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July 24, 2017

Honorable José L. Alva, Presiding Judge  
Superior Court of California, County of San Joaquin  
180 E. Weber Avenue, Suite 1306  
Stockton, CA 95202

Dear Judge Alva,

Please find below responses from the Auditor-Controller's Office to findings and recommendations made by the 2016-17 Grand Jury regarding "Who's Watching the Cookie Jar", pages 73-83 of the 2016-17 San Joaquin County Civil Grand Jury Report.

**Finding**

**F.1.0** The San Joaquin County Auditor-Controller performs minimal review of audits which can result in fraud being overlooked due to inadequate staffing.

**Recommendation**

**R.1.0** The Auditor-Controller increase the number of auditors on staff within the financial audit department and budget accordingly for the subsequent fiscal year.

**Response to Recommendation R.1.0**

The Auditor-Controller's Office (ACO) concurs with the recommendation.

The ACO has been rebuilding its Internal Audit (IA) Division since 2013, as this Division was virtually eliminated during the County downsizing, which occurred during the Great Recession. Beginning in 2013, IA staff was increased from one to two, and in 2015 an IA Division Chief was added to manage the Division, bringing the total to three. The ACO currently has budgeted for an additional staff position to be hired in fiscal 2017-18, which will bring the Division total to four. This will allow the ACO to expand

its scope of auditing regarding the independent special districts, along with other County-related departments.

### **Finding**

**F.2.1** Due to the lack of tools and guidelines, there are board members who do not understand their district's financial reports.

### **Recommendation**

**R.2.1** By Dec. 31, 2017, the Auditor-Controller develop, adopt and implement a list of best practices regarding financial reports to guide board members of independent self-governing special districts.

### **Response to Recommendation R.2.1**

The ACO partially concurs with the recommendation.

The ACO will develop a list of best practices for use by the independent special districts along with an easy-to-use reference guide for any board members with limited accounting and financial knowledge. The reference guide and best practices list will cover development and implementation of an annual budget, how to properly compile comprehensive actual transaction information, and analysis of budget-to-actual activities. This information will be provided to the independent special districts before the December 31, 2017 deadline in the recommendation.

However, it is beyond the authority of the ACO to have those best practices adopted and implemented by the independent special districts. It will be up to each district's board to adopt and implement. The ACO's authority is limited to a "general supervision" per Government Code 26881.

### **Finding**

**F.3.1** The San Joaquin County independent self-governing special districts can be subject to fraud due to lack of oversight and the lack of documentation required for accounts payable.

### **Recommendation**

**R.3.1** By Dec. 31, 2017, the Auditor-Controller develop and distribute to all independent self-governing boards a list of best practices including, but not limited to: profit and loss statements, balance sheets, signatory requirements and general ledger items.

### **Response to Recommendation R.3.1**

The ACO concurs with the recommendation.

In addition to developing and providing the independent special districts with the best practices information discussed in R.2.1, the ACO will also include best practices related to controls and oversight for accounts payable and payroll processing. This will include a recommendations for the independent

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special districts to review accounts payable transaction details before approving the expenditures for payment by the ACO, and to analyze payroll activities and exceptions (overtime) data prior to submission to the ACO for disbursement. We believe a comprehensive set of guidelines which cover accounting operations and financial reporting will best serve the independent special district boards.

Respectfully submitted,



Jerome C. Wilverding

c: San Joaquin County Board of Supervisors  
Monica Nino, County Administrator  
J. Mark Myles, County Counsel