

Ventura County Grand Jury 2009 - 2010



Final Report

Illusion of Safety: Control Self- Assessment

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Illusion of Safety: Control Self-Assessment

Summary

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. 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. The 2009-2010 Ventura County Grand Jury (Grand Jury) used two previous Grand Jury reports as the basis to further evaluate the effectiveness of the CSA Program in the County.

The Grand Jury found that the A-C has been chronically short of experienced audit staff, continues to have problems recruiting and retaining auditors, and that the County management gives low priority to the CSA Program while favoring its own Lean Six Sigma efficiency program. While the County agencies and departments perform the requisite self-assessments of their control mechanisms, 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 the substance.

The Grand Jury recommends that the Ventura County Board of Supervisors (BOS), the County Executive Officer (CEO), and the A-C terminate the CSA Program.

In place of the CSA Program, the Grand Jury recommends that the BOS authorize additional audit positions for performance of traditional audits, and that the CEO incorporate control management objectives into its Lean Six Sigma program.

Finally, the Grand Jury recommends that the BOS task the A-C and County Human Relations (HR) organizations to establish and execute a vigorous auditor recruitment and retention program.

Background

Three Ventura County Grand Juries in the past decade (2002-2003, 2006-2007, and 2007-2008) issued reports expressing degrees of concern regarding the breadth and depth of the County's audit function. The two most recent reports focused on the CSA Program by which the 26 County agencies and departments examine their own internal controls and assess risks in their operations. The A-C's Internal Audit Division (IAD) guides the organization self-assessments, some of which are selected by IAD for validation. [Ref-01 through Ref-03]

The 2006-2007 Grand Jury's report *Ventura County: A Failure to Audit* found, among other things, that the IAD had lost more than half its staffing, that the BOS and the CEO had failed to heed previous Grand Jury recommendations for enhanced staffing, and that the BOS had suggested that each agency or

department be responsible for its own internal controls. The 2006-2007 Grand Jury also found that the A-C had developed the Departmental Internal CSA Program and that the A-C had inadequate resources to review and evaluate the results. The report also found that not all County agencies chose to participate in the program. [Ref-02]

The 2007-2008 Grand Jury's report *Controls Self-Assessment Program Restart* found that the A-C audit organization continued to suffer from a shortage of auditors and from a lack of experience. Many County agencies were found to be slow to respond to the A-C's requests for CSA inputs. The 2007-2008 Grand Jury recommended that the CEO and A-C formalize their respective roles and responsibilities and that HR should participate in resolution of staffing issues in IAD. [Ref-03]

The Grand Jury chose to further investigate the performance of the CSA Program at the end of its sixth year in the County.

Methodology

The Grand Jury used the 2007-2008 Grand Jury report *Controls Self-Assessment Program Restart* and responses thereto as background information. The Grand Jury interviewed elected and appointed County officials and employees from large and small County agencies and departments. The Grand Jury reviewed documents available on the County website and internal reports made available by County offices in response to the Grand Jury's requests. [Ref-04]

Findings

Audit Staff

- F-01.** The A-C IAD is authorized eight positions. The IAD has entered fiscal years (FY) 2008-09 and 2009-10 with five of the authorized positions filled. For FY 2009-10, two individuals remained from the previous year, three had been hired within the year.
- F-02.** As of April 15, 2010, IAD has seven positions filled: four Internal Auditor II, one Internal Auditor III, one newly-hired Fiscal Manager, and the Deputy Director. 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.
- F-03.** The position of Fiscal Manager I/II (a supervisory position) was recently filled.
- F-04.** Until the fiscal manager position was filled, the IAD's junior auditors received formal oversight only by the IAD director.
- F-05.** The A-C budgets 640 hours per year per auditor for "indirect time—training, staff meetings, administrative projects, etc.," of which 280 hours represent standard vacation, sick and holiday accruals and eight hours represent "in-house training to increase staff knowledge of internal auditing techniques." 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.

- F-06.** The personnel turnover rate in the IAD ranges from 25% to 50% per year for the prior three years, as compared to the average turnover rate for the County as a whole of about 12%.
- F-07.** HR performs exit interviews of departing employees through the use of a form to be completed after the employee's last day of work and to be returned by mail.
- F-08.** In reviewing mailed-in exit interviews of former internal auditors, HR has found nothing to indicate a possible problem with working conditions within the County or the A-C organization.
- F-09.** Classification Specifications (similar to job descriptions) and salary ranges for A-C internal auditors were adopted in 2001. The salary ranges have been modified only for general "cost of living" increases negotiated between the County and the Service Employees International Union. [Ref-04]

Job Title	Rate Range Annual Salary	Experience: "Recruiting Standard"
Internal Auditor I	\$41,340 - \$52,916	None
Internal Auditor II	\$47,997 - \$61,436	18 months
Internal Auditor III	\$52,797 - \$67,580	3 years
Internal Auditor IV	\$59,508 - \$76,171	5 years
Fiscal Manager I	\$68,288 - \$90,206	5 years with 1 year supervisory
Fiscal Manager II	\$73,364 - \$96,912	5 years with 2 years supervisory

- F-10.** In April 2010, the County of Santa Barbara advertised in the *Ventura County Star* for an Audit Supervisor with a rate range of \$84,701 - \$103,402, requiring a Certified Internal Auditor certificate, three years experience, and one year lead work. [Ref-05]
- F-11.** HR compares salaries with seven Southern California counties (excluding Los Angeles County) for determining competitiveness for County salaries. HR has conducted no comparable survey of private-sector internal auditor salary and experience ranges.
- F-12.** In its report *Controls Self-Assessment Restart*, the 2007-2008 Ventura County Grand Jury recommended:
- "R-02 The A-C and the Human Resources Director should jointly conduct a comprehensive study to resolve staffing, recruiting and retention issues in the Audit Department, and provide the results and recommendations to the CEO and the BOS."

The CEO and the BOS combined response stated:

"Do not concur: the Auditor-Controller's Office has six budgeted internal auditor positions . . . The recruitment opened 7/28/08. As of 9/02/08 they have 84 applicants . . . It is our office's opinion that the current salary and classification status of the internal auditor series is appropriate . . . If they [Auditor-Controller] are unsuccessful in filling their vacancies at the end of this recruitment, we will work with the A-C to determine what other alternatives should be considered." [Ref-05]

- F-13.** Since the time of the CEO and BOS response to the 2007-2008 Grand Jury Report, the A-C and HR have not undertaken a study to resolve staffing, recruiting, and retention issues in the IAD.

Control Self-Assessment Status Reports

- F-14.** In 2009, the CEO added "Internal Control Policy" (Chapter VII(A) – 13) for inclusion into the Administrative Policy Manual, which policy provides: "The Auditor-Controller is also responsible for periodically reporting to the CEO and Board of Supervisors on the status of internal controls based on the results of department annual self-assessments." (Att-01)
- F-15.** The A-C sent a detailed report on the 2007 CSA Program directly to the BOS on January 29, 2008.
- F-16.** Beginning April 1, 2008, the A-C IAD has been sending a summary report on the status of the CSA Program quarterly to the CEO within 10 days of the end of the quarter. Thereafter, with noted exceptions, the CEO has provided a quarterly CSA report to the BOS, typically 14 weeks following the end of the quarter. [Ref-06]

Fiscal Quarter Ended	Date of A-C IAD Report to CEO	Date of CEO Report to BOS	BOS Action
Mar 31, 2008	Apr 1, 2008	(none)	
Jun 30, 2008	Jul 7, 2008	Sep 16, 2008	Receive and File
Sep 30, 2008	Oct 7, 2008	(none)	
Dec 31, 2008	Jan 15, 2009	Mar 10, 2009	Receive and File
Mar 31, 2009	Apr 6, 2009	(none)	
Jun 30, 2009	Jul 9, 2009	Oct 20, 2009	Receive and File
Sep 30, 2009	Oct 6, 2009	Jan 12, 2010	Receive and File
Dec 31, 2009	Jan 4, 2010	Feb 23, 2010	Receive and File
Mar 31, 2010	Apr 5, 2010	May 11, 2010	Receive and File

Control Self-Assessment Process

- F-17.** The County Internal Control Policy (Chapter VII(A) - 13) adopted in 2009 broadly outlines the scope of departmental internal control systems and control self-assessment. (Att-01)

- F-18.** The County is organized into 26 agencies and departments. 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. Each such budget unit is responsible for performing a self-assessment of internal controls within the organization. The A-C’s IAD issues instructions and guidance to the agencies and departments in performance of their own self-assessments.
- F-19.** The budget units perform the self-assessments, providing copies to the IAD. The IAD selects self-assessments for a complete agency or department for validation by its internal auditors.
- F-20.** The County has established a three-fiscal-year cycle (triennium) for performance of control self-assessments and validations for all budget units. The first CSA triennium went from July 2004 through June 2007; the current triennium ends June 30, 2010.

Control Self-Assessment Performance

- F-21.** Of the 26 budget units, 18 had submitted CSAs by the end of 2007. By March 2010, all budget unit CSAs for the 2007–2010 triennium had been performed (except for two CSAs in one agency which were expected to be completed by June 30, 2010).
- F-22.** IAD began validation of CSAs in 2008. As of the date of this report, IAD has completed validations of four agency or department CSAs, and one more is in process. These five validation reports issued in 2009 and 2010 covered self-assessments initially performed in 2007.
- F-23.** Some budget units report having used the CSA process to test and improve organizational control mechanisms. In many other cases, however, the validation process revealed the CSAs to have been incomplete or superficial.
- F-24.** Budget units report concerns regarding the CSA process:
- unclear tasks and objectives
 - having to “train and re-train” new auditors
 - CSA effort is unbudgeted within the departments, unplanned, and often costly
 - while budget units are encouraged to tailor the CSA guides to their own organizations, there is little practical direction from IAD in doing so
 - validations may be performed on comparatively old information, requiring re-doing a self-assessment in order to complete the validation
 - CSA is uncoordinated with the County’s Lean Six Sigma efficiency program
 - CSA validations re-visit areas subject to regularly scheduled fiscal audits, such as cash control, receipts, and disbursements

- it is difficult to discern a difference between a CSA validation and an audit
- F-25.** CSA validations and reports are conducted at the agency or department level without active participation or review by the office of the CEO.
- F-26.** Through the office of the CEO and senior management, the County sponsors an operational efficiency program entitled Lean Six Sigma¹. In this program, all agencies and departments continuously evaluate their activities at all levels for efficiency, effectiveness, and necessity. Lean Six Sigma does not include an equivalent emphasis on the factors of control and risk.
- F-27.** County management depends on the CSA Program to guide agency and department evaluations of risk and control, but they do not see the need to oversee the CSA directly.
- F-28.** The CSA Program and the Lean Six Sigma program are conducted concurrently within County administration, but without reference to one another; one is directed by the A-C, the other, by the CEO.
- F-29.** As of March 2010, modest changes were contemplated by the A-C IAD in the structure or methodology of the CSA for the new 2010-2013 triennium. No requests or suggestions for changes or improvements in the CSA Program had been received from the CEO's office.
- F-30.** Absent changes to the CSA Program, all budget units will be tasked with completing new control self-assessments for the new 2010-2013 triennium.
- F-31.** In the FY 2009-10 Audit Plan, the A-C allocated 960 direct auditor hours to CSA and validations, out of the planned 9,000 available hours. As of the end of March 2010, IAD had expended 293 direct auditor hours on CSA efforts in FY 2009-10.

Conclusions

- C-01.** The A-C audit function has suffered from high turnover and a shortage of staff for several years. (F-01)
- C-02.** The IAD audit staff continues to lack overall audit experience and experience within the County. (F-02 through F-04)
- 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. (F-04, F-05)
- C-04.** HR is losing the direct and less-structured insight of a face-to-face interview by conducting exit interviews by mail. HR has lost input from

¹ Lean Six Sigma is the name of a County initiative to focus on continuous improvements in processes and practices. *Lean* is a management approach to maximize value while removing wasteful activities and practices. *Six Sigma* can be defined as a management approach that seeks to systematically apply scientific principles to reduce variation and eliminate defects in service offerings. http://www.ventura.org/rma/service_excell/ci/pse.html

an indeterminate number of former employees, all of which could provide useful insight into high-turnover situations. (F-06 through F-08)

- 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. (F-02 through F-09, F-11)
- C-06.** HR has not conducted a comparison of the County auditor salary structure against that of private firms, which could be likely sources of significant competition (or of recruitment) for capable and experienced internal auditors. (F-11 through F-13)
- C-07.** The County's Administrative Manual Procedure VII(A) - 13, *Internal Control Policy*, requires that the CEO and A-C make periodic CSA reports to the BOS, but the A-C's reports are sent only to the CEO. 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. (F-14 through F-16)
- C-08.** That the CEO's office takes eight to 14 weeks to prepare the quarterly CSA report to the BOS reflects a low priority or importance attached to the CSA by County management. (F-16)
- C-09.** All County agencies and departments have participated in the CSA program this triennium to the extent of having performed self-assessments, and have complied with the IAD guidance. (F-17 through F-21)
- 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. (F-22)
- 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. (F-22, F-23)
- C-12.** The validation process has proven to be laborious and duplicative. With the high turnover in auditors, there is a 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. (F-24)
- C-13.** With only five of 26 agencies or departments having completed the validation phase during the current triennium, the other 21 agencies or departments will be expected to again perform self-assessments for the 2010-2013 triennium, without necessarily having had independent, knowledgeable evaluation of their prior efforts. (F-24, F-25)
- 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. (F-24)
- C-15.** The CSA Program is not being executed timely or effectively. (F-24, F-25)

- C-16.** Agency and department managers view CSA as a necessary nuisance rather than as a potential tool for assessing and improving organizational management. (F-23, F-24)
- C-17.** The Office of the CEO views the CSA Program with indifference, as an A-C program which may offer insights to the agency and department managers, but which does not require executive oversight or participation. (F-24, F-25)
- 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. (F-23 through F-28)
- C-19.** The County is performing the CSA Program as an afterthought. There is no apparent effort to coordinate or integrate CSA with the County's Lean Six Sigma management improvement program. (F-26 through F-28)
- 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. (F-29, F-30)
- 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. (F-31)

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. (C-01, C-02, C-05, C-06)
- R-02.** The CEO should direct HR to conduct face-to-face exit interviews with terminating and retiring County employees, and should direct HR to then provide systematic feedback to agency and department management. (C-03)
- 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. (C-04)
- 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 (businesses and audit firms) in Southern California. (C-05, C-06)
- 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. (C-05, C-06)

- 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. (C-07 through C-20)
- R-07.** The A-C IAD should direct its energy and capability toward performing traditional, direct organizational audits. (C-18)
- R-08.** The BOS should authorize and fund additional senior auditor positions and an additional fiscal manager position for the A-C IAD. (C-02)
- R-09.** Instead of starting a new CSA cycle, the CEO should positively incorporate control assessment objectives for all organizations under the Lean Six Sigma Program. (C-16, C-21)
- 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. (C-21)
- 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. (C-21)

Responses

Responses Required From:

Auditor-Controller, County of Ventura: (R-01, R-03 through R-07, R-10, R-11)

Board of Supervisors, County of Ventura: (R-06, R-08, R-10)

Responses Accepted From:

County Executive Officer, County of Ventura: (R-01, R-02, R-04 through R-06, R-09, R-10)

References

- Ref-01.** Ventura County Grand Jury 2003-2003 Final Report, "Independent Auditing within Ventura County Government"
http://portal.countyofventura.org/portal/page/portal/Grand_Jury/Reports/Archived_Reports_2000-2005/TAB4579519/independentAuditing.pdf
- Ref-02.** Ventura County Grand Jury 2006-2007 Final Report, "Ventura County: A Failure to Audit"
http://portal.countyofventura.org/portal/page/portal/Grand_Jury/Reports/TAB4579501/Failure_to_Audit.pdf
- Ref-03.** Ventura County Grand Jury 2007-2008 Final Report, "Controls Self-Assessment Restart"
http://portal.countyofventura.org/portal/page/portal/Grand_Jury/Reports/TAB4579501/Failure_to_Audit.

- Ref-04.** Job ClassificationsI
<http://portal.countyofventura.org/portal/page/portal/HumanResources>
- Ref-05.** Ventura County Star April 4, 2010 Classified Advertisements +url
- Ref-06.** Combined Response of Supervisors and County Executive Office Response to Controls Self-Assessment Program Restart
http://portal.countyofventura.org/portal/page/portal/Grand_Jury/Reports/TAB4579496/scan0001.pdf
- Ref-07.** Agendas of the Board of Supervisors, Ventura County http://gsa-docushare.countyofventura.org/dscgi/ds.py/Get/File-6366/Agenda_Calendar.htm
- Ref-08.** County of Ventura Internal Control Guidelines and Control Self-Assessment Program, Appendix A
<http://vcweb/auditor/acintranet/ICguidelines/Appendix%20A-2007.pdf>

Attachments

Att-01 County Administrative Policy Manual, Policy No. Chapter VII(A) - 13
INTERNAL CONTROL POLICY

Glossary

A-C	Auditor-Controller, County of Ventura
BOS	Board of Supervisors, County of Ventura
CEO	County Executive Office
CSA	Controls Self-Assessment
County	Ventura County
HR	Human Relations Department, County of Ventura
IAD	Internal Audit Division

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Att-01

**County Administrative Policy Manual, Policy No. Chapter VII (A) -13-
INTERNAL CONTROL POLICY**

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COUNTY OF VENTURA	2005 ADMINISTRATIVE POLICY MANUAL		FINANCIAL MANAGEMENT CHAPTER VII (A) Expenditure and Accounting <u>Policy No. Chapter VII (A) -13</u>
Originating Agency: A-C	Last Issued	Revised	INTERNAL CONTROL POLICY
Policy: CEO	N/A	2009 (New)	
Procedure: A-C	N/A	2009 (New)	
Forms (if any): A-C	N/A	N/A	
Policy Change Requires:		[] CEO Consultation with Board of Supervisors [x] CEO Approval	
Procedure/Forms Change Requires:		[x] CEO Approval	

POLICY

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. All County employees are responsible for complying with internal controls and communicating noted deficiencies to department management. It is essential that when deficiencies are identified such conditions are investigated and appropriate corrective action taken.

The Auditor-Controller under the **Internal Control Guidelines and Self-Assessment Program** –is responsible for periodically verifying that department internal controls have been maintained. The Auditor-Controller is also responsible for periodically reporting to the CEO and Board of Supervisors on the status of internal controls based on the results of department annual self-assessments. Responsibility for the design and implementation of specific internal controls rests with the department head or elected official. An agency/department head or elected official may elect to complete the self-assessment by alternating the specific budget units included in the review so that full coverage of the department operations is achieved over a three-year period.

PROCEDURE**Departmental Internal Control Systems**

Departments and agencies should maintain appropriate systems of internal control. Management should implement internal controls to manage risks to achieve the department's mission and to prevent and detect adverse business conditions, specific problems or inaccuracies. Examples of common types of control activities include:

- Approvals, authorizations and verifications
- Reconciliations
- Reviews of performance
- Security of assets

2005 ADMINISTRATIVE POLICY MANUAL
CHAPTER VII (A) -13 NEW 2009
Internal Control Policy NEW 2009
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- Segregation of duties
- Controls over information systems

To be effective control activities should be designed by staff that have extensive knowledge and experience with department operations and associated risks. Once designed, controls should be implemented thoughtfully, conscientiously and consistently. Procedures performed by rote, without the necessary focus on conditions they are intended to prevent, could negatively affect their usefulness.

Any change to departmental procedures resulting from improved efficiency measures should be implemented with regard to maintaining effective internal controls.

See the **County of Ventura Internal Control Guidelines**, Section IV, for a more detailed description of requirements for a proper internal control framework. Visit the Auditor-Controller web page at http://vcweb/auditor/acintranet/ICguidelines/IC_Policy.htm to download the Internal Control Guidelines.

Departmental Control Self-Assessment (CSA)

Departments are required to formally assess the adequacy of internal controls at least once every three years through the CSA Program according to the **Internal Control Guidelines and Control Self-Assessment Program** and report the results to the Auditor-Controller for review and validation.

The CSA Program is conducted annually according to the following sequence of events:

1. The Auditor-Controller and CEO jointly notify the department every three years of the scheduled commencement of the CSA Program with established due dates.
2. The Department Head designates a CSA Coordinator, decides on the scope and specific timing of the internal review and confirms to the Auditor-Controller by the due date.
3. The Auditor meets with the department's CSA Coordinator as needed to provide any requested technical assistance.
4. The Department conducts the CSA internal review and develops an improvement plan.
5. The Department Head reports the results of the CSA to the Auditor-Controller by the due date.
6. The Auditor-Controller validates the department's CSA results and improvements as needed with a copy to the Board of Supervisors and CEO.
7. The Auditor-Controller summarizes the countywide results of the CSA validations at the end of the three-year period and reports the results to the Board of Supervisors and CEO.
8. The CEO reports quarterly to the Board of Supervisors on the status of departmental CSA efforts, which includes tracking progress made to date on outstanding items and estimated completion dates.

The CEO and Auditor-Controller may issue updates to the CSA Guidelines, as deemed necessary, to address the County's changing internal control needs. For more specific details about the CSA program, please visit the Auditor-Controller's website.