

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

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector	(2) MEETING DATE 9/27/2016	(3) CONTACT/PHONE Kerry Bailey 788-2979	
(4) SUBJECT Submittal of the Internal Audit Division's Quality Assurance and Improvement Program Self-Assessment Report and Request for Approval of the Internal Audit Charter. All Districts.			
(5) RECOMMENDED ACTION It is recommended the Board 1) receive and file the Internal Audit Division's Quality Assurance and Improvement Program Internal Assessment Report and 2) approve the Internal Audit Charter.			
(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"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(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: Auditor - Controller - Treasurer - Tax Collector / Kerry Bailey 788-2979

DATE: 9/27/2016

SUBJECT: Submittal of the Internal Audit Division's Quality Assurance and Improvement Program Self-Assessment Report and Request for approval of the Internal Audit Charter. All Districts.

RECOMMENDATION

It is recommended the Board 1) receive and file the Internal Audit Division's Quality Assurance and Improvement Program Internal Assessment Report and 2) Approve the Internal Audit Charter.

DISCUSSION

The San Luis Obispo County Internal Audit division is required to undergo a peer review every five years. In order to prepare for our upcoming peer review as well as to assess the divisions' strengths and challenges, internal audit staff have conducted a self-assessment. We determined the internal audit activity is in general compliance with the Institute of Internal Auditors' *Standards*, and we identified several best practices the internal audit division utilizes consistently. We also identified areas of noncompliance with the *Standards* as well as best practice areas where improvements could be made. Further background and results of our analysis are detailed in the attached report which is submitted for the Board's review.

Additionally, internal auditing standards require the internal audit division to have a Board-approved Charter which defines the Internal Audit division's mission, purpose, authority, responsibility, independence and access. We have attached our charter for the Board's approval.

OTHER AGENCY INVOLVEMENT/IMPACT

None

FINANCIAL CONSIDERATIONS

There is no financial impact resulting from the self-assessment or the Internal Audit Charter.

RESULTS

By adhering to professional standards and adopting best practices, the internal audit division contributes to the County's vision of a well-governed community.

ATTACHMENTS

1. Internal Audit Charter
2. Quality Assurance and Improvement Program Internal Assessment Report



COUNTY OF SAN LUIS OBISPO

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Internal Audit Division Quality Assurance and Improvement Program Self-Assessment

September 2016

**JAMES P. ERB, CPA
Auditor-Controller
Treasurer-Tax Collector-Public Administrator**

The San Luis Obispo County Internal Audit division is required to undergo a peer review every five years. In order to prepare for our upcoming peer review as well as to assess the divisions' strengths and challenges, internal audit staff have conducted a self-assessment. The background and results of our analysis are detailed below.

Structure and Reporting Standards

The Internal Audit division is comprised of three Auditor-Analysts and one Principal Auditor-Analyst who report directly to the Auditor-Controller-Treasurer-Tax Collector. The Internal Audit division follows a set of auditing standards put forth by the Institute of Internal Auditors (IIA). The standards are encompassed within the Institute of Internal Auditors' *International Professional Practices Framework*, commonly referred to as the *Red Book*.

The Red Book standards (*Standards*) require the Internal Audit division to have a quality assurance and improvement program (QAIP) which includes periodic internal and external assessments, as well as on-going monitoring of performance. The purpose of the QAIP is to evaluate the internal audit division's conformance with the *Standards*, to assess the efficiency and effectiveness of the internal audit function, and to identify opportunities for improvement.

Although the County's Internal Audit division has consistently met the external assessment and on-going monitoring performance requirements of the *Standards*, an internal assessment had not been undertaken. This report presents the results of our first internal assessment, which covers fiscal years 2010-11 through 2014-15. Going forward, we will conduct internal assessments every five years in accordance with the *Standards*. To perform the self-assessment, we utilized the Institute of Internal Auditors' Quality Assessment Manual and conducted surveys and interviews of selected County management and internal audit staff.

Results

We determined the internal audit division is in general compliance with the *Standards* overall, and we identified several best practices the internal audit division utilizes consistently. We also identified areas of noncompliance with the *Standards* as well as best practice areas where improvements could be made.

Best Practices Being Utilized

1. Commitment to Internal Audit division vision and adding value

Internal audit staff demonstrate a strong dedication to the team's vision of inspiring and elevating 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. The division focuses on performing audits that add value to County operations.

2. Collaborative and educational approach

The Internal Audit division makes an effort to work with departments and other stakeholders in a collaborative manner and keeps the focus on education and finding workable solutions to identified issues.

3. Risk-based approach

The Internal Audit division performs a thorough risk assessment of County activities and operations in developing its audit plan. Additionally, individual engagement areas of focus are determined based on an evaluation of high-risk activities.

Noncompliance with the Standards

1. Board Approved Internal Audit Charter

An internal audit charter defines the Internal Audit division's mission, purpose, authority, responsibility, independence and access. The Internal Audit division's internal audit charter has recently been completed. Standard 1000 of the International Standards for the Professional Practice of Internal Auditing requires the internal audit charter be presented to the Administrative Office and the Board for approval.

Recommendation: The Internal Audit division should develop and submit an audit charter for approval by the Board of Supervisors.

Response: The Internal Audit division has developed an audit charter which is being submitted for Board approval with this report.

2. Periodic reporting of Internal Audit division performance to the Board

The results of the Internal Audit division's performance should be submitted to the Board annually, in accordance with Standards 1300 -1320 and Standard 2600. The Internal Audit division has not been formally tracking key performance indicators (KPIs); however, tracking KPIs will help the internal audit division quantify its efficiency and effectiveness.

Recommendation: The Internal Audit division must track and report the results of the KPIs to the Board on an annual basis.

Response: The Internal Audit division will begin reporting KPIs to the Board.

Best Practices Areas for Improvement

1. Create a strategic plan

The Internal Audit division does not have a strategic plan. Best internal auditing practices require the Internal Audit division to have developed a Strategic Plan as outlined in the IIA's Practice Guide, *Developing an Internal Audit Strategic Plan*. Staff were unaware of the importance of a strategic plan for the Internal Audit division; however, the division may be missing critical areas that should be assessed due to lack of a strategic plan. Internal audit staff have recently begun to create a strategic plan.

2. Finalize and update procedures

The internal audit manual is out of date, and the electronic workpaper and risk assessment procedures manuals are unfinished. Standard 2040 requires the Chief Audit Executive to establish policies and procedures to guide the Internal Audit division; however, the form and content of policies and procedures may be dependent upon the size and structure of the Internal Audit division and the complexity of its work. Because the Internal Audit division is small and policies and procedures are easily communicated, formal documentation has not been a priority. Beginning in FY 2015-16 internal audit staff started steadily working on updating and finalizing Internal Audit division procedures, with the goal of having all procedures updated by the end of FY 2016-17.

3. Improve staff Information Technology audit skills

Internal Audit division staff collectively possess the knowledge, skills, and other competencies required to assess key information technology (IT) risks and controls, but lack the expertise to perform significant IT audit work. Standard 1210.A3 requires that members of the internal audit division have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. Internal Audit division staff have not been specifically trained in IT audit skills, therefore while the Internal Audit division is in compliance with Standard 1210.A3; this is an area for improvement. Internal audit staff have committed to gaining further training in IT risk, controls, and technology-based audit techniques.

4. Implement use of Computer Assisted Auditing Techniques

The Internal Audit division does not utilize Computer Assisted Auditing Techniques (CAATS). Use of CAATS for data analytics and continuous auditing is a best practice. The Internal Audit division has been researching CAATS options, but has not found a cost-effective program to-date. The Internal Audit division could provide more audit coverage with greater effectiveness by using CAATS. Staff will continue to monitor options for implementing CAATS to increase data analytics and continuous auditing.

5. Centralize tracking of recommendations

The Internal Audit division tracks the status of outstanding recommendations by performing follow-up audits within six months to a year after the recommendation is made. Best auditing practices require centralized tracking of all levels of performance. The Internal Audit division is exploring options for centralizing the tracking of outstanding recommendations through the division's auditing software.

6. Issue reports timely

Although issues and findings are discussed with departmental staff throughout the audit process, the final reports for the two projects sampled for the assessment were issued approximately two months after completion of fieldwork. Standard 2420 requires engagement communications to be timely. In both cases the reports were delayed due to the timing of financial reporting (CAFR) responsibilities which took priority. Beginning with FY 2016-17 the Internal Audit division implemented a transition period between the auditing and financial reporting seasons which will help minimize delays due to conflicts with financial reporting.

7. Meet Continuing Professional Education (CPE) requirements

During the assessment period, a staff member was one hour short of the required CPE hours. A second staff member had been primarily assigned to Public Administrator duties and was unable to complete the required hours due to the immediacy of Public Administrator needs. The Internal Audit division's policy states staff must complete a minimum of 80 hours of continuing education over a two-year cycle. Staff must also complete a minimum of 24 hours of continuing professional education in subjects directly related to the government environment within the two-year cycle. The Chief Internal Auditor has implemented the practice of reviewing staff CPE hours quarterly to ensure staff are meeting the CPE requirements.

8. Document approval of individual engagement audit programs

The Internal Audit division does not formally approve the engagement audit program prior to its implementation. The audit program identifies the steps the auditor must follow to test the objectives of the audit. An audit program is developed by the auditor and is completed in collaboration with the auditee. Standard 2240 requires audit work programs to be formally approved prior to implementation. Internal audit division staff had been discussing the audit plans prior to performing fieldwork, but were unaware of the requirement to formally approve them causing non-compliance with the Standard. The reviewer for each engagement has begun to document approval of the audit program prior to its implementation.



COUNTY OF SAN LUIS OBISPO

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Internal Audit Charter

September 2016

MISSION AND PURPOSE

Mission

The San Luis Obispo (SLO) County Internal Audit Division's 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.

Purpose

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.

To carry out our purpose 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 enhances 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 division, including promoting effective control at a reasonable cost, and identifying opportunities for improving the internal audit division's performance and ability to add value.

AUTHORITY & RESPONSIBILITY

Authority

The authority for the audit function is found in California Government Code Sections 26881 and 26883.

Responsibility

The responsibility of the Internal Audits division is to serve the County in a manner that is consistent with California Government Code 1236.

When conducting activities in accordance with the International Professional Practices Framework, promulgated by the Institute of Internal Auditors (IIA), audit staff must comply with the IIA's Code of Ethics, the Definition of Internal Auditing, and the International Standards for the Professional Practice of Internal Auditing.

Accordingly, the internal audit division has the responsibility to:

- Remain independent and internal auditors must be objective in performing their work
- Disclose details of any appearance or fact of impairment
- Develop a risk-based annual audit plan
- Review and appraise the soundness, adequacy, and applicability of the financial and operating controls, data, and program results
- Ascertain the extent of compliance with established policies, plans, and procedures
- Evaluate the extent to which assets are accounted for and safeguarded from loss
- Perform engagements with proficiency and due professional care
- Continually enhance knowledge, skills, and other competencies
- Develop, maintain, and report on a quality assurance and improvement program
- Add value to the organization through evaluating and contributing to the improvement of governance, risk management, and control processes using a systematic and disciplined approach
- Clearly communicate the results of engagements to the appropriate parties
- Clearly communicate the nature of significant risks and controls to management and the Board, including instances where management has accepted a level of risk that may be unacceptable to the County organization
- Establish and maintain a system to monitor the disposition of results communicated

INDEPENDENCE

Independence is the freedom from conditions that threaten the ability of the internal audit division to carry out internal audit responsibilities in an unbiased manner.

The internal audit division reports to the County Auditor-Controller-Treasurer-Tax Collector who achieves organizational independence through election by the citizens of San Luis Obispo County and through unhindered interaction with the Board of Supervisors.

Internal audit staff shall follow recognized professional auditing standards and be free of County operational and management responsibilities that conflict with the standards.

ACCESS

Except where prohibited by law, the internal audit division shall have unrestricted access to:

- County records, property, and personnel
 - To protect confidential information, no internal audit report shall directly reference or quote confidential information that is protected
- The Board of Supervisors, the County Administrative Officer, and the Auditor-Controller-Treasurer-Tax Collector

EFFECTIVE DATE

This charter is effective immediately upon approval by the San Luis Obispo County Auditor-Controller-Treasurer Tax Collector and the Board of Supervisors.