



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: County Executive  
Office  
Department No.: 012  
For Agenda Of: August 14, 2012  
Placement: Departmental  
Estimated Time: 20 Minutes  
Continued Item: No  
If Yes, date from:  
Vote Required: Majority

---

**TO:** Board of Supervisors

**FROM:** Department Chandra L. Wallar, County Executive Officer  
Director(s): Robert W. Geis, Auditor-Controller  
Contact Info: Renee Bahl, Assistant County Executive Officer, 568-3400

**SUBJECT:** **Response to the Grand Jury Report: “A Failure of Oversight – Lompoc Housing and Community Development Corporation”**  
That the Board of Supervisors: Consider and adopt responses in Attachment A as the Board of Supervisors Response to the Civil Grand Jury Report entitled “A Failure of Oversight – Lompoc Housing and Community Development Corporation.”

---

**County Counsel Concurrence**

As to form: N/A

**Other Concurrence:** N/A

As to form: N/A

**Recommended Actions:**

**Response to the Grand Jury Report: “A Failure of Oversight – Lompoc Housing and Community Development Corporation”**

That the Board of Supervisors: Consider and adopt responses in Attachment A as the Board of Supervisors Response to the Civil Grand Jury Report entitled “A Failure of Oversight – Lompoc Housing and Community Development Corporation.”

**Summary Text:**

It is recommended that the Board not implement recommendations 1a, 3a and 4a, because they are not reasonable as written.

**Background:**

On June 7, 2012, the Civil Grand Jury issued its report (the Report) “A Failure of Oversight, Lompoc Housing and Community Development Corporation.” In the Report, the Civil Grand Jury finds that Lompoc Housing and Community Development Corporation’s loan agreements gave Santa Barbara County the authority to require audits and inspect the organization’s records. The Board of Supervisors

is named as a responder to Finding 1 as well as Recommendations 1a, 3a, and 4a. Consistent with California Penal Code Section 933(c), the Civil Grand Jury separately submitted its final report to and received comments from the Auditor-Controller (Attachment C).

The County of Santa Barbara has a number of mandated audits that are performed over County Departments. There are two annual County-wide audits performed over County Departments and reported to the Board.

1. The audit of the Comprehensive Financial Report (CAFR) which focuses on the County's financial processes, procedures and an evaluation of the reliability of the County's financial reporting; and
2. The Single Audit which is an audit of all Federal programs, primarily over the compliance elements of these programs.

There are also numerous external monitorings of County Departments made by State, Federal and outside agencies. These monitorings were summarized and analyzed by the Auditor-Controller's Internal Audit Division and reported to the Board on July 10, 2012.

Many other processes and procedures are in place to mitigate weaknesses in disbursement of funds to outside organizations. For example, an Auditor-Controller designee reviews every payment made by the County and reviews all board contracts. Also, many departments have internal staff assigned to monitor contracts and compliance with Federal and State regulations. While these compensating processes exist, they will not prevent or detect all errors, omissions, or failures of programs.

The Board should be aware that an independent audit of an entity's financial statements is an evaluation of the reliability of an entity's financial reporting, not an assessment of its economic well-being. It is recommended that in lieu of conducting an annual financial statement audit of all organizations that receive County funds in excess of \$100,000, the following procedure be implemented. The Auditor-Controller should provide the Board with an annual report of all organizations that received County funds in excess of \$100,000. It is further recommended that the Board request that the Auditor-Controller, to the extent resources are available, use statistical sampling and risk assessment techniques to select a sample of organizations and departmental compliance efforts to perform an annual review over and report the results to the Board. The review performed by the Auditor-Controller would be over compliance with contractual terms and conditions and an assessment of the annual financial reports of the entities. It is proposed by the Auditor-Controller that the Board consider the addition of a compliance officer during the normal budget process as part of the Auditor-Controller's Internal Audit Division to perform these reviews.

The Civil Grand Jury, in the Report, recommended that the County withhold funding from any organization that fails to supply complete records for annual audits or has failed to meet requirements of existing contracts. Withholding of these funds may depend whether it is allowable by the funding source driving the agreement. It is also recommended that in addition to the evaluation of this provision for inclusion in agreements, the following provisions should also be evaluated for inclusion by County Counsel and departments as standard terms and conditions:

- A clause stating that disbursement of funds by County is subject to availability from the State or

- Federal government (or other sources).
- A provision allowing for recoupment of audit exceptions and disallowances.
- A provision authorizing the Auditor-Controller to fully access an entity's records, especially when multiple funding sources are involved.
  
- A requirement to maintain adequate financial records and have audits conducted as required by law.
- Provisions for other penalties associated with non-compliance.

**Performance Measure:**

**Fiscal and Facilities Impacts:** None

Budgeted: N/A

**Fiscal Analysis:** N/A

**Staffing Impacts:**

**Legal Positions:**

N/A

**FTEs:**

N/A

**Special Instructions:**

Clerk to send signed copy of letter as addressed and to those copied.

**Attachments:**

A - Board of Supervisors' response to the Civil Grand Jury Report

B - Civil Grand Jury Report: A Failure of Oversight, Lompoc Housing and Community Development Corporation

C - Auditor-Controller's response to the Civil Grand Jury Report

**Authored by:**

Heather Fletcher, Audit Manager 568-2456