



INTERNAL CONTROL POLICY

Purpose

This document serves to communicate to stakeholders the Internal Control Policy (Policy) for the County of Santa Barbara (County); it also serves to formalize many of the activities pertaining to internal control that Management (i.e. Department Heads) is either currently engaging in or should be engaging in.

This Policy supports the County's system of internal control, which itself serves as a key mechanism through which (i) the Board of Supervisors (Board) may navigate the County toward achieving its mission and (ii) Management can fortify the achievement of County objectives. Additionally, compliance with this Policy will serve to demonstrate to interested County stakeholders our commitment to public accountability.

Overview

A system of internal control is a broad, cohesive, enterprise-level process cultivated by the County's Board, Management, 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, but 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.

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

All organizations are subject to the risk that their established internal controls will fail at some point; it is through the 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.

Policy

The County shall maintain a strong system of internal control to ensure we achieve our financial and operational goals, and effectively manage the challenges we face from an ever changing business environment.

This Policy is composed of the following 5 Management Operating Standards (Standards) for which compliance will be required. These Standards serve to enhance Management focus, resources, efforts, actions and activities within and among each of Components of a system of internal control:

▪Management Operating Standard 1

County Management will support, promote, develop and administer a Control Environment that is conducive to public accountability and County's mission and objectives.

▪Management Operating Standard 2

County Management will periodically assess the Risk exposures that threaten public accountability and County's mission and objectives.

▪Management Operating Standard 3

County Management will conduct Control Activities that serve to establish internal controls which reduce Risk exposures to a level that is reasonable to a prudent and informed manager in public service.

▪Management Operating Standard 4

County Management will establish adequate Information systems and Communicate relevant, timely, information to the appropriate personnel.

▪Management Operating Standard 5

County Management will regularly Monitor the County's system of internal control and ensure proper operation and compliance with this Policy, and engage in continuous improvement of the County's system of internal control.

Roles and Responsibilities

Board of Supervisors and County Executive Officer (CEO)

Set the “tone at the top” through behaviors, norms and the adoption of various policies.

Management

Management is accountable for compliance with this Policy. When a Department determines that an internal control deficiency exists, the Policy requires Management to use judgement to assess (i) the severity of the deficiency in determining whether each of the Components and relevant Guiding Principles is present and functioning (ii) whether the five Components are operating together (iii) whether and when corrective measures are required to remediate the deficiency.

Management is responsible for prompt corrective action on all internal control findings and recommendations made by internal and external auditors. The audit process is completed only after a Department’s staff receives results of the audit conducted and Department personnel take corrective action to adequately remediate deficiencies in internal controls noted or demonstrate and articulate in writing to the auditors why action is not warranted and that the Risk assumed by the County for failure to remediate is not significant.

Employees

All County employees are responsible for complying with this Policy.

Internal Audit

The Internal Audit Division plays an important role in evaluating the effectiveness of the system of internal control through its Annual Audit Plan submitted for approval to the Board. As an independent function, the Division is able to objectively evaluate the system of internal control. As such, it will play a role in monitoring and reporting out relevant findings to Management and the Board. In order to preserve its independence of judgement, Internal Audit will not assume direct responsibility in establishing or maintaining the system of internal control developed and implemented by Management to comply with this Policy.

Authority

California Government Code (GC) section 1422.5 requires the State Controller to develop Internal Control guidelines applicable to each local agency, including the County. The *Internal Control Guidelines* document published by the State Controller in 2015 (i) drew upon some of the best practices and concepts related to internal control design and, (ii) serves to assist local agencies in establishing their own system of internal control. This Policy serves to demonstrate adherence to the Internal Control Guidelines provided by the State Controller.

Guidance

The Internal Control Framework, developed in conjunction with this Policy, is an integral part of this Policy, and it provides a set of Components, Principles and Points of Focus which align to each of the 5 Management Operating Standards;

- Components and Principles: should be applied by Management to help in assessing existing practices in their Departments for the purpose of determining where additional organizational support and effort may be required in order to demonstrate adherence to the Principles.
- The Points of Focus: provide general guidance for Management's consideration and serve to help in shaping initial thoughts with respect to how compliance with the 5 Management Operating Standards can be demonstrated.

The Auditor-Controller's Office will be a resource to assist Management on understanding and implementing effective internal controls, by engaging in a variety of measures to facilitate the implementation and operationalization of this Policy, including:

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

For additional information and guidance on this Policy and related concepts including Internal Control, Risk, Management Operating Standards and the Internal Control Framework, please see the COUNTY OF SANTA BARBARA INTERNAL CONTROL POLICY OVERVIEW document on the Auditor-Controller's intranet site.

The CEO and the Auditor-Controller may issue updates to the Internal Control Policy as deemed necessary to address the County's changing internal control needs.