



County of Yolo

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HOWARD H. NEWENS, CIA, CPA

Chief Financial Officer

DOUGLAS K. OLANDER, CPA

Assistant Chief Financial Officer

DEPARTMENT OF FINANCIAL SERVICES

625 Court Street, Room 102

PO BOX 1268

WOODLAND, CA 95776

PHONE: (530) 666-8190

FAX: (530) 666-8215

DFS @ yolocounty.org

- *Financial Strategy Leadership*
- *Budget & Financial Planning*
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- *Financial Systems Oversight*
- *Accounting & Financial Reporting*
- *Internal Audit*
- *Procurement*

October 23, 2017

Financial Oversight Committee, and
Audit Sub-Committee
625 Court Street, Room 303
Woodland, CA 95695

Re: Submittal of the Division of Internal Audit Quality Assurance and Improvement Program Self-Assessment Report

Recommended Action

It is recommended the Financial Oversight Committee (FOC) and the Audit Sub-Committee receive and file the Internal Audit Division's Quality Assurance and Improvement Program Internal Self-Assessment Report.

Strategic Plan Goal(s)

Provide fiscally sound, dynamic and responsive services that comply with Generally Accepted Government Auditing Standards (GAGAS) and Institute of Internal Auditors' Standards (IIA).

Reason for Recommendation Action/Background

The Yolo County Division of Internal Audit (Division) follow both GAGAS and IIA standards of professional auditing which requires that the division undergo a peer review under the standard peer review guidelines with the higher authority. Therefore, the division is required to undergo an external peer review every 3 years (GAGAS). The division is scheduled to undergo the external peer review in February of 2018. 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 both GAGAS and IIA *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 and FOC's review. By adhering to professional standards and adopting best practices, the division contributes to the County's vision of a well-governed community.

Collaborations (including Board advisory groups and external partner agencies)

The report is submitted for discussion to the members of the Financial Oversight Committee and Audit-Subcommittee and their comments will be taken into consideration for further improvements.

Fiscal Information

There is no financial impact resulting from the self-assessment.

Attachments

1. Quality Assurance and Improvement Program Internal Assessment Report

Sincerely,



Mary E. Khoshmashrab, MSBA, CPA
Internal Audit Manager
County of Yolo

cc: Patrick Blacklock, County Administrator
Howard Newens, Chief Financial Officer
File

Division of Internal Audit
Quality Assurance and Improvement Program

Self-Assessment
October of 2017

MARY E. KHOSHMAHRAB, MSBA, CPA
Internal Audit Manager
Division of Internal Audit

The Yolo County Division of Internal Audit (Division) follow both Generally Accepted Government Auditing Standards (GAGAS) and Institute of Internal Auditors' (IIA) standards of professional auditing which requires that the division undergo a peer review under the standard peer review guidelines with the higher authority. Therefore, the division is required to undergo an external peer review every 3 years (GAGAS). The division is scheduled to undergo the external peer review in February of 2018. The last external peer review was performed in 2003. However, the Division of Internal Audit was not established as a fully function division until September of 2014. 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 Division of Internal Audit was fully established in September of 2014 and is housed under the Department of Financial Services. The division is currently comprised of two Auditors who report directly to the Internal Audit Manager. The Internal Audit Manager, for independence purposes, reports administratively to the Chief Financial Officer (CFO), but has direct access to the County Administrator (CA), Board of Supervisors (BOS), and the Financial Oversight Committee (FOC); The CFO, CA, and FOC have direct involvement in audit resource planning for the division.

The County's Division of Internal Audit generally 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 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. Additionally, the division may follow other professional standards including, but not limited to Generally Accepted Government Auditing Standards (GAGAS), Generally Accepted Auditing Standards (GAAS), the California Government Code, the County's Administrative Manuals, the County's established policies and procedures, and other applicable authorities. Since the Division may perform audits and/or reviews under other professional auditing standards, the division has elected to follow the timelines of the most stringent professional standards in regards to internal self-assessment and peer review guidelines, which is GAGAS or commonly referred to as the *Yellow Book*.

The purpose of the internal self-assessment is to evaluate the 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 division has, in the past, met the external assessment and on-going monitoring performance requirements of the *Standards*, an internal assessment, according to the *Standards*, had not been undertaken, and the last external peer review performed was in 2003.

Since the position of the Internal Audit Manager was not held until September of 2014, this report presents the results of our first internal assessment, which covers fiscal years 2014-15 through

2016-17 (3 years). Going forward, we will conduct internal self-assessments every year in accordance with the *Standards*.

To perform the self-assessment, we utilized the Institute of Internal Auditors' Quality Assessment Manual, which is considered a proficient assessment tool for all other professional standards, conducted a 360 assessment review of the internal audit manager, client surveys of County Departments, Joint Power Agencies, and Special District's (Auditees), and internal audit staff.

Results

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

Compliance with the Professional Standards

1. Board Approved Internal Audit Charter

In 2015, the Division of Internal Audit updated the internal audit charter which defines the division's mission, purpose, authority, responsibility, independence and access. 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. The Board approved the Charter on July of 2015.

2. Division of Internal Audit's strategic plan

In 2015, the Division of Internal Audit developed and annually reviews the division's 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*.

3. Division of Internal Audit's Audit Manual and Internal Control Standards Manual

In November of 2015, the Division of Internal Audit updated the divisions Internal Audit Manual to include professional auditing standards and best practices. The manual is reviewed annually and updated as necessary. Additionally, in June of 2016, the Division of Internal Audit updated the County's Internal Control Standards in accordance with COSO Framework of 2013. The manual is reviewed annually and updated as necessary. Standard 2040 requires the Chief Audit Executive to establish policies and procedures to guide Internal Auditors.

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

Since 2014, the division reports, on an annual basis, to the Financial Oversight Committee (FOC) and Audit Subcommittee the results of the division's prior year performance indicators and provides a business and audit plan for the upcoming fiscal year for review and feedback. The division's prior year performance should be submitted to the Board (FOC) annually, in accordance with Standards 1300 -1320 and Standard 2600 which further helps the division quantify its efficiency and effectiveness. Additionally, the division meets with the FOC on a quarterly basis and provides updates and copies of completed engagements.

5. Centralize tracking of audits and recommendations

The Internal Audit division tracks the status of outstanding recommendations by performing follow-up reviews of outstanding Corrective Action Plans (CAP's) resulting from an engagement that was performed by the division within six months to a year after the recommendation is made. Best auditing practices require centralized tracking of all levels of performance. Additionally, the division sends correspondences to all internal and external organizations that the Board has oversight responsibilities requesting copies of audits or reviews, and CAPS that are performed by other government or external auditors. The division performs additional reviews of audits received and prepares an informal summary of matters that may be of noted concern to the CAO for informational purposes. Effective November of 2017 some parts of these functions will be moved under the DFS Accounting for Special Districts.

6. Documents and approves an individual engagement letter, audit program, and begins the planning memo prior to the start of the fieldwork.

The division formally approves the engagement letter, completes the audit program, and starts the audit planning memo prior to the start of fieldwork. An audit engagement is developed by the auditor and is completed in collaboration with the auditee. The audit program identifies the steps the auditor must follow to test the objectives of the audit. Further the audit program and planning memo is developed, and approved by the audit manager prior to the start of fieldwork. The audit program and planning document may change during the course of the audit due to changes in nature, timing, or extent of the review. Standard 2240 requires audit work programs to be formally approved prior to implementation. Audit staff always discusses the audit plans prior to performing fieldwork, develops the audit program, and begins to develop the audit planning memo.

7. Independence in fact and matter

To ensure the division is meeting professional standards of independence, aside from the reporting structure and planning of audit resources, the division considers and prepares a statement of independence that includes consideration of the auditor's independence both fact and matter. Where there is noted evidence of threats of independence, the auditor's document safeguards that are in place to minimize those threats. Standard 1130 requires that if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

8. Resource Management

The division is currently comprised of two Auditors and an Internal Audit Manager. The division has requested additional resources for the prior three years, and has been denied. Standard 2030 requires that the chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

9. Meets Continuing Professional Education (CPE) requirements

The division's audit staff are in compliance with the required CPE hours. The 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 division is diligent about tracking the

hours, cost associated with the training, keeping with the budgeted training plan, and electronically filing the certificates with the training materials for future reference/review. Standard 1230 requires that internal auditors enhance their knowledge, skills, and other competencies through continuing professional development.

10. Auditor's Feedback (Client's) Survey

The Auditor's Feedback Surveys are provided to Auditee's at the completion of each engagement. Though we have received some surveys back, there has been little overall success in getting customer feedback after the report is issued. Recently the division team developed a survey that will be sent out to all internal and external customers and other stakeholders. Standard 1311 requires evidence of sound practices which includes client surveys for the purpose of ongoing monitoring of performance of the internal audit activity, and self-assessment.

11. Division of Internal Audit Customer Service "Needs" Survey

In October of 2017, the division plans to provide a customer service "needs" survey. The survey will seek information on training needs, consulting, and other activity that customers would like the division to provide. The results will be compiled and used to help better serve the County and support Management as well as other stakeholders, and as a planning tool for the division. The survey will be sent out every two years thereafter. Standard 1311 requires evidence of sound practices which includes client surveys for the purpose of ongoing monitoring of performance of the internal audit activity, and self-assessment.

12. Annual Assessment of Internal Audit Staff

The internal audit manager has documented and can provide evidence of a fully functional QC Program that includes supervisor workpaper reviews, and annual reviews of the internal audit staff that helps evaluate and identify areas of necessary skills and knowledge to ensure compliance with professional standards. Standard 1230 requires that the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

13. 360 Overall Assessment - Internal Audit Manager

In January of 2017, the Internal Audit Manager participated in a 360 Overall Assessment. The goal of the assessment is to provide the participant with a general awareness of their strengths that they see themselves possess as well as an understanding of any development opportunities that exist. It also demonstrates the differences of how they see themselves compared to how those that work closest with perceive them. Further it allows themselves to compare to those of the other "360 Subjects" participating in the program.

The participant was evaluated by a total of twelve evaluators that included themselves, audit staff, management, boards of supervisor, peers, and the internal audit manager's direct supervisor. The internal audit manager was then compared with a reference group of thirty-six others. The assessment included consideration of skills around leadership, coaching and development, communication, and relationship building. In each area the internal audit manager scored higher in each category than the reference group with each category ranking in the high 4's with a 5 being the highest (1-5). The

internal audit manager's overall competencies ranking was 4.47 out of possible 5, with the overall Reference Group ranking of 4.32.

Additionally, the internal audit manager is evaluated for her professional capabilities on an annual basis by the Chief Financial Officer, who is her direct supervisor. Standard 1311 requires evidence of sound practices which includes client surveys for the purpose of ongoing monitoring of performance of the internal audit activity, and self-assessment.

Best Practices Being Utilized

1. Commitment to Division of Internal Audit's vision and adding public value

The division's staff is fully engaged to assist and support the County of Yolo to become the "poster" organization for the Local Government in the State of California regarding fiscal soundness of accountability, integrity, and transparency as a government entity by providing excellent customer service, internally to county staff, and externally while partnering with other public and private entities.

To accomplish the division's role in supporting the County, the division staff helps to provide reasonable assurances of accountability by maintaining independence as part of the county's oversight authority, and by conducting countywide risk assessments, various types of audits and compliance reviews, special request reviews of emerging issues, and various types of consulting services such as workshops on efficiencies around processes, internal controls, and analysis of operations or functions. The division staff works effortlessly to gain public trust and add value by assisting and supporting the County in the most effective efficient manner.

The county's fiscal accountability is further measured by the auditors concluding that the conditions of the County's Officials and Management are found to be:

- Effective and efficient in the County's daily business operations;
- Applicable laws, statutes and regulations that govern the county's programs and operations are being adhered to;
- Corrective actions and recommendations are timely implemented, and
- Monitoring and continuous process improvement is present throughout the County's operations.

2. Collaborative and educational approach

The 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.

The division believes in providing internal customer support to help the county develop more effective, efficient automated tracking systems, procedures, processes, and programs. Supports implementing monitoring and oversight processes that supports strong internal controls in place to ensure that public funds are properly safeguard.

The division believes in providing excellent customer support for training and development on fiscal reviews, fiscal analysis, risk consideration, and in other areas such federal grant requirements, and

other programs, while ensuring that the work performed is completed by management and with auditors consultation.

3. Risk-based approach

The division performs a thorough risk assessment from the auditor's perspective 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.

The division is also in the process of facilitating the countywide risk assessment to assist management to logically identifying key risks within the County and its components by department. Once completed, the division will present and discuss the risk assessment to the County Administrator, the Chief Financial Officer, and the Committee to receive input and feedback.

Simultaneously, the division's manager and staff develops an annual audit plan based on a continuous monitoring of management self-risk assessment and overall countywide risk assessment, and presents the annual audit plan to the Financial Oversight Committee for its review, input, and approval.

4. Continuous Auditing based approach

The Division has been working towards a continuous audit based approach to auditing to help provide a more effective and efficient use of audit resources. The planning stage has been completed and includes consideration of the initial results of the countywide risk assessments as well as audit risk consideration that helped to identify high risk processes and programs that have been included in our annual audit plan as part of our continuous auditing engagements. The Division has incorporated continuous auditing engagements in the fiscal year 2017-18 audit plan.

Noncompliance with the Standards

1. No formal Quality Control Program, External or Internal Self-Assessment since 2003.

The Division was not fully formed and functional until September of 2014 when an internal audit manager was hired. During the period (November 4, 2014 with Measure H), the County moved from an elected Auditor/Controller to an appointed Chief Financial Officer and became the Department of Financial Services. From fiscal year 2007-08 to September 2014 (FY 14/15), the unit was without an internal audit manager and staff reported directly to the Auditor-Controller. Prior to the change, the internal audit unit staff was heavily focused on performing non-audit duties as an extension of management with limited focus on internal reviews, treasury cash counts, and some special district reviews. Since 2014, the division has been working diligently to update the internal audit charter, the audit manual, the internal control standards, and other policies and procedures.

The division has always followed professional auditing standards, but now has documentation that provides evidence that professional standards are being followed, and is now prepared to undergo an external peer review. Further, the internal audit manager has documented and can provide evidence of a fully functional QC Program that includes supervisor workpaper reviews, due diligence, professional training, client surveys, annual reviews of the internal audit manager and staff, written audit engagement agreements, audit programs, and planning documents. It should be noted that the division has and continues to have limited resources, and over the last three years been assigned several special projects, is facilitating the countywide risk assessment, completed the JPA risk

assessment, as well as performed AUP's for Special Districts. Further, the division was also tasked with the initial reviews of the County's newly implemented financial system. The division recognizes that a written internal self-assessment has never been officially drafted as a report or formally submitted to the Financial Oversight Committee (FOC) and Audit Subcommittee. Therefore, this report will be the official report of record for the division's self-assessment for FY 17/18 and will be submitted to the FOC and Board. Thereafter a self-assessment will be performed annually, with an external peer review every 3 years under GAGAS (Yellow Book); the external peer review is scheduled for February 12, 2018.

Another area of concern: From time to time, the division's manager is asked to perform a special review over matters that may be of concern for the County, thus putting her in the position of an auditor that has no supervisor to perform a second level review of her workpapers. The QC review in these cases are performed by an outside CPA or CIA that provides these services as a professional courtesy. The division's manager works with staff to help further develop them in the area of investigative and forensic reviews, to prepare staff to lead these special request reviews, while allowing the internal audit manager to perform the second level review as appropriate.


Best Practices Areas for Improvement

1. Improve staff Information Technology audit skills

The 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. Though staff has been trained in various IT audit skills and while the division is in compliance with Standard 1210.A3; this is an area staff would like to gain improvement. Staff have committed to gaining further training in IT risk, controls, and technology-based audit techniques.

2. Issue reports timely

Although issues and findings are discussed with auditee's throughout the audit process, due to unforeseen circumstances that occurred over a period of two of the three years under the upcoming peer review, several of the engagement's final report's during the self-assessment period were issued untimely, well after the engagement fieldwork was completed. Standard 2420 requires engagement communications to be timely. Matters have since settled and the division's policies, procedures and planning documents are well developed and should prevent future engagements from being delayed. Unfortunately, the request for 2 additional audit positions submitted to the County was denied. To help prevent untimely completion of engagements, the division is focusing their resources on areas of higher risk to the County and budgeting accordingly.



Mary E. Khoshmashrab, MSBA, CPA
Internal Audit Manager
County of Yolo

10/23/2017
Date: