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July 16, 2010

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VENTURA SUPERIOR COURT
ADMINISTRATION

Honorable McGee, Kevin J.
Presiding Judge of the Superior Court
800 South Victoria Avenue
Ventura, California 93009

Dear Judge McGee:

The following represent the comments from the Auditor-Controller to the Ventura County Grand Jury Report Final Report FY 2009-2010, as required by Penal Code section 933.

I appreciate the opportunity to respond to the recommendations of the Grand Jury. Please do not hesitate to call me at (805) 654-3151 if you have any questions or require any additional information.

Sincerely yours,

A handwritten signature in black ink, appearing to be "Christine L. Cohen", written over a horizontal line.

Christine L. Cohen
Auditor-Controller

cc: Honorable Kathy Long, Chair, Board of Supervisors
Marty Robinson, County Executive Officer

Comments on Summary Excerpts

Summary Excerpt. "The Ventura County (County) Auditor-Controller (A-C) has the responsibility for conducting audits of the County's fiscal and management processes to guard against fraud and waste of resources."

Response: Agree with comment. In compliance with California Government Code Section 1236, internal audits are conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors (IIA). The IIA defines internal auditing as "...an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

The County of Ventura Internal Audit Charter identifies the purpose, authority, and responsibility of the internal audit activity. Accordingly, the A-C has internal auditing responsibility for evaluating the various functions and control systems in the County and for advising management concerning their condition. In addition, Ventura County Administrative Policy (VCAP) on County Auditing [Reference VCAP Chapter VII (A) - 6] provides additional guidance on the nature of Internal Audit activities performed by the A-C. Generally, the Internal Audit Division (IAD) assists all levels of management in achieving County objectives by bringing a systematic approach to evaluate and improve risk management, control, and governance processes in the following areas:

- Safeguarding of County assets from fraud, waste, or misuse;
- Achievement of operational objectives through effective and efficient use of resources;
- Compliance with applicable policies, procedures, laws, and regulations; and
- Reliability of internal and external financial information and reports.

By design, the proactive Control Self-Assessment Program initiative encapsulates these four areas.

Summary Excerpt. "In 2004, the County and the A-C began a program called 'Control Self-Assessment' (CSA) whereby the County agencies and departments would examine their own activities to assure that adequate controls and safeguards were in place."

Response: Agree with comment. The foundation for the CSA Program is based on the principle of "Public Accountability." The public and other stakeholders need to know whether government organizations, programs, and services are achieving the objectives for which they were authorized and funded. As a point of clarification, a primary objective of the CSA Program is to serve as a reminder to management of its ongoing responsibilities with respect to internal controls and providing programs and services in an efficient and effective manner. The Administrative Policy on Internal Control [Reference VCAP Chapter VII (A) - 13] stipulates that "It is the policy of the County of Ventura that Agency and Department heads establish and maintain internal controls sufficient to provide reasonable assurance that County assets and resources are adequately safeguarded, resources are used effectively to achieve operational goals, departments are in compliance with applicable laws, regulations, and policies and that departments generate reliable internal and external financial information and reports." Responsibility for the design and implementation of specific internal controls rests with the agency/department head or elected official.

Summary Excerpt. "...the A-C staff has insufficient numbers and experience to adequately validate their self-assessments. Consequently, the Grand Jury concludes that the CSA program provides only an illusion of safety to the County without substance."

Response: Respectfully disagree. As a matter of clarification, the Administrative Policy on Internal Control [Reference VCAP Chapter VII (A) - 13] stipulates that the A-C is responsible for: a) periodically verifying that department internal controls have been maintained; and b) periodically reporting to the CEO and BOS on the status of internal controls based on the results of department annual self-assessments. As stipulated in the Ventura County Internal Audit Charter, internal auditing is a staff function and the performance of internal audit reviews does not relieve County management of any assigned responsibilities. Accordingly, responsibility for the design and implementation of specific internal controls rests with the agency/department head or elected official regardless of whether any validations have been accomplished. Currently, IAD has the professional capacity to meet the responsibility to periodically determine whether department internal controls have been maintained.

Responses to Findings

F-01. Agree.

F-02. "...The five internal auditors have an average of 1.6 years experience with the County and an average of 3.7 years total audit experience."

Response: Partially agree. The 1.6 years of experience with the County refers to County audit experience only, and, as of April 15, 2010, the five internal auditors had an average of 4.0 years total audit experience, not 3.7 years as stated by the Grand Jury.

F-03 through F-04. Agree.

F-05. "...Auditors are expected to obtain 80 hours Continuing Professional Education training per year in a combination of qualified at-work training and outside training courses."

Response: Respectfully disagree. The 80-hour requirement is every 2 years, not annually.

F-06. "The personnel turnover rate in the IAD ranges from 25% to 50% per year for the prior three years..."

Response: Respectfully disagree. How the Grand Jury calculated the turnover rate is not clear. For example, our calculations show that the turnover rate during FY 2008-09 was 14 percent (i.e., not within the range of 25 to 50 percent).

F-07 through F-17. Agree.

F-18. "...Larger agencies and departments are subdivided into 'Budget Units' for CSA Program purposes; there are a total of 52 CSA budget units for the County..."

Response: Respectfully disagree. What the Grand Jury appears to be referring to is the number of program areas or divisions reportedly reviewed during the CSA, which may contain multiple budget units. Our records show that the number of budget units expressly reviewed by departments during the CSA totaled 125.

F-19 through F-20. Agree.

F-21. "Of the 26 budget units, 18 had submitted CSAs by the end of 2007..."

Response: Respectfully disagree. The Grand Jury appears to be referring to the 26 agencies and departments, not 26 budget units. Of the 26 agencies and departments, 25 submitted CSAs by the end of 2007. The remaining department submitted their CSA on January 7, 2008.

F-22 through F-23. Agree.

F-24. "Budget units report concerns regarding the CSA process:

- "having to 'train and re-train' new auditors"

Response: Requires clarification. Only two auditors performed work on the CSA validations, although the Grand Jury's statement inappropriately appears to imply a rotation of multiple auditors. In addition, use of the word "train" inappropriately appears to imply that the auditors assigned to the validations were not knowledgeable on audit or CSA, when this was not the case. As with every engagement, departments must inform the auditors on their processes so that the auditors can make a proper evaluation on the adequacy of those processes.

- "while budget units are encouraged to tailor the CSA guides to their own organizations, there is little practical direction from IAD in doing so"

Response: Respectfully disagree. The few departments that requested assistance received personal training from the IAD.

- "validations may be performed on comparatively old information, requiring re-doing a self-assessment in order to complete the validation"

Response: Respectfully disagree. The validation process did not require any "re-doing" of the self-assessments. The validation process evaluated how departments performed their self-assessments and evaluated whether internal controls were in place and operating effectively as departments claimed.

F-25 through F-31. Agree.

Responses to Conclusions (Limited to those applicable)

C-02. "The IAD audit staff continues to lack overall audit experience and experience with the County."

Response: Respectfully disagree. Although we technically agree that IAD staff auditors do not have a large number of years of experience (if this is the basis for "experience" used by the Grand Jury), we have found that basic audit competencies can be obtained by quality auditors within the first few months of employment and within the first few engagements assigned. We believe the mark of a good auditor includes not only attainment of those competencies, but the ability to apply critical thinking within every step of the engagement. While years of experience may help to develop those critical thinking skills, other times it may not. Therefore, to generalize and imply that a lack of number of years of experience equates to a lack of competency is not appropriate. Also, professional internal audit experience as well as accounting related experience gained in other sectors is generally beneficial to conducting internal audits. Further, the collective experience of the IAD should be taken into account, which includes the experience of the Audit Chief Deputy. The collective years of total audit experience was over 30 years for the IAD team as of April 15, 2010.

C-03. "The A-C has established no special training plan or an extra effort for training inexperienced auditors beyond the A-C's standard training budget. There appears to be no training plan directed specifically toward junior personnel, other than close supervision."

Response: Respectfully disagree. Although auditing standards require 80 hours of formal CPE every 2 years, our records show that for the 2-year period ending December 31, 2008, the six collective IAD team members as of that date exceeded the required number of hours by an average of nearly 70 hours per auditor. Training of auditors also involves ongoing collaboration with the Audit Chief Deputy and other auditors, including weekly meetings with the Audit Chief Deputy, biweekly roundtable discussions among staff auditors, and monthly formal staff meetings. Further, depending on the experience level of new auditors, junior auditors are assigned as appropriate to more senior auditors with whom to work. In addition, new auditors are allocated up to 200 hours to orient themselves on IAD procedures and for on-the-job training.

C-05. "Recruitment and retention of audit staff is suffering because HR and A-C have not updated auditor salary schedules to be competitive with those of other Southern California counties."

Response: Partially agree. Recruitment and retention has improved in the short-term, but we agree that a long-term solution is needed. We have been pursuing such a solution with HR since 2006, offering a variety of salary studies, suggested re-classifications, and requested MOA changes as items for consideration.

C-07. "...The CEO's reports incorporate the substance of the A-C's report, but the serial process invites CEO filtering, diminishes the perception of auditor independence, and may reduce BOS visibility."

Response: Respectfully disagree. The CEO properly coordinates the periodic BOS status reports with the A-C and properly takes into account any comments by the A-C.

C-10. "CSA validations have been scheduled and conducted two or more years after the date of a department self-assessment. The delayed validation can detract from the perceived importance of the program."

Response: Respectfully disagree. The CSA validation process was designed to be conducted within the 3-year time frame of the CSA Program. During the validations conducted, departments did not disclose any significant changes in their systems of internal control since the date of the self-assessment. Also, the true value of the CSA Program does not lie with the A-C's validation process. The true value is obtained during the department's self-assessment of internal controls and the self-directing of internal control improvements.

C-11. "With little feedback from IAD or County management upon completion of the CSA, individual departments may have filled out the questionnaire forms on schedule, but find out only during a much later validation, if ever, that the self-assessment may have been incomplete or superficial."

Response: Partially agree with comment. As stated in our response to C-10, the CSA validation process was designed to be conducted within the 3-year time frame of the CSA Program. In addition, see our response to R-06 for improvements planned for the CSA Program.

C-12. "The validation process has proven to be laborious and duplicative. With the high turnover in auditors, there is lack of auditor continuity from performance of the CSA to validation; additional time is also required on the part of the audited organization and the audit staff."

Response: Respectfully disagree. Although true that the CSA process involves additional time of departments and audit staff, we disagree that the validation process is duplicative inasmuch as any audit process that involves confirmation of performance is seen as duplicative. In addition, as stated in our response to F-24, only two auditors performed work on the CSA validations, which is not indicative of serial auditors. Further, auditor continuity is not relevant "from performance of the CSA to validation" as the Grand Jury concludes because the CSAs are performed by the departments (as the term "self-assessment" suggests), not the auditors.

C-14. "The A-C's IAD is presently understaffed and insufficiently experienced to lead effective agency/department CSAs and to perform validations in an efficient manner."

Response: Respectfully disagree. As previously provided to the Grand Jury, the IAD has benchmarked its staffing levels with those of 32 other California counties in terms of the total number of county employees per auditor and the budget coverage per auditor. In each case, the total staffing of eight IAD members approximated the average across the state, which indicates to us an appropriate staffing level. In addition, we believe the staff who completed the CSA validations was sufficiently experienced and competent. The IAD is currently fully staffed and has the professional experience to effectively lead the CSA Program and to conduct independent and objective validations in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

C-15. "The CSA Program is not being executed timely or effectively."

Response: Respectfully disagree. See our responses to F-24, C-10, C-11, C-12, and C-14.

C-18. "The A-C is responsible for oversight and direction of the CSA Program with insufficient resources, but the responsibility for performance and execution belongs to County agencies and departments for which the CSA Program is a low priority. Consequently, the CSA Program lacks thoroughness and urgency. As currently conducted by the County, the CSA Program provides the illusion of safety without the substance."

Response: Respectfully disagree. As stated in our response to the Summary above, the CSA Program is only one initiative within the County's internal control structure to promote public accountability. The CSA Program should not be misconstrued by the Grand Jury to provide absolute assurance of safety. We believe use of the phrase "illusion of safety" is inflammatory and a disservice to the County's efforts to promote good internal controls. In addition, as noted in the Grand Jury's Finding F-31, the resources allocated to the CSA Program were approximately 10 percent of direct hours and we have concluded that this is an adequate amount for CSA Program oversight and assistance.

C-20. "Continuation of the CSA into a third triennium with no substantial changes in process, and with no enhancement of supporting audit resources, would be ill-advised."

Response: Respectfully disagree. As stated in our response to the Summary and C-10 above, CSA is a best practice that derives much of its value from serving as a reminder to departments of their internal control responsibilities, providing tools for self-assessment, and requiring periodic reporting of self-assessment results. We also believe audit resources allocated to the CSA Program are sufficient as stated in our response to C-18. That being said, the IAD had previously identified areas where the CSA Program could be further improved, which is addressed in our response to R-06.

C-21. "In the first three quarters of the FY 2009-10, the IAD had expended only 32% of its planned CSA hours for the year, for which understaffing appears to be the major contributor."

Response: Requires correction. As stated in the Grand Jury's Finding F-31, the IAD spent 293 of 960 FY 2009-10 planned hours on the CSA as of March 31, 2010, or 30.5 percent, not 32 percent as the Grand Jury states.

Responses to Recommendations

R-01. "The CEO should task the HR Department to research, develop, and, in consultation with the A-C, implement an effective, long-term auditor retention and compensation program."

Response: Recommendation requires further analysis. We believe a long-term approach is proactive and advisable, and we have offered several potential solutions to HR since 2006 as stated in our response to C-05. However, we also believe that perspective is needed given the continually changing business environment. Two years ago when the Grand Jury last made a similar recommendation, we were faced with quality auditors leaving the County for better paying positions, which is generally no longer the case given the state of the economy. As the economy improves, however, without a long-term outlook, we will likely experience continued unwanted turnover of quality auditors. We continue to believe that the County's treatment of Internal Auditors in terms of salary and classification needs adjustment in a fiscally-responsible manner and we look forward to working with HR to resolve these issues.

R-03. "The A-C and IAD should plan, budget, and conduct additional auditor training specifically directed to junior auditor staff in order to provide the County with the audit capability to be expected from the budgeted positions."

Response: Recommendation will not be implemented. As the Grand Jury previously noted under F-05 and as we responded to C-03, training currently involves a multi-faceted approach, including formal CPE, mentoring from management and other auditors, and on-the-job training. Formal CPE hours often significantly exceed requirements and we believe other training is sufficient to establish and improve auditor competencies.

R-04. "The CEO should direct HR, with advice and consultation with A-C, to initiate a new study of salaries and compensation of internal auditors by California counties and municipalities, as well as by private-sector employers (business and audit firms) in Southern California."

Response: Recommendation requires further analysis. As indicated in our response to R-01, we look forward to working with HR on a new study of salaries and compensation for internal auditors. Please note that we had previously requested that HR conduct a salary comparison to private-sector firms since we first started pursuing this issue in 2006. However, we were informed that HR does not have access to private company salary information to facilitate such a review.

R-05. "HR and the A-C should review and revise the position descriptions and salary structure for internal auditors and the supervising fiscal managers in order to improve recruitment and retention of trained auditors."

Response: Recommendation requires further analysis. However, we maintain that salary structures need to be modified in a fiscally-responsible manner. See our responses to R-01 and R-04.

R-06. "The BOS, the A-C, and the CEO should terminate the CSA Program as six years of experience have shown it to be ineffective."

Response: Recommendation will not be implemented. The notion of terminating the CSA Program is misguided, short-sighted, and ill-advised. The concept of CSA has been a best practice for decades and

we believe the County's CSA Program echoes those best practices. The County of Ventura is a leader in California counties on this concept, which is based on the principle of "Public Accountability." The A-C will not agree with a recommendation to disband the CSA Program. Rather, we are working diligently to continually improve department awareness of internal controls, for which the CSA Program serves as a cornerstone. We are also working on methods to provide feedback in a more timely manner to all departments participating in the CSA Program.

R-07. "The A-C IAD should direct its energy and capability toward performing traditional, direct organizational audits."

Response: Recommendation has been implemented. The IAD has never stopped directing its energy and capability toward performing traditional, direct organizational audits. The very mission of the IAD stipulates that *"The Internal Audit Division, through cooperation with County management, accomplishes timely audits that foster positive change to reduce risk and enhance the economy, efficiency, and effectiveness of Ventura County departments/agencies."* The IAD has maintained its service levels and high standards in performing these audits regardless of selected audit resources assigned to the CSA Program. Therefore, to the extent that the Grand Jury believes we should continue to perform these audits, we agree. However, we disagree to the extent that the Grand Jury believes the CSA Program should be terminated as part of the IAD's responsibility to ascertain the adequacy of controls for safeguarding County assets and assessing the adequacy and effectiveness of processes for controlling activities and managing risks. The IAD is positioned to assist the County in the accomplishment of its business objectives in an efficient and effective manner by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. In addition, in F-31, the Grand Jury pointed out that the IAD spent only 293 hours on the CSA validations out of 9,000 total IAD direct hours planned. This amounted to only 3 percent of total planned hours and does not support that audit hours have been re-directed disproportionately to the CSA validations.

R-10. "The BOS and the A-C should add a control mechanisms evaluation task to the scope of the outside fiscal audits and should provide funding therefor."

Response: Recommendation will not be implemented. What the Grand Jury is recommending here is not clear based on the foundational coupling of the related finding (F-31) and conclusion (C-21), both of which referred to the number of audit hours and CSA hours. Our reading of this recommendation is that the Grand Jury is recommending that external financial audits include an evaluation of internal controls. The Grand Jury should be aware that generally accepted auditing standards already require such an evaluation to the extent required in the second standard of field work: "The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures."

R-11. "The A-C should apply its planned CSA support hours for FY 2010-11 toward training and retention of auditors, and toward performance of additional direct organizational audits."

Response: Recommendation will not be implemented. The CSA Program is a value-added initiative that requires management to formally assess the state of their internal controls for opportunities for improvement on a 3-year cycle. Adequate time has been set aside for specific governmental auditing

training, professional internal auditing training, retention efforts, and direct organizational audits in the FY 2010-11 Audit Plan in accordance with best practices in the internal auditing profession.