

CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

Sitting/Acting as (if applicable) Policy Session Worksheet

Presentation Date: 3/17/2020 **Approx. Start Time:** 11:00 AM **Approx. Length:** 30 min

Presentation Title: County Internal Audit Update

Department: County Internal Audit

Presenters: Jodi Cochran, Chief Audit Executive; Brian Nava, Treasurer

Other Invitees: N/A

WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?

We are requesting an information session to provide a status update on County Internal Audit activities.

EXECUTIVE SUMMARY:

Background

County Internal Audit is an independent function designed to add value and help Clackamas County achieve its objective by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes.

Internal auditors are guided by and adhere to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, Core Principles, and Code of Ethics.

Internal auditors provide a significantly broader scope of services than the external auditors who are contracted to perform annual financial audits. Internal audit serves as a resource available to address any aspect of an organization – financial, operational, cultural, performance, and compliance. County Internal Audit provides assurance, consulting, and investigative services.

Assurance services are objective examinations of evidence to provide an independent assessment. The scope of work for assurance services is to determine whether the County's network of governance, risk management, and control processes is adequate and functioning to ensure:

- Risks are appropriately identified and managed;
- Financial, managerial and operating information is accurate, reliable and timely;
- Employee actions follow the County's policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Operational results are consistent with established objectives and plans;
- Quality and continuous improvement are fostered in the internal control process;
- Legislative or regulatory issues impacting the County are recognized and addressed appropriately;
- IT development and systems are appropriately managed, controlled and protected;
- and
- Audit recommendations are evaluated and implemented, as appropriate.

Consulting services are advisory and include service activities such as counsel, advice, facilitation, training and participation on standing or temporary management committees or project teams. The objective of consulting services is to add value in the development, modification or validation of County processes, procedures and controls to minimize risk and achieve objectives.

Investigative services are independent special reviews and investigations addressing allegations of fraud, waste, abuse, or misuse of County assets and resources. County Internal Audit develops, implements, and manages a County hotline in providing these services.

The value of internal audit services depends on its independence and objectivity. County Internal Audit independence is enhanced by a dual-reporting structure. The County Internal Auditor, its Chief Audit Executive (CAE), reports administratively to the elected County Treasurer and functionally to the Internal Audit Oversight Committee. The Oversight Committee is comprised of four members, Commissioner Jim Bernard, County Administrator Gary Schmidt, County Counsel Stephen Madkour, and County Treasurer Brian Nava. This structure allows direct and unrestricted access to “all things Clackamas County.” It also creates a service environment free from conditions that threaten the CAE’s ability to maintain objectivity.

County Internal Audit 2020 Summary Update:

Since 2015, when the first County Internal Auditor was hired, seven formal audits have been conducted, resulting in 80 audit recommendations. Of those, 49 have been closed or resolved. These audits addressed activities within County Administration; the Justice Court; Tourism and Cultural Affairs; Transportation and Development; Finance; Health, Housing and Human Services; and Human Resources. Exhibit A provides a status report.

Audits are selected based on high risk level, auditability, resource availability and professional judgement. Informed by a recent countywide risk assessment, Internal Audit resources in 2020 are being allocated to three engagements addressing: the Metro Housing Bond, contract administration of Human Services service contracts, and the County’s financial condition. Exhibit B provides a high-level description of these engagements, as well as the risk assessment and engagement selection process.

Exhibit C provides a historical view of Clackamas County’s hotline activity. Since its inception, 117 reports have been made. The hotline is averaging 18 reports a year over the last four years. Concerns regarding the misuse of County assets or services are the most reported.

FINANCIAL IMPLICATIONS (current year and ongoing):

Is this item in your current budget? YES NO

What is the cost? \$ _____ What is the funding source? County Treasurer budget

STRATEGIC PLAN ALIGNMENT:

- How does this item align with your Department’s Strategic Business Plan goals?

County Internal Audit’s vision is that its services enhance County residents’, employees’, and departments’ confidence that the public’s interests are protected and encourage engagement with a more accountable, higher performing, and more transparent local government. This information session provides the basis for future discussions addressing this vision and codifying the County resource into County Code, a key Strategic Business Plan strategic result.

- How does this item align with the County's Performance Clackamas goals?

County Internal Audit strives to provide unbiased perspectives, serve as a conduit for conversation, advocate for continuous improvement, and encourage transparent, well-informed decision making. Internal Audit engagements planned for 2020 support the County's strategic priorities as follows.

- Metro Housing Bond – The audit report and recommendations will provide assurances and observations addressing the County's readiness to utilize Metro Housing Bond resources. These resources directly impact the County's efforts to increase affordable housing and to reduce chronic homelessness.
- Financial Condition Analysis – This analytical review and presentation will provide assurances and insights addressing the County's financial condition. The published report will provide residents and public officials with transparent, updated information on the County's financial health. This transparency supports the County's effort to present meaningful County budget information tied to performance and to build a County Courthouse.
- Contract Administration of Human Services Contracts – The audit report and recommendations will provide assurances and advice addressing the County's contract administration practices which will enhance the County's efforts to streamline operations, improve efficiency, and deliver quality services. These practices directly support the County's in-house and contracted efforts to adequately train clients and increase workforce readiness.

LEGAL/POLICY REQUIREMENTS: N/A

PUBLIC/GOVERNMENTAL PARTICIPATION:

Internal Audit engages with every aspect of County government at all levels – across departments and programs and along management/staff lines – identifying best practices, areas for improvement, and risks to be evaluated.

In determining the status of audit recommendations, surveys of recipient departments (County Administration; the Justice Court; Tourism and Cultural Affairs; Transportation and Development; Finance; Health, Housing and Human Services; and Human Resources) included self-reporting and implementation validation.

In allocating limited Internal Audit resources, Internal Audit engaged with County leadership and the Internal Audit Oversight Committee. High-risk areas were identified through 27 risk assessment interviews conducted with all, but one, County elected officials and departments, including over 70 department management and staff.

In administering the County hotline, Internal Audit responded to both employee and public reporters through written, phone, and in-person correspondence. Investigations were conducted with the cooperation of various County departments, employees, Human Resources, County Administration, and County Counsel.

OPTIONS: N/A

RECOMMENDATION: N/A

ATTACHMENTS:

Exhibit A: Audit Recommendations & Management Responses, July 2019

Exhibit B: Office of County Internal Audit, 2020 Audit Engagements

Exhibit C: Clackamas County Employee Hotline 2019

SUBMITTED BY:

Division Director/Head Approval *J. Cochran*
Department Director/Head Approval BTN
County Administrator Approval _____

For information on this issue or copies of attachments, please contact Jodi Cochran @ 503.742.5983

Exhibit A

Audit Recommendations & Management Responses



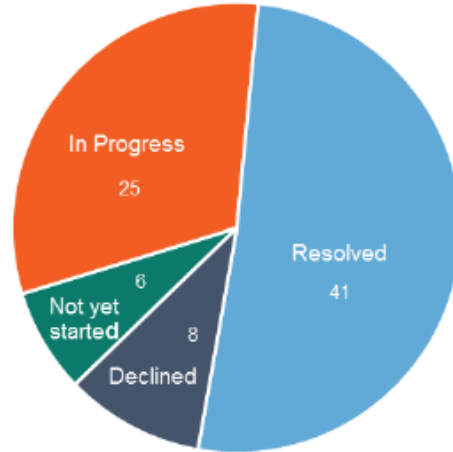
Internal Audit reports issued to date



Responding County Departments



Internal Audit recommendations



Audit recommendations draw attention to conditions of potential risk to the County. These risks may be barriers to the County's ability to achieve its strategic priorities. Supporting the County's risk management process, and in compliance with internal auditing professional standards, IA monitors the status of outstanding audit recommendations and the progress management is making toward its intended resolutions.

Build public trust through good government

Grow a vibrant economy

Build a strong infrastructure

Ensure safe, healthy and secure communities

Honor, utilize, promote and invest in our natural resources

31



Open items will be addressed by each department through self-reporting forms

Lightbulb icon = 5



HR



Finance



Justice Court



DTD



Nearly 50% of open items have been outstanding for less than 12 months, including 83% of items not yet started.

July 2019

Office of County Internal Audit

Mission – Enhance and protect Clackamas County’s organizational value by providing risk-based and objective assurance, advice, and insight.

Vision – Office of County Internal Audit services enhance County residents’, employees’, and departments’ confidence that the public’s interests are protected and encourage engagement with a more accountable, higher performing, and more transparent local government.

Risk Assessment

Offices and Departments Facing Highest Risk Potential in 2020

- Business and Community Services
- Clackamas County Sheriff’s Office
- County Clerk
- Department of Transportation & Development
- Finance
- Health, Housing, & Human Services
- Human Resources
- Water Environment Services

A high risk score does not mean an office or department is being managed ineffectively or internal controls are inadequate. It merely indicates the services it is responsible for are, by nature, high priority activities with high risk potential.

Scoring Criteria

Survey (Interviews and questionnaires)

Score Weighted by:

- Complexity (Strategic, Operational, Financial, Information Technology, Legal/Regulatory, Reputation/Customer Service)
- Financial Transactions (Revenues and Expenditures)

Strategic Initiatives Impact

Audit Frequency

*Fifty-two auditable units were identified and evaluated.

2020 Audit Engagements

Metro Housing Bond: Housing Authority and H3S

This will be a multi-year, multi-engagement effort. Bond implementation readiness will be the first focus.

Supports Strategic Priority
Ensure Safe, Healthy and Secure Communities - Increase affordable housing; Reduce chronic homelessness

Financial Condition Analysis: Finance

IA conducted a financial condition analysis and issued a report in 2018. This effort will provide residents and public officials with updated information on the County’s financial health.

Supports Strategic Priority
Build Public Trust through Good Government - Increase budget alignment; Build a new Courthouse.

Contracted Services: H3S

As the County addresses budget reductions and focuses efforts to streamline operations, improve efficiency, and deliver services, this review will provide insight and assurances regarding contract administration practices for all departments.

Supports Strategic Priority
Grow a Vibrant Economy - Increase workforce readiness.

Audit engagements are selected and designed to address high risk potential, while optimizing Internal Audit resources and impact.

Additional risk-based audit engagements will be pursued as resources allow.

Outstanding Audit Recommendations & Management Responses: Status Update

IA monitors and annually reports the status of outstanding audit recommendations and the progress management is making toward its intended resolutions.

Consulting and hotline services are equal priorities as the Office of County Internal Audit strives to add value.



Exhibit C

Clackamas County Employee Hotline 2019

All reports are reviewed by Internal Audit. Some we investigate. Some we refer and monitor. All are tracked.

20% Theft or Embezzlement

26% Falsification of Contracts, Reports or Records

41% Misuse of Assets or Services

13% Noncompliance with Accounting and Internal Controls

How many reports have we received?

117

18

Yearly average after Internal Auditor hired

The County Employee Hotline was created in 2006. The County Internal Auditor contracts with a third party for report intake. This supports active employee participation in ensuring a safe, secure, and ethical workplace. It is an independent, confidential method for reporting suspected fraud, waste, and abuse of position.

How do people report?

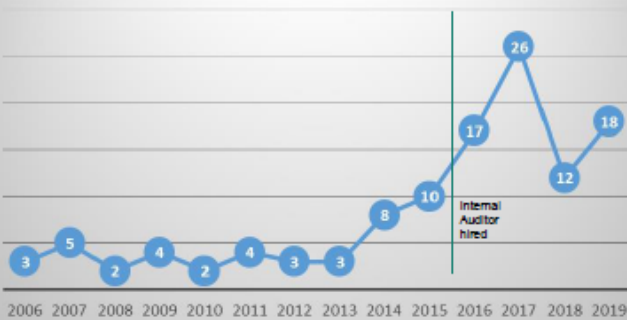
56% Hotline

38% Online

6% In person



Annual Hotline Reports



Clackamas County Employee Hotline
Report Fraud, Waste, and Abuse
24 hours a day, 7 days a week
866-294-9315

[Report online www.ethicspoint.com](http://www.ethicspoint.com)

In all our actions we demonstrate our core values, our Clackamas SPIRIT.

SERVICE

PROFESSIONALISM

INTEGRITY

RESPECT

INDIVIDUAL ACCOUNTABILITY

TRUST

