

**County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM**

To: Honorable Lawrence L. Matheney, Treasurer-Tax Collector **Date:** September 18, 2009

From: Christine L. Cohen

Subject: **AUDIT TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT
FOR THE TREASURER-TAX COLLECTOR**

EXECUTIVE SUMMARY

We have completed our audit to validate the Control Self-Assessment (CSA) completed by the Treasurer-Tax Collector (TTC) on January 31, 2007. The audit was performed as a component of the County's CSA Program, which was established to promote strong internal controls throughout the County. The audit was 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.

Overall, we found that TTC conscientiously completed the Internal Control Questionnaire (ICQ) tool provided in the *Internal Control Guidelines and Control Self-Assessment Program*. All TTC divisions were included in the CSA and input was provided by appropriate fiscal management and staff. As a result of the CSA, TTC identified two internal control improvements. We also verified that selected control activities were generally in place and operating effectively as indicated by TTC's responses in the ICQ.

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

- Performing a risk assessment to identify risks specifically associated with TTC's goals and activities.
- Customizing the assessment tool to reflect facts, conditions, and risks relevant to TTC.
- Documenting tests of control activities specifically for purposes of the CSA.
- Fully developing improvement plans and designating responsible personnel and completion dates.

Also, during our tests of selected control activities, we found that control improvements were needed to safeguard the surveillance camera security system from unauthorized access and ensure proper setup of system features.

TTC management planned to implement corrective action during the next CSA triennial cycle, which is scheduled to begin in 2010.

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We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

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

AUDIT TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT
FOR THE TREASURER-TAX COLLECTOR

INTRODUCTION: This audit was performed as a component of the County's Control Self-Assessment (CSA) Program, which was established to promote strong internal controls throughout the County.

BACKGROUND:

The County Executive Office and Auditor-Controller jointly established the County's *Internal Control Guidelines and Control Self-Assessment Program (Guidelines)*. 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 CSA Program. Six months previously, on January 31, 2007, the Treasurer-Tax Collector (TTC) completed a CSA using the Internal Control Questionnaire (ICQ) tool provided in the prior 2004 *Guidelines*. This CSA was allowed to suffice for the 2007 requirement with the understanding that all new conditions set forth in the 2007 *Guidelines* needed to be met. TTC's CSA results were based on information available from January 4 through 31, 2007.

SCOPE:

Our overall audit objective was to evaluate the effectiveness of TTC's execution of the 2007 CSA Program. 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 TTC's CSA Coordinators, we reviewed the processes used 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 for the Tax Collector's two main divisions: Accounting and Public Service. We focused our tests of control activities on the Tax Collector because the Treasurer's internal controls are reviewed annually during the mandated Treasury audit conducted by the Auditor-Controller. In addition, due to extensive audit work of TTC's operations performed by an external firm in October 2007, we limited certain tests of controls to areas noted in the ICQ that were not included in the external review. Specifically, we tested the Tax Collector's control activities in the following areas by tracing transactions, reviewing documentation, observing procedures, and/or discussing controls with management and staff, as appropriate:

- Mission statements, goals and objectives
- Collections
- Fixed assets
- Security surveillance
- Purchasing procedures
- Fiscal reporting packages
- Payroll
- Compliance procedures

The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. For our audit, we used documents and records for the period March 6, 2007 through May 30, 2009.

FINDINGS:

Overall, we found that TTC made a conscientious effort in conducting the CSA. Fiscal managers and appropriate staff from each TTC division were involved in conducting the CSA using the ICQ. This work was compiled into two separate ICQs, one each for Treasury and Tax Collector, which contained each division's answers to the 141 internal control questions. While a "Yes" answer indicated that internal controls were in place and operating effectively for those areas, a "No" or "N/A" (i.e., Not Applicable) answer did not always suggest that an internal control deficiency should be noted as an improvement.

Treasury answered "Yes" to 84 (60%) questions, "No" to 4 (3%) questions and "N/A" to 53 (37%) questions. Treasury did not identify any internal control improvements that were necessary.

The Tax Collector answered "Yes" to 130 (92%) questions, "No" to 3 (2%) questions, and "N/A" to 8 (6%) questions. Upon evaluation of each general control area (e.g., cash, accounts receivable, etc.), the Tax Collector identified two internal control improvements involving cash drawer control lockers and training for the Ventura County Financial Management System (VCFMS).

Our audit confirmed that strategic missions, goals, and objectives had been established for the Tax Collector. In addition, our review of selected activities disclosed that the tested controls were generally in place and operating effectively. Specifically, for the items tested, we found that:

- Procedures over collecting and accurately applying property tax payments appeared reasonable.
- Fixed assets were accounted for properly and accurately stated on the *Affidavit of Annual Inventory of County Property*.
- Purchasing procedures were properly followed in accordance with the County's *Procurement Guide* and appropriate Board approval was obtained prior to finalizing purchases of significant value.
- Internal reports and charts were effective in providing management and staff with a comprehensive overview and analysis for current Tax Collector collection trends compared to prior years.
- Payroll processing procedures appeared to be reasonable and time card data was accurately entered into the Ventura County Human Resources/Payroll System.
- Methods of communicating to staff legal and program requirements affecting the Tax Collector appeared reasonable.

However, we encourage TTC to implement certain improvements during the performance of the CSA to more fully derive the benefits of participating in the CSA Program. Specifically, improvements could be achieved by conducting 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 by TTC could be more effective with modifications to reflect particular facts, conditions, and risks relevant to TTC operations. Additionally, performing and documenting tests of controls specifically for purposes of the CSA could enhance management's assertion of internal control effectiveness. Further, fully developing improvement plans and designating responsible personnel and completion dates would facilitate the accomplishment of improvement actions. Also, during our tests of selected control activities, we noted that surveillance camera controls could be improved to safeguard the system from unauthorized employee access and ensure proper setup of security features.

Summarized below are details of the areas where TTC's performance of the CSA could be improved. Management planned to implement corrective action during the next CSA triennial cycle, which is scheduled to begin in 2010.

1. **Risk Assessment.**

Although TTC management claimed that various risks were considered while completing the ICQ, a documented risk assessment of significant processes within TTC was not performed. The importance of performing a risk assessment is stressed in the *Guidelines* and is the first item 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 TTC's mission, goals, and objectives, and considers the effect of "what can go wrong" scenarios. A risk assessment also helps to identify where internal controls exist or are needed to mitigate any threats. Without a proper assessment of TTC's risks, certain significant programs, functions, and processes may not be addressed during the CSA.

For example, a risk assessment could be structured to include an evaluation of the Check 21 processing system. Check 21 scans taxpayer checks and payment stubs, while analyzing handwriting to verify the dollar amount of each check along with an appropriate signature. A risk assessment would identify the system's objectives and list risks (i.e., threats to achieving the objectives) for electronically scanning taxpayer checks and applying payments. Any risks could then be assessed for likelihood of occurrence, and control activities would be identified to reduce the risks. During our audit, the Tax Collector disclosed that the objective of the Check 21 system is to process taxpayer payments quickly and to accurately apply the paid amount to the appropriate parcel. A proper risk assessment would identify the threats to achieving this objective, which would lead to an evaluation of internal controls over the Check 21 system.

Management Action. TTC management stated: "TTC Management agrees that a Risk Assessment is vitally important to identify any and all potential threats. TTC Management will provide documentation of our risk assessment for all subsequent CSAs. As noted in the above finding, the TTC Office did evaluate and continually evaluates the risks associated with our job responsibilities. This is supported by the fact that 4 of the 5 findings identified during this audit had more to do with how the CSA was completed than with actual deficiencies within the TTC Office."

2. Assessment Tool.

The ICQ tool used by TTC to assess internal controls was not modified to ensure the inclusion of control activities for all of TTC's significant processes. The ICQ provided in the *Guidelines* is generic in nature and designed to evaluate common internal control areas, focusing mainly on universal fiscal controls. As noted in *Appendix D: Department Internal Control Questionnaire*, the questionnaire is a starting point for departments 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 compliance and operational areas increases the effectiveness of the CSA.

For example, after 5 years, a property that has tax defaulted (i.e., for non-payment of property taxes) may be sold by the Tax Collector at a public auction. However, control activities specifically associated with the public auction, such as verifying that prospective buyers are neither TTC employees nor extended family, were not evaluated by the Tax Collector during the CSA. Therefore, the Tax Collector could modify the ICQ to ensure the assessment of controls specific to the Tax Collector's operations, including controls over the sales of tax defaulted properties at public auctions.

Management Action. TTC management stated: "TTC agrees that modifying the Auditor's generic ICQ would better document the evaluation process. The TTC Office performs its job responsibilities with extreme care and confidence. Every effort is made to ensure that TTC employees are trained and that procedures are in place to verify compliance with office policies. In the future, TTC Management will modify the Auditor's generic ICQ to ensure the inclusion of control activities for all of TTC's significant processes."

3. Method of Verification.

TTC could improve the method of verifying that control activities were in place and operating effectively specifically for purposes of the CSA. Effective for the 2007 CSA Program, departments were instructed to describe how internal controls were determined to be adequate (i.e., through observing operations, reviewing documentation, and/or discussing matters with personnel). We recognize that TTC was allowed to use the 2004 *Guidelines* to fulfill the 2007 requirement due to TTC's completion of the CSA only a few months prior to rollout of the 2007 *Guidelines*. However, although TTC was notified that all new 2007 requirements would need to be met, the methods of verification were not specifically documented for purposes of the CSA.

In addition, an effective CSA program expands the role of management from merely assessing the design of a department's internal controls to actually performing appropriate testing to verify the effectiveness of internal controls. Within *Appendix B: Department Implementation Guidelines*, departments were encouraged to test control activities and instructed to retain supporting documentation used to draw conclusions during the review. We understand that many of TTC's daily and other regular procedures are designed to prevent and detect internal control deficiencies, such as out-of-balance conditions. However, because TTC conducted the CSA by solely relying on the understanding of existing controls, TTC could enhance the self-assessment by performing and documenting actual, separate tests of controls over significant functions to ensure that controls are in place and operating effectively.

Management Action. TTC management stated: "TTC Management agrees with this finding and notes that there was some internal confusion about the specifics of merging the 2004 *Guidelines* with the 2007 Requirements. In the future, each method of testing the adequacy of TTC controls will be documented and disclosed when completing the department's CSA."

4. **Internal Control Improvement Plan.**

TTC's internal control improvement plan could be enhanced to facilitate the accomplishment of the two improvements TTC identified within 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 for implementing improvements and the estimated date of completion. The improvements that TTC identified did not delegate responsibility or completion dates and could be more fully developed to adequately describe the corrective actions needed.

For example, the Tax Collector identified that formal centralized training is needed for new employees in VCFMS. However, no additional information, such as the type of training, was provided. Departments can receive either a VCFMS "Navigation" course or Data Warehouse training session. A more complete improvement plan would identify specific details as to the type of training needed for which employees, the person responsible for making the request, and the estimated completion date.

Management Action. TTC management stated: "TTC Management agrees with this finding and will include an internal control improvement plan in all subsequent CSAs. In addition, TTC Management will maintain documentation supporting our efforts to accomplish/implement any such improvement."

5. **Surveillance Camera System.** During our tests of selected control activities, we noted that controls over the TTC surveillance camera system were in need of improvement to safeguard the system from unauthorized access and to ensure proper setup of security features. Currently, 13 security cameras oversee various areas of the TTC office. Four of the cameras (31%) are also monitored independently by Security Control in conjunction with TTC to provide additional recording redundancy and operational oversight. During our review, we noted that the lockbox that housed the surveillance system and equipment was not properly locked and that password and authorized access controls had not been established. Therefore, anyone with access to the area where the system is located had the ability to manipulate the system and change security control features without detection or tracking of changes to control settings. In addition, the timestamp on the surveillance monitor was not correct, which would create difficulties in locating a desired timeframe for review. Further, although management stated that the cameras were "motion sensed" and only recorded movement within specific areas, the cameras were actually set on "standard" mode, which constantly recorded activity throughout the day. By switching modes to "motion sensed," management could increase recordable time and focus on capturing activity pertinent to TTC risks.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue. The surveillance system is locked in a secured cabinet with restricted key access. TTC Management is reviewing the possibility of upgrading the system to provide increased functionality and recorded time. However, the FY 2009/10 Budget does not provide for the purchase of the upgrades which are estimated to be \$20,000."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions during the next CSA triennial cycle.

We appreciate the cooperation and assistance extended by you and your staff during this audit. We also appreciate the feedback we received on the CSA Program, which we intend to evaluate before re-launching the CSA Program in 2010.