

Napa County

Auditor-Controller

Internal Audit Report

Yolo County Internal Audit
External Quality Assessment (Peer Review)
Internal Audit Activity

For the fiscal year ended June 30, 2022

Report Date: January 4, 2022



A Tradition of Stewardship
A Commitment to Service

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Auditor-Controller

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Engagement Team

Paul Phangureh, CPA, CIA, CGAP	Internal Audit Manager
Jennifer Phu	Staff Auditor
Susan MacDonald	Staff Auditor

Executive Summary

The *International Standards for the Professional Practice of Internal Auditing (Standards)* requires that an external quality assessment of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the quality assessment process. The quality assessment can be accomplished through a full external assessment or a self-assessment with independent validation.

At the request of Yolo County's Chief Audit Executive (CAE), the internal audit section of the Napa County Auditor-Controller's Office (Napa County Internal Audit) has completed an external quality assessment (peer review) over Yolo County's internal audit activity for the fiscal year ended June 30, 2022. We conducted our external quality assessment in conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* established by the Institute of Internal Auditors (IIA). These *Standards* require that we identify, analyze, evaluate, and document sufficient information and evidence to achieve our objectives; and that the internal audit activity be independent, objective, and perform engagements with proficiency and due professional care.

After Yolo County created a Department of Finance through Measure H, approved by the voters in 2012, its Board of Supervisors established a Financial Oversight Committee (FOC) and appointed a Chief Financial Officer (CFO). The FOC is comprised of two members of the Board of Supervisors (who also serve on the Audit Sub-Committee), a representative from the Yolo County Office of Education, a representative from a city in Yolo County, a representative from a special district in the County, and two members from the public (one of which serves on the Audit Sub-Committee). The FOC performs its duties in an advisory role to the Board of Supervisors and has no direct authority over the CFO, County Officers, or staff regarding the County's financial operations. Under Article II of the FOC Charter, dated February 11, 2021, the FOC has the authority to provide oversight on (1) treasury operations, (2) leadership and independence over the monitoring, review, and audit of the County's business activities, and (3) ensure accountability and transparency over the budgetary and tax distribution process.

Yolo County Internal Audit reports *administratively* to the CFO and *functionally* to the Audit Sub-Committee, which was reestablished under the FOC Charter in 2021. The Audit Sub-Committee is empowered to oversee the work of the internal audit activity and has responsibilities normally performed by the Board of Supervisors including the approval of the Internal Audit Charter. The Audit Sub-Committee is comprised of two members of the Board of Supervisors and one member from the public.

Executive Summary (continued)

Yolo County Internal Audit provides assurance and consulting services. The team is comprised of three full-time employees (staff auditor, senior auditor, and audit manager). The internal audit activity follows the *International Standards for the Professional Practice of Internal Auditing (Standards)* promulgated by the Institute of Internal Auditors (IIA).

Opinion as to Conformance with the *Standards* and the Code of Ethics

It is our overall opinion that the internal audit activity generally conforms with the *Standards* and the Code of Ethics. **Exhibit A – Evaluation Summary** shows a detailed list of conformance with individual standards and the Code of Ethics. The quality assessment team identified opportunities for improvement, details of which are provided in this report.

The IIA's Quality Assessment Manual suggests a scale of three ratings when evaluating internal audit activity conformance to the *Standards* and the Code of Ethics:

- *Generally Conforms (GC)*: internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics. This rating means successful internal audit practices are being utilized.

- *Partially Conforms (PC)*: internal audit activity deficiencies are noted and judged to deviate from the *Standards* and the Code of Ethics, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. This rating means that the internal audit activity has gaps to conformance with the *Standards* and/or the Code of Ethics.

- *Does Not Conform (DNC)*: internal audit activity deficiencies are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities. This rating means that the internal audit activity does not conform with the *Standards* and/or the Code of Ethics.

A detailed description of conformance criteria can be found in **Exhibit B – Rating Definitions**.

Objectives, Scope, and Methodology

The primary objectives of this quality assessment were to assess the internal audit activity's conformance to the *Standards* and the Code of Ethics. We also evaluated the internal audit activity's effectiveness in carrying out its mission (as set forth in the Internal Audit Charter and expressed in the expectations of Yolo County's management); identified successful internal audit practices demonstrated by Yolo County Internal Audit; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to Yolo County.

The scope included review of audit engagement workpapers, administrative documents, interviews and surveys with staff, and comparison of current practices to those recommended by the *Standards* for the fiscal year ended June 30, 2022.

Napa County Internal Audit utilized the Institute of Internal Auditors' (IIA) Quality Assessment Manual (2017) to assess Yolo County's internal audit activity conformance with the *Standards* and the Code of Ethics.

These *Standards* are comprised of two main categories: Attribute and Performance Standards. Attribute and Performance Standards apply to all internal audit services.

- *Attribute Standards (1000-1322)* address the attributes of the organization and individuals performing internal auditing.
- *Performance Standards (2000-2600)* describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured.

Summary of Observations

The internal audit environment where the external assessment was performed is well structured and progressive, where the *Standards* are understood, the Code of Ethics is being applied, and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, comments and recommendations are intended to build on this foundation already in place. Observations are divided into three categories:

- Successful Internal Audit Practice,
- Gaps to Conformance with the Standards and Code of Ethics, and
- Opportunities for Continuous Improvement

Successful Internal Audit Practices describes where internal audit is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. We identified the following *Standards* that fall into this category:

- **Standards 1100 – Independence and Objectivity**

The CAE meets bi-weekly with the CFO and quarterly with the Audit Sub-Committee. The CAE also confirmed the organizational independence of the internal activity with the Audit Sub-Committee.

- **Standards 1210 – Proficiency**

Yolo County Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to perform its responsibilities.

- **Standards 1230 – Continuing Professional Development**

All members of Yolo County Internal Audit completed at least 40 hours of continuing professional education as of June 30, 2022 and staff are encouraged to pursue certifications promulgated by the Institute of Internal Auditors or the Association of Certified Fraud Examiners.

- **Standards 2320 – Analysis and Evaluation**

Yolo County Internal Audit utilizes computer-assisted audit techniques (CAATs), which provide analysis of a larger population of data and unbiased evaluations against multiple factors.

Summary of Observations (continued)

- **Standards 2330 – Documenting Information**

Yolo County Internal Audit documents sufficient, reliable, and useful information to support the engagement results and conclusion. They use RSM's Auditor Assistant software to manage its audit workpapers, which helps create consistency in documentation and assist in workflow review for each engagement.

- **Standard 2500 – Monitoring Progress**

The CAE launched a follow-up module through RSM's Auditor Assistant software that enables system generated email reminders to be sent to the responsible manager and executive officers for a status update on their corrective action plans. The CAE also maintains "All Issues Summary Report" to monitor the progress on management's corrective actions plans.

Gaps to Conformance with the *Standards* or the Code of Ethics describes internal audit activity that is operating in a manner that falls short of achieving one or more major objectives, with the *Standards* or the Code of Ethics that results in an opinion for an individual standard of "partially conforms" or "does not conform." We identified the following *Standards* that fall into this category.

- None

Opportunities for Continuous Improvement describes ways internal audit can enhance the efficiency or effectiveness of the infrastructure, processes, and value to their organization. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or the Code of Ethics. We identified the following *Standards* that fall into this category.

- **Standard 1000 – Purpose, Authority, and Responsibility**

Consider presenting an annual summary of audit reports completed as well as the status of audit recommendations to the full Board of Supervisors. The Internal Audit Charter is also due for a review and presentation to the Board of Supervisors.

Summary of Observations (continued)

- **Standard 1311 – Internal Assessments**

Consider adopting additional Key Performance Indicators (KPIs) that can help measure engagement efficiencies (i.e., average days between end of fieldwork and manager's review) and engagement effectiveness (i.e., percentage of audit observations that are accepted or not contested).

- **Standard 2100 – Nature of Work**

Consider expanding on performance audits with audit procedures that include assessments of program effectiveness (i.e., meeting the objectives or goals of the program), economy (i.e., keeping the cost low), and efficiencies (i.e., getting the most out of available resources) in its annual audit plan.

Detail – Successful Internal Audit Practices

- **Standard 1100 – Independence and Objectivity**

All members of Yolo County Internal Audit are independent. The CAE confirmed the organizational independence of the internal activity with the Audit Sub-Committee on April 6, 2022. In addition, independence is evaluated and documented at the engagement level during planning for each engagement. Furthermore, the CAE has direct and unrestricted access to Department Heads, the Chief Financial Officer (CFO), the Audit Sub-Committee, and the Board of Supervisors. The CAE meets at least bi-weekly with the CFO and quarterly with the Audit Sub-Committee.

- **Standard 1210 – Proficiency**

Yolo County Internal Audit staff possess the knowledge, skills and other competencies required to effectively carry out their professional responsibilities. If an engagement required skills or knowledge that the team was lacking, the CAE contracted with qualified “on-call” auditors from CPA firms to assist or perform the audit.

- **Standard 1230 – Continuing Professional Development**

To enhance internal audit knowledge, skills, and other competencies, all members of Yolo County Internal Audit completed at least 40 hours of continuing professional education as of June 30, 2022. Based on interview results, staff feels supported and encouraged by management to obtain professional certifications such as the Certified Fraud Examiner.

- **Standard 2320 – Analysis and Evaluation**

Yolo County Internal Audit uses Computer Assisted Audit Techniques (CAATs) for data analytics and sample-based testing. Engagements workpapers show the use of CAATs, which can help auditors identify trends and spot anomalies. The use of CAATs results were also incorporated in audit reports, which can help streamline the readers’ understanding of the data.

- **Standard 2330 – Documenting Information**

Yolo County Internal Audit documents sufficient, reliable, and useful information to support the engagement results and conclusion. They use RSM’s Auditor Assistant software to store its electronic work papers in one central location, manage audit

Detail – Successful Internal Audit Practices (continued)

▪ **Standard 2330 – Documenting Information** (continued)

activities in real time, and generate notifications to appropriate individuals regarding workpaper status and audit findings. The use of this software helps create consistency in documentation and assist workflow review for each engagement. The CAE controls access to engagement records.

▪ **Standard 2500 – Monitoring Progress**

The CAE monitors each audit recommendation by requesting a status on corrective action plans, reviewing supporting documentation provided by the department, and inquiring with department personnel. On February 2022, the CAE launched a follow-up module through RSM's Auditor Assistant software to help streamline the monitoring process. The CAE establishes a target date for completion based on management's responses in the final internal audit report. A timeline is then automatically generated, and a system generated email reminder is sent to the responsible manager and executive officers three times prior to the target date. The system will also continue to track past due corrective actions and send monthly notifications until the finding are resolved.

The CAE maintains an 'All Issue Status' report that provides information on findings, recommendations, management responses, and status. The CAE communicated the status of corrective action plans to County management and the Audit Sub-Committee through a memo titled 'Resolution of Audit Findings and Recommendations' on April 6, 2022.

Detail – Gaps to Conformance with the Standards or the Code of Ethics

- None

Detail – Opportunities for Continuous Improvement

1. Standard 1000 – Purpose, Authority, and Responsibility

Observation

Standard 1000 - Purpose, Authority, and Responsibility requires the “Chief Audit Executive to *periodically review* the internal audit charter and *present* it to senior management and the Board for approval. Final approval of the internal audit charter resides with the Board.” We noted that the Yolo County Internal Audit Charter (Charter) was last approved by the Board of Supervisors on July 28, 2015.

According to Article IV of the Charter, the CAE reports *functionally* to the Audit Sub-Committee and *administratively* to the Chief Financial Officer. The Financial Oversight Committee Charter describes functional duties of the Audit Sub-Committee which includes approving the Charter.

Recommendations

We recommend the CAE annually review the Charter to reaffirm that it continues to enable the internal audit activity to accomplish its objectives. We did note updates to the Charter are warranted such as adding a section on the Quality Assurance Improvement Program (QAIP).

We recommend the CAE request the Audit Sub-Committee to agree on the frequency with which they want to review and reaffirm or revise the Charter. At the very least, the Charter should be reviewed and presented once every five years to be in conformance with the *Standards*.

When presenting the Charter to the Audit Sub-Committee, we recommend the CAE initially discuss and then formally present the Charter to the Audit Sub-Committee for approval.

Although *functional* duties were delegated to the Audit Sub-Committee, we recommend certain reports should also be presented for review and file to the full Board of Supervisors such as an annual summary of audits reports completed as well as the status of audit recommendations and any updates to the Charter. This will allow for greater input from management and the Board of Supervisors, improve communication flow between the full Board of Supervisors, and provide greater visibility to the internal audit function.

Detail – Opportunities for Continuous Improvement (continued)

1. Standard 1000 – Purpose, Authority, and Responsibility (continued)

Internal Audit's Response and Corrective Action Plan

The Chief Audit Executive concurs. The Yolo County Internal Audit Charter is currently being reviewed and any revisions of the Charter will be presented to the Audit Subcommittee for recommendation and approval by the Yolo County Board of Supervisors. Other suggested reports such as an annual summary of audits completed as well as the status of audit recommendations will be considered.

2. Standard 1311 – Internal Assessments

Observation

Standard 1311 Internal Assessments requires ongoing monitoring of the internal audit activity. While mechanisms used for ongoing monitoring are in place to measure the efficiency and effectiveness of the internal audit activity, there are additional Key Performance Indicators (KPIs) that Yolo County Internal Audit can incorporate to further validate its conformance with the *Standards* and the Code of Ethics.

Based on interviews and survey results with staff, management, and board members, as well as a review of KPI results, there were mixed reviews over engagements' efficiencies and effectiveness.

Recommendation

We recommend Yolo County Internal Audit consider adopting additional KPIs to specifically measure engagements' efficiencies and effectiveness. For example, tracking the average days between end of fieldwork and manager's review can provide insights to the timeliness of workpaper review. Similar, tracking the percentage of audit observations that are accepted or not contested can illustrate the effectiveness of the internal function.

Detail – Opportunities for Continuous Improvement (continued)

2. Standard 1311 – Internal Assessments (continued)

Internal Audit's Response and Corrective Action Plan

The Chief Audit Executive concurs. The Yolo County Internal Audit Activity has recently implemented an electronic workpaper system whereas timeliness of workpaper review and completion can be monitored more effectively. Additional KPIs are being explored.

3. Standard 2100 – Nature of Work

Observation

Standard 2100 Nature of Work states that the internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit's credibility and value are enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact.

Based on the results of surveys and interviews with staff, senior management, and board members as well as an analysis of the audit plan results, we found that the majority of the engagements completed in-house were related to internal control objectives. The CAE has expressed that insufficient staffing in terms of resources and skills has prevented some more complex audits to be completed in-house.

Recommendation

We recommend the CAE expand on performance audits with audit procedures that include assessments of program effectiveness (i.e., meeting the objectives or goals of the program), economy (i.e., keeping the cost low), and efficiencies (i.e., getting the most out of available resources) in its annual audit plan.

The CAE should also request staffing resources to allow audit engagements to focus on programs/functions that present a higher risk factor to the County and a mix of audits that can offer new insights.

Detail – Opportunities for Continuous Improvement (continued)

3. Standard 2100 – Nature of Work (continued)

Internal Audit’s Response and Corrective Action Plan

The Chief Audit Executive concurs. Starting with FY23/24, the CAE will consider performance audits that include program effectiveness and result audit objectives in its annual audit plan. Gaps in staffing resources will be discussed with county management and the Audit Subcommittee.

Recently, the Yolo County Internal Audit had a more robust countywide risk assessment performed to identify high risk areas to the County and have incorporated the auditable areas within their FY22-23 Audit Plan approved by the Audit Subcommittee on 9/06/2022.



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Auditor-Controller

Team Members:

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Susan MacDonald

Internal Audit Manager
Staff Auditor

This report is a matter of public record and is intended solely for the information and use of the Yolo County’s Internal Audit Division, Chief Financial Officer, County Administrator, Financial Oversight Committee, Audit Sub-Committee, and the Board of Supervisors.

Exhibit A – Evaluation Summary

	GC	PC	DNC
Overall Evaluation	X		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		

Exhibit A – Evaluation Summary (continued)

Attribute Standards (1000 through 1300)		GC	PC	DNC
1300	Quality Assurance and Improvement Program	X		
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	X		
1322	Disclosure of Nonconformance	X		

Exhibit A – Evaluation Summary (continued)

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		

Exhibit A – Evaluation Summary (continued)

Performance Standards (2000 through 2600)		GC	PC	DNC
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		

Exhibit A – Evaluation Summary (continued)

Performance Standards (2000 through 2600)		GC	PC	DNC
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		

Code of Ethics		GC	PC	DNC
	Code of Ethics	X		

Exhibit B – Rating Definitions

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board of the organization.

N/A – “Not Applicable”