

LOS ANGELES COUNTY

AUDITOR-CONTROLLER

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 or contractors provide to the community,
- b) The accuracy and completeness of County or contractor's books, records, or reports,
- c) The safeguarding of County assets,
- d) The County's or contractor'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/contractor's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures.

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 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.

Target Implementation Dates

Target implementation dates are based on the nature of each finding and the expected timeframe required to implement the recommendation. Departments must ensure contractors implement recommendations by the target implementation dates.

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RESOLUTION PROCESS AND INTERNAL CONTROLS

Resolution Process

Departments have follow-up processes designed to provide assurance to the Board of Supervisors (Board) that agencies are taking appropriate and timely corrective action to address audit recommendations. Departments will review the Agency's reported corrective action and supporting documentation, and report to the Audit Committee or the Special Audit Committee the status of implementing our recommendations on a quarterly basis. Departments must continue to report the implementation status quarterly until corrective action had been taken to fully implement all the recommendations.

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.