mGO | Advisory Services

Risk Assessment Study and Audit Plan

County of Sacramento

Department of Finance

July 17, 2018

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Introduction

The County of Sacramento (County), through the Department of Finance, engaged Macias Gini & O'Connell LLP (MGO) to assist in preparing a Risk Assessment and Audit Plan for FY 2018-19, to be implemented by the Internal Audits Unit (Internal Audits). An Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve operations. Internal Audits help an organization achieve its objectives by providing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes.

Internal Audits assists the County Board of Supervisors, County officials, and County management by providing an unbiased, independent review and analysis of policies, procedures, and/or practices. Additionally, Internal Audits assists in the management of reports made to the fraud hotline, which was established to provide employees and members of the public an anonymous means to report fraud, waste and abuse, including known or suspected unethical, unlawful, or unsafe activities. This Risk Assessment and Audit Plan presents a consistent methodology for Internal Audits to evaluate risk and prioritize the County's auditing activities and is intended for use as an operational internal planning tool.

California Government Code Section 1236 states that all city, county, and district employees that conduct audits or that conduct audit activities of those respective agencies shall conduct their work under the general and specified standards prescribed by the Institute of Internal Auditors (IIA) or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate. These standards encourage audit departments to establish a risk-based approach to determine the priorities for audit activities.
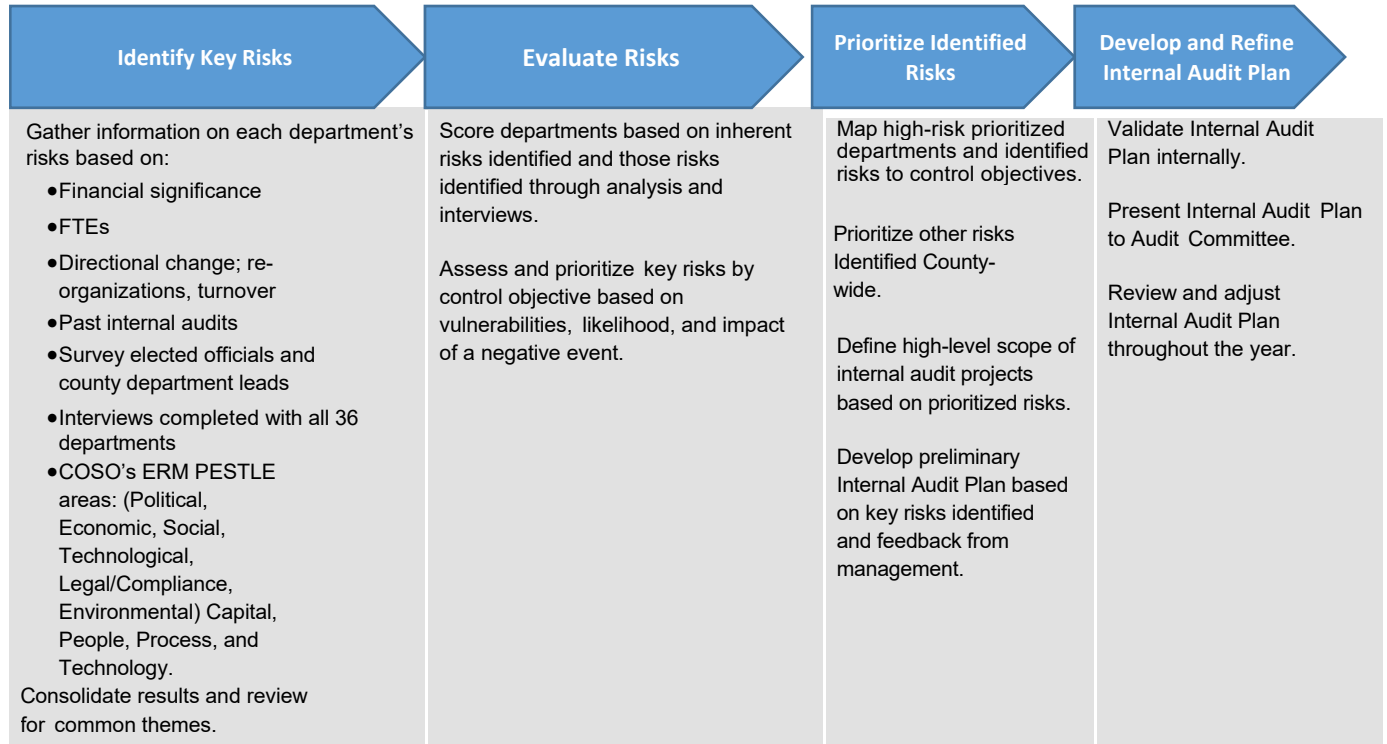
A risk assessment is a systematic process to evaluate, identify, and prioritize potential audits based on the level of risk to the organization. Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives and is measured in terms of impact and likelihood. An organization's exposure to risk is determined through the identification of risk and evaluating the potential impact on the entity and its operations, and likelihood of occurrence. Enterprise risk assessments identify an organization's exposure to disruptions or obstacles to achieving the organization's strategic goals and business objectives. An organization's internal audit activity incorporates management's risk assessments in its risk-based audit plan. Risk-based audit plans utilize a systematic process to evaluate, identify, and prioritize potential audits based on the level of risk. These audit plans serve as a tool to focus limited Internal Audits' resources to perform evaluations of controls in place to provide assurance that risks are managed to acceptable levels and evaluate performance measures and their level of achievement.

In accordance with the IIA Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input from Internal Audits. Our assessment evaluated the risk exposures related to the County's 36 departments. Our first step in creating the County's risk assessment model was to define the audit universe. The audit universe is defined as County departments and their key operations and organizational units (divisions) as the Auditable Units.

Risk Assessment Approach

In accordance with the IIA Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input from Internal Audits. Figure 1.0 below depicts the general process MGO undertook as part of this assessment.

Figure 1.0: Risk Assessment Process Overview

Identify Key Risks	Evaluate Risks	Prioritize Identified Risks	Develop and Refine Internal Audit Plan
Gather information on each department's risks based on: • Financial significance • FTEs • Directional change; re-organizations, turnover • Past internal audits • Survey elected officials and county department leads • Interviews completed with all 36 departments • COSO's ERM PESTLE areas: (Political, Economic, Social, Technological, Legal/Compliance, Environmental) Capital, People, Process, and Technology. Consolidate results and review for common themes.	Score departments based on inherent risks identified and those risks identified through analysis and interviews. Assess and prioritize key risks by control objective based on vulnerabilities, likelihood, and impact of a negative event.	Map high-risk prioritized departments and identified risks to control objectives. Prioritize other risks Identified County-wide. Define high-level scope of internal audit projects based on prioritized risks. Develop preliminary Internal Audit Plan based on key risks identified and feedback from management.	Validate Internal Audit Plan internally. Present Internal Audit Plan to Audit Committee. Review and adjust Internal Audit Plan throughout the year.

The process of assessing risk also includes identification of auditable activities, in addition to relevant risk factors and an assessment of their relative significance. Our assessment evaluated the risk exposures related to the County's 36 departments. Our first step in creating the County's risk assessment model was to define the audit universe. The audit universe is defined as County departments and their key operations and organizational units (divisions) as the Auditable Units. To accomplish this, we utilized the County's organizational chart and FY 2017-18 final budget data.   The following departments were interviewed in order to obtain management's input and insight for a thorough risk assessment:

1. Agricultural Commissioner / Weights and Measures
2. Airports
3. Animal Care and Regulation
4. Assessor
5. Budget and Debt Management
6. Child Support Services
7. Children, Family and Adult Services
8. Clerk of the Board of Supervisors
9. Conflict Criminal Defenders
10. Coroner
11. County Clerk/Recorder
12. County Counsel

13. Development and Code Services
14. District Attorney
15. Economic Development
16. Emergency Services
17. Environmental Management
18. Finance
19. General Services
20. Health and Human Services
21. Human Assistance (Welfare)
22. Labor Relations
23. Legislative and Communication
24. Personnel Services
25. Planning and Environmental Review
26. Probation
27. Public Defender
28. Public Information Office
29. Regional Parks
30. Revenue Recovery
31. Sheriff
32. Technology
33. Transportation
34. Voter Registration and Elections
35. Waste Management and Recycling
36. Water Resources

The next task involved a customized department-wide survey for each department that will be subject to the risk assessment. We issued a department-wide survey, which measured a variety of risk factors. The survey was administered online to Department Heads to factor into the rankings noted below. We received responses from 25 of the 36 departments (69 percent) of the departments surveyed. The survey results were analyzed and incorporated into our risk assessment model; and for those who did not respond, we ensured we obtained the required information from the department interviews.

The questionnaire assessed risk factors as follows:
1. Interface with the external public
2. Volume of transactions
3. Complexity of transactions
4. Failure to achieve the Department's mission or goals leads to public displeasure or negative media coverage (reputational risk)
5. Level of cash or cash-convertible nature of Department's transactions and risk of loss
6. Risk of loss – cash/assets
7. Department's tracking and use of activity performance measures
8. Regulation effect or impact on operations (legal/compliance risk)
9. Department turnover
10. Time since last re-organization
11. Management experience

MGO reviewed the results of the survey and based on professional judgment, adjusted scores if needed. Additionally, weights were assigned to each factor based on relative importance. We calculated the total risk score for each department in order of highest risk score to the lowest by tabulating the financial and full time equivalent staff positions (FTE) information gathered from the budget, questionnaires, and then applying the weights assigned to the risk factors.

The final step in completing the Countywide Risk Assessment was to conduct department meetings to discuss high-level risks. MGO held interviews with key stakeholders from all 36 departments to help gain an understanding of risks and obstacles each unit was facing and to gain a more thorough understanding of the duties and responsibilities of each department and assess any near-term risks. MGO utilized COSO's[1] 2017 Enterprise Risk Management (ERM) framework and looked generally at each department across the following external and internal environment categories and characteristics,[2] which can influence a department's ability to achieve its strategy and business objectives. The framework assesses the external risks of Political, Economic, Social, Technological, Legal/Compliance, and Environmental, through the acronym, PESTLE.

PESTLE Analysis

P Political

E Economic

S Social

T Technological

L Legal/Compliance

E Environmental

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[1] The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a joint initiative of the five private sector organizations: American Accounting Association, the American Institute of Certified Public Accountants, Financial Executives International, the Association of Accountants and Financial Professionals in Business, and the Institute of Internal Auditors. They are dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control, and fraud deterrence.

[2] 2017 Enterprise Risk Management Framework Update– Aligning Risk with Strategy and Performance. The 2017 update to the *Enterprize Risk Management — Integrated Framework* addresses the evolution of enterprise risk management and the need for organizations to improve their approach to managing risk to meet the demands of an evolving business environment.

Utilizing this framework enabled us to identify risks to populate the enterprise-wide risk register, which also helped us better identify top external risks facing the County and to assist in identifying areas of county-wide potential audits, as shown in Figure 2.0 below

Figure 2.0: COSO ERM External and Internal Risk Areas

EXTERNAL	The external environment is anything that can influence a department's ability to achieve its strategy or business objectives.	Example of Exposure to Department/Auditable Unit
Political	The nature and extent of government intervention and influence, including tax policies, labor law, environmental laws, trade restrictions, tariffs, and political stability.	The extent to which a department or unit's financial projections or scenarios based on unanticipated cuts in programs or services due to budgetary cuts or changes at the Federal or State level.
Economic	Interest rates, inflation, availability of credit (state of the economy, sensitivity to economic factors)	The impact to a department's budget and/or service demands due to changes in the economy. Departments may experience both simultaneously; reduction in resources coupled with increase in service demand.
Social	Customer needs, expectations; demographics – age distribution, educational level, distribution of wealth/income inequality	Public service exposure that exists when an event or trend could jeopardize existing public services, service delivery, etc.
Technological	Rate of technological change, disruption	The extent of exposure that results from the overall change in technology and the Department's capability to catch up or the risks associated with gaps between current/commonly adopted technology and lack thereof at the Department.
Legal/Compliance	Laws, regulations, pending litigation, industry standards	Compliance exposure exists when an audit area could fail to comply with regulations mandated by federal or state authorities, irrespective of the financial exposure that may result.
Environmental	Natural or human-caused catastrophes, climate change, changes in energy/resource consumption, changes in attitudes toward the environment	An environmental exposure exists when there is a threat to the stability and efficiency of the Department due to an environmental event.

In addition to the PESTLE framework noted above, we also assessed the COSO ERM Internal Risk Areas of Capital, People, Processes and Technology, as shown in Figure 2.1 below.

Figure 2.1: COSO ERM Internal Risk Areas

INTERNAL	Anything inside the department that can affect its ability to achieve its strategy and business objectives.	Example of Exposure to Department/Auditable Unit
Capital	**Assets, cash, equipment, property (tangible and non)**	**Financial exposure exists when the audit area or department is susceptible to errors or inherently prone to theft due to the nature of transactions or cash convertible nature of assets.**
People	**Knowledge, skills, relationships, culture**	**Human resource exposure – when human capital is not managed according to policy, lack of knowledge, skills and abilities are not present, recent changes in key personnel, lack of succession planning, high turnover, or recent re-organization. Also may include inability to hire staff or slow/inefficient recruitment and hiring process.**
Process	**Activities, tasks, policies/procedures, changes in management, operational and supporting processes**	**Process efficiency/effectiveness exposure – when resources are not utilized in an effective manner.** **Lack of policies and procedures may indicate an internal control environment risk.**
Technology	**Newly adopted technology, IT inventory, complexity of IT systems**	**Information technology exposure exists whenever there is information that may be at risk for accurate, timely reporting due to newly implemented systems or aging systems that are no longer supported by internal staff, lack of interfaces, etc.**

We then applied a method of systematically scoring (or rating) the relative impact of a variety of "risk factors" across each department. A risk factor is an observable or measurable indicator of conditions or events that could adversely affect the organization. Risk factors can measure inherent risks[3] (such as a large organizational structure and high expenditures) or organizational vulnerability (such as the level of cash and assets easily converted to cash, high turnover, and sensitive information). Each risk factor was assigned a weight factor based on their respective probability and impact. Considering the risk and weight factors, we ranked the departments using a scale of Low, Medium, or High to identify those departments that should be prioritized by the following weight factors:

- **Financial Significance**: Level of budgeted annual expenditures and revenues (30%)[4]
- **Directional Change:** Departmental changes/number of budgeted full time equivalent employees (FTEs) and turnover since prior year, and recent re-organization (25%)
- **Information Technology Complexity**: Number of systems or mission critical information system functions within the department (20%)
- **PESTLE External and Internal Risks via Department Interview:** See Figure 2.0 above for risk topics (20%)
- **Time Since Last Audit:** All departments received the highest score, a 3, as this is the designated baseline year (5%)

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[3] In Enterprise Risk Management – Integrated Framework (2013), COSO defines inherent risk as the risk to an entity in the absence of any actions management might take to alter either the risk's likelihood or impact.
[4] Percentages reflect the weighting we applied to the scores in each category to arrive at a risk score in the Risk Assessment tool.

Finally, we calculated the overall risk score for each department by stratifying the resulting rating in descending order by High, Medium, and Low.   These department rankings serve as the priority rankings for potential audits, where those departments identified as high risk should be in the next 12 months. We then identified possible audit activities by identifying control objective categories that best suited the department's operational units. We utilized control objectives from COSO's Internal Control-Integrated Framework's (2013) general control objectives – **financial and non-financial reporting, operational efficiency and effectiveness (inclusive of safeguarding of assets), and compliance with laws and regulations** – to serve as a guide in terms of what type of audit would be most impactful.

Risk Assessment Tool & Audit Plan

Our scoring analysis described above was compiled in a Risk Assessment Tool developed in Microsoft Excel as presented under a separate cover, which allows for customization and updates by Internal Audits staff for future audit planning.   The current methodology results in a quantitative numeric score for each department were ranked High (H), Medium High (MH), Medium (M), Medium-Low (ML), and Low (L).

In the Risk Assessment Tool, the Risk Score tab allows for the addition of columns and contains simple formulas that allow the user to change the weights or topic areas of weights in future years. There are also additional columns which are currently hidden, which can be used to track current year audits by assigning a rating and weight to a department that has been audited in the current year, which will lower its overall score for the next year.

The departments shown below in Figure 3.0 with a high risk score merely indicates that the services they provide, or the functions they are responsible for, are by nature a high-risk activity because of such exposure factors noted in our rating methodology. A high-risk score does not mean that a department is being managed ineffectively or that it is not functioning properly. High risk areas may indicate opportunities to address activities which are mission critical, provide substantial support for other internal County operations, reflect high public need, or that may be highly sensitive to changes in legislation which may impact funding for core programs. The overall results identify the departments with the highest risk factors that may warrant and benefit from audit services, as outlined in both the Risk Assessment Tool and in Figure 3.0 on the next page.   We propose that those departments with a risk score of "H" be audited in the FY 2018-19.

Figure 3.0: Risk Ranking by Department

Department	RISK SCORE
Children, Family & Adult Services	H
Health Services	H
Human Assistance (Welfare)	H
Sheriff	H
Airports	H
General Services	H
Finance	MH
Environmental Management	MH
Public Defender	MH
Child Support Services	MH
Water Resources	MH
Waste Management and Recycling	MH
Assessor	MH
Regional Parks	MH
Probation	M
Technology	M
Revenue Recovery	M
Planning and Environmental Review	M
Development and Code Services	M
Emergency Services	M
Budget and Debt Management	M
Transportation	ML
District Attorney	ML
Personnel Services	ML
Voter Registration and Elections	ML
Agricultural Commission / Weights and Measures	ML
County Clerk/Recorder	ML
Conflict Criminal Defenders	ML
Clerk of the Board of Supervisors	L
Economic Development	L
Labor Relations	L
Animal Care and Regulation	L
Coroner	L
County Counsel	L
Legislative and Communication	L
Public Information Office	L

Source: MGO Risk Assessment Tool. Risk Ratings are on a scale of 1-10. See Risk Assessment Tool under separate cover for full scoring methodology.

Proposed Annual Audit Work Plan

The Annual Audit Work Plan (Audit Plan) for Fiscal Year 2018-19 summarizes the audits and projects we recommend Internal Audits complete during the forthcoming 12 months, based on results calculated by the Risk Assessment Tool, as described above. It is important to note that the Audit Plan is a working document that should be flexible in addressing current priorities in a changing environment. It should also be noted that it may not be feasible to complete audits proposed in the current plan due to competing workloads comprised of regularly scheduled audits and reviews, such as mandated audits, Transient Occupancy Tax (TOT) audits, sub-recipient monitoring, and select P-cards and cash handling reviews. Internal Audits will also consider concerns shared by the Board of Supervisors and County Executive Management; as well as any issues identified in reports to the Fraud Hotline. Internal Audits will continue to devote time to department requests, Relief of Accountability, and Change of Custody audits. As required by the Audit Committee Charter, the Audit Committee will be notified of any significant additions, deletions, or other changes in the Audit Plan.

The Audit Plan includes audit scopes related to key internal control objectives: financial/non-financial reporting; compliance with laws, policies and regulations; and operational - economic and efficient use of resources. The Audit Plan presented does not suggest audit types that Internal Audits may employ, in order to allow the Unit more flexibility in the way they approach the audits, and the experience and expertise of available staff performing the work. For each audit scope suggested, Internal Audits will determine the level of assurance required and the level of effort that will be required to develop findings, which will be the driver of the audit methodology. In general, the majority of the audit scopes we've presented in the plan can be conducted as Performance Audits or Attestation engagements in accordance with generally accepted government auditing standards (GAGAS). See Attachment A for more on audit types. Based on the size and scope of the audit, Internal Audits may wish to contract out one or more of the audits, should additional subject matter expertise be required.

While general audit objectives are included in the plan, specific audit objectives will be determined upon completion of preliminary surveys related to each department's auditable units or divisions to gain an understanding of the control environment in which the department operates. During the planning stage of conducting these audits, Internal Audits will send out preliminary surveys to the respective Departments/Auditable Units. This will enable Internal Audits to establish familiarity with the department and/or function by conducting background interviews and research. At that time, potential issues will be confirmed or identified and the specific audit objectives and methodology will be developed. Estimated audit hours for each project may need to be determined as a result of preliminary survey results. Specific testing activities should focus on key risks and internal controls governing key processes through a comparison to the COSO Internal Control-Integrated Framework's (2013) five components of internal control and their related principles of Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Figure 4.0 below depicts proposed FY 2018-19 internal audit activities, based on the risk assessment and audit type (financial/non-financial reporting, compliance, and operational), validated through the risk assessment process and documented in the Risk Assessment Tool. The total hours estimated for the FY 2018-19 Audit Plan are based on 3,500 available hours out of 12,500 total hours, assuming a fully staffed Internal Audits Unit.

Figure 4.0: Proposed Internal Audit Activities for FY 2018-19

Department	Potential Risk Activity Areas	Audit Type and Objectives	Estimated Hours (Range)
Child, Family, and Adult Services	**Administration**	**Financial/Non-Financial Reporting:** Assess the Department's progress on any action plans developed in response to federal audit findings and recommendations. Develop a matrix of findings, status, and corrective actions.	**100-150**
Health Services	**Administration**	**Operational/Compliance:** Assess the Department's contract compliance activities with regard to sub recipient monitoring. Internal Audits should conduct a review of the Department's internal controls surrounding contracts with providers pre-award and as the contract progresses, including communication and monitoring.	**200-400**
Human Assistance	**Cash Aid**	**Operational - Internal Control Review:** Conduct a preliminary survey of the internal controls, identify key process and controls, and design tests to verify that key controls are in place and functioning as intended. For example, specific tests may include assessing regulatory compliance with eligibility requirements of clients and reporting to Federal and State government.	**250-300**

Figure 4.0: Proposed Internal Audit Activities for FY 2018-19 (Continued)

Department	Potential Risk Activity Areas	Audit Type and Objectives	Estimated Hours (Range)
Sheriff	**Administrative Services**	**Financial Reporting/Compliance: Grants Management -** Assess the grants management process and test internal controls to assess adherence to policies and procedures and the grant agreements.	**350-500**
	Support Services	**Internal Control Review: Property/Evidence Room (Sufficiency of Facilities) Objectives –** Assess the sufficiency of the evidence storage facility and the extent to which it allows for the safe handling of biological evidence while preserving the integrity of the evidence to ensure that damage, contamination, or inadvertent destruction of evidence does not occur.	**150-200**
Airports	**Finance Administration**	**Operational - Internal Control Review:** Conduct a preliminary survey of the internal control environment, identify key process and controls, and design tests to verify that key controls are in place and functioning as intended.	**150-200**
	Finance Administration/Operations & Maintenance	**Compliance Audit - Objectives:** Assess the adequacy of monitoring activities regarding lease agreements. Audit procedures should be designed to ensure ongoing compliance with leasing policies and procedures and the ongoing activities of property management including billings, collections, lease increases, etc.	**300-500**

Figure 4.0: Proposed Internal Audit Activities for FY 2018-19 (Continued)

Department	Potential Risk Activity Areas	Audit Type and Objectives	Estimated Hours (Range)
General Services	**Purchasing & Contracts**	**Operational Audit - Objectives**: Determine if adequate system controls are in place to ensure the accuracy and completeness of purchasing information and if departments are uniformly in compliance with requirements. Identify opportunities to reduce unnecessary and redundant processes, or processes that may present obstacles to department efficiency.	**300-450**
		Operational Audit – Objectives: Assess the Fleet Management Internal Billing process. Audit procedures should be designed to ensure accuracy and completeness and identify any areas for improvement.	**150-250**
		Total Estimated Hours	**1,950 – 2,950**

We have also included a selection of additional recommended review areas based on the likelihood that the review will produce positive change and have a high impact, as shown in Figure 5.0 below. We suggest allocating some of the remaining Internal Audits hours available to at least one of the following audits, or to consider the possibility of outsourcing. Hour estimations for each of the audits presented in Figure 5.0 below range from 200-500 hours. However, a preliminary assessment is recommended for each additional area to refine the scope using risk based engagement practices and to allow for a more accurate estimate of time required, as well as the level of assurance desired. With the exception of cash-handling and P-card audits, these core business functions or transaction cycles have typically not been included in Internal Audits' prior audit plans and have not been examined recently. For example, although Payroll is a business function that extends to all County departments, no single department is responsible or accountable for establishing and maintaining uniform County-wide payroll policies and procedures. In addition, departments may use disparate systems that interface with COMPASS. Presently, payroll processing responsibility is shared - it is processed through the Auditor-Controller and information is maintained by Personnel Services, with support from each County department.

Figure 5.0: Additional Audit Areas Identified

Priority	Function/Cycle Review Area	Scope
High	**Purchasing & Contracts** – Comprehensive procurement review and evaluate the business process for opportunities to streamline and reduce redundant processes or lengthy cycle times; assess department satisfaction. **Objectives**: Determine if adequate system controls are in place to ensure the accuracy and completeness of purchasing information. Evaluate the staffing levels associated with the purchasing cycle. Identify opportunities to reduce unnecessary and redundant processes or processes that may present obstacles to department efficiency.	**Large Review**: Procure-to-pay cycle, Countywide Performance Audit.
High	**Grants Management** – Evaluation of grants management lifecycle, including processes and controls in place for grant tracking and reporting. **Objectives**: Determine if the grants management processes and controls are adequate to ensure continuing funds from granting agencies, in the absence of a Countywide grants management system or centralized monitoring function.	**Large Review**: Largest grants and departments, or Countywide Performance Audit.
High	**Payroll** – Comprehensive evaluation of Countywide payroll processes. **Objectives:** Determine if: (1) controls are in place to ensure accurate processing of payroll, and (2) systems and processes to recognize, process, remit, and report payroll transactions can be improved. **The scope may be limited to specific departments that are determined to have the greatest risks due to the systems and manual practices in place or based on processing volume.**	**Large Review:** Countywide Performance Audit.
High	**Potential Litigation Financial Impact Reporting** **–** Best practices or internal control review of information and communication protocols related to County Counsel's frequency of reporting estimated potential costs/settlements related to potential and ongoing litigation that may significantly impact the County's financial statements. Audit procedures should be designed to identify any standards or requirements, policies and procedures; or in the absence of, support the development of a formalized reporting process.	**Small Review:** limited scope (outsource).

Figure 5.0: Additional Audit Areas Identified (Continued)

Priority	Function/Cycle Review Area	Scope
Medium	**Cash Disbursements** & **Payables**– Conduct data analysis to detect (1) Duplicate Vendor Payments, and test for (2) Employee-Vendor match. **Fraud Detection:** Perform three trend analyses: all vendors' spend trend for 3-5 year rolling period; all funds total expenditure analysis for 3-5 year rolling period and new vendors for 3 years, then roll into all vendor trend. **General objectives:** Verify receipt of goods and services; adequacy of supervisory reviews and approval; timeliness of invoice processing; accuracy of payments, reconciliations, and safeguarding of assets.	**Continuous/Periodic: Monthly or quarterly.**
Medium	**Information Technology** –Various Systems - General Information Technology General Controls Review (ITGC). IT application controls and general IT system controls that support key systems within the County should be conducted in conjunction with the Framework for IT Governance and Control. (COMPASS and other major systems as determined by Department of Finance.) This would examine the controls and integrity of the data contained in external systems that interface with COMPASS. **Comprehensive Data Security audit** specifically designed to determine if physical and software access security of data and programs is appropriate, approved, managed, maintained, and adequately supported.	**Countywide, one time** (outsource).
Medium	**IT Data storage needs assessment - Multi-departmental:** Review and assess information technology needs with regard to data storage and access, including whether the increase in data can be supported (DA, Sheriff, Public Defender, Conflict Criminal Defender).	**One-time**
Low	**Working Retiree/Extra Help Hours**: Test to ensure that County retirees working as extra help are not working in excess of mandated hour limits of 960 hours annually.	**Periodic**: monthly, annually.

Attachment A
Types of Engagements Conducted by Internal Audits

Professional Auditing Standards

IA conducts their audits in accordance with the Generally Accepted Government Auditing Standards (GAGAS) published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization
- Objectivity of the auditors performing the work
- Competent staff, including continuing professional education
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards

Types of Audits Performed under GAGAS

Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. These engagements are concerned with examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting on the results. The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior.

Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit. Possible subjects of attestation engagements could include reporting on:

- an entity's internal control over financial reporting;
- an entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants;
- the effectiveness of an entity's internal control over compliance with specified requirements, such as those governing the bidding for, accounting for, and reporting on grants and contracts;
- management's discussion and analysis presentation;
- prospective financial statements or pro-forma financial information;
- final contract cost;
- allowability and reasonability of proposed contract amounts; and
- specific procedures performed on a subject matter (agreed-upon procedures).

Performance audits provide information to improve operations and facilitate decision making by parties with responsibility to oversee or initiate corrective action and improve public accountability. Performance audits that comply with GAGAS provide reasonable assurance that the auditors have obtained sufficient, appropriate evidence to support the conclusions reached. Thus, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions. A performance audit is a dynamic process that includes consideration of the applicable standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

Performance Audit Objectives May Vary

Audit standards have established that performance audit objectives may vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance audit may have more than one overall objective. For example, a performance audit with an initial objective of program effectiveness may also involve an underlying objective of evaluating internal controls to determine the reasons for a program's lack of effectiveness or how effectiveness can be improved.

Program effectiveness and results, along with audit objectives, are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results. Examples of audit objectives in these categories include:

a. assessing the extent to which legislative, regulatory, or organizational goals and objectives are being achieved;
b. assessing the relative ability of alternative approaches to yield better program performance or eliminate factors that inhibit program effectiveness;
c. analyzing the relative cost-effectiveness of a program or activity;
d. determining whether a program produced intended results or produced results that were not consistent with the program's objectives;
e. determining the current status or condition of program operations or progress in implementing legislative requirements;
f. determining whether a program provides equitable access to or distribution of public resources within the context of statutory parameters;
g. assessing the extent to which programs duplicate, overlap, or conflict with other related programs;
h. evaluating whether the audited entity is following sound procurement practices;
i. assessing the reliability, validity, or relevance of performance measures concerning program effectiveness and results, or economy and efficiency;
j. assessing the reliability, validity, or relevance of financial information related to the performance of a program;
k. determining whether government resources (inputs) are obtained at reasonable costs while meeting timeliness and quality considerations;
l. determining whether appropriate value was obtained based on the cost or amount paid or based on the amount of revenue received;
m. determining whether government services and benefits are accessible to those individuals who have a right to access those services and benefits;
n. determining whether fees assessed cover costs;
o. determining whether and how the program's unit costs can be decreased or its productivity increased; and
p. assessing the reliability, validity, or relevance of budget proposals or budget requests to assist legislatures in the budget process.

Performance Audits Can Include Internal Control Objectives

Internal control audit objectives relate to an assessment of the component of an organization's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control comprises the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and management's system for measuring, reporting, and monitoring program performance. Examples of audit objectives related to internal control include an assessment of the extent to which internal control provides reasonable assurance about whether:

a. organizational missions, goals, and objectives are achieved effectively and efficiently;
b. resources are used in compliance with laws, regulations, or other requirements;
c. resources, including sensitive information accessed or stored outside the organization's physical perimeter, are safeguarded against unauthorized acquisition, use, or disposition;
d. management information, such as performance measures, and public reports are complete, accurate, and consistent to support performance and decision making;
e. the integrity of information from computerized systems is achieved; and
f. contingency planning for information systems provides essential back-up to prevent unwarranted disruption of the activities and functions that the systems support.

Compliance audit objectives relate to compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance objectives include determining whether:

a. the purpose of the program, the manner in which it is to be conducted, the services delivered, the outcomes, or the population it serves is in compliance with laws, regulations, contract provisions, grant agreements, and other requirements;
b. government services and benefits are distributed or delivered to citizens based on the individual's eligibility to obtain those services and benefits;
c. incurred or proposed costs are in compliance with applicable laws, regulations, and contracts or grant agreements; and
d. revenues received are in compliance with applicable laws, regulations, and contract or grant agreements. Prospective analysis audit objectives provide analysis or conclusions about information that is based on assumptions about events that may occur in the future along with possible actions that the audited entity may take in response to the future events. Examples of objectives pertaining to this work include providing conclusions based on:
   • current and projected trends and future potential impact on government programs and services;
   • program or policy alternatives, including forecasting program outcomes under various assumptions;
   • policy or legislative proposals, including advantages, disadvantages, and analysis of stakeholder views;
   • prospective information prepared by management;
   • budgets and forecasts that are based on (1) assumptions about expected future events and (2) management's expected reaction to those future events; and management's assumptions on which prospective information is based.

Financial audits are primarily concerned with providing reasonable assurance about whether financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles (GAAP), or with a comprehensive basis of accounting other than GAAP. Other objectives of financial audits, which provide for different levels of assurance and entail various scopes of work, may include:

- providing special reports for specified elements, accounts, or items of a financial statement;
- reviewing interim financial information;
- issuing letters for underwriters and certain other requesting parties;
- reporting on the processing of transactions by service organizations; and
- auditing compliance with regulations, relating to federal award expenditures and other governmental financial assistance, in conjunction with or as a by-product of a financial statement audit.

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The following chart describes Attestation Engagements and Performance Audits, which are the two types performed by IA.

Engagement Type	Name	Engagement Description	Uses	Assurance level
GAGAS Standards for Attestation Engagements (Chapter 5 of Yellowbook)	**Attestation Engagements**	*The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit.*		
	Examination	*Consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in conformity with) the criteria in all material respects or the assertion is presented (or fairly stated), in all material respects, based on the criteria.* Engagement message: Opinion provided.	When IA has a subject matter on which they want an opinion that doesn't qualify as a financial audit.	**High**
	Review	*Consists of sufficient testing to express a conclusion about whether any information came to the auditors' attention on the basis of the work performed that indicates the subject matter is not based on (or not in conformity with) the criteria or the assertion is not presented (or not fairly stated) in all material respects based on the criteria. Auditors should not perform review---level work for reporting on internal control or compliance with provisions of laws and regulations.* Engagement message: "nothing came to our attention… that leads us to believe the subject matter does not meet the criteria," (or that it did….)."	No time for a full-blown audit but want some sort of assurance that the subject matter is aligned with criteria.	**Med**

Engagement Type	Name	Engagement Description	Uses	Assurance level
GAGAS Standards for Attestation Engagements (Chapter 5 of Yellowbook)	**Attestation Engagements (continued)**	*The subject matter of an attestation engagement may take many forms, including historical or prospective performance or condition, physical characteristics, historical events, analyses, systems and processes, or behavior. Attestation engagements can cover a broad range of financial or non-financial subjects and can be part of a financial audit or performance audit.*		
	Agreed-upon procedures (most cost effective)	*Consists of auditors performing specific procedures on the subject matter and issuing a report of findings based on the agreed-upon procedures. In an agreed-upon procedures engagement, the auditor does not express an opinion or conclusion, but only reports on agreed-upon procedures in the form of procedures and findings related to the specific procedures applied.* Engagement message: "I did this and here is what I found." No conclusions or opinions, recipient is left to make conclusions on their own. Report is simply list of tasks performed and results. Not an audit. No recommendations. *Important note: In an agreed-upon procedures engagement, auditors do not perform sufficient work to be able to develop elements of a finding or provide recommendations that are common in other types of GAGAS engagements. Under such circumstances, IA may find that a different type of attestation engagement or a performance audit may provide the appropriate level of assurance to meet their needs.*	Need for independent objective party to perform specific procedures. (Procedures=Criteria, Finding=Condition)	**NA**

Engagement Type	Name	Engagement Description	Uses	Assurance level
GAGAS Standards for Performance Audits – GAGAS Chapters 2, 3, 6, and 7 of 2011 Yellowbook.	**Performance Audits**	*Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.* Engagement messages: varies, answers objectives of the audit.	*When the Department/Unit/Program requires or requests an analysis to assist them and the report will be used to either improve performance and operations, reduce costs, and will facilitate decision making by those with responsibility to oversee or initiate corrective action, and contribute to public accountability.*	High[6]
	Operational Audits5 - Efficiency, effectiveness and economy	*Program effectiveness and results audit objectives are frequently interrelated with economy and efficiency objectives. Audit objectives that focus on program effectiveness and results typically measure the extent to which a program is achieving its goals and objectives. Audit objectives that focus on economy and efficiency address the costs and resources used to achieve program results.*		
	Internal control	*Internal control audit objectives relate to an assessment of one or more components of an organization's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance.*		
	Compliance Prospective	*Compliance audit objectives relate to an assessment of compliance with criteria established by provisions of laws, regulations, contracts, or grant agreements, or other requirements that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance requirements can be either financial or nonfinancial.*		
	Prospective	*Prospective analysis audit objectives provide analysis or conclusions about information that is based on assumptions about events that may occur in the future, along with possible actions that the entity may take in response to the future events.*		

Source: Yellowbook Revision 2011; MGO analysis.

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[5] Operational audits typically combine elements of financial-related, IT, and compliance audits, and focus on risks pertinent to the specific responsibilities of the audited unit, program or, department.

[6] Standards require that auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions. The elements needed for a finding are related to the objectives of the audit. Thus, a finding or set of findings is complete to the extent that the audit objectives are addressed and the report clearly relates those objectives to the elements of a finding based on our audit objectives.

Other Audit Types

Any of the above types of audits may be conducted at varying levels and with differing scope. Most commonly, they will involve one of the following: A specific function or business process, program, or activity; a specific department, multiple functions, or county-wide functions. IA may contract out for any of the above types of audits and/or the following:

Follow-Up Audits – The purpose of a follow-up audit is to revisit a past audit's recommendations and management's action plans to determine if corrective actions were taken and are working, or if situations have changed to warrant different actions.

Investigations – An investigation is an inquiry into circumstances surrounding suspected incidents of fraud, misuse of County assets, or violations of County policies. Investigations are conducted to determine the extent of loss, assess weaknesses in controls, and make recommendations for corrective actions.

IT Audits – An Information Technology (IT) audit evaluates controls related to the institution's automated information processing systems. IT audits include an assessment of data, networks, hardware, applications, databases, servers, contracts, software/hardware licensing, security, business continuity, access authorization, and compliance with the institution's objectives, policies, and procedures. The goal is to ascertain that IT systems are safeguarding assets, maintaining data integrity, and efficiently operating to achieve business objectives.