



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

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector		(2) MEETING DATE 8/8/2017		(3) CONTACT/PHONE Kerry Bailey 788-2979	
(4) SUBJECT Submittal of the Internal Audit Division Annual Report, the Results of the External Quality Control Review, the updated Internal Audit Division Charter, and the FY 2017-18 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 the Results of the External Quality Control Review, 2) approve the updated Internal Audit Division Charter, and 3) approve the FY 2017-18 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: <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 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: James P. Erb, CPA Auditor - Controller - Treasurer - Tax Collector

DATE: 8/8/2017

SUBJECT: Submittal of the Internal Audit Division Annual Report, the Results of the External Quality Control Review, the updated Internal Audit Division Charter, and the FY 2017-18 Audit Plan. All Districts.

### **RECOMMENDATION**

It is recommended that the Board 1) receive, review, and file the Internal Audit Division Annual Report and the Results of the External Quality Control Review, 2) approve the updated Internal Audit Division Charter, and 3) approve the FY 2017-18 Audit Plan, included in the annual audit report.

### **DISCUSSION**

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 2016-17 the Internal Audit Division had an external assessment performed by representatives of the Association of Local Government Auditors (ALGA). The peer reviewers, whose report can be found in the attached documents, recommended we submit an annual status report to the Board to better comply with the *Standards*.

Accordingly, we are pleased to offer our first 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 an update of the Internal Audit Division Charter, the results of our Quality Assurance and Improvement Program, a summary of issues from our FY 2016-17 internal audit reports, a summary of the FY 2016-17 Whistleblower Hotline Complaints, and our proposed FY 2017-18 Audit Plan.

Also, we are asking the Board to approve our updated Internal Audit Division Charter and our proposed FY 2017-18 Audit Plan.

At the recommendation of the ALGA peer reviewers, the Internal Audit Division Charter has been updated to more clearly define the nature of the audit services we perform.

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 2017-18 Audit Plan is based on the estimated remaining time available to carry out audit work and encompasses 24 audits and 10-15 Transient Occupancy Tax audits.

**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 Division Annual Report
2. Internal Audit Division Charter
3. Association of Local Government Auditors' Quality Control Review Report



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

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

**August 8, 2017**

**JAMES P. ERB, CPA**  
**Auditor-Controller • Treasurer-Tax**



## COUNTY OF SAN LUIS OBISPO

### AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

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#### Overview

We are pleased to offer our first 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 an update of the Internal Audit Division Charter, the results of our Quality Assurance and Improvement Program, a summary of issues from our FY 2016-17 audit reports, a summary of the FY 2016-17 Whistleblower Hotline Complaints, and our proposed FY 2017-18 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, 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:

- ✓ Mental Health Services Act
  - ✓ Veterans' Services Cash and Internal Controls
  - ✓ Countywide Maintenance and Software Contracts
- 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:

- ✓ Workforce Innovation and Opportunity Act contractors
- ✓ 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 of and reporting on petty cash and change funds in accordance with SLO County Board of Supervisors' Resolution 84-40
- Monitoring of and reporting on departmental bank accounts
- Monitoring special districts' compliance with California Government Code Section 26909



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#### Independence

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 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. We have updated the Charter to better reflect the types of audit work performed and are submitting it with this report for your review and approval.

#### 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. In FY 2016-17, we had a peer review performed by representatives from the Association of Local Government Auditors. In the reviewers' report, they gave us the highest possible rating, stating "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." In addition, the peer reviewers provided the following suggestions to further enhance our operations:



## COUNTY OF SAN LUIS OBISPO

### AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

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- Improve the division's functional reporting relationship with the Board of Supervisors
- Establish a formal process for on-going monitoring
- Update the Internal Audit Division's procedures manual

We have included the full peer review report along with the County's response as an attachment to this annual report.

#### Internal Periodic Assessment

In the 2016-17 fiscal year, the Internal Audit Division completed a periodic internal assessment which was reported to the Board at the 9/27/16 meeting. Our internal assessment identified several areas where we could improve, including the creation of an audit charter and the submission of this annual report to the Board.

#### Ongoing Monitoring

In the 2016-17 fiscal year, the Internal Audit Division complied with the ongoing monitoring requirement through soliciting stakeholder feedback, using checklists and internal audit automation to provide assurance that processes had been followed, by monitoring project budgets, and through analyzing other performance metrics.

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 taken seriously.

The Internal Audit Division categorizes issues into two levels and provides recommendations for each issue. 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 department response. The Internal Audit Division conducts follow-up monitoring on all issues identified as Findings.

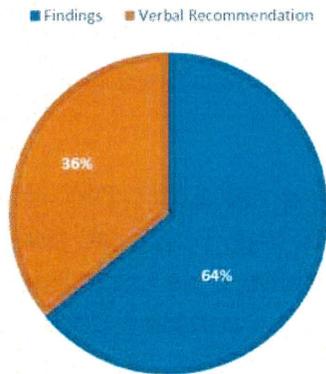


**COUNTY OF SAN LUIS OBISPO**  
**AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR**

- 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.

In the course of our audits we documented 78 issues:

**TYPES OF ISSUES FOUND DURING AUDITS**



100% of recommendations associated with Findings were adopted by management. A summary of issues addressed by our audits includes:

	<u>Department/Contractor</u>	<u>Board Report</u>
➤ Weak internal controls around timecard authorization	Henkels & McCoy (contract with Department of Social Services)	8/16/16
➤ Weak internal controls around cash and cash equivalents	Health Agency	8/23/16
	Veterans' Services Department	12/13/16
	Health Agency – Animal Services	5/3/17
	Department of Social Services	6/6/17
➤ Underutilization of youth mental health services	Family Care Network & Health Agency – MHSA	9/27/16
➤ Transient Occupancy Tax improperly calculated	9 establishments	9/27/16
➤ Lodging establishment did not conspicuously display its business license	5 establishments	9/27/16



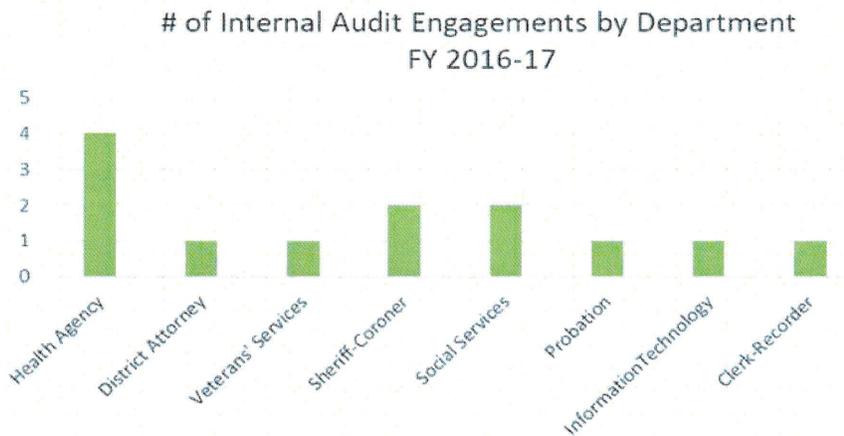
**COUNTY OF SAN LUIS OBISPO**  
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	<u>Department/Contractor</u>	<u>Board Report</u>
➤ Lodging establishment did not conspicuously display its business license	5 establishments	9/27/16
➤ Weak internal controls around contract management	Silvia Ortiz, PhD (contract with Health Agency – MHSA)	9/27/16
➤ Annual Home Detention Program report not submitted to County Board of Supervisors	Sheriff-Coroner’s Office	2/28/17
➤ Weak internal controls around purchasing cards	Health Agency – Animal Services	5/3/17
➤ Improvement needed for inventory management	Henkels & McCoy (contract with Department of Social Services)	8/16/16
➤ Employees not current in their acknowledgement of the Information Technology Acceptable Use Policy	Health Agency Veterans’ Services Department Department of Social Services	8/23/16 12/13/16 6/6/17
➤ Improvement needed in oversight of contractor billings	Health Agency - MHSA	9/27/16
➤ Improvement needed in invoice accuracy	Community Action Partnership (contract with Health Agency – MHSA)	9/27/16
➤ Improvement needed in oversight of maintenance and software contracts	Office of the Clerk-Recorder Probation Department Sheriff-Coroner’s Office	1/10/17
➤ Improvement needed in Alternative Sentencing Unit documentation	Sheriff-Coroner’s Office	2/28/17



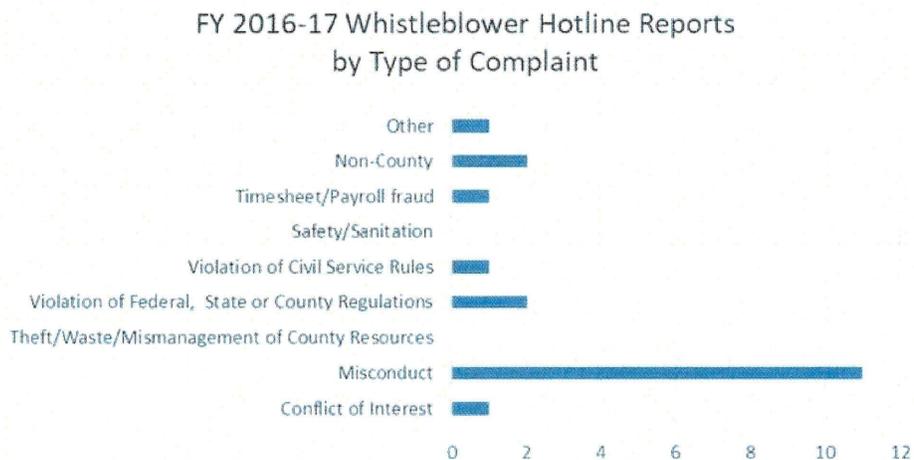
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In FY 2016-17 we accomplished 53% of the prior year’s audit plan. Although we often plan ambitiously, the percentage of the audit plan completed was lower than anticipated due to staffing changes and the unexpected time commitment for the external peer review. Overall, we completed 24 audits, including 15 Transient Occupancy Tax audits. Our audits encompassed eight departments and five contractors.



**Whistleblower Hotline Results**

The Internal Audition Division monitors the Whistleblower Hotline, refers complaints, and conducts follow-up procedures as necessary. In FY 2016-17, the Whistleblower Hotline received 19 reports of alleged fraud, waste, or abuse in the following categories:





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

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One complaint was substantiated. A campground host sold an annual vehicle pass at a discounted rate to a friend. Management took appropriate action to remedy the situation. 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 2017-18 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 a 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 2017-18 Audit Plan contains items in progress, mandated audits, and audits recommended for the current year. Details are presented below for the Board's review and approval. Because we are unable to predict risks which may arise and require the immediate attention of the Internal Audit Division, the audit plan may be modified during the year to accommodate significant new issues.



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Entity	Risk	Projected Hours	Comments
Uniform Guidance Compliance	high	80	audit in process from FY 2016-17
Licenses/Certifications and Special Pay	high	250	audit in process from FY 2016-17
Airport Non-Rental Car Concessionaires	medium	255	audit in process from FY 2016-17
Social Services Cash and Internal Controls Review- Follow-Up	high	30	follow-up audit
Animal Services Cash and Internal Controls Review Follow-Up	high	50	follow-up audit
Social Security Truncation Trust Fund	medium	200	mandated
State Worker's Compensation Insurance Fraud Prosecution & Investigation (DA)	low	80	mandated
Adult Workforce Innovation & Opportunity Act Services	high	125	mandated
Youth Workforce Innovation & Opportunity Act Services	medium	85	mandated
Public Defender Program (Admin)	high	300	carried forward from FY 16-17 audit plan
Countywide IT General and Applications Controls	high	100	carried forward from FY 16-17 audit plan
Countywide SSAE 16 Compliance and Tech Service Provider Contracts	high	125	carried forward from FY 16-17 audit plan
Airport Concessionaires - Rental Cars	high	300	carried forward from FY 16-17 audit plan
IT Court Reimbursements	medium	100	carried forward from FY 16-17 audit plan
Five Unannounced Departmental Cash and Internal Controls Reviews	medium	425	carried forward from FY 16-17 audit plan
District Attorney Grant Administration	medium	75	management request
Procurement Process Under Uniform Guidance	medium	100	management request
Transient Occupancy Tax/SLOCTBID/TMD (10 - 15 establishments)	medium	650	Recommended FY 2017-18
Golf Course Concessionaires	medium	360	Recommended FY 2017-18
Animal Services Construction Project	high	100	Recommended FY 2017-18
Behavioral Health Sober Living Environments	medium	300	Recommended FY 2017-18
<b>Subtotal Audit Work</b>		<b>4,090</b>	
<b>Audit Team Non-Audit Work:</b>			
Administrative Tasks/Training/Vehicle Hearings		1,300	
Financial Reporting and Fee Review		1,800	
Other Work and Special Projects		200	
<b>Subtotal Non-Audit Work</b>		<b>3,300</b>	
<b>Non-Productive Hours</b>		<b>930</b>	
<b>Total Internal Audit Staff Hours</b>		<b>8,320</b>	



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

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# **Internal Audit Division Charter**

**August 8, 2017**

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

## **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.

### ***Nature of Audit Work***

Our audit work consists 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.
- 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.

## **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.



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# 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

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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. 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



## 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.

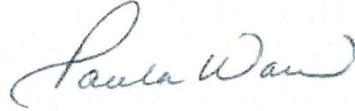
We recommend the chief internal auditor update the procedures manual to include the procedures the division follows in order to conform to the IIA Standards.

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

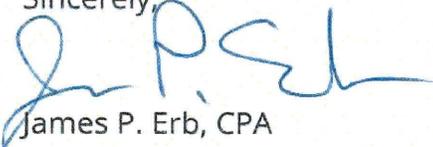
checklist you suggested into our audit wrap-up procedures to ensure we have fully complied with the Standards.

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