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O C B o a r d o f S u p e r v i s o r s

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

EXTERNAL QUALITY ASSESSMENT OF THE COUNTY OF SAN BERNARDINO INTERNAL AUDIT ACTIVITY

For the Five Years Ended
JUNE 30, 2014

As requested, the County of Orange Internal Audit Department conducted an external quality assessment (QA) of the County of San Bernardino Internal Audit Activity as prescribed by The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Our external quality assessment found that San Bernardino's Internal Audit Activity generally conforms to the IIA Standards. Our surveys and interviews revealed a high opinion of the progress made in the Internal Audit Section regarding value-added audits and the professionalism of their staff.

AUDIT NO: 1408
REPORT DATE: JULY 31, 2015

Director: Dr. Peter Hughes, MBA, CPA, CIA
Assistant Director/Senior Audit Manager: Michael Goodwin, CPA, CIA
Audit Manager: Wilson Crider, CPA, CIA
Audit Manager: Lisette Free, CPA, CFE

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



Member of American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach

Independence

Objectivity

Integrity

 ORANGE COUNTY BOARD OF SUPERVISORS' Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608



Letter from Dr. Peter Hughes, CPA

Transmittal Letter



Audit No. 1408 July 31, 2015

TO: Larry Walker
Auditor-Controller/Treasurer/Tax Collector
County of San Bernardino

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: External Quality Assessment of the County of
San Bernardino Internal Audit Activity

We have completed an external quality assessment of the County of San Bernardino Internal Audit Activity for the five years ended June 30, 2014. The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)* requires an external quality assessment (QA) to evaluate an internal audit activity's conformance with the IIA's Definition of Internal Auditing, Code of Ethics, and *Standards* be conducted every five years. You requested a QA of the internal audit activity's for the County of San Bernardino be conducted as part of the California County Audit Chief Committee peer review program, in which San Bernardino and Orange County are participants.

Our external quality assessment found that San Bernardino's Internal Audit Activity generally conforms to the IIA Standards. Generally conforms means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. Our final report is attached for your review.

We utilized the 2013 IIA Quality Assessment Manual, as well as the IIA's Professional Practices Framework (2013 edition) as primary criteria for performing our assessment. Our principal objectives were to assess the internal audit activity's conformance to the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate the internal audit activity's effectiveness in carrying out its mission, and identify opportunities to enhance its management and work processes, as well as its value to the County of San Bernardino.

Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation.

Attachments

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 4.



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For the Five Years Ended June 30, 2014

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OC Internal Auditor's Report

Audit No. 1408

JULY 31, 2015

TO: Larry Walker
Auditor-Controller/Treasurer/Tax Collector
County of San Bernardino

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: External Quality Assessment of the
County of San Bernardino Internal Audit Activity

EXECUTIVE SUMMARY

As requested by the Chief Audit Executive (CAE), the County of Orange Internal Audit Department conducted an external quality assessment of the internal audit activity of the County of San Bernardino. The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of County of San Bernardino's management), and identify opportunities to enhance its management and work processes, as well as its value to County of San Bernardino.

The County of San Bernardino has over 17,000 employees at over 100 operating locations. San Bernardino's Internal Audit Section (IAS) is within the Office of the Auditor-Controller/Treasurer/Tax Collector. The elected Auditor-Controller/Treasurer/Tax Collector is the CAE for the County. The Office of the Auditor-Controller/Treasurer/Tax Collector processes, safeguards, and provides information regarding County financial activities, manages the County treasury pool, collects and distributes property taxes and other obligations owed to County agencies and courts. IAS performs operational audits of departments and agencies, evaluates internal controls for operational improvement, and operates the Fraud, Waste and Abuse Hotline. The IAS had 12 filled positions at the time of our external quality assessment fieldwork that included a Chief Deputy Auditor, an Internal Audit Manager, nine audit staff members and an Intern (Public Service Employee).

OPINION AS TO CONFORMANCE WITH THE STANDARDS

It is our overall opinion that the internal audit activity generally conforms with the *Standards and Code of Ethics*. Our surveys and interviews revealed a high opinion of the progress made in the Internal Audit Section regarding value-added audits and the professionalism of their staff. For a detailed list of conformance with individual *Standards*, please see Attachment A. The quality assessment team also identified opportunities for further improvement, details of which are provided in this report.

The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice 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.

OC Internal Auditor's Report

SCOPE AND METHODOLOGY

As part of the preparation for the quality assessment, the QA team requested detailed background information from the County of San Bernardino's Internal Audit Section (IAS) and sent out surveys to its staff and to all County of San Bernardino executives/department directors. A summary of the survey results (without identifying the individual survey respondents) has been furnished to the IAS. Before commencement of the onsite work by the quality assessment team on May 11, 2015, the QA team leader conducted a preliminary meeting with County of San Bernardino to gather additional background information, select executives for interviews during the onsite fieldwork, and finalize planning and administrative arrangements for the external quality assessment.

Interviews were conducted with County of San Bernardino's audit committee members, County executives (including a sample of department directors of operating and support divisions by teleconference), external auditors, and IAS management and staff. IAS' risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the work papers and reports were also reviewed.

RECOMMENDATIONS AND OBSERVATIONS: SUMMARY

The internal audit activity environment where we performed our review is well structured and progressive where the *Standards* are understood, and management is endeavoring to provide useful audit tools and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation already in place in the internal audit activity. Recommendations and observations are divided into four groups:

- **Recommendations that concern County of San Bernardino as a whole** and suggest actions by senior management. Some of these are matters outside the scope of the quality assessment that came to our attention through surveys and interviews. These are included because they will be useful to County of San Bernardino management and because they impact the effectiveness of the internal audit activity and the value it adds.
- **Recommendations that relate to the internal audit activity's structure, staffing, deployment of resources**, and similar matters that should be implemented within the internal audit activity, with support from senior management.
- **Observations that recognize best practices employed by the internal audit activity** leading to a level of performance beyond generally conforming to the mandatory guidance of The IIA's International Professional Practices Framework (IPPF).
- **Observations of process improvement opportunities for the internal audit activity** to consider in its continuous improvement efforts. These do not indicate a lack of conformance to mandatory guidance of the IPPF. They are offered as suggestions for the continued growth of the internal audit activity's successful internal audit practice.

Highlights of the more significant recommendations and observations are summarized below, with detailed descriptions following later in the report.

OC Internal Auditor's Report

PART I—RECOMMENDATIONS FOR CONSIDERATION BY COUNTY OF SAN BERNARDINO MANAGEMENT

1. Make the vacant audit committee positions a high priority to fill.
2. Consider having the Board of Supervisors formally delegate its audit oversight responsibility to the audit committee to further enhance IAS' organizational independence.
3. Consider applying Brown Act requirements to the audit committee and expanding the number of audit committee members to ensure meeting quorums.
4. Consider providing periodic, informal updates to the Board of Supervisors on the internal audit activity.

PART II—RECOMMENDATIONS FOR THE INTERNAL AUDIT ACTIVITY

1. The Chief Audit Executive must confirm to the board, at least annually, the organizational independence of the internal audit activity (Standard 1110).
2. Document in the internal audit policies and procedures the requirements for performing internal assessments and external assessments as part of the Quality Assurance and Improvement Program (QAIP) (Standard 1300).
3. Ensure periodic internal assessments are conducted as part of the internal audit activity's QAIP (Standard 1311).
4. Report the results of the QAIP, including both internal and external assessments, to senior management and the board (Standard 1320).
5. Assess whether the information technology governance supports the County's strategies and objectives (Standard 2110).
6. Indicate approval of the work program prior to its implementation and any adjustments approved promptly (Standard 2240).

PART III—OBSERVATIONS OF BEST PRACTICES

1. IAS conducts a countywide comprehensive, interactive annual risk assessment and prepares a risk-based annual audit plan.
2. IAS utilizes TeamMate, an automated audit system using electronic work papers.
3. IAS is performing continuous monitoring activities in the areas of Cal Cards, matching vendor and County employee addresses and bank accounts, and aspects of vendor payments using of computer-assisted audit techniques (CAATs).
4. County Administrative Office (CAO) works with departments on taking corrective actions to implement IAS' audit recommendations.
5. IAS encourages personnel development and professional audit certifications.

PART IV—OBSERVATIONS OF PROCESS IMPROVEMENT OPPORTUNITIES

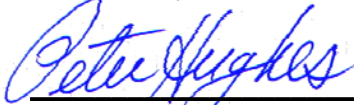
1. Consider sending out customer audit surveys at the completion of all audits to obtain feedback on the audit and audit process.
2. Ensure that County departments have a clear understanding of the role of IAS, including the types of audits conducted, and other audit services provided.
3. Consider obtaining the IIA's Audit Manual that has detailed, comprehensive policies and procedures for a generic audit process that can be incorporated into an IAS Audit Manual.

OC Internal Auditor's Report

Acknowledgment

We appreciate the courtesy and cooperation extended by the Auditor-Controller/Treasurer/Tax Collector, the Chief Deputy Auditor, the Internal Audit Staff, the Audit Committee, and all County executives and managers who participated in the quality assessment process. The feedback from the surveys and interviews provided valuable information regarding the operations of IAS and its relationship with County management. If we can be of further assistance, please contact me directly at 834-5475 or Michael Goodwin, Assistant Director at 834-6066.

Respectfully Submitted,



Dr. Peter Hughes, CPA, Director

Attachments

cc: Denise Mejico, Chief Deputy Auditor – County of San Bernardino
Members, Audit Committee Members – County of San Bernardino:
Valerie Clay, Deputy Executive Officer, County Administrative Office
Rod LeMond, Assistant General Manager, Western Muni. Water District
Vacant, BOS Chair (Representative)
Vacant, BOS Chair (Public Member)

Detailed Results, Findings, Recommendations and Management Responses



RECOMMENDATIONS AND OBSERVATIONS: DETAILS

PART I—RECOMMENDATIONS FOR CONSIDERATION BY COUNTY OF SAN BERNARDINO MANAGEMENT

These recommendations originated principally from the comments received from the management surveys, and interviews with selected executives, and follow-up of these matters. All are of direct importance to enhancing effectiveness and added value of the internal audit activity.

1. Vacant Audit Committee Positions

Two Audit Committee member positions have been vacant since January 2015. One position is the Chair of the Board of Supervisors (Chair), or a representative appointed by the Chair; and the other is a public member selected by the Chair. The purpose of the Audit Committee is to facilitate communication among County administration, County external auditors, the Office of the Auditor-Controller/Treasurer/Tax Collector (ATC), the Internal Audit Section and the Board of Supervisors. The Audit Committee acts in an advisory capacity to the ATC and the Board of Supervisors. Because both of these positions represent the Board's oversight of the County's internal audit activity, it is important to keep the positions filled.

Recommendation

Prioritize the selection/appointment of the two vacant Audit Committee members and ensure these positions are filled timely on an on-going basis.

County of San Bernardino Management Response:

We concur. ATC has been in close communication with the Chair of the Board of Supervisors regarding these appointments. The Chair has appointed a representative to serve on the Audit Committee and is currently in the process of filling the public member position.

2. Delegation of Board Oversight Authority to Audit Committee

IIA *Standards* on auditor Independence and Objectivity (Standard 1100) require that the internal audit activity charter and audit committee charter be approved by the "board." The standards also speak to the CAE's functional reporting relationship and communication of audit results to the "board." We were informed that the Chair of the Board of Supervisors considers that the Board's audit oversight role is delegated to the Audit Committee because the Chair has two members on the committee. The CAE should consider formalizing the Board's delegated authority to the Audit Committee in the Audit Committee Charter to ensure conformance with the standard and to further enhance IAS' organizational independence.

Recommendation

Consider having the Board of Supervisors formally delegate its audit oversight responsibility to the Audit Committee to further enhance IAS' organizational independence.

County of San Bernardino Management Response:

We partially concur. The Chair of the Board of Supervisors appoints two voting members to serve on the Audit Committee in accordance with the Audit Committee charter. The Board of Supervisors is fully aware that these members represent the Board at the Audit Committee meetings. We will consider formalizing this audit oversight responsibility in the Audit Committee Charter.

Detailed Results, Findings, Recommendations and Management Responses



3. Audit Committee Suggestions

The Audit Committee is not under the requirements of the Brown Act and has five members. It was suggested that the County consider making the Audit Committee subject to Brown Act requirements, and to consider increasing the number of members to ensure meeting quorums are met.

Recommendation

Consider incorporating Brown Act requirements to the Audit Committee and expanding the number of Audit Committee members to ensure meeting quorums.

County of San Bernardino Management Response:

We do not concur. The Audit Committee was established by ATC in 2004, as recommended by the County's external audit firm for the County's Comprehensive Annual Financial Report. Since the Audit Committee was not created by formal action of a legislative body, the Brown Act does not apply to this Committee.

From July 1, 2010 thru June 30, 2014, the end of the peer review period, the only quarterly meeting not held was for the quarter ended September 30, 2012, due to scheduled summer vacations. All other quarterly meetings during this period were held, with a quorum present. We do not see a need to add more Audit Committee members at this time.

4. Periodic Updates to Board of Supervisors

The Audit Committee Charter requires the CAE to submit quarterly reports to the Board of Supervisors on any significant issues. We had a suggestion by the Chair of the Board of Supervisors to provide the Board with periodic, informal updates on issues concerning the internal audit activity. IIA Standard 1111 states that the CAE must communicate and interact directly with the "board." Providing these periodic updates would further enhance IAS's conformance with this standard.

Recommendation

The CAE consider providing periodic informal updates to the Board of Supervisors on the internal audit activity.

County of San Bernardino Management Response:

We concur. The Board of Supervisors is represented by two members on the County Audit Committee. We provide updates at each Audit Committee meeting regarding audit activity, the fraud waste and abuse hotline, and IAS staffing. ATC will coordinate this further with the Chair of the Board of Supervisors. We will propose to provide copies of the County Audit Committee agenda and materials to the Board of Supervisors and the CEO after each meeting.

Detailed Results, Findings, Recommendations and Management Responses



PART II—RECOMMENDATIONS FOR THE INTERNAL AUDIT ACTIVITY

1. Confirmation of Organizational Independence

Standard 1110 states that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity. Organizational independence is effectively achieved when the CAE reports functionally to the board. Our QA noted that the organization independence of IAS was not communicated annually to the Audit Committee as required by Standard 1110.

In the County of San Bernardino, the Internal Audit Section is organizationally under the elected Auditor-Controller/Treasurer-Tax Collector (ACT). Because of this reporting model, there could be undue influence by management to remove findings or a lack of independence from auditing one's own accounts, systems, policies and procedures. However, to minimize this from occurring, the CAE removed all other operational responsibilities from IAS management, and the IAS Chief Deputy Auditor reports directly to the ACT. Auditors sign a Statement of Independence on each audit engagement. Nothing came to our attention during our QA surveys, interviews and meetings with IAS staff and management to indicate any reported concerns or issues of undue management influence regarding the reporting of audit findings and recommendations. We were informed that the CAE plans on confirming organizational independence in the next scheduled Audit Committee meeting.

Recommendation

The chief audit executive confirm to the board (Audit Committee), at least annually, the organizational independence of the internal audit activity.

County of San Bernardino Management Response:

We concur. ATC has informally discussed the independence of the internal audit activity at several Audit Committee meetings. ATC formally confirmed the organizational independence of the internal audit activity as an agenda item at the June 18, 2015 Audit Committee meeting. We plan to include this on the Audit Committee agenda on an annual basis.

2. Quality Assurance and Improvement Program

Standard 1300 states that the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Standard 1311 states that internal assessments must include:

- *Ongoing monitoring of the performance of the internal audit activity; and*
- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.*

Standard 1320 states the chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

We noted that IAS does not have a written Quality Assurance and Improvement Program (QAIP) as part of its policies and procedures.



Detailed Results, Findings, Recommendations and Management Responses

Beginning in January 2014, IAS started completing an IIA Standards Checklist for each engagement. The Standards Checklist is performed for each audit and completed by an individual not involved in the audit. Prior to utilizing the current checklist, IAS completed an IIA planning tool checklist to ensure compliance with the Standards. We noted the current Standards Checklist does not include references to the IIA Standards as the prior IIA planning tool checklist did. Our review also noted the QAIP internal assessment has not been reported at least annually to the board or the audit committee; only the results of the external assessment was reported.

Recommendation

Establish a written Quality Assurance and Improvement Program that includes both external and internal assessments; revise the Standards Checklist to include references to the IIA Standards; and communicate the results of both the QAIP internal and external assessments to senior management and the board.

County of San Bernardino Management Response:

We concur. ATC IAS has performed quality assurance and improvement activities on a regular basis. IAS used the IIA standards to prepare the Standards Checklist and will reference the standards on the checklist, as recommended. The Chief Audit Executive presented the last external evaluation to the Audit Committee at its meeting on January 13, 2010. We will document our Quality Assurance Program, as part of IAS written policies and procedures, to include both external and internal assessments and reporting of results to senior management and the board through the Audit Committee.

3. Information Technology

Standard 2110 states the internal audit activity must assess and make appropriate recommendations for improving the governance process. Included in this standard is the requirement that the internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

Our review noted that IAS' Annual Engagement Plan does not include Information technology systems/applications within or as audit entities in the annual audit plan. Recently, IAS has been performing limited continuous auditing techniques and has a staff member who will be further utilized in conducting IT related audits.

Recommendation

Take measures to ensure the internal audit activity supports the County's strategies and objectives concerning Information Technology governance.

County of San Bernardino Management Response:

We concur. Our current staffing does not enable ATC to perform comprehensive information technology audits. We are currently conducting audits that include information technology components that will touch upon IT governance. We are working toward the goal of including IT governance in the annual program of audits. This will require more staff training and development in the area of IT audits.



Detailed Results, Findings, Recommendations and Management Responses

4. Timely Approval of Work Program

Standard 2240 states that internal auditors must develop and document work programs that achieve the engagement objectives. Further, the standard indicates that the work (audit) program must be approved prior to its implementation, and any adjustments approved promptly. Our testing of a sample of twelve (12) audits found eight (8) instances where the work (audit) program was approved by a supervisor/manager ranging from three months to one year after the audit program was prepared and performed.

Recommendation

Work towards completing and approving management reviews of work (audit) programs prior to performing the work.

County of San Bernardino Management Response:

We partially concur. IAS supervisors regularly approved the audit work program prior to the start of field work; however, the older TeamMate electronic workpapers version did not capture the date of approval. Our current version of TeamMate captures the approval date and fully documents that the audit program was approved prior to the start of field work.

PART III—OBSERVATIONS OF BEST PRACTICES

1. Countywide Risk Assessment for Audit Planning

IAS completes an annual, comprehensive countywide risk assessment for purposes of developing the Annual Engagement Plan. IAS utilizes the following risk factors: 1) budget expenditures per employee, 2) fixed assets, 3) changes in budgeted employees, 4) federal funding, 5) general accounting issues, 6) accounts payable issues, and 7) internal audit risk assessment survey. The IAS risk assessment model prioritizes the auditable organization units (Divisions) and ranks them as High, Medium or Low Risk.

2. Use of Electronic Work Papers

IAS utilizes TeamMate (automated audit process using electronic work papers instead of paper files) to administer and conduct audits, which includes planning, budgeting, conducting and reporting on audits. IAS is in the process of upgrading TeamMate that will include increased functionality involving the entire audit process.

3. Use of Computer-Assisted Audit Techniques for Continuous Monitoring

IAS is performing continuous monitoring activities in the areas of Cal Cards, matching vendor and County employee addresses and bank accounts, and aspects of vendor payments using computer-assisted audit techniques (CAATs) to generate and analyze test data. Continuous auditing routines improve the internal audit activity's monitoring of risks and controls and can be shared with management to be used for self-assessment.

4. County Administrative Office Assistance with Audit Recommendations

Upon the receipt of an internal audit report, the County Administrative Office (CAO) assigns budget analysts to work with departments on taking corrective actions to implement the audit recommendations. IAS should continue to partner and communicate with the CAO on continuing this best practice.

Detailed Results, Findings, Recommendations and Management Responses



5. Staff Development

IAS encourages its staff and management to attend professional audit conferences, training for personal development and to obtain professional certifications such as a Certified Public Accountant (CPA) and/or a Certified Internal Auditor (CIA).

PART IV—OBSERVATIONS OF PROCESS IMPROVEMENT OPPORTUNITIES

1. Use of Customer Surveys

IAS should consider sending out customer surveys upon completion of each audit. These surveys measure the value of audit services provided. They can provide feedback regarding auditor's professionalism, timely communications, partnering, technical knowledge, and whether recommendations were practical and reasonable.

2. Role of the Internal Audit Activity

IAS has an Audit Charter that defines its mission, objectives and scope of audits. We noted that IAS does not have a strategic plan and vision statement that helps them adapt in the event of changing expectations and maintain alignment with the County's objectives. We also received input from our interviews where the role of IAS was not clear. To ensure that County departments have a clear understanding of the role of IAS, including the types of audits conducted and other audit services provided, IAS should consider periodically communicating IAS's Audit Charter to County departments, or consider developing and communicating a formal strategic plan and vision statement of the internal audit activity.

3. Policies and Procedures for the Audit Process

IAS has some written policies and procedures on its audit process as well as other County administrative policies and procedures. IAS should consider obtaining the IIA's audit manual that has detailed, comprehensive policies and procedures for a generic audit process that can be incorporated into an IAS Audit Manual. A comprehensive audit policy and procedure manual will help new and existing staff in IAS where they develop and train new auditors and have frequent turnover or rotation of audit staff.



Detailed Results, Findings, Recommendations and Management Responses

ATTACHMENT A: County of San Bernardino Quality Assessment Evaluation Summary

(GC = Generally Conforms, PC = Partially Conforms, DNC = Does Not Conform)

Quality Assessment Evaluation Summary—Overall Evaluation	GC	PC	DNC
OVERALL EVALUATION	X		

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence		X	
1111	Direct Interaction with the Board	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		
1300	Quality Assurance and Improvement Program		X	
1310	Requirements of the Quality Assurance and Improvement Program		X	



Detailed Results, Findings, Recommendations and Management Responses

Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
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		
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	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	N/A - Does not use an external service provider for internal audit activity		
2100	Nature of Work	X		
2110	Governance		X	
2120	Risk Management	X		
2130	Control	X		

Detailed Results, Findings, Recommendations and Management Responses



Quality Assessment Evaluation Summary— Major/Supporting Standards		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		
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		

Detailed Results, Findings, Recommendations and Management Responses



Quality Assessment Evaluation Summary— Major/Supporting Standards		GC	PC	DNC
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		
	The IIA's Code of Ethics	X		

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ATTACHMENT B: Rating Definitions

“**Generally Conforms**” means the assessor has concluded the following:

- For individual standards, that the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual standards and/or elements of the Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

“**Partially Conforms**” means the assessor has concluded the following:

- For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or element of the Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or 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.

“**Does Not Conform**” means the assessor has concluded the following:

- For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the standard (e.g., 1000, 1010, 2000, 2010, etc.) and/or elements of the Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant 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.

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT C: County of San Bernardino Management Response

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



COUNTY OF SAN BERNARDINO

LARRY WALKER
Auditor-Controller/
Treasurer/Tax Collector

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July 28, 2015

Dr. Peter Hughes, CPA, Director
Orange County Internal Audit Department

Dear Dr. Hughes:

Please find enclosed the Auditor-Controller/Treasurer/Tax Collector's (ATC) response to the External Quality Assessment of the County of San Bernardino Internal Audit Activity performed by your team. Thank you for performing this assessment as requested. We appreciate the professionalism and work of your staff. The recommendations provided in the report will help in making further improvements to our ATC Internal Audits Section.

RECOMMENDATIONS AND OBSERVATIONS: DETAILS **PART I—RECOMMENDATIONS FOR CONSIDERATION OF COUNTY OF SAN BERNARDINO MANAGEMENT**

These recommendations originated principally from the comments received from the management surveys, and interviews with selected executives, and follow-up of these matters. All are of direct importance to enhancing effectiveness and added value of the internal audit activity.

1. Vacant Audit Committee Positions

Two Audit Committee member positions have been vacant since January 2015. One position is the Chair of the Board of Supervisors (Chair), or a representative appointed by the Chair; and the other is a public member selected by the Chair. The purpose of the Audit Committee is to facilitate communication among County administration, County external auditors, the Office of the Auditor-Controller/Treasurer/Tax Collector (ATC), the Internal Audit Section and the Board of Supervisors. The Audit Committee acts in an advisory capacity to the ATC and the Board of Supervisors. Because both of these positions represent the Board's oversight of the County's internal audit activity, it is important to keep the positions filled.

Recommendation

Prioritize the selection/appointment of the two vacant Audit Committee members and ensure these positions are filled timely on an on-going basis.

County of San Bernardino Management Response:



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ATTACHMENT C: County of San Bernardino Management Response Continued

We concur. ATC has been in close communication with the Chair of the Board of Supervisors regarding these appointments. The Chair has appointed a representative to serve on the Audit Committee and is currently in the process of filling the public member position.

2. Delegation of Board Oversight Authority to Audit Committee

IIA *Standards* on auditor Independence and Objectivity (Standard 1100) require that the internal audit activity charter and audit committee charter be approved by the "board." The standards also speak to the CAE's functional reporting relationship and communication of audit results to the "board." We were informed that the Chair of the Board of Supervisors considers that the Board's audit oversight role is delegated to the Audit Committee because the Chair has two members on the committee. The CAE should consider formalizing the Board's delegated authority to the Audit Committee in the Audit Committee Charter to ensure conformance with the standard and to further enhance IAS' organizational independence.

Recommendation

Consider having the Board of Supervisors formally delegate its audit oversight responsibility to the Audit Committee to further enhance IAS' organizational independence.

County of San Bernardino Management Response:

We partially concur. The Chair of the Board of Supervisors appoints two voting members to serve on the Audit Committee in accordance with the Audit Committee charter. The Board of Supervisors is fully aware that these members represent the Board at the Audit Committee meetings. We will consider formalizing this audit oversight responsibility in the Audit Committee Charter.

3. Audit Committee Suggestions

The Audit Committee is not under the requirements of the Brown Act and has five members. It was suggested that the County consider making the Audit Committee subject to Brown Act requirements, and to consider increasing the number of members to ensure meeting quorums are met.

Recommendation

Consider incorporating Brown Act requirements to the Audit Committee and expanding the number of Audit Committee members to ensure meeting quorums.

County of San Bernardino Management Response:

We do not concur. The Audit Committee was established by ATC in 2004, as recommended by the County's external audit firm for the County's Comprehensive Annual Financial Report. Since the Audit Committee was not created by formal action of a legislative body, the Brown Act does not apply to this Committee.

From July 1, 2010 thru June 30, 2014, the end of the peer review period, the only quarterly meeting not held was for the quarter ended September 30, 2012, due to scheduled summer vacations. All other quarterly meetings during this period were held, with a quorum present. We do not see a need to add more Audit Committee members at this time.

4. Periodic Updates to Board of Supervisors



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ATTACHMENT C: County of San Bernardino Management Response Continued

The Audit Committee Charter requires the CAE to submit quarterly reports to the Board of Supervisors on any significant issues. We had a suggestion by the Chair of the Board of Supervisors to provide the Board with periodic, informal updates on issues concerning the internal audit activity. IIA Standard 1111 states that the CAE must communicate and interact directly with the “board.” Providing these periodic updates would further enhance IAS’s conformance with this standard.

Recommendation

The CAE consider providing periodic informal updates to the Board of Supervisors on the internal audit activity.

County of San Bernardino Management Response:

We concur. The Board of Supervisors is represented by two members on the County Audit Committee. We provide updates at each Audit Committee meeting regarding audit activity, the fraud waste and abuse hotline, and IAS staffing. ATC will coordinate this further with the Chair of the Board of Supervisors. We will propose to provide copies of the County Audit Committee agenda and materials to the Board of Supervisors and the CEO after each meeting.

PART II—RECOMMENDATIONS FOR THE INTERNAL AUDIT ACTIVITY

1. Confirmation of Organizational Independence

Standard 1110 states that the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity. Organizational independence is effectively achieved when the CAE reports functionally to the board. Our QA noted that the organization independence of IAS was not communicated annually to the Audit Committee as required by Standard 1110.

In the County of San Bernardino, the Internal Audit Section is organizationally under the elected Auditor-Controller/Treasurer-Tax Collector (ATC). Because of this reporting model, there could be undue influence by management to remove findings or a lack of independence from auditing one’s own accounts, systems, policies and procedures. However, to minimize this from occurring, the CAE removed all other operational responsibilities from IAS management, and the IAS Chief Deputy Auditor reports directly to the ATC. Auditors sign a Statement of Independence on each audit engagement. Nothing came to our attention during our QA surveys, interviews and meetings with IAS staff and management to indicate any reported concerns or issues of undue management influence regarding the reporting of audit findings and recommendations. We were informed that the CAE plans on confirming organizational independence in the next scheduled Audit Committee meeting.

Recommendation

The chief audit executive confirm to the board (Audit Committee), at least annually, the organizational independence of the internal audit activity.

County of San Bernardino Management Response:

We concur. ATC has informally discussed the independence of the internal audit activity at several Audit Committee meetings. ATC formally confirmed the organizational independence of the internal audit activity as an agenda item at the June 18, 2015 Audit

Detailed Results, Findings, Recommendations and Management Responses



ATTACHMENT C: County of San Bernardino Management Response Continued

Committee meeting. We plan to include this on the Audit Committee agenda on an annual basis.

2. Quality Assurance and Improvement Program

Standard 1300 states that the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Standard 1311 states that internal assessments must include:

- *Ongoing monitoring of the performance of the internal audit activity; and*
- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.*

Standard 1320 states the chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

We noted that IAS does not have a written Quality Assurance and Improvement Program (QAIP) as part of its policies and procedures. Beginning in January 2014, IAS started completing an IIA Standards Checklist for each engagement. The Standards Checklist is performed for each audit and completed by an individual not involved in the audit. Prior to utilizing the current checklist, IAS completed an IIA planning tool checklist to ensure compliance with the Standards. We noted the current Standards Checklist does not include references to the IIA Standards as the prior IIA planning tool checklist did.

Our review also noted the QAIP internal assessment has not been reported at least annually to the board or the audit committee; only the results of the external assessment was reported.

Recommendation

Establish a written Quality Assurance and Improvement Program that includes both external and internal assessments; revise the Standards Checklist to include references to the IIA Standards; and communicate the results of both the QAIP internal and external assessments to senior management and the board.

County of San Bernardino Management Response:

We concur. ATC IAS has performed quality assurance and improvement activities on a regular basis. IAS used the IIA standards to prepare the Standards Checklist and will reference the standards on the checklist, as recommended. The Chief Audit Executive presented the last external evaluation to the Audit Committee at its meeting on January 13, 2010. We will document our Quality Assurance Program, as part of IAS written policies and procedures, to include both external and internal assessments and reporting of results to senior management and the board through the Audit Committee.

3. Information Technology

Standard 2110 states the internal audit activity must assess and make appropriate recommendations for improving the governance process. Included in this standard is the requirement that the internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

Our review noted that IAS' Annual Engagement Plan does not include Information technology systems/applications within or as audit entities in the annual audit plan. Recently, IAS has been



Detailed Results, Findings, Recommendations and Management Responses

ATTACHMENT C: County of San Bernardino Management Response Continued

performing limited continuous auditing techniques and has a staff member who will be further utilized in conducting IT related audits.

Recommendation

Take measures to ensure the internal audit activity supports the County's strategies and objectives concerning Information Technology governance.

County of San Bernardino Management Response:

We concur. Our current staffing does not enable ATC to perform comprehensive information technology audits. We are currently conducting audits that include information technology components that will touch upon IT governance. We are working toward the goal of including IT governance in the annual program of audits. This will require more staff training and development in the area of IT audits.

4. Timely Approval of Work Program

Standard 2240 states that internal auditors must develop and document work programs that achieve the engagement objectives. Further, the standard indicates that the work (audit) program must be approved prior to its implementation, and any adjustments approved promptly.

Our testing of a sample of twelve (12) audits found eight (8) instances where the work (audit) program was approved by a supervisor/manager ranging from three months to one year after the audit program was prepared and performed.

Recommendation

Work towards completing and approving management reviews of work (audit) programs prior to performing the work.

County of San Bernardino Management Response:

We partially concur. IAS supervisors regularly approved the audit work program prior to the start of field work; however, the older TeamMate electronic workpapers version did not capture the date of approval. Our current version of TeamMate captures the approval date and fully documents that the audit program was approved prior to the start of field work.

Sincerely,

Larry Walker
Auditor-Controller/Treasurer/Tax Collector
San Bernardino County

By: 
Denise Mejico
Chief Deputy Auditor

LDW:DLM