

Controls Self-Assessment Program Restart

Summary

The 2007-2008 Ventura County Grand Jury (Grand Jury) reviewed the Controls Self-Assessment Program (CSA), which is the primary source for maintaining internal controls and performing risk assessments within Ventura County Departments and Agencies. The CSA was initiated in 2004 by the County Executive Officer (CEO) and the Auditor-Controller (A-C) as a process to be completed during each three-year period. The 2006-2007 Grand Jury Report "Ventura County: Failure to Audit," noted that the CSA Program was never completed. The CSA Program was restarted in 2007, and the main thrust of this report is to review the implementation.

The Grand Jury found that the CEO, appointed by the Board of Supervisors (BOS), and the A-C, an elected official, jointly head the CSA, which is a mandatory program for all County agencies and departments. The Grand Jury also found that staffing issues within the Audit Department are ongoing concerns that have affected the follow-up and completion of the CSA. Additionally, the success of the CSA depends on the efforts of agencies and departments to perform complete self-assessments, yet early in the three-year cycle, submittal dates were missed by several organizations.

The Grand Jury recommends that to improve the CSA process, the CEO and the A-C should formalize the roles and responsibilities for each of their organizations. Additionally, the A-C and the Human Resources Director should analyze and resolve the staffing issues within the Audit Department.

Background

"County management is responsible for establishing and maintaining an adequate system of internal control. The Auditor-Controller is responsible for periodically verifying that adequate internal controls are maintained." [Ref-01]

"Under existing ordinances, the County Executive Officer shall, in cooperation with the Auditor-Controller, supervise, direct, review, and maintain an adequate internal auditing system." [Ref-02]

"Internal controls are necessary to ensure public accountability . . ." and "Serves to satisfy a variety of external regulatory mandates, such as accounting standards, grants, and audit requirements." [Ref-01]

"Continual assessment ensures that internal controls are functioning as intended to accomplish management's objectives. The assessment process yields:

- Increased awareness of potential business risks.
- Ideas to increase operational efficiency.
- Fine-tuning of processes to improve effectiveness.

- Increased communication and staff awareness of internal controls." [Ref-01]

The Ventura County 2006-2007 Grand Jury issued a report, "Ventura County: Failure to Audit", which documented findings and concerns with the implementation of the CSA. Not all departments and agencies completed the initial implementation self-assessments and there was a lack of follow through in the Audit Department and, as a result, the 2004 CSA was never completed. As a consequence, the A-C has updated the CSA, developed an enhanced questionnaire, and issued it with updated instructions.

The Grand Jury completed a review of the restart of the CSA and its implementation. The 2007 CSA will continue through the three-year cycle before completion.

Methodology

The Grand Jury used the 2006-2007 report, "A Failure to Audit" and the responses as background information. The Grand Jury interviewed various County appointed and elected heads and support staff from large and small organizations.

The initial input CSA documents were reviewed for approach and content.

Findings

CSA Process

- F-01.** A tri-annual Departmental Internal Control Self-Assessment Program was initiated by the A-C and the CEO in February 2004. The current CSA requires every department to be responsible for reviewing its internal controls, determining risk areas within its operations, and strengthening its internal control structure.
- F-02.** The CSA is mandatory for all County agencies and departments.
- F-03.** The A-C is responsible for development, implementation, and follow through of the CSA.
- F-04.** Management is responsible for establishing an effective system of internal controls to ensure compliance with laws and regulations under government auditing standards.
- F-05.** The CSA is primarily focused on financial controls versus operational controls.

Organization Structure

- F-06.** Pursuant to Government Code §26883, the A-C is directed to perform audits of the County.
- F-07.** The CEO and the A-C coordinate to assure that agencies and departments comply with CSA due dates.

- F-08.** According to Ordinance 4235, "The CEO shall in cooperation with the Auditor Controller, supervise, direct, review, and maintain an adequate internal auditing system."
- F-09.** A County Executive Committee, consisting of all agency and department heads, holds monthly meetings. The CSA status is an agenda item as required.
- F-10.** The BOS approves the budgets of elected officials and appointed agency/department heads.
- F-11.** The CEO is responsible for overseeing CSA corrective actions by all agency and department heads.
- F-12.** The A-C issues audit reports and makes recommendations. County agencies and departments provide responses to the A-C regarding the implementation of recommendations. The CEO is involved with issues regarding implementation of recommendations.
- F-13.** A risk assessment is an outcome of the CSA. The A-C is responsible for conducting a county-wide risk assessment of all agencies and departments.
- F-14.** The office of CEO supports the CSA by assuring that agencies and departments, both elected and appointed, know their responsibilities and follow through as requested.
- F-15.** CEO Program Management Analysts are assigned to follow-up if a compliance issue is identified in an audit.
- F-16.** CEO Program Management Analysts participate in both entrance and exit interviews on departmental audits.

Audit Department

- F-17.** In the A-C response to the 2003-2004 Ventura County Grand Jury report, "Anatomy of an Audit," the A-C stated, "We do not have sufficient audit resources to establish a meaningful audit program for the County." [Ref-03]
- F-18.** In the A-C response to the 2006-2007 Grand Jury report, "Ventura County: A Failure to Audit," the A-C agreed with a finding that "As a result of staff reductions in the Audit Division, no follow-up or review of the Internal Control Self-Assessment Questionnaire has been done," which referred to the 2004 CSA Program. [Ref-04]
- F-19.** After the addition of one auditor in February 2008, there were two unfilled auditor positions. The A-C office staff auditors each have less than three years auditing experience.
- F-20.** The A-C develops the fiscal year Audit Plan for the County based upon criteria such as legal mandates, audit requests, financial exposure, and potential risk of loss.
- F-21.** The 2007-2008 Audit Plan for the County includes an estimate of 6,760 planned audit hours.

- F-22.** The 2007-2008 Audit Plan for the County includes an estimated 14,340 hours of Future Potential Audits, as identified by the A-C and requests from others, that will not be accomplished in the current fiscal year due to the lack of auditors.
- F-23.** The 2007-2008 Audit Plan for the County contains 800 auditor hours to support the CSA.
- F-24.** The A-C has the funding and flexibility to contract additional audit tasks within the total A-C budget.
- F-25.** Not all contracted auditors have knowledge of County operations, which requires training and staff support.
- F-26.** Contracted auditors are typically limited to seasonal lower level assignments.
- F-27.** The A-C budget includes senior level audit positions; however, current and past practice is to hire less experienced auditors due to market conditions.
- F-28.** In order to improve the CSA, audit procedures now provide for staff auditors to meet with agency and department staff to provide guidance and implementation assistance and to help identify areas of potential financial exposure.
- F-29.** County policy allows for flexibility to hire at a higher “step” level and thus hire auditors at a higher pay rate within a job classification.
- F-30.** Focused advertising and utilization of recruiting can be utilized in addition to traditional recruiting processes.
- F-31.** The Human Resources Department has not conducted a formal study of compensation for internal auditors.
- F-32.** There are limited career paths and growth opportunities for auditors within the audit department; however, upward mobility has been achieved by transferring to other opportunities within the County.

Responsiveness

- F-33.** The CSA Program was revived in 2007 after the initial 2004 Program was not completed.
- F-34.** The initial 2007 input date for submitting the names of CSA coordinators was July 31, 2007. Fourteen of twenty-six organizations (54%) failed to meet the due date. Six organizations had not complied by October 10, 2007.
- F-35.** As of November 1, 2007, four of twenty-six departments (15%) had not submitted the CSA inputs due October 31, 2007. The A-C had been notified that the date would not be met prior to the due date.
- F-36.** The Treasurer-Tax Collector will participate in the mandatory 2007 CSA, using the 2004 CSA questionnaire completed in January 2007, in conjunction with extensive external audits.

- F-37.** The BOS will be informed by the CEO and the A-C when a department or agency has not complied with CSA requirements.
- F-38.** A joint report, dated December 18, 2007, was submitted by the CEO and the A-C to the BOS regarding status of A-C, CEO, and departmental efforts on the CSA. [Att-01]
- F-39.** A subsequent report, dated January 29, 2008, was submitted by the A-C to the BOS describing CSA participation, preliminary status of internal controls, and next steps to be taken. [Att-02]

Conclusions

- C-01.** The CSA is the primary source for internal controls and risk assessment within the County. (F-01 through F-05)
- C-02.** Effective recruitment of staff auditors is an ongoing problem that has negatively impacted County auditing capability. (F-17 through F-32)
- C-03.** Retention of staff auditors is an ongoing problem that has negatively impacted County auditing capability. (F-17 through F-32)
- C-04.** There is no formal process or procedure between the A-C and the CEO to ensure compliance with the CSA. (F-06 through F-32)
- C-05.** CSA responses to the A-C were not timely. Due dates were widely missed. (F-33 through F-39)

Recommendations

- R-01.** The A-C and the CEO should document the roles and responsibilities for each of their organizations for the CSA and include them in the County Administrative Policy Manual. (C-04)
- R-02.** The A-C and the Human Resources Director should jointly conduct a comprehensive study to resolve staffing, recruiting, and retention issues in the Audit Department, and provide the results and recommendations to the CEO and the BOS. (C-02, C-03)
- R-03.** The A-C and the CEO should issue joint quarterly reports to the BOS regarding compliance of findings and recommendations for agency and department control issues. The report should be incorporated in quarterly reports of departmental compliance with the CSA to the BOS. (C-01, C-05)
- R-04.** The A-C should develop a plan to increase the use of contract audit firms to resolve the backlog of potential discretionary audit areas that are identified each year in the Audit Plan for the County which cannot be completed by existing County staff. (C-02)

Responses

Responses Required:

Board of Supervisors, County of Ventura (R-02, R-03)

Auditor-Controller, County of Ventura (R-01 through R-04)

Responses Requested:

County Executive Officer, County of Ventura (R-01 through R-03)

References

- Ref-01 County of Ventura "Internal Control Guidelines and Control Self-Assessment Program – 2007"
- Ref-02 Ventura County Ordinance 4235
- Ref-03 2003-2004 Ventura County Grand Jury report, "Anatomy of an Audit," including responses
- Ref-04 2006-2007 Ventura County Grand Jury report, "Ventura County: A Failure to Audit," including responses
- Ref-05 FY2007-2008 Audit Plan, County of Ventura

Attachments

- Att-01 Letter from County Executive Officer and Auditor-Controller dated December 18, 2007 to the Board of Supervisors titled, "Report on the County's Internal Control Self-Assessment Program."
- Att-02 Letter from Auditor-Controller dated January 29, 2008 to the Board of Supervisors titled, "Auditor-Controller Report on Ventura County's 2007 Control Self-Assessment Program."

Attachment–01
Report on the County’s Internal Control Self-Assessment Program

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COUNTY EXECUTIVE OFFICE
JOHN F. JOHNSTON
County Executive Officer

December 18, 2007

Board of Supervisors
800 South Victoria Avenue
Ventura, CA 93009

SUBJECT: Report on the County's Internal Control Self-Assessment Program

RECOMMENDATION: Receive and File

DISCUSSION:

In 2004, the Auditor-Controller and County Executive Offices jointly established the Control Self-Assessment (CSA) Program, a copy of which is attached for your reference. The CSA Program was designed as a triennial program for department heads to report on their department's systems of internal control, which are the processes and procedures management establishes to mitigate business risks. The Auditor-Controller is responsible for periodically verifying that adequate internal controls are maintained.

In June of this year, the guidelines for this Program were updated and provided to County agencies and departments, initiating the second round of internal assessments. All agencies and departments were requested to have their reports completed by October 31, 2007. Most departments have completed their CSA by using one of three tools:

- The Department Internal Control Questionnaire – This method provides a question and answer format helpful to evaluate common internal control areas.
- Risk & Control Matrix – This method is useful for evaluating specific program functions and/or business processes. This customized matrix incorporates the results of the department's risk assessment and directly correlates risks to control activities.
- Risk & Control Worksheet – Similar to the Risk & Control Matrix, this method yields specific information and integrates well with discussions on strategic planning.

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Due to staffing limitations in two agency/departments (Area Agency on Aging and Information Technology Services) completion of this phase of the process was extended to a later date established in concert with the Auditor-Controller. Additionally, having completed the overall assessment, some departments elected to complete a deeper level of review of their sub-divisions and/or program areas, which should be completed over the next several months.

Next Steps

Completion of this documentation is one of the early steps in the Program process. After receipt of this information, the Auditor-Controller plans to:

- Review each department's findings, assess weaknesses noted, and report on the status of County internal controls.
- Validate and report on department responses, including meeting with departments to review findings and assessments, evaluating action plans to improve internal controls, and obtaining feedback on the Program and how it can be improved.
- Follow-up with departments to verify that improvement plans have been implemented, and report on the results of follow-up reviews.

These steps will be performed in phases over the next 3 years. We will provide quarterly reports to the Board the first of which is due at the end of January 2008. In 2010, the CSA Program will be re-initiated for departments to assess internal controls once again in accordance with the Program objectives.


JOHN F. JOHNSTON
County Executive Officer


CHRISTINE COHEN
Auditor-Controller

Attachment:
"Internal Control Guidelines and Control Self-Assessment Program – 2007"

Attachment-02
Auditor-Controller Report
Ventura County's 2007 Control Self-Assessment Program

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CHRISTINE L. COHEN
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CHIEF DEPUTIES
LOUISE WEBSTER
SANDRA BICKFORD
BARBARA BEATTY
JOANNE McDONALD

January 29, 2008

Board of Supervisors
County of Ventura
800 South Victoria Avenue
Ventura, California 93009

**SUBJECT: AUDITOR-CONTROLLER REPORT ON VENTURA COUNTY'S
2007 CONTROL SELF-ASSESSMENT PROGRAM**

RECOMMENDATION: Receive and file.

INTRODUCTION:

The fundamental objective of the Control Self-Assessment (CSA) Program is to further the County's accountability to the public. This accountability encompasses four areas:

- Safeguarding of assets
- Effective and efficient operations
- Compliance with laws and regulations
- Reliable financial reporting

The CSA Program is a collaborative effort to identify and evaluate controls over risks (i.e., internal controls), which impact these areas. A department's management and staff are in the best position to assess internal controls. Therefore, the strongest internal controls exist when all County management and staff actively and knowledgeably work together to make internal controls effective.

PARTICIPATION:

All of the County's 26 departments and agencies were requested to participate in the County's 2007 CSA Program. As of January 7, 2008, all departments have submitted their CSA reports.

Twenty-two (85%) of the reports covered the entire department. The following departments submitted reports by budget units, all of which have not yet been submitted. The remaining budget units will be submitted within the Program's triennial period.

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1. County Executive Office
2. General Services Agency
3. Probation Agency
4. Resource Management Agency

PRELIMINARY STATUS OF INTERNAL CONTROLS:

Each department's internal control assessments were categorized into eight internal control areas. The following table shows for these areas the number of departments noting internal control deficiencies and the number of weaknesses or improvements identified by the departments.

| Internal Control Area | Departments Reporting Deficiencies | | Weaknesses or Improvements Identified | |
|------------------------------|------------------------------------|------------|---------------------------------------|--------------|
| | Number | % of Depts | Number | % Identified |
| Fiscal Administration | 22 | 85% | 70 | 13% |
| Cash | 23 | 88% | 157 | 29% |
| Revenue and Receivables | 18 | 69% | 113 | 21% |
| County Property | 17 | 65% | 45 | 8% |
| Purchasing and Payables | 19 | 73% | 61 | 11% |
| Financial Data and Reports | 14 | 54% | 40 | 8% |
| Payroll | 13 | 50% | 29 | 6% |
| Legal and Program Compliance | 11 | 42% | 21 | 4% |

The most frequently noted improvement tasks were:

- **Fiscal Administration:** Develop and update desk manuals and policies and procedures.
- **Cash:** Improve segregation of duties. Strengthen control over receipts. Review and reconcile funds more frequently.
- **Revenue and Receivables:** Improve segregation of duties. Strengthen accounts receivable control, reporting, past due follow-up, and assessment of late fees.
- **County Property:** Implement procedures to ensure complete and accurate inventory and identification of assets.
- **Purchasing and Payables:** Improve control over supporting documents and credit card possession.

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- **Financial Data and Reports:** Enhance training and knowledge of reporting systems. Reconcile reports to the Ventura County Financial Management System (VCFMS).
- **Payroll:** Improve segregation of duties. Review checks before distribution.
- **Legal and Program Compliance:** Improve training and reviews of programs.

NEXT STEPS:

The CSA Program guideline contained six implementation steps:

1. Perform a Risk Assessment.
2. Identify Control Activities.
3. Select and Customize CSA Tools.
4. Perform Test of Control Activities.
5. Document the Results of Testing.
6. Maintain Documentary Evidence of Risk Assessment and CSA Performed.

Auditor-Controller staff will meet with each department to evaluate and report on each department's implementation of these steps, including:

- Validating CSA responses and verifying the documentation and thoroughness of the department's internal control assessments.
- Augmenting the department's assessment of internal control weaknesses and improvements from validation results.
- Assisting the department in preparing or refining an internal control improvement plan based on their CSA, resources, and time commitments.

We recognize and appreciate the time and effort taken by the departments in performing their internal control self-assessments. We will endeavor to assist the departments with their on-going efforts to improve and maintain effective internal controls.

This letter has been reviewed by the County Executive Office and County Counsel. If you have any questions, please contact me at 654-3151.

Sincerely,



CHRISTINE L. COHEN
Auditor-Controller

cc: John F. Johnston, County Executive Officer
Noel A. Klebaum, County Counsel

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