

COUNTY OF YOLO
DIVISION OF INTERNAL AUDIT
2015/16 COUNTYWIDE RISK ASSESSMENT

OBJECTIVE

To prepare a **Countywide Risk Assessment** (risk analysis) to establish the Division of Internal Audit's annual audit plan. The risk analysis would assist in providing reasonable assurance on the adequacy and appropriateness of the annual audit and review engagements selected, by including consideration of mitigating factors such as **inherent risk** (nature of the county's visions and missions, and the overall environment, political risk, public risk, etc.) and known **controls risk** (centralized and decentralized controls, size, and known weaknesses from prior reviews).

SCOPE/SOURCE/CRITERIA

The **Risk Assessment Matrix** that will be presented will be created using an assessment of risk based approach that will help to identify various levels of risk and allow the auditors to rank the risk, during the auditors' review and analysis. The risk exposure for each audit criteria is categorized as follows.

High exposure (Unacceptable Risk (Highly Recommend Audit or Review))

Moderate exposure (Conditional Acceptable Risk due to Nature (Recommend a lower level of review or subsequent year follow-up))

Low exposure (No Audit or Review is recommended at this time)

A high, moderate, or low ranking corresponds to the potential risk exposure auditors believe may have an impact on the overall achievement of the County's goals, objectives, or visions, and the impact of potential risk, and would be indicative of the priority the County's Management and Board of Supervisors and the Audit Committee should give consideration for as an audit or review engagement.

Auditors will determine based on the following sources/attributes, and auditors professional opinion, the level of risk associated with the County and the County's General Government, Service District's, or other entities, etc., the level of risk that should be given in each of the areas considered.

The scope of the assessment will include a risk assessment completed by management level staff countywide, and will be facilitated and reviewed by the division of internal audit. The assessments will involve the participation from various management level staff within the county's government as a whole, in various segments, specific programs or service functions, or other attributes contained within the county or that is deemed necessary or appropriate at the request of the counties management staff, the County Administrator, Chief Financial Officer, the Board of Supervisors, and/or the Audit Committee.

The sources/attributes the auditors will consider during the review and analysis will consists of the following:

- Mission, Vision, Goals and Objectives (Countywide, Department, Districts, Programs or Services as identified);
- The County's General Plan;
- Regulations, Statutes, Mandates, significant class action lawsuits, and other legal requirements and Authorities that may govern (i.e., the County's Operational Manual, Government Code, Administrative Policies, etc.);
- Other known milestones identified by auditors;
- Prior external engagement audits and reviews performed by other government entities (i.e., the State or the Federal Government);
- Prior internal engagements and reviews performed by the County's Internal Auditors or contracted external auditors;
- Media oversight (i.e., issues that have been exposed to media and reported to the public);
- Known high exposure attributes (i.e. Sex Offender programs, rehabilitation programs, high risk drug and alcohol programs or contracted service, etc.);
- Inherent attributes by nature or environment (such as decentralized processes, programs, or services that relate to independent processes in areas such as many accounting, tracking, budgeting, contracts and expenditures); and
- Other considerations were taken into account such as attributes that are not within the county's review control (i.e., State or Federal Reviews)

Assigned Auditors experience and background:

Mary Khoshmashrab, MSBA, CPA Internal Audit Manager ~ Mary brings with her over 18 years of auditing and accounting, auditing, and forensic review of various state agencies. Additionally, she provides instructions in the field of auditing and forensic reviews to other state auditors, professional auditing organizations and has instructed at the University of California Davis Extension in the area of Business. Further, she performs state peer reviews for other California State Agencies. Moreover, she was a peace officer with the Board of Parole Hearings for over three years where she held a position at Region II, as a Board Revocation Representative under the requirements of Valdivia, Armstrong and other legal mandates and regulations. She has served in various State Appointments as the Deputy Director of Compliance for the Gambling Control Commission and as the Chief of Audits for the California Energy Commission.

Mary has performed numerous types of engagements throughout her profession including working with the State Controller's Office and the Federal Receiver on the first review performed on the California Inmate Healthcare System. She has performed other reviews of the Department of Corrections both as an external auditor and as an internal audit supervisor. During her appointment at the Commission, she prepared and successfully implemented a Commission wide risk analysis. Mary has also worked as a consultant reviewing internal controls of organization and providing recommendations of fraud prevention and detections tools and was successful in developing, establishing and implementing from the ground up an internal audit office for the Energy Commission.

METHODOLOGY/ANALYSIS

Development of the Risk Assessment Matrix:

The initial step in the development of the risk assessment matrix is to partake in a brainstorming session consisting of various sources/attributes of matter that would assist in the development of the risk assessment matrix. Additionally, consideration of avenues of information such as prior reviews, media, etc., regarding potential risk for the county are discussed and slated for review as are other types of obvious risk factors due to the County's inherent risk environment, including but not limited to the size, nature, and the decentralized traits. Auditors assigned will begin their review of the identified information (bullets above). Auditors will review, abstract, and examine, relevant information that based on their professional judgment, might impose a risk to the County as a whole.

Simultaneously auditors will develop a risk assessment questionnaire that focuses on the Management's System of Controls. The COSO Framework will be incorporated into the questions as they are formed. The questionnaire will be standardized and can be used to help management and other parties as appropriate identify areas of risk, rate the impact and occurrence, and how the risk are mitigated. The questionnaire will address the environment and consist of a combination of open ended questions and y/n options with a comment section. Further, the questionnaire will be written in simple language in order to accommodate and provide ease for all participants.

Prior to the disbursement of the questionnaires, the internal audit office, will provide workshops and invite Departments and other interested participants to review the questionnaire and ask questions for understanding or receive clarification. Once the workshops are complete, the risk assessment questionnaires will be electronically emailed to management and other participants countywide. All participants will be required to complete and return the completed questionnaire within a specified date. Additional guidance in completing the questionnaire will be available as necessary for all participants upon request.

Once all the risk assessment questionnaires have been received by the Internal Audit Office, the auditors will compile the data into a summarized manner that will be used to further build the Risk Assessment Matrix.

Auditors abstract attributes (areas of potential risk) from various external and internal prior audits/reviews reports (**shown horizontally**), and the related identified findings (weaknesses or other noted concern/risk **shown vertically**), as well as abstractions from other documented materials (bullets above) such as government regulations, law suits, mandates, visions, missions (as a whole or individual entity within the County), milestones, and prior media coverage (as described above) and incorporate data provided from the results compiled from the Countywide Risk Assessment Questionnaire that was completed by the management and others participants, as appropriate. Once the **Risk Assessment Matrix** is formed and the information has been compiled, auditors will be able to perform an analysis of the summarized data, and rank the level of risks accordingly.

Based on the evidence gathered and analyzed during the risk assessment analysis auditors' opinions, judgments and observations were then imposed upon the identified attributes. Based on the assessments of the identified attributes coupled with the consideration of related potential causes, impacts, and management initiatives, a matrix based on numerous inherent and known or assumed control risks was completed and ranked accordingly.

Based on auditors' judgment and in consideration of the analysis that will be performed, auditors will rank each attribute based on the identified risk factors (inherent and control) and assigned each of the attributes risk with a high (red), moderate (yellow), and low (green) level of risk.

Once the risks were identified as high, moderate, and low, the attributes were then ranked (prioritized) based on the number of high, mod, and low risk; the higher count of red (high), the higher the ranking (priority for recommending the attribute for review) and so on.

The auditors overall conclusion will be the basis to helping the auditors develop and establish an audit plan. The methodology described is consistent with the Risk Assessment Standards as described in both the Yellow and Redbook Auditing Standards.

Once Chief Financial Officer, the County Administrator, the Board of Supervisors, the Audit Committee, and other interested parties' reviews the matrix and provides comments or modifications, auditors can begin the Annual Audit Plan Phase that will consist of "drilling down" on the identified areas (matters) of risk and developing an audit or lesser review if applicable.

CONCLUSION/ RECOMMENDATION

The ***Risk Assessment Matrix*** is based on a risk based methodology and approach. The document is summarized by attribute and ranked (prioritized) by the number of identified risks (***High [red], Moderate [yellow] and Low [green]***) associated with the attribute (areas, entities, process, program, etc.) identified. The priority (ranking) of the attribute is determined using a joint effort by management and auditors and considers various sources of information and other contributing factors (as described above), and the auditors professional judgments as it relates to the attributes and associated risk identified. The Matrix is recognized as an effective, efficient tool under the IIA Standards and other professional auditing standards. It is often useful in organizations with limited resources and diverse environments.

Once the matrix is completed, auditors will distribute the draft matrix to the County Administrator, the Chief Financial Officer and the Board of Supervisors, and the Audit Committee for review, comments, and approval. Upon approval, the Internal Audit Office will proceed in developing the Countywide Annual Audit Plan.

The Annual Audit Plan will consist of drilling down into the attributes (areas, entities, processes, programs, etc.) selected based on the matrix and the County's Management and the Board's special request and other considerations. The "sub-attributes" auditors will consider during the Audit Planning Phase will consist of budgeted amounts, allotments, expenditures, dollar value (individually and aggregate), types of reviews (processes or entities within CDCR, contracts, specific programs etc.) and any special request engagements.

The Risk Assessment Matrix *should be maintained*, adding and subtracting attributes and associated risk on a continuous basis. The matrix developed (if updated and monitored regularly) should be treated as a living document and used on an annual basis to determine the Annual Audit Plan for the County of Yolo.

AS Of 6-29-15