



**COUNTY OF SAN LUIS OBISPO
BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor-Controller-Treasurer- Tax Collector	(2) MEETING DATE 9/10/2019	(3) CONTACT/PHONE Mark Maier (805) 781-4267 Kerry Bailey (805) 788-2979	
(4) SUBJECT Submittal of the Internal Audit Division Annual Report and the FY 2019-20 Audit Plan. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board 1) receive, review, and file the Internal Audit Division Annual Report and 2) approve the FY 2019-20 Audit Plan, included in the annual audit report.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Board Business (Time Est. _____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date <u>8/21/2018</u> Item # <u>3</u>	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			



COUNTY OF SAN LUIS OBISPO

TO: Board of Supervisors

FROM: James W. Hamilton, CPA, Auditor-Controller-Treasurer-Tax Collector

DATE: 9/10/2019

SUBJECT: Submittal of the Internal Audit Division Annual Report and the FY 2019-20 Audit Plan. All Districts.

RECOMMENDATION

It is recommended that the Board 1) receive, review, and file the Internal Audit Division Annual Report and 2) approve the FY 2019-20 Audit Plan, included in the annual audit report.

DISCUSSION

We are pleased to offer our annual report on the status of the County Auditor-Controller-Treasurer-Tax Collector's Internal Audit Division in accordance with the *International Standards for the Professional Practice of Internal Auditing* requirements. This report contains a summary of issues from our FY 2018-19 internal audit reports, a summary of the FY 2018-19 Whistleblower Hotline Complaints, and our proposed FY 2019-20 Audit Plan.

Along with performing audits, the Internal Audit Division's responsibilities include the coordination and preparation of various financial reports and review of the fee calculations prepared by departments. Our proposed FY 2019-20 Audit Plan is based on the estimated remaining time available to carry out audit work and encompasses 18 audits and an additional 10-15 Transient Occupancy Tax audits. We are asking the Board to approve our proposed FY 2019-20 Audit Plan.

OTHER AGENCY INVOLVEMENT/IMPACT

None

FINANCIAL CONSIDERATIONS

None

RESULTS

A well-functioning internal audit division inspires and elevates public trust in government by assisting and supporting the County, the Board of Supervisors and other stakeholders in achieving their mission with transparency and integrity.

ATTACHMENTS

1 Internal Audit Annual Report FY 2018-19



COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

**Internal Audit Division
Annual Report to the
County Board of Supervisors**

September 2019

JAMES W. HAMILTON, CPA
Auditor-Controller • Treasurer-Tax



COUNTY OF SAN LUIS OBISPO

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Overview

We are pleased to offer our annual report on the status of the County Auditor-Controller-Treasurer-Tax Collector's Internal Audits Division in accordance with the *International Standards for the Professional Practice of Internal Auditing* requirements. This report contains a summary of issues from our FY 2018-19 audit reports, a summary of the FY 2018-19 Whistleblower Hotline Complaints, and our proposed FY 2019-20 Audit Plan.

Purpose, Authority, & Responsibility

The Internal Audit Division exists to inspire and elevate public trust in government by assisting and supporting the County, the Board of Supervisors, and other stakeholders in achieving their mission with transparency and integrity. We accomplish this vision by providing reliable, independent, and objective evaluations and advisory services which utilize a systematic and disciplined approach to add value and improve operations. We contribute expertise in the evaluation and enhancement of controls and other processes, minimization of risks, and enhancement of operational effectiveness for stakeholders.

The authority for the Internal Audits Division is California Government Code Sections 26881 and 26883. In Accordance with Government Code Section 1236, we follow the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Our responsibilities include maintaining independence and objectivity, continually enhancing our skills and knowledge, and providing consistent, clear communication as we perform our work. Our audit duties include the performance of:

- **Assurance Audits** – the main purpose of assurance audits is to provide an objective assessment of evidence and an independent opinion or conclusion regarding an operation, function, process, system, or other subject matter. Such audits may focus on the reliability of financial or operating information, on systems of internal control over recordkeeping, and/or the safeguarding of assets to ensure systems are adequate and effective. These audits may also include review of structures established to ensure compliance with policies, plans, procedures, laws, and regulations.



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Examples of assurance audits completed in the past fiscal year include:

- ✓ Golf Course Concessionaire Contract with Parks and Recreation
- ✓ Law Library Cash Procedures and Internal Controls
- ✓ Transient Occupancy Tax Collection, Reporting and Remitting

- **Consulting Audits** – Consulting audits are advisory in nature and are generally performed at the specific request of a client. The nature and scope of the consulting engagement are subject to agreement with the client.

Examples of consulting audits undertaken in the past fiscal year include:

- ✓ Department of Social Services' Workforce Innovation and Opportunity Act contract with Eckerd Connects
- ✓ District Attorney Workers' Compensation Insurance Fraud Grant

In addition to our audit duties, the Internal Audit Division has a number of other responsibilities including:

- Monitoring the County's Whistleblower Hotline
- Coordinating preparation of the County's Comprehensive Annual Financial Report (CAFR) and acting as liaison with the external auditors
- Preparing the County Financial Transactions Report (CFTR)
- Monitoring special districts' compliance with California Government Code Section 26909
- Review of department fees and fee development methodologies
- Review vehicle citation appeals

Independence

Fully staffed, the Internal Audit Division consists of three staff auditors and an internal audit manager who reports directly to the Auditor-Controller-Treasurer-Tax Collector (ACTTC). The ACTTC achieves organizational independence via election by the citizens of San Luis



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Obispo County. Both the ACTTC and the Internal Audit Manager have unhindered access to the County Administrative Officer and the Board of Supervisors.

Each year the ACTTC, Assistant ACTTC, and individual members of the Internal Audit Division affirm their independence by signing a Statement of Independence and Objectivity. Likewise, Statements of Independence are completed for each individual engagement by team members assigned to the engagement.

[Internal Audit Division Charter](#)

The Internal Audit Division Charter is the guiding document for our audit work. The Charter includes the *Core Principles for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors. No updates to the Charter have occurred in the past fiscal year.

[Quality Assurance and Improvement Program Results](#)

The auditing *Standards* require that we maintain a quality assurance and improvement program consisting of both ongoing and periodic assessments of our operations and audit work to determine conformance with the Institute of Internal Auditor's *Definition of Internal Auditing, Code of Ethics, and Standards*.

[External Assessment](#)

The *Standards* specify that an external assessment, also known as a peer review, be conducted every five years. Our last peer review occurred in FY 2016-17 for the period July 1, 2011 through June 30, 2016. Our next peer review will be performed in FY 2021-22 and will cover July 1, 2016-17 through June 30, 2021.

[Internal Periodic Assessment](#)

Internal assessments are performed to evaluate conformance with the *Standards and The Institute of Internal Auditor's Code of Ethics*. Our last internal assessment occurred in FY 2017-18.

[Ongoing Monitoring](#)

In the 2018-19 fiscal year, the Internal Audit Division complied with the ongoing monitoring requirement through soliciting stakeholder feedback, using checklists and taking advantage of internal audit automated systems to provide assurance that processes had been



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followed. We also monitored project budgets and analyzed additional performance metrics, including those reported below.

The results of our ongoing monitoring demonstrate we are perceived as being professional and knowledgeable, our work helps management improve business processes and controls, and our recommendations are being implemented.

The Internal Audit Division categorizes audit issues into two levels and provides recommendations for each issue identified. The seriousness of the issue determines the type of department response required:

- Findings – issues which present a serious enough risk to require consideration by management and a written response to our recommendation(s). The Internal Audit Division conducts follow-up monitoring on all issues identified as Findings.
- Verbal Recommendations – issues which are low risk and/or a best practice that could be adopted to improve operations or controls. Verbal Recommendations do not require a written department response.

All Findings and Verbal Recommendations are discussed with the Department's management prior to a report being issued. In most cases the department has made a change to address the issue before the audit is complete.

At the end of fiscal year 2017-18 we had nine open recommendations that had yet to be verified as implemented. Below is a summary of the recommendations and current status:

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/19</u>
➤ Improve bank reconciliation documentation	Health Agency – Animal Services	Open – To be verified in FY 19-20 audit follow-up
➤ Improve timeliness of bank reconciliations	Health Agency – Animal Services	Open – To be verified in FY 19-20 audit follow-up
➤ Document missing receipts for Cal-Card purchases	Health Agency – Animal Services	Open – To be verified in FY 19-20 audit follow-up



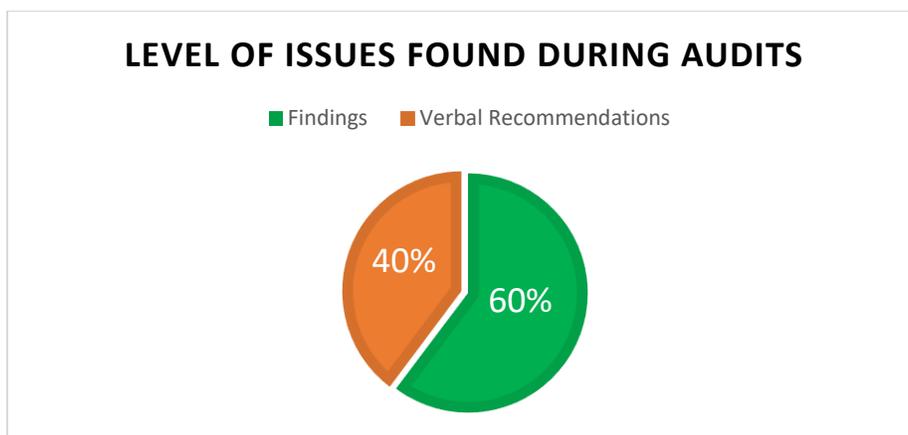
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<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/19</u>
➤ Document authorization for petty cash purchases	Health Agency – Animal Services	Open – To be verified in FY 19-20 audit follow-up
➤ Update automobile insurance	Banner Airways (Airport concessionaire)	Closed – Verified as implemented in FY 18-19 follow-up audit
➤ Update automobile insurance	Visitor TV (Airport concessionaire)	Closed – Verified as implemented in FY 18-19 follow-up audit
➤ Improve the invoice submission process	Visitor TV (Airport concessionaire)	Closed – Verified as implemented in FY 18-19 follow-up audit
➤ Improve oversight of deposit permit process	Probation	Closed – Verified as implemented in FY 18-19 follow-up audit

In addition, the following recommendations were issued in FY 2018-19 and resolved prior to the end of the fiscal year.

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/19</u>
➤ Obtain second approval signature on all payments and maintain support documentation	Law Library	Closed – Verified as implemented in FY 18-19 follow-up audit
➤ Record cash register overages	Law Library	Closed – Verified as implemented in FY 18-19 follow-up audit
➤ Submit annual report to appropriate agencies	Law Library	Closed – Verified as implemented in FY 18-19 follow-up audit

In FY 2018-19 we made 73 total recommendations. 44 issues were classified as Findings and 29 issues were classified as Verbal Recommendations:



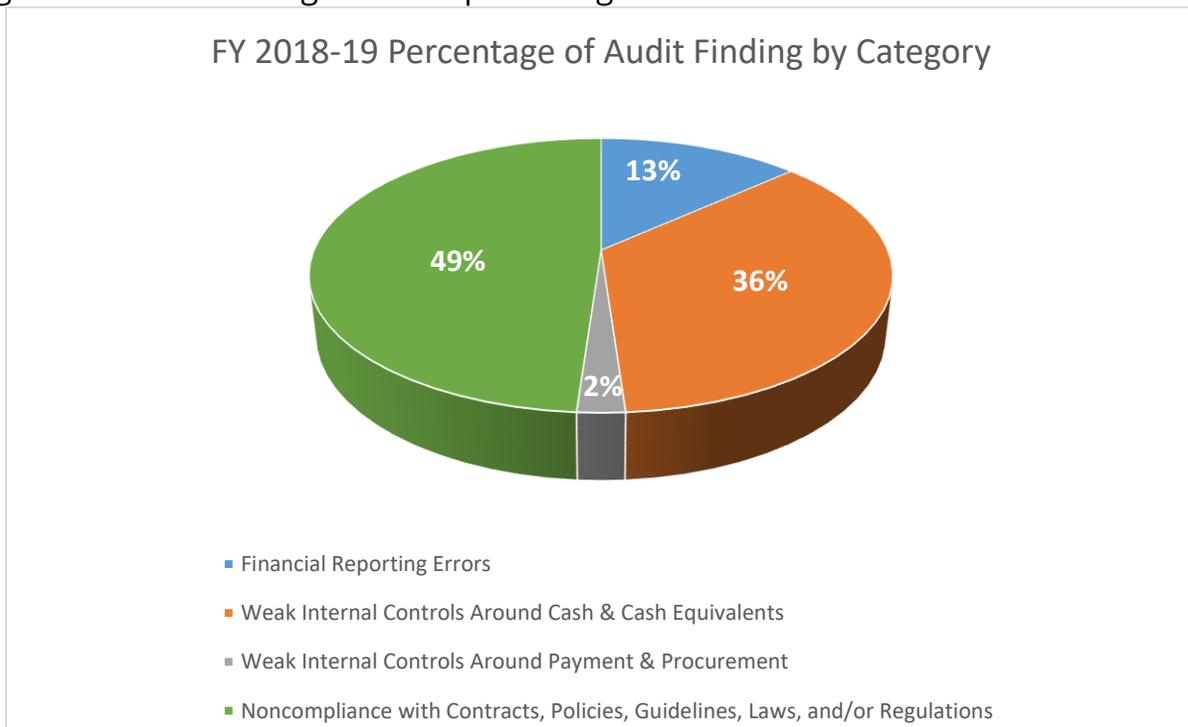


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The following four recommendations were made during FY 2018-19 and remain open as of June 30, 2019:

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/2019</u>
➤ Obtain secondary approval of one-time vendor payments	One-Time Vendor Accounts: Airport, Clerk-Recorder, and Public Works	To be verified in FY 19-20 follow-up procedures
➤ Increase change fund security	Library	To be verified in FY 19-20 follow-up procedures
➤ Reconcile all sales to cash register receipts	Library	To be verified in FY 19-20 follow-up procedures
➤ Issue receipts for donations	Library	To be verified in FY 19-20 follow-up procedures

At 49%, the majority of audit issues we addressed related to noncompliance with contract provisions, policies, guidelines, laws, and/or regulations. The following chart displays broad categories of audit findings and the percentage of each:





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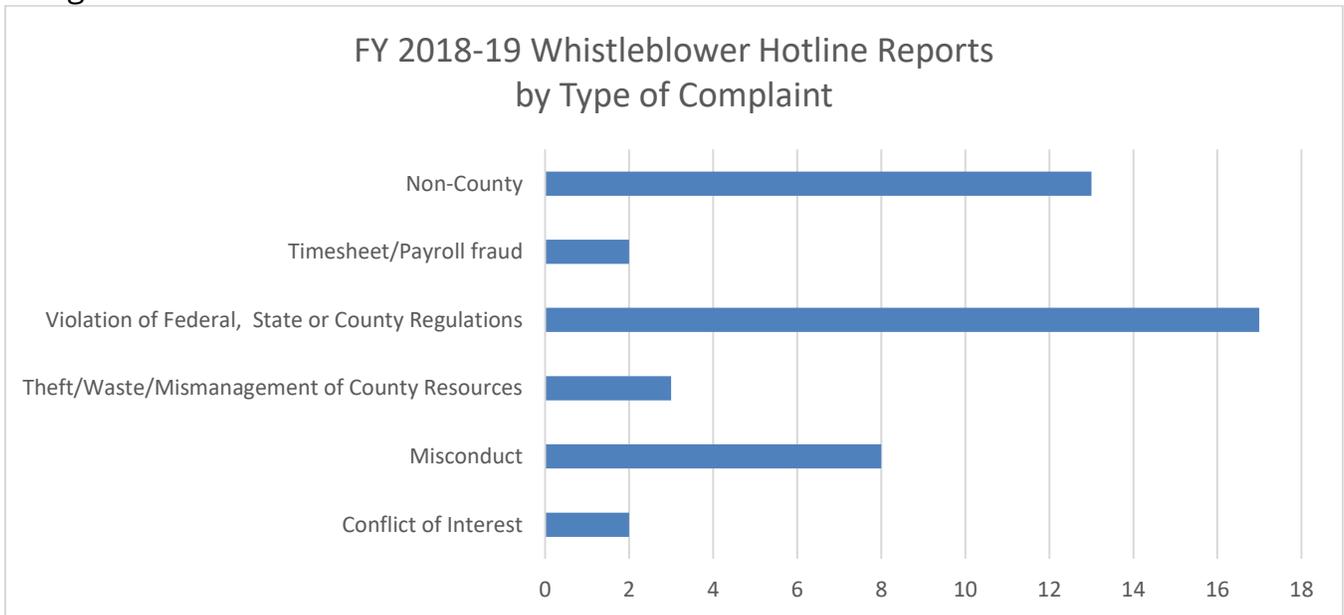
The annual audit plan is intentionally created with an ambitious goal of completion and with the realistic understanding that the Division’s time is flexible and continuously changing to fit the needs of the both the ACTTC’s office and the County as a whole. In FY 2018-19 we accomplished or have in-progress 57% of the audit plan. The audit plan completion percentage was greatly impacted by staffing changes occurring in January 2019, which significantly reduced the total of audit hours available. The following change was made to the internal audit plan during fiscal year 2018-19:

Audit	Action	Reason for Change
➤ Transient Occupancy Tax	Amended	Due to reduced staffing, the number of establishments audited was lowered from 10-15 to 6.

Overall, we completed 20 audits, including 9 Transient Occupancy Tax audits.

Whistleblower Hotline Results

The Internal Audit Division monitors the Whistleblower Hotline, refers complaints to related departments or agencies, and conducts follow-up procedures as necessary. In FY 2018-19, the Whistleblower Hotline received 45 reports of alleged fraud, waste, or abuse, a 12% increase from the prior year’s 40 complaints. Reports were received regarding the following categories:





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Complaints related to employee misconduct, not related to alleged fraud, waste, or abuse, are referred to Human Resources and not classified as substantiated or unsubstantiated. The remainder of the complaints were either unsubstantiated, referred, or not related to County operations. Quarterly Whistleblower Hotline reports are posted on the ACTTC website.

FY 2019-20 Internal Audit Plan

In developing our annual audit plan, we consider the assessed risk of programs and activities, any input received from management and the Board, and the time and staffing resources available within the division.

The Internal Audit Division maintains a continuous risk assessment throughout the year. We calculate the risk of programs and activities based on three major factors:

1. Financial factors include the dollar amount of receipts or expenditures and the types of funding being received
2. Operational factors such as the vulnerability of the population being served, the types of services being provided, and significant staffing or systems changes
3. The likelihood of significant financial or operational impact if internal controls should fail

The proposed FY 2019-20 Audit Plan contains mandated audits, audits in progress, follow-up audits, and audits recommended for the current year. Details are presented below for the Board's review and approval. The audit plan may be modified during the year to accommodate significant new issues or risks which may arise and require the immediate attention of the Internal Audit Division.



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Audit Category	Audit Name	Risk	Estimated	
			Hours	Type of Engagement
Mandated	State Worker's Compensation Insurance Fraud (District Attorney)	Low	60	Consulting
	Workforce Innovation and Opportunity Act (DSS) - 2019	Medium	140	Consulting
	Annual Cash Shortages and Overages Report	Low	50	Assurance
	Internal Quality Assurance and Improvement Program	N/A	20	N/A
In Progress	Workforce Innovation and Opportunity Act (DSS) - 2018	Medium	10	Consulting
	Sober Living Environment (Health Agency)	Medium	50	Consulting
	Cash Procedures and Internal Controls Review - District Attorney	Low	60	Assurance
	Transient Occupancy Tax - CY 2018	Medium	60	Assurance
Follow-up	One-Time Vendor Payment Accounts Follow-Up	High	30	Assurance
	Library Cash Procedures and Internal Controls Follow-up	Low	40	Assurance
Transient Occupancy Tax	Transient Occupancy Tax - CY 2019 (10-15 establishments)	Medium	400	Assurance
Cash and Internal Controls	Department #1	Medium	120	Assurance
	Department #2	Medium	80	Assurance
	Department #3	Medium	180	Assurance
	Department #4	Medium	80	Assurance
	Department #5	Low	120	Assurance
Carry Forward From Prior Year	Airport Concessionaire - Rental Cars	Medium	400	Assurance
	IT Asset Management Audit	High	400	Assurance
	Asset Verification (2-3 assets)	Medium	80	Assurance
Total Estimated Audit Hours			2,380	
Audit Team Non-Audit Work Hours:				
Administrative Tasks/Training/Vehicle Hearings			1,080	
Financial Reporting (CAFR and CFTR) and Fee Review			2,000	
Other Work and Special Projects			390	
Subtotal Non-Audit Work			3,470	
Non-Productive Hours (Vacation, Holiday, and Sick Leave)			910	
Total Internal Audit Staff Hours Scheduled			6,760	