



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Department Name:** Auditor-Controller  
County Executive Office  
**Department No.:** 061, 012  
**For Agenda Of:** March 20, 2018  
**Placement:** Administrative  
**Estimated Time:**  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** Majority

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**TO:** Board of Supervisors  
**FROM:** Department Theodore A. Fallati CPA CPFO, Auditor-Controller  
Director(s) Mona Miyasato, County Executive Officer  
Contact Info: David A. Medrano CPA CFE CIA, Internal Audit Chief  
**SUBJECT:** Adoption of County Internal Control Policy

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**County Counsel Concurrence**

As to form: N/A

Other Concurrence:

As to form: N/A

**Recommended Actions:**

That the Board of Supervisors:

- (a) Adopt the County Internal Control Policy (Attachment A) and the supporting Internal Control Framework (Attachment B).
- (b) Determine that the above actions are not a project under the California Environmental Quality Act (CEQA) pursuant to Section 15378(c) of the CEQA Guidelines because they consist of the creation of government funding mechanisms which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

**Summary Text:**

A system of internal control is a broad, cohesive, enterprise-level process cultivated by the Board of Supervisors (Board), Management (i.e. Department Heads), and other personnel, and it consists of the following five critical components (Components), all of which must be present and functioning toward the achievement of the County's objectives:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Internal controls are an important element within a system of internal control, and they are the work processes and safeguards that are put in place to provide Management and the Board with reasonable, though not absolute, assurance that:

- Assets are safeguarded
- Transactions are recorded and reported in conformance with generally accepted accounting principles and the County's accounting policies,
- Business is conducted in compliance with laws, regulations, and the County's policies and procedures
- Operations are efficient, effective, and safe

This Policy establishes a set of Management Operating Standards ("Standards") pertaining specifically to internal control for which compliance shall be required. These Standards serve to enhance Management focus, resources, efforts, actions and activities within and among each of the Components noted above. The Internal Control Framework is integral and interrelated to this Policy, and serves as a technical guide to aid in enhancing organizational maturity toward a more formalized, structured and transparent system of internal control.

Adoption of this Policy and its Framework will serve to incorporate the County's existing control policies, while guiding the continued development and administration of a comprehensive, effective system of internal control within the County. Through its design, this Policy serves to encourage the development of periodic, department-level self-assessments of internal controls; it introduces a set of Guiding Principles against which Departments can evaluate their existing practices to identify and remediate significant gaps that may exist with these Guiding Principles.

The Auditor-Controller is engaging in several measures to facilitate the implementation and operationalization of this Policy including but not limited to:

- Disseminating the Policy to Departments,
- Posting the Policy on the County intranet,
- Briefing Department Directors on internal control,
- Providing training on internal control to Department Chief Financial Officers; and,
- Providing training classes on internal control at the County's employee university

Management shall be responsible for establishing, maintaining and promoting an effective system of internal control consistent with the Policy and its related Internal Control Framework. The actions required of Management will vary depending upon the work processes, assets and risks to be managed by each Department. Those factors, together with the Internal Control Framework should be considered by Management to determine the Control Activities, Risk Assessments, Information and Communications processes, and Monitoring activities required for each of their respective Departments to comply with the Policy.

**Background:**

Risk is the possibility that an event will occur, which will adversely impact the County's achievement of its objectives. Risk impedes fulfilling the County's Mission, achieving County objectives, and inhibits success with respect to public accountability.

A system of internal control is a broad, cohesive, enterprise-level process cultivated by the County's Board, Management, and other personnel; it is a well-regarded management concept, which when designed and operating effectively, can be a beneficial management tool to help manage Risk and provide reasonable, though not absolute, assurance regarding:

- the safeguarding of County assets,
- the reliability of financial reporting,
- the County's compliance with laws and obligations,
- the efficiency and effectiveness with which County operations are conducted

All organizations are subject to the risk that their established internal controls will fail at some point; it is through this system of internal control that risks, both within and external to an organization, can be methodically identified and evaluated, and their significance to the organization determined, so as to develop remediation actions where appropriate. An effective system of internal control, which this Policy strives to support, can serve to heighten success with respect to achieving the County's mission and Department level objectives.

Adoption of an internal control policy is considered a best practice recommended by the Government Finance Officers Association, and would demonstrate to interested stakeholders the County's adherence to Internal Control Guidelines promulgated by the California State Controller.

**Impacts:**

Budgeted: No fiscal impact as a result of the adoption of this Policy

**Staffing Impacts:**

**Legal Positions:**

**FTEs:**

**Attachments:**

A: Internal Control Policy

B: County Internal Control Framework

**Authored by:** David A. Medrano CPA CIA CFE

**cc:** Department Heads