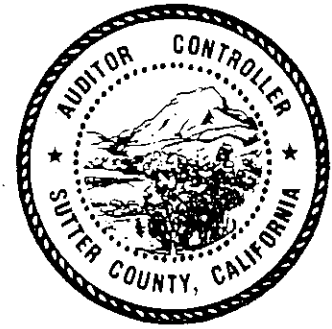


COUNTY OF SUTTER
ENDORSED FILED



SEP 24 2015

August 12, 2015

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SUTTER
CLERK OF THE COURT
By JACKIE LASWELL Deputy

NATHAN M. BLACK, CPA

AUDITOR-CONTROLLER

The Honorable Brian R. Aronson
Presiding Judge of the Superior Court of California
County of Sutter
446 Second Street
Yuba City, California 95991

Dear Judge Aronson:

Submitted herewith is the Auditor-Controller's response to the 2014-2015 Grand Jury Report section on SUTTER COUNTY DISTRICT ATTORNEY and SUTTER COUNTY INTERNAL AUDITOR. Penal code §933(c) and §933.05 require elected officers to respond within 60 days to the findings and recommendations of the Grand Jury. This response is submitted directly to you pursuant to Penal Code §933.05.

We commend the individual members of the Grand Jury for their public service.

We agree with the recommendation that an internal audit position be funded and the Auditor-Controller's office use those resources to conduct internal audits throughout the county including an audit of the District Attorney's office as requested by the District Attorney.

"Simply put, most organizations do not or cannot effectively govern themselves. This does not mean they do not try, but it is difficult to be objective when evaluating your own operations."¹ With the sole purpose of focusing on improvements, an internal auditor can evaluate financial and operational processes and alert management to weaknesses making recommendations that result in increased efficiencies and a reduction in losses due to fraud.

Internal audits can reduce losses due to embezzlement. In 2009 two alleged embezzlement cases were reported in Sutter County in two different departments resulting in an estimated loss of \$100,000. In one instance, a procedural audit of internal controls would have revealed that internal control policies in place at the time were not being followed. In the second instance, an internal audit would have revealed control weaknesses. It wasn't until after the incident that additional procedures were put into place to mitigate future potential losses. With an internal

¹ Doud, L. (2015, May 24). *Why internal audits matter: Guest commentary*. Retrieved from <http://www.presselegram.com/opinion/20150524/why-internal-audits-matter-guest-commentary>

audit division, preventative steps can be taken proactively to thwart problems before they materialize leading to the possible prevention of similar losses in the future.

Internal audits can reduce misappropriation of funds. In July of 2014 the California Governor's Office of Emergency Services completed an audit of the Victim/Witness Assistance Program grant for years July 1, 2011 through June 30, 2015 and found \$78,225.37 in unallowable costs and unsupported expenditures. The county was required to send these revenues back to the state. A properly executed internal audit of the department may have identified accounting weaknesses and reduced the risk of misappropriation of the funds which required repayment.

Internal audits can reduce county expenditures. Grants that require audits be performed can be completed by the internal auditor saving the county costly fees to outside audit firms. The clerk-recorder truncation program legally requires the county auditor conduct periodic audits of the fund. In cooperation with the clerk-recorder, the auditor-controller's office was able to perform an agreed upon procedures audit necessary to meet legal guidelines generating \$7,500 of new revenue. With an internal audit position required audits similar to this can be performed, thus producing new revenue in the auditor-controller department and reducing the general fund commitments saving the county audit fees.

Internal audits can improve efficiencies and increase the likelihood of grant funding. For several years the county has missed the December 31st deadline for completion of the grand jury/board of supervisors audit. The delay of the issuance of the audit report jeopardizes grant funding. An internal auditor will work with departments to improve accounting procedures that will ensure the audit is completed timely.

Internal audits can improve financial accountability and save the county unnecessary costs. The audit performed by the independent auditors each year includes a management report which outlines areas where the county needs to strengthen internal controls and improve operating efficiency. An internal auditor can provide the necessary expertise while working with the departments to improve internal controls and increase efficiency. Many of the management comments fail to produce remedial action each year due to lack of accounting expertise. A recent costly example is the reported reconciliation of the personnel benefits fund costing the county over seven hundred thousand dollars (\$700,000+).

In addition to coordinating the annual external audit, an internal auditor would also be responsible for managing the auditor-controller's internal audit function including updating and maintaining the county's internal audit policy and performing audits in accordance with the annual audit plan which would be submitted to the board of supervisors and audit committee for review and comment. The internal auditor in coordination with the auditor-controller would provide periodic updates of the progress of the audits to the audit committee.

California Government Code § 1237 states “All state and local agencies with an aggregate spending of fifty million dollars (\$50,000,000) or more annually shall consider establishing an ongoing audit function.” In fiscal year 2014-2015 Sutter County’s adopted budget was over \$250 million, five times greater than the recommended threshold. The county has been without an internal audit position since it’s elimination in the early nineties. There have been no internal audits compliant with GAO government auditing standards in the county for over twenty years and the county’s current internal audit policy doesn’t meet the generally accepted government auditing standards (GAGAS) of independence.

California Government Code § 26881 states:

“The county auditor, or in counties that have the office of controller, the auditor-controller shall be the chief accounting officer of the county. Upon order of the board of supervisors, the auditor-controller shall prescribe, and shall exercise a general supervision, including the ability to review department and countywide internal controls, over the accounting forms and the method of keeping the accounts of all offices, departments and institutions under the control of the board of supervisors and of all districts whose funds are kept in the county treasury.”

By law the Auditor-Controller as an elected officer is also required to send a copy of this report to the Sutter County Board of Supervisors, after which they will have another 30 days to write their response. I am complying with that requirement. I trust that this response will likewise be distributed to all recipients of the Grand Jury’s report and all recipients of the Board of Supervisor’s response.

Sincerely,



Nathan M. Black, CPA
Auditor-Controller

cc: Sutter County Board of Supervisors