

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Barry Zimmerman, Director, Human Services Agency

Date: March 18, 2010

From: Christine L. Cohen

Subject: **AUDIT TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT
FOR THE PUBLIC ADMINISTRATOR-PUBLIC GUARDIAN**

EXECUTIVE SUMMARY

We have completed our audit to validate the Control Self-Assessment (CSA) completed by the Public Administrator-Public Guardian (PAPG) on February 2, 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 PAPG conscientiously completed the Internal Control Questionnaire (ICQ) tool provided in the *Internal Control Guidelines and Control Self-Assessment Program*. All PAPG divisions were included in the CSA and input was provided by appropriate parties. As a result of the CSA, PAPG identified eight internal control improvements; upon further evaluation, PAPG management determined that only six improvements were necessary. PAPG has initiated action to implement these improvements.

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

- Documenting a formal risk assessment to support management's assertion that various PAPG risks were considered and addressed during the conduct of the CSA.
- Customizing the assessment tool to reflect facts, conditions, and risks relevant to PAPG.
- Documenting the method of verification used to determine how internal controls were deemed to be adequate.
- Conducting and documenting detailed tests of controls as appropriate.

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

Barry Zimmerman, Director, Human Services Agency

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

Attachment

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

**AUDIT TO VALIDATE THE 2007 CONTROL SELF-ASSESSMENT
FOR THE PUBLIC ADMINISTRATOR-PUBLIC GUARDIAN**

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 the 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. Approximately 6 months previously, on February 2, 2007, the Public Administrator-Public Guardian (PAPG) 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. PAPG's CSA results were based on information available from January 10 through February 1, 2007.

At the time that the CSA was completed in 2007, PAPG operations resided with the Treasurer-Tax Collector. PAPG operations were transferred to the Human Services Agency in 2009.

SCOPE:

Our overall audit objective was to evaluate the effectiveness of PAPG'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; and
- evaluated the thoroughness and effectiveness of the internal control improvement plan.

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

Due to extensive audit work of PAPG operations performed by an external firm completed in May 2007 and follow-up audit work completed in February 2009, tests of controls were not performed since these audits included comprehensive reviews of the effectiveness of PAPG's internal controls.

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 January 2007 through May 2009.

FINDINGS:

Overall, we found that PAPG made a conscientious effort in conducting the CSA. Management and appropriate staff from each PAPG division as well as a former Assistant PAPG and an external auditor were involved in conducting the CSA using the ICQ. This work was compiled into one ICQ, which contained PAPG's answers to 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.

PAPG answered "Yes" to 112 (80%) questions, "No" to 3 (2%) questions, and "N/A" to 26 (18%) questions. Upon evaluation of each general control area (e.g., cash, accounts receivable, etc.), PAPG documented eight internal control improvements, two of which were later deemed not necessary. The internal control improvements involved matters such as: implementing new case management software; establishing legal counsel per code requirements; reviewing receipt books and cash deposits; performing annual comprehensive reviews of management operations; segregating duties over preparation and distribution of checks; and hiring additional fiscal staff. During our audit, we confirmed that PAPG had initiated action to implement these improvements.

However, we encourage PAPG to further enhance the performance of the CSA to more fully derive the benefits of participating in the CSA Program. Specifically, improvements could be achieved by documenting a formal risk assessment of significant functions to better support PAPG's consideration of whether internal control activities adequately mitigate risks to the accomplishment of goals and objectives. Also, the ICQ tool used by PAPG could be more effective with modifications to reflect particular facts, conditions, and risks relevant to PAPG operations. Additionally, the approach used to confirm internal controls could be enhanced by specifying the method of verification and performing detailed tests of controls in significant areas.

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

Management Action. PAPG management stated: "In completing the risk assessment component of the CSA document it was not apparent that such additional documentation was a requirement of the process. This is the first time PAPG staff had the opportunity to participate in the risk assessment exercise. In the future HSA staff will work more closely with the Auditor-Controller to take the appropriate steps to more fully identify and document risk assessment procedures."

2. **Assessment Tool.** The ICQ tool used by PAPG to assess internal controls was not modified to ensure the inclusion of control activities for all of PAPG'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 that should be modified to reflect particular facts, conditions, and risks relevant to each department's own circumstances. Modifying the assessment tool to expand into fiscal and compliance controls not addressed in the ICQ as well as operational areas increases the effectiveness of the CSA.

Management Action. PAPG management stated: "Our interpretation of the instructions provided in the CSA document did not indicate the depth of the review that was expected. We understood the opportunity to modify the CSA as a suggestion, not a mandate. We look forward to working with the Auditor-Controller in future CSA's to more fully assess our internal controls."

3. **Evaluating Internal Controls.** Formally documenting how internal controls were deemed adequate and performing separate tests of control activities during the CSA would provide better support that PAPG management verified the effectiveness of internal controls.

- A. **Method of Verification.** PAPG did not document the methods used to verify internal controls 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 PAPG was allowed to use the 2004 *Guidelines* to fulfill the 2007 requirement due to PAPG's completion of the CSA only a few months prior to the rollout of the 2007 *Guidelines*. However, although the department was notified that all new 2007 requirements would need to be met, the methods of verification were not documented for purposes of the CSA.

Management Action. PAPG management stated: "As noted above, due to the short time frame with which to complete the CSA, and the fact that the PA/PG was in the process of being transferred to HSA, it was not possible to accommodate all aspects to the CSA instructions. Now that PA/PG staff are familiar with the required processes and have successfully transitioned to the Human Services Agency, we look forward to working with the Auditor-Controller in future CSA reviews."

- B. **Tests of Control Activities.** PAPG could further enhance the self-assessment by performing and documenting actual, separate tests of controls over significant functions during the CSA to ensure that controls are in place and operating effectively. 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 PAPG's daily and other regular procedures are designed to prevent and detect internal control deficiencies. However, 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.

Management Action. PAPG management stated: "Now that the PA/PG is under the direction of the Human Services Agency, we are taking steps to improve our internal assessment processes."

In addition, PA/PG has undergone a series of outside audits recently that have provided vital recommendations for risk mitigation and process improvement which are being evaluated for implementation. We welcome and recognize the value of the CSA process as an on-going augmentation to our risk assessment procedures.”

AUDITOR’S EVALUATION OF MANAGEMENT ACTION: We believe that management’s planned actions were responsive to the audit findings. Management planned to complete improvement 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.