

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

145



FROM: Executive Office

SUBMITTAL DATE:
September 28, 2004

SUBJECT: Response to the Grand Jury Report: Riverside County Auditor-Controller 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-Controller Internal Audit Unit (Attachment "A").
- 2) Direct the Clerk of the Board to immediately forward the Board's finalized response to the Grand Jury, to the Presiding Judge, and the County Clerk-Recorder (for mandatory filing with the State).

BACKGROUND: On July 13, 2004, the Board directed staff to prepare a draft of the Board's response to the Grand Jury's report regarding the Riverside County Auditor-Controller 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 the matters under the control of the Board, and that a response be provided to the Presiding Judge of the Superior Court within 90 days. The Board's response is included as Attachment "A." The Auditor-Controller also provided the attached report (Attachment "B").

Gary Christmas
GARY CHRISTMAS
Deputy County Executive Officer

Departmental Concurrence

FINANCIAL DATA	Current F.Y. Total Cost:	\$ N/A	In Current Year Budget: Budget Adjustment: For Fiscal Year:
	Current F.Y. Net County Cost:	\$	
	Annual Net County Cost:	\$	

SOURCE OF FUNDS:	Positions To Be Deleted Per A-30
	Requires 4/5 Vote

C.E.O. RECOMMENDATION: APPROVE.

County Executive Office Signature *Kenneth M. Mohr*

Dep't Recomm.: Policy
 Per Exec. Ofc.: Policy
 Consent
 Consent

Prev. Agn. Ref.: | **District:** | **Agenda Number:** 3.63

**2003-2004 Grand Jury Report, Riverside County Auditor-Controller
Internal Audit Unit**

FINDINGS:

Finding 1:

Evidence clearly shows that staffing shortages have plagued the Auditor-Controller's Office since 1990. This matter has been brought to the attention of the Board of Supervisors in six (6) past Riverside County Grand Jury Reports. (1990, 1992, 1993, 1996, 1997 and 2001) (sic) In 2001 the Riverside County Grand Jury issued a report on the Riverside County Internal Audit Unit, concluding that the IAU was inadequately staffed. In May 2002, the Board of Supervisors allocated funds to the IAU for three (3) additional senior auditors, bringing the total number of senior auditors to six (6). In February 2004, an eight percent (8%) budget cut was decreed by the Board of Supervisors resulting in the loss of twenty-three (23) positions, eleven (11) staff, and twelve (12) temporary positions in the Auditor-Controller's Office. In May 2004, one senior auditor resigned, reducing the senior auditing positions to five (5).

Response:

Respondent disagrees partially with the finding. There are chronic staffing issues with the Auditor-Controller's Internal Audits unit, but they are complex. Budget documents reflect that in FY 1990-91 the Auditor-Controller's Internal Audits unit contained authorization for 19 staff. In FY 1991-92 and FY 1992-93, in response to countywide budget cutbacks, the authorization for staffing shrank to 14, rebounded temporarily in FY 1993-94 to 17, and was cut again in FY 1994-95 to 13, and in FY 1995-96 to 10. In FY 1999-00, the number of Internal Auditor positions authorized was cut from 8 to 3 in response to severe countywide budget cuts. Authorization for Internal Auditor positions remained at this level until FY 2002-03, when authorization increased to five, and again in FY 2003-04 when the authorization level increased to six.

In line with the Board's countywide budget policies during that time, only vacant positions were cut from the Internal Audits unit, and layoffs from this unit were never contemplated. Substantial salary savings from these vacancies resulted year after year, which was either turned back to the General Fund or shifted by the Auditor-Controller to cover expenditures in other areas.

The Board of Supervisors recognizes the value to the County of statutorily required audit requirements. The reduction in authorized positions over time is due to the unit's chronic vacancy rate and the County's budgetary circumstances.

Finding 2:

The Riverside County Board of Supervisors have utilized the county's comprehensive annual financial report (CAFR), to meet the requirements of Government Code Section 25250 and Board of Supervisors' Resolution 83-338. The CAFR audit is not an in-depth analysis of county operations. Without an in-depth audit, this deprives the Board of

Supervisors, County Executive Officer and Department Directors of information necessary to make sound fiscal evaluations and decisions.

Response: Respondent agrees with the finding. The Board of Supervisors appreciates the purpose and intent of Government Code Section 25250, and is working with the Auditor-Controller toward the goal of compliance with it.

Finding 3: A severe staffing shortage has resulted in:

- Non-compliance with laws, regulations, policy and procedure.
- Difficulty in performing operational audits or special audits without adversely impacting the two-year auditing cycle.
- Inability to perform routine financial functional and operational audits.
- Failure to provide the taxpayers with accountability in spending public funds.

Response: Respondent disagrees partially with the finding. Clearly, the chronic vacancy rate in the Auditor-Controller's Internal Audits unit certainly played a significant role in statutory audits not being performed as timely as possible. At the same time, deployment decisions made by the Auditor-Controller play an equal role. Frequently, the Auditor-Controller pulled Internal Audit staff off internal audit projects to assist with the CAFR or other projects within the department.

In addition, it must be emphasized the Auditor-Controller does not have a statutory responsibility to conduct operational, managerial, or performance audits. The Auditor-Controller's statutory responsibility is for financial audits. The Board of Supervisors is responsible for overseeing operational performance, and has resources in place in the Executive Office to conduct performance reviews as necessary. If the Auditor-Controller assigns resources to this type of activity, it affects their ability to complete their statutorily required two-year audit cycle.

Finding 4: Riverside County has the largest average number of county employees and the fourth largest budget with a disproportionate auditing staff as shown in chart below:

COUNTY	TOTAL # OF AUDITORS	TOTAL COUNTY BUDGET	FISCAL YEAR	AVERAGE # OF COUNTY EMPLOYEES
San Bernardino	16	\$2,378,800,251	2003-2004	16,000
Orange	17	\$5,086,921,444	2003-2004	17,000
San Diego	20	\$3,414,398,000	2002-2003	14,000
Ventura	7	\$641,215,000	2003-2004	8,000
Riverside	5	\$2,211,371,850	2003-2004	19,000

Response:

Respondent disagrees wholly with the finding. The number of internal auditing staff required for any given county is not a corollary of either the magnitude of their budget or their number of employees. By this logic, if we use Ventura County's listed budget-to-auditor ratio (0.0109 per million) as the benchmark, then San Bernardino would have 26 auditors instead of 16, Orange County 56 instead of 17, San Diego County 37 instead of 20, and Riverside County 24 instead of 6. Likewise, if we use San Diego County's listed employee-to-auditor ratio (1.4286 per thousand) as the benchmark, then San Bernardino would have 23 auditors instead of 16, Orange County 24 instead of 17, Ventura County 11 instead of 7, and Riverside County 27 instead of 6.

In addition, the staffing level of the internal audits units of other counties may be driven by any number of factors that may or may not apply to Riverside County. For instance, both Orange County and San Bernardino County experienced unusual financial and managerial circumstances in recent years that without doubt influence their need for their current staffing levels.

The Board of Supervisors supports right sizing staffing levels based on the most efficient and effective use of the resources necessary to perform a core function. The Board supports allocation of resources based on demonstrated performance to achieve specified goals, and continues to work with the Auditor-Controller toward this objective.

Finding 5:

Frequent auditing requests from county department directors for internal audits are causing limited audit resources to be diverted from other needed areas or the requests cannot be met.

Response:

Respondent agrees with the finding. However, this is largely a function of the Auditor-Controller's deployment decisions. The Board of Supervisors supports establishing firm priorities and performance measures in the Auditor-Controller's annual audit plan. These should focus first on core statutory functions and high-risk issues, with sufficient flexibility in workflow planning to address a manageable number of unforeseen urgent issues.

Finding 6:

There are thirty-eight (38) departments in Riverside County whose budgets are required to be audited by the Auditor-Controller. Approximately twenty-two (22) departments have not had an in-depth audit, within the last five (5) years, as well as the County Board of Supervisors and the County Treasurer's Office.

Response:

Respondent agrees with the finding.

Finding 7:

A shortage of internal auditors has hampered the process of performing risk based audits, resulting in a selected review of higher risk areas in the departments and use of a system control audit approach with limited testing.

Response: Respondent disagrees partially with the finding. As detailed above, the number of staff authorized is only one among many factors that influence the Internal Audit unit's performance. In the view of the Board of Supervisors, the unit's vacancy rate and management's deployment of resources play a greater role.

Finding 8: Outside CPA firms, used by county departments to perform the function that the Auditor-Controller is elected to do, results in duplication of costs and waste of taxpayer's dollars.

Response: Respondent disagrees wholly with the finding. The County does not hire outside CPA firms to perform the Auditor-Controller's statutorily required internal audit responsibilities. The County retains professional services of accounting firms as needed to address special projects. This is not duplicative of the Auditor-Controller's role, nor is it in conflict with the Auditor-Controller's authority or statutory responsibility.

Finding 9: The Auditor-Controller is not afforded the option to have any input as to the selection of CPA firms, type of audits performed or fees incurred for the outside audits.

Response: Respondent disagrees wholly with the finding. The Auditor-Controller's office participates in procuring auditing and accounting services when appropriate and necessary. However, there are occasions when it is appropriate and within the discretion of a department or the Board of Supervisors to retain such professional services without input from the Auditor-Controller. This is not in conflict with the Auditor-Controller's authority or statutory responsibility.

RECOMMENDATIONS:

Recommendation 1: To be comparable with surrounding counties, the Board of Supervisors immediately fund the County Auditor-Controller a minimum of six (6) additional Senior Internal Auditor positions. Increase positions requested by the Auditor-Controller through fiscal year 2009.

Response: The recommendation will not be implemented because it is not warranted or is not reasonable. As discussed above, the Board of Supervisors supports considering requests for increased staffing of the Auditor-Controller's Internal Audits unit based on workload drivers, and which follow demonstrated success in completing statutory functions within planned performance measures.

Recommendation 2: To comply with Board of Supervisors' Resolution 83-338 and Government Code Section 25250, the Auditor-Controller utilize outside auditing firms only when critical need arises.

Response: The recommendation will not be implemented because it is not warranted or is not reasonable. The Board of Supervisors will retain any professional services necessary and appropriate for the smooth and efficient conduct of the public's business.

Recommendation 3: Outsourced audits must be procured and approved by the Auditor-Controller's Office. The Auditor-Controller's Office post all outsourced audits for general public information that will include, department name, cost incurred and reason for outsourcing.

Response: The recommendation will not be implemented because it is not warranted or is not reasonable. It is unnecessary and inappropriate to channel all procurements for all professional auditing services through the Auditor-Controller's Office. When such services are necessary for special projects, the Board of Supervisors and departments retain discretion to engage qualified professional assistance so the Auditor-Controller's Office need not divert their own resources from fulfilling planned audits.



**OFFICE OF THE
COUNTY AUDITOR-CONTROLLER**

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**Robert E. Byrd, CGFM
AUDITOR-CONTROLLER**

**Ivan M. Chand, CGFM
ASSISTANT AUDITOR-CONTROLLER**

September 22, 2004

Mr. Gary Christmas
Deputy County Executive Officer
4080 Lemon Street,
Riverside, CA 92502

Subject: 2003-2004 Grand Jury Report, Riverside County Auditor-Controller Internal Audit Unit

In accordance with Penal Code Section 933 et seq., the following responses are provided to the subject report:

Findings

Finding 1.

Evidence clearly shows that staffing shortages have plagued the Auditor-Controller's Office since 1990. This matter has been brought to the attention of the Board of Supervisors in six (6) past Riverside County Grand Jury Reports. (1990, 1992, 1993, 1996, 1997 and 2001) In 2001 the Riverside County Grand Jury issued a report on the Riverside County Internal Audit Unit, concluding that the IAU was inadequately staffed. In May 2002, the Board of Supervisors allocated funds to the IAU for three (3) additional senior auditors, bringing the total number of senior auditors to six (6). In February 2004, an eight percent (8%) budget cut was decreed by the Board of Supervisors resulting in the loss of twenty-three (23) positions, eleven (11) staff, and twelve (12) temporary positions in the Auditor-Controller's Office. In May 2004, one senior auditor resigned, reducing the senior auditing positions to five (5).

Response: Respondent agrees with the finding.

Finding 2.

The Riverside County Board of Supervisors have utilized the county's comprehensive annual financial report (CAFR), to meet the requirements of Government Code Section 25250 and Board of Supervisors' Resolution 83-338. The CAFR audit is not an in-depth analysis of county operations. Without an in-depth audit, this deprives the Board of Supervisors, County Executive Officer and Department Directors of information necessary to make sound fiscal evaluations and decisions.

Response: Respondent agrees with the finding.

- Finding 3** A severe staffing shortage has resulted in:
- Non-compliance with laws, regulations, policy and procedure.
 - Difficulty in performing operational audits or special audits without adversely impacting the two-year auditing cycle.
 - Inability to perform routine financial functional and operational audits.
 - Failure to provide the taxpayers with accountability in spending public funds.

Response: Respondent agrees with the finding.

- Finding 4** Riverside County has the largest average number of county employees and the fourth largest budget with a disproportionate auditing staff as shown in chart below:

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Response: Respondent agrees with the finding.

- Finding 5** Frequent auditing requests from county department directors for internal audits are causing limited audit resources to be diverted from other needed areas or the requests cannot be met.

Response: Respondent agrees with the finding.

- Finding 6** There are thirty-eight (38) departments in Riverside County whose budgets are required to be audited by the Auditor-Controller. Approximately twenty-two (22) departments have not had an in-depth audit, within the last five (5) years, as well as the County Board of Supervisors and the County Treasurer's Office.

Response: Respondent agrees with the finding.

- Finding 7** A shortage of internal auditors has hampered the process of performing risk based audits, resulting in a selected review of higher risk areas in the departments and use of a system control audit approach with limited testing.

Response: Respondent agrees with the finding.

Finding 8 Outside CPA firms, used by county departments to perform the function that the Auditor-Controller is elected to do, results in duplication of costs and waste of taxpayer's dollars.

Response: Respondent agrees with the finding.

Finding 9 The Auditor-Controller is not afforded the option to have any input as to the selection of CPA firms, type of audits performed or fees incurred for the outside audits.

Response: Respondent agrees with the finding.

Recommendations

Recommendation 1 To be comparable with surrounding counties, the Board of Supervisors immediately fund the County Auditor-Controller a minimum of six (6) additional Senior Internal Auditor positions. Increase positions requested by the Auditor-Controller through fiscal year 2009.

Response: This recommendation has not yet been implemented. The Auditor-Controller's analysis performed for the July 11, 2004 report to the Board determined audit needs based on an evaluation of the following:

- *The length of time since the last audit.* Government Code 25250 and Board of Supervisors' Resolution 83-338 require an audit of all activities every two years. There are 42 departments in the County subject to audit by the Auditor-Controller. To comply with Government Code 25250 and Resolution 83-338, the Auditor-Controller will have to perform at least 21 audits annually.
- *Audits mandated by other laws and regulations.*
 - Government Code 26920 requires the Auditor-Controller to conduct a review of the treasurer's statement of assets at least once in each quarter.
 - Board of Supervisors Resolution 2004-073 requires the Auditor-Controller to annually verify the County's satisfactory performance of the Property Tax Administrative Program grant requirement.
 - Welfare and Institution Code, Section 275(b) requires an audit of the County Probation department at least every two years.
- *Concerns from the Board of Supervisor, Grand Jury or the public.*
- *Management's concerns as indicated by their requests for audit assistance.*

Based on the above planning considerations, the Auditor-Controller must perform 27 audits annually that are required by law. Departments requested the Auditor-Controller to perform 20 audits during fiscal year 2004/05, bringing the total number of possible audit to 47. This does not include ad hoc audit request which have amounted to as much as 25 percent of annual audits performed. It also does not include audits of

high risk functions or processes within the departments which may require some departments to have several audits during any given fiscal year; nor does it include follow-up on previously reported audit findings and recommendations as required by the Standards for the Professional Practice of Internal Auditing.

Between fiscal year 1999/00 and 2003/04 on average, the Auditor-Controller averaged about three audits per auditor annually. The following table depicts the staffing requirement to meet various levels of audit services.

Type of Audits	Number of Projects by type	Auditors Required
Mandated Audits	27	7
Requested Audits	20	5
Ad hoc Audits	8	2
Follow-up Audits	2	.5
Audits based on risk	8	2
Totals	65	16

This year the Auditor Controller has implemented new software system to assist in better management of audits and expects to complete 4 audits per auditor per year. The Auditor-Controller can only accommodate and train about three auditors annually; so if the Board agrees with the level suggested by the Grand Jury, this request could be implemented over the next two years. However, based on the current audits requirements, the completion of the mandated audits and those required by the Resolution, would require a higher amount of auditors.

Recommendation 2. To comply with Board of Supervisors' Resolution 83-338 and Government Code Section 25250, the Auditor-Controller utilize outside auditing firms only when critical need arises.

Response: The recommendation has not yet been implemented, but will be implemented in the future. The Auditor-Controller is involved in the selection of outside auditing firms for performing the audit of the Comprehensive Annual Financial Report; however, departments do contract with outside firms without the involvement of the Auditor-Controller. The Auditor-Controller will continue to utilize outside firms only for critical needs that cannot be accommodated by existing audit staff.

Recommendation 3 Outsourced audits must be procured and approved by the Auditor-Controller's Office. The Auditor-Controller's Office post all outsourced audits for general public information that will include, department name, cost incurred and reason for outsourcing.

Response: The recommendation has not yet been implemented. We will work with the Executive Office to implement the recommendation. As finding number 8 indicates, when departments use outside auditors to perform functions the Auditor-Controller is elected to perform, the audits could result in duplication of cost and waste of taxpayer's dollars. The Auditor-Controller recognizes however, that the County Executive Office has

managerial audit needs that sometimes require the use of outside auditors with expertise in specific disciplines. The Auditor-Controller will work closer with the Executive Office to ensure a greater level of involvement in the process of procuring and approving outsourced audits.

By Cathy Oarden

ROBERT E. BYRD
County Auditor-Controller

Cc: Denise Harden, County Executive Office