

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Santa Barbara, CA 93101
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Agenda Number:
Prepared on: 6/7/06
Department Name: Auditor-Controller
Department No.: 061
Agenda Date: 6/20/06
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Robert W. Geis, CPA
Auditor-Controller

STAFF CONTACT: Robilyn Eggertsen, CPA
Financial Reporting Division Chief

SUBJECT: Amend Contract Maximum with KPMG LLP for the County's Financial Audit

Recommendation(s):

That the Board of Supervisors:

- a) Authorize the Auditor-Controller to execute attached amendment increasing the contract maximum with KPMG LLP to complete the County's financial audit for fiscal year 2004-05 by \$95,666.
- b) Authorize the Auditor-Controller to execute attached amendment increasing the contract maximum with KPMG LLP to complete the County's financial audit for fiscal year 2005-06 by \$64,700, and increase the number of internal audit staff hours by 305.

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with Goal No. 3. A Strong, Professionally Managed County Organization and are required by law or by routine business necessity.

Executive Summary and Discussion:

This audit contract began with fiscal year 2003-04, with options for fiscal years 2004-05 and 2005-06. The contract's scope of work is to perform Santa Barbara County's financial audit and Single Audit, the Santa Barbara County Redevelopment Agency's (RDA) financial and compliance audits, and audit work on OCJP/DOJ grants. This amendment is for fiscal years 2004-05 and 2005-06. Section 3 of the contract made provision for adjusting the maximum fee in the event of circumstances requiring additional services beyond the normal scope contemplated in the contract. The increased services are for additional work necessary to complete the Single Audit Reports in accordance with OMB Circular A-133 and Government Auditing Standards, and the RDA's financial and compliance audit.

Beginning in FY 2003-04 the County was designated as a high-risk auditee because the prior year Single Audit was filed after the nine-month filing deadline, and because of the various findings (10) in the report for FY 2002-03. In addition, the FY 2003-04 Single Audit uncovered 23 findings, 8 of which were considered reportable conditions (significant deficiencies in the design or operation of an internal control over compliance). The high-risk auditee designation subjects the County to additional programs being audited; in FY 2002-03 there were three major programs audited, starting in FY 2003-04 there were seven. The following programs are subject to audit for both fiscal years: Medicaid Cluster, Food Stamps Cluster, Temporary Assistance for Needy Families (TANF), Foster Care, Child Support Enforcement, and Highway Planning and Construction Grants. Additionally, one-time large grants such as the Violent Offender Incarceration and Truth in Sentencing Incentive Grant (FY 2003-04) and FEMA (FY 2004-05) are subject to audit. The County will continue as a high-risk auditee until it has both submitted the Single Audit Report on time and without any qualifying findings. The reportable conditions and other findings identified are anticipated to be rectified during FY 2006-07. Timely filing of FY 2005-06 and FY 2006-07 Single Audits and elimination of all significant findings will result in a lower risk assignment, and therefore a narrowing of the scope of the FY 2007-08 audit. Fewer programs requiring audit should result in a decrease in audit fees in future years.

Also, in FY 2004-05 the RDA re-stated its beginning net assets/fund balances. Professional auditing standards require the expansion of audit procedures and management review when a re-statement is done. This was a one-time change and is unlikely to re-occur again.

As part of the contract the Auditor-Controller Internal Audit staff works for the outside auditors on the County's audit, this provides the County with both contract cost savings, and good training for internal auditors. Increasing the contracted for hours to be provided by Internal Audit staff on the FY 2005-06 audit will offset some of the cost increase related to the single audit. For FY 2003-04 and FY 2004-05 Internal Audit provided approximately 4000 and 1800 staff hours, respectively. The unexpected scope expansion, changes in KPMG staffing, inexperienced Internal Audit staff, and increases in the number of findings in all programs contributed to the inefficiencies experienced in the audit process. Improved staffing by Internal Audit and KPMG, timely identification of audit scope, and direct Internal Audit management involvement are improving efficiencies in the FY 2004-05 Single Audit process. Total number of Internal Audit hours provided is expected to match the 1505 hours requested in this contract amendment.

The above actions will provide the Auditor with the authority to authorize payments for additional services within the terms of the agreement.

Mandates and Service Levels:

Government Code Section 25250, Health and Safety Code Section 33080, Penal Code Sections 925 and 926.

Fiscal and Facilities Impacts:

These payments result in additional general fund and RDA expenditures as follows. However, a significant portion of the costs are claimed through the County cost allocation plan and reimbursed by federal and state funds.

General Fund	Budget Year 05-06	Budget Year 06-07
Audit for year ended June 30, 2005	\$ 71,900	—
Audit for year ended June 30, 2006	—	\$ 62,700

The added costs for the 2005-06 year can be absorbed within the Auditor-Controller's current appropriation, and we anticipate being able to absorb the added costs for the 2006-07 year within the Recommended budget, but may need to return with an additional appropriations request. Payments for this contract are budgeted as services and supplies in the Auditor-Controller Department – Financial Reporting Division (program: Financial Reporting [2010]; line item: Audit Fees [7324]).

Isla Vista Redevelopment Agency	Budget Year 05-06	Budget Year 06-07
Audit for year ended June 30, 2005	\$ 23,766	—

These added costs can be absorbed by the RDA's budget. Payments for this contract are budgeted as services and supplies in the RDA fund (program: Redevelopment Agency [4075]; line item: Audit Fees [7324]).

Special Instructions: None.

Concurrence:
County Executive Office