



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: Auditor-Controller
Department No.: 061
For Agenda Of: 12/13/2011
Placement: Departmental
Estimated Tme: 10 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Robert W. Geis, CPA, CPFO (x2100)
Director(s)
Contact Info: Heather Fletcher, CPA, CFE* (x2456)
*Certified Fraud Examiner

SUBJECT: **Fraud, Theft, and Loss Policy**

County Counsel Concurrence

As to form: Yes

Other Concurrence: N/A

As to form: N/A

Recommended Actions:

- a). Adopt the attached Resolution Adopting the County of Santa Barbara Fraud, Theft, and Loss Policy.
- b). Receive and file the attached Loss of Public Property Report for calendar year 2010.

Summary Text:

Due to accounting scandals, the American Institute of Certified Public Accountants (AICPA), promulgated new auditing standards to recommend that organizations consider certain best practices to reinforce a strong ethical culture. Over the past few years, predominately due to economic conditions, an increased number of reports of stolen County property have been made to the Auditor-Controller. To reaffirm the Board of Supervisors' commitment to maintain a tone of integrity through the County, increase management's focus on anti-fraud controls, decrease County losses, and increase the efficiency and results of investigations of fraud, theft, and loss, we recommend that the attached policy be adopted by your Board.

Background:

Section 316 of the Auditing Standards promulgated by the AICPA, *Consideration of Fraud in a Financial Statement Audit*, emphasizes the responsibility of governments to design and implement systems and procedures for the prevention and detection of fraud and for ensuring a culture and environment that promotes honesty and ethical behavior. The Government Finance Officers Association recommends that every government establish a policy to encourage and facilitate the reporting of fraud or abuse and questionable accounting practices.

Santa Barbara County Administration and all levels of management are responsible for the detection and prevention of fraud, defalcation, misappropriation, and other irregularities. Fraud may be defined as any intentional act or omission designed to deceive others, resulting in the County suffering a loss and/or the perpetrator achieving a gain. Management should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

The Association of Certified Fraud Examiners (ACFE), the world's largest anti-fraud organization, publishes a Report to the Nations on Occupational Fraud and Abuse (the Report). According to the 2010 Report, the median cost of fraud in government was \$100,000 per scheme. Although the loss is low compared to other industries, it is second in frequency only to the banking and financial services industry.

During calendar year 2010, an increased number of losses were reported to the Auditor-Controller's Office. Specifically, 12 incidents, including seven cash losses, were reported. In previous years, departments only reported one or two incidents per year. In observing departmental processes, we noticed differences in communication of suspected fraud upward to management and coordination between necessary departments.

The Board of Supervisors adopted a resolution pursuant to Government Code Section 26883. Resolution 21387 requires that the Auditor-Controller audit the books, accounts, money and securities of any department, office, board, or institution under its control and of any district whose funds are kept in the County Treasury. The Auditor-Controller's report on any such audit shall be filed with the Board of Supervisors and the District Attorney.

It is important to define the roles in investigation to properly coordinate and overcome inconsistencies, duplication of efforts, and a lack of communication between parties. So that an investigation is not jeopardized, it is extremely important that departmental staff not attempt to self-conduct internal investigations. Instead, departmental management and the Auditor-Controller's Office should be immediately notified when a suspected theft occurs. Utilizing a consistent process to assemble an investigation team will ensure that the proper individuals are involved to achieve the outcome most beneficial to the County and its constituents. In the recommended policy, the Auditor-Controller's Office, Internal Audit Division, and the District Attorney's Office are responsible to lead and coordinate the investigation. The attached flowchart depicts Internal Audit's anticipated coordination of resources.

Public reporting of losses shows that a government is transparent and accountable to its constituents. Governments that publicly report fraud, how it occurred, and steps taken to deal with the issue, are far more credible than if it is not reported at all. Furthermore, reporting serves as a mechanism to deter and prevent future fraud occurrences. As part of the recommended process, a report of investigated losses will be provided to the Board of Supervisors on an annual basis.

Performance Measure:

Provide auditing services to minimize internal control risks and County losses.

Fiscal and Facilities Impacts:

Budgeted: Yes

Fiscal Analysis:

N/A

Staffing Impacts:

N/A

Special Instructions:

None

Attachments:

Resolution Adopting the County of Santa Barbara Fraud, Theft, Loss Policy

County of Santa Barbara Fraud Policy

Fraud Reporting Flowchart

Loss of Public Property Report

Authored by:

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cc: Chandra Wallar, County Executive Officer
Joyce Dudley, District Attorney