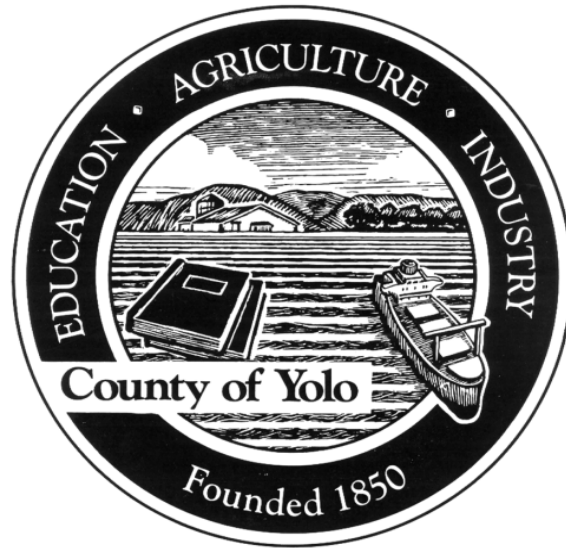


YOLO COUNTY
Joint Power Authorities and other County Affiliates
Risk Assessment Report



Fiscal Year 2016-17

**Prepared for the Board of Supervisors and the
County Administrator**

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Joint Power Authorities and other County Affiliates

Risk Assessment Report

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I. Purpose

To assess the County’s level of risk as it relates to the Joint Power Authorities (JPA) and other affiliated agencies selected to participate (participants) in the risk assessment survey, and to determine if the participants are considering and mitigating risk that have been identified on a continuous risk management basis.

II. The Role of the County’s Internal Auditor

The County internal audit’s core role with regard to Enterprise Risk Management (ERM) was to provide objective, independent assurance to the board on the effectiveness of the risk management process.

The County internal auditor was able to provide assurance by facilitating the risk assessment process and including the following activities:

- Making available to management tools and techniques used by internal auditing to analyze risks and controls;
- Introducing the ERM into the organization, leveraging its expertise in risk management and control and its overall knowledge of the organization;
- Providing advice, facilitating workshops, coaching the organization on risk and control and promoting the development of a common language, framework and understanding;
- Acting as the central point for coordinating, monitoring and reporting on risks; and
- Supporting managers as they work to identify the best way to mitigate a risk.

III. Background Profile

Accountability for Independent Entities for Which the Board of Supervisors is Responsible include Joint Powers Authorities and some other affiliated entities. Additionally, there are other Joint Power Authorities that Yolo County participates as a partner.

The table below summarizes the various mechanisms that are available to help the Board of Supervisors and county officials to discharge their financial oversight responsibility toward certain independent entities such as joint powers agencies.

MECHANISMS FOR COUNTY BOARD TO ENFORCE ACCOUNTABILITY

Financial Area	Joint Power Authorities
Budgeting	JPA Board should direct JPA Auditor to follow the budget practices of the county in which JPA Auditor is located.
Treasury	JPA Board should designate County Treasurer as the JPA Treasurer (GC 6505.5): this ensures funds are safeguarded in county treasury.
Accounting	JPA agreement should reiterate strict accountability stipulated by code (GC 6505) and designate County Auditor as JPA Auditor.
Reporting	Annual financial transaction reports are prepared and submitted to the State Controller (GC 53891 - 53895.7). Agreement should require quarterly cash flow reports (GC 6505.5) and annual financial reports.

Auditing	Agreement should require annual financial audits in accordance with GC 26909 (GC 6505). County Auditor reviews audit report and presents to Audit Committee.
Guidance	Special District Financial Manual available (applies to JPA). Occasional workshops led by County experts. Advice provided by County staff as needed.

IV. *Criteria and Requirements*

To assess the County’s level of risk as it relates to the Joint Power Authorities (JPA) and other affiliated agencies, the CAO and CFO selected 10 participants from a universe of thirty-two with an additional three JPA requesting to participate. The universe consisted of a list of JPAs that were identified by the internal auditor and LAFCO. we requested the selected group of Joint Power Authorities and other county affiliates participate in the risk assessment process to help the County determine if the participants are considering and mitigating risk that have been identified on a continuous risk management basis.

The entities that participated in the assessment process include:

- ❖ First 5 Yolo
- ❖ River City Regional Stadium Financing Authority
- ❖ West Sacramento Financing Authority
- ❖ Sacramento Yolo Port District
- ❖ West Sacramento Area Flood Control Agency
- ❖ Housing Authority of County of Yolo
- ❖ Water Resources Association of Yolo County
- ❖ Yolo Emergency Communications Agency
- ❖ Area 4 Agency on Aging
- ❖ Yolo Habitat Conservancy
- ❖ Yolo County IHSS Public Authority
- ❖ Yolo-Solano AQMD; and
- ❖ The Yolo County Public Agency Risk Management Insurance Authority.

The Division of Internal Audit facilitated the risk assessment in accordance with the Statement on Standards for Consulting Services issued by the AICPA. These services did not constitute an engagement to provide audit, compilation, review, or attestation services as described in the pronouncements on professional standards issued by the AICPA, and, therefore, no opinion will be expressed or other form of assurance with respect to management’s responses; however, the internal auditor does provide assurance to the board on the effectiveness of the risk management process. In addition, the services did not constitute an examination or compilation of prospective financial information in accordance with standards established by the AICPA. No legal advice regarding our services was provided; the responsibility for legal issues with respect to these matters is the County’s Management. It is further understood that the County’s Management is responsible for, among other things, identifying and complying with laws and regulations applicable to various government code, statutes, and other authority that govern and relate to various county activities.

The passage of SB 1452 resulted in updates to internal auditing standards for state and local agencies. The bill amends Government Code section 1236 to state that all city, county, and district auditors conduct their work under the general and specified standards prescribed by the Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate. Additionally, California Government Code section 12422.5 requires the State Controller's Office (SCO) to develop internal control guidelines applicable to each local agency. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. A local agency includes a city, county, city and county, special district or any other local government entity, except a school district.

Additionally, changes in the OMB Super Circular regarding federal grant management and requirements to consider and assess risk with a risk based approach over grant oversight, requirements, development and implementation of strong systems of controls, including written policies and procedures around operational processes (OMB SS200.303 Internal Controls). The requirements include following the Committee of Sponsoring Organizations of the Treadway Commission (COSO) or a similar enterprise risk management, internal control and fraud deterrence system to ensure strong systems of organizational control.

The Institute of Internal Auditors Section 2120- Risk Management specifies that as part of the internal audit function, the internal auditor's internal audit activity must include evaluating the effectiveness and contribute to the improvement of risk management processes, etc.

V. *The Importance of Risk Management*

Elements of risk are found within every organization, including government organizations, and, therefore, an organization should calculate its risks and understand that risk management needs to be built into the core infrastructure of the organization. Risk is broadly defined as "what can go wrong." It is the possibility of an event occurring that will have an impact on the achievement of objectives. "Risk" is not synonymous with "problem," and the risks that are identified in this report are a combination of risks that exist within and can be controlled by the County, and risks that are inherent to the County as a local government entity where there is less control such as partnerships with JPAs and other affiliated entities. These inherent risks may or may not be controlled by the County, but can be an exposure risk to the County, and therefore be considered in the countywide risk assessment.

To maintain alignment between risk exposures and organizational objectives, a risk intelligent organization draws on the coordinated efforts of three levels of risk management responsibility:

Risk governance, including strategic decision-making and risk oversight, led by Governing Boards, the County Administrators, the Chief Financial Officers, and other executive management as well as partners such as JPA's and other partnerships.

Risk infrastructure and management, including designing, implementing, and maintaining an effective risk management program, led by executive management,

executive directors, board members, and/or facilitated by the Chief Auditor.

Risk ownership, including identifying, measuring, monitoring, and reporting on specific risks, led by staff, agencies, departments and management, independent affiliated entities and other partnerships in these areas including political, high profile programs, external oversight reviews, etc.

The more clearly an organization can state its mission and priorities, as well as understand its strengths and capabilities, the more directly it can navigate to identify key risk areas to develop mitigation plans. Recent changes, including department reorganization, implementation of a new payroll, budget, and financial system, and other emerging changes, have placed the County and some of affiliated partners in a unique position to evaluate its strategies, key business processes, supporting technology, people, and their related elements of risks, to further help ensure success.

The Division of Internal Audit (division) used an industry standard approach in developing the risk assessment methodology that gave consideration to the key strategies, operational, compliance, financial and other risks associated with a large local government organization such as Yolo County and its affiliated partners.

VI. Overview of the Methodology and Procedures Performed

The Yolo County's Internal Audit Manager facilitated the JPA risk assessment. The CAO and CFO selected 10 participants from a universe of thirty-two JPA's that were identified by the internal auditor, with an additional three JPA's requesting to participate. The risk assessment process began with the Internal Audit Manager gaining an understanding of County and their relationship with the participants.

The next step in the process consisted of the Internal Audit Manager providing an internal control COSO Framework 2013 training to the selected JPAs and other affiliated participants. The purpose of the training was to help the participants assimilate COSO into their risk environment and gain an understanding of risk as it relates to their internal and external processes. During the training the participants were provided the self-assessment risk survey to follow that would later be sent out as an online survey for each of the participants to complete.

Shortly after the COSO training class, using a web based survey service, a self-assessment risk survey similar to the survey provided in training, was sent to all training participants, requesting that the survey be completed and submitted to the division for review and analysis. The internal auditor performed an analysis of the participant's survey results that was combined and included generically in a summary report and provided to each of the participants along with an individual assessment for their use/benefit, and to help fulfill their risk assessment consideration requirements. The results will be incorporated into the countywide risk assessment report and risk matrix, upon completion of the countywide risk assessment process. Furthermore, the information and the results obtained from the risk assessment process identified above will be useful in helping the participants auditor's further assess their risk environment and the impact to their organization as well as any impact on the county partnership.

The following processes and factors are considered in the assessment:

- Operational processes, which are those related to the entity's key mission of collecting and accounting for public funds and other fiduciary duties.
- Infrastructure processes, which are those that relate to the support and management of the organization's (information systems, financial reporting, human resources, etc.)
- Risk ownership, including identifying, measuring, monitoring, and reporting on specific risks, led by the business areas, including political, high profile programs, external oversight reviews, etc.

These areas and related processes were further broken down in the survey into the sub-processes, functions, or activities that naturally occur within an organization. Additionally, established controls and performance measures designed to help mitigate risk associated with the processes were asked to be considered, measured, and assessed by the participants during the surveying process.

In addition for each process, function, program consideration or matters identified and measured in the risk assessment survey, a ranking of the vulnerability and the significance of the impact the risk could have on the organization and/or the county was examined and incorporated further into the overall JPA risk analysis. The risk analysis that was performed by the County's internal auditor takes into consideration the survey responses of identified risk and other mitigating factors, and involves the auditor's professional judgment. Once the analysis was completed the participants were assigned an overall combined risk level and score. The risk level ranges are low, moderate, high, and the risk score numbers range from 1 to 5. The assignment of risk is discussed in more detail below.

The summary and full report along with the participant's individual completed on-line survey will be provided to the participants for their use in risk management. Additionally, participants are invited to request a meeting with the County's internal auditor to discuss results, answer questions, and/or discuss the recommendations that the County's internal auditor is able to provide. Additionally, the auditors can discuss training needs that might further support the partnership and benefit all parties and/or to further lower identified risk.

VII. *General Risk Themes (Countywide Consideration):*

The participants risk matrix universe identified by the auditors, as previously mentioned, consist of business processes, general functions, and other activities that drive the daily operations of an organization. The risk assessment theme considered specific control and inherent risks. Various factors were considered including relevant policies and procedures of each organization. These considerations will be articulated more fully in the Countywide Risk Assessment Matrix that will be included as part of the Countywide Risk Assessment Report; the report and the matrix will be completed once all the county departments have been assessed.

As a result of the risk assessment survey performed which included a drill down into various business, program, and strategic levels of the participant's organization,

several general risk themes became apparent.

These themes generally relate to one of the following fundamental questions:

- Does the Organization have the right strategy and governance mechanisms in place to achieve its mission?
- Does the Organization have the right processes and technologies in place to support its strategies?
- Does the Organization have the right people in place to execute the processes and technologies in accordance with the Organization's expectations?

General observations related to each of these areas are as follow:

Strategy/Governance – Yolo County and for the most part its partners and other affiliates strategy has been heavily focused on its customers. Yolo County's strategic planning effort is a dynamic, countywide, long-term, future-oriented, process of evaluation, assessment, decision/policy-making and implementation that links present circumstances with a meaningful vision of the future, considers Yolo County's capacity, resources and changing environment and indicates where resources are to be concentrated. And, based on the survey results, the County's partners and affiliates that were selected and participated in the risk assessment process have similar goals, visions, and objectives. However, with the drive to be dynamic in the long-term, future-oriented, and future focused, there must be consideration of the past and present processes, practices, performances, including areas that may be short of proper planning and consideration, which may have both resulted in success and/or encouraged failures. If forward moving does not take into consideration the importance of proper planning, brainstorming of possibilities, and a review of past behaviors and failures due to a deficiency of well-planned and defined steps, the following errors may occur and future successes may not be realized:

- ❖ There may be a lack of recognition of the importance of a strong system of governance and internal controls
- ❖ There may be a lack of a risk identification process and mitigation of those risks
- ❖ There may be a lack of understanding, responsibility, or appreciation for the key government codes, statutes, authority, and for state or countywide policies and procedures
- ❖ There may be a lack of awareness of the importance behind producing accurate and complete information that can be relied upon by other government entities and internal and external stakeholders
- ❖ There may be a lack of an overall governing strategy that guides the County in part or as a whole to achieve its goals
- ❖ There may be a lack of business analysts or experienced personnel who are responsible for understanding operating procedures, defined performance measures, program expectations, forecasting, projecting, accounting, monitoring, collecting and fully recognizing full cost recovery, revenue, and liabilities both to internal and external customers, reporting, and requirements by other

governments

- ❖ People- the County and its partners may not have a sufficient resource strategy to support the Organization's needs and its responsibilities to the Community. The County and its partners may not be appropriately focused on managing organizational design
- ❖ The organizational plan might not seem sufficient, and the structure may not be aligned to meet needs. The plan might not identify the “who, what, when” and/or critical links by title or position
- ❖ Staffing of personnel may not be focused on placing personnel with the proper level of knowledge, skills, and abilities necessary to effectively accomplish their jobs
- ❖ Key roles and responsibilities may not be adequately defined and communicated
- ❖ Succession plans may not be in place to plan for and manage turnover in key positions
- ❖ Positions may not exist for those areas that may not historically have been a focus, such as internal audits, financial reporting, accounting , and business and revenue analysis and grant program oversight, monitoring and review analysis
- ❖ The organization may lack experienced personnel with knowledge of the operating procedures specific to standards and government type business process
- ❖ Revenue stream reporting may not exist due to the lack of experienced personnel who understand the end to end business processes around various transactions in order to perform appropriate analysis and fully capture revenue
- ❖ There may not be an effective change management process to implement and communicate changes consistently and ongoing across the County

Process – Some County partners may not have updated comprehensive set of documented (written) processes in place to adequately guide the day-to-day operations. Several processes may not be well defined and may lack internal controls; as a result, errors may occur and go undetected. The following issues should be considered and mitigated if present:

- ❖ A robust process documentation system, including written policies and procedures, may not be clearly defined and utilized for consistency within the organization.
- ❖ Processes may be manual and may require duplicative and intensive data entry due to a system that is not designed for a government environment
- ❖ Reconciliations may not be consistently performed by staff and reviewed by management

- ❖ Cross training of staff, written desk procedures, or other succession planning consideration may not be present in many of the environments
- ❖ Unrecorded accounts receivable, accounts payables, inventory tracking and monitoring, and poor or no collections efforts may be present
- ❖ Poor or no controls over liquid assets, such as revolving fund accounts, accounts held outside of county treasury, cash cards, purchase cards, vouchers, gas cards, and other liquid assets
- ❖ Poor or lacking documentation over disposal and use of liquid assets appear to be present
- ❖ Lack of oversight and monitoring of vendors, contractors, and other entities that the organizations are responsible for monitoring

Technology- Strategy, mission, and direction related to IT systems may not be clearly defined to meet the current and future needs of the business and aligned with the strategy of the participant's organizations. Below are key risk areas associated with IT that should be considered and mitigated if present:

- ❖ There may be a lack of an IT governance model, including an IT strategy that is aligned with business needs and management's priorities
- ❖ There may be a lack of defined key technology processes, such as, the system development life cycle (SDLC) process, the change control process, IT policies, written system documentation, and technology procedures
- ❖ The County is in the process of implementing a new countywide system (Infor), in some cases the system may need to comingle with other technology; Infor must work for County partners and provided training to ensure understanding for external users
- ❖ There may not be an effective disaster recovery and business continuity plan for key business applications which could impact participants and the County in relation.
- ❖ Application and data security access to the system and sensitive information may not be properly secured or monitored according to business and compliance requirements

Risk Categories:

As part of the risk assessment various categories of risk applicable to an organization like Yolo County and its partners were identified. These risk categories were determined through discussions with County management and our experience with other local government entities. The risk assessment survey was designed with questions that asked participants to consider, assess, and mitigate the likelihood or

probability of occurrence for each of these risk categories. The risk types are presented below.

Risk Types- Likelihood	
Budget Risk	Risk assessed based solely on magnitude of annual budgeted expenditures. <ul style="list-style-type: none"> • Low – up to \$2.9 million • Moderate – greater than \$3 million up to \$5 million • High – greater than \$5 million
Strategic Risk	Inability to meet business goals, objectives, or strategies due to: <ul style="list-style-type: none"> • An ineffective or inefficient business model • An improper or inefficient organizational structure • Improper or ineffective strategic planning
Financial Operations Risk	Information used to support operational and financial decisions is not relevant and reliable, resulting in: <ul style="list-style-type: none"> • Budgets that are unrealistic or ineffective • Operation measurements that cannot be relied upon for monitoring performance • Accounting information that is not prepared in a timely and accurate fashion
Information Technology Risk	<ul style="list-style-type: none"> • Technology used does not effectively support the current and future needs of the organization • Compromise to the integrity, access and/or availability of data or operating systems
Legal and Regulatory Risk	Noncompliance with county, state, or federal legal or regulatory requirements can result in fines, penalties and/or other adverse impact to the organization
Integrity/Fraud Risk	<ul style="list-style-type: none"> • Susceptibility to theft, waste and abuse of resources • Assets and information that is vulnerable to theft or manipulation
Customer Service/ Delivery Risk	<ul style="list-style-type: none"> • Failure to provide service to internal or external customers • Failure to respond to internal or external customers in a timely and effective fashion
Environment, Health & Safety Risk	A condition or vulnerability that has an adverse effect on the environment or negatively impacts the health and/or safety to employees and/or local citizens.
Personnel/ HR Risk	Lack of proper skill set, resources, training, or succession planning in personnel.
Information & Communication Risk	Inaccurate, inconsistent or untimely information or communications to internal and external customers, including financial reporting.

Impact Categories:

Once the likelihood of occurrence was determined, the participants were asked to consider the impact of the risk occurrence which was rated for each of the following factors:

Risk Impact	
Reputation Impact	Improper instructions, communication and interactions with internal or external customers, regulators, or constituents that may result in negative public perception and/or could harm the reputation of your organization and/or Yolo County.
Business Operations Impact	<ul style="list-style-type: none"> • A condition or issue that prevents operations from functioning effectively, efficiently or from meeting internal/external goals and objectives • A vulnerability due to volume, complexity of transactions or activities
Financial Impact	<ul style="list-style-type: none"> • Circumstances that could result in significant financial implications to an organization and/or the County as partner • Failure of the organization to meet financial obligations or requirements • Failure of the organization to comply with funding requirements thus impairing future funding • <u>Misstated Financial Statements</u>

Participants were asked to consider the risk ratings for likelihood and impact. The factors outlined in the table below were used in the consideration.

Likelihood of Occurrence		Impact	
High	High probability of threat materializing - Immediate and high degree of vulnerability such that it is critical that the risk be managed and controlled in order for this area to achieve its objectives.	High	If an event occurs, the financial ramifications would be severe and/or operations would suffer long standing consequences. If not properly controlled, that area could have a serious, long-term or detrimental effect on operations, internal controls and the achievement or organizational goals and objectives.
Moderate	Risk present should be addressed and controlled but the probability is not as severe as defined above.	Moderate	Indicates that the resulting consequences of an event would be negative and must be managed but would not have a substantial effect on finance or on-going operations. If not properly controlled, the area could have some impact on operations and internal controls, but achievement of organizational goals and objectives will still be met.
Low	The threat of a serious event occurring is either non-existent or remote. The area should be managed but the level of risk response is limited.	Low	Indicates that the event occurring would have little or no impact financially or operationally.

The combined analyses of risk from the participant’s survey and the auditor was grouped by risk likelihood and impact category and an average response rating calculated. Based upon the average response rating calculated all risk categories were assessed as High, Moderate, or Low. The Table below details the how the values were applied to the assessment rankings.

Assessment Ranking

Value	Risk
1.00	Low
3.00	Moderate
5.00	High

Development of Participant’s Ratings:

Participant’s overall ratings were developed based on consideration of the following:

- Structured question responses from the survey – Responses to the survey questions were assigned a value (low, mod, high) that was averaged with all of the responses from a particular organization. These average scores equated to a high, moderate or low rating. Each question on the survey was linked directly to a risk or impact category.
- Narrative responses from the survey – Narrative survey responses provided context beyond the initial question. Although responses were generally brief, they provided additional information that impacted the judgments and conclusions overall ranking including the mitigation of risk.
- Data review – The internal Audit Manager also reviewed previous reviews and/or external audit reports, and considered other inherent factors such as type of organization, their partners, funding and programs as part of the assessment process. From each of these, we gained additional context and understanding of of the organization and potential impact to the County’s successes and challenges.

After consideration of each of the survey and narrative responses, and consideration of the data review and auditor’s analysis, a final risk and impact ratings was assigned to the participants with an overall risk rating for the County as a partner.

VIII. Summary of Survey Control and Performance Risk Results

Based on the completed surveys and the participant’s detailed responses, including identification of risk and risk mitigation, the participants risk level to the County by association is low with a combined participant score of 1 (with some participant’s ranking higher and others lower). It should be noted that each individual participant may carry a higher score ranging or level of risk (low, med, high). While the risk assessment can be used as a basis for their scores, the participant’s management with guidance from their independent auditor should determine their risk level and score based on the information they provided during the assessment process, other considerations, and the summary of results. The participants are well versed in their roles and responsibilities and have a strong understanding of risk associated with their

fiscal and operational environments. Based on the survey responses participants have well established risk management that includes mitigation of risk.

The survey was designed to encourage participants to consider various aspects and attributes of the participant's environments. The questions were developed to help participants consider, identify, and assess the potential likelihood of occurrence, and impact of risk associated with various categories or factors within their environment. Also, the questions were open ended to encourage participants to describe how the risk identified are mitigated and/or need to be addressed and further developed or improved.

The majority of the participants surveyed noted that communication and cooperation, proper planning, consideration and mitigation of risk and strong risk management, being transparent and fiscally sound, buy-in, follow-through and good customer service were among the factors highest of importance in helping to ensure that the organization's objectives are accomplished and successful.

Participants concurred that behaving with accountability and transparency over their organization gain creditability and trust with the public and other interested parties. Further participants shared consistently that avoiding bad behavior such as poor judgment, misuse or inefficient use of public funds and grant funds, failure to properly inform the public, or other government entities when necessary, not following applicable laws and regulations, not ensuring compliance where applicable, and not following consistent industry best practices would increase risk to their organization as well as their partners, including the County; thus losing credibility with the public and other oversight entities.

The participants surveyed suggested the following factors continue to be considered by the participant to further improve and/or decrease risk and/or encourage success:

- Support training to keep their staff developed, crossed trained and up to date on best practices
- Encourage increased transparency, accountability and efficiency by implementing consistent practices, policies and procedures, and documentation requirements
- Consider cross training and knowledge sharing, increase resources, and steps to prepare for retiring staff or limited staff and staffing resources
- Reach out and encourage more involvement from the County and Cities to grow and stimulate innovation and keep all participants on the cutting edge; where applicable
- Support and seek out training, guidance, and support from the County when opportunity arises
- Seek to encourage government to be more proactive in risk consideration and risk management to lower overall risk in the public sector
- Consider and take advantage of cost savings around services that can be shared or contracts and be piggy-backed
- Seek business opportunities to support and help ensure operational growth and fiscal soundness including assurance that debt incurred by issuances of bond and other obligations are honored; and
- Ensure that audits and other reviews required are done as necessary, are timely, and that follow-up and recommended actions are being implemented.

The participant surveyed suggested that the County should consider the following factors to help to further improve and/or decrease risk and encourage their and their partners, including the County's success:

- Offer and provide relevant training to participants and their board and committee members
- Encourage increased transparency, accountability as a government in general
- Consider and support shared services to help participants manage similar cost while respecting their independence and obvious and sometimes not so obvious differences
- Encourage more involvement from the County, when requested
- Encourage proactive responses to lower and manage risk
- Support and seek out business opportunities to support and help ensure operational growth and fiscal soundness to participants and their organizational mission
- Encourage local government and its agencies to shift to a culture that would lower risk tolerance and become more risk sensitive from the start
- Provide and encourage oversight and to ensure required audits and reviews are being done as necessary, are timely, and that recommended actions are being implemented; and
- Improve awareness and connections with partners including internal communications that impact external partners on a more intimate basis and be an active participant in relationships that can have a strong impact on the communities served.

The participants surveyed identified the following practices that help ensure that their organizations are able to measure their progress:

- Budget driven and performance linked
- If timelines are being met and work projects are completed
- Aligning goals and objectives to planning, performance and programs
- Annual reports to the Board on productivity, projects completions and results
- Management encourages continuous improvement practices
- Establish performance measures around budgets, programs, and funding
- Tying performance measurements specifically to programs or services to help measure benefits, effectiveness and efficiencies; and
- Optimize resources and proper risk management practices to measure risk and minimize risk.

The participants surveyed identified the following actions as potential failure to the success of the organization:

- Over expended budget
- Not providing timely support or services to customers
- System failures due to poor security environments around technology or untimely system updates or outdated software or failure to be innovated
- Cloud based storage and the unknown security and other partners or third parties that share the Cloud or providers that subcontract with Cloud storage providers that are not properly vetted and have required audits
- Failure to properly track, record, bill, and collect revenues or seek of grant funds

- Poor communication between partnering organizations and management
- Exceeding the organizations risk tolerance; and
- Lack of funding to meet the current needs of the community served.

Business Continuity:

The participants surveyed noted the following in consideration of business continuity:

Based on the survey 77 percent of those surveyed stated that the organization has a written recovery plan. The participants that responded otherwise expressed interest in receiving guidance from the County on preparing a plan. The County's internal auditor will reach out to these entities in the upcoming year and offer guidance.

Another factor that should could be considered a potential risk regarding the ability for participants to continue business without disruption is in regards to a Cloud based storage. Many of the participants use the Cloud for storage. Many of them store confidential information such as HIPPA protected Client information that have strong privacy regulations.





Identified Potential Risk:

Based on the participants survey responses the following summary of risk factors were identified and should be considered, or continued to be considered and mitigated by both the participant and the County as a partner to help minimize financial, political, or other risk types by association:

- Partnerships and affiliates both government and nongovernment (e.g. non-profit organizations and community based organizations) increase risk due to having decentralized control factors, which include reliance on these outside entities and that they are properly qualifying and providing services to clients under various government programs and while ensuring accuracy in eligibility
- Heavy reliance on federal and state funding with strict regulations and oversight requirements with risk of expenditures and/or eligibility disallowance
- Heavily regulated and political sensitivity around the program cause
- Risk and potential liability associated with providers failing to perform required services or other obligations as assigned by the participant or County; transfer of risk/liability is never 100% in government
- Lack of oversight and monitoring over federal and state funding that is passed through by the County to participant organizations, programs or joint providers
- Legal risk and potential liability to all partners of state and federal grant funds if participant's mission was unsuccessful or failed as a result of lack of support or training or full buy-in
- Long-term projects- risk factors associated with follow through by federal, state, or local parties and their commitment or political support
- Pubic/political risk could arise as a result of participant's organization failing to respond where situations resulted in loss of life or property
- Untimely and/or unreliable erroneous reporting and processing of transactions that are out of the control of the participant such as expenditures and reporting handled by the County's Financial Services
- Lack of good systems of control such as proper separation of duties as a result of very limited staff resources; and

- Reliance on technology such as Cloud based storage and the security levels surrounding the Cloud provider.

The participants surveyed were asked to measure the impact of risk identified based on occurrence and impact for each risk. The following are the results:

Response (%) Responses			
High Occurrence & High Impact		7.69	1
High Occurrence & Low Impact		0.00	0
Low Occurrence & High Impact		53.85	7
Low Occurrence & Low Impact		23.08	3
No Risk		15.38	2
Answered Question			13

Risk- Approx. 54% of the risk identified were low occurrence and high impact; 23% were identified low occurrence and low impact, and 15% no risk impact. Only approx. 8% or 1 participant identified risk as high occurrence and high impact. However, according to the survey responses the risk factors identified by the participants are sufficiently mitigated to reduce the risk to an acceptable/low level.

Respondents provided the following comments in regards to mitigating controls currently in place to help detect or prevent impact.

- County maintains and supports IT system and ensures security over confidential stored information or ensuring that technology is updated that can handle the needs of the organization and its purpose
- Updated and written policies and procedures
- Adherence to proper procurement and contract laws
- County processes transactions and prepares necessary reports
- City processes transactions and prepares necessary reports
- Assurance of proper bond accounting and tracking of bond expenditures
- The the city or county provides guidance and support as needed
- Proper planning around programs and established performance measures
- Cross training and considerations and proper succession planning is in place
- Strong training and continuous training is provided to staff
- Keeping abreast to every changing technology and staying innovative
- Adhering to, keeping updated on and following applicable regulations and laws
- Strong relationship with external parties such as banks, other governments, and other partners to ensure strong controls, security and participation
- Providing proper oversight and monitoring of vendors that provide services and good customer service
- Hiring experienced, capable, trusting, knowledgeable staff, encourage consistent procedures and processes, and promote ability among staff
- Restricted access to cash and other assets
- Strong system of controls and proper separation of duties, timely audits and implemented corrective action plans
- Ongoing budget tracking and budget monitoring to ensure expenditures are within the budget, supported and appropriate
- Strong involvement and participation in legislations and enacted laws

- Strong involvement from the Board of Supervisors, Board members, and other committee members
- Consideration of public perception and oversight officials, consideration of media and political issues
- Transparency and communication, and that feedback and complaints are taken seriously and handled properly; and
- Continuous seeking of revenue potential with grants, loans, bonds, and other financing opportunity.

The participants surveyed were asked if controls described were periodically reviewed. 100% of the participants responded that their controls were reviewed by knowledgeable staff on an ongoing basis and/or monitored, for most, at least annually. Two participants surveyed stated that they conducted a scheduled detailed review every 2 years, and other every 4 years if not sooner. Further 100% of the participants responded that controls deficiencies are reported to the functional manager or director.

Participants were asked to identify and consider foreseeable risk for their organization within the next 2 years. The following risk considerations were identified:

- Increased pressure on police claims from adverse media reports, inadequate member or partnership budgets
- Retirement of administrative and other key staff or directors and risk of turnover
- Reduction or elimination of funding for the IHSS Program
- Loss or reduction of federal funding
- Secure funding for capital projects
- Reduction of funding with increased workloads
- Natural disasters such as flooding or fire, acts of terrorism and lack of focus
- Cash flow to fund improvements- State does not fund upfront cost
- Termination of operating or longer term lease agreements
- Impact on international shipping conditions; and
- Small staff and reliance on County functions for payroll, accounting and HR with no direct capability to county Infor system.

Participants were asked what critical information their organization relied on in order to perform their purpose. The following responses were provided:

- Annual actuary studies, tracking and performance budgets with consideration of claims as constant variables, knowledgeable staff with a good understating of members claims and loss prevention
- Access to business files and relevant information on Case Management and payroll system. Access to County computer system for various records and policies
- Government and private studies; town-hall participation, consultants, and other tools for decision making
- Performance measures, call statics, service demands, state requirements, actuarially reports, external audits, system audits, industry standards, member agency feedback and state and federal guidance, etc.
- Tenant, financial, and historical data

- Qualified professionals such as engineers, and other consultants, design and corrective measures, federal and state regulations and work plans
- Port operations reports
- Preliminary Official Statements (POS), Mello Roos debt, appraisals of undeveloped land values, status of building permits, utility debt, budgets and revenue expense history, etc.
- Trustee bank statements and other communications from Trustee and Custodial bank related to cash movement, Lock Box, information on bond indenture and lease provisions, etc.; and
- Funded partner's information regarding performance, outside evaluations, funding projections, etc.

Participants were asked what business decision making requires the most judgment. The following responses were provided:

- Claims handling and investigations, balancing the roles of consultants, challenging a legal decision or judgment, advising on legal matters
- Rulemaking on business community, weighing in on public health of citizens regarding air pollution and economics of the business
- Negotiations with wildlife agencies and decision making regarding funding use
- Litigation, technology planning, budget, and capital planning and training plans
- Budget processes and cash flow planning, program compliance, and maintenance, capital improvements, and data security
- Acquisitions of property to create public right of way for construction of levee improvement, impact of residents home, business, and disruptions of property rights
- Termination of initiatives that were of threat to organization ongoing purpose, termination of capital improvements that lacked a funding plan, reduction of city support staff, and other staff, pursuing the sale of assets to increase revenues, reducing long-term debt by early defeasance, decision to maximize bond capacity; and
- Monitoring of agency performances.

The participants surveyed were asked if their organization has developed and implemented a succession plan and if so, how often was it reviewed and/or updated. Approx. 77% of the participants responded that they have a written succession plan that is reviewed and updated timely. Approx. 23% responded that they did not have a written plan in place. The County's internal auditor will offer guidance to participants that are interested and reach out for direction.

The participants surveyed were asked if their organization has updated written policies and procedures plan and if so, how often was it reviewed and/or updated. Approx. 92% of the participants responded that they have maintain written updated policies and procedures for their business operations; one participant responded that they did

not have updated and/or written policies and procedures for all business processes. The County's internal auditor will offer guidance to participants that are interested and reach out for direction.

Further, participants were asked if their organizations assets were properly maintained, tracked, protected, and managed. Participants responded that assets were being properly managed, tracked, safeguarded and protected on an ongoing basis.

Participants surveyed were asked how their organization could help encourage and support themselves and their partners be successful in accomplishing their purpose. How their organization could support the partnership ability to be innovative and if necessary reposition the organization in today's public environment that often changes direction or focus and lastly, the participants were asked how could their organization support and continue to provide public value to the organization even during an unstable period or phase. The following responses were provided:

- Risk management- anticipates and is proactive vs. reactive
- Engage in public awareness and advocacy as a primary goal, seeks to maintain and develop existing relationships while fostering other community resources and populations that can be drawn upon
- Develop partnerships with other agencies in the County performing similar work, Community meetings and outreach with stakeholder groups, councils, Board of Supervisors, and communicate in a timely manner with inquiring parties
- Work closely with local government, hold town hall meetings, involve the community, and pool resources
- Support member agencies, contribute services to the community that improves their safety and welfare as citizens, support and assist the older adult population in our community
- Community education of water resources issues, collaboration with local, neighboring counties, and other government partners for planning
- Practice efficiencies in management of programs and assets to remain competitive, expand operations with limited additional resources, revise processes and use of updated technology to become more efficiencies and adjust as needed to remain focused
- Provide a high level of transparency and openness to the community
- Continue to support local jobs and the local community by way of employment, use of the organizations purpose to nonprofits, clubs and other organizations
- Continue to support and fund public improvements for the community
- Continue to advertise and grow the asset and its potential uses to the community and others outside of the community; and
- Continue to work with the County in close partnership to help identified areas of need, strengthen the intended purpose and community we serve by establishing and evolving innovative performance measures, and to develop strong evaluation tools as well as facilitating new partnership potential.

IX. Requested Training

Participants surveyed were asked to provide suggestions on training and workshops that would better help them be successful in their organizations. The following responses were provided:

- Infor training and the County to focus and concentrate on more timely reports
- A walkthrough with each of the participants to go over the survey rather than having them complete the survey online (note: the County's internal auditor will invite each of the participants to go through the report and their individual survey, and provide guidance and recommendations, at the request of the participant's)
- Training to board members and other committee members regarding general business understanding of budget, accounting and auditing requirements
- Other workshops similar to the COSO Framework 2013 that was provided around government and good system of control and other best practices; and
- Cyber security with best practices over networking structures (e.g. Cloud vs. local servers), data backup, virus protections, firewalls, etc.

X. Professional Standards and Other Regulations

The Division of Internal Audit facilitated the Joint Power Authorities and other affiliates control and performance risk assessment as part of the countywide risk assessment process in accordance with consulting standards established by the American Institute of Certified Public Accountants (AICPA). Our proposed procedures, developed to meet the objectives stated above, as well as other applicable laws and regulations as stated in numerous Government Codes and other professional auditing standards. The risk assessment plan, the ongoing application, implementation and processes and procedures are provided to the Financial Oversight Committee at each of the meetings, and/or as necessary to the Board of Supervisors.

XI. Auditor's Risk Assessment Summary and Conclusion

In consideration of the participants risk factors identified during the risk assessment survey process including their narrative responses, the auditor's analysis, and other information obtained the overall risk rating assigned to the County in regards to the County's relationship with the Joint Power Authorities (JPA), and other affiliates, is low and a score risk factor of 1.0 with 5 being the highest and 1 the lowest (with some participant's ranking higher and others lower). It should be noted that each individual participant may carry a higher score (low, med, and high). While the risk assessment can be used as a basis for their scores, the participants management and guidance from their independent auditor's should be used to determine their individual risk levels and scores based on the information they provided during the assessment process, and other factors and considerations directly relative to their environment.

The answers provided to the structured survey questions and the additional narrative responses, although brief, which provided information that further impacted the consideration of risk and how it is mitigated, coupled with the additional analysis and review of external audit reports, and other inherent factors, such as type of organization, their partnerships, funding, and program types, helped the auditor gain

additional context and understanding of the organization and its potential impact to the County's successes and challenges.

Based on those considerations noted above we were able to conclude that the JPAs and other affiliates that participated share an obvious commitment to their organization, and their consideration of risk. The participants demonstrated that they possess strong risk management behavior, which includes ongoing monitoring of risk and risk mitigation.

The participant's responses showed that they share in the County's commitment to public value, transparency and accountability.

The risk factors identified in the report should be considered and used to help the participants and the county determine risk impact (likelihood of occurrence and level of harm), where training is needed, succession planning, and other priorities that might require additional efforts, attention and/or focus.

In effort to further assist management with risk consideration and mitigation of risk, the auditor would like to recommend that the participants and the county consider and encourage the following practices in their organization in order to further mitigate risk and improve the overall health of the organization:

- Support training to keep their staff developed, crossed trained and up to date on best practices
- Encourage increased transparency, accountability and efficiency by implementing consistent practices, policies and procedures, and documentation requirements
- Consider cross training and knowledge sharing, increase resources, and steps to prepare for retiring staff or limited staff and staffing resources
- Reach out and encourage more involvement from the County and Cities to grow and stimulate innovation and keep all participants on the cutting edge; where applicable
- Support and seek out training, guidance, and support from the County when opportunity arises
- Seek to encourage government to be more proactive in risk consideration and risk management to lower overall risk in the public sector
- Consider and take advantage of cost savings around services that can be shared or contracts and be piggy-backed
- Seek business opportunities to support and help ensure operational growth and fiscal soundness including assurance that debt incurred by issuances of bond and other obligations are honored; and
- Ensure that audits and other reviews required are done as necessary, are timely, and that follow-up and recommended actions are being implemented.

Additionally, the participant surveyed suggested that the County consider the following factors to help to further improve and/or decrease risk and encourage their and their partners, including the County's success:

- Offer and provide relevant training to participants and their board and committee members
- Encourage increased transparency, accountability as a government in general

- Consider and support shared services to help participants manage similar cost while respecting their independence and obvious and sometimes not so obvious differences
- Encourage more involvement from the County, when requested
- Encourage proactive responses to lower and manage risk
- Support and seek out business opportunities to support and help ensure operational growth and fiscal soundness to participants and their organizational mission
- Encourage local government and its agencies to shift to a culture that would lower risk tolerance and become more risk sensitive from the start
- Provide and encourage oversight and to ensure required audits and reviews are being done as necessary, are timely, and that recommended actions are being implemented; and
- Improve awareness and connections with partners including internal communications that impact external partners on a more intimate basis and be an active participant in relationships that can have a strong impact on the communities served.

Additionally, the County's internal auditor recommends that the JPA's and other affiliates consider the applicable governing codes as referenced in Section II titled "Mechanisms for County Board to Enforce Accountability".

To help ensure the department's success, the Internal Audit Division is available to support and provide guidance upon request.

cc: Howard Newens, Chief Financial Officer, Yolo County
 Financial Oversight Committee, Yolo County
 First 5 Yolo
 River City Regional Stadium Financing Authority
 West Sacramento Financing Authority
 Sacramento Yolo Port District
 West Sacramento Area Flood Control Agency
 Housing Authority of County of Yolo
 Water Resources Association of Yolo County
 Yolo Emergency Communications Agency
 Area 4 Agency on Aging
 Yolo Habitat Conservancy
 Yolo County IHSS Public Authority
 Yolo-Solano AQMD
 Yolo County Public Agency Risk Management Insurance Authority
 Yolo LAFCO
 Audit File