



COUNTY ADMINISTRATIVE OFFICE
MANAGEMENT & BUDGET TEAM
COUNTY OF HUMBOLDT

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INTEROFFICE MEMORANDUM

TO: BOARD OF SUPERVISORS
FROM: PHILLIP SMITH-HANES, COUNTY ADMINISTRATIVE OFFICER *PSH*
SUBJECT: RESPONSE TO 2011-12 GRAND JURY REPORT 2012-ADMIN&FINANCE-01
DATE: JUNE 5, 2012

The 2011-12 Grand Jury has issued report 2012-ADMIN&FINANCE-01 and the Board of Supervisors is required to respond to recommendations R1 through R5. I recommend that the Board respond as follows:

Recommendation R1: *The contract review process should involve a detailed investigation into the firm and qualifications of the individuals assigned to fulfill the contract.*

This recommendation has been implemented.

The County Auditor-Controller has implemented this recommendation to the extent possible based on his authority and resources. The Board concurs that before the County enters into a contract for the annual audit the firm and the individuals working on the audit should be thoroughly reviewed.

Recommendation R2: *An aggressive review process must be established to protect the County by making sure safeguards are in place for monitoring contracted work products, timelines and deadlines.*

This recommendation has been implemented.

The Auditor-Controller has implemented this recommendation to the extent possible based on his authority and resources.

Recommendation R3: *The County Counsel's office should pursue its remedies for loss and damages against the accounting firm, both compensatory and punitive.*

This recommendation has been implemented.

The County Counsel office has implemented this recommendation. The Board, County Counsel and County staff have reviewed and considered all legal options available with regard to damages related to the audit. The County has and will continue to pursue these options in a manner that best represents the interests of the County.

Recommendation R4: *The Board of Supervisors and its Administrative Staff needs to ensure itself that its legal counsel is sufficiently knowledgeable and experienced to handle all of the County's legal needs, including the capability for litigation.*

This recommendation has been implemented.

The County Counsel office is staffed with knowledgeable and experienced attorneys to the extent possible given available resources. The County utilizes outside counsel for litigation when it involves a special area of expertise or during periods of high workload. Using outside counsel is a cost effective option because it provides for litigation when needed without ongoing staffing costs.

Recommendation R5: *The County should contact the State's attorney general's office to determine if the state feels that an action should be taken against the initial accounting firm for an apparent pattern of behavior occurring in multiple local government jurisdictions.*

This recommendation requires further analysis.

The County will continue to evaluate possible courses of action against the initial accounting firm to determine what is appropriate and in the best interests of the County. This recommendation will be considered as part of that process.



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INTEROFFICE MEMORANDUM

TO: BOARD OF SUPERVISORS
FROM: PHILLIP SMITH-HANES, COUNTY ADMINISTRATIVE OFFICER *PSH*
SUBJECT: COUNTY ADMINISTRATIVE OFFICE RESPONSE TO 2011-12 GRAND JURY
REPORT 2012-ADMIN&FINANCE-01
DATE: JUNE 5, 2012

Please find below the County Administrative Office responses to Recommendations 1 and 2 in the above-referenced report.

Recommendation R1: *The contract review process should involve a detailed investigation into the firm and qualifications of the individuals assigned to fulfill the contract.*

This recommendation has been implemented.

The County Administrative Office will continue to work with the Auditor-Controller and the Audit Working Group to investigate the qualifications of any firm selected to perform the County's annual audit. In most cases the Request for Proposal process is used for the selection of an auditing firm.

Recommendation R2: *An aggressive review process must be established to protect the County by making sure safeguards are in place for monitoring contracted work products, timelines and deadlines.*

This recommendation has been implemented.

The Auditor-Controller has implemented this recommendation to the extent possible based on his authority and available resources. The County Administrative Office will continue to work with the Auditor-Controller to ensure that safeguards are in place for monitoring the performance of the annual audit.



County Counsel Interoffice Memo

from the desk of

WENDY B. CHAITIN
County Counsel

Wendy B. Chaitin

Date: April 30, 2012

To: Members of the Board of Supervisors
Phillip Smith-Hanes, County Administrative Officer

Re: County Counsel Responses to Grand Jury Report 2012-Admin&Finance - 01; Auditing the Audit

Please find below the County Counsel responses to Recommendations 1 - 5 in the above-referenced report.

Recommendation 1 (R1) states: "The contract review process should involve a detailed investigation into the firm and qualifications of the individuals assigned to fulfill the contract."

County Counsel Response to R1: The recommendation has been implemented. Before the County enters into a contract with an auditing firm to provide the annual audit, the Auditor, within his authority and resources, investigates the qualifications of such firm.

Recommendation 2 (R2) states: "An aggressive review process must be established to protect the County by making sure safeguards are in place for monitoring contracted work products, timeliness and deadlines."

County Counsel Response to R2: The recommendation has been implemented. The Auditor, within his authority and resources, has safeguards in place for monitoring contracted work products, timeliness and deadlines.

Recommendation 3 (R3) states: "The County Counsel's office should pursue its remedies for loss and damages against the accounting firm, both compensatory and punitive."

County Counsel Response to R3: The recommendation has been implemented. The County Counsel office is considering all appropriate legal options in consultation with County representatives and will proceed in a manner that best represents the interests of the County.

Memo to Board of Supervisors and CAO

From County Counsel

Re: Responses to Grand Jury Report 2012 Admin&Finance-01; Auditing the Audit

April 30, 2012

Recommendation 4 (R4) states: "The Board of Supervisors and its Administrative Staff needs to ensure itself that its legal counsel is sufficiently knowledgeable and experienced to handle all of the County's legal needs, including the capability for litigation."

County Counsel Response to R4: The recommendation has been implemented. The Office of the County Counsel is staffed with highly knowledgeable and experienced attorneys, all of whom handle litigation as the workload permits. When the County is faced with litigation that involves a special area of expertise, or when the workload and resources in the office do not allow for the litigation to be kept in the office, outside counsel is retained.

Recommendation 5 (R5) states: "The County should contact the State's attorney general's office to determine if the state feels that any action should be taken against the initial accounting firm for an apparent pattern of behavior occurring in multiple local government jurisdictions."

County Counsel Response to R5: The recommendation requires further analysis. Such action will be taken if deemed appropriate and in the best interests of the County.



**AUDITOR-CONTROLLER
COUNTY OF HUMBOLDT
825 FIFTH STREET, ROOM 126
EUREKA, CALIFORNIA 95501
PHONE (707) 476-2452**

March 22, 2012

The Honorable W. B. Watson
Humboldt County Superior Court
825 Fifth Street
Eureka, CA 95501

Dear Judge Watson:

This letter is in response to the Grand Jury's recommendations R-1 and R-2 for 2011-12.

- (1) Report 2012-Admin & Finance-01, recommendation one: The contract review process should involve a detailed investigation into the firm and qualifications of the individuals assigned to fulfill the contract.

Respectfully, the recommendation has been implemented to the extent possible given the Auditor-Controller's authority and resources. The auditing firm with which the County of Humboldt originally contracted for its 2009-2010 annual audit (Caporicci & Larson, CPAs) had a sound reputation in California local government circles, and its license was in good standing with the California Board of Accountancy. The Auditor-Controller had met partners of Caporicci and Larson, CPAs, at various training events around the State over the years and they had produced an impression of a professionally competent auditing and accounting firm.

Beyond obtaining knowledge of a contractor's professional reputation and a check of their license status, it isn't clear what further steps would have revealed the potential for the problems that later developed. The contractor certainly had a moral obligation to reveal they were in negotiations to sell their business, and possibly had a legal obligation as well in that they were in possession of information that could have made a material difference in the County's decision to contract with them. But the contractor chose not to share that information about the sale during the contracting process, and it is unclear by what mechanism the County of Humboldt could have learned about a possible future sale on its own.

County of Humboldt now has a business relationship with a new auditing firm, Gallina, LLP, which has been completing its auditing engagements in a timely and professionally competent manner, and we expect to be fully current with regard to our audit requirements by the end of this month.

(2) Report 2012-Admin & Finance-01, recommendation two: An aggressive review process must be established to protect the County by making sure safeguards are in place for monitoring contracted work products, timelines and deadlines.

Respectfully, the recommendation has been implemented to the extent possible given the Auditor-Controller's authority and resources. We are now receiving our audit services in a timely and professionally competent manner. We do have safeguards in place for monitoring contracted work products, timelines and deadlines.

Sincerely;

Joseph Mellett, CPA
Auditor-Controller