 43 of the 44 responses with an audit staff of 3 and one principal accountant. Of

the 12 elected auditor-controllers, we have the smallest staff in the audit staff range from 79 to 4.

We have requested increased auditor funded positions on numerous occasions. The most recent instance was the budget update in January 2001 where we requested and justified three additional auditor positions which would put us back on a two-year cycle within three years. We have again requested funding for three additional auditor positions in next years FY 2001/02 budget request.

FINDING 2: Chronic underfunding by the County of Riverside impacts the Auditor-Controller's Internal Audit Unit staffing needs. Inadequate staffing continues to result in noncompliance with Government Code 25250 and Board of Supervisors' Resolution 83-338.

RECOMMENDATION: Initiate an aggressive hiring campaign to fill all vacant auditor positions.

RESPONSE: Concur, with clarification on GC 25250 as discussed in response one. We filled one vacant position on April 30, 2001. A second vacancy, remaining funded position, was advertised. Interviews began on June 7, 2001. We are seeking pending and recent graduates of local universities. We also happen to be competing with local employers and CPA firms offering internal audit services from the small pool of skilled internal auditors on the labor market or presently employed. The California Society of CPAs advises that the number of accounting students has dropped 30 –50% in California schools during the past ten years. Our Internal Audit Division Chief was instrumental in working with the Institute of Internal Auditors (IIA) and California State University – San Bernardino (CSUSB), to create an Endorsed Internal Auditing Program at CSUSB, one of only three schools in California so endorsed. Included in the curriculum are four tracks of study, one of which is the internal auditing track. This two-year old program has resulted in over 30 students holding the endorsed IIA certificate. In addition, both the Auditor-Controller and the Internal Audit Division Chief serve on the CSUSB Accounting Advisory Board to maintain close contact with graduating students. The Audit Division Chief is putting together a team of internal auditors and educators to go to high schools and junior colleges to publicize accounting/internal audit opportunities. We will continue with aggressive efforts to fill our auditor positions.

FINDING 3: The Auditor-Controller's Office is responsible to the taxpayers for ensuring that monies are not lost due to theft, fraud, waste and that all legal mandates are upheld.

RECOMMENDATION: Board of Supervisors and Auditor-Controller develop a working plan to ensure full compliance with Government Code 25250 and Board of Supervisors' Resolution 83-338.

RESPONSE: We acknowledge that we play an important role in helping to ensure that monies are not lost due to theft, fraud, waste and that legal mandates are upheld. With clarification on GC 25250 as discussed in response one, we strongly concur with the need to work with the Board of Supervisors to develop a working plan to allow for compliance with the Board of Supervisors Resolution 83-338. We will continue to request audit resources necessary to allow for compliance with Board Resolution 83-338. We also strongly encourage "co-sourcing" the internal audit function with CPA firms. "Co-sourcing" will not only allow for more timely and more complete compliance with Board Resolution 83-338, it will also allow the auditor-controller audit staff to become even more proficient at performing internal audits by learning the audit tools and techniques CPA firms use in their auditing. "Co-sourcing" with CPA firms can also provide the county with an audit solution where a high level of expertise is required such as an audit of Information Technology. It may be better for the county to rely on the CPA firms to provide the expertise needed to audit Information Technology than to try to staff up to the same level of expertise.

A separate report prepared by the CPA firm of KPMG, LLP on internal audit "co-sourcing" will soon be presented to the Board of Supervisors.

FINDING 4: Current efforts by the Board of Supervisors to outsource the internal audit functions of the IAU, could impact and limit the objective audit accountability to the public.

RECOMMENDATION: The independence of the IAU should continue to be a direct function of the Auditor-Controller in order to maintain proper public accountability as required in the standards set forth in Government Code 1236.

RESPONSE: Concur. We believe internal auditing should continue to be under the direction and control of the independently elected county auditor-controller rather than

under the direction of the legislative (Board of Supervisors) or executive body in charge of and responsible for county operations subject to audit.

Leaving internal audit with the independently elected county auditor-controller can serve to complement the existing authority the Board already has to conduct any audits/reviews it may wish to conduct. We believe a fundamental check and balance within county government will be compromised if independent internal audit is taken from the county auditor and given to the legislative (Board of Supervisors) or executive body in charge of and responsible for county operations. Internal auditing is critically important to the independently elected county auditor to carry out its "fiscal watchdog" role over taxpayer money being managed by the Board of Supervisors, county departments and other elected officials. The principle is widely held and embedded in Institute of Internal Auditors and CPA standards that the auditor must be independent in "fact" (organizationally) as well as in appearance. In June 1998, the voters sent a clear message when voting overwhelmingly to keep the county auditor as a separate and independent, elected position instead of having it under the Board of Supervisors.

cc: Members, Board of Supervisors
Larry Parrish, Executive Office
Ken Mohr, Executive Office
Tony Carstens, Executive Office
Tina Caroline, Executive Office



INTER-DEPARTMENTAL LETTER
COUNTY OF RIVERSIDE
OFFICE OF THE AUDITOR-CONTROLLER

To: David Howitt, Foreperson
Grand Jury

From: Anthony J. Bellanca, Auditor-Controller

Anthony Bellanca

Date: June 28, 2001

Re: Revised Response to the Grand Jury Report dated May 9, 2001: Riverside
County Auditor-Controller's Internal Audit Unit

Please accept the attached revised response to your 2000-2001 Grand Jury Report on the Riverside County Auditor-Controller's Internal Audit Unit. The response has been revised to be more explicitly formatted according to the provisions of Penal Code section 933.05 which addresses responses to Grand Jury reports. The revised response also contains additional information.

Please accept this response in place of the response provided you dated June 14, 2001.

Thank you.

Attachment: Revised Response to the Grand Jury Report dated May 9, 2001:
Riverside County Auditor-Controller's Internal Audit Unit

cc: Members, Board of Supervisors
Larry Parrish, Executive Office
Ken Mohr, Executive Office
Tony Carstens, Executive Office
Tina Caroline, Executive Office



INTER-DEPARTMENTAL LETTER
COUNTY OF RIVERSIDE
OFFICE OF THE AUDITOR-CONTROLLER

To: David Howitt, Foreperson
Grand Jury

From: Anthony J. Bellanca, Auditor-Controller *Anthony Bellanca*

Date: June 28, 2001

Re: Grand Jury Report dated May 9, 2001: Riverside County Auditor-Controller's Internal Audit Unit

In response to your 2000-2001 Grand Jury Report on the Riverside County Auditor-Controller's Internal Audit Unit, the following comments are offered.

FINDING:

1. Government Code 25250 and Board of Supervisors' Resolution 83-338 mandate that each department be audited every two years. Staffing shortages within the Internal Audit Unit (IAU) have made it impossible to conduct internal audits and to meet these legal requirements. Numerous agencies of Riverside County have not had an internal audit for at least 6 years.

RESPONSE:

Respondent partially disagrees with the finding.

We do not concur with the finding that the provisions of Government Code section 25250 are not being met by the Board of Supervisors.

Government Code section 25250 in part states, "At least biennially the board of supervisors shall examine and audit, or cause to be audited, the financial accounts and records for all officers having responsibility for the care, management, collection, or disbursement of money belonging to the county or money received or disbursed by them under authority of law... In connection with the requirements of

this section and section 25253, the board of supervisors may employ the services of an independent certified public accountant or licensed public accountant to perform an examination of the financial statements in accordance with generally accepted auditing standards.”

We believe the board of supervisors is meeting its requirements under Government Code section 25250. Annually the county’s comprehensive annual financial report (CAFR) is audited by an independent certified public accountant. The State Controller’s Office concurs with this position.

We do concur with the rest of the finding.

FINDING:

2. Chronic underfunding by the County of Riverside impacts the Auditor-Controller’s Internal Audit Unit staffing needs. Inadequate staffing continues to result in noncompliance with Government Code 25250 and Board of Supervisors’ Resolution 83-338.

RESPONSE:

Respondent disagrees partially with the finding. See response to finding 1.

FINDING:

3. The Auditor-Controller’s Office is responsible to the taxpayers for ensuring that monies are not lost due to theft, fraud, waste and that all legal mandates are upheld.

RESPONSE:

Respondent disagrees partially with the finding. While we acknowledge that we play an important role, in helping to ensure that monies are not lost due to theft, fraud, waste and that legal mandates are upheld, we do not believe this is our exclusive responsibility. Others are also responsible for ensuring that taxpayers’ monies are not lost due to theft, fraud, waste and that all legal mandates are upheld.

FINDING:

4. Current efforts by the Board of Supervisors to outsource the internal audit functions of the IAU, could impact and limit the objective audit accountability to the public.

RESPONSE:

Respondent agrees with the finding. Please review response to recommendation 4 to help clarify our position.

RECOMMENDATIONS:

RECOMMENDATION:

1. Immediately increase funding to hire additional auditors for the IAU.

RESPONSE:

The recommendation has not yet been implemented. Our current audit plan, with limited auditor resources, is responding to cycle audits of departments performed last in 1993/94. This condition agrees with your 6-year finding on cycle audits.

We note in the latest (June 4, 2001) survey, independently done by Fairfax County, VA, of the 50 largest, local governments in the U.S. with audit staff, there were 44 responses. The average number of audit staff is 21. Riverside County, CA, is number 43 of the 44 responses with an audit staff of 3 and one principal accountant. Of the 12 elected auditor-controllers, Riverside County has the smallest staff in the audit staff range from 79 to 4.

This office has requested increased auditor funded positions on numerous occasions. The most recent instance was the budget update in January 2001 where we requested and justified three additional auditor positions which would put us back on a two-year cycle within three years. Funding has again been requested for three additional auditor positions in next years FY 2001/02 budget request. Until the Board of Supervisors act, we cannot provide a target date.

RECOMMENDATION:

2. Initiate an aggressive hiring campaign to fill all vacant auditor positions.

RESPONSE:

The recommendation has been implemented. One vacant position was filled on April 30, 2001. A second vacancy, remaining funded position, was advertised. Interviews began on June 7, 2001. We are seeking pending and recent graduates of local universities. There is competition with local employers and CPA firms offering internal audit services from the small pool of skilled internal auditors on the labor market or presently employed. The California Society of CPAs advises that the number of accounting students has dropped 30-50% in California schools during the past ten years. The Internal Audit Division Chief was instrumental in working with the Institute of Internal Auditors (IIA) and California State University-San Bernardino (CSUSB), to create an Endorsed Internal Auditing Program at CSUSB, one of only three schools in California so endorsed. Included in the curriculum are four tracks of study, one of which is the internal auditing track. This two-year old program has resulted in over 30 students holding the endorsed IIA certificate. In addition, both the Auditor-Controller and the Internal Audit Division Chief serve on the CSUSB Accounting Advisory Board to maintain close contact with graduating students. The Audit Division Chief is putting together a team of internal auditors and educators to go to high schools and junior colleges to publicize accounting/internal audit opportunities. We will continue with aggressive efforts to fill our auditor positions.

RECOMMENDATION:

3. Board of Supervisors and Auditor-Controller develop a working plan to ensure full compliance with Government Code 25250 and Board of Supervisors' Resolution 83-338.

RESPONSE:

This recommendation has not yet been implemented. While we believe the provisions of Government Code 25250 are already being met as discussed in our response to findings 1 and 2, we strongly concur with the need to work with the

Board of Supervisors to develop a working plan to allow for compliance with the Board of Supervisors Resolution 83-338. This office will continue to request audit resources necessary to allow for compliance with Board Resolution 83-338. We also strongly encourage "co-sourcing" the internal audit function with CPA firms. "Co-sourcing" will not only allow for more timely and more complete compliance with Board Resolution 83-338, it will also allow the auditor-controller audit staff to become even more proficient at performing internal audits by learning the audit tools and techniques CPA firms use in their auditing. "Co-sourcing" with CPA firms can also provide the county with an audit solution where a high level of expertise is required such as an audit of Information Technology. It may be better for the county to rely on the CPA firms to provide the expertise needed to audit Information Technology than to try to staff up to the same level of expertise.

A separate report prepared by the CPA firm of KPMG, LLP on internal audit "co-sourcing" will soon be presented to the Board of Supervisors. It will contain a risk assessment report and an internal audit business plan.

RECOMMENDATION:

4. The independence of the IAU should continue to be a direct function of the Auditor-Controller in order to maintain proper public accountability as required in the standards set forth in Government Code 1236.

RESPONSE:

This recommendation has been implemented. Currently the internal audit unit is a direct function of the Auditor-Controller. The internal auditing unit should continue to be under the direction and control of the independently elected county auditor-controller rather than under the direction of the legislative (Board of Supervisors) or executive body in charge of and responsible for county operations subject to audit.

Leaving internal audit with the independently elected county auditor-controller can serve to complement the existing authority the Board already has to conduct any audit/reviews it may wish to conduct. A fundamental check and balance within county government will be compromised if independent internal audit is taken from the county auditor and given to the legislative (Board of Supervisors) or executive body in charge of and responsible for county operations. Internal auditing is

critically important to the independently elected county auditor to carry out its "fiscal watchdog" role over taxpayer money being managed by the Board of Supervisors, county departments and other elected officials. The principle is widely held and embedded in Institute of Internal Auditors and CPA standards that the auditor must be independent in "fact" (organizationally) as well as in appearance. In June 1998, the voters sent a clear message when voting overwhelmingly to keep the county auditor as a separate and independent, elected position instead of having it under the Board of Supervisors.

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