

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Marty Robinson, County Executive Officer

Date: September 29, 2010

From: Christine L. Cohen

Subject: SUMMARY OF AUDITS TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT

We have completed our audits to validate the Control Self-Assessments (CSAs) completed by five County agencies/departments during 2007 and to evaluate the effectiveness of departmental execution of the 2007 CSA Program. The audits were performed as a component of the County's CSA Program, which was established to promote strong internal controls throughout the County. We issued five separate audit reports during September 2009 through May 2010 to the following agencies/departments: (1) Treasurer-Tax Collector; (2) Health Care Agency; (3) Human Services Agency; (4) Public Administrator-Public Guardian; and (5) District Attorney. The audits were performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

EXECUTIVE SUMMARY

Overall, we found that the five departments conscientiously completed the Internal Control Questionnaire (ICQ) tool provided in the *Internal Control Guidelines and Control Self-Assessment Program*. Generally, the entire department was included in the CSA and input was provided by appropriate fiscal managers and staff. As a result of the CSA, 4 departments identified 25 potential internal control improvements; upon further evaluation, departments determined that 7 (28%) improvements were not necessary. Consequently, two (40%) of the five departments did not make any internal control improvements. We also verified that selected control activities were generally in place and operating effectively as indicated by the department's responses in the ICQ.

However, we found that opportunities existed to improve departmental performance of the CSA and thus further strengthen internal controls and mitigate risks. Specifically, the self-assessment of internal controls could be improved by:

- Documenting a formal risk assessment to support management's assertion that various departmental risks were considered and addressed during the performance of the CSA.
- Customizing the assessment tool to reflect facts, conditions, and risks relevant to the department.
- Conducting and documenting detailed tests of controls as appropriate.
- Preparing an improvement plan specifying actions needed, designated personnel, and completion dates.
- Exploring internal control questions in more depth.

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County Executive Office management planned to address these issues during the next CSA triennial cycle, which is scheduled to begin in 2010.

We appreciate the cooperation and assistance extended by you and your staff during this engagement. We also appreciate the feedback we received on the CSA Program, which we intend to evaluate before re-launching the CSA Program.

Attachment

cc: Honorable Kathy Long, Chair, Board of Supervisors
Honorable Linda Parks, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Peter C. Foy, Board of Supervisors
Honorable John C. Zaragoza, Board of Supervisors

County of Ventura
Office of the Auditor-Controller



SUMMARY OF AUDITS TO VALIDATE
THE 2007 CONTROL SELF-ASSESSMENT

September 29, 2010

Christine L. Cohen
Auditor-Controller

SUMMARY OF AUDITS TO VALIDATE
THE 2007 CONTROL SELF-ASSESSMENT

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SUMMARY OF AUDITS TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT

INTRODUCTION

This report is a summary of our individual departmental audits to validate the 2007 Control Self-Assessments (CSAs) performed Countywide. These audits were performed as a component of the County's CSA Program, which was established to promote strong internal controls throughout the County.

BACKGROUND

In 2004, the County Executive Office (CEO) and the Auditor-Controller jointly established the County's CSA Program. The CSA Program was designed as a triennial program for department heads to formally assess and report on the status of internal controls at least once every 3 years.

In June of 2007, all County departments were asked to participate in the second triennial cycle of the CSA Program using the County's *Internal Control Guidelines and Control Self-Assessment Program (Guidelines)*. All of the County's 26 departments participated throughout the 3-year period, most submitting final CSA reports to the Auditor-Controller by the initial due date of October 31, 2007. Departments identified over 400 internal control weaknesses or improvements needed as a result of the 2007 CSA.

SCOPE

Our overall audit objective was to evaluate the effectiveness of departmental execution of the 2007 CSA Program. We selected five departments to validate as follows: (1) Treasurer-Tax Collector; (2) Health Care Agency; (3) Human Services Agency; (4) Public Administrator-Public Guardian; and (5) District Attorney. Specifically, we:

- verified the performance of an appropriate risk assessment;
- determined whether the tool used to conduct the CSA effectively assessed internal controls;
- evaluated the completeness of the CSA;
- verified that tests of control activities were performed; and
- evaluated the thoroughness and effectiveness of the internal control improvement plan.

With guidance from the departmental CSA Coordinators, we reviewed the processes followed to accomplish the CSA and conferred with key personnel who contributed to the CSA's completion.

To verify the CSA responses, we performed audit tests of selected control activities at the divisions reviewed by four of the five departments. We did not perform tests of controls for one department due to extensive internal control work conducted over the past 3 years by an external firm. Specifically, we performed limited tests of certain control activities in the following areas by tracing transactions, reviewing documentation, observing procedures, and/or discussing controls with management and staff, as appropriate:

- Fiscal administration
- Cash
- Revenue and receivables
- County property and information system assets
- Purchasing, payables, and credit cards
- Internal and external financial data and reports
- Payroll
- Compliance with legal and program requirements

The audits were performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. For our audits, we used documents and records for the period January 2007 through November 2009.

FINDINGS

Overall, we found that each department generally made a conscientious effort in conducting the CSA. Fiscal managers and appropriate staff from each division reviewed were involved in conducting the CSA. Each department that we validated used the Internal Control Questionnaire (ICQ) tool provided in the *Guidelines*, which contained each department's answers to over 140 internal control questions.

The five departments that we validated answered "Yes" to 86 percent of questions on the ICQ, "No" to 2 percent, and "Not Applicable" to 12 percent.¹ Upon evaluation of each general control area (e.g., cash, accounts receivable, etc.), 4 departments identified a total of 25 potential internal control improvements; however, after further evaluation, department management determined that 7 (28%) of these improvements were not necessary. Consequently, two (40%) of the five departments did not make any internal control improvements as a result of the CSA. For the remainder, identified improvements included such matters as cash security, employee training, automated reports, hiring of additional staff, performing annual comprehensive reviews of management operations, and asset tracking. We also confirmed that departments were generally proactive in implementing these improvements.

However, we encourage departments to further enhance the performance of the CSA to more fully derive the benefits of participating in the CSA Program. Specifically, improvements could be achieved by documenting a formal risk assessment of significant functions to better determine whether internal control activities adequately mitigate risks to the accomplishment of departmental goals and objectives. Also, the ICQ tool used could be more effective with modifications to reflect particular facts, conditions, and risks relevant to specific departmental operations. Additionally, the method of verifying internal controls could be enhanced by performing detailed tests of controls in significant areas. Further, fully developing improvement plans and designating responsible personnel and completion dates would facilitate the accomplishment of improvement actions. Also, our tests of selected control activities disclosed internal control weaknesses that were not identified by two departments during the CSA.

Following are details of the areas where the performance of the CSA could be improved. CEO management planned to implement corrective action during the next CSA triennial cycle, which is scheduled to begin in 2010. The Auditor-Controller is planning changes to the 2010 CSA Program whereby departments will be required to complete and submit the Risk Worksheet included in the *Guidelines* in addition to the ICQ. This will help ensure that departments perform an adequate risk assessment that

¹ While a "Yes" answer indicated that internal controls were in place and operating effectively for those areas, a "No" or "Not Applicable" answer did not necessarily suggest that the internal control area should be noted as a deficiency in need of improvement.

includes an expanded, comprehensive review of significant processes across the entire agency. We plan to introduce these changes at our orientation meeting(s) for the 2010 CSA Program.

1. **Risk Assessment.** A risk assessment of significant processes within all five departments was not documented to support that various risks were considered and addressed during the CSA. The importance of performing a risk assessment is stressed in the *Guidelines* and is the first step of "Steps to CSA" within *Appendix B: Department Implementation Guidelines*. A risk assessment evaluates the possible internal or external risks relevant to the achievement of a department's mission, goals, and objectives, and considers the effect of "what can go wrong" scenarios. As processes change due to the dynamics of accomplishing a department's mission and other improvement endeavors, such as through participation in the County's Service Excellence Program, a risk assessment helps to ensure that effective controls are in place and are maintained. Without a proper, documented risk assessment of departmental risks, certain significant programs, functions, and processes may not be addressed during the CSA.

Management Action. CEO management stated: "Overall, the CEO views the CSA as a good tool to help management evaluate their department internal controls. However, in our opinion the emphasis on the CSA should be on accounting related controls and not management related controls. There appears to be a disconnect between the risk assessment as continually performed by management and the documentation of such risk assessment as requested by the Auditor-Controller in conjunction with the CSA. The continuous risk assessment performed by management needs to be acknowledged as an effective means of mitigating risk. We recognize that the Auditor-Controller will be requiring submission of the standardized CSA tools for the agencies to use for documentation of their risk assessment, which we believe may resolve these variations in future CSAs."

2. **Assessment Tool.** The ICQ tool used by all five departments to assess internal controls was not modified to ensure the inclusion of control activities for all significant processes. We also noted that one department assessed controls for a limited portion of the agency to focus solely on cash-related operations. The ICQ provided in the *Guidelines* is generic in nature and designed to evaluate common internal control areas, focusing mainly on fiscal controls. As noted in *Appendix D: Department Internal Control Questionnaire*, the questionnaire is a starting point that should be modified to reflect particular facts, conditions, and risks relevant to each department's own circumstances. Modifying the assessment tool to expand into fiscal and compliance controls not addressed in the ICQ as well as operational areas increases the effectiveness of the CSA.

Management Action. CEO management stated: "Although the CEO believes that minimal modifications should be required of the Internal Control Questionnaire to achieve desired results of the CSA, we recognize that each County department has unique operations. Fundamentally, the Internal Control Questionnaire is a good tool for assessing management's adherence to internal accounting controls. We recommend the emphasis should be primarily on accounting controls and less emphasis on management controls of operations. We believe that the Auditor-Controller's plans to require completion of the Risk Worksheet will address the other significant areas of departmental controls that are not covered in the Internal Control Questionnaire."

3. **Method of Verification.** Departments could improve the method of verifying that control activities were in place and operating effectively during the CSA. Within *Appendix B: Department Implementation Guidelines*, departments were encouraged to test control activities and retain

supporting documents used to draw conclusions during the review. Of the ICQ questions answered, an explanation was provided by three of the five departments for virtually every question of how departments verified whether internal controls were adequate (i.e., through observing operations, reviewing documentation, and/or discussing the matter with personnel). However, although management stated that actual detailed tests of controls were performed for some activities during the CSA, documenting the tests performed would provide support that the departments did verify the effectiveness of controls for purposes of the CSA.

Management Action. CEO management stated: "The CEO agrees that management should be responsible to verify that control activities are in place and operating effectively. The Auditor-Controller could identify and provide to departments good, generally accepted testing techniques during the planned orientation meeting(s), as it would help departments focus on areas where detailed tests may be performed."

4. **Internal Control Improvement Plan.** The departments' internal control improvement plans could be enhanced to facilitate the accomplishment of the improvements that the departments identified as a result of the ICQ. As noted in *Appendix B: Department Implementation Guidelines*, one of the significant outcomes of the CSA is an improvement plan developed and self-directed by the department to address control deficiencies. The *Guidelines* also instruct departments to summarize the improvement plan on the *Department Transmittal* submitted to the Auditor-Controller and identify the person(s) responsible to implement improvements and the estimated date of completion. However, although 4 of the 5 departments identified a total of 25 improvements within the body of the ICQ, the improvements were generally not summarized into a comprehensive plan, identifying the impacted division and delegating responsibility and completion dates. In addition, certain improvements were not fully developed to adequately describe the corrective actions needed.

Management Action. CEO management stated: "The CEO agrees that when a deficiency is identified by the CSA there should be a plan to correct such deficiency. Our office will use the CSA report as a mechanism to follow-up with departments on corrective action plans."

5. **Tests of Selected Control Activities.** During our tests of selected control activities, we noted areas where internal controls were not always adequate. Specifically, we identified internal control weaknesses in two of the four departments for which we tested internal controls that related to security over surveillance cameras and the timeliness of collection notices. We acknowledge that selecting which tests to perform is a matter of judgment to be determined by the departments during the CSA. However, these potential internal control concerns surfaced during our validations when we asked just a few cursory questions for certain items on the ICQ. Therefore, the depth of departmental consideration of the internal control questions may be lacking, which could affect the quality of the CSAs performed in the future.

Management Action. CEO management stated: "The CEO believes education of the departments is a key issue related to the effectiveness of the CSA. We believe that the Auditor-Controller's planned orientation meeting(s) to provide more up front education regarding the role of internal controls and the reasoning supporting the CSA will help departments during this process. In addition, involvement by our Program Management Analysts during the departments' self-assessments should provide a perspective to facilitate a deeper consideration of internal controls. A partnership approach between the departments, the Auditor-Controller, and the CEO could add more value to the CSA."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions were responsive to the findings. Management planned to address actions needed during the next CSA triennial cycle.