

# COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION - INTERNAL AUDIT UNIT

## COUNTYWIDE RISK ASSESSMENT REPORT FISCAL YEAR 2020-21



Audit Committee Submittal Date: 03/01/2021

## **EXECUTIVE SUMMARY**

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The development of the Countywide Risk Assessment report is a systematic process to evaluate, identify, and prioritize potential audits based on the current level of risk to the County. Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives and is measured in terms of impact and likelihood. The Department of Finance, Internal Audit Unit (IAU) sent out questionnaires to all County department heads and members of the Sacramento County Audit Committee requesting input for the risk assessment. IAU evaluated budget and financial information, number of full-time equivalent employees, department information to assess the risks, such as: key operations and organizational divisions/units; past internal and external audit reports; risk assessment questionnaire responses; grand jury report; prior, current, and pending county litigations.

The risk assessment will serve as a tool for IAU to focus resources to perform evaluation of controls in place, to provide assurance that risks are managed to acceptable levels, and evaluate performance measures and their level of achievement. The risk assessment is used in developing the Annual Audit Plan.



## County of Sacramento

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March 1, 2021

To: Sacramento County Audit Committee

From: Ben Lamera, Director of Finance

### **Sacramento County Risk Assessment Fiscal Year 2020-2021**

The mission of the Internal Audit Unit (IAU) is to provide independent, objective assurance and accounting advisory services to assist the Board of Supervisors and County Management; and to add value and improve the County's operations by promoting integrity, accountability, compliance and innovation.

IAU is responsible for the internal audit functions of Sacramento County. IAU developed the Countywide Risk Assessment as a tool to evaluate risk and prioritize resources for its audit activities. A risk assessment is a systematic process to evaluate, identify, and prioritize potential audits based on the current level of risk to the County. Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives and is measured in terms of impact and likelihood.

### **Risk Assessment Development Process**

IAU applied the Institute of Internal Auditors (IIA) Standard as a guidance to conduct the risk assessment as documented below.

#### **Step 1: Identify Risks**

Gather and review below information on County departments:

- Budget and financial information
- Number of full-time equivalent (FTE) employees
- Department information - key operations and organizational units (divisions)
- Past internal and external audit reports
- Risk assessment questionnaire responses
- Grand jury report
- Prior, current, and pending County litigations

IAU developed general risk assessment questionnaires that were sent to County department heads and Sacramento County Audit Committee to obtain input and insight for

the risk assessment study. The questionnaire responses were analyzed and included in our risk assessment model.

Risk assessment questionnaires assessed risk factors as follows:

1. Significant organizational changes
2. Significant changes to business processes, systems or internal controls
3. Impact of budget or staff reductions
4. Complexity and volume of regulations for the department's operation
5. Significant changes to key information technology (IT) systems, applications, or the computer environment.
6. Known fraud, losses, or misappropriations of County assets
7. Job hazard analysis as a tool to reduce risk of injury to workers

IAU also developed two other questionnaires: cash management and grant management questionnaires. These questionnaires were sent to County departments to gather information related to cash handling and grant management for each department if relevant. The questionnaires mainly assessed risk factors related to internal controls for cash handling and grant management.

## **Step 2: Evaluate Risks**

IAU applied a method of systematically scoring departments based on risks identified through reviewing information gathered on County departments listed above and in consideration of inherent risks of business function for each departments. Documented below is the process used to evaluate risks for this study.

### **Review of Budget, FTE, and Financial Information**

IAU performed analysis of budget to actual expenditures for the last two fiscal years and noted expenditure variances for each department. Based on the variance amount, a risk score was assigned to that department. Budget data used for analysis were taken from the County's approved budget document for fiscal year 2018-19 and fiscal year 2019-20. Actual expenditure data for fiscal year 2018-19 was taken from the County's Comprehensive Annual Financial Report (CAFR) and data for fiscal year 2019-20 came from the County's Financial System (a.k.a. COMPASS) since CAFR for year ended June 30, 2020 was not available yet.

Also analyzed were the number of FTE employees documented on the approved budget for the last two fiscal years. IAU noted variances for each department and assigned a risk score based on percent change.

Each County department also received a risk score for the total expenditure amount and number of FTE recorded for the department in fiscal year 2019-20.

### **Review of Department Information - Key Operations and Organizational Units (Divisions)**

IAU reviewed the County's 2019-20 adopted budget document to gather information about the County departments, key operations, organizational units (divisions), significant development noted for fiscal year 2018-19 and significant change noted for fiscal year

2019-20. IAU also considered the financial, non-financial reporting and legal or compliance requirements for each department.

The information obtained above were used to assess the impact of external risk areas of political, economic, social, technological, legal/compliance, and environmental (PESTLE) on the department's ability to operate and achieve its business objectives. The impact of internal risk areas of capital, people, and technology were also included in the PESTLE analysis. Each department received a risk score based on the PESTLE analysis and professional judgement of inherent risks of business purpose.

### **Review of Reports, Risk Assessment Questionnaires, and Other Documents**

#### **Past Internal and External Audit Reports**

IAU reviewed all internal and external audit reports for County departments for the past two years. Summarize findings documented on all audit reports were reviewed and assigned a risk score to the department with findings in the internal and external audit reports. The criteria used to score the risk level included number of finding, financial impact (cash, disallowed costs, questioned costs, and general financial impact), and significance to internal controls and compliances.

#### **General Risk Assessment Questionnaire**

The questionnaire included questions that IAU used to score the risk categories of directional changes, IT complexity, and business/operational environment. IAU assigned a risk score based on the responses provided by County departments and the County Audit Committee.

#### **Cash Management Questionnaire**

Each department received a risk score based on their responses to the identified risk factors, such as, dollar amount from cash daily receipts, external accounts, and petty cash, internal control policy, and reconciliation.

#### **Grant Management Questionnaire**

Each department received a risk score based on their responses to the identified risk factors such as written policy and procedure manual, grant award amount, results of audits, findings related to disallowed or questioned claim costs, and sub-recipient award.

#### **Grand Jury Report**

IAU reviewed grand jury reports for fiscal year 2016-17, 2017-18, and 2018-19. Based on information on grand jury report, IAU evaluated risk level for the County department with a documented finding on the grand jury report. Risk level was determined based on evaluation of political, social, and legal or compliance factors surrounding the finding. A review of findings and if recommendations were implemented.

#### **County's Litigation**

IAU reviewed total incurred cost for County's prior, current, and pending litigations as of December 31, 2019. Based on cost, IAU assigned a risk score to the department with litigation cost. IAU also considered the total incurred cost change over time. Cost as of

December 31, 2019 was compared to cost as of April 30, 2020 to note any change. Risk scores were assigned to the departments with cost and percent change.

**Single Audit**

IAU analyzed expenditure data from single audit reports for the last two fiscal years and assigned a risk score to the department based on materiality, percent change, time since last audit, and findings.

**Time Since Last Audit**

Departments received the highest score if a risk assessment audit was never conducted. Departments who had a risk assessment audit performed were ranked with a lower risk score based on time since last audit.

The risk factors identified above were incorporated into a score for each risk category of our risk assessment model. Each risk category was assigned a weight factor based on their respective probability and impact. IAU ranked the department using a scale of Low, Medium, or High based on the final risk score calculated using the risk categories below.

Risk categories and weight factors for risk assessment model:

- Financial Significance
- Directional Change
- IT Complexity
- PESTLE Risk Score
- Other Categories:
  - o Business/Operational Environment and other risk
  - o Grand Jury, Grant Management,
  - o Cash Management
  - o Litigation
  - o Internal Audit
  - o External Audit
  - o Single Audit
  - o Time Since Last Risk Assessment Audit

**Step 3: Rank Identified Risks**

**Table 1**

<b>Department</b>	<b>Risk Rating</b>	
Sheriff	High	1
Technology	High	1
Human Assistance (Welfare)	High	2
Health Services	High	2
General Services	High	2
Airports	High	2
Probation	Medium High	1
Finance	Medium High	1
Assessor	Medium High	1
Child, Family & Adult Services	Medium High	1
District Attorney	Medium High	3
Child Support Services	Medium High	3
Regional Parks	Medium High	3
Development and Code Services	Medium	4
Environmental Management	Medium	4
Waste Management and Recycling	Medium	4
Voter Registration and Elections	Medium	4
County Clerk/Recorder	Medium	4
Planning and Environmental Review	Medium	4
Public Defender	Medium Low	4
Economic Development	Medium Low	4
Transportation	Medium Low	4
Water Resources	Medium Low	4
Personnel Services	Medium Low	4
Agricultural Commission / Weights and Measures	Medium Low	4
Animal Care and Regulation	Medium Low	4
Emergency Services	Low	4
Conflict Criminal Defenders	Low	4
County Counsel	Low	4
Clerk of the Board	Low	4
Coroner	Low	4
Homeless Initiative	Low	4

See Page 6 for footnotes for Table 1

1. Departments included in Attachment I, Proposed Audits based on FY 2020-21 Risk Assessment
2. High risk rated departments not included in Attachment I, Proposed Audits based on FY 2020-21 Risk Assessment due to either recent audited, currently under audit or already included in current year audit plan as following:
  - Human Assistance's cash aid audit completed in FY 2019-20.
  - Health Services' subrecipient contract monitoring audit completed in FY 2020-21.
  - General Services' contracting and purchasing audits included in FY 2020-21 Countywide audit.
  - Airports' financial administration, operations, and maintenance audits completed in FY 2020-21.
3. These medium high risk rated departments will be included in FY 2021-22 Audit Plan due to limited audit resources.
4. Departments not included in FY 2020-21 Audit Plan due to lower risk ranking and will be considered for FY 2021-2022 Audit Plan based on available audit resources.

**Step 4: Establish Audit Plan**

- Identify audit focus on high risk areas
- Establish audit plan
- Present audit plan to audit committee
- Adjust plan, as necessary, in response to changes in the organization's business, risks, operations, programs, system, and controls

See Attachment I, Proposed Audits based on FY 2020-21 Risk Assessment.



**Attachment I**

**County of Sacramento  
Department of Finance, Auditor-Controller Division, Internal Audit Unit  
Proposed Audits Based on Risk Based on Fiscal Year 2020-21 Risk Assessment**

Risk Rating	Department	Potential Risk Factors	Audit Type and Objectives	Estimated Hours (Range)
High	<b>Sheriff</b>	Financial Significance, Directional Changes, IT Complexity, PESTLE, Litigation, and Potential Non-compliance with Laws, Regulations, Contractual Agreement and Policies/Procedures Based on Prior Audit Results	<b>Internal Control/IT System Review:</b> To assess the processes and internal controls to comply with Release of public records pursuant to AB 748 and SB 1421 and mitigate liabilities and prevent lawsuits related to California Public Records Act (CPRA) and Preservation Order. To review redaction policies and procedures and IT process.	300-500
High	<b>Sheriff</b>	Financial Significance, Directional Changes, IT Complexity, PESTLE, Litigation, and Potential Non-compliance with Laws, Regulations, Contractual Agreement and Policies/Procedures Based on Prior Audit Results	<b>Compliance Review - Review of Officer Education/Training:</b> To evaluate whether Sheriff is in compliance with SB 978, applicable regulations, standards, policies, and procedures related to deputy sheriff's training/education.	150-200
High	<b>Technology</b>	Financial Significance, IT Complexity, Business/Operational Environment and Other Risk, PESTLE and Time Since Last Risk Assessment Audit	<b>Internal Control Review - IT Security:</b> To review and evaluate Technology's IT security protocol and contingency plan in case of data breach or loss.	200-300
Medium High	<b>Probation</b>	Financial Significance, Directional Change, IT Complexity, Business/Operational Environment and Other Risk, PESTLE, and Time Since Last Risk Assessment Audit	<b>Internal Control Review - Fixed Assets:</b> To evaluate current procedures for assigning, tracking and decommissioning potentially high liability assets such as vehicles and firearms.	100-150
Medium High	<b>Probation</b>	Financial Significance, Directional Change, IT Complexity, Business/Operational Environment and Other Risk, PESTLE, and Time Since Last Risk Assessment Audit	<b>Compliance Review - Review of Officer Training/Education:</b> To evaluate whether Probation is in compliance with SB 978, applicable regulations, standards, policies, and procedures related to probation officer's training/education.	150-200
Medium High	<b>Finance</b>	Financial Significance, IT Complexity, Business/Operational Environment and Other Risk, PESTLE, Prior Audit Findings, and Time Since Last Risk Assessment Audit	<b>System Review - Payment Services Interface with County General Financial System (COMPASS):</b> To assess adequacy and accuracy of the current process of payment services interface with COMPASS.	200-300
Medium High	<b>Assessor</b>	Financial Significance, PESTLE, and Time Since Last Risk Assessment Audit	<b>Compliance/Internal Control Review:</b> To review Assessor appraisal process, assess the Department's compliance with Proposition 8 Reassessment and California Revenue and Taxation Code. Also, to assess adequacy of internal controls placed to ensure the compliance requirement.	150-200
Medium High	<b>Child, Family &amp; Adult Services</b>	Financial Significance, PESTLE, Grant Management, Litigation and Prior Audit Findings	<b>Internal Control Review Contract monitoring:</b> To assess the adequacy of Child, Family, & Adult Services contract monitoring and tracking process including process of contract awarding to its contactors and sub-recipients and sub-recipient monitoring.	200-300
<b>Total Estimated Hours</b>				<b>1,450-2,150</b>