

# LOS ANGELES COUNTY AUDITOR-CONTROLLER

John Naimo  
AUDITOR-CONTROLLER

Arlene Barrera  
CHIEF DEPUTY

Peter Hughes  
ASSISTANT AUDITOR-CONTROLLER

Robert Smythe  
DIVISION CHIEF

AUDIT DIVISION

June 26, 2018

## Department of Human Resources INTERNAL CONTROLS OVER FISCAL AREAS REVIEW PHASE II



### NUMBER OF RECOMMENDATIONS

#### PRIORITY 1

0

CORRECTIVE ACTION REQUIRED  
WITHIN 90 DAYS

#### PRIORITY 2

4

CORRECTIVE ACTION REQUIRED  
WITHIN 120 DAYS

#### PRIORITY 3

3

CORRECTIVE ACTION REQUIRED  
WITHIN 180 DAYS



## BOARD OF SUPERVISORS

Hilda L. Solis  
FIRST DISTRICT

Mark Ridley-Thomas  
SECOND DISTRICT

Sheila Kuehl  
THIRD DISTRICT

Janice Hahn  
FOURTH DISTRICT

Kathryn Barger  
FIFTH DISTRICT

REPORT #K17ER

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## AUDIT DIVISION

June 26, 2018

### FACT SHEET

## Department of Human Resources

### INTERNAL CONTROLS OVER FISCAL AREAS REVIEW PHASE II

With the support and active participation of the Department of Human Resources (DHR or Department) management, we completed the second phase of a review of DHR's internal controls over fiscal areas. Our review focused on evaluating DHR's internal controls over payroll and personnel, procurement, and equipment, and included interviewing management and staff, examining policies and procedures, and conducting detailed walkthroughs of practices.

### Key Outcomes

We identified opportunities to improve and strengthen DHR's processes and internal controls over fiscal areas. DHR is in the process of implementing enhancements, which we will assess and report on in a future follow-up review. Some of the enhancements are as follows:

- DHR management will establish processes for annual payroll payoffs and quarterly eHR security roles reviews, and improve processes for annual employee bonus reviews by obtaining bonus information directly from eHR.
- DHR management will evaluate non-capital equipment responsibilities and separate incompatible duties.
- DHR management will improve processes for conducting and documenting the annual non-capital equipment physical inventory by reconciling master inventory records to the equipment found at locations, following up on discrepancies, and recording results.
- DHR management will develop ongoing self-monitoring processes that include examining processes and controls to ensure they function as intended, that staff document monitoring activities and retain evidence, and ensure corrective actions are implemented.

### Impact

These enhancements will provide greater assurance that employees are paid appropriately, timekeeping is accurate, overtime costs are reasonable, sensitive information is secure, and reduce the likelihood of employee improprieties. They will also improve the accuracy of equipment inventory records and help ensure lost or misappropriated equipment is detected.

### FAST FACTS

*DHR's salaries and employee benefits, services and supplies, and equipment expenditures totaled \$80 million during Fiscal Year 2016-17.*

*DHR outsources some fiscal functions to the Auditor-Controller's Shared Services Division, but retains responsibility for initiating transactions and verifying they are completed.*

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This report is also available online at [auditor.lacounty.gov](http://auditor.lacounty.gov)  
Report Waste, Fraud, and Abuse: [fraud.lacounty.gov](http://fraud.lacounty.gov)

For questions regarding the contents of this report, please contact Robert Smythe, Audit Division Chief, at [rsmythe@auditor.lacounty.gov](mailto:rsmythe@auditor.lacounty.gov) or (213) 253-0100.

REPORT #K17ER



JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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June 26, 2018

TO: Supervisor Sheila Kuehl, Chair  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Janice Hahn  
Supervisor Kathryn Barger

FROM: John Naimo  
Auditor-Controller

SUBJECT: **DEPARTMENT OF HUMAN RESOURCES – INTERNAL CONTROLS  
OVER FISCAL AREAS REVIEW PHASE II**

We completed the second phase of a review of the Department of Human Resources' (DHR or Department) internal controls over fiscal areas, including payroll and personnel, procurement, and equipment. Our report on the first phase was issued in March 2016. Details of our findings and recommendations for corrective action for the second phase are included in Attachment I.

We conducted our review in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

**Scope and Objectives**

Our review was primarily focused on evaluating DHR's internal controls over payroll and personnel, procurement, and equipment, and included interviewing DHR management and staff, examining policies and procedures, and conducting detailed walkthroughs of practices. Our Phase I review focused on areas such as budgetary performance, accounts payable, and safeguarding of cash.

**What Prompted the Review**

This review was included in prior year audit plans, and was selected due to inherent risks involved in these areas.

## **Background**

DHR outsources some of their fiscal functions (e.g., payroll, personnel, procurement) to the Auditor-Controller's (A-C) Shared Services Division. For these functions, DHR retains responsibility for initiating authorized transactions and verifying that the transactions are completed appropriately (i.e., verifying that purchased items are received). During Fiscal Year 2016-17, the Department's salaries and employee benefits, services and supplies, and equipment expenditures totaled approximately \$80 million.

## **Risks and Opportunities**

A comprehensive internal control system is necessary to mitigate risks associated with payroll and personnel, procurement, and equipment processes. Payroll and personnel risks include inappropriate employee pay, timekeeping errors, excessive overtime costs, release of sensitive information, and employee improprieties. In addition, purchasing risks include purchasing items not needed or in excessive quantities, not receiving goods and services, overspending budgetary constraints, and employee improprieties. Finally, equipment risks include inaccurate inventory records, undetected missing equipment, increased time involved in locating equipment, limited storage capacity, decreased equipment disposal values, and employee improprieties.

## **Scope Exclusions**

Our review was limited to an evaluation of the design of the internal control system over DHR fiscal areas. While our review included tests to confirm the existence of controls (e.g., interviews, walkthroughs), it did not include tests to identify whether controls were consistently operating as designed or whether the Department continually complied with County policies. As noted below, ensuring controls are operating as designed and Department compliance with County policies is Department management's responsibility.

## **Review of Report**

We discussed our report with DHR management. The Department's attached response (Attachment II) indicates **general agreement** with our findings and recommendations.

## **Follow-up Process**

The Auditor-Controller has a follow-up process designed to provide assurance to the Board of Supervisors (Board) that departments are taking appropriate and timely corrective action to address audit recommendations. Within six months of the date of an audit report, departments must submit a Corrective Action Implementation Report (CAiR) detailing the corrective action taken to address all recommendations in the report. Departments must also submit documentation with the CAiR that demonstrates the corrective action taken. We will review departments' reported corrective action and

supporting documentation, and report the results to the Board. For any recommendations not fully implemented, departments must report the status of corrective action within six months after our first follow-up report is issued.

### **Management's Responsibility for Internal Controls**

As indicated in County Fiscal Manual Section 1.0, management of each County department is primarily responsible for designing, implementing, and maintaining a system of internal controls that provides reasonable assurance that important departmental and County objectives are being achieved. Internal controls should sustain and improve departmental performance, adapt to changing priorities and operating environments, reduce risks to acceptable levels, and support sound decision-making.

Management must monitor internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. The A-C's role is to assist management by performing periodic assessments of the effectiveness of the department's internal control systems. These assessments complement, but do not in any way replace, management's responsibilities over internal controls.

### **Limitations of Internal Controls**

Any system of internal controls, however well designed, has limitations. As a result, internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved. Some examples of limitations include errors, circumvention of controls by collusion, management override of controls, and poor judgment. In addition, there is a risk that internal controls may become inadequate due to changes in the organization, such as reduction in staffing or lapses in compliance.

We thank DHR management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:ZP

Attachments

c: Sachi A. Hamai, Chief Executive Officer  
Lisa M. Garrett, Director of Personnel, Department of Human Resources  
Audit Committee  
Countywide Communications



**DEPARTMENT OF HUMAN RESOURCES – INTERNAL CONTROLS OVER FISCAL AREAS REVIEW PHASE II**

<b>FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION</b>					
	<b>ISSUE</b>	<b>RISK</b>	<b>RECOMMENDATION</b>	<b>P<sup>1</sup></b>	<b>SUMMARY OF RESPONSE</b>
<b>1</b>	<b>Payroll – Annual Payoffs:</b> The Department of Human Resources (DHR) does not conduct payroll payoffs annually. Payroll payoffs verify that only legitimate County employees receive paychecks. DHR conducted their last payoff for direct deposit paychecks in 2014 and hardcopy paychecks in 2015. In addition, DHR does not appropriately document the process to demonstrate that it was properly completed for all employees. For example, payoff documentation was missing employee signatures, annotations that identification was verified, and the name of staff conducting the payoff.	Increased risk of paychecks being issued to fictitious employees without detection.	<b>DHR management conduct unannounced payroll payoffs annually and maintain documentation demonstrating that it is properly completed for all employees.</b>	<b>2</b>	<b>Agree</b> Implementation Date: May 2018  DHR's response indicates the Department conducted a payoff in May 2018 and will continue to conduct payoffs annually and maintain documentation of the review.
<b>2</b>	<b>Payroll – eHR Access Monitoring:</b> DHR does not conduct quarterly reviews of security roles in the County's electronic Human Resources (eHR) system to ensure staff have access commensurate with their responsibilities and do not have conflicting capabilities. DHR indicated that their last review was conducted in 2016, but could not provide any documentation demonstrating that the review occurred.	Increased risk of employee improprieties and release of sensitive information.	<b>DHR management conduct documented reviews of eHR security roles on a quarterly basis to ensure staff have access that is commensurate with their responsibilities and do not have conflicting capabilities.</b>	<b>2</b>	<b>Agree</b> Target Implementation Date: September 1, 2018  DHR's response indicates the Department will conduct reviews of eHR security roles quarterly and properly document each review.
<b>3</b>	<b>Payroll – Annual Bonus Review:</b> DHR's annual bonus review only covers bonuses recorded in internal departmental records. However, internal records may not always be current or accurate. Obtaining information directly from eHR would help ensure that the review captures all bonuses employees are actually receiving.	Increased risk of inappropriate bonus payments.	<b>DHR management revise the annual bonus review process by obtaining the bonus information from eHR.</b>	<b>2</b>	<b>Agree</b> Implementation Date: June 2018  DHR's response indicates the Department revised the bonus review procedures, including obtaining reports from eHR.

<sup>1</sup> **Priority Ranking:** Recommendations are ranked from Priority 1 to Priority 3 based on the potential seriousness and likelihood of negative impact on departmental operations if corrective action is not taken. See Attachment III for definitions of priority rankings.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P <sup>1</sup>	SUMMARY OF RESPONSE
4	<b>Assets – Separation of Duties:</b> DHR does not appropriately separate incompatible non-capital equipment duties. DHR staff have multiple responsibilities in areas such as requisitioning, receiving, inventories, and disposals. We identified similar issues involving information technology equipment in our Information Technology and Security Review report issued November 9, 2017.	Increased risk of employee improprieties.	<b>DHR management evaluate non-capital equipment responsibilities and appropriately separate incompatible duties to different staff.</b>	2	<b>Agree</b> Implementation Date: December 27, 2017  DHR's response indicates the Department separated incompatible duties to different staff.
5	<b>Assets – Annual Physical Inventory:</b> DHR does not complete their annual non-capital equipment physical inventory appropriately for most locations. While DHR staff create a list of equipment found at these locations, they do not compare it to, or update, the master equipment inventory records. In addition, DHR does not maintain documentation demonstrating that inventories are completed appropriately (e.g., annotations that items were found, resolutions of discrepancies).	Increased risk of inaccurate inventory records and any lost or misappropriated assets not being detected.	<b>DHR management appropriately conduct, and sufficiently document, the annual physical non-capital equipment inventory.</b>	3	<b>Agree</b> Implementation Date: January 1, 2018  DHR's response indicates the Department has conducted a full physical inventory. The Department will continue to annually conduct and document their physical inventory.
6	<b>Assets – Inventory Records:</b> DHR does not update non-capital equipment inventory records to reflect equipment changes (e.g., new items, user changes) as they occur.	Increased risk of inaccurate inventory records and any lost or misappropriated assets not being detected.	<b>DHR management update non-capital equipment inventory records to reflect equipment changes as they occur.</b>	3	<b>Agree</b> Target Implementation Date: September 1, 2018  DHR's response indicates the department purchased and will use an asset tracking management system for all non-capital equipment.

FINDINGS AND RECOMMENDATIONS FOR CORRECTIVE ACTION					
	ISSUE	RISK	RECOMMENDATION	P <sup>1</sup>	SUMMARY OF RESPONSE
7	<p><b>Management Monitoring of Internal Controls:</b> DHR could not demonstrate that they have effective self-monitoring processes in place to ensure internal controls function as intended in the following areas (non-compliance with County Fiscal Manual Section 1.0):</p> <ul style="list-style-type: none"> <li>• Payroll Payoffs</li> <li>• eHR Security Roles</li> <li>• Bonus Eligibility</li> <li>• Timecards and Overtime</li> <li>• Non-Capital Equipment Duties</li> <li>• Non-Capital Equipment Inventory</li> </ul> <p>Effective self-monitoring processes could include tests or observations examining an adequate number of transactions on a regular basis (e.g., 5 - 10 weekly, quarterly, semi-annually); and documenting and retaining evidence of this review in such a manner that a third party can subsequently validate it.</p> <p>The monitoring process should also ensure material exceptions are elevated to management to ensure awareness of relative control risk on a timely basis, and to ensure appropriate corrective actions are implemented.</p>	<p>Prevents management from having reasonable assurance that their objectives are being achieved.</p> <p>Process/control weaknesses may not be promptly identified and corrected which increases the likelihood that the following risks will materialize without being prevented or detected:</p> <ul style="list-style-type: none"> <li>• Employee improprieties</li> <li>• Release of sensitive information</li> <li>• Ineligible bonuses</li> <li>• Timekeeping errors</li> <li>• Excessive overtime costs</li> <li>• Inaccurate inventory records</li> <li>• Lost or misappropriated assets</li> <li>• Unnecessary asset acquisition</li> </ul>	<p><b>DHR management develop ongoing self-monitoring processes that include:</b></p> <p>a) <b>Examination of process/control activities, such as review of an adequate number of transactions on a regular basis, to ensure they function as intended.</b></p> <p>b) <b>Documenting the monitoring activity and retaining evidence so it can be subsequently validated.</b></p> <p>c) <b>Elevating material exceptions to management on a timely basis to ensure awareness of relative control risk, and to ensure appropriate corrective actions are implemented.</b></p>	3	<p><b>Agree</b></p> <p>Target Implementation Date: October 1, 2018</p> <p>DHR's response indicates the Department is evaluating existing self-monitoring processes to ensure that processes are conducted in a manner that fulfills the monitoring requirement, including documenting the monitoring activities, and preparing written procedures that will address self-monitoring activities.</p>





LISA M. GARRETT  
DIRECTOR OF PERSONNEL

**COUNTY OF LOS ANGELES  
DEPARTMENT OF HUMAN RESOURCES**

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June 15, 2018

To: John Naimo  
Auditor-Controller

From: Lisa M. Garrett   
Director of Personnel

Subject: **RESPONSE TO AUDITOR-CONTROLLER'S INTERNAL CONTROLS OVER  
FISCAL AREAS REVIEW PHASE II**

Attached is the Department of Human Resources' (DHR) response to the Auditor-Controller's (A-C) report on the Internal Controls over Fiscal Areas Review Phase II. The report was received on May 18, 2018 and listed a total of seven recommendations.

As described in the attachment, DHR agrees with the A-C's recommendations; in fact, the Department has already implemented four of the seven items noted in the review. Specifically, Recommendations 1, 3, 4, and 5 have been implemented. Recommendations 2 and 6 will be implemented by September 1, 2018, and Recommendation 7 will be implemented by October 1, 2018.

I thank your Audit team for their professionalism and assistance throughout this review and look forward to sharing our Department's enhancements to internal controls in October 2018.

Should you have any questions, please contact me at (213) 974-2406, or Darolyn Jensen, Administrative Deputy, at (213) 974-2515 or [djensen@hr.lacounty.gov](mailto:djensen@hr.lacounty.gov).

LMG:EP:DRJ  
ER:tdb

Attachment

A-C\_Fiscal Review Phase 2\_DHR\_6 15 18

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**DEPARTMENT OF HUMAN RESOURCES – INTERNAL CONTROLS OVER FISCAL AREAS  
REVIEW PHASE II**

<b>ISSUE 1: PAYROLL – ANNUAL PAYOFFS</b>	
<b>A/C Recommendation</b>	DHR management conduct unannounced payroll payoffs annually and maintain documentation demonstrating that it is properly completed for all employees.
<b>Priority</b>	<b>PRIORITY 2</b>
<b>Agree/Disagree</b>	<b>Agree</b>
<b>Department Action Plan<sup>1</sup></b>	The Department conducted an unannounced payroll payoff review in May 2018. The Department will continue this practice on an annual basis and maintain documentation of the review, as required by County fiscal policy.
<b>Planned Implementation Date</b>	<b>IMPLEMENTED</b>
<b>Additional Information (optional)<sup>2</sup></b>	

<b>ISSUE 2: PAYROLL – eHR ACCESS MONITORING</b>	
<b>A/C Recommendation</b>	DHR management conduct documented reviews of eHR security roles on a quarterly basis to ensure staff have access that is commensurate with their responsibilities and do not have conflicting capabilities.
<b>Priority</b>	<b>PRIORITY 2</b>
<b>Agree/Disagree</b>	<b>Agree</b>
<b>Department Action Plan<sup>1</sup></b>	The Department will continue to conduct reviews of eHR security roles on a quarterly basis and will ensure that future reviews are properly documented. The Department's Fiscal staff will continue to work with the Office of Human Resources (OHR) and departmental management to review the appropriateness of specific access roles and ensure that staff do not have conflicting system capabilities.
<b>Planned Implementation Date</b>	<b>September 1, 2018</b>
<b>Additional Information (optional)<sup>2</sup></b>	

<b>ISSUE 3: PAYROLL – ANNUAL BONUS REVIEW</b>	
<b>A/C Recommendation</b>	DHR management revise the annual bonus review process by obtaining the bonus information from eHR.
<b>Priority</b>	<b>PRIORITY 2</b>
<b>Agree/Disagree</b>	<b>Agree</b>

<sup>1</sup> In this section the Department should only describe the efforts they plan to take to implement the recommendation. Any other information should be included in the Additional Information section below.

<sup>2</sup> In this section the Department can provide any background or clarifying information they believe is necessary.

ISSUE 3: PAYROLL – ANNUAL BONUS REVIEW	
<b>Department Action Plan<sup>1</sup></b>	The Department has revised the bonus review procedures and conducted a review of bonuses in June 2018 utilizing the revised procedures. To ensure ongoing compliance, the written procedures are now based on an evaluation of information (i.e., reports) obtained directly from eHR in collaboration with DHR Information Technology Division.
<b>Planned Implementation Date</b>	IMPLEMENTED
<b>Additional Information (optional)<sup>2</sup></b>	

ISSUE 4: ASSETS – SEPARATION OF DUTIES	
<b>A/C Recommendation</b>	DHR management evaluate non-capital equipment responsibilities and appropriately separate incompatible duties to different staff.
<b>Priority</b>	PRIORITY 2
<b>Agree/Disagree</b>	Agree
<b>Department Action Plan<sup>1</sup></b>	The Department separated the duties involved in the purchase and inventory management of non-capital asset inventory effective 12/27/17. To ensure ongoing compliance, written procedures are in place to ensure that incompatible duties (i.e., ordering and receiving, maintaining inventory records and conducting annual inventory reviews, etc.) are separated and assigned to different staff.
<b>Planned Implementation Date</b>	IMPLEMENTED
<b>Additional Information (optional)<sup>2</sup></b>	

ISSUE 5: ASSETS – ANNUAL PHYSICAL INVENTORY	
<b>A/C Recommendation</b>	DHR management appropriately conduct, and sufficiently document, the annual physical non-capital equipment inventory.
<b>Priority</b>	PRIORITY 3
<b>Agree/Disagree</b>	Agree
<b>Department Action Plan<sup>1</sup></b>	The Department has conducted a full inventory of all IT non-capital asset equipment on 1/31/18. The Department will continue this practice on an annual basis and maintain documentation of the review, as required by County fiscal policy.
<b>Planned Implementation Date</b>	IMPLEMENTED

<sup>1</sup> In this section the Department should only describe the efforts they plan to take to implement the recommendation. Any other information should be included in the Additional Information section below.

<sup>2</sup> In this section the Department can provide any background or clarifying information they believe is necessary.

ISSUE 5: ASSETS – ANNUAL PHYSICAL INVENTORY	
Additional Information (optional) <sup>2</sup>	

ISSUE 6: ASSETS – INVENTORY RECORDS	
A/C Recommendation	DHR management update non-capital equipment inventory records to reflect equipment changes as they occur.
Priority	PRIORITY 3
Agree/Disagree	Agree
Department Action Plan <sup>1</sup>	The Department has established procedures for maintaining non-capital asset equipment inventory records, including updating the records as changes occur. The Department purchased an asset tracking management system on 5/7/2018 and the setup configuration is under way. All non-capital asset IT equipment will be tracked using this system.
Planned Implementation Date	September 1, 2018
Additional Information (optional) <sup>2</sup>	

ISSUE 7: MANAGEMENT MONITORING OF INTERNAL CONTROLS	
A/C Recommendation	DHR management develop ongoing self-monitoring processes that include: <ul style="list-style-type: none"> <li>a) Examination of process/control activities, such as review of an adequate number of transactions on a regular basis, to ensure they function as intended.</li> <li>b) Documenting the monitoring activity and retaining evidence so it can be subsequently validated.</li> <li>c) Elevating material exceptions to management on a timely basis to ensure awareness of relative control risk, and to ensure appropriate corrective actions are implemented.</li> </ul>
Priority	PRIORITY 3
Agree/Disagree	Agree
Department Action Plan <sup>1</sup>	The Department is currently evaluating existing self-monitoring processes to ensure that processes are conducted in a manner that fulfills the monitoring requirements and that monitoring efforts are being properly documented. The Department is preparing written internal procedures that will document self-monitoring activities the department has been and will continue to conduct. These procedures will include documentation that will be maintained to demonstrate the fulfillment of monitoring requirements.
Planned Implementation Date	October 1, 2018
Additional Information (optional) <sup>2</sup>	

<sup>1</sup> In this section the Department should only describe the efforts they plan to take to implement the recommendation. Any other information should be included in the Additional Information section below.

<sup>2</sup> In this section the Department can provide any background or clarifying information they believe is necessary.

## **PRIORITY RANKING DEFINITIONS**

Auditors use professional judgment to assign rankings to recommendations using the criteria and definitions listed below. The purpose of the rankings is to highlight the relative importance of some recommendations over others based on the likelihood of adverse impacts if corrective action is not taken and the seriousness of the adverse impact. Adverse impacts are situations that have or could potentially undermine or hinder the following:

- a) The quality of services departments provide to the community,
- b) The accuracy and completeness of County books, records, or reports,
- c) The safeguarding of County assets,
- d) The County's compliance with pertinent rules, regulations, or laws,
- e) The achievement of critical programmatic objectives or program outcomes, and/or
- f) The cost-effective and efficient use of resources.

### **Priority 1 Issues**

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

### **Priority 2 Issues**

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

### **Priority 3 Issues**

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.