

OFFICE OF THE
DISTRICT ATTORNEY
COUNTY OF SANTA BARBARA

JOYCE E. DUDLEY
District Attorney



MAG M. NICOLA
Chief Deputy District Attorney

CYNTHIA N. GRESSER
Chief Deputy District Attorney

MEGAN RHEINSCHILD
Victim Assistance Director

KELLY D. SCOTT
Chief Deputy District Attorney

JOHN T. SAVRNOCH
Chief Deputy District Attorney

PATRICK CLOUSE
Chief Investigator

MICHAEL D. SODERMAN
Chief Financial & Administrative Officer

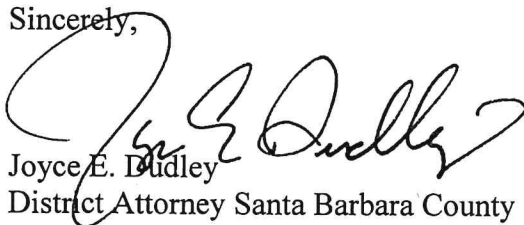
The Honorable Patricia L. Kelly
Presiding Judge
Santa Barbara Superior Court
1100 Anacapa Street
Santa Barbara, California 93101

Reference: Response to the Santa Barbara County Grand Jury Report Titled, "Internal Controls in the County of Santa Barbara" published June 18, 2018.

Dear Judge Kelly:

Attached please find the Office of the Santa Barbara County District Attorney's response to the above referenced Civil Grand Jury Report. The responses are provided in accordance with Sections 933 and 933.05 of the Penal Code.

Sincerely,



Handwritten signature of Joyce E. Dudley in black ink, appearing as a stylized cursive script.

Joyce E. Dudley
District Attorney Santa Barbara County

CC: Santa Barbara County Grand Jury

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**Santa Barbara County District Attorney
Response to the Santa Barbara County Grand Jury 2017-18 Report
“Internal Controls in the County of Santa Barbara” published June 18, 2018.**

Recommendation 2c

That the Santa Barbara County Sheriff, District Attorney, Auditor–Controller, Clerk Recorder Assessor-Registrar of Voters and Treasurer–Tax Collector–Public Administrator require consistent application of financial guidelines issued by the Auditor–Controllers’ Office as part of the annual personnel management process.

The Recommendation has not yet been implemented, but will be implemented during fiscal year 2018-19.

The District Attorney will continue to ensure all managers charged with financial responsibility are consistently applying and adhering to the financial guidelines issued by the Auditor Controller. This will be included as part of the employee’s annual performance evaluation.

Finding 3

Knowledge of financial management and risks by managers in some departments in the County of Santa Barbara is insufficient.

The District Attorney agrees.

Recommendation 3c

That the Santa Barbara County Sheriff, District Attorney, Auditor–Controller, Clerk Recorder Assessor-Registrar of Voters and Treasurer–Tax Collector–Public Administrator direct all program managers to require mandatory training in financial management (including County financial guidelines, FIN, and reporting and accountability procedures) for all department and program heads.

The recommendation has been implemented.

The District Attorney will continue to ensure all managers with financial responsibilities and oversight are properly trained in financial management (including county financial guidelines, FIN and reporting and accountability procedures).

Finding 4

Knowledge of potential conflicts of interest among some senior County of Santa Barbara employees is inadequate.

The District Attorney disagrees partially.

The County of Santa Barbara has a conflicts of interest program whereby senior County employees (including all District Attorney Management and all Deputy District Attorney Staff) are required to complete a Fair Political Practices Certified Statement of Economic Interests Form 700 on an annual basis.

Finding 5

There is no consistent policy of requiring program heads, division heads, or department heads within Santa Barbara County departments to account for spending under their control to their superiors and/or to the CEO through an annual formal and written statement.

The District Attorney disagrees partially.

All departments heads, including elected officials, along with each department's chief financial officer, sign annual Fiscal Year End Certification and Representations Letter that make assertions as to fiscal oversight, revenue and expenditure accounting, expenditures of federal awards, capital assets under their purview, long term liabilities incurred, theft or fraud experienced, and any related party transactions. The department head's and CFO's signatures are representative for their whole department.

Additionally, the County Executive Office requires quarterly budget to actual reporting for all departments. The Office of Budget and Research compiles this data and reviews it for significant variances. In the event that a department anticipates to materially exceed their budget, the Budget Director requires that the department submit an explanation for the budget overrun. The departmental response is then compiled into the Quarterly Report and presented to the Board of Supervisors.

In addition to the quarterly reporting mentioned above, the CEO regularly monitors each department's actual performance to the legally adopted budget. The County's FIN system has built in controls for each department that will not allow any expenditure that could exceed each department/fund's legal level of control, which is at the expenditure object level.

Recommendation 5b

That The Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator direct all program managers to sign annual statements to their supervisors, stating that all funds under their control have been managed in compliance with County financial management guidelines and the County's Internal Control Policy.

The Recommendation has not yet been implemented, but will be implemented during fiscal year 2018-19.

The District Attorney will adhere to any additional process the County puts in place to ensure department managers sign an annual statement indicating that they comply with all financial management guidelines and the County policies regarding internal controls.



Office of the Sheriff
SANTA BARBARA COUNTY

BILL BROWN
Sheriff - Coroner

BERNARD MELEKIAN
Undersheriff

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www.sbsheriff.org

August 15, 2018

Mary Tighe – Foreperson
Santa Barbara County Grand Jury
1100 Anacapa Street
Santa Barbara, California 93101

RECEIVED

AUG 21 2018

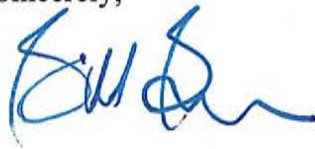
BY: _____

Dear Ms. Tighe:

I have received and reviewed the Grand Jury's 2017-18 report Internal Controls in the County of Santa Barbara.

Attached, please find the Sheriff's Office responses to the report.

Sincerely,



BILL BROWN
Sheriff – Coroner

Enclosures

C: The Honorable Patricia L. Kelly

SANTA BARBARA COUNTY SHERIFF'S OFFICE
RESPONSE TO THE SANTA BARBARA COUNTY GRAND JURY 2017-18 REPORT
INTERNAL CONTROLS IN THE COUNTY OF SANTA BARBARA

FINDINGS AND RECOMMENDATIONS

Finding 2: *The financial management guidelines issued by the County of Santa Barbara Auditor-Controller are not applied consistently in operational departments, nor is compliance with those guidelines routinely auditor by the Auditor-Controller.*

Recommendation 2c: *That the Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder-Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator require consistent application of financial guidelines issued by the Auditor-Controller's Office as part of the annual personnel management process.*

Sheriff's Office Response to Recommendation 2c: The recommendation **will be implemented**. The requirement of consistent application of financial guidelines as part of the annual personnel management process will be implemented in the next round of management employee performance reviews.

Finding 3: *Knowledge of financial management and risks by managers in some departments in the County of Santa Barbara is insufficient.*

Recommendation 3c: *That the Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder-Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator direct all program managers to require mandatory training in financial management (including County financial guidelines, FIN, and reporting and accountability procedures) for all department and program heads.*

Sheriff's Office Response to Finding 3: The Sheriff's Office **agrees** with this finding.

Sheriff's Office Response to Recommendation 3c: The recommendation **has been implemented**. All program (cost center) managers are and have been trained on how to use the FIN system. This training includes a review of financial, purchasing and budget guidelines.

Finding 4: *Knowledge of potential conflicts of interest among some senior County of Santa Barbara employees is inadequate*

Recommendation 4: *That the Board of Supervisors develop procedures for the conduct of annual training on conflict of interest policy for all relevant categories of employees.*

Sheriff's Office Response to Finding 4: The Sheriff's Office **agrees** with this finding.

Finding 5: *There is no consistent policy of requiring program heads, division heads, or department heads within Santa Barbara County departments to account for spending under their control to their superiors and/or to the CEO through an annual formal and written statement.*

Recommendation 5b: *That the Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder-Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator direct all program managers to sign annual statements to their supervisors, stating that all funds under their control have been managed in compliance with County financial management guidelines and the County's Internal Control Policy.*

Sheriff's Office Response to Finding 5: The Sheriff's Office **disagrees wholly** with the finding. As a part of the budget process, the Sheriff's Office signs a Fiscal Year End Certification and Representations Letter accounting for the funds under its control. We also participate in a quarterly organizational review meeting with the CEO's office which is presented to the BOS.

Sheriff's Office Response to Recommendation 5b: The Sheriff's Office **agrees** with the recommendation. The management requirement of accountability for funds under their control as part of the annual personnel management process will be implemented in the next round of management employee performance reviews.

Finding 11: *Some Santa Barbara County staff commented that there might be significant other potential financial risks in Santa Barbara County, including management of property tax reimbursements and warrant payments through the Sheriff's Civil Bureau.*

Sheriff's Office Response to Finding 11: The Sheriff's Office **disagrees wholly** with the finding. Warrant payments issued through the Sheriff's Civil Bureau are processed through the FIN system. The warrants are generated by the Teleosoft Civil Management system, and then electronically sent to the Auditor-Controller's office for processing. They are then reviewed by the two employees in the Civil Bureau, the Sheriff's business office and the Auditor-Controller prior to issuance. The civil bureau warrant process was completed with the input and cooperation of the Auditor-Controller's office.

THEODORE A. FALLATI, C.P.A.
Auditor-Controller

BETSY M. SCHAFFER, C.P.A.
Assistant Auditor-Controller



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OFFICE OF THE AUDITOR-CONTROLLER

August 15, 2018

The Honorable Patricia L. Kelly
Presiding Judge
Santa Barbara Superior Court
1100 Anacapa Street
Santa Barbara, California 93101

RECEIVED

AUG 17 2018

BY: _____

Reference: Response to the Santa Barbara County Grand Jury Report Titled, "Internal Controls in the County of Santa Barbara" published June 18, 2018.

Dear Judge Kelly:

Please find attached the response of the Santa Barbara County Auditor-Controller to the above referenced Civil Grand Jury Report. The responses are provided in accordance with Sections 933 and 933.05 of the Penal Code.

The Auditor-Controller thanks the Grand Jury for its efforts at improving County government over the past year and commends the efforts of its members.

Sincerely,

Theodore A. Fallati, C.P.A.
Auditor-Controller

CC: Santa Barbara County Grand Jury

**Santa Barbara County Auditor-Controller
Response to the Santa Barbara County Grand Jury 2017-18 Report
“Internal Controls in the County of Santa Barbara” published June 18, 2018.**

Finding 1

The Internal Audit Division of the Santa Barbara County Auditor-Controller’s Office had a funded and filled staff of 10 FTE prior to the 2008 recession. Just prior to the discovery of the 2017 fraud, the funded staff had fallen to 5 FTE, and only 2.5 of those were filled.

The Auditor-Controller agrees with the finding.

Recommendation 1

That the Auditor-Controller maintain the number of Internal Audit Division staff at the funded level.

This recommendation has been implemented. The five funded positions in the Internal Audit Division are currently filled.

Finding 2

The financial management guidelines issued by the County of Santa Barbara Auditor-Controller are not applied consistently in operational departments, nor is compliance with those guidelines routinely audited by the Auditor-Controller.

The Auditor-Controller partially disagrees with this finding. The Auditor-Controller does undertake compliance monitoring engagements for sensitive areas such as contract compliance; credit card policy compliance; cash handling policy compliance for petty cash transactions and cash counts at cash handling locations; and the Auditor-Controller has implemented a project to review the internal controls of departments with agency funds to test the department’s compliance with the agency fund accounting policy and procedures.

Recommendation 2b

The Auditor-Controller’s Office establish an audit schedule for County administration at all levels to ensure their proper compliance with County financial management guidelines.

This recommendation will be implemented in the current fiscal year. The Auditor Controller commenced a Countywide Enterprise Risk Assessment process, the purpose of which was to enable Departments to identify key processes, internal controls and risks within their respective units. The information from this assessment process would serve to quantify process-level risks so as to better enable the Internal Audit Division to more efficiently prioritize and focus resources and audit engagements to Departments which pose material risk to the achievement of the County objectives and to the effectiveness of the County’s system of internal control. Internal audit activities and proposed audit engagements will be presented in the form of an Internal Audit Plan (i.e. schedule) that will be submitted, annually, to the Board of Supervisors for their review and approval.

Recommendation 2c

That the Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator require consistent application of financial guidelines issued by the Auditor-Controllers' Office as part of the annual personnel management process.

The Auditor-Controller will implement this recommendation as a part of each manager's annual performance review in our department beginning with the 2018-19 year.

Finding 3

Knowledge of financial management and risks by managers in some departments in the County of Santa Barbara is insufficient.

The Auditor-Controller agrees with the finding.

Recommendation 3c

That the Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator direct all program managers to require mandatory training in financial management (including County financial guidelines, FIN, and reporting and accountability procedures) for all department and program heads.

The Auditor-Controller has implemented this recommendation for the division managers and executives in this office.

Finding 4

Knowledge of potential conflicts of interest among some senior County of Santa Barbara employees is inadequate.

The Auditor-Controller partially disagrees with the finding as the Auditor-Controller currently does not have insight regarding the Grand Jury's determination of inadequacy of County employees' general understanding of what conflicts of interest are. The County has adopted a Conflict of Interest Code whereby senior County employees in each department are required to complete a Fair Political Practices Certified Statement of Economic Interests Form 700 on an annual basis.

Finding 5

There is no consistent policy of requiring program heads, division heads, or department heads within Santa Barbara County departments to account for spending under their control to their superiors and/or to the CEO through an annual formal and written statement.

The Auditor-Controller disagrees partially with the finding. All department heads, including elected officials, along with each department's chief financial officer, sign annual Fiscal Year End Certification and Representation Letters that make assertions as to fiscal oversight, revenue and expenditure accounting, expenditures of federal awards, capital assets under their purview, long term liabilities incurred, theft or fraud experienced, and any related party transactions. The department head and CFO signatures are representative for their whole department.

Additionally, the County Executive Office requires quarterly budget to actual reporting for all departments. The Office of Budget and Research compiles this data and reviews it for significant variances. In the event that a department anticipates to materially exceed their budget, the Budget Director requires that the department submit an explanation for the budget overrun. The departmental response is then compiled into the Quarterly Report and presented to the Board of Supervisors.

The CEO regularly monitors each department's actual performance to the legally adopted budget. The County's FIN system has built-in controls that will not allow any expenditure that would exceed each department/fund's legal level of budgetary control, which is the expenditure object level.

Recommendation 5b

That The Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator direct all program managers to sign annual statements to their supervisors, stating that all funds under their control have been managed in compliance with County financial management guidelines and the County's Internal Control Policy.

The Auditor-Controller will implement this recommendation for the division managers in this department and will include such a statement in the annual performance reviews beginning in fiscal year 18-19.

Finding 6

The Jury found that the importance of the work of the Internal Audit Division within the Office of the Auditor-Controller and of internal controls generally has a low priority across County government.

The Auditor-Controller agrees with this finding.

Finding 7

It was stated by senior staff that a comprehensive investigation into the strengths and weaknesses of the internal controls in the County would be conducted by an outside consultant after the fraud; no such investigation took place.

The Auditor-Controller disagrees partially with this finding. Senior staff stated "The County will be ordering a forensic audit by an independent accounting firm and review of internal controls, financial systems and policies." The County hired an independent forensic accounting firm that investigated and documented the fraud. The same firm has been contracted to provide an assessment of the budget and financial policies of the County and that project is in process. The Internal Audit Division and the County's independent auditors are currently conducting a review of the internal controls over agency funds in each department.

Finding 9

The Financial Information Network is an insufficient and inefficient system with many weaknesses that have caused most departments to create, or to have created, complementary financial software. Some of the weaknesses in FIN may have contributed to the 2017 Department of Public Works fraud.

The Auditor-Controller disagrees wholly with this finding. FIN is not an insufficient or inefficient system and is functioning well as designed. No financial system can provide for every need of an organization, especially one like the County that provides a myriad of diverse and unique services. Complementary systems for specialized operations will be necessary with any financial system.

According to the forensic accounting firm that investigated and documented the fraud in the Public Works Department, the employee was able to perpetrate the fraud because there was no segregation of incompatible duties; she was overly trusted; she had little direct oversight; she acquired her supervisor's password; and she created fictitious documentation. None of these are FIN system weaknesses.

JOSEPH E. HOLLAND
County Clerk, Recorder and Assessor
Registrar of Voters

KEITH TAYLOR
Chief Deputy Assessor



Page 12 of 15
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COUNTY CLERK, RECORDER AND ASSESSOR
ASSESSOR DIVISION

September 6, 2018

The Honorable Patricia L. Kelly
Superior Court Presiding Judge
County of Santa Barbara
1100 Anacapa Street
Santa Barbara, CA 93101

County Clerk, Recorder and Assessor - Response to Grand Jury Report Titled: Internal Controls in the County of Santa Barbara

Dear Judge Kelly:

Included in this correspondence is the response of the Santa Barbara County Clerk, Recorder and Assessor to the above referenced Civil Grand Jury Report.

Finding 3

Agree

Finding 4

Agree

Finding 5

Partially Disagree. Please see response from County Auditor-Controller

Recommendation 2C

This department through the annual employee performance review will require and ensure that all managers with fiscal responsibilities are consistently applying and adhering to the financial guidelines issued by the Auditor-Controller.

Recommendation 3C

This department will continue to ensure that all managers charged with fiscal responsibilities are fully trained in financial management (including County financial guidelines, FIN, and reporting and accountability procedures).

Recommendation 5b

This department will follow any process the County puts in place to ensure that department managers sign an annual statement indicating that they are in compliance with all financial management guidelines and the County's Internal Control Policy.

Thank you,

A handwritten signature in blue ink, appearing to read "Joseph E. Holland".

Joseph E. Holland
Santa Barbara County
Clerk, Recorder and Assessor
Registrar of Voters

Website: www.sbcassessor.com

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Treasurer – Tax Collector
Public Administrator – Public Guardian

KIMBERLY TESORO, CPA, CPFO, CFIP
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Public Administrator – Public Guardian

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July 26, 2018

The Honorable Patricia L. Kelly
Superior Court Presiding Judge
County of Santa Barbara
1100 Anacapa Street
Santa Barbara, CA 93101

Re: Santa Barbara County Treasurer-Tax Collector-Public Administrator Response to Santa Barbara County Grand Jury Final Report – “Internal Controls in the County of Santa Barbara”

Dear Presiding Judge Kelly:

I would like to thank the Santa Barbara County Grand Jury for their time, effort and commitment in issuing their report titled “Internal Controls in the County of Santa Barbara” and for their genuine and ardent interest, their insight and understanding of these important issues, and the respect and courtesy they have consistently displayed.

As requested by the Grand Jury, I respectfully submit the following responses to Findings 3, 4, 5, and 11 and to Recommendations 2c, 3c, and 5b.

Findings

Finding 3: Knowledge of financial management and risks by managers in some departments in the County of Santa Barbara is insufficient.

Response: I agree with this finding. Knowledge of financial management and risks is insufficient throughout the County of Santa Barbara.

Finding 4: Knowledge of potential conflicts of interest among some senior County of Santa Barbara employees is inadequate.

Response: I agree with this finding. Knowledge of conflicts of interest is inadequate within certain departments and among some employees.

Finding 5: There is no consistent policy of requiring program heads, division heads, or department heads within Santa Barbara County departments to account for spending under their control to their superiors and/or to the CEO through an annual formal and written statement.

Response: I disagree wholly with this finding. The CEO annually develops budget priorities and policies, monitors the adopted budget, and holds quarterly financial review meetings with departments to review expenditures at the legal level of control, the program level, and the departmental level. Additionally, each department head along with their chief financial officer signs a certification and representations letter as part of the annual fiscal year end process attesting that all transactions have been properly accounted for and known instances of fraud have been disclosed.

Finding 11: Some Santa Barbara County staff commented that there might be significant other potential financial risks in Santa Barbara County, including management of property tax reimbursements and warrant payments through the Sheriff's Civil Bureau.

Response: I disagree partially with this finding. The Treasurer-Tax Collector-Public Administrator's office initiates property tax refunds for certain situations such as duplicate payments. The Treasurer-Tax Collector-Public Administrator has internal controls to mitigate potential risks. All refunds are prepared by an accountant, reviewed and approved by the Treasury Finance Chief, and subsequently reviewed by the Auditor-Controller's office before any payment is sent out. The vast majority of property tax refunds are initiated by the Assessor's work; but the financial risks associated with calculation, processing, and disbursement resides within the Auditor-Controller's office.

Recommendations

Recommendation 2c: That the Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder-Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator require consistent application of financial guidelines issued by the Auditor-Controller's office as part of the annual personnel management process.

Response: The recommendation has not yet been implemented, but will be implemented by the Treasurer-Tax Collector-Public Administrator within the next year. Financial guidelines issued by the Auditor-Controller's office are currently being followed by department staff. A requirement to consistently apply the financial guidelines will be incorporated in the annual personnel management process.

Recommendation 3c: That the Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder-Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator direct all program managers to require mandatory training in financial management (including County financial guidelines, FIN, and reporting and accountability procedures) for all department and program heads.

Response: The recommendation has been implemented. The department head, manager and staff with fiscal oversight in the Treasurer-Tax Collector-Public Administrator have received training in financial management and regularly take continuing professional education in this discipline.

Recommendation 5b: That the Santa Barbara County Sheriff, District Attorney, Auditor-Controller, Clerk Recorder-Assessor-Registrar of Voters and Treasurer-Tax Collector-Public Administrator direct all program managers to sign annual statements to their supervisors, stating that all funds under their control have been managed in compliance with County financial management guidelines and the County's Internal Control Policy.

Response: The recommendation has not yet been implemented, but will be implemented by the Treasurer-Tax Collector-Public Administrator within the next year. The department's program managers currently follow the County's financial management guidelines and Internal Control Policy. A signed annual statement will be incorporated into the annual personnel management process.

I appreciate being provided the opportunity to respond to the Santa Barbara County Grand Jury report titled "Internal Controls in the County of Santa Barbara."

Respectfully submitted,

Harry E. Hagen, CPA, CFIP, CGIP, CPFO, ACPFIM
Treasurer-Tax Collector-Public Administrator