



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

(1) DEPARTMENT Auditor-Controller-Treasurer- Tax Collector	(2) MEETING DATE 1/23/2024	(3) CONTACT/PHONE Kari Lekvold (805) 781-4846	
(4) SUBJECT Submittal of the FY 2022-23 Internal Audit Division Annual Report, the Results of the External Quality Control Review, and the FY 2023-24 Audit Plan.			
(5) RECOMMENDED ACTION It is recommended that the Board: <ol style="list-style-type: none"> 1. Receive, review, and file the FY 2022-23 Internal Audit Division Annual Report and the Results of the External Quality Control; and 2. Approve the FY 2023-24 Audit Plan. 			
(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: <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>10/4/2022</u>	
(17) ADMINISTRATIVE OFFICE REVIEW Zachary A. Lute			
(18) SUPERVISOR DISTRICT(S)			



COUNTY OF SAN LUIS OBISPO

TO: Board of Supervisors

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

DATE: 1/23/2024

SUBJECT: Submittal of the FY 2022-23 Internal Audit Division Annual Report, the Results of the External Quality Control Review, and the FY 2023-24 Audit Plan.

RECOMMENDATION

It is recommended that the Board:

1. Receive, review, and file the FY 2022-23 Internal Audit Division Annual Report and the Results of the External Quality Control; and
2. Approve the FY 2023-24 Audit Plan.

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 status on our FY 22-23 Audit Plan, a summary of the FY 2022- 23 Whistleblower Hotline reports, and our proposed FY 2023-24 Audit Plan. The presentation of the Audit Plan typically occurs within the relevant fiscal year, with the specific timing contingent on workloads and remains open to modifications. We are asking the Board to approve our proposed FY 2023-24 Audit Plan.

The Internal Audit Division follows the *International Standards for the Professional Practice of Internal Auditing* (Standards). The *Standards* require an external assessment, also known as a peer review, be conducted every five years as part of a comprehensive Quality Assurance and Improvement Program. In FY 2022-23 the Internal Audit Division had an external assessment performed by representatives of the Association of Local Government Auditors (ALGA). We were awarded the highest possible rating, stating that "the County of San Luis Obispo's Internal Audit Division internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with the *Standards* for assurance and consulting engagements during the period July 1, 2016 through June 30, 2022."

OTHER AGENCY INVOLVEMENT

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 integrity and accountability.

ATTACHMENTS

- 1 FY 2022-23 Internal Audit Division Annual Report and FY 2023-24 Audit Plan
- 2 Association of Local Government Auditors' Quality Control Review Report



Attachment 1

COUNTY OF SAN LUIS OBISPO
Office of James W. Hamilton, CPA
Auditor-Controller • Treasurer-Tax Collector • Public Administrator

Michael Stevens, Deputy
Justin Cooley, Deputy

County of San Luis Obispo Internal Audit Division's FY 2022-23 Annual Report and FY 2023-24 Audit Plan

January 2024

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



Overview

We are pleased to offer our annual report on the status of the County Auditor-Controller-Treasurer-Tax Collector's Internal Audit Division (IAD) in accordance with the *International Standards for the Professional Practice of Internal Auditing* requirements. A report on the FY 2022-23 Audit Plan is included on page 5, a summary of the FY 2022-23 Whistleblower Hotline Reports is included on pages 6 and 7, and our proposed FY 2023-24 Audit Plan is included on page 8.

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 Audit Division is provided in 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 operational information, on systems of internal control over recordkeeping, and/or the adequate safeguarding of assets. These audits may also include a review of controls implemented to ensure compliance with policies, plans, procedures, laws, and regulations.

Examples of assurance audits completed in prior fiscal years include:

- ✓ Cannabis Tax Compliance Audits
- ✓ Community Based Organization Grant Audits
- ✓ Transient Occupancy Tax Collection, Reporting and Remitting Audits



- **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 in prior fiscal years include:

- ✓ Department of Social Services' Workforce Innovation and Opportunity Act Grant Audit
- ✓ District Attorney Workers' Compensation Insurance Fraud Grant Audit

In addition to our audit duties, the Internal Audit Division is responsible for:

- Monitoring the County's 24/7 Whistleblower Hotline, investigating and following up as needed
- Assisting in the preparation of the County's Annual Comprehensive Financial Report (ACFR) and acting as liaison with the external auditors
- Monitoring special districts' compliance with financial audit submissions (California Government Code Section 26909)
- Enterprise Financial System segregation of duties monitoring and investigation
- Reviewing departmental fee calculations for accuracy and appropriate methodology
- Managing the Countywide Cash Handling Policy, reviewing departmental cash overages, and approving departmental requests for relief from routine cash shortages
- Consulting on internal control implementation and updates
- Performing departmental inventory observations
- Serving as the County's Vehicle Hearing Officer reviewing vehicle citation appeals

Independence

The Auditor-Controller-Treasurer-Tax Collector (ACTTC) is elected by the citizens of San Luis Obispo County, thus achieving organizational independence. The Internal Audit Division consists of one



staff auditor and one Internal Audit Manager who report directly to the ACTTC. 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, Deputy Auditor-Controller, 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 recent peer review occurred in FY 2022-23 for the period July 1, 2016, through June 30, 2022. The Internal Audit Division was awarded a Certificate of Compliance, the highest possible rating, from the Association of Local Government Auditors recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with the *International Standards for the Professional Practice of Internal Auditing* for assurance and consulting engagements during the audit period. We have included the report as an attachment to this annual report. Our next peer review will be performed in FY 2027-28 and will cover July 1, 2022, through June 30, 2027.

Internal Periodic Assessment

Internal assessments are performed to evaluate conformance with the Standards and the Institute of Internal Auditor's Code of Ethics. Our next internal assessment will occur in FY 2024-25.



Ongoing Monitoring

The Internal Audit Division complied with the ongoing monitoring requirement through soliciting stakeholder feedback, using checklists and taking advantage of automated systems to provide assurance that processes had been followed. We also monitored project budgets and analyzed additional performance metrics, including those reported below.

The results of our ongoing monitoring demonstrate that we are perceived as being professional and knowledgeable, that our work helps management improve business processes and controls, and that 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 lower risk and/or a best practice that could be adopted to improve controls and/or enhance operations. Verbal Recommendations do not require a written department response and are not included in the individual engagement report.

All Findings and Verbal Recommendations are discussed with the Department’s management prior to a report being issued. In most cases the department makes a change to address the issue before the audit is complete. If not, then findings are followed up on within six to twelve months.

FY 2022-23 Internal Audit Plan Status

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.

The following table details the status of the audits in the FY 2022-23 audit plan.



Report on FY 2022-23 Audit Plan			
Category	Audit Name	Type of Engagement	Engagement Status
Mandated	Annual Cash Shortages and Overages Report	Assurance	Completed
	External Peer Review	Assurance	Completed
	State Worker's Compensation Insurance Fraud Grant Audit (District Attorney)	Consulting	Completed
	Workforce Innovation and Opportunity Act Grant Audit (DSS)	Consulting	Completed
In Progress	Transient Occupancy Tax - CY 2021 (5 establishments)	Consulting	Completed
Discretionary	Cannabis Tax Compliance Audits	Assurance	In progress
	Cash and Internal Controls Department #1	Assurance	Completed
	Cash and Internal Controls Department #2	Assurance	Carried forward
	Cash and Internal Controls Department #3	Assurance	Carried forward
	Cash and Internal Controls Department #4	Assurance	Carried forward
	Community Based Organization Grant Audit - Food Bank Coalition of SLO County	Assurance	Removed
	Concessionaire Audit	Assurance	Carried forward
	Countywide Cal-Card Audit	Assurance	Carried forward
	Countywide IT Audit	Assurance	Carried forward
	Departmental Requests and Consulting	Consulting	Completed
	Transient Occupancy Tax - CY 2022	Assurance	Completed

Whistleblower Hotline Results

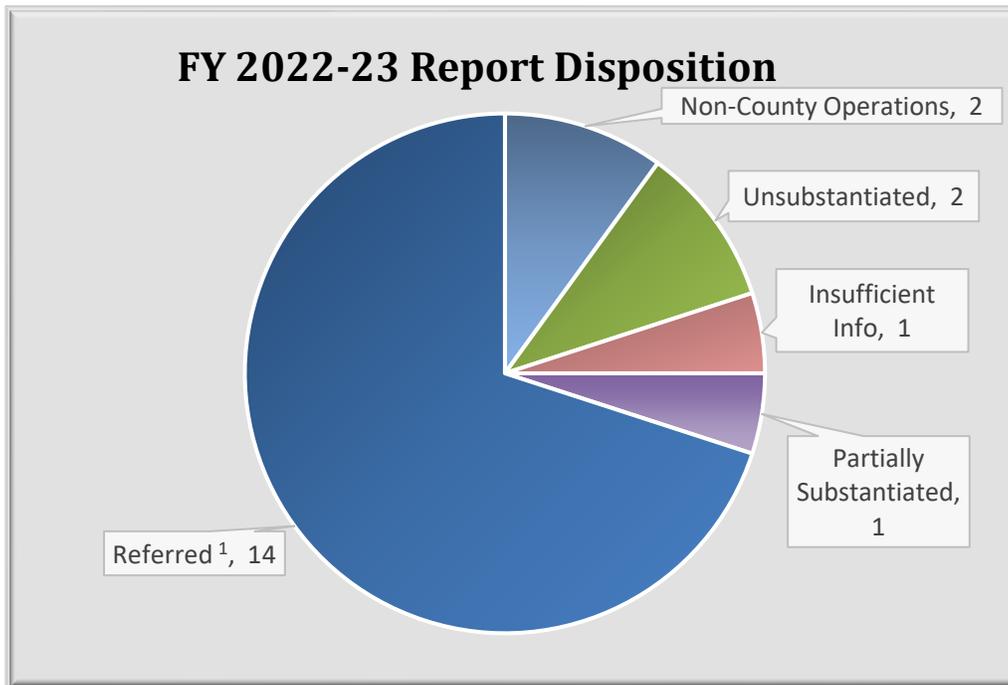
The Internal Audit Division monitors the Whistleblower Hotline, refers reports to related departments or agencies and conducts follow-up investigations as necessary. In FY 2022-23, the Whistleblower Hotline received 20 reports, a 23% decrease from the prior year's 26 reports. 70% of the reports received were referred to other County departments. One report, which related to Code Enforcement violations in Nipomo, was partially substantiated. All twenty reports were received directly through the Whistleblower Hotline. 14 of the 20 reports received were submitted anonymously.

In addition to matters originating from the Whistleblower Hotline, the Internal Audit Division also provided assistance with the investigation of an internal report alleging the misappropriation of County funds by a County employee. This work is ongoing and directly relates to audits underway from the FY 2022-23 and FY 2023-24 audit plans.

The FY 2022-23 reports received were related to the following categories:



Reports related to employee misconduct that were not related to alleged fraud, waste, or abuse were referred to Human Resources. The remainder of the reports were either unsubstantiated, referred, not related to County operations, or did not contain sufficient information to investigate. There were no substantiated reports of fraud, waste, or abuse in FY 2022-23. Quarterly Whistleblower Hotline reports are available on the ACTTC website.



¹Departments with the highest incidence of referred reports for the fiscal year are Human Resources, Health Agency, and the Sheriff's Department.



FY 2023-24 Internal Audit Plan

The Internal Audit Plan for Fiscal Year 2023-24 summarizes the audits we recommend performing during the year. The plan is based on the results calculated by our risk assessment, stakeholder input process, and available audit hours based on two full-time equivalents. It is important to note the plan is a working document and can be adjusted throughout the year as priorities and risks change.

FY 2023-24 Audit Plan		
Category	Audit Name	Type of Engagement
Mandated	Annual Cash Shortages and Overages Report (Countywide)	Assurance
	Food and Nutrition Services Reporting Validation (DSS)	Consulting
	State Worker's Compensation Insurance Fraud (District Attorney)	Consulting
	Workforce Innovation and Opportunity Act Grant Audit (DSS)	Assurance
In Progress	Cannabis Tax Compliance Audits (3 establishments)	Assurance
	Cash and Internal Controls Audit - Health Agency Public Guardian	Assurance
	Cash and Internal Controls Audit - Planning Department	Assurance
	Countywide Cal Card Audit	Assurance
Follow-up	Cash and Internal Controls Audit - Child Support Services	Assurance
Discretionary	Cannabis Tax Compliance Audits	Assurance
	Cash and Internal Controls Departmental Audits	Assurance
	Concessionaire Audit	Assurance
	Countywide IT Audit	Assurance
	Countywide Special Pay Audit	Assurance



Engagement Objectives of the Proposed Audits

The audit plan contains mandated audits, audits in progress, a follow-up audit, and audits recommended for the current year, all of which align with the County’s vision, mission, and values.

Mandated Audits

Annual Cash Shortages and Overages Report (Assurance)

To report on Countywide cash shortages and overages as required by Board Resolution 84-40 for FY 2023-24.

Food and Nutrition Services 209 Report Validation - Status of Claims Against Households, Quarter Ended June 30, 2023 (Consulting)

To validate the accuracy of the figures reported on the FNS-209 report submitted by the Department of Social Services to the State for quarter ending June 30, 2023.

Workforce Innovation and Opportunity Act Fiscal and Procurement Monitoring for Program Year 2023-24 (Consulting)

To determine if WIOA funds used complied with federal and state laws, regulations, policies, and directives for Program Year 2023-24.

State Worker's Compensation Insurance Fraud Program Grant (Consulting)

To determine if the District Attorney's Workers' Compensation Fraud Program is in compliance with grant award requirements and State regulations for FY 2022-23.

Audits in Progress

Cannabis Tax Compliance Monitoring Program (Assurance)

To determine the accuracy of Cannabis Business Tax (CBT) amounts remitted to the County. On September 13, 2022, the County Board of Supervisors approved the use of a third-party consultant to assist with cannabis business tax audits.

Departmental Cash and Internal Controls Audits (Assurance) – Health Agency Public Guardian and Planning and Building Department

Audit objectives can vary by department but are generally performed to determine compliance with the Cash Handling Policy, establish accountability of cash on hand, and review internal controls of cash procedures and other applicable controls testing as deemed necessary.



Countywide Cal-Card Audit (Assurance)

To determine if the County is in compliance with Cal-Card program policies and if adequate internal controls were maintained over the Program.

Follow-up Audit

Departmental Cash and Internal Controls Audits (Assurance) – Child Support Services

To determine if the audit recommendations made in the audit report for the FY 2022-23 audit have been implemented.

Recommended Discretionary Audits

Cannabis Tax Compliance Monitoring Program (Assurance)

To determine the accuracy of Cannabis Business Tax (CBT) amounts remitted to the County. On September 13, 2022, the County Board of Supervisors approved the use of a third-party consultant to assist with cannabis business tax audits.

Departmental Cash and Internal Controls Audits (Assurance)

Audit objectives can vary by department but are generally performed to determine compliance with the Cash Handling Policy, establish accountability of cash on hand, and review internal controls of cash procedures and other applicable controls testing as deemed necessary.

Concessionaire Audit (Assurance)

To determine if the concessionaire's internal controls were adequate to safeguard and account for cash receipts and if concessionaire payments were timely and accurately remitted to the County.

Countywide IT Audit (Assurance)

To determine if specific Countywide IT policies and procedures were adhered to and adequate controls were maintained throughout the County.

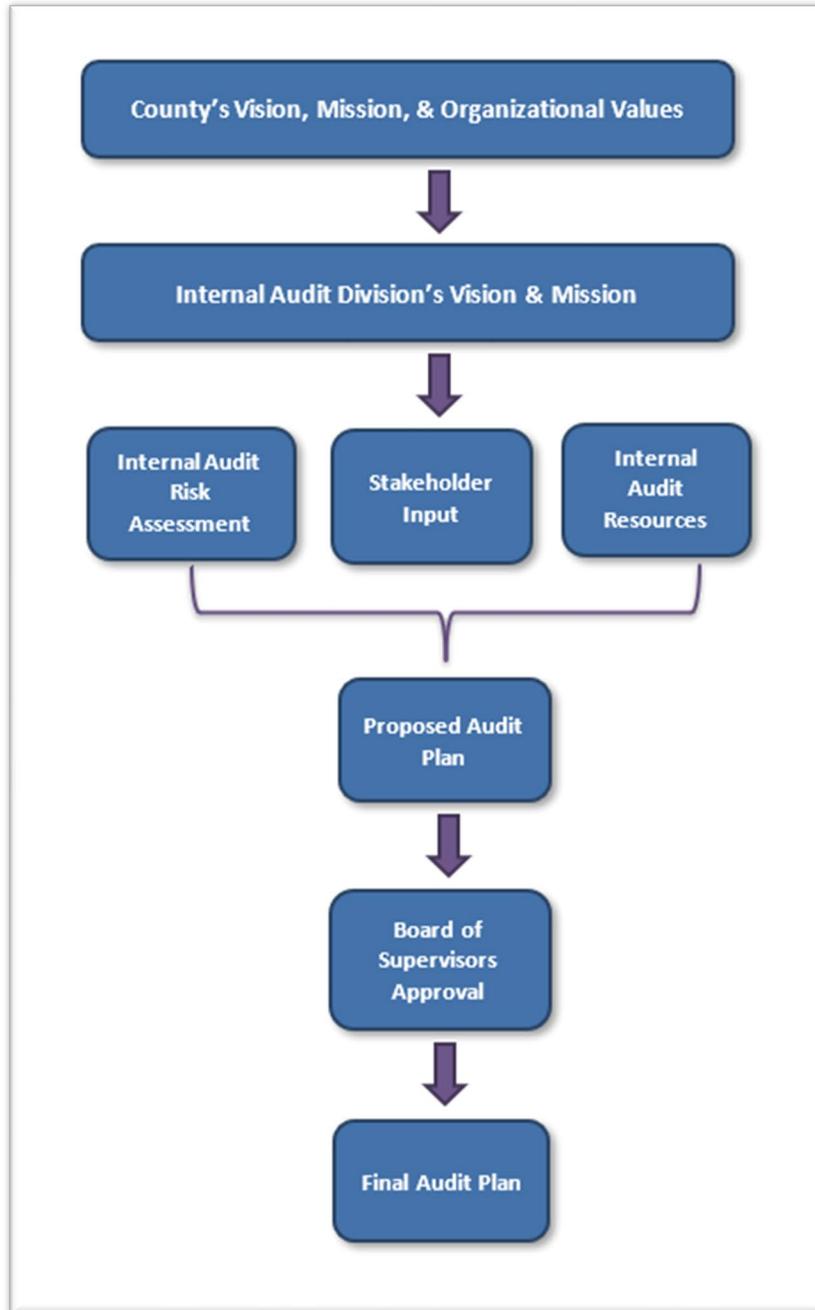
Countywide Special Pay Audit (Assurance)

To determine if policies and procedures were in place to validate and monitor special pay and were being adhered to within the scope of applicable MOU's.



Developing the Audit Plan

The following guide shows the audit plan's development process. The audit plan is developed to enhance integrity and accountability and to contribute to the County's vision of a well-governed community.





County Vision, Mission, and Organizational Values



A Safe Community – The County will strive to create a community where all people – adults and children alike – have a sense of security and well-being, crime is controlled, fire and rescue response is timely and roads are safe.

A Healthy Community – The County will strive to ensure all people in our community enjoy healthy, successful and productive lives, and have access to the basic necessities.

A Livable Community – The County will strive to keep our community a good place to live by carefully managing growth, protecting our natural resources, promoting lifelong learning, and creating an environment that encourages respect for all people.

A Prosperous Community – The County will strive to keep our economy strong and viable and assure that all share in this economic prosperity.

A Well Governed Community – The County will provide high quality “results oriented” services that are responsive to community needs.



Internal Audit Vision and Mission

<h1>Purpose</h1> <ul style="list-style-type: none"> •We exist 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. 	<h1>Mission</h1> <ul style="list-style-type: none"> •Our Mission is to provide reliable, independent, objective evaluations and advisory services to County management, the Board of Supervisors, and other stakeholders. By utilizing a systematic, disciplined approach, our services will add value to and improve operations. We will provide expertise to evaluate and improve the effectiveness of controls and other processes, minimize risks, and enhance operational effectiveness for stakeholders; as well as contribute to protecting and safeguarding resources and assets.
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To carry out our vision we will engage in the following core activities:

- ✓ We will provide excellent support to the County's management, staff, and stakeholders by conducting independent, effective, and efficient analyses which enhance our customers' ability to meet their objectives.
- ✓ We will provide reasonable assurance of accountability, transparency, and due diligence, by conducting audits and reviews of operations, programs, and projects to ensure public funds are spent appropriately and within the scope of the intended purpose.
- ✓ We will help to ensure public funds are used in the most efficient and effective manner through the development and monitoring of internal controls and processes.
- ✓ We will help to prevent fraud, waste, and abuse by continuous assessment, education, and monitoring of risk.
- ✓ We will help to ensure the County is in compliance with necessary reporting, monitoring and compliance requirements governed by various statutes, codes, and regulations.
- ✓ We will ensure internal audit staff are properly trained and kept apprised of new accounting and auditing standards and best practices.
- ✓ We will conduct a quality assurance and improvement program which assesses the efficiency and effectiveness of the internal audit activity, including promoting effective control at a reasonable cost, and identifying opportunities for improving the internal audit activity's performance and ability to add value.



Risk Assessment

The risk assessment is a systematic process used to evaluate, identify, and prioritize potential audits based on the level of risk to the County. The audit universe, a range of auditable components is reviewed and updated. An excerpt of the County's audit universe is included in the illustration below. Risk is defined as the possibility of an event occurring that will have a financial or operational impact on the achievement of the County's objectives and is measured in terms of impact and likelihood. The assessment identifies exposures that would disrupt the organization's operations, interfere with County and departmental goals and business objectives, and serve as obstacles in the compliance of local and federal governances.

Stakeholder Input

Development of the plan allows for input from the Board of Supervisors, the County Administrator, departments, and other public stakeholders. At least annually, input is requested from the Board of Supervisors, the County Administrator, and departments.



External Quality Control Review

of the
County of San Luis Obispo
Internal Audit Division

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the period July 1, 2016 through June 30, 2022



Association of Local Government Auditors

April 20, 2023

James W. Hamilton, CPA
Auditor-Controller-Treasurer-Tax Collector
1055 Monterey Street, Room D290
San Luis Obispo, CA 93408

Dear Mr. Hamilton,

We have completed a peer review of the County of San Luis Obispo's Internal Audit Division for the period July 1, 2016 through June 30, 2022. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing* by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the *International Standards for the Professional Practice of Internal Auditing (the Standards)* issued by the Institute of Internal Auditors as part of their *Professional Practices Framework*. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the County of San Luis Obispo's Internal Audit Division internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with *the Standards* for assurance and consulting engagements during the period July 1, 2016 through June 30, 2022.

Jennifer An, CPA, CFE
Sr. Management Analyst
Los Angeles Police Department

Fred Bolger, CIA
Audit Manager, Audit Services
San Diego County Regional Airport Authority