

Shasta County Joint Audit Committee
“You can observe a lot by just watching.” –Yogi Berra



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SUMMARY

Local public officials and agencies have a legal and ethical obligation for accountability and transparency in how they spend the revenues funded by taxpayers. Required by state law, Shasta County’s annual external audit is an important safeguard of this process. For over 20 years, the Joint Audit Committee (comprised of representatives from County departments, the Board of Supervisors, and the Shasta County Grand Jury) has overseen the selection of the independent auditor and the County’s annual auditing procedure. As set forth in the October 29, 2002, Shasta County Joint Audit Committee Policies and Procedures, the expressed purpose of the Joint Audit Committee is to “ensure that a thorough and objective audit is undertaken each year with regard to the funds, records and accounts of the County.”

The presence of Grand Jury members on the Joint Audit Committee provides a measure of assurance to the public that the auditing process is being handled appropriately. It reinforces the observance of transparency by county officials during the external audit and provides an effective way for the Grand Jury and the Board of Supervisors to participate in the audit process. The Shasta County Grand Jury’s involvement in the County’s audit process is supported by California Penal Code Section 925, which mandates grand juries to annually investigate and report on the accounts and records of their counties.

Shortly after its impanelment, the 2016/17 Shasta County Grand Jury was informed by one County official that the Joint Audit Committee had been “dissolved”. An investigation was launched to learn more. The Grand Jury asserts that the Joint Audit Committee continues as an important body that fosters fiscal accountability and transparency and was not dissolved.

BACKGROUND

California Penal Code Section 925 requires the grand jury to annually investigate and report on the accounts and records of the county. Penal Code Section 926 allows the grand jury to enter into a joint contract with the county board of supervisors to employ an auditor (See Appendix). From 1995 to 2015, the Shasta County Grand Jury and Board of Supervisors entered into a joint contract for outside auditing services, with both entities approving and signing the contracts through a mechanism called the Joint Audit Committee (“JAC”).

The Shasta County JAC was established by the Board of Supervisors on January 22, 1991. The first minutes of the JAC the Grand Jury could find were of the JAC’s February 27, 1995,

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meeting. The Grand Jury reviewed all minutes of the JAC between that date and the last meeting of the JAC in December 2015. The Grand Jury found that previous Grand Jurors were present and actively participated in the JAC meetings between 1995 and December 2015.

On October 29, 2002, the JAC formalized their policies, procedures, and committee membership to include: the Chairperson and Vice-Chairperson of the Board, Foreperson of the Grand Jury, members of the Grand Jury Audit and Finance Committee, County Executive Officer, County Budget Officer, County Counsel, Treasurer-Tax Collector, and Auditor-Controller. The Board Chairperson and Grand Jury Foreperson were to serve as co-chairs of the JAC.

On December 11, 2012, the JAC updated their policies, procedures, and membership again to include: the Chairperson and Vice-Chairperson of the Board, Foreperson of the Grand Jury, a Member of the Grand Jury Audit and Finance Committee, County Executive Officer, County Administrative Fiscal Chief, Treasurer-Tax Collector, and Auditor-Controller. Over the years, the number of Grand Jurors on the committee was reduced to the Foreperson and a single member of the Grand Jury Audit and Finance Committee. The Board Chairperson and Grand Jury Foreperson continued in their roles as co-chairs.

After being informed that the JAC had been dissolved, the 2016/17 Shasta County Grand Jury launched an investigation to determine whether the method of dissolution was permissible, and to reexamine the purpose of and reaffirm the value of continuing the JAC.

METHODOLOGY

The Grand Jury interviewed:

- Shasta County Board of Supervisors members, both former and current
- Shasta County Administrative Office personnel
- Shasta County Auditor-Controller's Office personnel
- Former Shasta County Grand Jury Foreperson
- Former Shasta County Counsel personnel

The Grand Jury reviewed:

- All available Joint Audit Committee meeting minutes and agendas from 1995 to current
- 2001/02 Shasta County Grand Jury County Audit Report for FY 2000/01
- 2015/16 Shasta County Grand Jury Report – “Shasta County Joint Audit Committee – Numbers Matter”
- All Board of Supervisors' meeting minutes mentioning the Joint Audit Committee or Audit and Finance Committees from 1990 to current
- Memorandum from the former Shasta County – County Administrative Officer to the Joint Audit Committee, May 21, 2002
- All available documentation regarding the establishment of the Joint Audit Committee
- Shasta County Administrative Manual, Policy #1-110

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- Shasta County Resolution Nos. 91-1, 93-5, 94-4, 96-6, 98-6, 2001-10, 2007-2, 2012-01
- Current Joint Audit Committee Policies and Procedures, December 11, 2012
- Previous Joint Audit Committee Policies and Procedures, October 29, 2002
- Contract between Shasta County and GALLINA LLP for the Shasta County Comprehensive Annual Financial Report, June 9, 2015
- Draft Shasta County Comprehensive Annual Financial Report FYE June 30, 2016, November 2, 2016
- Shasta County Comprehensive Annual Financial Report FYE June 30, 2016

DISCUSSION

On June 29, 2016, the 2016/17 Shasta County Grand Jury contacted the County Administrative Office by email about scheduling the JAC meetings to be held during the term. During communications over the course of the following month, the Grand Jury was informed by high-ranking County Administrative personnel that the committee had been dissolved due to its alleged “duplicative” function. Following two unsuccessful attempts to obtain written confirmation of that action from the County Administrative Office, an investigation was launched to determine whether the JAC was actually dissolved, and if so, was the method of dissolution permissible. The Grand Jury also examined the JAC’s purpose, the desirability of its continuance, and its value to the Grand Jury, Board of Supervisors, County departments, and ultimately the public.

To complicate matters, a similarly named committee was discovered during this investigation: the County’s Audit and Finance Committee. This committee and the JAC were determined to be one and the same. In a May 2002 memo, the former Shasta County Administrative Officer identified them as the same committee. Additionally, a document search revealed minutes exist only for the JAC.

Purpose of and Changes to the JAC

According to the JAC Policies and Procedures, the expressed purpose of the JAC was to “ensure that a thorough and objective audit is undertaken each year with regard to the funds, records and accounts of the County.” From 1995 to 2012, the JAC was responsible for reviewing the Request for Proposals received for outside auditing services and selecting the winning bid. Pursuant to the 2002 Policies and Procedures, the two primary functions of the JAC were to “A. Initiate the Request for Proposal process to retain the services of a contract auditor,” and to “B. Select the contract auditor.” When the JAC Policies and Procedures were updated in 2012, the second function was reworded to read: “B. Recommend contract auditor to be selected by the Board of Supervisors and the Grand Jury.” [emphasis added]

The JAC’s purpose was confirmed at its June 29, 2004, meeting. According to the meeting minutes, the County Administrative Officer, at the request of the Board Vice-Chairman, stated, “the outside auditor does not work for the County’s Auditor-Controller, but rather for the Board of Supervisors and the Grand Jury.”

Another change between 2002 and 2012 was removing the JAC as an approving body of the audit contract. The 2002 Policies and Procedures stated: “D. Approve the proposed audit contract and forward it to the Board of Supervisors and Grand Jury for formal approval and signature.” The 2012 Policies and Procedures state: “Recommend a proposed audit contract and forward it to the Board of Supervisors and Grand Jury for formal approval and signature.”

In spite of these changes, the purpose of the JAC remained steadfast. JAC Policies and Procedures in the annual Grand Jury Procedures Manuals describe the JAC as having been “used to negotiate and monitor such a joint contract.”

Dissolving a County Committee

The Grand Jury determined the JAC can be dissolved by one of two methods:

- By a Board of Supervisors action rescinding the action that created the JAC
- By a decision of the JAC recommending dissolution by the Board of Supervisors

JAC Policies and Procedures Section IIIC directs how changes to committee membership may be made. “At any time, the Board of Supervisors may modify its membership on the Joint Audit Committee, by modification of the Board’s policies. At any time, the Grand Jury may modify its membership on the Joint Audit Committee, by modification of its policies.” [emphasis added] In addition, Section VII states, “These policies and procedures may be amended at any time upon action by the Joint Audit Committee.” Taken together, these two sections prohibit the dissolution of the JAC without either the Board of Supervisors taking public action to modify their own policies, or by formal action of the JAC. The Grand Jury has found no evidence that the Board of Supervisors has taken any public action as it pertains to the dissolution of the JAC. Furthermore, the JAC has not had the opportunity to meet and take any formal actions since its last meeting held on December 12, 2015.

County Policy Resolution 2012-01, signed February 7, 2012, gives the County Executive Officer the authority to make “non-substantive changes to the Administrative Policy Manual without requiring a policy resolution approved by the Board of Supervisors.” The dissolution of any committee would not be considered a “non-substantive change”. Therefore, the County Executive Officer would not have the power to summarily dissolve the JAC under this authority.

Comprehensive Annual Financial Report

Shasta County currently contracts with an independent outside auditing agency, GALLINA LLP, for annual audit services. GALLINA LLP and the Shasta County Auditor-Controller’s Office work in tandem to produce a report of the County’s budgets, titled a Comprehensive Annual Financial Report (CAFR). The most recent contract was signed June 9, 2015, and is for five years through June 30, 2020. JAC meetings typically include presentations from GALLINA LLP on the CAFR process; these assemblies also allow the Grand Jury and two members of the Board of Supervisors to discuss financial matters among themselves and with experienced auditing personnel. Additionally, the Grand Jury observing this process provides a level of transparency to the public about how the County conducts its CAFR process.

Without this access, it was difficult for the 2016/17 Grand Jury to become involved with developing the CAFR. The Grand Jury was not informed of the first meeting between the County and GALLINA LLP and therefore did not attend. The Grand Jury reached out to the Auditor-Controller's Office, who then arranged a meeting specifically for the Grand Jury. The first and only meeting between the Grand Jury and GALLINA LLP to review the CAFR fiscal year ending June 30, 2016, occurred November 7, 2016, during the last week of the CAFR process. Without being able to monitor any discussions between the Auditor-Controller's Office and GALLINA LLP at a JAC meeting, the Grand Jury was unable to independently assess the auditing process and only learned of the results.

Observations

One of the duties listed in the Grand Jury's Procedures Manual is to serve as members of the JAC. Furthermore, previous grand juries have participated for 21 years in the external audit process through the JAC, including the 2015/16 Grand Jury. The unexpected announcement by high-ranking County Administrative personnel in late July 2016 that the JAC was dissolved became a cause for concern by the 2016/17 Grand Jury. After exploring the nature of the JAC and its purpose, the Grand Jury determined its existence is not "duplicative". There is no other County process that parallels the JAC in either form or function. That the current Grand Jury was compelled to contact the Auditor-Controller's office late in the external audit process demonstrated the importance of the JAC as a mechanism to fulfill the Grand Jury's mandate under California Penal Code section 925. The Grand Jury also recognized its value to the Board of Supervisors and other county officials in becoming more familiar with the County's CAFRs by participating in the audit as key members of the JAC.

The greatest concern is the loss to the public of accountability and transparency by the County resulting from the JAC having been "dissolved". Without the JAC, the annual external audit involves only two parties: the County Auditor-Controller, who prepares the financial reports, and the external auditing firm, whose contract is recommended by the County Auditor-Controller. The JAC provides an additional set of eyes and helps protect both the interests of the public and County officials by ensuring transparency and accountability.

FINDINGS

- F1. The Joint Audit Committee was not properly dissolved and therefore is still an existing committee.
- F2. Without the opportunity to participate in Joint Audit Committee meetings, the Grand Jury loses an important tool in fulfilling its oversight role of the County's financial processes pursuant to California Penal Code Section 925.
- F3. Without the Joint Audit Committee, the Board of Supervisors and other County officials lose an opportunity to further participate in the audit process.
- F4. The involvement of Grand Jury members on the Joint Audit Committee provides greater accountability and transparency to the public regarding the County's annual external auditing process.

RECOMMENDATIONS

The Grand Jury recommends:

- R1. By June 25, 2017, the Shasta County Board of Supervisors direct the Chairperson to hold a Joint Audit Committee meeting with the 2016/17 Grand Jury to discuss the committee's ongoing purpose.
- R2. By July 31, 2017, the Shasta County Board of Supervisors direct the Chairperson to schedule Joint Audit Committee meetings with the 2017/18 Shasta County Grand Jury Foreperson.

REQUIRED RESPONSES

Pursuant to Penal Code section 933.05, the following responses are required:

From the following governing body (within 90 days):

- Shasta County Board of Supervisors: **F1, F2, F3, F4 and R1, R2**

From the following elected governmental officer (within 60 days):

- Shasta County Auditor-Controller: **F2, F3, F4**

The Grand Jury recommends that all governing bodies place their responses to all Grand Jury Reports on their Regular Calendars for public discussion, not on their Consent Calendars.

INVITED RESPONSES

The Grand Jury invites the following response:

From the following governmental official (requested within 60 days):

- Shasta County – County Executive Officer: **F1, F2, F3, F4 and R1, R2**

APPENDIX

California Penal Code section 925:

The grand jury shall investigate and report on the operations, accounts, and records of the officers, departments, or functions of the county including those operations, accounts, and records of any special legislative district or other district in the county created pursuant to state law for which the officers of the county are serving in their ex officio capacity as officers of the districts. The investigations may be conducted on some selective basis each year, but the grand jury shall not duplicate any examination of financial statements which has been performed by or for the board of supervisors pursuant to Section 25250 of the Government Code; this provision shall not be construed to limit the power of the grand jury to investigate and report on the operations, accounts, and records of the officers, departments, or functions of the county. The grand jury may enter into a joint contract with the board of supervisors to employ the services of an expert as provided for in Section 926.

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California Penal Code section 926:

(a) If, in the judgment of the grand jury, the services of one or more experts are necessary for the purposes of Sections 925, 925a, 928, 933.1, and 933.5 or any of them, the grand jury may employ one or more experts, at an agreed compensation, to be first approved by the court. If, in the judgment of the grand jury, the services of assistants to such experts are required, the grand jury may employ such assistants, at a compensation to be agreed upon and approved by the court. Expenditures for the services of experts and assistants for the purposes of Section 933.5 shall not exceed the sum of thirty thousand dollars (\$30,000) annually, unless such expenditures shall also be approved by the board of supervisors.

DISCLAIMER

Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code §929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.

Released: May 9, 2017