



**OFFICE OF INSPECTOR GENERAL
PALM BEACH COUNTY
AUDIT REPORT: 2012-A-0004
CHILDREN'S SERVICES COUNCIL
REPORT ON EXTERNAL QUALITY REVIEW**

Sheryl G. Steckler
Inspector General

"Enhancing Public Trust in Government"

SUMMARY RESULTS AT A GLANCE

Children's Services Council ("CSC") senior management requested that the Office of Inspector General, Audit Section, perform an external quality review of CSC's Audit and Compliance Department ("ACD"). The review focused on ACD's audit processes and documentation of work performed.

In fulfilling its mission of providing services to the children of Palm Beach County, CSC contracts with various third party service providers ("agencies"). As of June 30, 2012, 36 agency contracts were in place, encompassing more than 70 programs, and funded at over \$80 million. Agency contract compliance, both program performance and fiscal elements, is subject to audit by ACD. ACD also conducts internal audits within CSC.

We noted several opportunities for improvement in ACD's approach and performance of agency and internal audits:

Pre-Audit Planning:

- Need for better linkage of conclusions regarding agency internal controls, input from the CSC Program Divisions, and other risk factors used by ACD to decide which audit procedures are to be performed during a respective agency audit.
- Perform risk-based agency audits in addition to the current practice of cyclical audits to enable application of limited audit resources to the highest risk agencies and programs.
- Develop more robust audits of "Lead Agency" service providers to address the agency's compliance with CSC's expectations for monitoring controls over subcontractors.
- Enhance the audit sampling methodology to provide a more representative sample across the period under review and reduce the predictability of the operating expenditures that may be selected for audit.
- Implement "continuous audits" of agencies to reduce the audit cycle time and take advantage of current, auditable data provided by agencies in their monthly fiscal submissions (via the internet-enabled application "SAMIS").

Audit Fieldwork:

- Improve the documentation of the audit work performed to substantiate its completion and conclusions reached, as well as comply with professional standards.
- Formalize the system of quality control over the audit process to prevent or detect audits that are inconsistent with plans and professional standards.
- Consistently document supervisory review of audit work performed, with emphasis on verifying that all planned audit activities were completed.

Audit Report and Other Matters:

- Eliminate recurring agency audit findings by formally engaging other CSC personnel in monitoring roles to oversee implementation of corrective action.
- Implement a formal program for ACD staff professional certification and on-going professional education to ensure that competent staff are performing audits and complying with professional standards.
- ACD performance metrics, such as elapsed time between completion of audit fieldwork and audit report issuance, need to be developed and tracked.
- Re-implement auditee surveys to aid in modifying the audit process to be more effective and efficient.

We have made 18 recommendations to improve ACD operations in the areas we identified. CSC management has acknowledged the recommendations and has designed improvement actions to address them. We have summarized management's responses to the Findings and Recommendations in the body of the report, and have included management's complete response as Attachment 1.

BACKGROUND

Children's Services Council of Palm Beach County is an independent special taxing district of local government, as authorized by Florida Statute and created by local referendum in 1986.

In fulfilling its mission of providing services to the children of Palm Beach County, CSC contracts with various agencies. As of June 30, 2012, 36 agency contracts were in place at CSC, encompassing more than 70 programs, and funded at over \$80 million. Agency contract compliance, both program performance and fiscal elements, is subject to audit by ACD. CSC established the ACD in 2006 to perform agency audits, typically on a 14-16 month cycle. Beginning in fiscal year 2011-2012, ACD was also tasked with planning and initiating an internal audit program within CSC. An operating goal of ACD is to be in general compliance with the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*.

The ACD consists of a Director, four auditors, and a part-time budget specialist. The Director reports functionally to the CSC CFO, and is directed by the CSC CEO Group, comprised of senior management. It is the CEO Group's policy to update the nine

member Council of significant matters noted in audit reports (See related Auditor's Note, Page 11). During the 12-month period ended June 30, 2012, ACD completed 25 agency audits and one internal audit.

The annual ACD annual budget is approximately \$629,000.

OBJECTIVES, SCOPE AND METHODOLOGY

Our primary review objective was to develop improvement recommendations regarding ACD's audit processes and operations by:

- Review of ACD's policies and procedures.
- Review of documentation of ACD's planning, fieldwork and reports of agency audits and CSC internal audits.

The scope of our review covered ACD's activities during fiscal years 2010-2012.

We obtained an understanding of CSC goals for ACD, reviewed ACD policies and procedures, tested a sample of audit project electronic and hard copy work papers and reports, and reviewed staff credentials and training. We held discussions with CSC senior management, program, finance, and ACD personnel.

This review was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the work to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

Our specific findings and corresponding recommendations are noted below.

FINDING (1): NEED FOR BETTER LINKAGE OF AGENCY AUDIT RISK FACTORS TO THE ACD AUDIT PLAN OF WORK TO BE PERFORMED

Agency audits are performed on a cyclical basis, typically every 14-16 months. The audit procedures to be performed vary for each audit and should depend on ACD's review of risk specific to that agency. Risk factors that ACD considers in deciding which audit procedures to perform are obtained through discussions with the CSC Program Division staff concerning agency performance, fiscal aspects noted by the CSC CFO and budget specialists, the review of program and financial reports, review of prior audit work, and Nonprofits First (a certification provider) results, among other factors.

However, in our review of the audit files, we noted that the risk factors that ACD may have considered and ACD's decision on which audit procedures to perform on the respective agency audit in response to the identified risk, were not documented.

Lacking a clear link between the risk factors and the agency audit plan increases the likelihood of omitting important audit procedures or over-auditing areas of less concern.

For example, we noted that CSC has begun contracting with “Lead Agencies”, whereby the contracted agency has executed one or more subcontracts to obtain services. In those cases, the focus of ACD activities is the quality and effectiveness of the Lead Agency’s monitoring controls over its subcontractors. However, a tailored audit plan of work focused on monitoring controls was not documented, and the work that was performed could be more robust.

ACD’s approach to auditing Lead Agencies is developing during this initial year (fiscal year 2011-2012) of such contracts, and ACD recognizes that it will need to be significantly enhanced. We were informed that the approach to Lead Agency audits is a topic at an upcoming off-site ACD team meeting.

Recommendations:

- (1)** For each agency audit, document the risk factors that ACD considered, the resulting audit planning conclusions reached, and audit procedures to be performed based on those conclusions.
- (2)** Periodically apply a similar approach as in Recommendation (1) to developing a schedule of audits that includes risk-based reviews, to supplement the current approach to performing cyclical audits.
- (3)** Due to the high relative importance of agency program performance, ACD should provide each agency audit plan to the CSC Program Division Director for review prior to commencing the audit to ensure that the audit will appropriately address agency program performance.
- (4)** Develop a robust, documented audit approach to Lead Agency audits. We recommend that the approach include periodic audits of subcontractors to verify the quality of Lead Agency monitoring controls.

Summary of Management Response:

All recommendations will be implemented by January 1, 2013.

- (1)** ACD will require the development and documentation of specific risk factors, in a cohesive manner, which will drive audit plans for the specific agencies.
- (2)** ACD previously applied a Risk Assessment approach to scheduling funded agency audits. A risk-based policy will be re-instituted in October 2012, which will be explicitly tied to recommendation #1 above, and guide the department’s prioritization of its audit engagements.
- (3)** Children’s Services Council Auditors will immediately begin utilizing the protocol outlined in recommendation #1 above, and as a result will provide a

draft of each completed agency audit plan electronically to the Program Performance Director and Officer for review and comment, no later than 2 weeks prior to commencing the audit engagement.

- (4) ACD will revisit its current procedures for auditing CSC-funded Lead Agencies and redefine its documentation requirements for both the Lead Agency and the auditor conducting the review.

FINDING (2): REVISE THE AGENCY AUDIT SAMPLING METHODOLOGY TO PROVIDE A MORE REPRESENTATIVE SAMPLE ACROSS THE PERIOD UNDER REVIEW TO REDUCE PREDICTABILITY, AND IMPLEMENT CONTINUOUS AUDITING

Typically, agency non-payroll expenditures of the first/last months of the program fiscal year are audited. In order to capture all budget line items, a charge in another month may be reviewed. This approach does not subject most months under audit to be included in the audit sample, potentially missing non-compliant expenditures. When conducting an audit, transactions and other activities across the entire period under audit review should be sampled. In addition, from audit to audit, an agency learns ACD's audit approach, and may deliberately charge questionable costs in months that are repeatedly excluded from ACD's sample.

Noted in our review are the following examples of non-representative ACD audit samples:

- For an audit of a program administered by the agency "Housing Partnership", covering October 1, 2010 through September 30, 2011, non-payroll expenditures were selected only from the month of September. Non-payroll expenditures were 50% of the total program budget of \$2.17 million.
- In the audit of the agency "Prime Time" ACD selected non-payroll expenditures for the last month of the 15 months of activity reviewed, with a few operating expenses selected from other months only if a budget expenditure category did not have any expenditures incurred in that category during the last month of the period. Therefore, a representative, random sample did not include the prior 14 months.

Recommendations:

- (5) Perform a stratified sample, selecting more expenses for review in the first and last month of the program year as those months are considered higher risk, and performing a random sample across the entire period. Note: any specific risk areas identified according to Recommendation (1) should also be included in the selection of expenses to review in detail.
- (6) As noted in the "Background" section of this report, agency audits are performed on a 14-16 month cyclical basis, therefore the audits are a "look back" over an extended

period. Given that agency expenditure data is readily available to ACD through each agency's monthly submission of data to CSC Finance, via the internet-enabled fiscal reporting system that CSC requires agencies to use (the "SAMIS" system), we recommend that ACD management direct continuous audit procedures over certain elements of contract compliance, such as payroll and operating expenses, in order to capture non-compliance and instruct corrective agency action on a more timely basis.

Summary of Management Response:

All recommendations will be implemented by January 1, 2013.

- (5) The audit plan will identify those months in the audit period where there may be a heightened exposure to risk elements, which will form the basis for a larger random sampling in the months of heightened risk, and across the entire audit period.**
- (6) ACD and the Budget/Fiscal Department will develop and document a protocol for continuous monitoring.**

FINDING (3): IMPROVE DOCUMENTATION OF AUDIT WORK PERFORMED AND AUDIT SUPERVISION, AND FORMALIZE AN OVERALL SYSTEM OF AUDIT QUALITY CONTROL

ACD policy and procedures do not specify minimum documentation standards. The following was noted:

- The documentation contained in the ACD audit files (hardcopy or electronic) varied significantly from audit to audit, and auditor to auditor, for the same audit procedures performed. For many audit procedures, no documentation was present supporting the performance of the work, unless a finding was noted. In addition, in one audit file reviewed, for expenditure selections of a Housing Partnership program reviewed (#638), it was very difficult to ascertain that the audit work had been performed, as we noted the absence of auditor notes in the work papers to explain agency expenses that would ordinarily have been questioned. As noted above, non-payroll expenses were 50% of this program's budget of \$2.17 million.
- In the projects reviewed, we noted cases where we could not ascertain that all work specified in the audit program had been performed. In the Housing Partnership, program #638 audit, capital assets acquired in the program year totaled approximately \$25,000, and a test of the physical existence of such assets was called for in the audit program. However, when we could not locate any related documentation, the ACD Director and OIG staff were informed by the ACD auditor that the work had not been performed.
- When ACD noted an audit finding in an agency audit, such as a disallowed cost, it was unclear to us as to the follow-up ACD audit response to the matter other than

reporting the finding, as it was not documented. When an audit finding is noted, professional standards require documentation of the auditor's follow-up response, such as extending testing, reviewing the possibility of an agency internal control defect, consideration of fraud, re-audit etc.

- Supervisory review of the work performed by the auditors on agency and internal audits was not consistently evidenced/documentated.

The system of quality control over the ACD audit process, such as documentation standards, review standards etc. is not formalized and documented. Professional standards require a documented system of quality control to ensure the quality of audits.

Recommendations:

- (7) The ACD Director should develop a policy on the nature and extent of audit documentation that should be required in the work papers to support the conclusions reached. This may include, for example, spreadsheets detailing what was reviewed and conclusions reached, copies of original agency documents etc.
- (8) The ACD Director or designee should cross-check between the audit plan/program and work performed prior to concluding the agency audit.
- (9) Document the ACD audit response to audit findings in agency audits to substantiate that audit comfort was gained, that the issue was isolated, or that additional audit procedures were needed in order to gain such assurance.
- (10) The ACD Director should document the supervisory review of audit work to substantiate completeness of the work performed and agreement with the conclusions reached.
- (11) The ACD Director should develop a documented system of quality control for ACD work, consistent with professional standards (Government Auditing Standards, Institute of Internal Auditor standards).

Summary of Management Response:

All recommendations will be implemented by January 1, 2013.

- (7) The CSC Audit Director will develop a procedure document that standardizes both the nature and extent of required audit documentation. The procedures will include instructions to develop spreadsheets and/or other tracking documentation as appropriate to define the nature and extent of any noted audit exception, and most importantly the conclusions derived by the auditor as a result of finding the particular exception.

- (8) The CSC Audit Director will implement a procedure to cross-check the audit plan against the audit log for completeness prior to the audit being concluded, as a newly implemented quality control element.
- (9) The CSC Agency Compliance Auditor currently compiles an audit log; the Audit Department will institute an enhanced use for this audit log, which will remain intact as a mirror of the audit plan approved by the Audit Director and Program Services Director, and serve as a cross-check document to be signed off on by the Audit Director prior to the conclusion of the audit and agency exit conference.
- (10) Reference is made to #9 above as this recommendation will be satisfied with the new process outlined therein.
- (11) The CSC Audit Director, in collaboration with the CSC Controller and the Program Division Chief/Directors, will utilize the protocols detailed in #7 through #9 above to redefine and implement a more robust quality control system.

FINDING (4): IN ORDER TO ELIMINATE RECURRING AUDIT FINDINGS IN SUBSEQUENT AGENCY AUDITS FORMALLY ENGAGE OTHER CSC PERSONNEL

The agency audit reports do not contain agency management's response to the audit findings. Reports are provided to the CSC Program Divisions and Finance for follow-up with the agency. ACD does not monitor implementation.

Findings noted in an ACD agency audit could reflect less than optimal CSC monitoring processes such as program and fiscal monitoring, or failure to comply with adequate processes within CSC. Currently, such matters are handled by discussions/meetings between ACD and any relevant CSC personnel following an agency audit.

Recommendations:

- (12) Include management's response in agency audit reports, as this will help ensure the quality and value of audit findings, likelihood of implementation, and ability to periodically follow-up on the status. In addition, it reduces the risk that an issue deemed of significance by ACD is dismissed or neglected by others within CSC to whom the issue is passed for follow-up.
- (13) To ensure the quality, timeliness, and integrity of follow-up with the agency by the CSC Program Officer (typical relevant party) or other relevant CSC personnel, the CSC Program Division Director, and other relevant management of an area at issue, should attend the Post Audit Meeting where audit results and follow-up should be discussed and planned.
- (14) Issue a formal internal report/memorandum to a responsible CSC Director or above, simultaneously with the agency report, for matters discovered in an agency

audit that relate to an opportunity to improve CSC internal processes and personnel performance in their monitoring roles.

Summary of Management Response:

All recommendations will be implemented by January 1, 2013.

(12) The CSC Agency Compliance Auditor immediately will begin to capture agency management response and convert them into the final report draft.

(13) The Program Performance Officers and Budget Specialists will be expected to attend all post-audit conferences to assure that necessary follow-up and support is given to the funded agencies regarding their management letter responses and subsequent action steps. Content from the conferences will feed into CSC's Quality Assurance function.

(14) CSC ACD will institute an internal memorandum to be circulated to the appropriate CSC management and staff person in those instances when the funded agency did not resolve the issue(s) and repeat findings resulted.

FINDING (5): A FORMAL PROGRAM FOR STAFF PROFESSIONAL CERTIFICATION AND ON-GOING PROFESSIONAL TRAINING IS NEEDED TO ENSURE ON-GOING STAFF COMPETENCY AND ADHERENCE TO PROFESSIONAL STANDARDS

Presently, professional certification and training goals, such as required Continuing Professional Education credits per auditing standards, are not formally planned and tracked. Competencies need to be enhanced based on the increase in internal audit activity. Professional standards (government and internal audit) require a minimum of 80 hours of continuing professional education in every two-year period.

Recommendation:

(15) Formally document professional certification and training goals, and track achievement. Encourage relevant professional certification and training development. Specialized certification and training would enhance staff skill sets used in assessing risks and conducting more complex and higher quality audits.

Summary of Management Response:

(15) CSC will revisit its requirements for competencies of Agency Compliance Auditors in relation to its stated mission and needs, and is committed to incorporating continuing professional educational components in individual development plans as may be appropriate. As ACD moves to fully incorporate the internal audit structure, ACD will assess the need for continuing professional education units as it pertains to governmental and internal auditing standards. This is a continuous improvement initiative.

FINDING (6): ACD PERFORMANCE METRICS NEED TO BE DEVELOPED AND TRACKED

ACD activities are not reviewed against a formal set of performance metrics and benchmarks.

We noted, for example, that timeliness of audit report issuance is not tracked. In the three audit projects selected for review, the time between the completion of fieldwork and issuance of the audit report was 84, 59, and 35 days respectively. Accelerating the completion and issuance of an audit report enhances its value, maintains audit momentum that reduces the likelihood of reporting errors, and accelerates management consideration of audit issues and recommendation, and the subsequent initiation of corrective action.

Recommendation:

(16) Implement metrics and compare results to benchmarks and trends to guide continuous improvement in key audit processes.

Summary of Management Response:

(16) ACD tracks certain metrics on an annual basis but it is acknowledged that the process does not formally incorporate an overall metrics structure. ACD will revisit audit metrics again this year by October 2012, and coordinate with the program division (where applicable) for effectiveness.

FINDING (7): POST AUDIT SURVEYS ARE NOT BEING CONDUCTED

ACD, after conducting provider and internal audits, does not send feedback surveys to auditees and other users of audit reports. Although used in prior years, it is our understanding that surveys have not been used by ACD for the past two years.

Audit best practices include the use of post audit surveys to assist in improving audit processes and increasing the value of audits. Surveys to CSC management and departments could be particularly useful to ACD as it rolls out its internal audit function.

Recommendation:

(17) Use post audit surveys to aid in refining the ACD audit process.

Summary of Management Response:

(17) No later than at the beginning of the 2012/2013 fiscal year, ACD will re-institute both an annual survey for all audit agencies included in the audit plan for that year, and a survey at the end of each audit engagement.

FINDING (8): SAMIS FISCAL DATA FROM AGENCIES LACKS IDENTITY AND ATTESTATION OF THE SUBMITTER

While outside the scope of our audit, we noted that agencies, in submitting monthly SAMIS data electronically that subsequently generate reimbursement, do not include any affirmation as to the accuracy of the fiscal data. This could have legal and recovery implications if errors or fraud are subsequently detected by CSC in ACD audits or through other means, because the name of the submitter, an electronic signature, and affirmation is not present.

Recommendation:

(18) The CSC General Counsel should consider reviewing this matter, and address any exposure that may be present or enhancements that could be realized.

Summary of Management Response:

(18) CSC is currently conducting due diligence to determine how this recommendation could be accomplished, and acknowledges that an attestation of invoice submission is a valid enhancement to our business operations and will be addressed judiciously.

Auditor's Note:

Presently, the Audit & Compliance Department reports administratively to the CFO, and functionally to the CSC CEO Group, consisting of the CSC CEO, CFO, General Counsel, Chief of Program Services, and Chief of Communications. We discussed the reporting relationship with the CEO Group, and noted that should CSC desire to fully comply with Government Auditing Standards (section 3.31) and Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (section PA 1110-1) regarding internal auditor independence, the reporting relationship needs to be modified to include functional reporting to Council of CSC, or a Committee thereof, and administratively to the CEO.

CSC management has opted to respond to the Auditor's Note; the response is summarized below, and the full response is included in Attachment 1, page 7.

Summary of Management Response to Auditor's Note

CSC, in establishing the Audit & Compliance Department and its reporting relationship, was aware of not meeting the respective standard. As reflected in its Charter, the Department was established as an internal management tool.

However, CSC will re-examine this reporting structure, in consultation with the Council, in light of the functions assigned to Internal Audit and other factors.

ATTACHMENTS

Attachment 1 – Complete Management Response

ACKNOWLEDGEMENT

The Inspector General's audit staff would like to extend our appreciation to the Children's Services Council management and staff for the cooperation and courtesies extended to us during this review.

This report is available on the OIG website at: <http://www.pbcgov.com/OIG>. Project conducted by J. Bowers, Auditor III. Please address inquiries regarding this report to D.Schindel, Director of Auditing, by email at inspector@pbcgov.org or by telephone at (561) 233-2350.

ATTACHMENT 1



2300 High Ridge Road
Boynton Beach, FL 33426

Main 561.740.7000
Tel 800.331.1462
Fax 561.835.1956
www.cscpb.org

Dennis Schindel
Director of Audit
Office of Inspector General
P.O. Box 16568
West Palm Beach, FL 33416

August 31, 2012

Dear Mr. Schindel:

Please accept our thanks for following through on our request for an external quality review of Children's Services Council's Audit and Compliance Department, which concluded with your draft report issued on August 13, 2012. Your review will aid the Children's Services Council in its efforts for continuous improvement, both within the Audit and Compliance Department, and, through that Department's audits, within other departments of the Children's Services Council. Our responses to the findings and opportunities for improvement noted in your report are set forth in the attached pages.

Sincerely,

Gaetana Ebbole
Chief Executive Officer

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Finding (1): Need for better linkage of agency audit risk factors to the Audit Department's audit plan of work to be performed.

Summary Response:

Children's Services Council acknowledges all of the recommendations outlined for Finding # 1, and will implement the requisite adjustments to the Audit Department's procedures by January 1, 2013.

Response to Recommendations:

- (1) The Audit Department will require the development and documentation of specific risk factors, which will drive the audit plans for the specific agencies. The current procedure requires that the Auditors utilize the "audit page" incorporated in the Children's Services Council contract for the requisite agency, conduct pre-audit conferences with Children's Services Council Program Officers and Budget Specialists, and analyze previous Children's Services Council audits and independently audited financial statements, all for the purposes of developing a robust audit plan tailored to that agency and the single or multiple programs it operates for the Children's Services Council. The enhancement we will make as a result of the recommendation will be to specifically document all risk factors in a cohesive manner -- fiscal, programmatic and administrative (where applicable) -- and receive the Audit Director's written approval of said plan with the intent to tie the results of the audit back to the audit plan. The procedures to be performed per the developed audit plan (including risk factors) will be specific and adhere to stipulated guidelines -- currently detailed in the Audit Department's procedure documents.
- (2) Children's Services Council Audit Department previously applied a Risk Assessment approach to scheduling funded agency audits. A risk-based policy will be re-instituted in October 2012, which will be explicitly tied to recommendation # 1, and guide the department's prioritization of its audit engagements to encompass a risk-based approach. This will not replace, but add to regularly scheduled cyclical agency compliance audits.
- (3) Children's Services Council Auditors will immediately begin utilizing the protocol outlined in recommendation # 1 above, and as a result will provide a draft of each completed agency audit plan electronically to the Program Performance Director and Program Officer for review and comment, no later than 2 weeks prior to commencing the audit engagement. Please note this will be a tracked metric in the Audit Department.
- (4) The Children's Services Council Audit Department will revisit its current procedures for auditing CSC-funded Lead Agencies, currently governed by the "Lead Agency Monitoring Guide," and redefine its documentation requirements for both the Lead Agency and the Auditor conducting the review. This action may require the issuance of an updated Lead Agency Monitoring Guide to funded Lead Agencies. This review and update will be completed by October 1, 2012.

Finding (2) Revise the agency audit sampling methodology to provide a more representative sample across the period under review to reduce predictability and implement continuous auditing.

Summary Response:

We acknowledge all of the recommendations contained in Finding #2. We plan to introduce appropriate enhancement measures to incorporate a continuous auditing structure, as well as to tighten our risk-based approach to auditing funded agencies, no later than January 1, 2013.

Response to Recommendations:

- (5) Utilizing the risk-based planning protocol identified in # 1, Audit staff will implement a more cross-cutting approach to reviewing and testing operational expenses incurred by provider agencies. The audit plan will identify those months in the audit period where there may be a heightened exposure to risk elements, which will form the basis for a larger random sampling in the months of heightened risk, and across the entire audit period. This process will be tested and fully implemented by January 1, 2013.
- (6) In an effort to capture funded agency non-compliance with contract budget requirements, the Audit Department and the Budget/Fiscal Department will develop and document a protocol for continuous monitoring. We agree that this type of continuous monitoring structure will aid in minimizing the annual audit findings that subsequently result in disallowances to funded agencies.

Finding (3): Documentation of audit work performed, audit supervision and overall formalization of a system of audit quality control needs improvement.

Summary Response:

Children's Services Council acknowledges the recommendations that accompany Finding # 3, and will have enhanced procedures by January 1, 2013.

Response to Recommendations:

- (7) The Children's Services Council Audit Director will develop no later than October 1, 2012, a procedure document that standardizes both the nature and the extent of required audit documentation. These procedures will be specific to the extent possible so as to meet professional auditing standards. These procedures will include the instructions to develop spreadsheets and/or other tracking documentation as appropriate to define the nature and extent of any noted audit exception, and most importantly the conclusions derived by the auditor as a result of finding the particular exception. As a final step, Auditors will consider attaching copies of "original agency documentation" to support their conclusions.

- (8) The Children's Services Council Audit Director will implement a procedure whereby all audit plans developed, discussed with Program Officers and Budget Specialists (but prior to submission to Program Performance Director as stated in # 1), will be crosschecked against the audit log (current document used for all agency audits) for completeness prior to the audit being completed. This "cross-check" will be a newly implemented quality control element.
- (9) The Children's Services Council Agency Compliance Auditor currently compiles an audit log, which captures all elements of the audit plan, some of which are eliminated as a result of the testing, interviewing and other aspects of the on-site review. The Audit Department will institute an enhanced use for this Audit Log, which will remain intact as a mirror of the audit plan approved by the Audit Director and the Program Services Director, and serve as the "cross-check" document to be signed off on by the Audit Director prior to the conclusion of the audit and an audit exit conference discussion with the agency Executive Director.
- (10) Please see # 9 above as this recommendation will be satisfied with the new process outlined therein.
- (11) The Audit Department Director, in collaboration with the CSC Controller (Supervisor of the Budget Specialists) and the Program Division Chief/Directors, will utilize the protocols detailed in # 7 through # 9 above to redefine and implement a more robust quality control system for funded agency audits that is consistent with professional auditing standards, to the extent possible, and under the specific guidance of the Children's Services Council executive management team.

Finding (4): In order to eliminate recurring audit findings in subsequent agency audits, formally engage other Children's Services Council personnel.

Summary Response:

Children's Services Council acknowledges the recommendations that accompany Finding # 4, and will implement the enhancements by January 1, 2013.

Response to Recommendations:

- (12) The Children's Services Council Agency Compliance Auditor immediately will begin to utilize the audit log (previously mentioned) to capture agency management responses and convert them into the final report draft. In addition, the Audit Department has on its agenda for the 2012/2013 Fiscal Year a plan to revise the entire structure of its agency audit report. At this juncture, we will include discussions about what document will be utilized to capture agency responses, audit findings and recommendations – after having tested the process utilizing the audit log for those purposes.
- (13) The Program Performance Officers and Budget Specialists will be expected to attend all post-audit engagement conferences, where findings, opportunities for improvement and

agency management responses are discussed to assure that necessary follow-up and support is given to the funded agencies regarding their management letter response and subsequent action steps. Content from these conferences will feed into the Children's Services Council's Quality Assurance function which will collect and identify systemic issues or patterns across various agencies, programs, and even within or across systems of care.

- (14) The Children's Services Council Audit Department will institute an internal memorandum to be circulated to the appropriate Children's Services Council staff person and appropriate Children's Services Council management personnel in those instances when the funded agency did not resolve the issue(s), and repeat findings resulted. This is considered a continuous improvement measure, and will be tracked.

Finding (5): A formal program for staff professional certification and on-going professional training is needed to ensure on-going staff competency and adherence to professional standards.

Summary Response:

Children's Services Council acknowledges the recommendations that accompany Finding # 5. This is a continuous improvement initiative that is supported by the Children's Services Council employee development plans.

Response to Recommendations:

- (15) The Children's Services Council Audit and Compliance Department has generally based the Department's work on the Institute of Internal Auditors Standards (IIA), and developed an audit charter based on the IIA's guidelines. The Department has committed a representative portion of its 2012/2013 budget to staff training and continuous enhancement of existing auditors' competencies. Children's Services Council Agency Compliance Auditors attend a minimum of 4 webinars annually; selectively attend IIA conferences, GFOA and CFO-sponsored one-day trainings, Society for Corporate Compliance and Ethics (SCCE) professional practices workshops – online and in person, and other pertinent continuing professional education activities. Two Children's Services Council Auditors have begun and are committed to completing the IIA certification for Certified Internal Auditor; one auditor is already a certified compliance professional and another is scheduled to take the compliance certification exam at the end of calendar year 2012. Children's Services Council will revisit its requirements for competencies of Agency Compliance Auditors in relation to its stated mission and needs, and is committed to incorporating appropriate continuing professional educational components in individual performance development plans as may be appropriate. As we move to fully incorporate the internal audit structure within our Audit and Compliance Department, we will assess the need for CEUs as it pertains to government auditing standards and/or internal auditing standards.

Finding (6): ACD performance metrics need to be developed and tracked.

Summary Response:

Children's Services Council acknowledges the recommendations that accompany Finding # 6.

Response to Recommendations:

- (16) The Children's Services Council Audit and Compliance Department has created metrics that are tracked on an annual basis and used at annual audit department planning sessions to correct performance glitches and at least understand cause-and-effect. We acknowledge that the process is currently not formally incorporated in an overall metric structure, but in the recent past the Children's Services Council Balanced Scorecard required monthly reporting on several of those metrics with appropriate corrective action. The Audit Department currently tracks (among others) (1) Number of days agency notified of Intent to audit – for normal cyclical audits (should be no less than 20 working days); (2) Number of days from date of exit meeting to date of report issuance (should be no longer than 30 calendar days); (3) Number of days after audit report issued that post-audit meeting with Children's Services Council staff occurs (should be no more than 10 business days after audit exit conference); and (4) Number of Repeat Audit Findings per program, per agency (looking for decreased number each cycle). The Audit Department will revisit audit metrics again this year by October 2012, and coordinate with the program division (where applicable) for effectiveness.

Finding (7): Post audit surveys are not being conducted.

Summary Response:

Children's Services Council acknowledges the recommendations that accompany Finding # 7, and will re-implement on October 1, 2012.

Response to Recommendations:

- (17) Children's Services Council Audit Department will re-institute its two surveys no later than at the beginning of the 2012/2013 Fiscal year. One survey is to be completed annually/cyclically by all agencies included in the audit plan for that year/cycle. The second survey is an immediate feedback at the end of each audit engagement. These surveys are paper documents that will be returned to Children's Services Council Finance Division Administrative Personnel, who will enter the data from the results (separate worksheets for each survey) and provide same to the Audit Director and the CFO.

Finding (8): SAMIS fiscal data from agencies lacks identity and attestation of the submitter.

Summary Response:

Children's Services Council acknowledges the recommendations that accompany Finding # 8

Response to Recommendations:

- (18) The Children's Services Council is currently conducting due diligence to determine how we could accomplish this recommendation. Currently, SAMIS is a statewide system used by a number of Children's Services Councils, and the SAMIS "audit trail" feature does identify the person at the funded agency submitting the invoice. We acknowledge that an attestation of invoice submission is a valid enhancement to our business operations and will address this item judiciously.

Auditors Note: Modify the reporting relationship of Internal Audit

Response to Auditor's Note:

We agree with the Note, as we were aware at the time the Internal Audit function was created that it was not meeting the referenced IIA standard. Instead, as reflected in its charter, Internal Audit was designed as a management tool to independently review whether internal policies and procedures were being followed. ("Independent" is used in this context as meaning that the Internal Audit and Compliance Department (i) was not involved in the development of the policies and procedures that it would be reviewing, and (ii) that the Director of the department, in his Internal Audit role, would report directly to the CEO and not his regular supervisor.) We will, based on your Note, re-examine this reporting structure in light of the functions assigned to Internal Audit, as well as now having both our external independent auditor and our contract with the OIG, and consult with our Council on whether a different reporting structure is warranted.