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RECEIVED

July 17, 2003

Honorable Bruce A. Clark
Presiding Judge of the Superior Court
Ventura County Hall of Justice
800 South Victoria Avenue
Ventura, CA 93009-2130

RE: RESPONSE TO GRAND JURY REPORT ON *INDEPENDENT AUDITING WITHIN VENTURA COUNTY GOVERNMENT*

Dear Judge Clark:

In accordance with California Penal Code section 933.05, the Auditor-Controller's Office provides the following responses to the 2002-2003 Ventura County Grand Jury report entitled *Independent Auditing within Ventura County Government*.

We appreciated the Grand Jury members' interest in the audit process, awareness of the auditing standards involved, and observations and comments on internal controls. However, we were disappointed that the Grand Jury did not allow us the opportunity to comment and provide or obtain clarifying information before the report was finalized. Therefore, we were left in a position of questioning and unilaterally determining whether certain statements and conclusions were accurate, thereby weakening the credibility of the report.

The report impacts the reputation of the audit function process, which is a major function of this office. Therefore, the Auditor-Controller Office's comments include responses to all the findings, conclusions and recommendations listed, not only those for which a response was requested from this office. (Please see Attachments I, II, and III, respectively.)

Summary of responses:

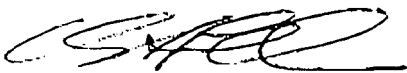
1. We believe the Board of Supervisors is aware of the importance of internal audits by the Auditor-Controller. In a time of limited budgets, the Board of Supervisors is faced with the very difficult task of balancing priorities. However, the internal audit function within the Auditor-Controller's Office should be strengthened, particularly in light of difficult financial circumstances. Over the last two years the audit function has identified over \$1.6 million in cost savings to the County of Ventura.

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2. The citizens of the County of Ventura recognize and appreciate the importance of the elected, independent Auditor-Controller. This strengthens the checks and balances and segregation of duties within the County and reduces potential for conflicts of interest.
3. The independence of the elected Auditor-Controller and the internal audit function has been maintained. Developments with respect to the new audit standards continue to be monitored, and this office will actively participate with the State Association of County Auditors and the State Controller in developing applicable standards for California Auditor-Controllers.
4. The collegial approach to performance and compliance audits provides the best results in achieving the goal of corrective action. A more aggressive approach is used during audits involving fraud or other highly serious issues.
5. Internal controls are continually monitored. In fact, such monitoring has led to the development of a Departmental Internal Control Self-Assessment Review program targeted for implementation in the third quarter of 2003. We will work with the County Executive Office to develop final internal control strategies as needed.

If you have any questions or need additional information, please call me at (805) 654-3151.

Sincerely,



CHRISTINE L. COHEN
Auditor-Controller

Enclosures

cc: ✓ Grand Jury
Honorable Judy Mikels, Chair, Board of Supervisors
Honorable Steve Bennett, Vice Chair, Board of Supervisors
Honorable Linda Parks, Board of Supervisors
Honorable Kathy I. Long, Board of Supervisors
Honorable John Flynn, Board of Supervisors
John F. Johnston, County Executive Officer

ATTACHMENT I**FINDINGS****Finding F-1:**

The Board of Supervisors has the fiduciary responsibility for all County government.

Response:

We concur with the Grand Jury's finding.

Finding F-2:

The County Executive Officer is the Board of Supervisors' agent in implementing the County's internal control system.

Response:

We partially concur with the finding. The internal control system is management's responsibility, which includes not only the County Executive Officer as agent to the Board of Supervisors, but also the management of each County department.

Finding F-3:

The Auditor-Controller is the Board of Supervisors' agent for implementing an independent audit.

Response:

We partially concur with the finding. As an independently elected official, the Auditor-Controller is also directly accountable to the citizens of the County for implementing an independent audit.

Finding F-4:

With respect to the new auditing standard, the Board of Supervisors is the head of County Government.

Response:

We generally concur with the finding. There are several new standards related to Government Accounting Office Amendment No. 3 Independence to Government Auditing Standards and the Sarbanes-Oxley legislation creating the Public Company Accounting Oversight Board. Sarbanes-Oxley is currently only applicable to public companies, not governments. Final interpretations applicable for the County and other local governments will evolve.

Finding F-5:

In the California Government Code, the Legislature has found that it is essential to establish audit procedures that conform to federal standards of independence and quality.

Response:

We partially agree with the finding. California Government Code section 53130 refers to audits of block grants and references Federal Standards of Independence and Quality. California Government

Code section 1236 requires that audit standards follow the audit procedures established by the Institute of Internal Audits (IIA). The status of current standards is evolving, with recent and evolving changes in the field of auditing standards under Generally Accepted Governmental Auditing Standards and General Accounting Office regulations. The exact applicability to local government internal audits with elected Auditor-Controllers and using under Generally Accepted Auditing Standards requires additional review.

Finding F-6:

In terms of full time employees, auditors represent a small fraction of the employees of the Office of the Auditor-Controller.

Response:

We concur with this finding. Audit staff represents seven of seventy-three positions.

Finding F-7:

Some of the other important business and accounting functions of the Auditor-Controller are:

- Claims and Disbursing
- Payroll
- General Ledger
- Reconciliation of Accounts
- Invoices/Billing
- Collections/Accounts Receivable
- Accounting for Fixed Assets
- Preparing the Comprehensive Annual Financial Report
- Maintaining and developing the County's Accounting System
- Overhead Allocations and Cost studies
- Accounts Payable

Response:

We generally concur with the findings. However, a number of important functions that are mandated by California statute to be performed by the County Auditor have been omitted, including:

- Calculating and distributing property taxes
- Debt accounting, monitoring and reporting
- Appropriation control
- Financial reporting and review of state quarterly and annual reports
- Publication of formal budget tabulation and adopted budget documents

- Cash control and monitoring
- Review of departmental and Countywide internal controls

Finding F-8:

In 1981, there were 17 auditors. By 1989, there were about a dozen auditors. Currently, there are six auditors.

Response:

We generally concur with the finding. Currently there are seven allocations, including the Chief Deputy.

Finding F-9:

In Fiscal Year (FY) 1981-1982, the Audit Division performed 55 audits. In Calendar Year 1989, 35 audits were on the agenda of the Board of Supervisors. In CY 2000, seven audits were on the agenda of the Board of Supervisors.

Response:

We actually concur with the finding; however, the paragraph is misleading. In FY 1981-82, the audits were primarily of federal grants and of financial statements. With the advent of the Single Audit Act of 1984, all audits of federal grants were consolidated into one audit performed by the outside auditors. As a result, the focus of the Internal Audit Division changed from accomplishing primarily federal grant and financial statement audits to accomplishing performance audits. Therefore, in addition to the reduction of staffing, the types of audits accomplished significantly reduced the number of reports issued. Since performance audits are addressed to department heads, such reports do not appear on the Board of Supervisors' agenda. However, copies of all audit reports are sent to members of the Board of Supervisors. During fiscal year 2000, we issued fourteen (14) audit reports as compared to the seven (7) reported by the Grand Jury.

Finding F-10:

The majority of areas that an internal audit would normally address are in the Auditor-Controller's operations, or areas where the Auditor-Controller sets accounting policy.

Response:

We disagree with the finding. The Auditor-Controller is operating in accordance with state government statutes. The new regulations focus on external audits and financial audits. There are options available to perform internal audits requiring further study. Internal audits include compliance, performance and operational audits. Internal audits involve areas outside of Auditor-Controller operations or accounting policy. Compliance with grant requirements and performance audits do not generally focus on Auditor-Controller operations, but focus on whether departments are in compliance with requirements set by the federal or state governments, and whether outcomes of particular programs have benefited from additional resources allocated to such programs.

Furthermore, it is important to distinguish between the accounting functions and the audit functions of the Auditor-Controller's Office. The Internal Audit Division is a separate and distinct division of the

Auditor-Controller's Office managed by a Certified Public Accountant. The division is not involved in the setting of accounting policy.

Finding F-11:

The current structure places the Auditor-Controller in a conflicting situation when there are differences between the Controller staff and the Audit staff.

Response:

We disagree with the finding as stated. We are not aware of differences between staff in our audit and other divisions.

Finding F-12:

The current audit policy was last issued in 1991 and revised in 1997. It supports a collegial approach to performing the auditing process, and states "audit reports will be discussed with the auditee staff and management. At this point, the focus will be on improving operations and correcting noted deficiencies in a mutually agreed upon manner. The auditee will be given the opportunity to initiate corrective actions on any noted weaknesses."

Response:

We partially concur. Although the above-stated finding is true, it is not complete. The same policy also states: "Every attempt should be made to resolve differences between the auditor and management relating to audit results. However, there are times when disagreements will occur, but neither the auditor nor management should concede if they believe their position is supportable and defensible."

Audits are not meant to make a department look bad or to publicly discredit a program, but to institute change. Change is better implemented with a cooperative approach. We have had great success with obtaining buy-in from management, when working cooperatively, to take corrective action and improve operations.

Finding 13:

On some audits the attitude engendered by the current collegial policy has led to excessive delays between the issuance of a preliminary report and a final report.

Response:

We disagree with the finding. Sufficient information was not provided to determine how the conclusion was reached and supported. However, all audit agencies, including the General Accounting Office, State Bureau of Audits and any other audit agencies accomplishing performance audits, face the dilemma of excessive delays. The delays are caused by a multitude of reasons. To imply that the cause is primarily the collegial policy is incorrect.

Finding F-14:

Past Boards of Supervisors had members participating in an Audit Advisory Board. For the current Board of Supervisors, visibility into the audit process had been limited to the end product.

Response:

We partially concur with the finding. During the mid-1980s an Audit Advisory Committee existed. It ended due to lack of attendance at meetings. The Auditor-Controller has always been available to the Board of Supervisors, and input is requested for audit planning purposes each year from the Board of Supervisors, department heads and County Executive Office. With the Fraud Hotline, semiannual reporting has been made to the Board of Supervisors.

Finding F-15:

The value to the Board of Supervisors of some audits is limited due to the excessive time taken to complete the audits.

Response:

We partially concur with the finding. Value remains for the Board of Supervisors when audits result in needed changes.

Finding F-16:

Current policy has led to the auditee having too strong an influence over the content of a final audit report.

Response:

We disagree with the finding. Sufficient information was not provided to determine how the conclusion was reached and supported. The finding makes a serious charge that the current policy compromises the independence of the audit function. Specific instance(s) where the auditor's independence may have been compromised is needed to address the issue.

Valid findings resulting from the audit process are not influenced by the auditee. The collegial approach allows the Auditee input in the development of corrective action.

Finding F-17:

Recent attempts to increase the size and expertise of the audit staff have been minimally successful.

Response:

We partially concur with the finding. It is difficult to find experienced performance auditors. The statement that recent attempts to increase the expertise of the audit staff have been minimally successful is not accurate. Sufficient information was not provided to determine how the conclusion was reached and supported. Of the audit staff of seven, four are certified public accountants, two have master degrees, two are certified internal auditors, and one is a certified fraud examiner. The technical certifications were acquired as County employees. Additionally, the audit staff has a combined total of more than sixty (60) years of performance auditing experience.

In addition, many former audit staff have been promoted to management positions within the Auditor-Controller's Office, other County departments, and in city and federal government positions, based on the progressive expertise they gained in the Audit Division.

Finding F-18:

The audit staff, in the recent past, was seen by County agencies as not possessing the depth of expertise necessary to do performance auditing of technical functions.

Response:

We disagree with the finding. As stated, the finding is misleading. As prescribed by the government auditing standards, the expertise of the entire audit staff must be considered in determining whether sufficient expertise is available to accomplish an audit. Therefore, an auditor who lacks the necessary expertise may still accomplish an audit if the expertise is available within the audit staff. County agencies could correctly perceive that the auditor-in-charge of a specific audit does not have the necessary expertise, but incorrectly perceive the same is true of the audit staff in general. Audits for which we do not have the necessary expertise are not undertaken. Under these circumstances, we contract out the audit.

Finding F-19:

There is no policy associated with a required response time to draft audits by audited departments. This deficiency has resulted in an inordinate time frame to complete some audits.

Response:

We disagree with the finding. The lack of a required response time has not resulted in an inordinate time frame to complete some audits. Lengthy delays are not resolved simply by establishing required response times. As stated previously, delays are caused by a multitude of reasons, the least of which is lack of a required response time. Based on past experience, required response times do not reduce delays.

Finding F-20:

The County Administrative Manual contains a number of topics associated with internal controls, but no explicit internal control policy, and no review mechanism.

Response:

We partially concur with the finding. The various County internal control policies follow standard internal control policies as reviewed by the County's outside auditors, currently KPMG. Policies are also described in the Notes to the Comprehensive Annual Financial Report, in year-end memorandums to all department heads and fiscal officers, and individual department policy statements.

The Auditor-Controller's Office Audit Division has developed a Departmental Internal Control Self-Assessment program, which is estimated to be distributed in the third quarter of 2003. Under this plan, every department will review its internal controls, determining the risk areas within its operations, and strengthen the internal control structure. It is envisioned that the first review will be an educational effort, with the assistance of the County Executive Office, and that future audits will assess compliance.

Finding F-21:

Each department, by the nature of its activities, has a unique set of internal controls.

Response:

We concur with the finding.

Finding F-22:

Efficient audits of a particular activity require an objective statement of internal controls. Such objective statements are not in evidence for some departments. This deficiency can lead to disputes between auditors and management that adversely impacts the timely completion of audits.

Response:

We generally concur with the finding. Discussion of internal controls is a normal part of an internal audit.

Finding F-23:

Given the small size of the audit office, the standard practice in the office is relatively inefficient in the following ways:

- A. Generally auditors work as individuals not as a team.
- B. There is no guidance or support provided to working auditors at the beginning of an audit.
- C. Feedback by middle management to the audit staff seems only to be provided after substantial effort has been expended.
- D. Training is limited.

Response:

We disagree with the finding.

- A: We always have and will continue to establish audit teams for complex and difficult audits. For regular and routine audits, individuals rather than teams are assigned to extend the breadth of audit coverage.
- B: As prescribed by government auditing standards, all audits are planned. The auditor initially accomplishes a survey and interacts with the Audit Chief to develop the audit justification/objectives, which are ultimately approved by the Auditor-Controller.
- C: Auditors are instructed to turn in work papers weekly, if completed, for review by the Audit Chief. The Audit Chief holds scheduled weekly meetings with each auditor to discuss the work papers and determine the status and progress of the audit. During the meeting, the auditor also has the opportunity to address concerns, difficulties, and problems with the audit.

D: The audit staff completes at least 80 hours of continuing professional education every 2 years, as prescribed by government auditing standards. Of the 80 hours, at least 24 must be related to governmental accounting or auditing. Additional funding would allow more training.

Finding F-24:

Some audit personnel consider the integrity of their efforts compromised by multiple negotiations engendered by the "collegial" approach.

Response:

We disagree with the finding. Although some staff may have personal feelings of compromise during the process, the results of the audit process are to strengthen and improve the policies under audit.

Finding F-25:

Other accounting standards identify the critical need of the internal audit organization to report to the audit committee of an organization, and not to the Auditor-Controller.

Response:

We disagree with the finding. There has been no specific ruling related to elected Auditor-Controllers. For external audits, the auditors would continue to conduct day-to-day operations with staff of the Auditor-Controller's Office while also reporting to the Audit Committee. The General Accounting Office revised Independence 3.30.2 provides a presumption of organizational independence to report externally if the audit organization's head is directly elected by voters of the jurisdiction being audited. The reporting to the Audit Committee is an enhancement.

This area is currently evolving, and documentation to date does not make the distinction of an independently elected Auditor-Controller, as provided by California law. We believe our audits remain independent.

Finding F-26:

The Benchmarking and Best Practices Survey of the National Association of Local Government Auditor (NALGA), for the year 2000, determined that internal auditing activities returned savings averaging \$3.36 per \$1.00 spent in internal audit costs. Also, the City of San Jose determined that, from May 1985 through June 2001, \$7.00 was returned for each \$1.00 of internal audit costs.

Response:

We partially concur with the finding. The benchmarking of activities should not be used to compare across entities that are inherently different. The purpose of benchmarking is to measure the outcome of a particular operation, not to make comparisons out of context. We believe increased audit functions will be beneficial to the County.

ATTACHMENT II**CONCLUSIONS:**Conclusion C-1:

The Board of Supervisors has the fiduciary responsibility to ensure the proper operation of County Government. This responsibility rests on two legs. The first leg is the development and operation of a system of internal controls. The second leg is an effective independent audit process to insure that the system of internal controls is effective. (F-1, F-2, F-3, F-4)

Response:

We concur with overall responsibility of Board of Supervisors. Internal controls and independent audit process are two methods to encourage effective fiscal operations of County Government. In addition, the Board ensures proper program operation of County Government, as well as other related duties.

Conclusion C-2:

The current structure of independent audit does not meet the independence criteria of Government Auditing Standards (GAS) Amendment No. 3. There is an inherent conflict between Auditor and Controller responsibilities. (F-5, F-6, F-7, F-10, F-11, F-25)

Response:

We disagree with the conclusion. The General Accounting Office standards allows exceptions for elected heads of audit organizations. The standards have not been determined to apply to internal audits. This is an area that is evolving and we will continue to monitor future developments. In the meantime, state law governs the responsibilities of the Auditor-Controller functions. The current structure complies with California statutes governing the responsibilities of the Auditor-Controller.

Conclusion C-3:

Past administrations have allowed the auditing capability to deteriorate significantly, yet the size, complexity and technology of County government has increased significantly over the past ten years. (F-8, F-9, F-17, F18)

Response:

We concur that the budgeted dollars and allocations for audit staff in the Auditor-Controller's Office decreased dramatically, while complexity has increased. The Board has recognized the audit needs at several times in the recent past. However, the immediate need to make subsequent position cuts required giving up the new audit positions. Other units of the Auditor-Controller's Office maintain necessary Auditor-Controller processing and reporting functions, have absorbed cuts, and can afford no more.

Conclusion C-4:

The existing internal control policies, procedures and practice; and audit policies, procedures and practices need to be revised in light of the new policy on independence from the Comptroller General of the United States. (F-5, F12, F-13, F-14, F-15, F-16, F-19, F-23)

Response:

We partially concur with the conclusion as stated. Please see referenced findings for more detailed discussion. We agree that existing internal control and audit policies need to be reviewed in light of new standards. It is not yet clear which policies would actually require revision. The policies are effective as of January 1, 2003. The applicability to governmental accounting and auditing, internal audits versus external financial audits, and particularly in relation to elected California Auditor-Controllers, has not been fully addressed and is evolving.

Conclusion C-5:

The perceived independence of the audit process has been eroded due to the current collegial policy. (F-13, F-24)

Response:

We disagree with this conclusion. The collegial approach on audits to improve performance and compliance provides education, interaction and a final successful result in most cases. Any question of fraud or other serious issues is not compromised during these audits and are dealt with aggressively.

Conclusion C-6:

There is no clear, focused policy on internal controls within the County government. (F-20, F021, F-22)

Response:

We disagree with this conclusion. Internal controls are reviewed in each and every audit conducted by internal audit. The remainder of the Auditor-Controller's Office is well versed on internal control concepts, as are the fiscal officers throughout the County, and any breaches are closed as soon as discovered. Year-end publications provide specific internal control policies over cash and agency funds. The Administrative Manual provides fiscal internal control information. The annual Single Audit includes an extensive review of County's internal controls. In addition, recognizing the need for continuous improvements, this office has developed the Departmental Internal Control Self-Assessment Review program to be implemented in the third quarter of 2003, which will further determine the improvements required in departments throughout the County.

Conclusion C-7:

There is deficiency in oversight by the Board of Supervisors over both internal controls and independent audits. (F-14, F-15, F-17, F-20)

Response:

We disagree with this conclusion. The Board of Supervisors is well aware of the need for internal controls and independent audits. The contract for the annual Single Audit goes to the Board each year. Two educational presentations were provided relating to Governmental Accounting Standards Statement No. 34: *Basic Financial Statements*, and *Management's Discussion and Analysis--for State and Local Governments*. More such sessions or communications may be provided by the Auditor-Controller if so desired by the Board of Supervisors.

Conclusion C-8:

Internal audit functions can more than pay for themselves. (F-26)

Response:

We concur as a probability that audits can pay for themselves either directly or in avoiding future costs.

ATTACHMENT III**RECOMMENDATIONS:**Recommendation R-1:

In order to insure that the County meets the newer standards for independent auditing, the Board of Supervisors establish an effective oversight mechanism to insure adequate audit resources and independence.

Response:

We partially concur with this recommendation. However, the newer standards are still under review with respect to the application within the State of California and local governments with elected Auditor-Controllers and also with respect to internal audits versus external audits.

The implementation requires further study.

Recommendation R-2:

The Grand Jury recommends the establishment of an Audit Oversight Committee reporting to the Board of Supervisors. This committee would be charged with responsibility for oversight of internal controls and independent audits within the County. It would be composed of a Chair, a Co-chair, the County Executive Officer, the Auditor-Controller, the Treasurer-Tax Collector (as a non-voting member), and one outside member from the private sector appointed by the Board of Supervisors. The Purpose of this committee would be:

- A. Oversee the establishment and maintenance of the County's internal control structure.
- B. Oversee the quality of financial reporting activities.
- C. Oversee and monitor County compliance with internal controls, pertinent laws, regulations and standards.
- D. Oversee the resources allocated to the internal control and internal audit functions.
- E. Receive regular briefings from the internal audit staff on all planned and in-process audits.
- F. Study the Orange County paradigm to internal audits with a view to avoiding potential audit weaknesses.
- G. Review the possibility of separation of the duties of Auditor-Controller. The Auditor responsibilities would return to its elected status while the Controller responsibility would report to the County Executive Office.

Response:

We concur with the general spirit and intent of the recommendation with respect to establishing an Audit Oversight Committee. The makeup of an audit committee should be determined after the scope of responsibilities is finalized. We will coordinate with the Board of Supervisors and the County Executive Office to determine the best course of action for County of Ventura by September 30, 2003.

For more specific responses:

- A. Under Generally Accepted Auditing Standards, department management is responsible for their internal control structure. According to California Government Codes, the Auditor-Controller is responsible for review of departmental and Countywide internal controls. The development of a Fiscal Manual would be helpful if funding were established for this very large task.
- B. The traditional activity of an audit committee is to monitor the selection and activities of the external auditor on behalf of the Board of Supervisors, and thereby insure the quality of financial reporting.
- C. We believe that general oversight of all internal controls, laws, regulations and standards is too large a scope for the committee. Individual departmental management is responsible for oversight and compliance of departmental activities.
- D. The resource allocation for the internal control and internal audit functions is already a function of the Board of Supervisors.
- E. A normal activity of an audit committee is to receive regular briefings from the internal audit committee and all planned and in-process audits if the Board so desires.
- F. Although the recommendation mentions the Orange County paradigm, readers should be aware that the situation in Orange County required special legislation in response to a very specific situation, namely the county's bankruptcy. The paradigm in Orange County is changing, with many individuals calling for the reunification of the internal audit function with the Auditor-Controller, which would enhance independence, assure administration and oversight of the internal audit function, provide efficiencies, and is in line with the public's expectation of the elected auditor's function. The public deserves a structure that protects the public's interests.
- G. We believe that any organizational changes to the Auditor-Controller is much too premature due to the evolving nature of the newer standards and the specific direction for elected California auditor-controllers, as well as the role of governmental internal audits versus external audits of public companies. In addition, statutorily mandated activities of the Auditor-Controller must be preserved.

Implementation of the recommendation in general requires thorough study and resolution of evolving issues.

Recommendation R-3:

That the Board of Supervisors take active responsibility for internal audit resources, including annual budget, staffing size, salaries and position classification. This responsibility would consider the recommendations of the Audit Oversight Committee.

Response:

We partially concur with the recommendation. The Auditor-Controller's responsibility is to request additional resources. It has been noted in several public settings that the audit function becomes more important, particularly when faced with difficult financial times.

Implementation requires additional County resources.

Recommendation R-4:

That, considering the current budget difficulties, the Board of Supervisors be committed to a long-term process to turn around a deteriorating situation with respect to independent audits. This effort should include the following:

- A. Accept the responsibility for the hiring and termination of the head of the internal audit function. This position should be filled through a nation-wide competitive process. To insure integrity, this position should have a severance package associated with it.
- B. All the positions of the internal audit function should be budgeted at the senior level. The actual placement of individuals can be at a lesser level.
- C. Develop a plan to improve the quality and effectiveness of the audit function through external recruitment, internal training or in contracting of outside capability.

Response:

We disagree with subparagraph A. The head of the internal audit function currently exists. The hiring and termination of the head of the internal audit function is the responsibility of the Auditor-Controller.

We concur with subparagraph B to elevate the audit staff levels of compensation when resources are available.

We disagree with subparagraph C. This is a function of the Auditor-Controller and is addressed on an ongoing basis.

Implementation of this recommendation requires further study and the availability of additional County resources to be provided to the Auditor-Controller's Office.

Recommendation R-5:

That auditing policy be reviewed and revised to focus on the timeliness of audits. At a minimum, the revision should require no more than a 60-day time limit for an audited department to respond to all draft audits.

Response:

Our audit policy has always focused on and will continue to focus on the timeliness of audit reports. We are well aware of the problems associated with audit report delays and are continuously working on that issue. We have imposed a required time to respond in the past and that practice has not been successful. The primary reason for audit report delays is that both the auditee management and we want to ensure that the report information and conclusions are fairly and accurately presented. The desire for report accuracy and fairness overrides the need to meet the required response time.

We do not intend to take further action on this recommendation.

Recommendation R-6:

That draft audit findings be released to the audited organization as quickly as possible without waiting for the completion of the draft report.

Response:

We concur with the finding, but we release audit findings as quickly as possible, without waiting for the completion of the draft report, and cannot understand why this recommendation was made. In our approach, we release findings immediately to verify accuracy and to provide auditee management the opportunity to initiate corrective action.

We do not intend to take further action on this recommendation.

Recommendation R-7:

That the Auditor-Controller review and benchmark current audit activities against the Best Practices identified by NALGA. That a team approach be utilized for complex audits to improve the timeliness of audits. This should include peer reviews of planned and in-process audits, as well as a "lessons learned" on all completed audits.

Response:

We concur and already follow the recommendation. We review and benchmark current audit activities against the Best Practices identified by NALGA. Where appropriate, we have included selected benchmarks in the Audit Division's goals and objectives and performance measurements. We have always used the team approach for complex and difficult audits. Further, during the Audit Division's monthly staff meeting, planned, current, and completed audits are discussed periodically to share knowledge, experiences, and lessons learned. Since the recommended practices were already in place, we do not understand why recommendations were made on these subjects.

We do not intend to take further action on this recommendation.

Recommendation R-8:

That the County Executive Officer develop a focused policy on internal controls which would act as the enabling policy for all County departments, and that the Auditor-Controller provide the technical support and training to implement this policy. This policy would include, after an initial review, a staggered tri-annual review by the County Executive Officer of the internal controls in every County department.

Response:

We partially concur with this recommendation. The Departmental Internal Control Self-Assessment Review Program will roll out in the third quarter of 2003. We will coordinate with the County Executive Officer to review existing policies, implement any changes, maintain, and monitor the enhanced County program on internal controls.

Given the current resources, it may be difficult to review internal controls on a tri-annual basis for all 150 departments, or approximately 25 agencies, in the County. Risk assessments will assist in selection of audit priorities.