



ULSTER COUNTY
COMPTROLLER'S OFFICE
Elliott Auerbach, Comptroller

Annual Audit Report

(1st Quarter 2016)

January 1 – March 31, 2016

Introduction

Comptroller's Annual Audit Report

§ C-57(A) of the Ulster County Charter requires the Office of the Ulster County Comptroller (“Office” or “Comptroller”) to “prepare an annual audit report including a risk assessment of the accounting methods utilized by the County, and [. . .] submit a copy of the report to the County Legislature and the County Executive by April 1 of each year.” Moreover, § C-57(I) of the Ulster County Charter charges the Office with the task of submitting reports on at least a quarterly basis to the Legislature and Executive regarding the financial condition, efficiency, and management of the County of Ulster’s (“County”) finances, as well as posting these reports on the County website. In furtherance of this responsibility, our Office regularly produces reports and audits that reflect upon the County’s financial status and its managerial performance, with the dual goals of (1) empowering County administrators and lawmakers and (2) informing Ulster taxpayers as to the issues impacting the expenditures of their tax dollars. All of our Office’s reports and audits are also made available on our website (www.youreyesonulster.com).

In performance of these duties, this Annual Audit Report shall also serve as our First Quarter Report for 2016.

The Audit Role

The Comptroller is the chief auditing officer of the County. This paramount role establishes the primacy of the audit function within our Office regarding the discharge of our duties. Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing call for the establishment of a risk-based approach to determining the priority given to internal audit activities. In preparation of our 2015 and 2016 Audit Plans, our Office conducted a County-wide Risk Assessment survey as a means to help identify, measure, and prioritize potential audits based on areas of higher or lower risk to the County.

The Audit Plan

The creation of an audit plan is fundamental to the audit function, which is ultimately intended to provide a reasoned approach to protecting the County through review and oversight of government programs and departments. To that end, our Office circulated a risk assessment questionnaire to each governmental unit in 2015. We utilized the information derived from that survey as a basis for evaluating internal controls within each unit for the years of 2015 and 2016; however, this evaluation has been adjusted as we consider changes in departmental practices for the current year, as well as encounters we may have with individual offices during audit visits and suggestions made to us by the public.

Countywide Risk Assessment

An initial risk assessment is one key step toward developing an audit plan, which allows for priorities to be established after a thorough undertaking of the nature and magnitude of a governmental unit's regular course of business is completed. Our Office has compiled financial information relating to everyday procedures within each department or agency in order to identify potential areas of risk. In addition to promulgating and analyzing the aforementioned questionnaire in 2015, we also reevaluated our past audits to determine issues that needed further exploration.

We have designed our audit plan based on perceived and probable risks as to encompass those matters we consider the highest priority, while limiting the scope of our work to what can be realistically completed using the staff and resources available. The rating we assign to each topic is based on timely information that is dependent upon the type and significance of the operation's effect on the County and public.

While we are dedicated to completing our audit plan, we remain flexible and responsive to the dynamic environment in which the County conducts its business. Therefore, we are constantly considering new areas for audits as they reveal themselves to us through both our work and recommendations from various sources.

The Risk Assessment

The arching objective of performing this type of assessment is to identify and order potential areas for audit that pose the greatest degree of exposure and liability to the County. Accordingly, the audit team has developed a risk assessment model that has allowed our Office to streamline our risk analysis while providing a basis for our conclusions.

In 2015, our Office provided each governmental unit with a self-assessment questionnaire that allowed us to map and rank their feedback according to the probability and degree of risks impacting the county. The survey included a multitude of questions spanning several categories of risk, including operations, finances, human resources, technology, regulatory/legal, and reputation, as described below:

- *Operational Risk:* Anything that affects the County as far as its business dealings and day-to-day management processes and procedures.
- *Financial Risk:* Anything that can cause a negative financial impact to the County.
- *Human Resources Risk:* Anything that can cause processes and procedures to be hindered by inadequate or lack of staffing.
- *Technological Risk:* Anything dealing with Information Technology, communications, data, or electronic storage of records.
- *Regulatory/Legal Risk:* Anything that involves compliance with laws, rules, regulations, and other legal obligations.
- *Reputational Risk:* Anything that affects the public perception or opinion of the County.

We considered several factors during our evaluation of internal controls learned from the survey responses, including: the presence of written rules and guidelines particular to a given unit's operation; the presence of inventory controls, physical securities, and segregation of duties among tasks and personnel; and whether there had been significant reorganization amongst staff and/or operations.¹

Using a standardized approach to evaluating risk allows us to incorporate new and relevant data as it becomes available in the future. This methodology allows us to consistently set operational guidelines for quantifying risk and to allocate scarce audit resources to the greatest areas of importance in the future.

The Audit Population

Accurately representing the audit population is the first step in defining an audit plan. The audit "population" or "universe" encompasses all auditable activities within the County, which include a plethora of programs and functions of particular departments or third-parties that contribute toward achieving the administration's strategic objectives. For the purposes of our Office, we have limited the County's primary audit universe to County departments that were found within the proposed 2016 operating budget, acknowledging a total of 29 administrative units in addition to the Comptroller:

- Department of the Environment
- Public Defender's Office
- Emergency Communications/Emergency Management Department
- County Attorney's Office
- Department of Finance (including Budget and Real Property)
- Department of Health and Mental Health
- Fire Coordinator's Office
- Department of Public Works
- Planning Department
- Safety Office
- Insurance Department
- Human Rights Commission and Youth Bureau
- Department of Weights and Measures
- Office for the Aging
- Office of Employment and Training
- Purchasing Department
- Probation Department
- County Executive

¹ See **Appendix A** for a detailed discussion of Internal Control and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated Framework, as developed by the AICPA.

- Department of Social Services
- Tourism Office
- Ulster County Area Transit
- Personnel Department
- Veterans Services Agency
- Information Services
- Arson Task Force
- County Clerk’s Office
- District Attorney’s Office
- Sheriff’s Office
- Board of Elections

We recognize that sub-components of this population may be potentially identified over time as worthy of an audit, and we reserve the right to define new segments within the risk assessment model in the future as they become apparent. Examples of these further defined segments might include a division within a department, a particular program or project within a department, a specific process or transaction that is common across all or several departments (i.e. payroll), or a contracted vendor related review.

Relevant Risk Factors

Relevant risk factors were used to establish potential areas for audit and were based on professional best practices from standard setting auditing bodies, such as the IIA, related to the development of an audit plan using a risk-based model. Factors were selected based on their significance with respect to the nature and objectives of the auditing and reporting environment in which the County operates, as well as what the audit team identified and defined during their initial assessment:

FACTOR	DEFINITION AND GUIDELINES
BUDGETED EXPENDITURES	Expenditures per the 2016 Adopted Budget
BUDGETED REVENUES	Revenues per the 2016 Adopted Budget
BUDGETED PAYROLL	Payroll expenditures per the 2016 Adopted Budget
NO. OF INVOICES PROCESSED	Number of invoices processed since the implementation of New World
\$ OF INVOICES PROCESSED	Dollar value of invoices processed since the implementation of New World
NO. OF OPEN CONTRACTS	Current number of Open Contracts in Contract Management
PREVIOUSLY AUDITED	A measure to understand the unit and its environment and whether or not the unit has had their programs subject to review
COMPLEXITY OF TRANSACTIONS	A measure of exposure or loss due to the nature and process of recording transactions and maintaining account balances and the presence or absence of proper internal controls to regulate such transactions effectively. Responses from the Internal Control Questionnaire completed by each respective administrative unit in addition to the knowledge of the audit staff has been utilized to determine this risk factor as well as considerations regarding the organizational structure and the operating environment of each unit.
COMPLIANCE WITH LAWS AND REGULATIONS	A measure of exposure, loss or regulatory sanction due to the complexity and or volume of regulations and penalties for noncompliance. The audit team considered the nature and types of grants and contracts, in addition to the nature and number of Federal, State and County regulations or conditions that the department would be subject to. Legal ramifications for non-compliance has also been considered.
INTERNAL CONTROL QUESTIONNAIRE ASSESSMENT	A measure of exposure or loss due to a lack of written policies or procedures, or a failure to properly implement those policies and procedures in practice.

Previously Audited Units

Whether units or programs within the audit universe have previously been subject to an audit affords great value to the assessment of risk. Knowing that a unit has been audited in the past allows the auditor to have some familiarity with the auditee's presence of internal controls or lack thereof.

In 2015, our Office conducted the following audits: County Fuel Management Audit at the Department of Public Works; Computer Equipment Inventory Audit at the Information Services Department; HEAP Application Audit at the Department of Social Services; and a Contract Compliance Review involving the Youth Bureau, Legislature, and Department of Social Services. No findings from these audits were egregious enough to warrant further investigation. However, management's action plans will be reviewed six months following the issue of each respective audit, as is the Comptroller's procedure.

Additionally, we are cognizant that operational, financial, and procedural risks exist at every level of government – not just in those departments or programs that use the most County resources or receive the largest outside attention. Thus, it would be imprudent of our Office not to consider a systematic approach to departmental audits that takes every function of the County, large and small, into consideration. That being said, our objective is to review each department within the County over a five-year period.

Management Letter Comments

A management letter is a document issued by the external auditors of an organization, which communicates internal control related matters. The letter is generally issued during the financial audit of an entity, and the American Institute of Certified Public Accountants ("AICPA") requires its issuance in the event that material weaknesses or significant deficiencies are identified.

A *material weakness* is a defect in internal control that could result in a material misstatement of the organization's financial statements. A *significant deficiency* is a defect in internal controls that is less severe than a material weakness yet important enough to merit remediation. In the event a management letter is issued, the highlighted shortcomings in the internal controls system will represent risks to lenders, investors, and the general public. These risks could relate to collateral reporting, interim financial reporting, or possibly fraudulent activities (e.g. asset misappropriation).

Our Office reviewed the 2014 management letter from the County's outside, independent auditing firm, Drescher & Malecki LLP, to focus on identified inadequacies that leave the County vulnerable. These comments included the following: a significant deficiency, which concerned the bank reconciliation process – specifically the deposit account; and several "matters involving internal control and operational matters," which addressed the County's level of fund balance, plans for infrastructure costs, revenue recognition, capital asset policy, information technology controls, and recognition of revenue from the NYS Department of Transportation.

2016 Audit Plan:

After identifying what risks were associated with each department and function, we have developed the following Audit Plan for 2016.

Operational Audits

Cash Receipts – Audit of Internal Controls over Department Cash Collection

Weights & Measures – Accuracy of Weights and Measures

UCAT – Performance Audit: Financial Outlook & Accuracy of Ridership Data

Sheriff's Office – Internal Controls over Civil Division

ACE - TBD

Financial Audits

Sales Tax – Audit of 2015 Revenue and Disbursements

Delinquent Tax Payments – Audit Accuracy of Payments Made to the City of Kingston

Compliance Audits

Probation Department – Review of Restitution and Fee Collection

Department of Health – Collection of Permit Fees

County Management – Management Letter Follow-Up

Special Projects

Board of Elections – Cost of Elections Impact Audit (*Required by Legislative Resolution)

Not-for-Profits – Understanding the Top Five Highest Paid Vendors

County Spending Tracker – Overview of the County's Spending

Follow Up Audits

Department of Social Services – Child Care

College Chargebacks

Non-Audit Activities

Quarterly Reports

Annual Report

The Audit Plan is subject to change for such events where the Comptroller determines it is necessary to substitute, supplement, postpone, or cancel a scheduled audit due to a change in priority, resource, and other risk considerations.

2015 Audits and Reviews

The following provides a summary of the Audits and Reviews produced by our office in 2015.

COUNTY FUEL MANAGEMENT AUDIT

The Comptroller examined the County fleet’s fuel program, which is contracted to Wright Express Financial Services Corporation (“WEX”). The report assessed whether the fleet’s fuel purchasing card management program offered savings to the County over the first year of implementation. The Comptroller reviewed a sample of 9,000 purchases from 330 cards covering 143,000 gallons of fuel.

The report concluded that the program provided cost effective controls and easy access for hundreds of County employees currently participating in WEX. The review specified that there was a realized decrease in fuel costs and a significant reduction in accounting and administrative time from January through December 2014.

During the examination, the Comptroller did note opportunities to strengthen the program and increase savings. Applying threshold options and reviewing exception reports would provide management with opportunities to maximize efficiencies.

“The true power of the program has yet to be implemented, and once done can provide management with real-time reporting ... at the click of a button.”

– Comptroller Auerbach on DPW’s forward thinking approach to WEX capabilities

COMPUTER EQUIPMENT INVENTORY AUDIT

The Comptroller reviewed the procedures surrounding hundreds of thousands of dollars of information technology (“IT”) equipment, which resulted in recommendations of safeguards to ensure the protection of County property – and our taxpayer’s dollars. Findings were focused on the security of the storage facility, the location and assignment of equipment, the accuracy of the inventory, and the disposal process once a piece of equipment is deemed as surplus.

The objective of this study was to assess the extent to which the Department of Information Services (“IS”) was responding to the Office of the State Comptroller’s (“OSC”) audit over their operations. Of particular importance was ensuring that inventory records were complete and accurate, adequate oversight existed over the possession of equipment, purchases went through the proper approvals, and obsolete equipment was disposed of in accordance with the County’s policy.

“We have every expectation that such positive changes in protocol will continue in the response to the formal report.” – Comptroller Auerbach on Information Services’ response to the inventory audit

The report concluded that the quality of IS’ tracking of IT equipment inventory had improved since 2010. Additionally, it was apparent that management was responsive and diligent in tightening their controls as findings were shared with the department.

DSS HEAP APPLICATION AUDIT

The Comptroller audited the 2014 Home Energy Assistant Program (“HEAP”) and Home Equipment Repair and Replacement program (“HERR”), finding that the County’s Department of Social Services (“DSS”) complied with their responsibilities as prescribed by New York State’s Office of Temporary and Disability Assistance (“OTDA”).

The purpose of the audit was to assess the adequacy and performance of designed control activities in place to approve HEAP applicants and their corresponding benefits. Specifically, we needed to determine whether DSS had complete files in accordance with the OTDA HEAP Manual and that claims made by applicants had been approved or denied with proper support.

The audit highlighted some state guideline vulnerabilities and offered recommendations to DSS regarding record keeping, vendor billing, and fraud investigations.

CONTRACT COMPLIANCE AUDIT

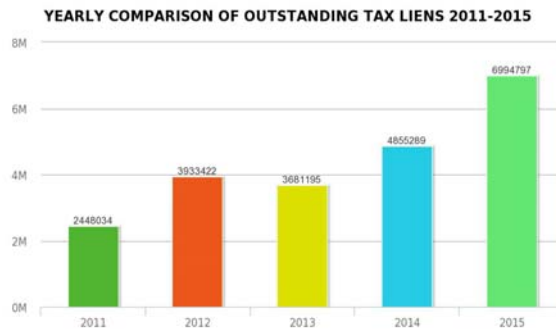
The Comptroller conducted a routine review of contract compliance, targeting five contracted vendors across three separate units of County government. The County enters into hundreds of contracts or more each year in order to provide services and benefits to its residents. Contracts for goods and services account for a significantly large portion of County funds, which is why it’s the County’s responsibility to require these monies to be spent appropriately.

The review sought to ensure compliance with each contract’s scope of services, reporting requirements, guaranteed billing, and recordkeeping. Findings fell into one of three categories: contract was not specific, contract contained requirements that were not achievable, and issues with monitoring. We suggested that each department adopt a contract monitoring process based upon OSC SMART guidance, as well as greater explanation, documentation, and oversight associated with invoices.

2015 TAX LIEN FORECLOSURE REPORT

The Comptroller compiled the 2015 tax lien foreclosure data for the County's property auction, which is held annually at Ulster County Community College. The information provided detail about the 281 properties at auction, which total \$6,994,797 and range from .13 acres (at \$534 delinquent) to 5.8 acres (at \$654,441 delinquent).

The report showed that cumulative and compounded balances of unpaid taxes had increased by over 40%, or \$2,139,508, from 2014's balance even though the number of properties only increased approximately 4% from the previous year.



The Town of Ulster topped the list by having 32 parcels with outstanding liens amounting to \$1,995,886.

BOARD OF ELECTIONS COSTS REPORT

Resolution 404 of 2014, passed by the Ulster County Legislature, “authoriz[ed] the County of Ulster to assume the cost of election support from the Towns and City of Kingston pursuant to a three-year phased-in plan.” Moreover, that resolution instructed the Comptroller “to perform and present an annual report to the County Executive and the County Legislature on or before December 31st of each year during the period of this three-year phased-in plan, detailing the actual benefits and/or impacts that the plan has had upon the taxpayers and budgets of each of the respective Towns in Ulster County and the City of Kingston[.]”

The Comptroller issued this report pursuant to that aforementioned directive, which explained the fiscal effects of the County takeover of election costs for each town and the city. For 2015, one-third of the costs have been assumed by the County, which provided direct savings to municipal operating budgets. The report further explained that the reduced costs enjoyed by each town or the city are directly related to the cost of each district. Thus, as the portion of costs assumed by the County increases over these three years, the benefit to the towns and city will also grow.

The report also broke down and explained how the tax rate is applied and the direct dollar impact to the individual taxpayer, which changes depending on locality. Additionally, the report made efforts to show future financial impacts by using base figures.

FOLLOW UP ON 2014 AUDIT FINDINGS

The Comptroller conducted a follow-up to past audit report findings and recommendations that were made during 2014, pursuant to the Office's Follow-Up Audit Protocol. The objectives of the inquiry were to:

- 1.) Identify audit report findings communicated to the department that had issues requiring management attention and inform the County about the follow-up review of those findings; and
- 2.) Identify and provide information as to the current status of each recommendation reviewed.

Our inquiries included past audits surrounding: the Purchasing Department's procurement procedures, the Personnel Department's health benefits, and the Department of Finance's dealings with the hotel and motel occupancy tax credit. Responses were received from each department, documenting any updates on the issues or explanations for findings they felt did not need to be addressed.

2015 Quarterly Report Recap

Our Quarterly Reports focused on areas of taxpayer concern, which are either regularly reviewed by our office or particularly timely. The following provides a review of the 2015 Quarterly Reports.

1st Quarter in Review

Annual Audit Report

To enhance our understanding of County functions, the Comptroller issued an extensive risk assessment survey that asked each governmental unit to grade itself on risk and how it applied to the department's or office's operation. Along with the risk assessment, each unit was asked to provide any written procedures and policies to which they adhere when completing their day-to-day tasks. The Comptroller determined the riskiest areas facing the County and developed the 2015 audit plan based on the results from the survey, as well as an internally developed risk assessment system.

2nd Quarter in Review

Ulster County Fiscal Stress Assessment

For this report, the Comptroller subjected Ulster to a NYS-designed test, which measures the level of fiscal stress affecting a municipality. The report concluded that, under the scrutiny of OSC testing standards, Ulster's fiscal position continues to be strong, which reflects sound financial management by the administration. However, despite being within that healthy range of results, the Comptroller also identified unique factors and trends worthy of attention in order to ensure continued success – an example being the unique monetary impact related to the sale of Golden Hill Healthcare Center and how it must be taken into account in assessing overall trends. However, administrative and legislative oversight currently shows careful attention to stress factors while budgeting.

"We think it's wise to take advantage of this monitoring system and keep taxpayers informed." – Auerbach on NYS Comptroller DiNapoli's Fiscal Stress Test

3rd Quarter in Review

Fund Balance Analysis

The focus of the 3rd Quarter Report was an analysis of Fund Balance in relation to budgeting. It detailed how Fund Balance levels can affect future fiscal stress and addressed cautions in connection with the practice of Fund Balance appropriation during the budgetary process.

The report exhibited the County's trend of Fund Balance in relation to its current policy and explained that Fund Balances for 2014 were above the policy's threshold. However, the trend of consistent appropriation indicates that the Fund Balance will continue to diminish in future years.

The report further demonstrated how future estimated Fund Balance that is available for appropriation shows a 2015 year-end level that would be above the Policy threshold, as well as a 2017 year-end level that would be below the Policy threshold. These figures indicate that the annual amount of budgeted Fund Balance being used to bridge the gap between revenues and expenditures is unsustainable. For a budget to be properly balanced, recurring expenditures must be supported by recurring revenues – not available Fund Balance.

The report suggests the Fund Balance Policy should be updated to reflect the best practice advisory published by the GFOA in September 2015 and the recommendations from the 2014 Financial Audit of the independent auditors of the County (Drescher & Malecki LLP).

4th Quarter in Review

Revenue and Expenditures Evaluation

The 4th Quarter Report focused on revenues and expenditures in relation to budgeting. The goals of the report were as follows:

- 1) To compare the actual revenues and expenditures of Ulster County to its budgeted amounts over a five-year period in order to evaluate how accurately the County has planned ahead;
- 2) To look at the stability of actual revenues compared to budgeting changes from year to year; and
- 3) To analyze the amount of fund balance appropriated to “balance” the budget compared to the amounts actually utilized.

The report detailed revenue and expense analysis, resulting in the suggestion of developing a multi-year budget. The independent accounting firm (O'Connor Davies), which published the *Analysis and Review of the Proposed 2015 Budget for Ulster County*, also recommended the preparation of a multi-year budget plan because the “budget relies on the application of fund balance to eliminate the need for a substantial tax increase.” In the *Analysis and Review of the Proposed 2016 Budget*, also prepared by O'Connor Davies, they mention that the 2016 budget has “less reliance” upon the use of fund balance, yet fund balance remains an “integral component of the County budget plan.” A structurally balanced budget has no reliance on fund balance.

2015 Special Reports and Projects

The Comptroller undertakes several assignments each year in addition to his stated and perceived audit plan. The following serves as a representation of that work.

Free Service at County Owned Electric Vehicle Charging Stations

At the request of the Legislature, the Comptroller issued an opinion regarding the free nature of this program and how it violated the NYS Constitution's Gift and Loan provision. In 2015, the Ulster County Executive installed nine electric car charging stations on county-owned properties and facilities; this service has been provided free of charge to members of the public with the stated intentions of growing local tourism and promoting clean energy usage. While we cannot dispute the positive aspects of "going green," reducing our carbon footprint, and bolstering tourism opportunities, we are of the opinion that relevant case law and commentary strongly suggests the unconstitutionality of this gift of public resources.

Additionally, we offered recommendations to the County to remedy this defect that could potentially lead to litigation by an aggrieved taxpayer, a lost revenue stream, or a misappropriation of County dollars. Thus, we offered examples of other municipalities who have implemented a small fee-for-service policy (i.e. based on either electricity consumed or overall time used) or had the practice underwritten by a private entity. We are pleased to report that the Executive has taken steps to have the Ulster County Regional Chamber of Commerce sponsor some of the operating costs of this service going forward.

Donation Boxes

The Comptroller joined the NYS Office of the Attorney General, Governor, and Legislature in calling for greater oversight and regulation of roadside donation dropboxes used for clothes, textiles, and other goods. Our Office found that while donation dropboxes may facially appear to provide charitable services, businesses are often profiting to a large degree from selling the received goods while little or no benefit is bestowed upon a charitable organization, which has the effect of misleading members of the public. Moreover, donation dropboxes have been identified as overflowing or insufficiently maintained, which can lead to common eye sores or more substantial safety concerns. Therefore, we offered legislation to the Ulster County Legislation, which calls for increased disclosure and registration requirements that would bolster transparency and consumer protections for County residents while also addressing hygiene, aesthetic, and other issues related to the placement and operation of donation dropboxes.

21st Century Bed Tax

While the “sharing economy” captures the nation, Ulster County residents are using peer-to-peer services more than ever. The Comptroller has taken a keen interest in clarifying the reach of the County’s 2% Hotel and Motel Room Occupancy Tax to apply to short-term and vacation rentals that may or may not be offered through the use of corporate hosting platforms, such as Airbnb. We believe that the County is missing out on a significant revenue stream as greater numbers of people take advantage of services that allow them to quickly and easily rent out all or portions of their residences for transient accommodations. This practice has created an unequal playing field between traditional hotel/motel operators and non-traditional short-term and vacation rental operators, as far as payment of the 2% tax for overnight lodgings. Additionally, the law is ripe for revision, as a previous audit performed by our office in 2014 found there was a “high incidence of miscalculation of the tax due by operators,” prompting us to craft a proposal that simplifies the tax calculation process. The Comptroller remains in ongoing discussions with Airbnb and the Ulster County Lodging Coalition as we tailor legislation to suit both business and municipal needs. At the end of 2015, we hosted a roundtable with local Airbnb hosts and traditional B&Bs, which helped pave the way for this course of action.

Thus, our Office has crafted legislation, named the *21st Century Bed Tax*, which is currently pending before the Ulster County Legislature’s Government Efficiency and Review Committee.

*To view complete reports, please visit
youreyesonulster.com.*

Conclusion

We encourage County lawmakers, administrators, and taxpayers to contact our Office with questions about this Report or any of our duties and functions, as well as concerns as to the operation of County government. It is our goal to be a resource to every facet of government, an advocate for the residents of Ulster, and an agent of better governance. Accordingly, we welcome the input from any and all stakeholders.

Framework: Five Elements of Internal Control

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has promulgated the Internal Control-Integrated Framework to establish guidelines for organizations to assess control systems within their operating environment.² The COSO framework defines internal control as a process, effected by an entity's board of directors, management, and other personnel designed to provide "reasonable assurance" that the objectives of the organization are achieved. The framework further defines these objectives as effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations, and safeguarding of assets. The framework is comprised of five interrelated components related to management's philosophy and operating style. The framework includes the following five components:

Control Environment

The control environment is often described as the "tone at the top" within any organization. The control environment can be thought of as the cornerstone of the COSO framework, as it represents the foundation of all supporting components by providing guideline, discipline, and structure for internal controls. Examples of control environment factors include management's philosophy and operating style, integrity, ethical values, delegation of duties, and personnel development processes. The control environment represents the general tone of the organization and addresses how conscious employees are of controls.

Risk Assessment

The general purpose of a risk assessment is to identify those areas that could most significantly affect the achievement of an entity's objectives. You must first identify such objectives and then identify and consider relevant risks that may impede the achievement of those objectives.

Control Activities

Control activities refer to the policies and procedures designed to ensure that management directives are carried out and objectives and goals are achieved. Approvals, authorizations, segregation of duties, and performance reviews would be considered control activities that function within the control environment. The purpose of control activities is to limit the potential adverse effects of risks discovered during the risk assessment. Therefore, managers should primarily focus on developing control activities that mitigate the most significant risks identified.

² See *gen* "COSO Internal Control – Integrated Framework Principles," by the Committee of Sponsoring Organizations of the Treadway Commission. Available at <http://www.coso.org/documents/COSO%20ICIF%2011x17%20cube%20graphic.pdf>.

Information and Communication

Information and communication support all other components of the COSO framework by communicating control activities throughout the organization and providing information in the form of reports or other prescribed forms. Because Management is ultimately responsible for mitigating risk, it is essential that information about known risks and control activities designed to address such risks are communicated to all levels within an organization. For internal controls to be effective, each employee must understand his/her respective role in the internal control system and how that role relates to other members of the organization.

Monitoring

Monitoring is an essential component of the Integrated Framework as it allows management to determine if policies and procedures are being used effectively. Monitoring can help to identify new risks, as well as determine whether identified deficiencies have been rectified in a timely manner.

Audit Categories

Operational (Performance) Audits

Aimed at evaluating administrative efficiency and effectiveness against specific criteria set by management. Objectives worth considering include whether the program achieved its stated objectives, the program duplicates or conflicts with other related programs, or the benefits achieved outweigh or justify the related costs of the program.

Financial Audits³

Review of accounting records to determine that transactions are being accounted for accurately and appropriately based on the applicable standards and to express an opinion as to the truth and fairness of the financial statements.

Compliance Audits

Determine if programs comply with applicable laws, regulations, and policies to which they are subject.

Special Projects

Special projects are typically undertaken to address a specific activity or area of concern. Special projects may address accounting, compliance, efficiency, or other matters as deemed necessary. Special project audits may be undertaken to specifically address other review areas identified during our normal course work that appear to have additional exposure to risk and require further investigation. Specific review requests would also be considered special projects. We have designated additional hours to special projects that may be developed or requested throughout the year.

Follow-up Audits

Follow-up audits are conducted to specifically address the status of corrective action taken by management in response to recommendations in a previous audit report.

³ We note that an outside firm at the direction of the County Legislature audits the County's financial statements annually.
