

Internal Audit Report 2017-004

**Riverside County Clerk of the Board
Control Environment Audit**

Report Date: July 31, 2017



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July 31, 2017

Kecia Harper-Ihem
Clerk of the Board
Riverside County Clerk of the Board
County Administrative Center
4080 Lemon Street, 1st Floor
Riverside, CA 92501

Subject: Internal Audit Report 2017-004: Riverside County Clerk of the Board, Control Environment

Dear Ms. Harper-Ihem:

We have completed an audit of the Riverside County Clerk of the Board to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of the control environment. We conducted the audit from December 7, 2016, through February 2, 2017, for operations from July 1, 2014, through January 12, 2017.

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 areas of opportunity that can help Riverside County Clerk of the Board management optimize the internal control component known as the control environment. Specifically, in areas related to the performance evaluation management process, succession planning, and written acknowledgement on the standards of ethical conduct.

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We thank the Riverside County Clerk of the Board management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

“The Clerk of the Board provides administrative support to the Board of Supervisors as well as providing services to the public. The Clerk of the Board serves as the clearing house for all matters requiring the review or executive action of the governing authorities of the County of Riverside, scheduling meetings of the Board of Supervisors, clerking Board meetings, preparing and filing statement of facts with the Secretary of State, attestation of the signature of the Chairman of the Board on all necessary documents and preparation of administrative records for litigation. The Clerk of the Board prepares agendas and posting per the Brown Act, prepares minutes and recording of the Board meetings and provides processing and dissemination of all board directives, policies, county ordinances and laws of the county’s legislative branch and provides members of the public with agendas including online access, notices of public hearings, access to public records and the opportunity to attend the open meetings of the Board of Supervisors, certain special districts, boards and authorities.” *County of Riverside. County Executive Officer: Fiscal Year 2017/18 Recommended Budget. Clerk of the Board, 80.*

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of the control environment.

Audit Conclusion

Based upon the results of our audit, we identified areas of opportunity that can help Riverside County Clerk of the Board management optimize the internal control component known as the control environment. Specifically, in areas related to the performance evaluation management process, succession planning, and written acknowledgement on the standards of ethical conduct.

Control Environment

Background

Internal controls are a coordination of policies and procedures established to provide reasonable assurance regarding the achievement of respective organization objectives related to the effectiveness and efficiency of operations, compliance with applicable laws and regulations, reliability of reporting, and the safeguarding of assets. Every member in an organization affect internal controls, but it is the ultimate responsibility of management to implement them and to ensure the controls are functioning as intended. Doing so allows management to stay focused on its pursuit of an organization's strategic objectives.

In support of management efforts to achieve the objectives of the organization, management should consider the following five internal control components:

- Control Environment: Sets the tone to the organization and is the foundation of all other internal control components
- Risk Assessments: Identifies and analyzes the risk associated with the achievement of the entity's objectives
- Control Activities: Actions established by policies and procedures to help ensure that management's directives are carried out
- Information and Communication: Actions to carry out the responsibilities in support of the achievement of the objectives
- Monitoring Activities: Ongoing or separate evaluations to ascertain whether each of the components of internal controls is present and functioning

For an organization to have an effective control environment, management should consistently demonstrate and communicate its commitment to integrity and ethical values, establish adequate governance oversight processes, implement an organizational structure with adequate authority and responsibility, demonstrate a commitment to attract, develop and retain a competent workforce, and have strong workforce accountability measures for the achievement of the organizational objectives.

Our audit scope focused on the control environment component since it is the foundation of an effective system of internal controls. It provides discipline and structure to the achievement of the primary objectives of an entity and establishes the tone from the top-down of organizations. As such, when management, at every level of the organization views internal controls as essential to the successful achievement of its objectives, it is expected that the same view will be conveyed to everyone within the organization and as a result, internal controls will work effectively. The opposite effect will occur when management view the internal controls as obstacles and/or unrelated to the achievement of the entity's objectives.

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Scope includes:

- Code of ethics – implementation, training, and communication
- Employee development training program
- Evaluations – completion and goal setting
- Organizational and reporting structure – effectively structured to facilitate effective reporting and communication about internal controls among various positions of management, establishing roles and reporting responsibilities
- Succession planning – development for business continuity
- Communication of mission and other pertinent matters
- Policies and Procedures – development, implementation, and communication

Audit Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of the adequacy and effectiveness of the Clerk of the Board control environment.

Audit Methodology

To accomplish our objectives, we:

- Identified and reviewed applicable laws, codes, regulations, and policies
- Conducted interviews with department management and staff
- Reviewed organizational and reporting structure
- Selected a sample of employees and reviewed files for completion of employee evaluations, development training programs, and goal setting
- Determine if the Clerk of the Board had a formal succession plan
- Performed an employee turnover analysis to determine the turnover rate
- Determined if exit interviews were conducted

Finding 1: Performance Evaluations

The Clerk of the Board performance management process was not consistently performed as required. Board of Supervisors Policy C-21, *Employee Performance Evaluation Reports*, Section 3 (b) requires "...regular employees of Riverside County shall be evaluated on an annual basis, approximately on the anniversary of their initial employment with county or on the anniversary of promotion or entry into their current job classification." Our review of performance evaluations for nine of 19 employees for the period July 1, 2014, through December 27, 2016, disclosed that seven employee annual performance evaluations were never completed while two were completed in 2016. Monitoring controls to ensure performance evaluations are completed for all employees are not in place for the majority of the functional areas within the Clerk of the Board. The absence of performance evaluations hinder the achievement of the department's overall missions since employees play a key role in the achievement of the mission. Furthermore, the strengths and areas of improvement for employees to align themselves with the overall mission and goals of the Clerk of the Board are not formally being conveyed.

Recommendation 1

Complete all performance evaluations as required under Board of Supervisors Policy C-21, *Employee Performance Evaluation Reports*.

Management's Response "Concur"

"The Clerk of the Board will start conducting annual performance evaluations for all employees as required in Board of Supervisors Policy C-21. Management monitors employee performance on a regular basis and any concerns are expressed both verbally and via email. In the future, the performance evaluation will be provided to employees on an annual basis. A copy of the final performance evaluation will be placed in the employee file for audit purposes."

Actual/Estimated Date of Corrective Action: June 30, 2018

Finding 2: Formal Succession Planning

The Clerk of the Board does not have a written succession plan. Formal plans would identify risks and strategies, thereby providing a background for specific succession initiatives, including how employees are eligible to participate. In addition, transfer of knowledge is a critical component of succession management that strengthens the control environment to be able to achieve its overall mission. Without a succession plan, an organization may not have a means of ensuring that important services are maintained when management or key personnel changes occur.

Recommendation 2

The Clerk of the Board should implement a formal written succession plan for management and key personnel.

Management's Response "Concur"

"The Clerk of the Board does not have a written succession plan; however, staff are being cross-trained on departmental processes so if the department were to lose key employees there will be a smooth transition with minimal impact to operations. The Clerk of the Board does feel that the Auditor-Controller should provide a template to maintain consistency between all county departments. Once the succession plan has been finalized, a copy will be kept on file in the department for audit purposes."

Actual/Estimated Date of Corrective Action: June 30, 2018

Finding 3: Written Acknowledgement of Standards of Ethical Conduct

The Clerk of the Board did not ensure that all employees provided written acknowledgement on the receipt of policy relating to the standards of ethical conduct. One out of eight employee files reviewed, who had been with the department for nine months, did not acknowledge that they were aware of standards of ethical conduct. Riverside County Board Policy C-35, *Standards of Ethical Conduct to Address Fraud, Waste and Abuse*, requires "department shall have all current employees provide written acknowledgment that they received and read this policy at the time of hire." The purpose of the ethical code of conduct is to establish the minimum requirement for conduct, and behavioral expectations rather than specific activities. When these expectation are not communicated, organizations may lack the discipline and structure to ensure objectives are achieved. Furthermore, leading practices for a good control environment recommends employees in any organization sign an acknowledgement annually to ensure compliance with the code of ethics policy.

Recommendation 3.1

Management ensures employees read and acknowledge in writing the standards on ethical conduct.

Management's Response "Partially Concur"

"The Clerk of the Board will ensure that all employees read and acknowledge the standards on ethical conduct as required in Board of Supervisors Policy C-35. However, of the eight employees that were sampled, five (5) employees had a signed acknowledgment on file, and two (2) had an acknowledgment held by department that had previously hired them. The Clerk of the Board does agree that one (1) employee did not have a signed acknowledgment. The department will ensure that the employee is made aware of the C-35 policy and that a signed acknowledgment is completed. In the future, this information will be presented to a new employee at the time of hire

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to ensure compliance with the policy. A copy of the signed acknowledgment will be placed in the employee file for audit purposes.”

Actual/Estimated Date of Corrective Action: June 30, 2018

Recommendation 3.2

Management to implement the leading practice of having all its employees sign an acknowledgement of receipt, regarding the county’s code of ethical conduct annually.

Management’s Response “Do Not Concur”

“The Clerk of the Board does not agree with the recommendation that an acknowledgment of receipt be signed annually. This requirement is not referenced in the Board of Supervisors Policy C-35. No further action is necessary by the department regarding this observation.”