

**Meeting of the
Audit Subcommittee
Yolo County
November 10, 2020
9:30 a.m.**

Note: This meeting is being agendized to allow Committee Members, staff and the public to participate in the meeting via teleconference, pursuant to the Governor's Executive Order N-29-20 (March 17, 2020), available at the following link.

Teleconference Options to join Zoom meetings:
By PC: <https://yolocounty.zoom.us/j/99973472004>
Meeting ID: 999 7347 2004
or
By Phone: 1 (408)-638-0968
Meeting ID: 999 7347 2004

Executive Order N-29-20 authorizes local legislative bodies to hold public meetings via teleconference and to make public meetings accessible telephonically or otherwise electronically to all members of the public. Members of the public are encouraged to observe and participate in the teleconference.

Further instructions on how to electronically participate and submit your public comments can be found in the PUBLIC PARTICIPATION note at the end of this agenda.

Meetings are accessible to people with disabilities. Individuals who need special assistance or a disability-related modification or accommodation to participate in this meeting, or who have a disability and wish to request an alternative format for the meeting materials, should contact Kim Eldredge, Audit Manager at least two (2) working days before the meeting at 530-666-8190 ext. 9204 or kim.eldredge@yolocounty.org.

If you have anything that you wish to be distributed to the Committee and included in the official record, please hand it to a member of County staff who will distribute the information to the members and other staff.

Committee Members:

Chair Gary Sandy	(Board of Supervisors – Voting)
Duane Chamberlain	(Board of Supervisors - Voting)

Yolo County Internal Audit Staff

Kim Eldredge	(Audit Manager – Non-voting)
Noemy Mora-Beltran	(Senior Auditor – Non-voting)
David Estrada	(Internal Auditor – Non-voting)
Doug Port	(Internal Auditor – Non-voting)

9:30 am Call to Order

1. **Welcome**
2. **Roll Call.**
3. **Approval of Agenda**
4. **Follow-up of items from prior meeting (if any).**
5. **Public Comment**
This item is reserved for persons wishing to address the Committee on any related matters that are not otherwise on this meeting agenda. Public comments on matters listed on the agenda shall be heard at the time the matter is called. As with all public comment, members of the public who wish to address the Committee are customarily limited to 3 minutes per speaker, but an extension can be provided at the discretion of the chair.

CONSENT AGENDA

6. **Approval of the prior meeting minutes 9/17/2020.**

REGULAR AGENDA

7. **Receive status update of audit recommendations for the Internal Control Review of Wire Transfers and ACH Transaction Audit (11/16/2019) from Treasury/Revenues Manager (Mora-Beltran/Burnham).**
8. **Receive staff report on the status of the Division of Internal Audit Activity**
 - a. **provide status of current engagements and the release of audit reports since last meeting; (Eldredge)**
 - b. **discuss organizational independence of the internal audit activity - Internal Audit Charter, as required by auditing standards; (Eldredge)**
 - c. **approve proposed recommendation to add another member to the Audit Subcommittee, as recommended by Best Practices; (Eldredge)**
9. **Approve of meeting calendar for year 2021**

Proposed Dates	Proposed Time
January 28, 2021	10:00-11:30 am
April 29, 2021	10:00-11:30 am
July 29, 2021	10:00-11:30 am
October 28, 2021	10:00-11:30 am

10. **Confirm next meeting date: To be determined.**
11. **Committee Member and Staff Announcements**
Action items and reports from members of the Committee, including announcements, questions to be referred to staff, future agenda items, and reports on meetings and information which would be of interest to the Committee or the public.
12. **Adjournment (Approximately 10:30 a.m.)**

Public records that relate to any item on the open session agenda for a regular meeting are available for public inspection. Those records that are distributed less than 72 hours prior to the meeting are available for public inspection at the same time they are distributed to all members, or a majority of the members of the Committee. Public records are available for inspection by contacting Kim Eldredge, Audit Manager at 530-666-8190 ext. 9204 or kim.eldredge@yolocounty.org and meeting materials can be inspected at County offices located at 625 Court Street, Woodland, CA 95695; those interested in inspecting these materials are asked to call 530-666-8190 ext. 9204 to make arrangements. The documents are also available on the County of Yolo Financial Oversight Committee website located at: <https://www.yolocounty.org/general-government/general-government-departments/financial-services/financial-oversight-committee>.

PUBLIC PARTICIPATION **OPTIONS FOR PUBLIC COMMENT**

1. If you are joining the meeting via zoom and wish to make a comment on an item, press the "raise a hand" button. If you are joining the meeting by phone only, press *9 to indicate a desire to make comment. The chair will call you by name or phone number when it is your turn to comment. Speakers will be limited to 3:00 minutes. "Note: If you are joining by zoom and phone, still use the zoom raise a hand button as *9 will not work.
2. If you choose not to observe the Audit Subcommittee meeting but wish to make a comment on a specific agenda item, please submit your comment via email by 5:00 p.m. on the Monday prior to the Committee meeting. Please submit your comment to Kim Eldredge, Audit Manager at kim.eldredge@yolocounty.org. Your comment will be placed into the record at the Committee meeting.
3. If you are watching/listening to the live stream of the Committee meeting and wish to make either a general public comment or to comment on a specific agenda item as it is being heard, you may also submit your comment, limited to 250 words or less, to the Kim Eldredge, Audit Manager at kim.eldredge@yolocounty.org. Every effort will be made to read your comment into the record, but some comments may not be read due to time limitations. Comments received after an agenda item will be made part of the record if received prior to the end of the meeting.

YOLO COUNTY AUDIT COMMITTEE

MINUTES OF MEETING September 17, 2020

Note: This meeting was held via teleconference, pursuant to the Governor's Executive Order N-29-20 (March 17, 2020).

Members present on the call: Gary Sandy (Chair - Supervisor), Duane Chamberlain (Supervisor)

Members excused: None.

Others present on the call: Kim Eldredge, Noemy Mora-Beltran, Douglas Port (Internal Audit), and Lawrence Raber (Public).

Moderator: Kim Eldredge

Recorded by: Doug Port

- 1) **Call to order.** Gary Sandy called the meeting to order at 10:00 AM with Duane Chamberlain in attendance. Quorum was formed.
- 2) **Introductions.** Members and public above were on the call.
- 3) **Approval of agenda.** The agenda was reviewed and approved; agenda adopted (Chamberlain/Sandy).
- 4) **Follow-up of items from 7/30/2020 meeting.** There were no follow-up items open from prior meeting.
- 5) **Public comment.** Kim Eldredge reported that no public comments were received for the record.
- 6) **Approval of the 7/30/2020 meeting minutes.** Accepted and approved (Chamberlain/Sandy).
- 7) **Receive staff report on the status of the Division of Internal Audit Activity:**
 - a) **Provide status of current engagements and the release of audit reports since last meeting (Eldredge).**

Kim Eldredge provided the status of current engagements and the release of audit reports since the last meeting. Current engagements in-progress include the continuous purchasing card audit, telecommuting audit and transit special review. Kim also provided an update on the status of electronic work papers for the Division of Internal Audit
 - b) **Provide summary of audit reports received (Eldredge).**

The division of Internal Audit received 68 reports during FY19/20 (19 County, 30 Joint Powers Association, 12 Special District and 7 Other Entity).
 - c) **Provide status of purchase card continuous auditing FY19/20 (Mora-Beltran).**

Noemy Mora-Beltran provided an update on the status of the purchase card continuous audit for FY19/20. Noemy presented charts showing an overview of the purchase card activity by department, transaction analysis summary by merchant (top 10 shown), type of items purchased from top merchants, transactions typically made through purchase order, number of purchases made on weekends, and number of purchases made on holidays.

8) **Review Draft Audit Follow-up Policy and Audits Conducted by External Entities and Fiscal Monitoring Review Policy and discuss any changes (Eldredge).**

Kim Eldredge provided Draft Copies of the Audit Follow-up Policy and Audits Conducted by External Entities and Fiscal Monitoring Policy for review and discussion. Kim went through each section of the policies presented. For the Audit Follow-up Policy, the Committee discussed ways to strengthen the timely reporting of management's response to audit findings, the reporting of issues/findings by risk priority, and should departments be able to contract with outside auditors without going through internal audit. Other issues discussed by the Committee included the reporting of external audits to the Division of Internal Audit and tracking findings of external audits and ranking risk of external audit findings. The Committee suggested that the Internal Audit Manager talk to LAFCO about audit follow-up to findings for special districts laws and regulations.

9) **Confirm next meeting date.** The next meeting is scheduled for November 10, 2020 at 9:30-10:30 a.m.

10) **Committee Member and Staff Announcements.** There were no committee member and staff announcements.

11) **Adjournment.** Meeting adjourned at 11:00 a.m.

Yolo County

Division of Internal Audit

Internal Control Review of Wire Transfers and ACH Transactions

For the Period:

April 1, 2018 to March 31, 2019

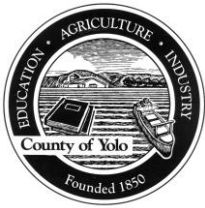
Audit No: 2019-1

Report Date: November 6, 2019

Noemy Mora-Beltran, Internal Auditor
David Estrada, MPA, Internal Auditor
Kim Eldredge, CGAP, Senior Auditor

County of Yolo
Department of Financial Services
Division of Internal Audits
P.O. Box 1995
Woodland, CA 95776

Visit the Division's Website at
<http://www.yolocounty.org/general-government/general-government-departments/financial-services/internal-audit>



County of Yolo

www.yolocounty.org

CHAD RINDE, CPA
Chief Financial Officer

TOM HAYNES
Assistant Chief Financial Officer

DEPARTMENT OF FINANCIAL SERVICES

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- Financial Strategy Leadership
- Budget & Financial Planning
- Treasury & Finance
- Tax & Fee Collection
- Financial Systems Oversight
- Accounting & Financial Reporting
- Internal Audit
- Procurement

Transmittal Letter

November 6, 2019

Chad D. Rinde, CPA
Yolo County, Chief Financial Officer
Department of Financial Services
625 Court Street, Room 103
Woodland, CA 95695

Re: Internal Control Review of Wire Transfers and ACH Transactions

Dear Mr. Rinde:

The Division of Internal Audit performed an internal control review of wire transfers and ACH transactions at the Department of Financial Services (DFS) for the period of April 1, 2018 to March 31, 2019 to determine whether adequate internal control exists to provide reasonable assurance to county management that there is an acceptable level of operational accountability over county assets at the DFS Treasury & Revenue Division and Accounting & Financial Reporting Division.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.


Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to ACH enrollments and transactions, wire transfers, logical and physical security, and segregation of duties.

As required, in accordance with auditing standards, this report was forwarded to management with a request for response. The management's response will be submitted at a later date in a separate report. We will follow-up to verify that management implemented the corrective actions.

In regards to auditor's independence, the Internal Audit Division reports administratively to the Chief Financial Officer, but functionally to the Board of Supervisors.

We thank the DFS management and staff at the Treasury & Revenue Division and Accounting & Financial Reporting Division for their cooperation; their assistance contributed significantly to the successful completion of this audit.

Sincerely,



Kim Eldredge, CGAP
Senior Auditor

Distribution
Edward Burnham, Treasury & Revenue Division Manager
Merilyn Tiriboyi, Accounting & Financial Reporting Division Manager
Patrick Blacklock, Yolo County Administrator
Chad Rinde CPA, Yolo County, Chief Financial Officer
Yolo County Audit Committee
Audit File Project No. 2019-1

AUDIT FACT SHEET

Yolo County Division of Internal Audit Report on the Internal Control Review of Wire Transfers and ACH Transactions

For the Period: April 1, 2018 to March 31, 2019

Audit No: 2019-1

Report Date: November 6, 2019

BACKGROUND

During the audit period, the following transactions were processed:

- 578 wire transfers totaling \$191,049,936 (Figure 1)
- 1,764 ACH transaction payments totaling \$109,528,985 (Figure 2)
- *Other Matters* – Fraudulent account in the amount of \$1,396,202 issued/recovered

The auditors performed a variety of procedures that tested the processes and controls around the following areas:

- **Wire Transfers/ACH Transactions:** Reviewed internal controls for enrolling vendors and for processing transactions.
- **Logical and Physical Security:** Determined that logical and physical access to banking website and Infor system was adequately controlled.
- **Contingency Plans:** Determined that a contingency plan was in place for operation and system interruptions for wire transfers and ACH transactions.
- **Segregation of Duties:** Verified that proper segregation of duties existed with wire transfers and ACH transactions.

Wire Transfers		
Issued Amounts	# of Transactions	Total Amount Paid
\$40 to \$4,999	138	\$171,744
\$5,000 to \$19,999	146	\$1,820,669
\$20,000 to \$49,000	35	\$1,114,182
\$50,000 to \$99,000	62	\$4,458,103
\$100,000 to \$499,999	137	\$27,104,937
\$500,000 to \$999,999	26	\$17,834,724
\$1 M to \$7.9 M	30	\$79,654,480
\$8 M to \$14.9 M	3	\$36,770,368
\$15 M to \$29.9 M	1	\$22,120,729
Totals	578	\$191,049,936

(Figure 1) Wire Transfer Transaction Summary (Total Cost \$2,890)

ACH Transactions		
Issued Amounts	# of ACH Transactions	Total Amount Paid
\$40 to \$4,999	983	\$1,362,492
\$5,000 to \$19,999	385	\$4,081,378
\$20,000 to \$49,000	156	\$5,310,672
\$50,000 to \$99,000	103	\$7,015,087
\$100,000 to \$499,999	105	\$18,398,477
\$500,000 to \$999,999	24	\$15,924,698
\$1 M to \$7.9 M	6	\$13,745,317
\$8 M to \$14.9 M	1	\$14,453,513
\$15 M to \$29.9 M	1	\$29,237,350
Totals	1,764	\$109,528,985

(Figure 2) ACH Transaction Summary (Total Cost \$88)

The Audit Fact Sheet is a summary of highlights from the report on the Internal Control Review of Wire Transfers and ACH Transactions

FINDINGS

- Finding #1: ACH payment enrollment process needs improvement validating information
- Finding #2: Lack of monitoring of ACH transactions verifying in compliance with County policy and procedures, contract provisions, and supported by adequate documentation
- Finding #3: Changing the default payment method in the Infor system not in agreement with payment method on file
- Finding #4: Improvement needed over the handling of wire transfers verifying in compliance with County policy and procedures, contract provisions, and supported by adequate documentation
- Finding #5: Access to resources and records should be assigned and maintained
- Finding #6: Continuity of Operations Plan not updated
- Finding #7: Process for handling wire transfers and ACH enrollments needs to be properly documented
- Finding #8: Segregation of duties for ACH enrollments and wire transfer payments not according to best practices

RECOMMENDATIONS

The auditors recommend that management consider the following to improve internal controls over wire transfers and ACH transactions.

Wire Transfers/ACH Transactions

- Review GFOA recommended safeguards and internal controls for ACH enrollments
- Protect vendor/employee banking information
- Develop a verification process before updating vendor banking information
- Increase management oversight and approval to ensure that wire transfers/ACH transactions are completed, supported by adequate documentation, and management review is documented

Logical and Physical Security

- Document user profile assignments to US Bank system and set up payment limits
- Implement Kinsey & Kinsey security tool for access to the Infor system

Contingency Plans

- Update Continuity of Operations Plan
- Review and update written procedures for wire transfers and ACH enrollments

Segregation of Duties

- Review process for wire transfer payments and ACH enrollments to ensure duties are properly segregated

Yolo County Division of Internal Audit
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Audit No: 2019-1

For the Period: April 1, 2018 to March 31, 2019

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Detailed Findings and Recommendations

Background

The Department of Financial Services (DFS), Treasury & Revenue Division and Accounting & Financial Reporting Division (Division Managers) are responsible for processing the County's wire transfer payments and ACH transactions, which include but not limited to, vendor payments, payroll benefits, intergovernmental payments, property tax distributions, investments, and other recurring payments. The managers for both divisions are responsible for the day-to-day management and the processing of wire transfers and ACH transactions.

Wire Transfers

Wire transfers are funds transferred between bank accounts, using the Federal Reserve Communications System (Fedwire) for the settlement of transactions. Wire transfers have no mail float and funds are immediately available. They can be transferred from one account to another in the same day. Although wire transfers result in immediate availability, the cost per transaction is greater than ACH-based transactions and is therefore used for larger-dollar transactions. In order to execute a wire transfer, the following information is provided to the bank:

- Routing number for the receiving bank
- Name of the receiving bank
- Name and account to be credited
- Name of specific person to whom wire should be directed

Source: Government Finance Officers Association, "Banking Services: A Guide for Governments"

Wire transfers are utilized by the County in payment of an obligation on an emergency basis or when the situation requires immediate funds to settle a transaction. The cost per wire transfer is \$5.00. Payment requests are initiated by departments and/or agencies and are reviewed/approved by the Accounting & Financial Reporting Division. The Treasury & Revenue Division processes the wire transfers through the US Bank system and in the County's financial system Infor.

ACH Transactions

Automatic Clearing House (ACH) is an electronic fund transfer process that clears and settles debits and credits between banks. The ACH is governed by National Automated Clearing House Association (NACHA) rules. The cost per ACH transaction is \$0.05. An ACH payment is designed for recurrent transactions; such as, utility bills, property tax payments, state and federal payments, taxes, etc. Because the cost per transaction of ACH-based payments is lower than for wire transfers and for paper-based checks, ACH is very beneficial when used to process smaller, recurring customer payments. In order to process an ACH transaction, the following items are required:

- Identification of a debit or credit transaction
- Use of the routing identification number of the applicable bank account
- Specification of the transaction amount
- Provision of the settlement date

Source: Government Finance Officers Association, "Banking Services: A Guide for Governments"

The County uses ACH as a form of payment for all vendors who elect to enroll in the ACH process. ACH transactions are initiated by the departments in the Infor system and submitted to the Accounting & Financial Reporting Division. The Division generates a file from the Infor system and transmits the file directly to US Bank.

During the audit period, there were 578 wire transfers totaling \$191,049,936 and 1,764 ACH transaction payments totaling \$109,528,985 as illustrated on the charts below.

Yolo County Division of Internal Audit
Internal Auditor's Report

Wire Transfers		
Issued Amounts	# of Transactions	Total Amount Paid
\$40 to \$4,999	138	\$171,744
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(Figure 1) Wire Transfer Transaction Summary (Total Cost \$2,890)

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Totals	1,764	\$109,528,985

(Figure 2) ACH Transaction Summary (Total Cost \$88)

Audit Objective:

The objective of the audit was to review the internal controls over the handling of wire transfers and ACH transactions; that the wire transfers and ACH transactions are properly authorized and supported by adequate documentation and in compliance with County policy and best practices.

Scope/Methodology:

To accomplish our objective, we performed the following procedures that tested the processes and controls around the following areas:

- A. ACH Transactions:** Reviewed internal controls for enrolling vendors and for processing transactions and tested a sample of enrollments and transactions to ensure compliance with County policy and procedures.
- B. Wire Transfers:** Reviewed internal controls for processing wire transfers and tested a sample of transactions to ensure compliance with County policy and procedures.
- C. Logical and Physical Security:** Determined that logical and physical access to banking website and Infor system was adequately controlled to prevent loss and theft.
- D. Contingency Plans:** Determined that a contingency plan was in place for operation and system interruptions for wire transfers and ACH transactions.
- E. Segregation of Duties:** Verified that proper segregation of duties existed with wire transfers and ACH transactions.

The audit scope included the review of wire transfers and ACH transactions for the period of April 1, 2018 to March 31, 2019. This report does not include a review of the Infor system controls.

Other Matters:

On February 7, 2019, the Accounting & Financial Reporting Division received an ACH Payment Enrollment Form to update the bank account number for an existing vendor. A payment totaling \$1,396,202 was issued to the account number on file. The receiving bank identified suspicious activity as required by the USA PATRIOT Act and had flagged the account. After communication with the vendor, the Division confirmed that the payment was sent to a fraudulent account and immediately notified the County's bank to reverse the payment. The County's bank returned the full amount on March 18, 2019. The auditors inquired of the matter with the Division management and staff and found several internal control weaknesses. The internal control weaknesses are described in this report.

Yolo County Division of Internal Audit
Internal Auditor's Report

A. ACH Transactions

Finding #1: ACH payment enrollment process

The ACH Payment Enrollment Form is completed by vendors who want to enroll in the ACH payment process and or add/change their banking information. The form is emailed and or faxed to the Treasury & Revenue Division for receipt and routed to the Accounting & Financial Reporting Division for set-up within the vendor master file. There are currently 360 vendors established for ACH payment. The auditors selected a sample of vendors and reviewed the safeguards and internal controls. The results are illustrated below:

- Supporting documentation for enrollment forms missing or not signed by vendor
- Enrollment forms received by email not encrypted to protect banking information
- Verification not performed prior to making changes to banking information
- Process followed by staff to verify changes to banking information not documented
- Pre-note or other testing mechanisms to verify bank account number not used
- Approval for new and updated payment information not reviewed by management

The Government Finance Officers Association (GFOA) recommends that the ACH payment method be used for high volume, low dollar transactions. The County uses ACH as an alternative payment method and does not have an established limit per transaction. During the audit period, there were 1,764 transactions totaling \$109,528,985 as shown in (Figure 2).

In addition, the auditors found 22 County employees established as ACH payment in the Infor system. The banking information for these employees and other vendors are visible to all Infor system users who have access to AP10 Vendor-List View.

Furthermore, the banking information for the fraudulent activity found on February 7, 2019 was retained in the Infor system until discovered by the auditors. County management has removed the account from the system.

Recommendation 1

The Division Managers should review their internal controls over the ACH enrollment process against the "Government Finance Officers Association Advisory for Electronic Vendor Fraud" for recommended safeguards and internal controls to mitigate the risk of fraudulent vendor payment activity and to ensure that the above noted exceptions are addressed. In addition, the Division Managers should review GFOA recommended guidelines and NACHA rules to determine if a dollar limit should be established per ACH transaction.

Finding #2: Monitoring of ACH transactions

The auditors selected a sample of 20 ACH transactions and verified that the transactions were in compliance with County policy and procedures, contract provisions, and supported by adequate documentation. The exceptions are noted below:

- 4 transactions not supported with an original invoice or any other documentation that detail the description of goods or services purchased
- 3 transactions corrected by department staff on invoice amount
- 3 transactions with no description of business purpose

Yolo County Division of Internal Audit
Internal Auditor's Report

- 12 transactions not approved by an authorized approving official
- 4 transactions approved with no contract agreement on file

In addition, purchase orders and contract payments processed through the perfect match process in the Infor system are not reviewed by the Accounting & Financial Reporting Division for adequate supporting documentation.

Recommendation 2

The Accounting & Financial Reporting Division should ensure that ACH transactions are supported by sufficient documentation to support the charges against County funds.

Finding #3: Changing the default payment method

There were 250 ACH vendors paid through multiple payment methods. All vendors have completed an enrollment form authorizing the County to be paid through ACH. This authorization remains in effect until written notice is received from the vendor to terminate the ACH payment method. Exception was noted within the Infor system that allows users to change the default payment method during payment processing. The multiple payment methods are illustrated below.

Payment Method	Number of Vendors
ACH only	95
ACH and warrant	147
ACH, warrant, and wire transfer	8
Total	250

Recommendation 3

The Accounting & Financial Division should develop a process to ensure that vendor payments are in agreement with the payment method on file.

B. Wire Transfers

Finding #4: Handling of wire transfers

The Outgoing Wire Request Form is used by department/agencies to request wire transfers. The form and supporting documents are sent to the Accounting & Financial Reporting Division to ensure compliance, completeness, and proper general ledger recording. The forms are submitted to the Treasury & Revenue Division for approval and release of payment.

The auditors selected a sample of 23 wire transfer transactions and verified that the transactions were in compliance with County policy and procedures, contract provisions, and supported by adequate documentation. The results are illustrated below:

- 2 transactions not accompanied by an Outgoing Wire Request Form. *For those transactions, it was undetermined that the bank account information was keyed correctly by staff or that the payment went to the right bank account.*
- 9 transactions not reviewed/signed by the Accounting & Financial Reporting Division
- 17 transactions not approved by an authorized approving official and/or a contract agreement on file

Yolo County Division of Internal Audit
Internal Auditor's Report

- 5 transactions not supported with an original invoice or any other documentation that detail the description of goods or services purchased
- 10 transactions for payment transfers to the State/other agencies (worksheet prepared by staff) not reviewed by an independent person to ensure accuracy of calculation for payment amount

Recommendation 4

The Division Managers should ensure that wire transfers are supported by sufficient documentation to support the charges against County funds and other agencies.

C. Logical and Physical Security

Finding #5: Access to resources and records

The auditors met with Department of Financial Services management and staff to determine if logical and physical access to the banking website and Infor system is adequately controlled to prevent loss and theft. The following control concerns were noted:

Wire Transfers: The wire transfer process is performed in the US Bank system. The US Bank system has a dual authentication security in place; whereas, a pin code and pass code key is required. The system administrator assigns each user accounts, entitlements, and payment limits.

- User profile assignments for access to banking system not documented for assigned accounts, entitlements or payment limits
- Payment limits not established for authorized personnel in banking system. *Users for initiating and approving ACH, book transfer and wire transfers have maximum payment limits of over 9 billion dollars each.*
- System Administrator(s) in the banking system also have system administration rights and permissions in the County financial system (Infor system)

ACH Transactions: The ACH process is performed in the Infor system. The security is linked to the vendor master file where the requestors banking information is stored. The ACH transaction is processed through the Infor system accounts payable module. The user enters the requestors invoice for payment, selects the payment code, and submits for approval. Transactions over \$5,000 are routed to the DFS Accounting Manager for review/approval for payment (except perfect match process).

- Security class "APXAVendorMtce" gives access to add/change/delete vendor banking information to users that are not necessarily to perform the job

Recommendation 5

The Division Managers should consider; 1) documenting user profile assignments for access to the banking system for assigned accounts, entitlements and payment limits. Payment limits should be set at tolerance levels for authorized personnel in banking system and in accordance with insurance policy coverage; and, 2) implementing the Kinsey & Kinsey security tool (Agreement 17-210 dated 7/18/2017), that assists with improving the security and monitoring of the system, and review each user's profile to identify the nature and extent of access to the Infor system for necessary restricted access and segregation of duties.

Yolo County Division of Internal Audit
Internal Auditor's Report

D. Contingency Plans

GFOA recommends that governments develop, test, and maintain a plan to continue their basic business operations during and immediately after disruptive events. Governments must be able to anticipate problems, detect threats and determine effective protective actions to enable them to continue a function.

Yolo County Office of Emergency Services requires departments to submit an updated Continuity of Operation Plan (COOP) annually around May of each year.

Finding #6: Continuity of Operations Plan

Auditors reviewed the COOP Plan for the Department of Financial Services. The COOP Plan has been created to ensure that the continued operation of essential functions in the Yolo County Department of Financial Services (DFS) during a disaster does not negatively impact the daily operations of its office. The last update of the plan was revised in March 2018. According to the Chief Financial Officer, the 2019 plan is currently under review.

Recommendation 6

The Chief Financial Officer should complete and submit their updated COOP Plan to the Yolo County Office of Emergency Services to comply with the requirement and to ensure that continued operations during and after a disruptive event is mitigated.

Finding #7: Written policy and procedures for wire transfers and ACH enrollments

Wire Transfer Payments: The Treasury & Revenue Division developed a written procedure for handling wire transfers in September 2018. However, the procedure does not have all of the essential components to provide specific and detailed procedures for initiating, approving and executing wire transfer payments.

ACH Enrollments: The Accounting & Financial Reporting Division developed a draft procedure in June 2019 for adding ACH information for a vendor during the vendor registration process or as requested by vendor. However, the procedure does not include key components recommended by the GFOA to mitigate the risk of electronic payment fraud.

Best business practice recommends that the following components be present in the policy and procedures to ensure internal processes are fully documented and understood by staff:

- Reviewing wire request forms for completeness
- Obtaining supporting documentation
- Verifying accounting information
- Verifying bank account information and documenting the verification process
- Processing wire transfers in the US Bank system
- Handling routine wires for processing
- Maintaining updated records for authorized approvers

Recommendation 7

The Division Managers should formally develop, document, and disseminate policy and procedures to provide direction and guidance to staff for handling wire transfer and ACH transactions.

Yolo County Division of Internal Audit
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E. Segregation of Duties

According to best business practices and the COSO framework of strong systems of control, key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

Finding #8: Segregation of duties for wire transfer payments and ACH enrollments

Wire Transfer Payments: One employee at the Treasury & Revenue Division is responsible for initiating/approving wire transfers in the US Bank system. The assigned employee also prepares bank reconciliations, review/approves bank reconciliations prepared by staff, and authorizes wire transfer payments recorded in the general ledger without an additional review by an independent person.

ACH Enrollments: One employee is responsible for maintaining the master vendor file. The assigned employee changes vendor and banking information without an additional review by an independent person.

Recommendation 8

The Division Managers should review the process around the reconciliation of bank accounts and ACH enrollment set-up to ensure that an employee independent of the cash disbursement process reconciles transactions to the bank and the general ledger.



County of Yolo

www.yolocounty.org

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- Financial Strategy Leadership
- Budget & Financial Planning
- Treasury & Finance
- Tax & Fee Collection

- Financial Systems Oversight
- Accounting & Financial Reporting
- Internal Audit
- Procurement

MEMORANDUM

TO: Kim Eldredge, CGAP
Senior Auditor

FROM: Edward Burnham, Treasury & Revenue Division Manager
Merilyn Tiriboyi, Accounting & Financial Reporting Division Manager

DATE: **23-DEC-2019**

AUDIT WORK: Report on the Internal Control Review of Wire Transfers and ACH Transactions, Audit No. 2019-1

SUBJECT: Management Response to Draft Report

In response to the Internal Control Review of Wire Transfers and ACH Transactions for the period of April 1, 2018 to March 31, 2019, our comments are provided below:

Finding #1: ACH payment enrollment process

The ACH Payment Enrollment Form is completed by vendors who want to enroll in the ACH payment process and or add/change their banking information. The form is emailed and or faxed to the Treasury & Revenue Division for receipt and routed to the Accounting & Financial Reporting Division for set-up within the vendor master file. There are currently 360 vendors established for ACH payment. The auditors selected a sample of vendors and reviewed the safeguards and internal controls. The results are illustrated below:

- Supporting documentation for enrollment forms missing or not signed by vendor
- Enrollment forms received by email not encrypted to protect banking information
- Verification not performed prior to making changes to banking information
- Process followed by staff to verify changes to banking information not documented
- Pre-note or other testing mechanisms to verify bank account number not used
- Approval for new and updated payment information not reviewed by management

The Government Finance Officers Association (GFOA) recommends that the ACH payment method be used for high volume, low dollar transactions. The County uses ACH as an alternative payment method and does not have an established limit per transaction. During the audit period, there were 1,764 transactions totaling \$109,528,985 as shown in (Figure 2).

In addition, the auditors found 22 County employees established as ACH payment in the Infor system. The banking information for these employees and other vendors are visible to all Infor system users who have access to AP10 Vendor-List View.

Furthermore, the banking information for the fraudulent activity found on February 7, 2019 was retained in the Infor system until discovered by the auditors. County management has removed the account from the system.

- a. Management position concerning the finding:

Concur Do not concur

- b. Management comments:

Recommendation 1

The Division Managers should review their internal controls over the ACH enrollment process against the “Government Finance Officers Association Advisory for Electronic Vendor Fraud” for recommended safeguards and internal controls to mitigate the risk of fraudulent vendor payment activity and to ensure that the above noted exceptions are addressed. In addition, the Division Managers should review GFOA recommended guidelines and NACHA rules to determine if a dollar limit should be established per ACH transaction.

- a. Management position concerning the recommendation:

Concur Do not concur

- b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management’s recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

The GFOA does not recommend a limit the dollar amount but recommended best practice of high volume payee activity at a minimum for safety and efficiency.

- c. Actual / estimated Date of Corrective Action: 31-MAY-20

Finding #2: Monitoring of ACH transactions

The auditors selected a sample of 20 ACH transactions and verified that the transactions were in compliance with County policy and procedures, contract provisions, and supported by adequate documentation. The exceptions are noted below:

- 4 transactions not supported with an original invoice or any other documentation that detail the description of goods or services purchased
- 3 transactions corrected by department staff on invoice amount

- 3 transactions with no description of business purpose
- 12 transactions not approved by an authorized approving official
- 4 transactions approved with no contract agreement on file

In addition, purchase orders and contract payments processed through the perfect match process in the Infor system are not reviewed by the Accounting & Financial Reporting Division for adequate supporting documentation.

- a. Management position concerning the finding:

Concur Do not concur

- b. Management comments:

See below.

Recommendation 2

The Accounting & Financial Reporting Division should ensure that ACH transactions are supported by sufficient documentation to support the charges against County funds.

- a. Management position concerning the recommendation:

Concur Do not concur

- b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

Temporary random selection and review of transactions by General Accounting Supervisor will be included until full procedures are developed and staff are trained.

- c. Actual / estimated Date of Corrective Action: 31-MAY-20

Finding #3: Changing the default payment method

There were 250 ACH vendors paid through multiple payment methods. All vendors have completed an enrollment form authorizing the County to be paid through ACH. This authorization remains in effect until written notice is received from the vendor to terminate the ACH payment method. Exception was noted within the Infor system that allows users to change the default payment method during payment processing. The multiple payment methods are illustrated below.

Payment Method	Number of Vendors
ACH only	95
ACH and warrant	147

ACH, warrant, and wire transfer	8
Total	250

a. Management position concerning the finding:

Concur Do not concur

b. Management comments:

See below.

Recommendation 3

The Accounting & Financial Division should develop a process to ensure that vendor payments are in agreement with the payment method on file.

a. Management position concerning the recommendation:

Concur Do not concur

b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

Develop standards and implement approval process for exceptions to vendor standard payment method that should remove payment changes from personel that enter invoices during the process if system capabilities allow.

c. Actual / estimated Date of Corrective Action: 31-MAY-19

Finding #4: Handling of wire transfers

The Outgoing Wire Request Form is used by department/agencies to request wire transfers. The form and supporting documents are sent to the Accounting & Financial Reporting Division to ensure compliance, completeness, and proper general ledger recording. The forms are submitted to the Treasury & Revenue Division for approval and release of payment.

The auditors selected a sample of 23 wire transfer transactions and verified that the transactions were in compliance with County policy and procedures, contract provisions, and supported by adequate documentation. The results are illustrated below:

- 2 transactions not accompanied by an Outgoing Wire Request Form. *For those transactions, it was undetermined that the bank account information was keyed correctly by staff or that the payment went to the right bank account.*
- 9 transactions not reviewed/signed by the Accounting & Financial Reporting Division

- 17 transactions not approved by an authorized approving official and/or a contract agreement on file
- 5 transactions not supported with an original invoice or any other documentation that detail the description of goods or services purchased
- 10 transactions for payment transfers to the State/other agencies (worksheet prepared by staff) not reviewed by an independent person to ensure accuracy of calculation for payment amount

a. Management position concerning the finding:

Concur _____ Do not concur

b. Management comments:

N/A

Recommendation 4

The Division Managers should ensure that wire transfers are supported by sufficient documentation to support the charges against County funds and other agencies.

a. Management position concerning the recommendation:

Concur _____ Do not concur

b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Temporary random selection and review of transactions by General Accounting Supervisor will be included until full procedures are developed and staff are trained.

We will revise the current wire transfer procedure to include the special districts. We will also develop a enter agency review and authorization form for all manual calculations to be included on all booked liabilities.

c. Actual / estimated Date of Corrective Action: 31-MAY-20

Finding #5: Access to resources and records

The auditors met with Department of Financial Services management and staff to determine if logical and physical access to the banking website and Infor system is adequately controlled to prevent loss and theft. The following control concerns were noted:

Wire Transfers: The wire transfer process is performed in the US Bank system. The US Bank system has a dual authentication security in place; whereas, a pin code and pass code key is required. The system administrator assigns each user accounts, entitlements, and payment limits.

processes. All payments are approved and evaluated against approval limits within general accounting or special districts prior to submission to treasury for processing.

c. Actual / estimated Date of Corrective Action: _____

Finding #6: Continuity of Operations Plan

Auditors reviewed the COOP Plan for the Department of Financial Services. The COOP Plan has been created to ensure that the continued operation of essential functions in the Yolo County Department of Financial Services (DFS) during a disaster does not negatively impact the daily operations of its office. The last update of the plan was revised in March 2018. According to the Chief Financial Officer, the 2019 plan is currently under review.

a. Management position concerning the finding:

Concur _____ Do not concur

b. Management comments:

N/A

Recommendation 6

The Chief Financial Officer should complete and submit their updated COOP Plan to the Yolo County Office of Emergency Services to comply with the requirement and to ensure that continued operations during and after a disruptive event is mitigated.

a. Management position concerning the recommendation:

Concur _____ Do not concur

b. Management comments:

This is currently under review.

c. Actual / estimated Date of Corrective Action: 3-31-20

Finding #7: Written policy and procedures for wire transfers and ACH enrollments

Wire Transfer Payments: The Treasury & Revenue Division developed a written procedure for handling wire transfers in September 2018. However, the procedure does not have all of the essential components to provide specific and detailed procedures for initiating, approving and executing wire transfer payments.

ACH Enrollments: The Accounting & Financial Reporting Division developed a draft procedure in June 2019 for adding ACH information for a vendor during the vendor registration process or as requested by vendor. However, the procedure does not include key components recommended by the GFOA to mitigate the risk of electronic payment fraud.

Best business practice recommends that the following components be present in the policy and procedures to ensure internal processes are fully documented and understood by staff:

- Reviewing wire request forms for completeness
- Obtaining supporting documentation
- Verifying accounting information

- Verifying bank account information and documenting the verification process
- Processing wire transfers in the US Bank system
- Handling routine wires for processing
- Maintaining updated records for authorized approvers

a. Management position concerning the finding:

Concur _____ Do not concur

b. Management comments:

N/A

Recommendation 7

The Division Managers should formally develop, document, and disseminate policy and procedures to provide direction and guidance to staff for handling wire transfer and ACH transactions.

a. Management position concerning the recommendation:

Concur _____ Do not concur

b. Management comments:

DFS divisions (Budgeting, Procurement, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing procedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

Temporary random selection and review of transactions by General Accounting Supervisor will be included until full procedures are developed and staff are trained.

c. Actual / estimated Date of Corrective Action: 31-MAY-20

Finding #8: Segregation of duties for wire transfer payments and ACH enrollments

Wire Transfer Payments: One employee at the Treasury & Revenue Division is responsible for initiating/approving wire transfers in the US Bank system. The assigned employee also prepares bank reconciliations, review/approves bank reconciliations prepared by staff, and authorizes wire transfer payments recorded in the general ledger without an additional review by an independent person.

ACH Enrollments: One employee is responsible for maintaining the master vendor file. The assigned employee changes vendor and banking information without an additional review by an independent person.

a. Management position concerning the finding:

Concur _____ Do not concur

b. Management comments:

Recommendation 8

The Division Managers should review the process around the reconciliation of bank accounts and ACH enrollment set-up to ensure that an employee independent of the cash disbursement process reconciles transactions to the bank and the general ledg

- a. Management position concerning the recommendation:

Concur Do not concur

- b. Management comments:

DFS divisions (Budgeting, Procurment, General Accounting, and Treasury) will complete a procure to pay process review (with possible risk matrix and narrative) to identify key risks, rate them, and ensure to document management's recommended internal controls to reduce and mitigate risks to acceptable levels.

This will act as a roadmap to developing proceedures and working instructions including steps for the recommended internal controls defined.

Data cleanup will coincide as we are working through this process.

Temporary radom selection and review of transactions by General Accounting Supervisor will be inclued until full proceedures are developed and staff are trained.

- c. Actual / estimated Date of Corrective Action: 31-MAY-20

Yolo County
Division of Internal Audit
Audit Plan
Fiscal Year 2020-2021

No.	Name	Entity	Preliminary Audit Objective/Project Description	Hours	Comments	Status
1	Accounts Payable Audit	Countywide	To assess internal controls over accounts payable to ensure invoicing/payment processes are properly reviewed and complete, valid, and accurate. Includes	300	High-risk area: Implementation of new financial/payroll system. Identified in Infor System Audit.	Planned for April 2021
2	Contracting and Procurement Audit	Countywide	The internal audit activity will work with the Procurement Manager on determining scope of audit.	400	High-risk area: Implementation of new financial/payroll system. Identified in Infor System Audit.	Planned for Nov-Feb 2021
3	Payroll Audit-Carry Forward	Countywide	To assess internal control over payroll processing to ensure payroll is accurate, authorized, reviewed, and duties are properly segregated.	240	High-risk area: Implementation of new financial/payroll system. Identified in Infor System Audit. Review of payroll processes not performed in 9 years.	In-progress; anticipated for completion 11/30/2020
4	Audit Communication with Management and Staff	Countywide	Division weekly meetings, discussions on audit subject matters, and other communications.	280	Requirement - Standard 2200	On-going
5	Follow-up Audits and Testing of Correction Action Plans	Countywide	Monitor progress of the status of audit recommendations. Report to FOC/Audit Committee	200	Requirement - Standard 2500, 2600	Planned for Jan/Feb 2021
6	Whistleblower Hotline and Report of Fraud, Waste and Abuse Policy	Countywide	Develop policy; create incident form on website	80	Best practice	Planned for Feb/March 2021
7	Accounts Receivable-Department Audit	Department	To assess internal control over accounts receivable to ensure receivable accounts are accurate, valid, properly	120	Department selected based on preliminary risk assessment	Planned for Feb 2021
8	Cash-Department Audit	Department-Sheriff	To assess internal control over cash receipts to ensure receipts are safeguarded, deposited, and reconciled with	120	Department selected based on preliminary risk assessment	Planned for Jan 2021
9	Treasury Cash Counts	Department	To count cash in the county treasury (at least once in each quarter).	40	Mandated: Government Code 26920 (a)(1)	In-progress; cash observation completed
10	Continuous Auditing Program	Countywide-Cont Aud	Development of analytics, testing of transactions, and results for two high risk areas (payroll and purchase card). Report to FOC/Audit Committee	340	Divisional Goal- Operation Efficiency	In-progress; anticipated for completion 11/30/2020 (FY19/20); 6-month report 7-12/20 Jan/Feb 2021
11	Accounts Receivable-Risk Assessment	Countywide-Risk Assessment	To perform a preliminary risk assessment to determine audit area and scope of work.	120	Internal audit activity will perform a countywide preliminary risk assessment on accounts receivable and select two (2) high risk individual departments to audit based on the	In-progress; anticipated for completion 12/31/2020
12	Telecommuting Audit	Special Project-Countywide	To determine whether the departments telecommuting arrangements are administered in accordance with the County of Yolo Telecommuting policy and procedures; and, whether the department supervisors were properly monitoring and certifying employee work time to ensure an acceptable level of output resulted from the time spent teleworking.	90	County Management Request	In-progress; testing completed; draft report by 11/20/2020

Yolo County
Division of Internal Audit
Audit Plan
Fiscal Year 2020-2021

No.	Name	Entity	Preliminary Audit Objective/Project Description	Hours	Comments	Status
13	Inter-Governmental Transfer Fund (IGT)	Special Project	To review spending for allowance under partnership plan.	100	County Management Request	Planned for Nov 2020
14	Special Project - YCTD	Special Project	Confidential Audit	60	County Management Request	In-progress; draft report completed, waiting on responses from auditee
15	Food Bank Analysis	Special Project	To determine whether the invoiced amount by the Food Bank agrees to the funding agreement and supporting documentation.	40	County Management Request	Completed
16	COVID-19 Cost Tracking	Special Project	Non-audit services	448	Disaster Service Work	Completed
17	Contingency Reserve	Special Project	Unassigned projects	390	To be determined	Not Started
18	Electronic workpapers	Audit Function	Implementation and training	340	Divisional Goal- Operation Efficiency	In-progress; "Go Live" by 11/2/2020
19	Internal Audit General	Audit Function	Manage the internal audit activity, establish a risk-based audit plan; ensure that engagements are performed with proficiency and due professional care; develop and update policies and procedures. Various general duties- timekeeping, team-building activities (strength finders), etc.	662		Completed two "new" audit policies. Audit Follow-up Policy & Audits Conducted by External Entities and Fiscal Monitoring Review Policy; planned to go to BOS 11/17/2020
20	Continuing Professional Development	Audit Function	Continuing professional development-Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.	120	Requirement - Standard 1230	Currently virtual; Audit Chief's Mtg Co-Host postponed to next 2021
21	Countywide Trainings	Audit Function	Countywide Fiscal Foundations Series: Data Analytics; Ethics & Fraud; Preparing for an Audit; and audit tips-short video clips. Includes development, preparation and instruction.	60	Department Goal	Planned for Jan-June 2021
22	Department of Financial Services General	Administration	Various meetings, employee evaluations, and other events not directly related to the division	292		On-going
23	Financial Oversight Committee	Administration	Support services for the Financial Oversight Committee	140		On-going
24	Estimated staff benefits & leave	Other-Administration	General provisions within the MOU	1258	Memorandum Of Understanding Agreements with Labor Relations	On-going
Total audit & non-audit hours and benefits & leave				6240		

Yolo County



Internal Audit Charter

July 2015

Approved By the Board of Supervisors on July 28, 2015

Article I

Definitions, Names, and Authority

- This document is referred to herein as the “Charter.”
- The County of Yolo is referred to herein as the “County”.
- The County’s Audit Sub-Committee (Committee) members are board appointed and serve a two-year term. The Committee consists of two members of Board of Supervisors that serve concurrently on the Financial Oversight Committee, the Chief Financial Officer or designee, and the County Administrator or designee. The Audit Committee’s roles and responsibilities are defined in this Charter. The Committee serves as advisory to the full Board of Supervisors.
- The County’s Management referred to herein to mean all levels of management at the County.
- The County’s Internal Audit Division performs internal and external auditing activities and reports to the Committee. This Division is herein referred to as the “Internal Audits”.
- The Internal Audit Manager of the Internal Audit Division is herein referred to as the “Chief Auditor”. The Chief Auditor is a senior position responsible for effectively managing Internal Audit’s internal audit activities in accordance with this Charter and with the Definition of Internal Auditing, the Code of Ethics, and the Standards as defined within the International Standards for the Professional Practice of Internal Auditing, and other professional standards.
- The County Administrator, Chief Financial Officer (CFO), the Chair of the Board of Supervisors, the Chair of the Committee, and the Chief Auditor are herein referred to as “Acknowledging Officers” in regards to their role in overseeing the internal audit activity.
- The International Standards for the Professional Practice of Internal Auditing herein referred to as the “ISPPA is the authoritative standards for the practice of internal auditing. These authoritative standards are produced by the International Internal Auditing Standards Board (IIASB).”

The ISPPA is recognized as the authoritative standards and promulgated by the *Institute of Internal Auditors (IIA)* as *internal audit standards for internal auditing*, referred to herein as the “Standards.” While this Charter is not intended to fully reiterate the Standards, it is intended to be consistent with the Standards and should be interpreted in a manner consistent with those standards. The Standards not directly incorporated into this Charter shall nonetheless be fully and appropriately applicable to the County’s Internal Audits. The County’s Internal Audit Division also considers guidance from industry practices and other relevant sources as deemed appropriate and reasonable in relation to the County’s needs, including but not limited to the Generally Accepted Government Auditing Standards (GAGAS), Generally Accepted Auditing Standards (GAAS), California Government Code, Administrative Manuals, and other applicable authorities.

Authority

Passage of Senate Bill (SB) 1452 resulted in updates to internal auditing standards for state and local agencies and establishes a process enabling the Legislature to be informed when State Auditor recommendations are being ignored or not implemented by agencies. Additionally, it creates a framework to protect internal auditors from intimidation while providing them with a process to have audit expectations reported if audit findings are suppressed by management.

Further, the passage amends Government Code (GC) 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.

The passage amends Government Code section 1237 to require all state and local agencies with an aggregate spending of fifty million dollars or more annually to consider establishing an ongoing audit function; and the passage adds Government Code section 8546.2 to require all state and local government entities, including any special districts, to provide updates on the progress in implementing any recommendations made by the State Auditor, at intervals prescribed by the State Auditor.

The County's Internal Audit Division has selected the Internal Auditing Standards as a primary basis for planning and conducting its audit activities. Therefore, such standards are incorporated by reference into this Charter.

Additionally, the county or its agencies will incorporate and consider, where applicable guidance from other relevant sources. Therefore, in conducting its audit activities, the County's Internal Audit Division will also consider sources including, but not limited to: Generally Accepted Government Auditing Standards (GAGAS), Generally Accepted Auditing Standards (GAAS), the California Government Code, the County's Administrative Manuals, the County's established policies and procedures, and other applicable authorities.

Article II

Section 1 - Purpose of this Charter

This Board of Supervisors approved and adopted Charter establishes the responsibilities, reporting lines, and protocols of the Internal Audit Division; it establishes the County's objective and provides for uninhibited and complete discretion to fulfill its objective, with procedural remedies to remediate obstacles and issues. This Charter also delineates the reporting lines of the Internal Audit Division, the roles and approval of the Financial Oversight Committee (FOC) and Audit Sub-Committee, and acceptance by the Chief Auditor.

Section 2 - Objective of the Independent Committee

The County established an Audit Sub-Committee (Committee) that consist of elected officials to further ensure independence around the internal audit functions. The internal audit functions are designed to include timely reporting of significant issues to appropriate oversight authorities. The Committee's members consist of the two board members that also serve on the Financial Oversight Committee. The Committee serves as an advisory to the full Board of Supervisors. The Committee will help to ensure the internal audit division is independent of management. Specific responsibilities of the Committee vary depending on the form of review, type of reporting requirements, or the matter under consideration. The Committee has authority to request a review be conducted and/or authorize investigations into any matter within its scope of responsibility. It is specifically empowered to appoint and oversee the work of the public accounting firm employed by the County to perform the annual audit, and to resolve disagreements between management and the auditing firm regarding any audit findings or recommendations.

Section 3 - Objective of the Internal Audit Division

The objective of the Internal Audit Division is to serve as the County's oversight function that objectively evaluates and recommends improvements to the County's internal control structure, prioritizing its efforts by continuously facilitating an objective risk assessment. This objective is consistent with that as defined by the Standards. The Committee and Acknowledging Officers recognize the importance of an internal/external audit function and adopt this objective for the County's Internal Audit Division.

The Internal Audit Division also performs external reviews of contracts or service programs of entities that are awarded funds overseen by the County. The Internal Audit Division performs investigative or special reviews at the request of The Committee, Management, and/or in accordance with various laws, statues, and regulations such as the California Government Codes, and regulations, and other applicable authorities.

Additionally, the Internal Audit Division performs non-auditing consulting services, works with management in supporting the tone set at the top, evaluates and analyses data, reviews processes for efficiency, provides guidance, training and development to the county and its government components, and provides subject expert guidance to internal and external customers, etc.

Article III

Section 1 - Responsibility and Protocols

The Committee recognizes that it is ultimately responsible for establishing and monitoring the risk tolerance of County. The Chief Auditor shall from time to time advise the Committee on existing and evolving governance practices as could be best suited for the County. The Acknowledging Officers recognize that management is responsible for the County's internal control structure, and thus is also responsible for creating and maintaining an adequate system to serve as the basis for designing, monitoring, and evaluating its internal control structure. To evaluate management's internal control systems, the Internal Audit Division shall be provided with uninhibited and complete:

- discretion to fulfill its objective; and
- access to all organizational records, data, information, assets, and personnel.

The Chief Auditor shall have open and direct access to the County's Administrator, Board of Supervisors, the Chief Financial Officer, the County Management, the Committee, and the County's staff.

The Chief Auditor shall be free to document and communicate without interference or influence, specific policies and procedures best suited for managing the Internal Audit Division.

The County's Management and staff shall be obligated to respond to the Internal Audit Division's inquiries and recommendations, formal and informal, and in a timely and diligent manner. Excessive requirements for management authorizations or permissions are deemed to inhibit access. The Chief Auditor has the discretion to disclose and refrain from disclosing any reasons for requests placed upon management and staff.

The Chief Auditor shall report disagreements with management and instances in which a request for access or response is not granted or provided in a reasonable time, format, and manner to the Committee.

The Internal Audit Division shall hold data and information obtained during the course of its audit activities with due care and the appropriate level of confidentiality. The Chief Auditor shall, for good cause, have authority to grant, limit, and restrict access to work papers and records.

Section 2a – Scope and Duties of the Internal Audit Division- Audit Services

The auditors shall have authority to conduct financial and performance audits of all departments, divisions, boards, activities, agencies and programs of the entity in order to independently and objectively determine whether:

1. Activities and programs being implemented have been authorized by the appropriate governing laws or codes, state or local law, or applicable federal law or regulations.
2. Activities and programs are in compliance, properly conducted, and funds expended in accordance with the applicable laws.
3. The county's departments, divisions, or agencies are acquiring, managing, protecting, and using its resources, including public funds, personnel, property, equipment, and space, economically, efficiently, equitably, and effectively, and in a manner consistent with the objectives intended by the authorizing entity or enabling legislation.
3. The entity, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices.
4. The desired result or benefits are being achieved.
5. Financial and other reports are being provided that disclose fairly, accurately, and fully all information required by law, to ascertain the nature and scope of programs and activities, and to establish a proper basis for evaluating the programs and activities including the collection of, accounting for, and depositing of revenues and other resources.
6. Management has established adequate operating and administrative procedures and practices, fiscal and accounting systems, and an adequate system of controls or internal management controls; and
7. Indications of fraud, abuse, waste, misappropriation, or illegal acts are valid and need further investigation.

Section 2b – Scope and Duties of the Internal Audit Division- Non-Audit Services

The Internal Audit Division supports the tone at the top by offering the County's Management and staff the following non-audit services:

1. Provides non-auditing consulting, guidance and recommendations;
2. Provides training and development on fiscal policies, systems of controls, or other processes;
3. Analysis of data, reviews of program processes, and provides insight on financial forecasting and projections;
4. Reviews and makes recommendations on contracts, or other program agreements;
5. Reviews processes and procedures to improve efficiency and ensure source documents are sufficient and supportive of funds expended;
6. Assists in developing automated tracking systems and design support upon request;

7. Provides guidance and/or review of management's strategic plans to ensure alliance with the overall County's plan; and
8. Provides internal and external customer support on subject matters, etc.

Section 3 – Risk Assessment and Planning

The Chief Auditor shall facilitate and conduct a risk assessment process to assist management to logically identify key risks within the County and its components, and shall annually present and discuss the risk assessment to the County Administrator, the Chief Financial Officer, and the Committee to receive input and feedback. As part of the aforementioned process, the Chief Auditor shall receive direction and input from the Chief Financial Officer, and the Committee as to the risk factors that the Committee deems most important to the County. The Chief Auditor shall then develop an annual audit plan based on a management self-risk assessment and overall countywide risk assessment, and present the audit plan to the Committee for its review, input, and approval. Annually, the Chief Auditor shall present the results of a continuous monitoring of identified risk and the status of management's corrective actions to the Committee, with necessary adjustments proposed to the audit plan for its review, input, and approval. The Committee and Chief Auditor recognize that the audit plan shall be continuously risk-based, and not coverage-based, and optimal audit plans continuously change in response to shifting perceptions and outcomes of risk.

The Committee recognizes that the internal auditors competently achieve the objective of an internal audit function with the probability and timeliness of risk identification generally being in direct proportion to that risk's impact on the organization. As such, it is further recognized that:

- Timeliness is relevant to the Committee's risk tolerance and prioritization within the risk assessment; and
- The identification of risks is subject to change and interpretation; therefore the standard of competence does not ever require certain and complete identification of any and all risks.

Article IV

Section 1 – Objectivity and Reporting Structure

The Chief Auditor is fully accountable and reports functionally directly to the Committee. The Committee will meet with the Chief Auditor at least semi-annually in general session and privately, ideally in person but nonetheless through any other reasonable means. For administrative purposes, the Chief Auditor reports directly to the Chief Financial Officer.

The Internal Audit Division shall not assume organizational responsibilities or authority outside County, and therefore will not:

- assume organizational responsibilities
- perform management functions, procedures, reporting, tracking and accounting
- design or execute controls or processes
- render organizational decisions

Similarly, the Internal Audit Division shall not in any way utilize its resources to relieve or subsidize other persons or functions in the County that would create an impairment of independence.

The Committee and the Chief Auditor recognize that activities that are performed by the Internal Audit Division and are of an objective nature including repetitive audits, audits “required” of management, and audits that take on more of a monitoring function rather than an assessment, shall not serve as a substitute for management controls, as an adequate internal control structure should not dictate the performance of any audit.

The Chief Auditor shall disclose to the Chief Financial Officer and the Committee, any and all requested, proposed, and performed activities that are deemed as not taking the form of an objective internal audit activity, for their acceptance or rejection.

Management shall not separately and distinctly allocate the cost of the Internal Audit Division to other County cost centers. However, cost associated with a particular audit, review or other services may be charged directly to an entity based on the published rate per hour or charged by project.

Section 2 – Independence

When establishing an audit function, it is very important to be explicit in protecting auditors’ impartiality and objectivity in conducting their work so decision-makers and the public can rely on audit findings and recommendations. For example, managers of functions that may be audited should not have authority over the work of auditors. In order to be independent in fact/matter and appearance, auditors must be free from conflicts of interest and free from interference in how the work is conducted and reported. Auditors must have systems in place to identify, safeguard against, or report threats to independence. The Government Auditing Standards identify seven types of threats to independence that the Division of Audit shall endeavor to avoid:

- Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor’s judgment or behavior;
- Self-review threat - the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit;
- Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective;
- Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective;
- Undue influence threat - the threat that external influences or pressures will impact an auditor’s ability to make independent and objective judgments;
- Management participation threat - the threat that results from an auditor’s taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit; and
- Structural threat - the threat that an audit organization’s placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit.

Section 3 - Competence

The Chief Auditor shall document and communicate specific requirements for professional credentials, including education and certifications, experience, and ongoing professional development. The Chief Financial Officer, the Committee, and the Chief Auditor recognize that the

practice of internal auditing can be competently executed by individuals of a variety of experiences and credentials. The Internal Audit Division shall be comprised of a sufficient number of individuals with internal control credentials and/or experience, and ideally of a variety of credentials and/or experiences. The Chief Auditor shall determine the minimum amount of relevant training required for the internal audit practitioners (in accordance with government code, principals, and the standards). The Chief Auditor shall have documented applicable procedures in place that deliver appropriate supervision, coaching, performance appraisals, and training to the internal audit practitioners within the Internal Audit Division.

The Chief Auditor shall continuously and annually review the general level of compliance to the key components of the adopted standards and the function's policies and procedures. Annual reviews shall be based on key attributes deemed most important by the Chief Auditor and the Committee. Such reviews shall take the form of a condensed internal self-assessment.

Additionally, the Chief Auditor shall ensure that there is a periodic assessment of comprehensive compliance to the key components of the adopted standards and the function's policies and procedures.

The results of the periodic assessment shall be presented to the Committee by the Chief Auditor and administrative report-direct for an internal assessment or the third party representative when a third party performs the assessment.

Article V

Fraud

The Committee recognizes that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Committee recognizes that internal audit practitioners and therefore the Internal Audit Division are not responsible to identify fraud.

The Committee and the Chief Auditor recognize that internal audit practitioners should be competent to consider fraud risks that result from reviews of the line functions at the County and the government components as well as factors external to the County for the purposes of continuous audit planning and project planning and scoping. Moreover, should the auditor become aware of potential fraud during a review, the auditor would be expected to report the matter to the Committee, and the appropriate management, and further investigate the matter.

Management shall be responsible to report to the Chief Auditor and the Committee any and all suspected incidences of fraud reasonably believed to have occurred. The Chief Auditor shall perform and monitor all investigations and determine if the reported incident is substantiated. Management shall provide regular updates to the Chief Auditor for all suspected and actual incidences of fraud, whether or not investigations are conducted as a result. This will aid the Chief Auditor in maintaining awareness of all potential risks and control weaknesses within the County, particularly to help to determine and recommend improvements to internal controls to reduce future vulnerability; and contemplate new audit procedures that may be deemed necessary to be performed in future audit work to assess the risk of repeated or similar fraud.

Article VI

Reporting and Follow-Up

The Chief Auditor shall have procedures in place to ensure that reported conclusions and opinions are supported with adequate, competent, and sufficient internal audit work.

The Chief Auditor *shall not issue an opinion* on the internal control structure. The Committee recognizes that an organization's internal control structure is comprised of and affected by many internal and external activities and elements, all of which are subjected to variability in effectiveness. The Committee further recognizes that any opinion on the overall internal control structure of an organization would be inherently subject to excessive uncertainty, regardless of the adequacy, competency, and sufficiency of internal audit work.

The Internal Audit Division shall communicate results of its work and otherwise known issues to management and the Committee. The Chief Auditor shall form and report appropriate opinions based on audit evidence. Management shall provide responses to issues in a prompt and efficient manner. Written reports shall be distributed to the County Administrator, the Chief Financial Officer, the Board of Supervisors, and the Committee, if appropriate for reports containing significant issues or when there is a disagreement with management other than minor in nature. The Chief Auditor shall provide summary information to the Committee pertaining to issues resulting from internal audit procedures as well as known issues outside of internal audits scope of review. Additionally, the Chief Auditor shall provide the Committee with an annual assessment as to the effectiveness of management's attention to resolving internal control issues.

The Committee shall approve the processes pertaining to follow-up audit procedures, if appropriate. The Chief Auditor shall have procedures in place to track, monitor, and evaluate the status of internal control issues with a tracking mechanism and with consideration to the risk of each issue and the cost and benefit of various audit procedure alternatives.

Article VII

Amendments

Amendments shall be brought to the Board of Supervisors for approval as needed.



BEST PRACTICES

Audit Committees

Establish audit committees, made up of appropriate audit committee members, that are responsible for review, oversight, establishing procedures, and providing a written report.

Three main groups are responsible for the quality of financial reporting: the governing body,¹ financial management, and the independent auditors. Of these three, the governing body must be seen as first among equals because of its unique position as the ultimate monitor of the financial reporting process.² An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.³

GFOA makes the following recommendations regarding the establishment of audit committees by state and local governments:

- The governing body⁴ of every state and local government should establish an audit committee or its equivalent;
- The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible⁵ for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.⁶ Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. The written documentation establishing the audit committee should prescribe the scope of the committee's responsibilities, as well as its structure, processes, and membership requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;⁷
- Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.⁸ The audit committee also should have access to

the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions;⁹

- All members of the audit committee should be members of the governing body. To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee;
- An audit committee should have sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation. As a general rule, the minimum membership of the committee should be no fewer than three;¹⁰
- Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism;
- It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors;¹¹
- The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans;
- The audit committee should present annually to the full governing body a written report of how it has discharged its duties and met its responsibilities. It is further recommended that this report be made public and be accompanied by the audit committee's charter or other establishing documentation;
- The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters.¹² The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls¹³;
- The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as necessary to fulfill its responsibilities¹⁴; and
- In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private,¹⁵ and privately among committee members,¹⁶ and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations.

Notes:

1. For the purposes of this recommended practice, the term "governing body" should be understood to include any elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do not exercise managerial responsibilities within the scope of the audit. The term governing body also is intended to encompass appointed bodies such as pension boards.
2. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Overview and Recommendations.
3. Securities and Exchange Commission (SEC) Regulation 33-8220, Background and Overview of the New Rule and Amendments.
4. For the purposes of this recommended practice, the term "governing body" should be understood to include any other elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do *not* exercise managerial responsibilities within the scope of the audit. The term "governing body" also is intended to encompass appointed bodies such as pension boards.
5. Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.
6. Sarbanes Oxley Act, Section 301.
7. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 4.
8. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 3. Continuity typically is a positive factor in achieving this goal, a fact that should be kept in mind when considering the appropriate length of service for audit committee members.
9. Sarbanes-Oxley Act, Section 407.
10. In certain limited instances, as noted later, the audit committee will need to meet privately to achieve its goals. If the audit committee constitutes a majority of the governing body, such private meetings may be hampered by sunshine laws and similar open meetings legislation.
11. SEC Regulation 330-8220, Background and Overview.
12. Sarbanes Oxley Act, Section 301.
13. *Internal Control Integrated Framework: Guidance on Monitoring Internal Control Systems* (Discussion Document of the Committee of Sponsoring Organizations COSO, 2007), page 10.
14. Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.
15. It is important that the audit committee be able to meet privately with the independent auditors, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such encounters in these limited circumstances.
16. It is important that audit committee members be able to meet privately among themselves, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws

and similar open meetings legislation to permit such an encounter in these limited circumstances.