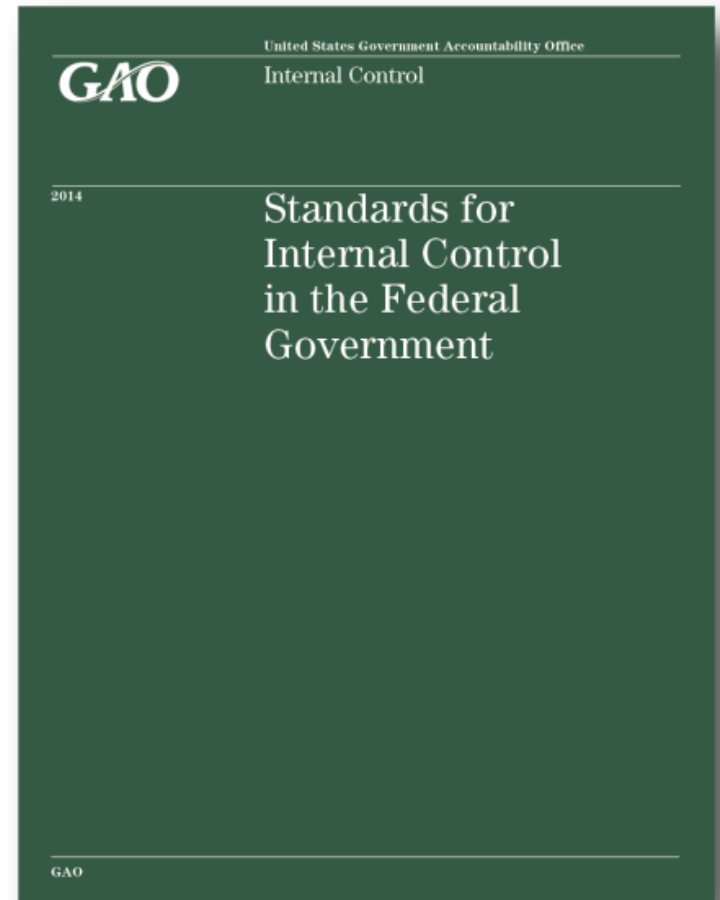


Paying Attention to Internal Controls: Using the Green Book for State and Local Audits

Presented by
Harriet Richardson
City Auditor
Palo Alto, CA

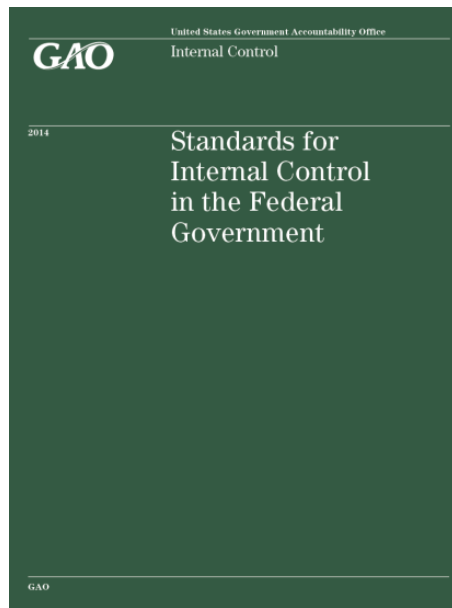


Learning Objectives

- Understand why the Green Book is relevant to government auditors and how they can use it in their own work
- Understand why the Green Book is relevant to management and how auditors can use it to help management in their organizations gain a better understanding of internal control

Our Role in Using the Green Book

In our own work: there is a linkage between internal control (Green Book) and criteria (Yellow Book):



- Green Book can be used to understand criteria
- Yellow Book says findings are composed of:
 - Condition (what is)
 - **Criteria (what should be)**
 - **Cause (often relates to internal control deficiencies)**
 - Effect (result)
 - Recommendation (as applicable)



- Green Book provides criteria for design, implementation, and operating effectiveness of an effective internal control system

Yellow Book Requirements for Internal Control

Financial Audits – Reporting on financial statement audits includes reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the financial statements

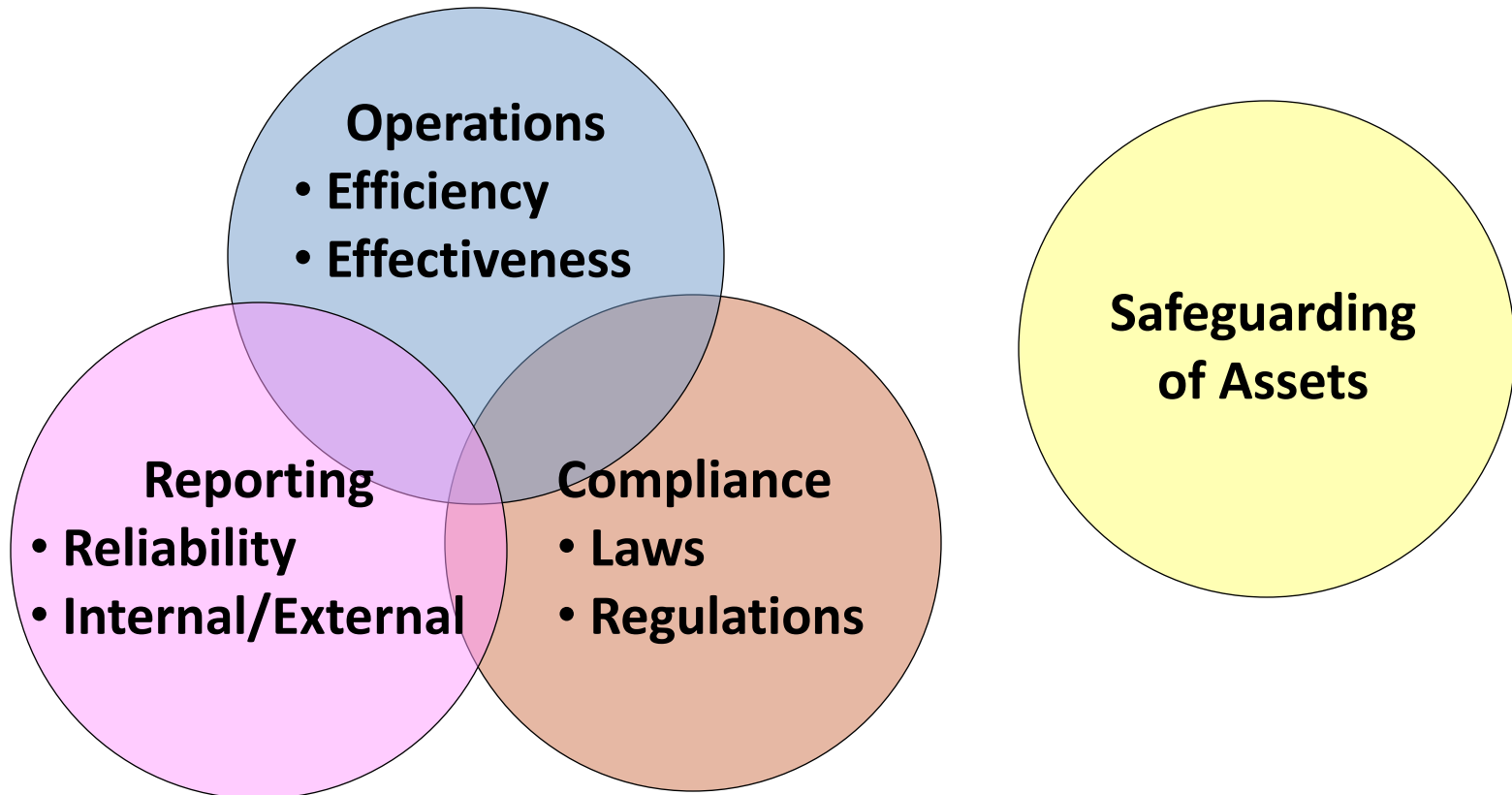
Yellow Book Requirements for Internal Control

Performance Audits - Performance audit objectives vary widely and include assessments of internal control

- An audit to evaluate program effectiveness may also involve evaluation of internal controls to determine the reasons (i.e., the cause) for a program's lack of effectiveness or how effectiveness can be improved
- Internal control is a defense in safeguarding assets and in preventing and detecting errors, fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse.

Internal Control Objectives

Internal Controls Provide Reasonable Assurance of Achieving Objectives



Revised Green Book: Overview Section

Green Book provides criteria for design, implementation, and operating effectiveness of an effective internal control system

- Fundamental concepts of internal control
- Establishing an effective internal control system
- Evaluation of an effective internal control system
- Additional considerations

Yellow Book: Planning and Internal Control

Paragraph 6.11 says that auditors should assess audit risk and significance within the context of the audit objectives by gaining an understanding of:

- Internal control as it relates to the specific objectives and scope of the audit
- Information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives

Yellow Book: Planning and Internal Control

Engagement-Level Risk Assessment

Component	Function/Area (e.g., purchasing, culture)	Risk	Expected Control Technique(s)	Effects of Inadequate Controls or Controls Not Applied
Control environment	Health & Safety Unit; BPD Professional Standards Division; city and department culture	Death, paralysis, and permanent life-altering injuries	Quality injury prevention programs, training, and injury review. Proper equipment that's in good condition and meets industry standards. Management attitude and actions that show it values safety and is committed to preventing injuries.	Officers will die, be paralyzed, or suffer life-altering injuries; city will incur high workers' compensation and litigation costs. Time lost due to employees being unable to work. Potential recruitment and training costs for replacement officers.

Yellow Book: Planning and Internal Control

Control Methods Cited by Management	Potential Impact of Risk (H=3, M=2, L=1)	Probability Rating (based on controls in place) (H=3, M=2, L=1)	Score	Justification for Impact/Probability Ratings
<p>The city has an injury prevention program & city policy requires the investigation of injuries and taking steps to avoid reoccurrence. The city's health & safety staff are knowledgeable and clear on their responsibilities. The BPD has a safety committee that reviews injury reports and takes action when it identifies safety concerns. The BPD has a training program and officers must meet certain state training requirements. The BPD uses a suggestion box so that officers can identify safety issues for which the BPD will then review and take action on. The BPD has not reported a large number of deaths, paralysis, and life-threatening injuries. The BPD provides safety equipment for its officers. City management understands the need for safety.</p>	3	2	6	<p>PI Risk: because of the severity of the risk</p> <p>PR Risk: controls in place help prevent and reduce injuries; such injuries are not frequent</p>

Our Role in Using the Green Book: Control Environment – Audit Application

City of Berkeley Office of the City Auditor



**\$52,000 Theft: More Can Be Expected Without
Citywide Changes in Culture and Procedures**

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Presented to Council April 1, 2014

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Audit evaluated why theft occurred:

- \$52,000 theft from 2009-2011 despite multiple audits and 179 recommendations over 10 years to improve cash handling practices in various city departments
- Lack of “tone at the top” to correct the deficiencies, either at the departments audited or citywide
- Management focus on providing services rather than on the oversight required to safeguard assets

Our Role in Using the Green Book: Control Environment – Audit Application

Audit of King County Field Inspection Function

Audit evaluated the efficiency and effectiveness of inspections performed by the residential and land use site inspectors, with a specific focus on inspector productivity.

Inspector performance and productivity varied widely because management did not:

- Provide an adequate oversight structure – supervisors were not required to and did not provide any supervision to inspectors in the field
- Evaluate performance as it specifically related to employees' inspection responsibilities and hold inspectors accountable for the quality of their performance and their level of productivity

Our Role in Using the Green Book: Risk Assessment – Audit Application

City and County of San Francisco

OFFICE OF THE CONTROLLER
CITY SERVICES AUDITOR

Health Service System:

The System is Not Structured, Governed or Managed Effectively to Ensure Equitable and Cost-Effective Health Benefits for All Members and Their Employers



Audit Number 04002P

June 29, 2005

Audit evaluated the appropriateness of the Health Service trust fund balance:

- The Health Service Board was not sufficiently focused on risk management
- The Health Service Board did not identify cost containment strategies to address the risks associated with skyrocketing health care costs
- Insufficient oversight, strategic planning, and decision making from the Board; the Health Service System could not adequately position itself to address future issues

Our Role in Using the Green Book: Risk Assessment – Audit Application

Audit of Department of Metropolitan Services’ Use of Temporary Contract Workers

Audit evaluated whether Metro’s expenditures for temporary contract workers were reasonable and whether contracts complied with existing policies, procedures, and regulations.

Use of “temps” gave appearance of employer-employee relationship:

- Metro did not assess the risk of laying off employees and rehiring them as “temporary” contract workers
- Some worked from 1-17 years doing same work they had done as county employees
- The “temps” sued the county, won back pay and benefits; 500 long-term “temps” placed in jobs with full benefits

Our Role in Using the Green Book: Control Activities – Audit Application

**Financial Related Audit:
Pension Division
Payments to Deceased Pensioners**

March 2004

**Office of City Internal Auditor
City of Atlanta**

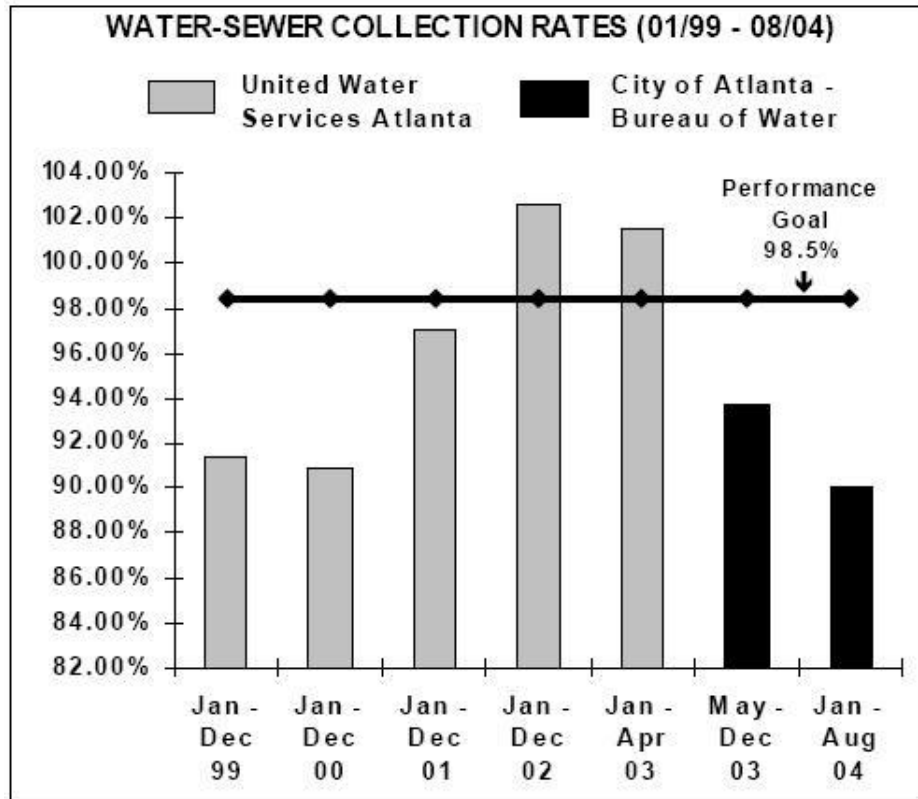
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Audit evaluated the Pension Division's internal control system. Inadequate control activities, including lack of supervision and segregation of duties, allowed:

- Two employees to divert \$75,690 in payments from two deceased pensioners and one fictitious pensioner into a bank account
- \$2.1 million to be paid to 454 deceased pensioners over a 39-month period

Our Role in Using the Green Book: Control Activities – Audit Application

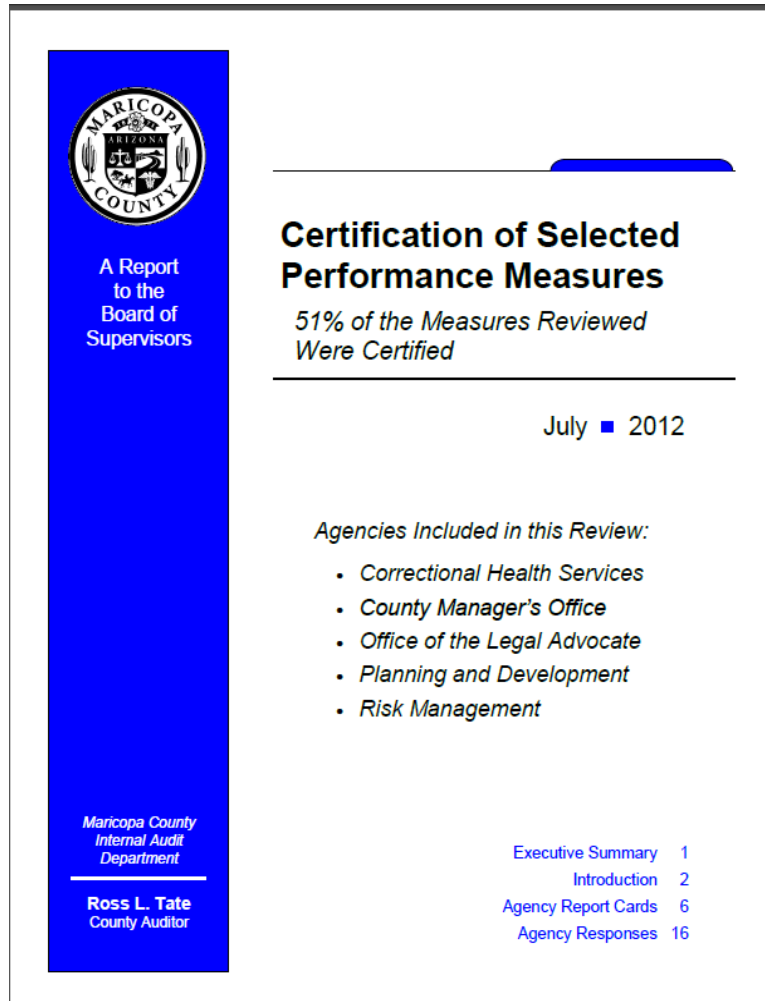
Audit of Billing and Collection of Water and Sewer Service Charges evaluated why the Department of Watershed Management was not meeting its collection rate performance goal of 95%:



Insufficient processes to encourage customer payment:

- Department averaged 103 days to collect bills due within 15 days of billing date
- Average wait of 10 months to shut off water on delinquent accounts; Municipal Code required shut off within 30 days

Our Role in Using the Green Book: Information & Communication – Audit Application



Audit evaluated agencies' procedures for collecting, calculating, and reporting performance-related data:

- Performance data collected often did not match the measure's definition
- Data collection procedures often unreliable
- Reported performance data often inaccurate
- Performance data inaccuracies diminish transparency and accountability and affect the quality of management decisions

Our Role in Using the Green Book: Information & Communication – Audit Application

The Department of Telecommunications and Information Services Needs to Simplify Its Rate Model, Improve Customer Service, and Revamp Performance Measures



November 17, 2006
05053

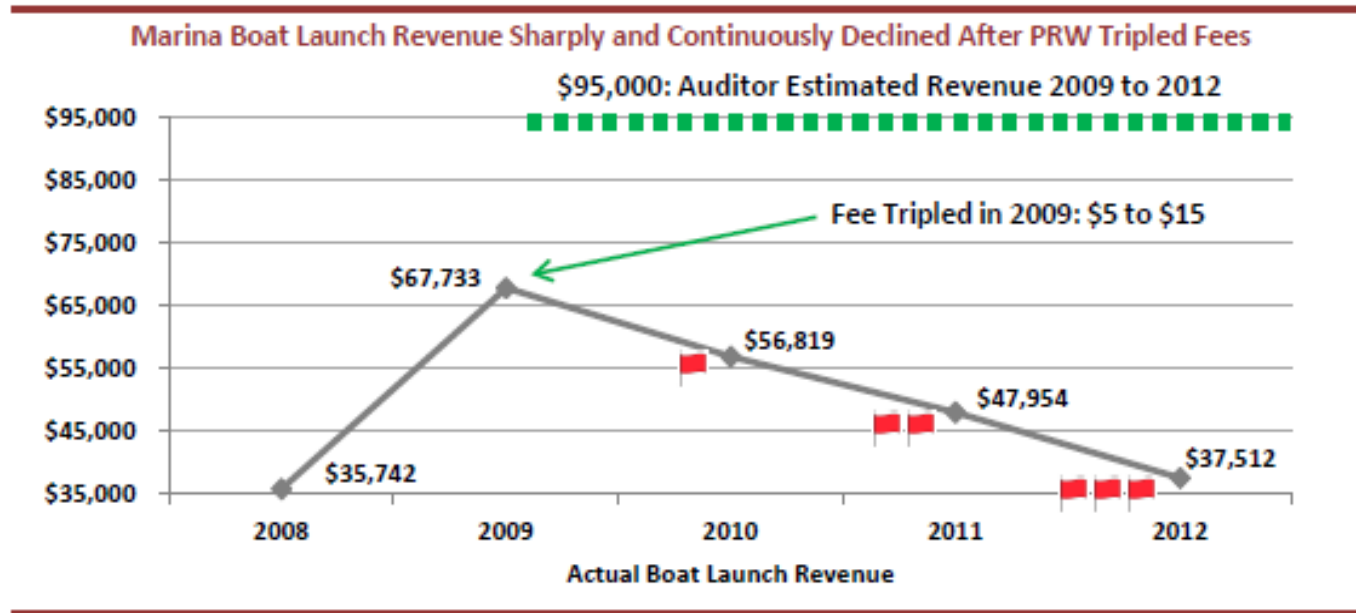
Audit evaluated department's procedures for collecting, calculating, and reporting performance-related data:

- Performance data collected often did not match the measure's definition
- Reported 100% timely resolution for complaints that were others' responsibility
- Unreliable data collection procedures:
 - Reported estimates rather than actuals
 - Reported 100% accuracy on data not tracked
 - Reported website satisfaction based on percentage of visitors who did not complain

Our Role in Using the Green Book: Monitoring – Audit Application

Audit evaluated why theft occurred and identified warning signs that there was more theft:

- Boat launch revenue sharply declined for three consecutive years
- No boat launch revenue in August 2007 – a peak boating month
- Management did not monitor; was unaware of decline in/lack of revenue

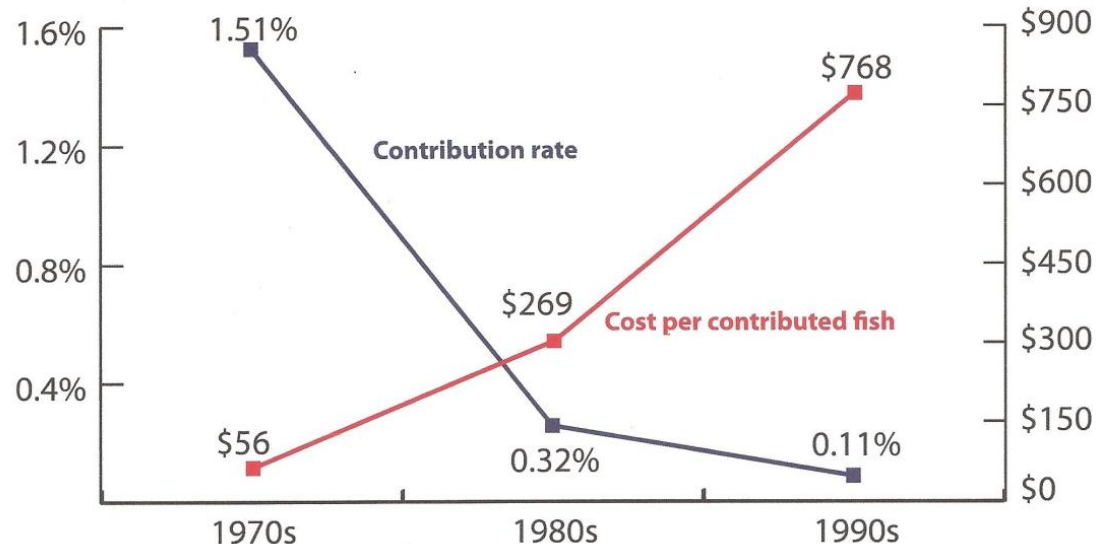


Our Role in Using the Green Book: Monitoring – Audit Application

Audit evaluated whether department met statutory goal to produce and release 3 million delayed-release Chinook salmon annually:

- Management did not monitor results to identify that it was not meeting intent of legislation; consequently:
 - Only 0.11% of delayed-release salmon were caught in the Puget Sound in the 1990s; less than 1% caught anywhere
 - Declining contribution rate caused cost per delayed-release Chinook salmon caught to increase to \$768 by the 1990s

**Puget Sound Recreational Fishery
Contribution Rates and Cost Per Yearling Chinook**



Our Role in Helping Management Use the Green Book

- Develop and provide training sessions to help management understand the components, principles, and attributes and their applicability to local government
 - ✓ Focus on responsibilities of management
 - ✓ Provide examples for each component, principle, and attribute
 - ✓ Use “plain talk”
- Educate management through audits

Our Role in Helping Management Use the Green Book

- Explain link to grant monitoring responsibilities; new OMB Supercircular requires:
 - ✓ Nonfederal entities to establish and maintain effective internal control over federal awards to provide reasonable assurance of managing award in compliance with federal statutes, regulations, and terms and conditions of the federal award; internal controls should be in compliance with the COSO framework and Green Book standards (2 CFR § 200.303)
 - ✓ Scope of audits to evaluate adequacy of internal control based on COSO framework and Green Book standards (2 CFR § 200.514)

Our Role in Helping Management Use the Green Book

GAO

United States General Accounting Office
Internal Control Standards

August 2001

Internal Control Management and Evaluation Tool



GAO-01-1008G

- Helps managers and evaluators determine how well an internal control is designed and functioning
- Helps determine what, where, and how improvements, when needed, may be implemented
- Sections correspond to the 5 components:
 - ✓ Explanations of components provided
 - ✓ Identify list of major factors to consider when reviewing internal control; not all-inclusive
 - ✓ Provides space beside each point for comments and descriptions

Paying Attention to Internal Controls: Using the Green Book for State and Local Audits

New Green Book, previous versions,
infographic, and Internal Control
Management and Evaluation Tool available at:

<http://www.gao.gov/greenbook/overview>

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Questions?

Paying Attention to Internal Controls: Using the Green Book for State and Local Audits

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