BOARD OF SUPERVISORS AGENDA LETTER

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

Agenda Number:	
Department Name:	Auditor-Controller and CEO
Department No.:	061 and 012
For Agenda Of:	03/24/2009
Placement:	Set hearing on 4/7/2009
Estimated Tme:	30 minutes on 4/7/2009
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO: Board of Supervisors

FROM:

Department Director(s)	Robert W. Geis, CPA, Auditor-Controller (x2100) Michael F. Brown, County Executive Officer (x3404)
Contact Info:	Heather Harkless, CPA, Audit Manager (x2456)

SUBJECT: **Santa Barbara County Audit Committee**

County Counsel Concurrence
As to form: Yes

Auditor-Controller Concurrence
As to form: Yes

Other Concurrence: CEO
As to form: Yes

Recommended Actions:

Set a hearing for April 7, 2009 to consider the adoption of the attached Audit Committee Charter, establishment of a Santa Barbara County ***Audit Committee***, appointment of two members of the Board of Supervisors, and discussion of the appointment of the third member**.**

Summary Text:

The Board of Directors (the Board of Supervisors) is ultimately responsible for the fiscal health and internal control of the government. The elected County Auditor-Controller and the Internal Audit Division Director, with concurrence from the County Executive Officer, are recommending the County of Santa Barbara Board of Supervisors establish a Santa Barbara County Audit Committee. The purpose is to provide additional accountability and oversight of the County's financial reporting, internal controls and monitoring activities. This committee would provide a forum separate from management for auditors and other interested parties to:

- Assess the independence of auditor's reports and findings.
- Ensure that the County's financial reporting practices are independently assessed.
- Inquire of management, the County Executive Officer (CEO), Auditor-Controller, County Counsel, and auditors regarding significant risks and exposure.
- Communicate monitoring results to a party independent of the departmental or program auditee in the County and ensure that adequate corrective action occurs.
- Ensure that controls are in place to adequately safeguard the County's assets.

Establishment of an Audit Committee may assist the Board in early identification and prevention of internal control weaknesses within departments.

Background:

In the past year the County has been exposed to significant changes in its financial reporting. Some changes were the result of new Government accounting standards like the implementation of GASB 43/45, regulating the reporting of retiree medical plan costs. Other significant accounting adjustments were required to record liabilities related to the claiming of Medicaid revenues for Mental Health Services. With the current adverse change in the financial markets, we also may face reporting issues in the area of significant unfunded liabilities for retirement system contributions and potential revenue recognition issues due to delayed receipt of federal and state revenues or repayment of Medicaid overpayments for prior years.

In the wake of corporate scandals in the private sector, the Sarbanes-Oxley Act (the Act) was passed in 2002. While the Act only affected publicly traded businesses, it also had a significant indirect impact on state and local governments. Specifically, new audit standards require external audit firms to report directly to those charged with governance on any internal control matters discovered during an audit. Furthermore, the County Auditor-Controller and County Executive Officer, under audit standards, are required to provide certain assurances to the County's external auditors regarding the establishment and effectiveness of internal controls. The County's current practices and reporting structure do not provide a mechanism to assure that all internal control matters that may have been discovered flow to the Board of Supervisors or executive management.

The Auditor-Controller prepares the County financial statements, prescribes County-wide accounting policies and procedures and manages the independent audit for the County Board of Supervisors. While the elected status of the office provides a layer of independence, audit committees are recommended as a best practice by the Governmental Finance Officers Association. Audit committees are required by stock exchanges for publicly traded companies. However, for governmental organizations this is currently only a voluntary practice.

To permit the rendering of impartial and unbiased judgment essential to the proper conduct of audits, auditors should be independent of the activities they audit. In performing audit functions, auditors should have no direct responsibility over or authority for any of the activities reviewed. In government practice, this independence may be difficult to achieve as subject matter experts may be the best to review compliance with complex laws and regulations.

County departments, including Social Services, Public Health, and Alcohol Drug and Mental Health, have created quality assurance and improvement groups that perform audit like functions. The reporting structure of the groups lies within the departmental unit. When these groups report to internal management the quality of this function may be diluted.

The County is also subject to an independent "Single Audit" for the County expenditure of federal awards. The County over the past few years has been designated as a high risk auditee due to late filings of the audit and compliance findings in most of its major programs. Although we have been able to correct the issue of late filing, there continue to be findings in almost all of the same major programs. In order to become a low risk auditee, department management must eliminate findings causing the County's high-risk status.

The follow-up to audit findings brought about by the County "Single Audit" may occur from a federal or state agency directly to a department with audit findings. The follow-up inquires may be formal or informal. There is currently no formal process in place to ensure that the results of federal or state inquiries be reported to executive management and ultimately to the Board of Supervisors. We believe the Audit Committee structure would set up a process to improve communications concerning examinations of all critical accounting policies and practices, as well as to enact a reporting mechanism for significant communications between outside auditors or compliance reviewers and management. An overreaching goal would be to assure corrective measures are implemented in order to qualify the County as a low risk auditee.

The creation of an audit committee would enhance communication of internal control issues to those ultimately responsible and provide a means for follow-up on corrective action. The committee would provide a forum for parties to candidly discuss financial reporting practices, findings and recommendations, and results of compliance reports including those related to the Comprehensive Annual Financial Report, Single Audit, and departmental audits. We envision that the committee will establish a process to receive and review reports on a regular basis.

The Audit Committee will consist of three members; two will be from the Board of Supervisors, and one from the general public. The committee will advise the Board of Supervisors in fulfilling its oversight responsibilities in the following areas:

- Countywide monitoring of internal controls and financial matters.
- Countywide financial reporting.
- Federal, State, local, or other agency monitoring of departments.
- County performed audits, reviews, and compliance monitoring.
- Departmental quality assurance monitoring and reporting.

Performance Measure:

Receive Certificate of Excellence in Financial Reporting from GFOA
Receive unqualified opinion on the County Comprehensive Annual Financial Report
Receive unqualified opinion on the County Federal Single Audit Report
Avoid repayments of federal or state revenues due to adverse audit findings or cost settlements

Fiscal and Facilities Impacts:

Budgeted: Cost should be able to be absorbed within existing budgets

Fiscal Analysis:

While costs should be able to be absorbed in existing budgets department may incur some additional administrative costs to prepare reports to the Audit Committee and make appearances and presentations to the Committee. The offset would be to avoid internal control weaknesses that could result in the loss of County assets, revenue or reimbursements. Maintaining excellence in the County financial reporting practices can also help with maintaining good credit ratings for the County.

Staffing Impacts:

Minimal

Special Instructions:

None

Attachments:

Audit Committee Charter

Authored by:

Heather Harkless, Internal Audit Division Chief

Robert Geis, County Auditor-Controller