

# Attachment

# Fiscal Year 2022-2023 Internal Audit Plan

## County of Santa Barbara Office of the Auditor-Controller

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## Overview

The Internal Audit (IA) Division of the County of Santa Barbara's Office of the Auditor-Controller is pleased to present, in accordance with the *County's Internal Audit Charter* and the *International Standards for the Professional Practice of Internal Audit* requirements, the proposed fiscal year (FY) 2022-2023 IA Plan (Plan) for the period of July 1, 2022 through June 30, 2023.

## Mission, Purpose, Authority, and Responsibility

In May 1961, the County enacted California Government Code §26883, authorizing the Auditor-Controller to audit the accounts and records of any department, office, board or institution under control of the County Board of Supervisors (BOS) and of any district whose funds are kept in the County treasury. The IA Division was subsequently established in order to fulfill the auditing responsibilities assigned to the Auditor-Controller.

The mission of the IA Division is to provide reliable, independent, objective assurance and consulting services to County management, the BOS, and other County stakeholders. The IA Division strives to provide expertise and evaluate and improve the effectiveness of internal controls and other processes, minimize risks, and enhance operational effectiveness for County stakeholders; as well as contribute to protecting and safeguarding County resources and assets.

The primary goals and responsibilities of the IA Division include:

- To provide IA services to County Management, the BOS, and other County stakeholders.
- To be trusted advisors to key County stakeholders by helping to continuously improve upon County practices in the areas of governance, risk management, and compliance.
- To deliver value by providing insight that helps management design the County's operations and processes to more successfully accomplish control objectives of reliability of financial reporting, compliance with laws and regulations, efficiency and effectiveness of operations, and safeguarding of assets.
- To develop highly proficient audit professionals to assist management in determining whether the County is operating effectively, efficiently, and in compliance with applicable policies, procedures, and regulations.

IA Division engagements are generally categorized as follows:

- *Mandatory Engagements*
  - Engagements mandated by California Government Code, County BOS Resolution, etc.



- *Discretionary Engagements*
  - Discretionary engagements make up the majority of budgeted hours within the Audit Plan as they allow the IA Division the opportunity to undertake projects that, while not required by any code, resolution or statute, represent opportunities for process improvement, review of controls, compliance review, etc. The selection of discretionary engagements is based on a myriad of factors including management requests, the receipt of confidential information, risk assessment, etc. Examples of discretionary engagements include internal control reviews, special projects, information technology audits, consulting activities, etc.
- *Administration Activities*
  - This category includes activities such as annual BOS reporting, staff training & development, engagement management, planning, and general IA Division administration.

## Independence

The IA Division consists of a Division Chief, a Supervisor, and two staff accountant-auditors (NOTE: one staff accountant-auditor position is currently vacant but in the process of being filled) who report directly to the Auditor-Controller. The Auditor-Controller maintains organizational independence through election to the position by the constituents of the County.

In accordance with California Government Code §1236, IA Division staff are to be independent of activities under audit or review and are to have no direct operational responsibility or authority over any of the activities audited or reviewed. Accordingly, IA Division staff will not implement internal controls, install systems, prepare records, or engage in any other activity that may compromise independence or impair judgement.

IA Division staff exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. IA Division staff will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

In order to confirm independence on an engagement by engagement basis, Statements of Independence are completed for each individual engagement by applicable IA Division staff assigned to the engagement.

## IA Charter

The IA Charter was approved by the BOS on June 5, 2018 and formalized the mission, purpose, authority, scope of duties, and responsibilities of the IA Division. The IA Charter also outlines professional standards the Division must adhere to as well as establishes Division governance and standards for independence and objectivity.



## FY 2021-2022 Internal Audit Plan Status

The following completed projects/engagements (unless otherwise noted with an \*) outlined in the FY 2021-2022 IA Plan are as follows, as of June 30, 2022:

### Mandatory Engagements

1. Tax Redemption Officer Audit
2. Whistleblower Hotline Administration and Management
  - See page 9 for Whistleblower Hotline Results
3. Cash & Investment Reviews for the Statement of Assets of the Santa Barbara County Treasurer's Investment Pool – Quarter (Q1), Q2, and Q3
4. Quarterly Unannounced Cash Counts – A total of twenty (20) cash counts performed on a quarterly basis over the course of a year for the following departments and locations:
  - Community Services – Lake Cachuma and Jalama Beach
  - Treasurer-Tax Collector – North and South County locations
  - Public Works – Santa Barbara and Santa Ynez Transfer Stations
  - Public Health – North and South County Animal Services, Environmental Health Services, and Health Care Center locations

### Discretionary Engagements

#### Ongoing Routine/Recurring Discretionary Engagements

1. FY 2020-21 First 5 Santa Barbara County Children and Families Commission Financial Statement Compilation
2. Petty Cash Reviews
3. Agency Fund Reviews
4. Board Contract Review\*

#### One-Time Discretionary Engagements

1. Credit Card Administration Review\*

### Administration Activities

1. Annual Lost & Stolen Property Report
2. Annual External Audit Monitoring Report
3. Annual Report of \$200K+ Disbursements to Vendors
4. Annual Cash Shortages and Overages Report

\*In Progress as of June 30, 2022



## FY 2022-2023 Internal Audit Plan

The FY 2022-2023 IA Plan has been developed to determine the upcoming priorities of the IA Division of the Auditor-Controller’s Office for the period of July 1, 2022 through June 30, 2023. As we continue to operate in a dynamic and ever-changing environment where COVID-19 related impacts are still being felt, there should be an understanding that flexibility related to the Plan may be required. In addition, the IA Charter allows for the performance of “other non-core work activities as needed by the Board and County management, in support of core work activities, and within the Definition of Internal Audit and Scope of Duties.” As such, the proposed IA Plan may necessitate adjustment during the course of FY 2022-2023.

Several factors were considered while developing the FY 2022-2023 IA Plan, including:

1. Engagements (Audits, Reviews, etc.) mandated by California Government Code and/or County BOS Resolutions;
2. Consultations with County management;
3. Available IA Division staff hours; and
4. FY 2018-2019 Enterprise Risk Assessment

### IA Division Staff Hours

Total IA Division Staff Hours Available*	8,320
Estimated Holiday/Vacation/Sick Leave Taken	- 1,260
	7,060
	7,060

\*2,080 hours x 4 IA Staff = 8,320 Total IA Division Staff Hours Available

\*\*1 Accountant-Auditor position is currently vacant but in the process of being filled



FY 2022-2023 Audit Plan Detail

#	Project/ Engagement	Engagement Objective	Est. Hours
<b>Mandatory Projects/Engagements</b>			
M1	Quarterly Treasurer’s Statement of Assets (Cash and Investment) Reviews	Pursuant to California Government Code 26920 and Santa Barbara County Code 2-23.2, the quarterly Cash and Investments Reviews determine whether cash and investments shown on the Statement of Assets of the Santa Barbara County Treasurer's Investment Pool are reasonably stated and do not appear to require any material adjustments. Cash and Investments Reviews will be performed for the quarters ending September 30, 2022; December 31, 2022; and March 31, 2023.	<b>400</b>
M2	Quarterly Cash Counts	Quarterly unannounced cash counts are performed at various County departments to verify change fund balances and determine compliance with County Cash Handling Guidelines for change funds.	<b>400</b>
M3	Whistleblower Hotline Administration and Management	Per County BOS Resolution 11-432, which established the County's Fraud, Theft, and Loss Policy, and California Government Code §53087.6 which authorizes local governments to create whistleblower hotlines, the County’s Whistleblower Policy was created to establish the County's Whistleblower Hotline (Hotline). The purpose of the Hotline is to allow for confidential reporting by employees, vendors, constituents, etc. of incidents of suspected fraud, waste, and abuse. The IA Division administers the Hotline and is responsible for the evaluation and assessment of the reported incidents in order to determine whether incidents should be investigated directly or referred to appropriate County management and/or external entities (ex: local police). County Counsel and the Chief Executive Officer are also privy to Hotline reporting.	<b>500</b>
<b>Discretionary Projects/Engagements</b>			
D1	Whistleblower Hotline Quarterly Reporting	Quarterly reports to provide brief summation of whistleblower cases reported during the quarters ending September 30, 2022; December 21, 2022; March 31, 2023; and, June 30, 2023.	<b>150</b>
D2	First 5 Santa Barbara County Children and Families Commission Financial Statement Compilation	Compile the financial statements for the First 5 Santa Barbara County Children and Families Commission (First 5) and act as an intermediary between First 5 and Brown Armstrong, the County's external audit firm, during the course of the annual audit.	<b>250</b>
D3	Board Contract Reviews	Annual reviews of high profile and/or high-risk Board contracts are performed to determine compliance with Public Contract Code (if applicable), County purchasing policies and procedures, contract terms, contract performance, etc.	<b>250</b>



D4	General Ledger Transactions Testing	Review of automated transactions processed within the County's general ledger application (Financial Information Network; FIN) for accuracy and authorization.	<b>150</b>
D5	Department Petty Cash Reviews	Annual reviews to determine compliance with the County's Petty Cash (Imprest Cash Control) Policy and the County's Cash Handling Guidelines. The reviews are unannounced and will be performed for various departments throughout the fiscal year.	<b>400</b>
D6	Accounts Receivable Reviews	Annual reviews to determine compliance with the County's Financial Reporting Policies for accounts receivable. The reviews will be performed for various departments throughout the fiscal year.	<b>500</b>
D7	Review of Internal Controls Over Warrants (Paper Checks)	The IA Division will review the internal controls for the warrant issue and printing process of Departments and entities that use the Auditor-Controller's signature to issue and print their own warrants.	<b>100</b>
D8	Controlled Capital-type Items (CCI) Reviews	Department level CCI reviews will focus on controls over assets that are not capitalizable but fall within the following categories: 1) Items that require special attention to ensure legal compliance; 2) Items that require special attention to protect public safety and avoid potential liability; 3) Items that require special attention to compensate for a heightened risk of theft. The reviews will be performed for various departments throughout the fiscal year.	<b>400</b>
D9	Special District Monitoring and Assistance	Provide ongoing monitoring and assistance to the County's various independent Special Districts.	<b>250</b>
D10	County Owned Art and Historical Items Inventory	Compile a comprehensive inventory of all County owned art and items of historical significance. Determine the location, fair market valuation, etc. of each item while assessing controls related to the safeguarding of the items.	<b>250</b>
D11	County Owned Land Inventory and Use Study	Compile a comprehensive inventory of all County owned land. Determine the responsibility and usage associated with each property.	<b>250</b>
D12	Employee Benefits Study	Perform study to gain understanding of how both employee and employer benefit (specifically Health Insurance) costs are determined. This study will include the collection of data and rates from similar organizations for comparative purposes.	<b>300</b>
D13	Reserved for Requested Projects & Engagements	IA Division hours are set aside on an annual basis in order to allow for attention to special requests, management requests, and unforeseen assistance on projects/engagements.	<b>1,050</b>
<b>Administration Activities</b>			
A1	Cash Shortages and Overages Monitoring	Continuous monitoring of cash shortages and overages will be performed throughout the year. Per County Cash Handling Guidelines, shortages and overages in excess of \$50 must be reported to the Auditor-Controller. The IA Division will review the facts and circumstances related to \$50+ shortages and overages and will follow up accordingly with applicable Department management.	<b>150</b>





A2	External Audit Monitoring	Per the County's External Audits Policy, all audit reports prepared by outside audit agencies should be provided to the IA Division in a timely manner in order to allow for review of the results and findings. The IA Division should also be made aware of all audit entrance and exit conferences as attendance at these conferences may occasionally be necessary and can be determined on an audit by audit basis. At fiscal year-end, an annual External Audit Monitoring report will be prepared for the BOS summarizing any risks and overall observations of external audits performed throughout the fiscal year.	<b>150</b>
A3	Lost and Stolen Property Reporting	Per the County's Fraud, Theft, and Loss Policy, all instances of lost and stolen property are to be immediately reported to the IA Division. Lost and stolen property reporting will be tracked throughout the year and an annual Lost and Stolen Property Report will be prepared for the BOS.	<b>250</b>
A4	Annual Report of \$200K+ Disbursements to Vendors	Annual fiscal year-end report presented to the BOS detailing individual payments to vendors made during the fiscal year that were in excess of \$200,000.	<b>100</b>
A5	Review and Update IA Procedures	IA procedures will be reviewed and updated accordingly to align with revisions made to IIA Standard 2040-Policies and Procedures.	<b>100</b>
A6	Risk Assessment	Pursuant to the County's IA Charter, the IA Division conducts a risk assessment for the IA Plan that is used as a component of the annual Audit Plan.	<b>100</b>
A7	Internal Audit Training and Development	IIA professional standards requires internal auditors to complete annual continuing professional education. IA Division staff training and development are consistent with requirements under IIA Standards 1210-Proficiency, 1220-Due Professional Care, and 1230-Continuing Professional Development. In addition, training is prepared internally by the IA Division Chief and IA Division Supervisor and provided officewise to Auditor-Controller staff.	<b>300</b>
A8	IA Newsletter	Communication to County management and stakeholders regarding IA developments and topics of note.	<b>110</b>
A9	Department Head Statement of Fiscal Responsibility	In the event of a department head change, a certification based on Auditor-Controller records is completed by both the outgoing and incoming department head acknowledging the assets of the department as of the date of transfer.	<b>100</b>
A10	Quality Assurance and Improvement Program	IA Division management will perform periodic self-assessments and monitoring to ensure an adequate Quality Assurance and Improvement Program is in place as required by the County's IA Charter and the Institute of Internal Auditors (IIA) Standard 1300-Quality Assurance and Improvement Program.	<b>100</b>
		<b>TOTAL ESTIMATED HOURS</b>	<b>7,060</b>



## FY 2021-2022 Whistleblower Hotline Results

The Whistleblower Hotline Policy was approved and adopted by the County BOS on June 5, 2018 under the authority of County BOS Resolution 11-432 and California Government Code §53087.6. The Policy established the County's Whistleblower Hotline to enhance the County's Fraud, Theft, and Loss Policy, as well as to enable individuals to promptly and confidentially report incidents of suspected fraud, waste, and abuse without fear of reprisal or retaliation. Per California Government Code §53087.6(f)(2), "fraud, waste or abuse" means any activity by a local agency or employee that is undertaken in the performance of the employee's official duties, including activities deemed to be outside the scope of his or her employment, that is in violation of any local, state, or federal law or regulation relating to corruption, malfeasance, bribery, theft of government property, fraudulent claims, fraud, coercion, conversion, malicious prosecution, misuse of government property, or willful omission to perform duty, is economically wasteful, or involves gross misconduct.

- Seventy-one (71) Whistleblower Hotline reports were received for June 1, 2021 to June 15, 2022.
  - This represents a decrease of thirty-six (33) reports compared to the one hundred and four (104) reports that were received from July 1, 2020 through June 1, 2021. The 32% decrease in reports is primarily due to the reduction of reports of COVID-19 related compliance violations from fifty-six (56) to seventeen (17).
- Thirteen (12) cases are actively in review by the IA Division.
- Forty-six (46) total cases were referred to County departments and/or external entities.
- Four (4) reports were not investigated due to insufficient or unverifiable information provided by the reporter.

## Other engagements/projects that were not part of the FY 2021-2022 Audit Plan

- Department Head Statement of Fiscal Responsibility - Behavioral Wellness



## IA Division Staff

### IA Division Staff Certifications

- IA Division Chief: Certified Public Accountant (CPA)
- IA Supervisor: CPA

### Staff Development

- IA Division Chief and Supervisor are pursuing the Certified Fraud Examiner (CFE) certification
- IA staff are pursuing the CPA license
- Continuing Professional Education (CPE) completed annually by CPA licensees as required by the California Board of Accountancy
- The IA Chief and Supervisor provide IA staff in-house training