



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

(1) DEPARTMENT Auditor - Controller - Treasurer - Tax Collector		(2) MEETING DATE 8/21/2018		(3) CONTACT/PHONE Kerry Bailey 805-788-2979 Mark Maier 805-781-4267	
(4) SUBJECT Submittal of the Internal Audit Division Annual Report, the results of the Internal Quality Control Review, the updated Internal Audit Division Charter, and the FY 2018-19 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 Internal Quality Control Review, 2) approve the updated Internal Audit Division Charter, and 3) approve the FY 2018-19 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: N/A <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 type="checkbox"/> N/A Date <u>8/8/2017</u> Item # <u>2</u>	
(17) ADMINISTRATIVE OFFICE REVIEW Nikki J. Schmidt					
(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: 8/21/2018

SUBJECT: Submittal of the Internal Audit Division Annual Report, the results of the Internal Quality Control Review, the updated Internal Audit Division Charter, and the FY 2018-19 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 Internal Quality Control Review, 2) approve the updated Internal Audit Division Charter, and 3) approve the FY 2018-19 Audit Plan, included in the annual audit report.

### **DISCUSSION**

We are pleased to offer our 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 self-assessment, a summary of issues from our FY 2017-18 internal audit reports, a summary of the FY 2017-18 Whistleblower Hotline Complaints, and our proposed FY 2018-19 Audit Plan.

Also, we are asking the Board to approve our proposed FY 2018-19 Audit Plan and our updated Internal Audit Division Charter. The changes to the Charter were made to add clarity to language within the document and incorporate additional mandatory guidance from the Institute of Internal Auditors.

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 2018-19 Audit Plan is based on the estimated remaining time available to carry out audit work and encompasses 22 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 FY 17-18
2. Internal Audit Division Charter
3. Internal Quality Control Review



**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 2018**

**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 second 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 2017-18 audit reports, a summary of the FY 2017-18 Whistleblower Hotline Complaints, and our proposed FY 2018-19 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:

- ✓ Airport Concessionaire's (non-rental car)
  - ✓ Assessor's Department Cash and Internal Controls
  - ✓ Countywide Employees' Licenses, Certifications and Special Pay
- 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:

- ✓ Department of Social Services' Workforce Innovation and Opportunity Act contract with Eckerd Connects
- ✓ District Attorney Victim Witness' contract with the United Way

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

### 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



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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 include new *Core Principles for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors 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. 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 2021-22 and will cover fiscal years 2017-18 through 2020-21. We also perform peer reviews for other counties on a rotating basis. Performing peer reviews helps keep the cost down and is one of the way we ensure continual communication with auditors from other counties.

### Internal Periodic Assessment

In the 2017-18 fiscal year, the Internal Audit Division completed a periodic internal assessment. We are submitting the results of our internal assessment along with this report. Our internal assessment identified several areas where we could improve, including updating the internal audit charter, creating a strategic plan and including open audit recommendations in this report to the Board.



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### AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

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#### Ongoing Monitoring

In the 2017-18 fiscal year, the Internal Audit Division complied with the ongoing monitoring requirement through soliciting stakeholder feedback, using checklists and taking advantage of internal audit 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 we are perceived as being professional and knowledgeable, our work helps management improve business processes and controls, and our recommendations are being implemented.

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 response to our recommendation(s). The Internal Audit Division conducts follow-up monitoring on all issues identified as Findings.
- 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.

All Findings and Verbal Recommendations are discussed with the Department's management prior to a report being issued. In most cases the department has made a change to address the issue before the audit is complete.

At the end of fiscal year 2016-17 we had seven open recommendations which were not included in our prior year annual report and that had yet to be verified as implemented:



## COUNTY OF SAN LUIS OBISPO

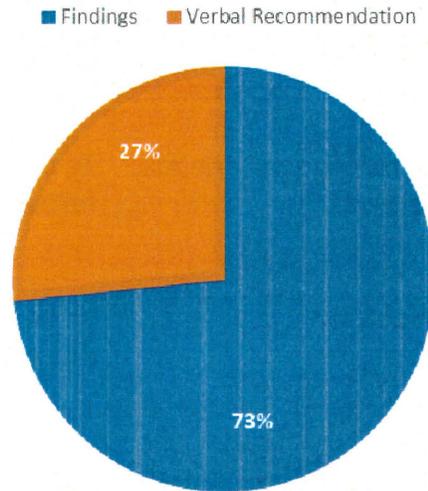
### AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/18</u>
➤ Strengthen internal controls over petty cash	Health Agency – Animal Services	Open - Verified as partially implemented in FY 17-18 follow-up audit; further monitoring will occur in FY 18-19
➤ Improve internal controls over Cal-Card purchases	Health Agency – Animal Services	Closed - Verified as implemented in FY 17-18 follow-up audit
➤ Store meal cards securely	Social Services	Closed - Verified as implemented in FY 17-18 follow-up audit
➤ Monitor business reply mail postage permits accounts	Social Services	Closed - Verified as implemented in FY 17-18 follow-up audit
➤ Implement procedures to identify payment methods for urgent items unrelated to the purpose of revolving accounts	Social Services	Closed - Verified as implemented in FY 17-18 follow-up audit
➤ Restrictively endorse check and money orders when received	Social Services	Closed - Verified as implemented in FY 17-18 follow-up audit
➤ Ensure all cash handlers, custodians, and managers acknowledge having read the ACTTC's Cash Handling Policy	Social Services	Closed - Verified as implemented in FY 17-18 follow-up audit

In the course of our FY 2017-18 audits we made 64 total recommendations relating to 47 issues classified as findings and 17 issues classified as verbal recommendations:



**LEVEL OF ISSUES FOUND DURING AUDITS**



The following eight recommendations remain open as of June 30, 2018:

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/2018</u>
➤ Update Automobile Insurance	Banner Airways (Airport concessionaire)	To be verified in FY 18-19 follow-up procedures
➤ Update Automobile Insurance	Visitor TV (Airport concessionaire)	To be verified in FY 18-19 follow-up procedures
➤ Improve the invoice submission process	Visitor TV (Airport concessionaire)	To be verified in FY 18-19 follow-up procedures
➤ Improve bank reconciliations documentation	Health Agency – Animal Services	To be verified in FY 18-19 audit follow-up
➤ Improve timeliness of bank reconciliations	Health Agency – Animal Services	To be verified in FY 18-19 audit follow-up

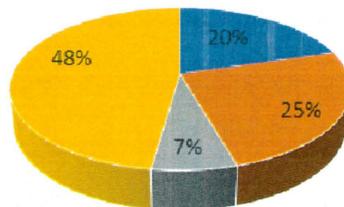


**COUNTY OF SAN LUIS OBISPO**  
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<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/18</u>
➤ Document missing receipts for Cal-Card purchases	Health Agency – Animal Services	To be verified in FY 18-19 audit follow-up
➤ Document authorization for petty cash purchases	Health Agency – Animal Services	To be verified in FY 18-19 audit follow-up
➤ Improve oversight of deposit permit process	Probation	To be verified in FY 18-19 follow-up procedures

The majority of audit issues we addressed were in the area of noncompliance with contract provisions, policies, guidelines, laws, and/or regulations. The following chart displays broad categories of significant issues and the percentage of each:

FY 2017-18 Percentage of Audit Issues by Type



- Financial reporting errors
- Weak internal controls around cash & cash equivalents
- Weak internal controls around payments & procurement
- Noncompliance with contracts, policies guidelines, laws and/or regulations

The annual audit plan is intentionally created with an ambitious goal of completion, but 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. In FY



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2017-18 we accomplished 68% of the audit plan a 15% increase compared to the prior year. The following changes were made to the internal audit plan during fiscal year 2017-18:

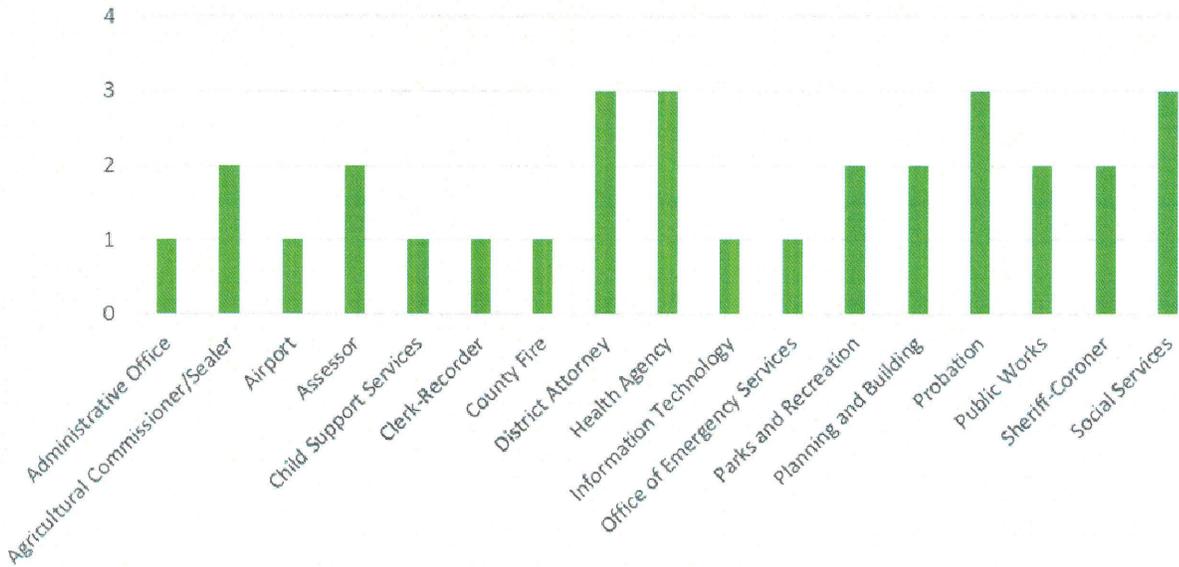
<u>Audit</u>	<u>Action</u>	<u>Reason for Change</u>
➤ Follow-up transient occupancy tax	Added	Determined to be high risk for underpayment of transient occupancy tax
➤ Use of one-time vendor payment accounts	Added	Determined to be high risk for misuse of vendor accounts
➤ Quality Assurance & Improvement Program Internal Assessment	Added	Mandated
➤ San Mateo County Peer Review	Added	Added in the FY 17-18 plan due to timing constraints for San Mateo County
➤ IT Court Reimbursements	Removed	Determined follow-up could be achieved through administrative review rather than an audit
➤ Farm Advisor Cash & Internal Controls	Removed	The Farm Advisor returned their cash funds to the Treasury due to lack of use

Overall, we completed 25 audits, including 11 Transient Occupancy Tax audits. Our audits encompassed 17 departments and five contractors.



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Number of Internal Audit Engagements by Department  
FY 2017-18



### Whistleblower Hotline Results

The Internal Audition Division monitors the Whistleblower Hotline, refers complaints to related departments or agencies, and conducts follow-up procedures as necessary. In FY 2017-18, the Whistleblower Hotline received 40 reports of alleged fraud, waste, or abuse, an 111% increase from the prior year's 19 complaints. Reports were received regarding the following categories:



FY 2017-18 Whistleblower Hotline Reports  
by Type of Complaint



One complaint was substantiated. A County employee was operating a cell phone while driving a County vehicle. 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 2018-19 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



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The proposed FY 2018-19 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.

Entity	Risk	Projected Hours	Comments
One-time vendor payment accounts	high	40	Audit in process from FY 2017-18
Internal Audit Activity Quality Assurance	medium	30	Audit in process from FY 2017-18
Law Library	high	80	Audit in process from FY 2017-18
San Mateo County Peer Review	n/a	185	Audit in process from FY 2017-18
State Worker's Compensation Insurance Fraud Prosecution & Investigation (DA)	low	50	Mandated
Youth Workforce Innovation & Opportunity Act Services	medium	140	Mandated
Animal Services Cash and Internal Controls Follow-up	high	40	Follow-up Audit
Airport Concessionaire Follow-up	medium	20	Follow-up Audit
Animal Services Construction Audit	high	100	Carried forward from FY 17-18 audit plan
SSAE 16 Compliance and Tech Service Provider Contracts	high	150	Carried forward from FY 17-18 audit plan
Airport Concessionaires -Rental Cars	medium	420	Carried forward from FY 17-18 audit plan
Cash Review #1	medium	140	Carried forward from FY 17-18 audit plan
Behavioral Health Sober Living Environments	medium	200	Carried forward from FY 17-18 audit plan
Golf Course Concessionaires	medium	240	Carried forward from FY 17-18 audit plan
Public Defender Program (Admin)	high	250	Carried forward from FY 17-18 audit plan
IT General and Applications Controls	high	200	Carried forward from FY 17-18 audit plan
Transient Occupancy Tax/SLOCTBID/TMD (10-15 Establishments)	medium	650	Recommended for FY 18-19 audit plan
Cal-Card Audit	high	500	Recommended for FY 18-19 audit plan
Cash Review #2	medium	30	Recommended for FY 18-19 audit plan
Cash Review #3	low	140	Recommended for FY 18-19 audit plan
Cash Review #4	low	40	Recommended for FY 18-19 audit plan
Asset Verification (2 - 3 departments)	medium	80	Recommended for FY 18-19 audit plan
Public Guardian Program & Revolving Account	medium	150	Recommended for FY 18-19 audit plan
<b>Subtotal Audit Work</b>		<b>3,875</b>	
<b>Audit Team Non-Audit Work:</b>			
Administrative Tasks/Training/Vehicle Hearings		1,080	
Financial Reporting and Fee Review		1,800	
Other Work and Special Projects		255	
<b>Subtotal Non-Audit Work</b>		<b>3,135</b>	
<b>Non-Productive Hours</b>		<b>790</b>	
<b>Total Internal Audit Staff Hours</b>		<b>7,800</b>	



**COUNTY OF SAN LUIS OBISPO**  
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# **Internal Audit Division Charter**

**August 2018**

**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 (IPPF), promulgated by the Institute of Internal Auditors (IIA), audit staff must comply with the mandatory elements of the IPPF which include the IIA's Code of Ethics, the Definition of Internal Auditing, the Core Principles for the Professional Practice of Internal Auditing, and the *International Standards for the Professional Practice of Internal Auditing*.

Accordingly, the internal audit division and its individual members have the responsibility to:

- Demonstrate integrity
- Demonstrate competence and due professional care
- Demonstrate quality and continuous improvement
- Continually enhance knowledge, skills, and other competencies
- Be objective and free from undue influence
- Remain independent and internal auditors must be objective in performing their work
- Disclose details of any appearance or fact of impairment

- Be insightful, proactive, and future focused
- Be appropriately positioned and adequately resourced
- Align with the County's strategies, objectives, and risks
- Develop a risk-based annual audit plan
- Provide risk-based assurance
- 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
- Communicate effectively
  
- Develop, maintain, and report on a quality assurance and improvement program
- Promote organizational improvement
- 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
- Communicate directly and independently with 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.



**Internal Audit Division**  
**Quality Assurance and Improvement Program**  
**Self-Assessment**

**August 2018**

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



## 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

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### Overview

The San Luis Obispo County Internal Audit Division is required by auditing standards to have an external assessment of our operations once every five years along with ongoing internal monitoring. Auditor-Controller-Treasurer-Tax Collector policy requires an internal quality improvement and assurance assessment biennially, in order to assess the division's strengths, challenges, and compliance with standards. The background and results of our assessment 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 the *International Standards for the Professional Practice of Internal Auditing (Standards)* put forth by the Institute of Internal Auditors (IIA). The *Standards* are encompassed within the IIA's *International Professional Practices Framework*, commonly referred to as the *Red Book*.

The *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.

This report presents the results of our internal assessment, covering July 1, 2016 through March 30, 2018. To perform the self-assessment, we utilized the IIA's 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 division utilizes consistently. There were no identified areas of noncompliance with the *Standards*; however, several best practice areas where improvements could be made were identified.

### Best Practices Being Utilized

#### **1. Commitment to Internal Audit Division's 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. In developing the audit plan, department and management input is sought to help identify high risk areas. Additionally, individual engagement areas of focus are determined based on an evaluation of high-risk activities.

## **4. Use of electronic tools to facilitate continuous monitoring**

The Internal Audit Division utilizes electronic audit workpaper software to document adherence to the *Standards*, document supervision provided throughout an audit, and track audit recommendations requiring future follow-up. These methods allow for greater efficiency in achieving compliance with the *Standards*.

### **Best Practice Areas for Improvement**

#### **1. 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 (CAE) 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.

**Current Status:** The CAE and 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 2018-19.

#### **2. 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 have been focused on the update of policies and procedures; however, the Division may be missing critical areas that should be assessed due to lack of a strategic plan.

**Current Status:** Internal audit staff have recently begun to create a strategic plan, with the goal of having it completed by the end of FY 2018-19.

### **3. Formalize Electronic Records Retention Policy**

The Internal Audit Division does not have a documented retention policy for electronic records. Standard 2330 requires the CAE to develop policies governing the custody and retention requirements for engagement records regardless of the medium used to store each record.

**Current Status:** An Internal Audit Division electronic records retention policy has been created and implemented.

### **4. Report Open Audit Recommendations to the Board of Supervisors Annually**

The Division has historically tracked and followed-up all unresolved recommendations, the status of these recommendations has not been summarized and periodically reported to the Board of Supervisors. Standard 2500 requires the CAE to establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. In the County setting, it is the Board of Supervisor's responsibility to determine the acceptance of inaction. The CAE did not realize it is a best practice to report open recommendations to the Board periodically. The Board may have been denied the opportunity to question or take actions on open recommendations.

**Current Status:** The status of open audit recommendations will be reported to the Board with the Division's annual report.

### **5. Update Audit Charter to Include IPPF Core Principles Element**

The prior audit charter did not reference the mandatory IPPF Core Principles of Professional Practice and Internal Auditing element. Standard 1010 requires that the internal audit charter recognize the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and the *Standards*. Staff believed the charter had satisfied all the required elements of the IPPF; however, the Internal Audit Division is not in full compliance with the *Standards*.

**Current Status:** The Internal Audit Charter has been updated to include the required element and will be submitted for approval in the annual report.

## **Follow-up to April 2017 External QAIP (Peer Review) Best Practice Recommendations**

On April 6, 2017 the results of the Division's external peer review were issued. The peer review covered July 1, 2011 through June 30, 2016. The report did not include any areas of nonconformance to the *Standards* but did identify three best practice recommendations. The recommendations are summarized below and include the division's current status of implementing the recommendations.

1. Standard 1110 - Enhance the CAE's functional reporting relationship to the Board of Supervisors by confirming annually the internal audit charter and the audit plan. Additionally, input should be sought from the Board regarding the audit plan.

**Follow-up: Board input is now sought in created the annual audit plan. The audit charter and annual plan are now confirmed annually to the Board.**

2. Standard 1300 - Formalize process for ongoing self-assessment monitoring.

**Follow-up: Key Performance Indicators (KPIs) specific to the Internal Audit Division were developed, and tracked, and are now reported to the Board annually.**

3. Standard 2040 - Update division policies and procedures.

**Follow-up: Policies and procedures are in process of being updated with a goal of having all updated by June 30, 2019.**