



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

(1) DEPARTMENT Auditor-Controller-Treasurer- Tax Collector	(2) MEETING DATE 8/24/2021	(3) CONTACT/PHONE Mark Maier (805) 781-4267	
(4) SUBJECT Submittal of the FY 2020-21 Internal Audit Division Annual Report and the FY 2021-22 Audit Plan. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board 1) receive, review, and file the FY 2020-21 Internal Audit Division Annual Report and 2) approve the FY 2021-22 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>9/22/2020</u>	
(17) ADMINISTRATIVE OFFICE REVIEW Zachary A. Lute			
(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: 8/24/2021

SUBJECT: Submittal of the FY 2020-21 Internal Audit Division Annual Report and the FY 2021-22 Audit Plan. All Districts.

RECOMMENDATION

It is recommended that the Board 1) receive, review, and file the FY 2020-21 Internal Audit Division Annual Report and 2) approve the FY 2021-22 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 summary of issues from our FY 2020-21 internal audit reports, a summary of the FY 2020-21 Whistleblower Hotline Complaints (page 8), and our proposed FY 2021-22 Audit Plan (page 9).

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 2021-22 Audit Plan is based on the estimated remaining time available to carry out audit work and allocated 1,600 hours for mandated and discretionary audits. Starting on page 10 of the report, detail on each audit engagement's objectives is provided. We are asking the Board to approve our proposed FY 2021-22 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 FY 2020-21 Internal Audit Division Annual Report and FY 2021-22 Audit Plan



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Internal Audit Division FY 2020-21 Annual Report and FY 2021-22 Audit Plan

August 2021

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



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 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 2020-21 audit reports, a summary of the FY 2020-21 Whistleblower Hotline Reports (page 8), and our proposed FY 2021-22 Audit Plan (page 9).

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 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:

- ✓ SLO Noor Foundation Community Based Organization Grant Agreement
- ✓ Transient Occupancy Tax Collection, Reporting and Remitting



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- **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' Status of Claims Against Households Food and Nutrition Services 209 Report Validation
- ✓ District Attorney Workers' Compensation Insurance Fraud Grant

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

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

Independence

The Internal Audit Division consists of three staff auditors who report directly to the Auditor-Controller-Treasurer-Tax Collector (ACTTC). The ACTTC achieves organizational independence via election by the citizens of San Luis 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.



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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 2022-23 and will cover July 1, 2016, 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 2019-20.

[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.



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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.

At the end of fiscal year 2019-20 we had three open findings that had yet to be verified as implemented. Below is a summary of our recommendations and current status:

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/2021</u>
➤ Update Department’s computer inactivity settings	District Attorney	Closed – Verified as implemented in FY 20-21 follow-up audit
➤ Segregate cash receipting and depositing duties	District Attorney	Not Implemented - To be verified in FY 21-22 follow-up audit
➤ Mark Victim Witness Assistance Fund’s petty cash receipts as “Paid”	District Attorney	Not Implemented - To be verified in FY 21-22 follow-up audit

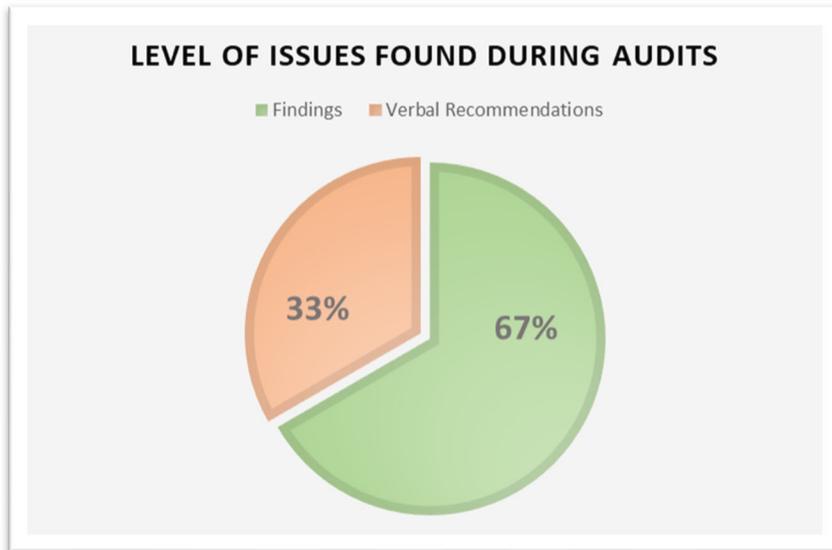
Findings for consulting engagements are not included in this report as those audits are performed at the request of the department and typically do not have follow-up audits performed.

In FY 2020-21 we made 9 total recommendations. 6 issues were classified as Findings and 3 issues were classified as Verbal Recommendations:

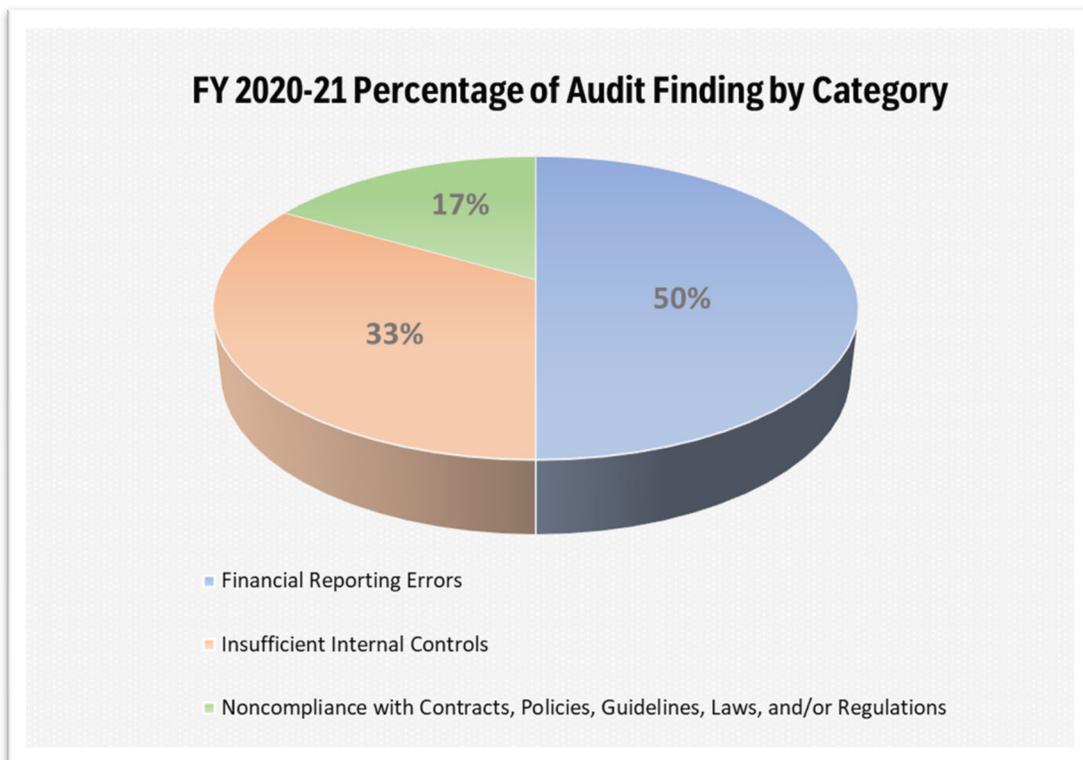


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Most of the audit issues we addressed related to financial reporting errors which made up 50% of audit findings for FY 2020-21. The following chart displays broad categories of audit findings and the percentage of each:





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FY 2020-21 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.

Additionally, COVID-19 impacted the audit plan in two ways:

1. It reduced the number of audit hours available by 30% as staff were assigned to serve as disaster service workers to assist in the County’s response to the pandemic.
2. It eliminated the ability to conduct in-person fieldwork.

The following table details the status of each of the audits in the FY 2020-21 audit plan.

Audit Category	Entity	Type of Engagement (Assurance/ Consulting)	Audit Plan Classification (Original/Amended)	Engagement Status as of 6/30/2021
Mandated	State Worker’s Compensation Insurance Fraud (District Attorney)	Consulting	Original	Completed
	Workforce Innovation and Opportunity Act (DSS) - 2020	Consulting	Original	In progress
	Annual Cash Shortages and Overages Report 2020	Assurance	Original	Completed
In Progress	Internal Quality Assurance and Improvement Program	N/A	Original	Completed
Follow-up	Cash Procedures and Internal Controls Review - District Attorney	Assurance	Original	Completed
	Integrated Waste Management Authority Internal Controls Assessment	Consulting	Original	Completed
Discretionary	TOT - Calendar Year 2020	Assurance	Original	Carried forward to 21-22
	Cannabis Business Tax	Assurance	Original	Carried forward to 21-22
	Department #1	Assurance	Original	Carried forward to 21-22
	Department #2	Assurance	Original	Carried forward to 21-22
	Department #3	Assurance	Original	Carried forward to 21-22
	Department #4	Assurance	Original	Carried forward to 21-22
	SLO Noor Foundation FY 2019-20 Grant Agreement	Assurance	Amended	In progress

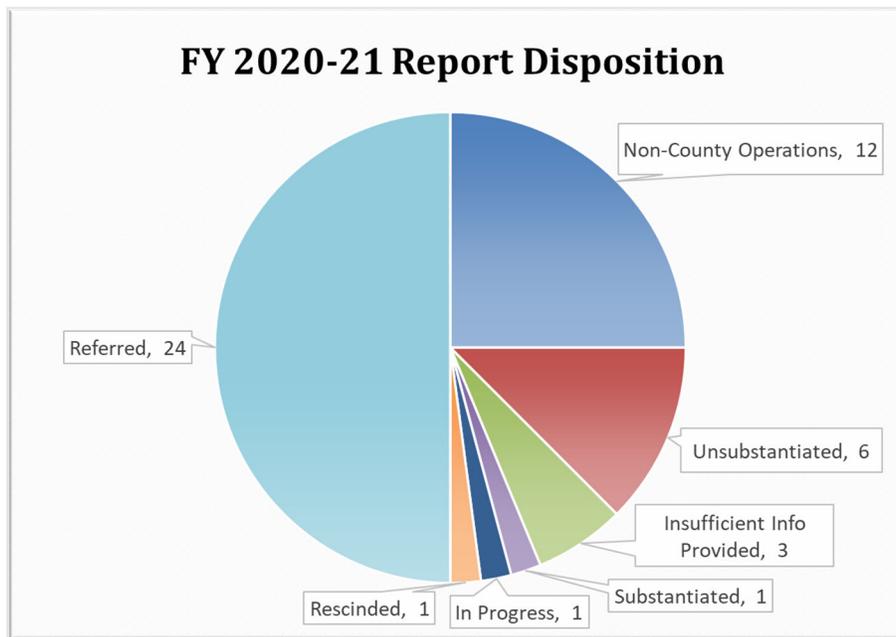
Overall, we completed 5 audits and one change was made to the internal audit plan during fiscal year 2020-21:

<u>Audit</u>	<u>Action</u>	<u>Reason for Change</u>
➤ SLO Noor Foundation FY 2019-20 Community Based Organization Grant Agreement	Added	Management request



Whistleblower Hotline Results

The Internal Audit Division monitors the Whistleblower Hotline, refers reports to related departments or agencies, and conducts follow-up procedures as necessary. In FY 2020-21, the Whistleblower Hotline received 48 reports of alleged fraud, waste, or abuse, a 20% increase from the prior year's 40 reports. Reports related to employee misconduct that were not related to alleged fraud, waste, or abuse were referred to Human Resources and were not classified as substantiated or unsubstantiated. Quarterly Whistleblower Hotline reports are posted on the ACTTC website.



Reports were received relating to the following categories:





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FY 2021-22 Internal Audit Plan

The Internal Audit Plan for Fiscal Year 2021-22 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. It is important to note the plan is a working document and can be adjusted throughout the year as priorities and risks change.

Individual engagement audit objectives and additional detail regarding the development of the audit plan are available in the following pages.

	Total Internal Audit Staff Hours Available ¹	5,400	
	Audit Team Non-Audit Work Hours:		
	Financial Reporting (ACFR and CFTR) and Fee Review	2,200	
	Administrative Tasks/Training/Vehicle Hearings/Whistleblower Hotline	600	
	Subtotal Non-Audit Work	2,800	
	Hours Available for Audit Work	2,600	
	Audit Staff Deployed to Support COVID-19 Disaster Service Work - Finance Division	1,000	
	Actual Hours Available for Audit Work	1,600	
FY 2021-22 Audit Plan			
Audit Category	Audit Name	Estimated Hours	Type of Engagement
Mandated	Workforce Innovation and Opportunity Act (DSS) - Program Year 2021-22	120	Consulting
	Food and Nutrition Services Reporting Validation (DSS)	110	Consulting
	State Worker's Compensation Insurance Fraud (District Attorney)	60	Consulting
	Annual Cash Shortages and Overages Report (Countywide)	40	Assurance
In Progress	Workforce Innovation and Opportunity Act (DSS) - Program Year 2020-21	10	Consulting
	Community Based Organization Grant - SLO Noor Foundation FY 2019-20	10	Assurance
Follow-up	Community Based Organization Grant - SLO Noor Foundation FY 2019-20	30	Assurance
	Cash Procedures and Internal Controls Review (District Attorney)	20	Assurance
Discretionary	Transient Occupancy Tax	240	Assurance
	Commercial Cannabis Business Tax Monitoring Program Plan	200	Assurance
	Food Bank Coalition of SLO County Community Based Organization Grant FY 2020-21	100	Assurance
	Cash and Internal Controls Department #1	100	Assurance
	Cash and Internal Controls Department #2	100	Assurance
	Cash and Internal Controls Department #3	100	Assurance
	Cash and Internal Controls Department #4	60	Assurance
	Department Requests and Consulting	300	
	Total Estimated Audit Hours	1,600	
	¹ 1,800 annual productive hours per staff, multiplied by 3 staff		



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Engagement Objectives of the Proposed Audits

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

Mandated Audits

Workforce Innovation and Opportunity Act Fiscal and Procurement Monitoring for Program Year 2021-22 (*Consulting*)

To determine if WIOA funds used complied with federal and state laws, regulations, policies, and directives for Program Year 2021-22.

Status of Claims Against Households – Food and Nutrition Services 209 Report Validation, Quarter Ended June 30, 2021 (*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, 2021.

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 2020-21.

Annual Cash Shortages and Overages Report (*Assurance*)

To report on cash shortages and overages as required by Board Resolution 84-40 for FY 2021-22.

Audits in Progress

Workforce Innovation and Opportunity Act Fiscal and Procurement Monitoring for Program Year 2020-21 (*Consulting*)

To determine if WIOA funds used complied with federal and state laws, regulations, policies, and directives for Program Year 2020-21.

SLO Noor Foundation Community Based Grant Agreement (*Assurance*)

To determine if SLO Noor Foundation satisfied the operational and financial components of the FY 2019-20 Community Based Organization Grant agreement.



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Follow-up Audits

SLO Noor Foundation Community Based Grant Agreement (Assurance)

To determine if the audit recommendations made in the audit report for the FY 2019-20 grant agreement have been implemented.

District Attorney Cash Procedures and Internal Controls (Assurance)

To determine if the audit recommendations made in the October 2019 audit report have been implemented.

Recommended Discretionary Audits

Transient Occupancy Tax (Assurance)

To determine the accuracy of Transient Occupancy Tax (TOT), Tourism Marketing District (TMD), and Business Improvement District (BID) amounts remitted to the County in calendar year 2021.

Food Bank Coalition of San Luis Obispo County Community Based Organization and Preventative Health Grant FY 2020-21 (Assurance)

To determine if the Food Bank Coalition of San Luis Obispo County adhered to the requirements outlined in the FY 2020-21 Community Based Organization and Preventative Health Grant.

Departmental Cash Procedures and Internal Controls (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.

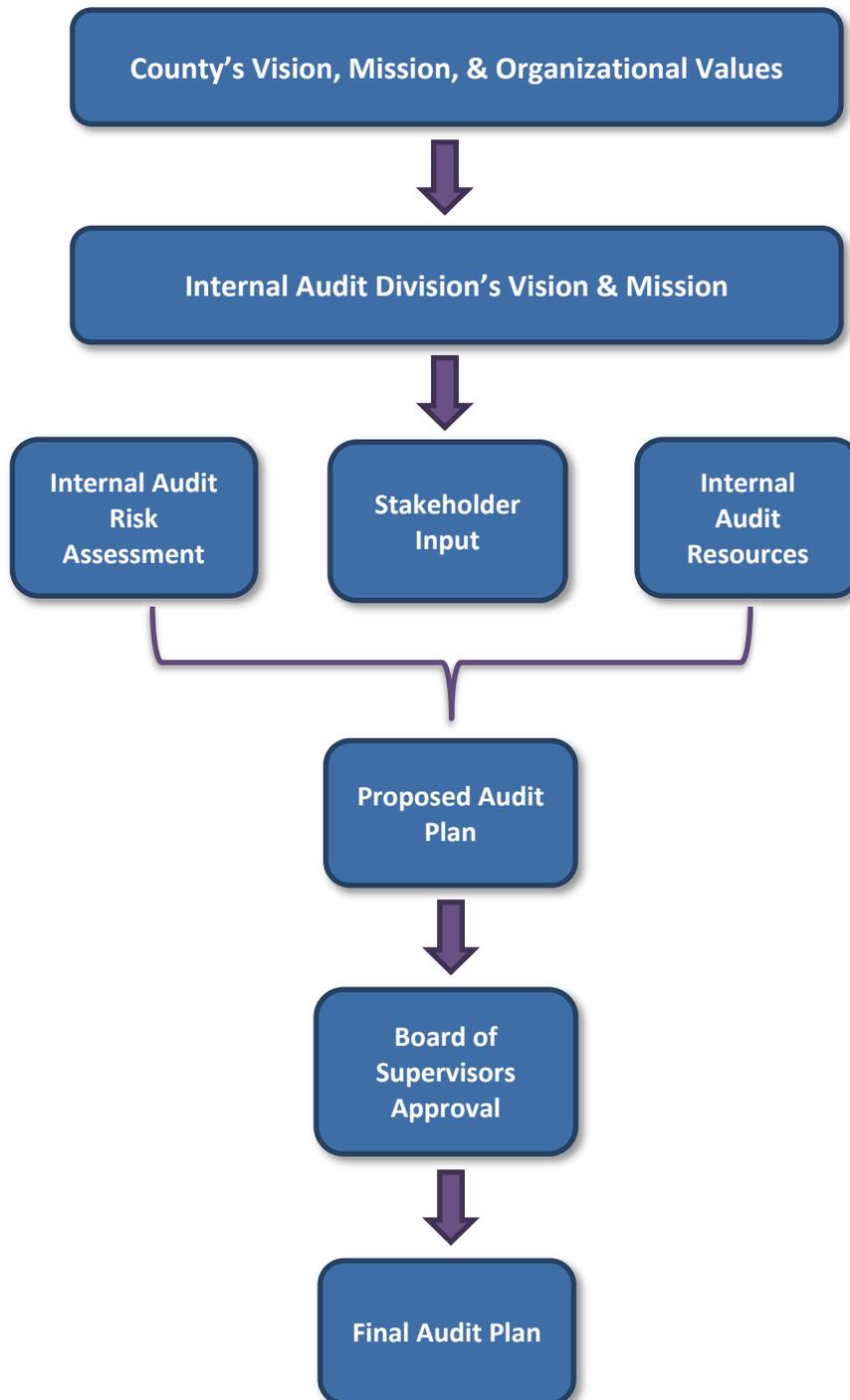
Development of Cannabis Business Tax Enforcement Program

On June 22, 2021, the County Board of Supervisors approved, in concept, the Compliance Monitoring Program Plan for commercial cannabis businesses. The Plan included approval to use a third-party consultant to assist with the development of audit procedures specific to the cannabis industry. Solicitation of third-party consultants will begin in FY 2021-22, with engagements to begin after the completion of the required Plan's fee study. The Plan also approved a full-time auditor position, funded through fees, to be fully dedicated to performing Commercial Cannabis Business Tax audits. This position will be filled after the completion of the fee study.



Developing the Audit Plan

The following guide shows the audit plan's development process and relationship of the plan to the County's objectives.





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.

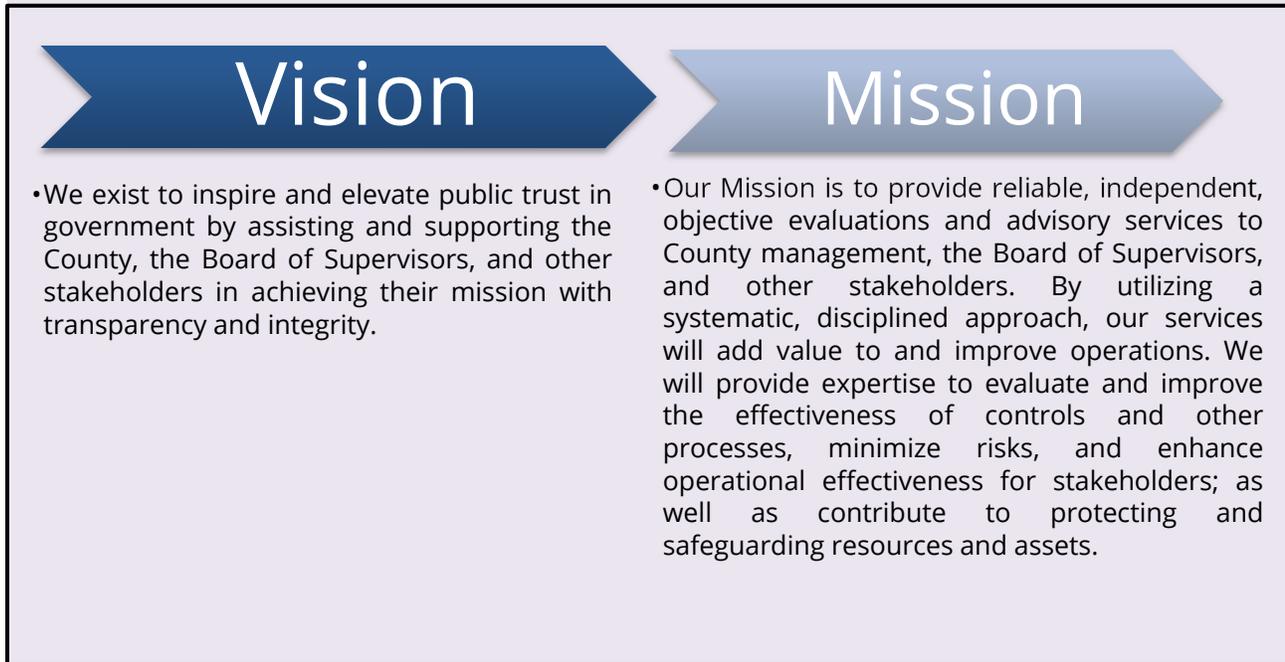
A Livable Community – The County will strive to keep our community a good place to live by carefully managing growth, protecting our natural resources, promoting lifelong learning, and creating an environment that encourages respect for all people.

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



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.



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- ✓ 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.

Audit Types

The audits that we will perform will fall into two categories.

<u>Assurance</u>	<u>Consulting</u>
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 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.	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.

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. 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.



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Internal Audit Resources

The Internal Audit Division consists of 3 full-time members. Collectively, staff have a broad range of professional and educational backgrounds. Staff have attained professional certifications as a Certified Public Accountant, Certified Internal Auditor and Certified Information Systems Auditor. In addition to conducting audits, the team performs a variety of other responsibilities, including, reviewing County fees and the preparation of the County's annual financial statements and other financial State reporting. The audit plan takes into account the estimated amount of time staff will have available to perform audits.

<u>Number of Staff</u>	<u>Total Annual Hours Available</u>	<u>Total Non-Audit Hours</u>	<u>Total Disaster Service Work Hours</u>	<u>Total Audit Hours Available</u>
3	5,400	2,800	1,000	1,600

A detailed breakout of hours is available in this audit plan on page 9.

COVID-19 Impacts

COVID-19 has presented two additional considerations in preparing the annual audit plan. First, overall audit hours for the year have been reduced by 1,000 hours for staff time allocated as disaster service work to assist in the County's response to the virus in its declared state of emergency. Second, traditional in-person auditing will be reduced, or eliminated, when possible and be replaced with remote auditing. To facilitate remote auditing, technology will be used to provide alternatives to face-to-face meetings and interviews and allow for requested documentation to be shared electronically.