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, 2011 through June 30, 2016

Association of Local Government Auditors

April 6, 2017

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

Dear Mr. Erb,

We have completed a peer review of the County of San Luis Obispo's Internal Audit Division for the period July 1, 2011 through June 30, 2016. 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's 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, 2011 through June 30, 2016.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Mike Edmonds, CIA
Retired

Paula Ward, CPA
Washoe County School District

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Association of Local Government Auditors

April 6, 2017

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

Dear Mr. Erb,

We have completed a peer review of the County of San Luis Obispo's Internal Audit Division for the period July 1, 2011, through June 30, 2016, and issued our report dated April 6, 2017. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- The Internal Audit Division is committed to improving the internal audit activity.
- Audit documentation is thorough and well-organized, thus facilitating the review process.
- Consideration of audit and fraud risks is well-documented in the audit work papers.

We offer the following observations and suggestions to enhance your organization's demonstrated conformance to the *International Standards for the Professional Practice of Internal Auditing:*

Standard 1110 requires that the chief audit executive report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. This standard also requires that the chief audit executive confirm, at least annually, the organizational independence of the internal audit activity. A functional reporting relationship with the Board can address this standard. Examples of a functional reporting relationship with the Board include the following:

- Approving the internal audit charter;
- Approving the risk based internal audit plan;
- Approving the internal audit budget and resource plan;
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;

- Approving decisions regarding the appointment and removal of the chief audit executive;
- Approving the remuneration of the chief audit executive; and
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations

The Internal Audit Division's functional reporting relationship with the Board could be enhanced. For instance, the Internal Audit Division does not submit its risk based work plan to the Board for approval and it does not communicate to the Board on the Internal Audit Division's performance relative to its work plan and other matters. Furthermore, the Internal Audit Division does not confirm its organizational independence, at least annually with the Board.

We suggest that the Internal Audit Division take steps to enhance its functional reporting relationship with the Board by:

- Submitting its risk based internal audit work plan to the Board for approval;
- Reporting on the Internal Audit Division's performance related to its audit plan; and
- Confirming its organizational independence with the Board, at least annually.

Standard 1300 requires the chief audit executive to develop and maintain a quality assurance and improvement program. The quality assurance and improvement program must include both internal and external assessments. The internal assessments must include ongoing monitoring of the internal audit activity and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices. The external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team.

The Internal Audit Division has addressed the requirements for periodic self-assessments and external assessments, but it has not established a formal process for ongoing monitoring.

We suggest that the Internal Audit Division establish an ongoing monitoring process for its audit work to evaluate conformance with *the Standards*.

Standard 2040 states the chief audit executive must establish policies and procedures to guide the internal audit activity.

The Internal Audit Division's Policy and Procedures Manual contains the IIA Standards but does not fully document the processes the division follows in order to conform to the IIA Standards.

We recommend the chief internal auditor update the procedures manual to include the procedures the division follows in order to conform to the IIA Standards.

We extend our thanks to you, your staff and the other county officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,

Mike Edmonds, CIA
Retired

Paula Ward, CPA
Washoe County School District

COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR
James P. Erb, CPA *Auditor-Controller • Treasurer-Tax Collector*
James W. Hamilton, CPA *Assistant Auditor-Controller • Treasurer-Tax Collector*

April 6, 2017

Mr. Mike Edmonds
Peer Review Team Leader
2903 Call de la Mesa
Pleasanton, CA 94566

Ms. Paula Ward
Peer Review Team Member
PO Box 30425
Reno, NV 89520

Dear Mr. Edmonds and Ms. Ward,

I am very pleased your report of April 6, 2017 found the County of San Luis Obispo's internal audit work performed from July 1, 2011 through June 30, 2016 to be in full compliance with the Institute of Internal Auditors' International Professional Practices Framework.

The County of San Luis Obispo is proud to follow auditing standards within the International Professional Practices Framework which require the audit function to have an external quality review once every five years. Successful completion of reviews like this one, allows the audit division to state in each audit report that work conducted was in accordance with the International Standards for the Professional Practice of Internal Auditing and provide assurances to the public that our audit work is conducted independently, objectively, and professionally.

We are always looking for ways to further improve and very much appreciate your thoughtful comments about our program. We are pleased to have areas of excellence, and we also recognize the recommendations you made in areas where we can improve will strengthen our audit program.

The following are specific responses to your management letter comments:

1. Standard 1110 – We agree with your recommendation that we strengthen our reporting relationship with the Board. This July, we plan to provide the Board of Supervisors our first annual report which will discuss the Internal Audit Division's performance related to its audit plan, confirm the divisions' organizational independence, and relay the annual risk-based audit plan.

2. Standard 1300 – We agree with your recommendation to establish a more robust formalized ongoing monitoring process for ongoing monitoring. We will incorporate the

checklist you suggested into our audit wrap-up procedures to ensure we have fully complied with the Standards.

3. Standard 2040 – We agree with your recommendation to update the internal audit procedures manual, and we will include the procedures we follow in order to conform to the Standards.

Additionally, I would like to thank both of you for participating in the peer review process. I would also like to thank Mary Jo Emanuele Audit Manager of the City of Kansas City, MO for helping to coordinate this peer review on behalf of the Local Association of Government Auditors (ALGA).

The internal audit division found the review process to be valuable and constructive. We will share your report with the County Administrator and the Board of Supervisors.

Sincerely,

James P. Erb, CPA
Auditor-Controller-Treasurer-Tax Collector

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