

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

411



FROM: County Auditor-Controller

SUBMITTAL DATE:
August 13, 2014

SUBJECT: County of Riverside Auditor-Controller's Internal Audit Plan for FY 2014/15. [District: ALL]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file the County Auditor-Controller's Internal Audit Plan for FY 2014/15.

BACKGROUND:

Summary

The Internal Audit Plan for FY 2014/15 was prepared in accordance with the International Standards for the Professional Practice of Internal Auditing. The audit plan is consistent with the requirements of California Government Code Sections 1236 and 25250. The Internal Audit Plan for FY 2014/15 covers a two fiscal year period

Departmental Concurrence

Paul Angulo, CPA, M.A.
County Auditor-Controller

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$	\$	\$	\$	Consent <input type="checkbox"/> Policy <input checked="" type="checkbox"/>
NET COUNTY COST	\$	\$	\$	\$	

SOURCE OF FUNDS:

Budget Adjustment:

For Fiscal Year:

C.E.O. RECOMMENDATION

APPROVE

BY:

Karen L. Johnson
Karen L. Johnson

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

Positions Added

Change Order

A-30

4/5 Vote

Prev. Agn. Ref.:

District: ALL

Agenda Number:

BACKGROUND:

Summary (continued)

The Internal Audit Plan for FY 2014/15 plan incorporates a slate of prospective audits for FY 2015/16, which is a new addition to the audit plan. The prospective audits listed for FY 2015/16 provide increased flexibility to replace or add audits in response to changed circumstances during FY 2014/15. In addition, it is expected to increase efficiency by providing a smoother transition between audit plan years by enhancing planning and logistics. Finally, the FY 2015/16 prospective internal audits will be updated and provided to the Board of Supervisors as the foundation of the County Auditor-Controller's Internal Audit Plan for FY 2015/16.

Impact on Citizens and Businesses

Provide reliable, independent, objective assessments of the adequacy and effectiveness of county internal controls.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

County Auditor-Controller's FY 2014/15 Internal Audit Plan

County of Riverside
Auditor-Controller's Office
Internal Audit Division



We Believe In...

*“Creating Value and
Making a Difference”*

ACC | AUDITOR
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo
CPA, M.A.

FY 2014/15
Internal
Audit Plan

County of Riverside

Executive Summary

Internal Audit is established as a function within the Internal Audit & Specialized Accounting Division of the County Auditor-Controller's Office. Riverside County Board of Supervisors' Resolution No. 83-338 Establishing Authority and Declaring Policy authorizes the Auditor-Controller to audit accounts and records of any department, office, board or institution under the control of the Board of Supervisors, and any district keeping funds in the County Treasury. Internal Audit assists all levels of the administration in achieving County objectives by bringing a systematic approach to evaluate and improve the effectiveness of risk management, control, and the administrative processes in the following areas:

- ◆ Compliance with policies, plans, procedures, laws, and regulations;
- ◆ Safeguarding of assets;
- ◆ The reliability and integrity of financial and operating information; and
- ◆ Economy and efficiency of operations and resource usage.

The Fiscal Year 2014-15 Internal Audit Plan includes, for the first time, prospective planned audits for the following fiscal year. Including prospective audits for FY 2015-16 provides increased flexibility to respond to changed circumstances during FY 2014-15 and smoother transitions between audit plan years, which will increase efficiency through enhanced planning and logistics. Finally, the FY 2015/16 Prospective Internal Audit Plan will be updated and provided to the Board of Supervisors as the foundation of the County Auditor-Controller's Internal Audit Plan for FY 2015/16.

As required by International Standards for the Professional Practice of Internal Auditing, the Office of the County Auditor-Controller confirms the organizational independence of its internal audit activity to the Board of Supervisors.

OUR MISSION

To provide high quality, independent fiscal services and advice in accordance with the laws and professional standards in an ethical, efficient, and responsive manner through our financial integrity and transparency to promote and assure accountability and public trust.

Internal Audit

The goal of Internal Audit is to ensure taxpayer confidence and assurance and to provide the Board of Supervisors and county management in accomplishing their missions and stewardship responsibilities by conducting audits that provide reliable, independent, objective assessments of the adequacy and effectiveness of internal controls. Internal controls are processes established by management designed to safeguard county assets and resources, maintain the reliability and integrity of information, promote the efficiency and effectiveness of operational processes, and ensure compliance with laws, regulations, and policies.

We are here to assist all levels of management and other stakeholders that financial resources are being properly managed and accounted for, and that the County of Riverside is complying with the applicable policies and laws. Internal Auditing covers a broad range of activities including: testing transactions for compliance with accepted business practices, reviews of internal control and compliance with rules and regulations; and operational audits are directed towards improving efficiency and cost savings.

To meet our clients' expectations and for us to function effectively with reliability and credibility, we must ensure our audits and reviews are independent, accurate, and unbiased. Therefore, the Internal Audit function applies the International Standards for Professional Practice of Internal Auditing (*Standards*) to all audits performed. These standards require we confirm our organizational independence annually and follow ethical and professional standards.

The Internal Auditing staff members have a responsibility to those they serve to refrain from entering into any illegal activity or situation that may create a conflict of interest. They have a professional obligation to apply and uphold the Code of Ethics of the Institute of Internal Auditors principles of integrity, objectivity, confidentiality, and competency.

In our effort to provide independent, objective, and reliable assessments of internal controls to the Board of Supervisors and management in accordance with Board of Supervisors' Resolution 83-338, an annual internal audit plan is developed. Legal mandates, an independent countywide risk assessment, and ongoing information gathering and risk assessment drive the development of the annual Internal Audit Plan. While continuing to meet the goal of performing a biennial audit of each department in conjunction with California Government Code Section 25250, we intend to continue increasing our focus on identifying opportunities for reducing costs and optimizing revenues as well as identifying other significant exposures.

The Internal Audit Plan for fiscal year 2014/15 includes 28 projects, and is supplemented by 30 prospectively planned projects for fiscal year 2015/16. We have allocated audit hours and resources to comply with Board of Supervisors' and management requests and provided coverage for conducting our key initiatives including assistance to the Fraud, Waste, and Abuse Prevention Committee for the administration and investigation of reports received through the county's Fraud, Waste, and Abuse Prevention Program.

Strategic Plan

The continuous improvement of Internal Audit demands that we devote a portion of our effort to developing a strategic plan as well as an annual operating audit plan. Our long-term goal is to develop a nucleus of proficient audit professionals to meet the increasing demands of a growing Riverside County. We will meet the audit requirements established by the Government Code and Board of Supervisor's Resolutions, and will continue to identify and address areas of risk within the county operations.

The audit plan for 2014/15 is driven by several factors, including:

1. Mandated audits in accordance with California Government Code and Board of Supervisors' Resolutions;
2. Consultations with county management and ongoing risk assessment;
3. Comprehensive county-wide risk assessment conducted by the independent contractor, IntelliBridge Partners
4. Changes within the audit profession; and
5. Inclusion of prospective audit projects for FY 2015/16.

Integral to continuous improvement of the County of Riverside's internal audit activity is flexibility to respond to changing conditions and transition smoothly between audit plan years. Internal Audit's flexibility is enhanced through the development of a FY 2015/16 Prospective Internal Audit Plan. The FY 2015/16 Internal Audit Plan will be based on an updated FY 2015/16 Prospective Internal Audit Plan coupled with a prospective audit plan for the 2016/17 fiscal year.

To increase our capacity to make a difference with current staffing levels, we invest in our people. Investment includes training to maintain and expand our existing knowledge and skills. During FY 2014/15, scheduled professional internal audit education includes, but is not limited, to information technology, fraud and forensic accounting, auditor communications, and compliance auditing.

Internal Audit Peer Review

California Government Code requires county (IA) Internal Audit departments to follow either the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA) , or Government Auditing Standards established by the Government Accountability Office (GAO) . Riverside County follows IIA standards. These standards require the performance of an independent external quality assurance review (peer review) every five years. The Auditor-Controller's Office participates in the State Association of County Auditor's peer review program. This program reduces cash outlays in exchange for reciprocal peer review agreements; Orange County Auditor-Controller performed our peer review during fiscal year 2012/13. The peer review final report has been delayed until FY 2014/15 due to internal audit vacancies in the Orange County Auditor-Controller's Office.

The objective of the peer review is to assess the Internal Audit Activity's compliance with the International Standards for the Professional Practice of Internal Auditing. The review will include:

- ◆ Assessing the efficiency and effectiveness of the Internal Audit activity in light of its charter, the expectations of the Board of Supervisors, the Auditor-Controller, the Executive Office and the Chief of Audits;
- ◆ Providing an opinion on IA's conformance to the spirit and intent of professional audit standards; and
- ◆ Identifying opportunities and suggestions for enhancing the operations of the IA activity.

The Internal Audit Division will utilize the analysis presented in the Peer Review to strengthen their operations and will correct any deficiencies noted, if any.

Organizational Structure & Staffing

Internal Audit is a section within the Audit & Specialized Accounting Division of the Auditor-Controller's Office. The Audit & Specialized Accounting Division consists of 13 accountant and internal auditor positions. Of those 13 positions, 11 conduct internal audits. Recruiting qualified internal auditors in the public sector has been a challenge throughout California in recent years. We have recently seen a positive change in the quality of candidates competing for vacant positions and have been able to fill vacant positions.

Individual staff of Internal Audit are active members of professional organizations. This includes the Institute of Internal Auditors, the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, the American Society of Fraud Examiners, the Association of Government Accountants, and the California State Association of County Auditor's - Audit Chief's Committee. This active involvement with professional organizations ensures auditors have access to updated technical guidance and professional networking opportunities that are crucial to professional development and to the sharing of valuable information and ideas with peers.

We continue to recruit internal auditors with professional designations and encourage existing employees to enhance their professional effectiveness and credibility by earning advanced degrees and designations relevant to the profession of internal auditing. Internal audit staff hold CPA, CPA/CTIP, CIA, CFE, CGAP, and CGFM credentials.

- CPA - Certified Public Accountant
- CTIP - Certified Information Technology Professional
- CIA - Certified Internal Auditor
- CFE - Certified Fraud Examiner
- CGAP - Certified Government Audit Professional
- CGFM - Certified Government Financial Manager

Fiscal Year 2014/15 Audit Plan

The Internal Audit Plan for fiscal year 2014/15 includes 28 audits and lists another 30 prospective audits for fiscal year 2015/16. The plan is designed to meet the objective of providing a timely and comprehensive scope of audit coverage. The Audit Plan constitutes the schedule of audits comprised of planned audits, other direct non-audit activities, and an allocation of time for requested audits, which may arise during the course of the year. The latter recognizes we exist in a dynamic environment and the Audit Plan requires some margin of flexibility. If all 29 audits for fiscal year 2014/15 are completed prior to the end of the fiscal year, Internal Audit division will move fiscal year 2015/16 prospective audits to fiscal year 2014/15 for completing and fiscal year 2015/16 will be amended and updated to reflect that change, and updated risk assessments.

Risk assessment is a fundamental auditing concept premised on the need to concentrate our efforts in the areas of the greatest relative risk. This is a more efficient and focused approach to providing audit coverage on a cyclical basis. "Risk" for this purpose does not imply any unwarranted business strategy or lack of management oversight; however, most risk is inherent in the business activity. As such, while most of our audits are cyclically driven by the requirements of the Government Code and Board of Supervisors' Resolutions, the scope of those audits will be dictated by the comprehensive county-wide risk assessment conducted by the independent contractor, IntelliBridge Partners, observed changes in organizational structure and programs, and the consultations with county management.

Mandated Audits. California Government Code Section 25250 requires the Board of Supervisors to audit the financial accounts and records of all officers having responsibility for the care, management, collection or disbursement of county funds every two years or employ the services of an independent certified public accountant to perform an annual audit of the County's financial statements that also meets the purposes of California Government Code Section 25253. Government Code Sections 26920 and 26922 require a quarterly count of assets held by the Treasurer. The Auditor-Controller ensures the scope of internal audits includes an examination of the organization's system of internal controls and follow-up on prior audit findings and recommendations.

Special Concerns and Other Allocation of Audit Time. We reserved audit hours to address audits of concern from the Board of Supervisors and potential incidents of fraud, waste and abuse identified through the Fraud, Waste, and Abuse Program.

Fiscal Year 2014/15 Audit Plan

Audit Project	Department	Reason for Audit
General Government		
Central Mail	Purchasing	Mandated
Custodial Services	EDA	Mandated
Energy	EDA	Mandated
Facilities Administration	EDA	Mandated
Maintenance Services	EDA	Mandated
Parking	EDA	Mandated
Printing Services	Purchasing	Mandated
Surveyor	TLMA	Mandated
Treasurer-Tax Collector	Treasurer-Tax Collector	Mandated
Auditor-Controller	Auditor-Controller	Mandated
Community Improvement Designation	Board of Supervisors	Internal Controls
Utilization of Vendor's Discounts	County-wide	Operational
EDA Administration Agency	EDA	Mandated
Risk Management Self-Insurance	Human Resources	Mandated
County Clerk	County Clerk	Mandated

Fiscal Year 2014/15 Audit Plan

Audit Project	Department	Reason for Audit
Overtime Monitoring	Countywide	Mandated
Project Management Office	EDA	Follow up/Desk Review
Gift Cards	Public Health	Follow up/Desk Review
Ghost Employees	Human Resources	Follow up/Desk Review
1st Quarter Treasury Verification	Treasurer-Tax Collector	Mandated
2nd Quarter Treasury Verification	Treasurer-Tax Collector	Mandated
3rd Quarter Treasury Verification	Treasurer-Tax Collector	Mandated
Public Assistance		
Private Industry Counsel	Private Industry Counsel	Mandated
Public Protection		
Animal Services	Animal Services	Mandated
Agricultural Commissioner	Agricultural Commissioner	Mandated
Fire Administrative Services	Fire Department	Follow up/Desk Review
Public Ways and Facilities		
County Service Areas (CSA) Admin	EDA	Internal Controls

Fiscal Year 2014/15 Audit Plan

Audit Project	Department	Reason for Audit
<i>Special Districts</i>		
Riverside County Abandoned Vehicle Abatement Program	Riverside County Abandoned Vehicle Abatement Authority	Internal Control

Fiscal Year 2015/16 Prospective Audits

Audit Project	Department	Reason for Audit
Education		
County Free Library	EDA	Mandated
General Government		
County Counsel	County Counsel	Mandated
Assessor	Assessor	Mandated
Recorder	Recorder	Mandated
Executive Office	Executive Office	Mandated
Flood Control	Flood Control	Mandated
Human Resources	Human Resources	Mandated
1st Quarter Treasury Verification	Treasurer-Tax Collector	Mandated
2nd Quarter Treasury Verification	Treasurer-Tax Collector	Mandated
3rd Quarter Treasury Verification	Treasurer-Tax Collector	Mandated
Cash Controls and Authorizations	Treasurer-Tax Collector	Mandated
Grant Management	Fire Department	Follow up/Desk Review
HR Recruitment Process	Human Resources	Follow up/Desk Review

Fiscal Year 2015/16 Prospective Audits

Audit Project	Department	Reason for Audit
<i>Health & Sanitation</i>		
Environmental Health	Environmental Health	Mandated
Public Health	Public Health	Mandated
Waste Management	Waste Management	Mandated
Environmental Health	Environmental Health	Follow up/Desk Review
Waste Management	Waste Management	Follow up/Desk Review
<i>Public Assistance</i>		
Community Action Partnership	Community Action Partnership	Mandated
Department of Public Social Services	DPSS	Mandated
Housing Authority	EDA	Mandated
Veterans Services	Veterans Services	Mandated
<i>Public Protection</i>		
	District Attorney	Internal Control
Department of Child Support Services	DCSS	Mandated
District Attorney	District Attorney	Mandated
Building and Safety	TLMA	Mandated
Public Defender	Public Defender	Mandated

Fiscal Year 2015/16 Prospective Audits

Audit Project	Department	Reason for Audit
<i>Public Ways and Facilities</i>		
TLMA Agency	TLMA	Mandated
TLMA Transportation	TLMA	Mandated
<i>Recreation and Culture</i>		
Edward Dean Museum	EDA	Mandated
Edward Dean Museum	EDA	Follow up/Desk Review

Dedication of Resources to Non-Audit Related Services

Our Audit Plans are based on services to be provided by our audit professionals. In addition to the audit projects outlined in the audit plans, audit staff will be involved throughout the year in various other audit initiatives and tasks as follows:

Cash Shortages/Overages. We will continue to devote time to the reviews of departmental cash shortages and overages throughout the year.

Review of Special Districts' Financials. The Auditor-Controller has the responsibility to ensure Special Districts receive an annual financial audit. These audits are usually performed by public accounting firms. Internal Audit staff monitors the submission of Special Districts' financial statements to ensure they are conducted as required by Government Code and reviews the reports in order to identify any concerns.

Fraud Hotline Management. Internal Audit staff perform oversight responsibility of managing the Fraud Hotline database. Responsibilities include ensuring that submitted fraud incidents are forwarded to the appropriate individuals, providing updates to reporters of incidents, ensuring incidents are completed in the required timeframe and ensuring the Fraud Hotline database is kept up-to-date.

Warrant Destruction. Internal Audit staff are tasked in monitoring the destruction of Accounts Payable, Property Tax and the Department of Public Social Services warrants. Responsibilities include verifying warrants is reported on the "Stale Dated/Return Warrant List", observing the physical destruction of the warrants and signing as witness to the destruction on the "Affidavit of Destruction of County Warrants", Form 12P.

Internal Service Fund (ISF) and General Service System (GSS) Rate Review. Internal Audit staff review ISF and GSS rates for the County. Review involves determining the reasonableness of the methodology used to develop the rates. In addition, ISF and GSS rates are reviewed to ensure compliance with Executive Office guidelines.