



Monterey County

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Board Report

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September 25, 2018

Introduced: 9/10/2018

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Matter Type: BoS Resolution

Adopt a Resolution to:

- a. Approve the County of Monterey Internal Audit Policies
- b. Amend the Role and Responsibilities for the Budget Committee to establish oversight responsibilities of the internal audit program within the County of Monterey
- c. Authorize the Auditor-Controller to amend the FY 2018-19 Adopted Budget, to increase appropriations by \$130,443 in the Auditor-Controller's Office (001-1110-8375-AUD001) to extend a Chief Deputy Auditor-Controller position for nine months, financed by a reduction of \$130,443 to the appropriation for contingencies (001-1050-8034-CAO020) (4/5ths vote required).
- d. Authorize the Auditor-Controller to amend the FY 2018-19 Adopted Budget, to increase appropriations by \$200,000 in the County Administrative Office, Other General Expenditures unit (001-CAO014-8039-6601), to establish a budget for the Budget Committee, financed by a reduction of \$200,000 to the appropriation for contingencies (001-1050-8034-CAO020) (4/5ths vote required).

RECOMMENDATION:

It is recommended that the Board of Supervisors:

Adopt a resolution to:

- a. Approve the County of Monterey Internal Audit Policies
- b. Amend the Role and Responsibilities for the Budget Committee to establish oversight responsibilities of the internal audit program within the County of Monterey
- c. Authorize the Auditor-Controller to amend the FY 2018-19 Adopted Budget, to increase appropriations by \$130,443 in the Auditor-Controller's Office (001-1110-8375-AUD001) to extend a Chief Deputy Auditor-Controller position for nine months, financed by a reduction of \$130,443 to the appropriation for contingencies (001-1050-8034-CAO020) (4/5ths vote required).
- d. Authorize the Auditor-Controller to amend the FY 2018-19 Adopted Budget, to increase appropriations by \$200,000 in the County Administrative Office, Other General Expenditures unit (001-CAO014-8039-6601), to establish a budget for the Budget Committee, financed by a reduction of \$200,000 to the appropriation for contingencies (001-1050-8034-CAO020) (4/5ths vote required).

SUMMARY:

On February 6, 2018, County Counsel and the County Administrative Office (CAO) received a referral from the Monterey County Board of Supervisors (Board) to clarify authority lying within the Auditor-Controller's Office (ACO) to conduct performance audits or reviews on County departments. On July 17, 2018, the CAO reported to the Board on internal audit programs within other California counties and reported that authority to initiate a performance audit lies with the Board and only the Board can delegate that authority. Since the Office of County Counsel and the CAO

were unable to find any records where this authority has been delegated to the ACO, it was recommended that until policies were adopted and an audit plan was submitted and approved, no audits be performed. The Board directed the CAO to prepare policies to clarify the internal audit process. The CAO has prepared the *Internal Audit Policies* for consideration and approval by the Board. The policies provide guidelines, oversight responsibilities, and reporting requirements of the internal audit program and were developed by researching best practices in other counties. It is also recommended that the Role and Responsibilities for the Budget Committee, originally approved in 1989, be amended to include oversight of internal and external audits.

DISCUSSION:

The CAO has researched internal audit programs within other counties to help clarify the process and function of such programs to ensure that ours is in line with best practices. Based on the research conducted, staff previously recommended that 1) an audit committee be formed or integrated into the existing Budget Committee; 2) Internal Audit policies be prepared by the CAO and submitted to the Board for approval; and 3) an annual audit plan be prepared and submitted to the Budget Committee and the Board for approval. This would allow for a clear understanding of the program's process and functions to the Board, county departments, and the public.

The *Internal Audit Policies* serve as guidelines to be adhered to in conducting internal audits. The policies identify the roles of the Board, the Budget Committee, and County management in the internal audit process and describes procedures and standards to be followed. By adopting these policies, the Board retains the authority to assign internal audits to the ACO, request the CAO or County Counsel to initiate and oversee an audit to be completed, or engage external providers to conduct audits. These policies further authorize the party conducting internal audits to have access to the necessary records and personnel to conduct departmental and countywide audits and reviews for compliance with policies, procedures, laws, and regulations to ensure efficient and effective operations, governance, risk-management, and internal control processes.

The County currently has a Budget Committee (committee) overseeing the County budget. The oversight of internal and external audits would be appropriately delegated to the Budget Committee given the linkage between operations, financial performance, and budgeting. The Board approved the roles and responsibilities of various Board committees on May 16, 1989, including the Budget Committee. It is recommended that the committee's responsibilities be expanded to include oversight of the internal and external audits to ensure independence and oversight of the County's financial reporting process, internal controls, and independent auditors. The committee will provide a forum for discussion by management, auditors, and other parties, of concerns brought up by audits. It is recommended that a budget of \$200,000 be allocated to the committee to allow them to fund audits that are not budgeted and/or to engage external firms, as deemed necessary by the committee, with final approval by the Board. The committee will assist the Board to fulfill responsibilities regarding financial reporting, internal control systems, and the audit process. All independent accountants engaged in work will report directly to the Board via the committee. The committee membership is currently composed of two members of the Board of Supervisors and is supported by staff including designated staff from the CAO, County Counsel, and ACO. Attached are the amended Role and Responsibilities of the committee. Some of the added responsibilities for internal and external audit functions include:

- Review the annual audit plan.
- Review audit reports for completed audits. Reports would be submitted to the committee on a quarterly basis.
- Review follow up reports to ensure corrective actions identified in audit reports have been implemented.
- Request audits, reviews, or investigations as deemed necessary.
- Review and engage in oversight of external audit performed annually on the County's financial records and ensure that independent auditors objectively assess the financial reporting practices.

The ACO will prepare an annual audit plan and present it to the committee for review and to the Board for approval. The audit plan will have input from the Board, the committee, and County departments. As part of the audit plan, the ACO will conduct a countywide risk assessment of programs and operations to prioritize audits based on risk factors. While the audit plan and risk assessment are being finalized, the committee can request and/or approve audits to be performed. As discussed in the policies, the Board would have multiple resources available to delegate audits. The internal audit division within the ACO would be suitable to conduct most routine audits; however, the Board has the flexibility to request another department to cause an audit to be completed, such as the CAO or County Counsel. Furthermore, the Board can also engage an external firm to conduct audits.

The ACO currently has two positions in the internal audit division - a Chief Deputy Auditor-Controller to oversee the division, funded for three months in FY 2018-19, and an additional Internal Auditor. The ACO has stated that an additional three (3) positions would be needed in the internal audit division to carry out an efficient internal audit program. Although other Counties may have more robust staffing for internal audits, such Counties typically perform all audit work internally. The internal audit program has not provided any historical information on workload therefore it is not possible to determine current capacity. Additionally, the Board has the flexibility to engage external firms to complete audits. Therefore, it is recommended that the County take a phased-in approach utilizing currently available resources and no new positions be granted to the ACO at this time. It is recommended that the existing Chief Deputy Auditor-Controller position that is set to expire, be funded for the remaining nine months of FY 2018-19. Once an audit plan is approved and the program is established, the CAO can revisit the level of resources required and make recommendations to the committee.

OTHER AGENCY INVOLVEMENT:

The County Administrative Office researched best practices of various other counties regarding the internal audit function, and consulted with County Counsel to prepare policies for internal audits. The Auditor-Controller's Office was provided the policies for review.

FINANCING:

The existing Chief Deputy Auditor-Controller position overseeing internal audits in the ACO was funded through September 30, 2018 (three months funding). It is recommended that the position be extended the remaining nine months, resulting in additional funding of \$130,443. It is also recommended that a budget of \$200,000 be established for the Budget Committee, primarily to allow engagement of outside firms to conduct audits, as determined by the Budget Committee. Both actions would be financed by a reduction to the appropriation for contingencies. The funding for these actions is

considered one-time funding, as no ongoing revenue source has been identified at this time. These actions would leave the appropriation for contingencies with a balance of \$4,320,238.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

Establishing framework for the internal audit program and allowing the Board to retain authority to delegate internal audits of County departments and organizations under the Board's control will provide efficient internal control processes, Board governance, and meets the Board of Supervisors strategic initiative for Administration

Check the related Board of Supervisors Strategic Initiatives:

☐ Economic Development
☒ Administration
☐ Health & Human Services
☐ Infrastructure
☐ Public Safety

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Attachments: 1) Audit Policies
2) Amended Budget Committee Role and Responsibilities
3) Resolution