



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Board of Supervisors



Date: November 13, 2012
Board Meeting Date: November 20, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Supervisor Dave Pine
John L. Maltbie, County Manager

Subject: Appropriations Transfer Request (ATR) for Enhancement of the County's Ethics and Internal Control Framework

RECOMMENDATION:

Adopt a Resolution authorizing an Appropriation Transfer Request in the amount of \$262,600 from Non-Departmental General Fund Reserves to Non-Departmental Services and Supplies for the enhancement of the County's Ethics and Internal Control Framework. The funds will be transferred to an account to be used by departments involved in the initiative.

BACKGROUND:

In 2003, the Civil Grand Jury recommended that the Board establish a "whistleblower" process by which individuals could anonymously report inefficiencies and waste in government operations. In 2004, the Board enacted Chapter 2.206 of the Ordinance Code (the "Whistleblower Ordinance") (subsequently amended and renumbered as Sections 2.14.060 through 2.14.100) to establish a process by which improper governmental activity could be reported anonymously and adequately addressed by the County.

DISCUSSION:

Businesses, whether private or public, depend upon a high standard of ethical behavior by their employees as well as a strong system of internal controls to support the County's internal control framework. By preventing, to the extent possible with reasonable resources, unethical behavior and/or internal control failures, public confidence in the stewardship of their resources is maintained. Maintaining high ethical standards and a strong framework of internal controls reduces, but does not eliminate, the risk of misuse of taxpayer resources.

As the economics of local governments continue to require our employees to manage more resources with decreased personnel, the risk of breakdowns in ethical behavior and the system of internal controls increases. According to the Certified Fraud Examiners 2012 Report to the Nation on Occupational Fraud & Abuse, it is estimated that US organizations will lose 5% of their annual revenue to fraud. Our goal is to continually improve the County's

processes that help ensure employees remain aware of the importance of their role to maintain an ethical work environment and strong system of internal controls. Exhibit A of this memo details how the five recommendations below will support the County's framework of internal controls to maintain and improve these core behaviors.

The proposed initiatives to improve the County's processes and procedures that enhance and maintain a high level of ethical behavior and financial internal controls at the County will consist of:

1. Consolidation of all guidelines and procedures for the reporting of suspected fraud, waste, and abuse into a single web-based access point for employees;
2. Improvement of the County's response structure to reports of suspected fraud, waste, and abuse that enhances independence and confidentiality as well as appropriate reporting and follow-up of fraud, waste and abuse;
3. Implementation of continuous required training related to each employee's responsibility for supporting ethical behavior, preventing, identifying and reporting fraud, waste and abuse, and performing their internal accounting control responsibilities;
4. Expansion of the Controller's Office's use of analysis software that can identify unusual financial activities that may point to errors, fraud, non-compliance and internal control weaknesses; and
5. A one-time independent evaluation of the Controller's Internal Audit Division's current practices to align with best-in-class use of County resources relative to risk of internal control weaknesses.

The recommended initiatives would require an estimated initial investment of \$262,600 for FY 2012-2013. We anticipate on-going expenses of approximately \$70,000 - \$80,000 per fiscal year, which would be brought before the Board at a future date.

Approval of this action to enhance the County's ethics and internal control framework will contribute to the 2025 Shared Vision Collaborative Community goal by improving fiscal accountability.

FISCAL IMPACT:

The recommended initiatives require an estimated initial investment of \$262,600 for FY 2012-2013, and on-going expenses of approximately \$70,000 - \$80,000 annually, which would be brought before the Board at a future date. There is no Net County Cost impact since this initiative is being funded by Non-Departmental Reserves and will be expended from Non-Departmental Services and Supplies.