

Monitoring Current Audit Recommendations

A Report Prepared by the

**Los Angeles County
Citizens' Economy and Efficiency Commission**



November 2002

The Los Angeles County Citizens' Economy and Efficiency Commission

Chair

Robert H. Philibosian

Vice Chair

Tony Lucente

Grand Jury Task Force

Jaclyn Tilley Hill, Chair
Clayton R. Anderson
Isaac Diaz Barcelona
Hope Boonshaft
John L. Lewis
G. Thomas Thompson

Commissioners

Fred Balderrama
Joanne Baltierrez
Annie E. Cho
John Crowley
Jonathan S. Fuhrman
Ronald K. Ikejiri
Chun Y. Lee
Royal F. Oakes
Roman Padilla
William J. Petak
Julia Sylva
Tony Tortorice

Executive Director

Bruce J. Staniforth

The purpose of the Commission is to examine any function of county government at the request of the Board of Supervisors, on its own initiative, or as suggested by others and adopted, and to submit recommendations to the Board which will improve local government economy and efficiency, and effectiveness.

**CITIZENS'
ECONOMY
EFFICIENCY
COMMISSION**
LOS ANGELES COUNTY
1964-2002

Chairman

Robert H. Philibosian

November 12, 2002

Vice Chair

Tony Lucente

Commissioners

Clayton R. Anderson

Fred Balderrama

Joanne Baltierrez

Isaac Diaz Barcelona

Hope J. Boonshaft

Annie E. Cho

John Crowley

Jonathan S. Fuhrman

Jaclyn Tilley Hill

Ronald K. Ikejiri

Chun Y. Lee

John L. Lewis

Royal F. Oakes

Roman Padilla

William J. Petak

Julia Sylva

G. Thomas Thompson

Tony Tortorice

Honorable Zev Yaroslavsky
Chair of the Board of Supervisors
Room 821, Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Chairman Yaroslavsky:

In the course of trying to determine the status of recommendations made by the Commission and other agencies within the County, we found that the existing follow-up process was not functioning in a manner that would provide county decision makers with the type of information needed to maximize their use. As a result, we undertook a project to develop a system that would more effectively meet the needs of the county. The accompanying report proposes such a system and makes numerous recommendations within the context of that proposal.

The Commission feels that the implementation of the system proposed in this report would not only facilitate the countywide utilization of the audit recommendations that have been made to improve the management and operation of departments, but would also enable the County, particularly in the current fiscally difficult environment, to capitalize upon the cost savings and improvements in efficiency and effectiveness that these recommendations were designed to achieve.

As always, the Commission remains available to contribute in anyway possible toward the improvement of this recommendation follow-up process. We look forward to working with County agencies on this issue.

Sincerely,

Robert H. Philibosian
Chairman



Monitoring Current Audit Recommendations

TABLE OF CONTENTS

Executive Summary	1
Background	3
Definitions	5
Objectives	6
A County-Wide Follow-up Approach	7
Advantages of a Systems Approach	9
Challenges to be Faced	10
Proposed System Requirements	11
Impact of the Proposed System on Current Policy	13
County Policy	13
Conclusion	17
Attachments	
Attachment 1: Proposed Revisions to County Code Section 2.10.010	18
Attachment 2: Proposed Revisions to Current County Policy	19

EXECUTIVE SUMMARY

This report addresses the need for the County to develop an effective browser based follow-up system that monitors and capitalizes on the recommendations made as a result of audits conducted for County departments and agencies. This approach will provide departments and other authorized officials with the ability to effectively respond to the status of recommendations and to utilize them, as deemed appropriate, to improve the efficiency of county operations. The report also suggests modifications to County policy and code. This report makes the following recommendations:

1. Establish in Board Policy that each department will appoint one individual as an audit liaison who is:
 - a. accountable for the effective management of the automated audit follow-up system within the department,
 - b. responsible for maintaining the currency and accuracy of the automated audit follow-up system recommended in this report, and,
 - c. responsible for immediately notifying the Audit Division of the Auditor-Controller at the time the department becomes aware of any planned or unplanned audit of its policy, operations, finances or any other portion of its activities by any organization, either internal or external.

Implementation: Within one month of the adoption of this recommendation.

2. Clarify within County Code Section 2.10.010 (as noted in Attachment 1) that the Auditor-Controller has the responsibility for the operational oversight of a browser-based automated audit follow-up system and for monitoring and analyzing the implementation and potential alternative application of recommendations.

Implementation: Code should be revised when the proposed system is implemented.

3. Direct the Auditor-Controller, working with the Chief Information Office, to evaluate existing software applications for their applicability to the County's systems requirements. If such a system does not exist, these agencies should develop a strategy to implement a system that will respond to the requirements established in this report, or any enhanced requirements that would be created as a result of an expanded analysis of the requirements of the proposed system.

Implementation: Within four months of the adoption of this recommendation or as dictated by Board priorities.

4. Direct the Auditor-Controller, working with the both the Chief Administrative Office and the Chief Information Office, to implement a browser-based automated audit follow-up system.

Implementation: Within four months of the completion of the evaluation of system requirements (Recommendation #5) or as dictated by Board priorities.

5. Direct the Auditor-Controller, working with the both the Chief Administrative Office and the Chief Information Office, to review the entire audit procedure to insure that the application of information technology has been fully explored when redesigning the audit process.

Implementation: Within six months of the adoption of this recommendation or as dictated by Board priorities, periodically thereafter.

6. Direct that the performance appraisals of department heads and/or other appropriate officials reflect their effectiveness in resolving and implementing recommendations.

Implementation: Accomplished upon the adoption of this recommendation.

7. Direct department heads to emphasize to members of the department the importance of being responsive to audit recommendations

Implementation: Accomplished upon the adoption of this recommendation.

8. Direct that the organization originating the recommendation review departmental responses and provide comments on these responses to the responsible monitoring official.

Implementation: Accomplished upon the adoption of this recommendation.

9. Direct that County policy be revised, as identified in Attachment 2, to reflect adjustments in roles, reporting relationships and timing of the response required by the implementation of a browser-based automated audit follow-up system.

Implementation: Policy revised upon the implementation of the proposed browser-based automated audit follow-up system.

Monitoring Current Audit Recommendations

BACKGROUND

As early as March 1, 1983 the Board of Supervisors formalized their recognition of the need for an Audit Follow-up Policy. This action noted that the numerous reports issued as a result of the audits of county operations "...contain valuable recommendations to improve financial controls and to effect operational efficiency and economy."¹ It also correctly pointed out that "The audit function is an integral part of the County's management system." As the linchpin of the audit function, follow-up policy continues to require the attention that was identified two decades ago if it is to insure its proper utilization in the management of the County.

It was further established in the 1983 Board motion that "...County department heads and other officers shall provide for a formal audit follow-up system..." Through this action the Board acknowledged that making a recommendation without having a mechanism in place to follow-up on its continuing applicability and implementation status serves neither the reviewed or the reviewing organization, and certainly not the County as a whole. The output of the established "formal audit follow-up system" would enable departments to comply with the additional Board directive to "...respond in writing...with a specific corrective action plan and time limits to accomplish the plan."

To clarify the implementation of the Board's action the Auditor-Controller, on April 13, 1983, issued a memo covering his assigned "...responsibility for monitoring and reporting to the Board the implementation status of all audit recommendations, disallowances, and questioned costs, including those resulting from audits performed by outside agencies."² In this memo he requested that his "...Audit Division be immediately notified at the time an organization of the County becomes aware of a planned audit of its operations." He also suggested "To ensure effective coordination, it would be helpful if one individual within your department is assigned as audit liaison." The Auditor correctly recognized that the assignment of a liaison would raise the visibility and accountability for recommendation follow-up. Within the audit environment envisioned by this report, such an assignment would insure that an individual is held accountable for maintaining the currency and accuracy of the browser-based automated audit follow-up system that will be recommended.

To further develop this monitoring function, in September 1990 the Auditor-Controller issued a memo stating, "...County Code Section 2.10.010 was revised to designate the Auditor-Controller as administrator of all contracts for financial/compliance or management audit services for all County offices and departments."³ Although this

¹ March 1, 1983 adopted motion of the Los Angeles County Board of Supervisors.

² Memo from the Los Angeles County Auditor-Controller, Audits by Outside Agencies, April 13, 1983

³ Memo from the Los Angeles County Auditor-Controller, Contract Audit Services Administrator, November 20, 1990

memo continues in its definition of the role of the Auditor-Controller by stating that it "...does not extend to contracts with consultants" the current County Code Section 2.10.010 does not seem to incorporate this exclusion. After considering the process proposed in this report and the revision to the Auditor-Controller's role, the Commission feels that the monitoring role of the Auditor should include contracts with consultants. The inclusion of consultants would facilitate their inclusion in the County audit recommendations information base that would be available for analysis and possible adaptation to alternative departmental or countywide solutions. The Commission's position appears to be consistent with the wording of the current County Code Section 2.10.010.

The existing board audit follow-up policy became effective December 7, 1995.⁴ This policy, with a few modifications, is essentially the one adopted in 1983. It describes such items as how to undertake the follow-up of audit recommendations, disallowances, and questioned costs, assigns the responsibility for audit follow-up to the department head, presents guidelines on how to report on the status of recommendations and defines the role of the Auditor-Controller throughout the process.

In the most recent revision to the follow-up policy, which occurred on April 4, 2000, the Board eliminated "...the Board-adopted policy that requires that the Auditor-Controller provide the Board with an annual statistical summary report of the 'status of audit recommendations, disallowances and questioned costs'."⁵ This change in the annual statistical reporting on audit recommendations was based upon the assertion by the Board's Audit Committee that "...this report has limited value, and the Board's Audit Committee closely monitors the Auditor-Controller's reports and departments actions..."⁶ Although adopted, it is unclear how the elimination of an "annual statistical summary report" "substantively differs from the current policy requirement that states:

Annually, the Auditor-Controller will provide the Board of Supervisors a summary of the status of audit recommendations, disallowances, and questioned costs, except for the more significant audit recommendations whose status will continued to be reported semi-annually.

The need for a summary of the status of recommendations would become moot with the capabilities provided with the adoption of the system being recommended in this report. The focus for the Auditor-Controller can shift from status reporting to providing an analysis of the actions taken by the auditee and the potential impacts of taking any further actions within the County as a result of the recommendations.

⁴ Board of Supervisors Policy Manual, Policy #4.050, Audit Follow-Up, Effective Date: December 7, 1995

⁵ Los Angeles County Board of Supervisors, Statement of Proceedings for April 4, 2000, item 17.

⁶ Audit Committee Memo, April 4, 2000, Recommendation to Eliminate the Requirement That the Auditor-Controller Provide the Board with Statistical Summary Report of Audit Recommendations, Disallowances And Questioned Costs."

RECOMMENDATIONS

1. Establish in Board Policy that each department will appoint one individual as an audit liaison who is:
 - a. accountable for the effective management of the automated audit follow-up system within the department,
 - b. responsible for maintaining the currency and accuracy of the automated audit follow-up system recommended in this report, and,
 - c. responsible for immediately notifying the Audit Division of the Auditor-Controller at the time the department becomes aware of any planned or unplanned audit of its policy, operations, finances or any other portion of its activities by any organization, either internal or external.

Implementation: Within one month of the adoption of this recommendation.

2. Clarify within County Code Section 2.10.010 (as noted in Attachment 1) that the Auditor-Controller has the responsibility for the operational oversight of a browser-based automated audit follow-up system and for monitoring and analyzing the implementation and potential alternative application of recommendations.

Implementation: Code should be revised when the proposed system is implemented.

DEFINITIONS

The following set of definitions is presented to insure a common understanding of the terms as they are used in this document.

- a. Audit - Based upon the Board action taken in 1983, the term “audit” is defined as an “...independent review of its (County) operations, functions, and programs.” and “...may include financial and compliance reviews, economy and efficiency studies, and program effectiveness evaluations.” When considered within this broad context, any recommendations made by organizations fulfilling the “auditing function”, whether internal or external to the County, are recognized as being a valuable resource of the county that would benefit from a systemic follow-up.
- b. Response – A response consists of comments submitted by the accountable departmental official(s) indicating the level of agreement or disagreement with the recommendations. Comments indicating agreement or partial agreement should include the corrective actions that will be taken and a timeframe for

- achieving the objectives presented in the recommendation. Comments indicating disagreement should fully explain the reasons for any disagreement. In those instances where disagreement is based on interpretation of law, regulation, or the authority of officials to take or not to take action, the response would include the legal rationale.
- c. Resolution – In most instances, recommendations would be resolved when the designated county official and the audited organization, normally a county department, agree on the action to be taken on a recommendation; or, in the event of disagreement, the point at which the designated recommendation follow-up official (normally the Auditor-Controller or, in instances precluding the involvement of the Auditor-Controller, the Chief Administrative Officer) determines the matter to be resolved. Resolution of a report does not preclude further consideration or action by departmental management on recommendations made or issues raised in the report. In those instances that audit recommendations are made by organizations appointed directly by the Board of Supervisors, resolution is achieved when the department responds to the Board, as directed in county policy. The Commission feels that it would be beneficial if the departmental response were accompanied by comments on the response, either positive or negative, from the auditing agency. (See: The Role of the Organization Originating the Recommendation)
 - d. Corrective Action -- Measures taken to implement resolved recommendations.

OBJECTIVES

The mission of the Economy and Efficiency Commission is to develop recommendations designed to improve the operations and management of local government. Accordingly, the Commission continues to be concerned not only with the follow-up on the recommendations that it makes, but also on those made by any auditing organization, either internal or external to the County.

It was recognized in 1983 that, as part of the audit function, recommendation follow-up "...is an integral part of the County's management system." Clearly, if corrective action is not taken by management to resolve the status of recommendations a critical component of this improvement process, along with the costs and labor incurred in developing the recommendation and the potential savings to be gained as a result of its resolution, will be lost to the County.

Current policy directs that each department "...provide for a formal audit follow-up system..." that maintains "...accurate records of all audit reports and related significant findings." This policy requires the creation of an internal system by each department that insures the prompt and proper resolution and, where appropriate, consideration to the implementation of audit recommendations.

Numerous problems are inherent in the current policy directing that each department establish and monitor their own follow-up system. These problems were recently illustrated when an audit of the Sheriff's Department that found that problems cited in a 1997 audit had not been corrected. It was revealed that only 6 of the 26 recommendations made in 1997 had been implemented. This audit also revealed that the Sheriff had "...opportunities to increase revenue and control overtime."⁷

Although the Economy and Efficiency Commission fully supports the principal that each department is responsible for resolving recommendations, we also feel that the County has a responsibility to the impacted department and to other departments within the county, to have a system in place that effectively monitors and assists each department in achieving identified savings and improving efficiencies. The failure of the County to assert this responsibility has contributed not only to the potential loss of significant revenue and the possibility of a meaningful reduction in expenditures, but also to an embarrassment to both department and county management.

This report considers how the departments or agencies of Los Angeles County can best accomplish the stated objectives of the Board through the development of an alternate approach to the control and management of recommendations. It also suggests revisions to County Code and current Board policy to reflect this revised approach to recommendation follow-up.

The principal objectives of the Economy and Efficiency Commission in this report are to:

- a. Propose a revised system that will insure both an effective resolution of recommendations and an effective means of monitoring the implementation of any corrective action(s).
- b. Clarify, within the structure of a proposed system, the roles of (1) those department officials designated to follow-up on recommendations, (2) the auditing organization, and (3) the Auditor-Controller in monitoring, analyzing and overseeing/coordinating the potential countywide utilization of the products of this system.
- c. Emphasize the importance of monitoring the implementation of an adopted recommendation in order to assure that the directed corrective action is actually accomplished and by which the amounts expended and saved as a result of implementing the an automated follow-up system can be identified.

A COUNTYWIDE FOLLOW-UP APPROACH

As noted previously, current county policy directs that each department "...must provide for a formal audit follow-up system..." to manage and respond to recommendations. This requirement was enacted to enable departments to "...respond in writing to the

⁷ Sheriff Hasn't Reformed Spending, Audit Indicates, Daily News, June 26, 2002

Board of Supervisors, the CAO, the Grand Jury, and the Auditor-Controller [concerning] any audit recommendations, disallowances, and questioned costs within 60 days after delivery of the audit report.” As previously noted, in addition to providing this “immediate” response to recommendations, “Annually, departments will provide the Auditor-Controller a summary listing on the status of all recommendations until the recommendation(s) have been implemented or an acceptable alternate disposition has been agreed to, except for the more significant audit recommendations whose status will continue to be reported semi-annually.” This annual reporting requirement is supplemented by the requirement that the Auditor-Controller provide an annual “...summary of the status of audit recommendations, disallowances, and questioned costs, except for the more significant audit recommendations whose status will continue to be reported semi-annually.”

Given the current state of technology, a policy directive that requires providing the same type of information in formats developed by differing systems seems to be unwieldy and inefficient. The inefficiency is further compounded given that a consolidation of this disparate data is required to conduct an effective countywide analysis and to respond to board directed reporting requirements. Since the Audit Committee cited the reduction of “administrative burden” as a rationale for eliminating the submission of an annual statistical report⁸, the same rationale can be presented to support the implementation of an automated system to track recommendations. Such an approach would both significantly reduce this workload and improve the quality and value of the responses.

It is the Commission’s understanding that two or three enterprise level software applications currently exist that may meet some or all of the requirements of the system being proposed in this report. It is our understanding that these systems may provide for:

- ◆ Developing an enterprise audit strategy for initiating audits
- ◆ Recording the timeliness and expense of audits preformed
- ◆ Documenting the recommendations provided to the auditee
- ◆ Recording the auditee’s agreement or disagreement with the recommendation and,
- ◆ Tracking the eventual corrective actions to be preformed by the auditee.

If it turns out that the appropriate system does exist, the Auditor-Controller, as the authority on audit matters within the County, with the assistance of the Chief Information Office, should be tasked with the responsibility for evaluating these software applications. If the appropriate system does not exist or does not sufficiently respond to the requirements of the proposed recommendation follow-up system, consideration should be given to the advantages of creating this software application. If this application has to be created an opportunity may exist to market this application to other jurisdictions.

⁸ Audit Committee Memo, April 4, 2000, Recommendation to Eliminate the Requirement That the Auditor-Controller Provide the Board with Statistical Summary Report of Audit Recommendations, Disallowances And Questioned Costs.”

RECOMMENDATIONS

3. Direct the Auditor-Controller, working with the Chief Information Office, to evaluate existing software applications for their applicability to the County's systems requirements. If such a system does not exist, these agencies should develop a strategy to implement a system that will respond to the requirements established in this report, or any enhanced requirements that would be created as a result of an expanded analysis of the requirements of the proposed system.

Implementation: Within four months of the adoption of this recommendation or as dictated by Board priorities.

4. Direct the Auditor-Controller, working with the both the Chief Administrative Office and the Chief Information Office, to implement a browser-based automated audit follow-up system.

Implementation: Within four months of the completion of the evaluation of system requirements (Recommendation #5) or as dictated by Board priorities.

5. Direct the Auditor-Controller, working with the both the Chief Administrative Office and the Chief Information Office, to review the entire audit procedure to insure that the application of information technology has been fully explored when redesigning the audit process.

Implementation: Within six months of the adoption of this recommendation or as dictated by Board priorities, periodically thereafter.

THE ADVANTAGES OF A SYSTEMS APPROACH

The solution being proposed by the Commission is based upon the creative utilization of a browser-based system to manage the follow-up status of recommendations. Utilizing this approach would significantly improve the effectiveness of the process. It provides the ability to offer both the audited organization and those tasked with recommendation follow-up, at all levels, particularly the Board of Supervisors, the Auditor-Controller and the Chief Administrative Officer, an expanded capability to monitor this status on a nearly real-time basis. An automated approach to recommendation follow-up would produce a number of significant advantages to both departmental and county management:

- a. There would be a significant reduction in the time and resources committed to the production of a recommendation follow-up status report. This will be particularly evident for the Auditor-Controller who would be able to devote the time currently spent in the collection and consolidation of data, to the conduct of an analysis of the recommendations and to coordinating any resulting benefits that might apply to other county organizations.

- b. Since a status report could be run at any time in almost real-time by appropriate officials, information utilization and accountability for resolution or implementation of the recommendation can be more effectively established.
- c. Recommendations could easily be designed to be crossed referenced and reviewed to not only insure the maximum utilization of the ideas presented, but also to reduce the potential for duplication of efforts among departments. This approach would also prove to be valuable in coordinating cross-departmental responses and resolution of inter-organizational conflicts in the implementation of recommendations.
- d. Analysis of reports over time can more easily be monitored and correlated.
- e. Inconsistent or unfamiliar formatting of reporting for both prepares and users will be eliminated.
- f. Incomplete reporting can be minimized or eliminated.
- g. Possible savings from recommendations can be maximized countywide.
- h. Assistance can be provided in a timely manner to departments when the system indicates that possible problems exist.
- i. The work of the organizations that conduct an audit can be more effectively monitored and evaluated as a result of being able to determine the appropriateness and implementation impact of their recommendations.
- j. Recommendations having general interest or applicability can be made available to other departments or organizations within the county for their use. If proven valuable, this approach can be expanded to provide this information to the public and/or other governmental organizations for their utilization.
- k. Any corrective action or resolution that is taken as a result of one or more recommendations can, if necessary, be easily coordinated between departments.
- l. Such a system can serve as a basis for the evaluation of department head, other appropriate officials, and/or departmental follow-up performance.

CHALLENGES TO BE FACED

This solution would not come into being without a number of associated costs and difficulties. These costs and difficulties are exacerbated in the difficult financial environment that is currently facing the County. The following are several challenges to

implementation that such an automated approach to recommendation follow-up would encounter:

- a. If no off-the-shelf software were available to respond to the requirements of the system, costs would be incurred in its development. In addition to the direct costs incurred in system development, cost would also be incurred as a result of the time commitment of the Auditor-Controller and other involved agencies/individuals in both systems evaluation and, possibly systems development.
- b. Given the current workload of the agencies involved, particularly the Auditor-Controller, attention would have to be placed on the prioritization of the efforts being undertaken. Although the Commission feels that the efforts to follow-up on recommendations would prove a valuable and cost-effective contribution to the management of the County, the prioritization of this effort cannot be definitively established without it being considered within the context of a department's existing operational undertakings at the time of the adoption of this proposal.
- c. The creation of a system requires the loading of data that would be part of the upfront cost. It is recognized that this would be a substantial undertaking, but not one that would be overwhelming. The Commission considers this task within the context of the offsetting considerations of: (1) the time saved as a result of not having to duplicate the efforts in meeting the reporting requirements, (2) the advantages in making the information available county-wide, (3) the ability of the County more effectively to monitor recommendations, and (4) the ability to maximize the utilization and cost effectiveness of the recommendations that have been made.
- d. The maintenance and ongoing accuracy of the data are important considerations in this approach. The concern of "garbage in, garbage out" would certainly apply to this exercise. The appointment of a liaison that would be assigned the responsibility for both maintenance and accuracy of this data would address this consideration, but by no means eliminate it as a concern to those using the data. In this instance, as with many others faced by county management, it is only when the appropriate level of emphasis and attention is placed by management upon these issues that they will be resolved.

PROPOSED SYSTEM REQUIREMENTS

The benefits identified above will be achieved with the implementation of a browser based countywide recommendation follow-up system. Such a system would provide the means to assure a timely response to the recommendations and provide an effective methodology for resolving disputes. The design of this system would meet the minimum following requirements:

- a. Identification of the senior level official responsible for the recommendation(s) follow-up, including the assignment of specific responsibility to insure the appropriate level of accountability.
- b. The capability to maintain accurate records on the status of recommendations throughout the entire follow-up process and to provide that status by department, by auditing organization, by functional recommendation type, or on any other basis deemed to be appropriate by departmental or county management. Such records should provide a complete record of the actions proposed and the actions taken as a result, including appropriate accounting controls over the actual fiscal impact versus the anticipated fiscal impact. This capability could be extended to include the development of trends and other appropriate statistical data on the status of recommendations.
- c. The implementation status should include comments by agency officials indicating agreement or disagreement on reported findings and recommendations. Comments indicating agreement on final reports should include planned corrective actions and, where appropriate, dates for achieving the objectives of these actions. Comments indicating disagreement shall explain fully the reasons for disagreement. Where disagreement is based on interpretation of law, regulation, or the authority of officials to take or not to take action, the response must include the legal basis. Comments should be categorized under the following:
 1. I: Department agrees with the recommendation and has fully implemented it or has taken other steps to implement the intent of the recommendation.
 2. PI: The department agrees with and has partially implemented the recommendation
 3. AI: The department agrees with and is planning on implementing the recommendation.
 4. FE: This recommendation requires further evaluation
 5. NA: The department believes the recommendation is no longer applicable
 6. D: The department disagrees with the recommendation and does not plan on implementing it.
- d. The system should automatically identify and monitor the periods of time within which the recommendation is adopted and the resolution and corrective actions are arrived at, together with whether these times are within those agreed to.

- e. The reporting capability of the system should provide an on demand status report. Information should be available on:
 1. the status of the resolution and corrective action taken on audit recommendations; this would also include all unresolved recommendations over six months old, the reasons therefore, and a timetable for their resolution;
 2. the number of reports or recommendations resolved during the period;
 3. the impact that both the resolved and unresolved recommendations have on the amount of disallowed costs; and collections, offsets, write-offs, demands for payment and/or other resulting monetary benefits.

THE IMPACT OF THE PROPOSED SYSTEM ON CURRENT POLICY

Using an automated approach to recommendation follow-up would facilitate the participation of both the auditing organization and the organization that is audited. This approach would also encourage the prompt and proper resolution and, where appropriate, implementation of recommendations. It will provide a complete record of the actions taken on both monetary and non-monetary findings and recommendations. Having this information, combined with an understanding of the basis for the corrective action that is taken on those recommendations that can be implemented, will establish an improved process that provides the County with a valuable tool to be used in improving the effectiveness and efficiency of government operations.

COUNTY POLICY

Current Board policy is functionally divided into two sections; Departmental Role and County Auditor-Controller Role. The discussion of the departmental role covers the assignment of responsibility for recommendation follow-up and the procedures to be used in monitoring the follow-up. The Auditor-Controller Section discusses his monitoring responsibility. This report expands current policy to include a role for the auditing organization in the follow-up process. This new section discusses the systemic responsibilities of that organization.

Departmental Role - Responsibility for Follow-up - The Commission agrees with the current policy that assigns the primary responsibility for follow-up to the department head or other designated county official. However, the Commission also feels that this policy could be strengthened by requiring that the performance appraisals of these officials reflect their effectiveness in resolving and implementing audit recommendations.

- a. Department Head - In addition to the primary responsibility for arriving at a resolution, it should be stated that department heads are also responsible for:
 1. Designating a management official as an audit liaison to oversee recommendation resolution and/or corrective action.
 2. Assuring that management officials and employees throughout the agency understand the value of the audit process and are responsive to audit recommendations
 3. Analyzing recommendations and their impact upon the department,
 4. Taking corrective action where appropriate.
 5. Providing timely responses to the appropriate monitoring authority, including the auditing organization, and
 6. Informing the Board of Supervisors, through the use of a browser based follow-up system, of the resolution and/or corrective action that has been taken.
- b. Departmental Management - Although the department head or other appropriate official is responsible for the audit follow-up, management officials within the department should also recognize that they have an important role to play throughout this process. They are responsible for receiving and analyzing audit reports covering their areas of expertise, providing timely responses to the appropriate official and taking corrective action where appropriate.

Departmental Role - Establishing Procedures for Follow-up Actions - The current policy on follow-up procedures relies on the establishment by the department of a "formal audit follow-up system" to manage and control recommendations. For reasons that have been pointed out previously, not the least of which is that such a system may not be established or if established not effectively utilized, the development of an automated system for monitoring recommendations using a browser based system would significantly improve both the County's and the department's ability to provide for a follow-up on recommendations. With the implementation of an automated system, county policy would be revised to reflect adjustments in roles, reporting relationships and the timing of the response required by the system.

Timely action in response to audit recommendations by responsible officials and their ongoing review by monitoring agencies maximizes their effectiveness and impact upon the operations of the County. It should be understood that, except for specific instances authorized by the Auditor Controller or the Chief Administrative Officer, a recommendation will be resolved and reported on the system no later than sixty days after the submission of the recommendation to the department.

When corrective action is incomplete, still under study, or planned, the department will inform the Auditor-Controller and will include a statement on the system of when it expects action to be completed, and will subsequently report on the recommendation's resolution. In those instances where management officials have a disagreement with a recommendation, they are responsible for presenting the reasons for their disagreement to the official designated to monitor the status of the recommendation.

The Role of the Organization Originating the Recommendation

It would be a significant contribution to the understanding and the implementation of a recommendation to define a role in the follow-up process for the auditing organization. It is our feeling that the organization originating the recommendation would be in the best position to provide any responsible authority with the rationale used in its development and can best serve as an advisor to the auditee and the monitoring official on achieving an appropriate resolution. In adopting this role the auditing organization would monitor the progress of each recommendation through status reports. This can be accomplished internally by assigning this responsibility to County audit organizations, e.g. Auditor-Controller, Commissions. For external audits, e.g. consulting firms, the firm should have it included as a part of their contractual agreement that they provide this follow-on assistance.

The Civil Grand Jury offers a special circumstance in defining this role, since it is dissolved shortly after making a recommendation(s). In addition to the underlying principal that each new grand jury is able to create its own agenda, which may or may not include concerns of previous grand juries, it would also lack any knowledge of how the previous year's grand jury's recommendations were developed. Thus, unless they elected to participate the grand jury would be exempted from this policy. The only official contact that is maintained with previous grand juries rests with the Economy and Efficiency Commission. The previous year's grand jury chair, or other court designated grand jury representative, is appointed as the twenty-first commissioner. As a result the Economy and Efficiency Commission is in a position to assist an auditee and the monitoring official on achieving an appropriate resolution on grand jury recommendations.

County Auditor-Controller Role - Defining the Responsibility for Monitoring the Follow-up System

The Auditor-Controller, functioning as the primary recommendation follow-up official, is currently responsible for receiving and reviewing audit follow-up actions undertaken by County officers, insuring compliance, providing an annual summary of the status of audit recommendations and informing the Board of problems. In implementing an automated system the role of the Auditor-Controller would be modified to include:

- a. Ensuring that the system intended to monitor recommendations is functioning in a manner that effectively meets the needs of the County.

- b. Ensuring that timely responses are made to all audit reports and their recommendations.
- c. Ensuring that disagreements are resolved.
- d. Ensuring that proposed corrective actions are actually taken.
- e. Specifying the criteria that establish the proper resolution and corrective action on recommendations, regardless of whether the resolution is to accept, modify or reject the recommendation. These criteria should provide for specific corrective action with clearly identified action dates, where appropriate.
- f. Assuring that actions taken to resolve a recommendation are consistent with law and Board policy. Justification for decisions not agreeing with the recommendation should include, when applicable, the legal basis for the disagreement.
- g. Providing coordination for resolution and corrective action on recommendations involving more than one program or department.
- h. Providing a methodology to conduct and periodically report on the analysis of audit recommendations, resolution, corrective action, and to determine trends and the potential for system-wide problems solutions.
- i. Conducting an evaluation of whether the recommendation follow-up system results in efficient, prompt, and proper resolution and corrective action on recommendations. The first evaluation will be made within one year of the date of this policy, and evaluations will be made periodically thereafter.

RECOMMENDATIONS

6. Direct that the performance appraisals of department heads and/or other appropriate officials reflect their effectiveness in resolving and implementing recommendations.

Implementation: Accomplished upon the adoption of this recommendation.

7. Direct department heads to emphasize to members of the department the importance of being responsive to audit recommendations

Implementation: Accomplished upon the adoption of this recommendation.

8. Direct that the organization originating the recommendation review departmental responses and provide comments on these responses to the responsible monitoring official.

Implementation: Accomplished upon the adoption of this recommendation.

9. Direct that County policy be revised, as identified in Attachment 2, to reflect adjustments in roles, reporting relationships and timing of the response required by the implementation of a browser-based automated audit follow-up system.

Implementation: Policy revised upon the implementation of the proposed browser-based automated audit follow-up system.

CONCLUSION

Experience has demonstrated that Los Angeles County would benefit greatly from a system that provides an effective means of monitoring all audit recommendations made throughout the organization. This report has presented arguments that support the contention that the expanded monitoring of these recommendations would prove to have significant monetary and organizational benefits. Based upon the conclusions of the report, this report has developed an approach to the monitoring question that would expand upon the use of current technology so that, with a minimal expenditure, the County would be able to capitalize upon the work that has been undertaken and the costs incurred in developing these recommendations.

ATTACHMENT 1

Title 2 ADMINISTRATION

Chapter 2.10 AUDITOR*

2.10.010 Bookkeeping and auditing of accounts -- Control authority.

All bookkeeping and auditing of accounts of all offices and departments shall be subject to the inspection and control of the auditor, under the supervision and direction of the board of supervisors. The auditor shall administer all contracts for financial/compliance and management audit services for all county offices and departments. This program shall require the auditor to administer the selection of the contractors and supervise the contractors' performance. The auditor will have oversight responsibility for the operation of the countywide recommendation follow-up system and for monitoring the status of recommendations.

In addition, the auditor-controller has the authority to expand the audits to include the following:

- A. Reviews and appraisals of the adequacy and application of accounting, financial, and operating controls;
- B. Determinations of the extent of compliance with applicable laws, regulations and administrative requirements governing the auditee's activities;
- C. Determinations of the extent to which county assets are accounted for and safeguarded;
- D. Determinations of the reliability of accounting and other data developed within the organization;
- E. Reviews and appraisals of the economical and efficient use of county resources;
- F. Reviews of operations or programs to ascertain whether results are consistent with management-established objectives and goals, and whether the operations or programs are being carried out as planned. (Ord. 90-0015 § 1, 1990: Ord. 11887 § 1, 1979: Ord. 4099 Art. 3 § 84, 1942.)

ATTACHMENT 2



Los Angeles County BOARD OF SUPERVISORS POLICY MANUAL

Policy #:	Title:	Effective Date:
4.050	Audit Follow-Up	12/07/95

PURPOSE

Establishes procedures for the use of an automated follow-up system that requiresing all County Departments to take timely actions in response to audits of County operations, including services provided by contract vendors resulting in recommendations for improvement, disallowances, or questioned costs.

REFERENCE

March 1, 1983 Board Order, Synopsis 92
April 13, 1983 Auditor-Controller Memorandum, "Audits by Outside Agencies"
December 7, 1995 Audit Committee Meeting Minutes, Policy Amendment
April 4, 2000 Board Order, Synopsis 17

POLICY

The follow-up of recommendations is an integral part of the successful management of County operations. Timely action in response to audit recommendations by responsible officials and their ongoing review by monitoring agencies maximizes their effectiveness and impact upon the operations of the County. *On December 7, 1995, at the request of the Auditor-Controller, the Audit Committee amended this policy. Changes are in italics.*

Departmental Role

Primary responsibility for the follow-up of audit recommendations follow-up rests with the Department Head, or other County officer, charged with the responsibility for managing any program that which is the subject of an audit. To assist carrying out this responsibility each department will (1) appoint an audit liaison to maintain the currency and accuracy of the follow-up actions taken on audit recommendations and (2) emphasize within the department the importance of being responsive to audit recommendations. Where multiple officers are involved, the Chief Administrative Office (CAO) shall designate a lead agency with the responsibility for coordinating responses and required actions.

Although the department head or other appropriate official is responsible for the audit follow-up, management officials within the department should also recognize that they have an important role to play throughout this process. They are responsible for receiving and analyzing audit reports covering their areas of expertise, providing timely responses to the appropriate official and taking corrective action where appropriate.

Each Department Head, or other County officer, ~~must provide for a formal audit follow-up system~~ will utilize a browser based automated follow-up tracking system in meeting the following requirements which includes the following elements:

1. Departments will respond ~~in writing~~ to the Board of Supervisors, the CAO, the ~~Grand Jury, and the Auditor-Controller~~ and when appropriate, the Grand Jury, a Commission or other internal auditing agency utilizing the automated follow-up tracking system concerning any audit recommendations, disallowances, and questioned costs as soon as it is practical, but no later than within 60 days after delivery of the audit report. This will be accomplished by insuring that the appropriate entries are made to the automated follow-up tracking system. This policy also pertains to audits performed by outside agencies. In this case the department will also inform the outside audit agency of the resolution of the recommendation. If a funding source or law mandates a shorter response time than that defined above, such requirements must be met.
2. Departments will determine the disposition of audit recommendations, disallowances, and questioned costs. Departments will provide to the Auditor-Controller and the CAO, and other appropriate agencies as identified in paragraph 1, their resolution with specific corrective action plans and time limits to accomplish their plan by insuring that the appropriate entries are made to the automated follow-up tracking system. If a funding source or law mandates a shorter response time, such requirements must be met.
3. Departments will determine the allowability of costs in audits resulting in questioned costs. Final resolution must be obtained from the funding source, if necessary.
4. ~~Annually,~~ departments will insure that ~~provide the Auditor-Controller a summary listing on the current status of all recommendations is noted on the automated follow-up tracking system until the recommendation(s) have been implemented, and so indicated,~~ or an acceptable alternate disposition has been agreed to, ~~except for t~~ The status of more significant audit recommendations whose status will continue to be reported semi-annually. be highlighted on the system.
5. Departments will consult with the CAO to determine resolution of audit disagreements with the Auditor-Controller, or with the Auditor-Controller on

disagreements with other auditors.

6. Departments will maintain accurate records, using the automated tracking system, of all audit reports and related significant findings.
7. Any deviation from the above policy requires the approval of the Auditor-Controller and the CAO.

Auditing Organization Role

1. The responsibilities of the auditing organization include reviewing the department's recommendation status as indicated on the automated tracking system. Based upon the information provided in this review, the auditing organization will provide any comments that it determines would improve the effectiveness of the recommendation's resolution to the appropriate departmental or monitoring official.

County Auditor-Controller Role

1. The Auditor-Controller, as part of their regular work plan, will provide for a review of audit follow-up system and the actions instituted by County officers. Unless otherwise directed or when circumstances clearly indicate an earlier review is warranted, the Auditor-Controller review will be included in any subsequent scheduled audit of the County officer involved.
2. The Auditor-Controller's role will be to ascertain that the departments are in compliance with system requirements and the Board policy.
3. ~~Annually~~, the Auditor-Controller will insure that the system is maintained so that it will provide the Board of Supervisors, and any other appropriate agencies, with an ongoing summary of the status of audit recommendations, disallowances, and questioned costs, except for the more significant audit recommendations whose status will continue to be reported semi-annually. More significant audit recommendations will be highlighted in the system. Annually, the Auditor-Controller will provide the Board of Supervisors with an analysis of the actions taken over the previous year and with the purpose of making recommendations on the operations of the system, the appropriateness of departmental responses and the possible countywide application of the recommendations.
4. As appropriate, the Auditor-Controller will inform the Board of Supervisors of any individual follow-up problem(s) regarding audit recommendations, disallowances, and questioned costs.

RESPONSIBLE DEPARTMENT

Auditor-Controller

DATE ISSUED/SUNSET DATE

Issue Date: March 1, 1983

Issue Date: December 7, 1995
Amended by Audit Committee

Sunset Date: December 7, 2003