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## EXTERNAL QUALITY ASSESSMENT REVIEW REPORT

As part of the Peer Review Program sponsored by the California Counties Audit Chiefs' Committee, the San Joaquin County Internal Audit Division conducted an external quality assessment review of the Internal Audit Division within the Auditor-Controller's Office of the County of Stanislaus in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (IIA Standards).

### SCOPE AND METHODOLOGY

The objective of our quality assessment review was to determine whether Stanislaus County's Internal Audit Division is in conformance with the IIA Standards for the three year period ending December 31, 2008.

We used the tools provided by the IIA *Quality Assessment Manual* (5<sup>th</sup> edition) in performing our review which included the following procedures:

1. Reviewed the self-study and related documentation provided by the Internal Audit (IA) Division.
2. Surveyed IA staff and audit clients, the results summaries of which were provided to the IA Division, maintaining anonymity of respondents.
3. Interviewed Stanislaus County's Auditor-Controller, Assistant Auditor-Controller, Audit Chief, and IA staff to gather additional background information on the IA Division.
4. Reviewed a representative sample of working papers selected from the IA Division's "Completed Engagements During 2005-2008" worksheet.

It is our opinion that the IA Division generally conforms to the following Standards:

- 1000 – Purpose, Authority, and Responsibility
- 1100 – Independence and Objectivity (audit staff job title is Accountant)
- 1200 – Proficiency and Due Professional Care
- 2300 – Performing the Engagement
- 2400 – Communicating Results
- 2500 – Monitoring Progress
- 2200 – Engagement Planning

It is our opinion that the IA Division partially conforms to the following Standards:

- 1300 – Quality Assurance and Improvement Program
- 2000 – Managing the Internal Audit Activity
- 2100 – Nature of Work

We believe that this is a reasonable level of conformity, which can be raised to general conformity to all of the IIA Standards by implementation of our recommendations. Listed below are our observations, recommendations, and management's responses related to the IIA Standards (March 2007). The first item is for action by senior management and does not concern the IA Division's activity.

**1. Position Title and Description**

**Observation:**

The position descriptions at each level do not specifically address the duties of an auditor. The position is titled Accountant and as such, describes the duties of an accountant which does not reflect the actual work being performed by the IA Division staff.

**Recommendation:**

The Auditor-Controller should meet with the County Personnel Department to change the position title and descriptions to include knowledge, skills, and abilities specific to an auditor, and minimum experience qualifications necessary to be assigned to the internal audit function.

**Management's Response:**

*We agree with the reviewer's recommendation and have taken steps to make the necessary changes to the job classifications with our Chief Executive Office, Human Resources division. The request for reclassification began during the period of review. The Human Resources division felt it was necessary to conduct an overall assessment of the accounting classifications within the county prior to making any changes to the classifications for the Internal Audit (IA) division staff. This assessment is still ongoing and no changes have been made to the classification for the IA division staff.*

*IIA standards do not address the position title and descriptions of the auditors performing the work. While we agree with this recommendation we would like to clearly state we are in compliance with IIA standards concerning this recommendation.*

**2. Attribute Standard 1300 – Quality Assurance and Improvement Program**

Attribute Standard 1310 – Quality Program Assessments  
Attribute Standard 1311 – Internal Assessments

**Observation:**

The IA Division's ongoing and periodic internal assessments as required by the above-mentioned IIA Standards need improvement. Internal assessments should include ongoing reviews of the performance of the internal audit activity (e.g., measurement of value added by obtaining feedback from customers) and periodic reviews to assess conformance to the IA Division's charter, objectives, policies and procedures, IIA Standards and Code of Ethics, and efficiency and effectiveness of its operations.

**Recommendation:**

The IA Division should perform ongoing and periodic internal assessments, report the results of the assessments to appropriate officials, and implement any improvement plan. In addition, work paper review should be documented as an improvement guide to the IA staff.

**Management's Response:**

*We agree with the reviewers recommendations in terms of providing a survey to our customers to ascertain customer satisfaction. We will consider incorporating some type of mechanism to capture this information if resources are available. In the past year the division has revised the IA charter and is in the process of performing a county wide risk assessment.*

*Additionally, the division has developed a quality assurance checklist and a quality assurance and improvement program.*

*In all other aspects the IA division is in compliance with these standards. The division is in compliance with continuous supervision, compliance with the code of ethics, majority completion of the audit plan, recommendations accepted, compliance with applicable laws, regulations and government standards, adoption of best practices, purchase of paperless audit software, and presentations of completed audits to the Board of Supervisors at least on an annual basis.*

**3. Performance Standard 2000 – Managing the Internal Audit Activity**

Performance Standard 2010 – Planning  
Performance Standard 2030 – Resource Management  
Performance Standard 2040 – Policies and Procedures

**Observations:**

- a. The IA Division prepares the annual audit plan based on mandated and requested financial audits instead of a comprehensive risk assessment. Therefore, we were unable to find evidence that the internal audit activity is organized to ensure proper coverage of the County's audit universe.
- b. Prior to using the audit software Teammate, the IA Division did not monitor budget and actual time for comparative analysis to help ensure that staff are using time properly.
- c. It could not be ascertained if policies and procedures are followed because they were not documented and there was no IA Division manual.

**Recommendations:**

- a. Prior to submitting the annual audit plan to senior management and approval of the Board of Supervisors, the IA Division should: (1) identify auditable County entities, consider applicable risks and assess the total risk of each entity; and (2) develop an audit plan based on the risk assessment and available audit resources.

- b. The IA Division should document their policies and procedures that can be used as one of the measurements for internal assessment purposes.

***Management's Response:***

- a. *While no formal risk assessment was performed during the period under review the audit universe was considered and evaluated when preparing the annual audit plan. Due to the resources available to the division during this time period and the back log of audits inherited by the division and required by the Board of Supervisors we performed the engagements required of us. Currently, the division is in the process of performing a county wide risk assessment with corresponding documentation of such.*
- b. *Prior to the purchase of the software TeamMate in 2007 and during the period under review our audit resources were dedicated to completing a back log of inherited and required audits as mentioned above. Performance Standard 2030 states that audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. The majority of our audit plan was completed during this time period which lends itself towards compliance with this standard.*
- c. *Performance standard 2040 requires that policies and procedures must be established to guide the internal audit activity. Further the interpretation of the standard states the content of the policies and procedures are dependent on the size and structure of the internal audit activity and the complexity of the work. Written and electronic procedures were provided to the reviewers under one document titled "Professional Standards of Conduct and Relevant Division Procedures". Subsequent to the period under review the division created a Quality Control System file in TeamMate that was made available for review.*

**4. Performance Standard 2100 – Nature of Work**

Performance Standard 2120 – Control  
Performance Standard 2130 – Governance

**Observations:**

Since the IA Division mostly performed financial audits, we did not find work papers for the following:

- (1) evaluation of the adequacy, and effectiveness of operational controls;
- (2) assessments of and appropriate recommendations for continuous improvement of the audited entities' internal controls.

**Recommendation:**

Since the IA Division's function is that of "internal audit", the audit scope should include an evaluation of the adequacy and effectiveness of operational controls, assessments of internal controls and appropriate recommendations for improvement thereof to ensure effective management and accountability.

***Management's Response:***

*Performance Standard 2120 relates to Risk Management. Performance Standard 2130 relates to assessing the adequacy of control processes. The response below is based upon Performance Standard 2130. The audits under review listed a system understanding work paper describing the internal controls and procedures of the entity under audit. This system understanding takes in to consideration the adequacy and effectiveness of operational controls and assessments of internal*

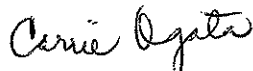
*controls. In addition management comments are issued as part of report writing when we believe recommendations are needed in order to improve these controls and safeguard the entities assets.*

*As mentioned above Performance Standard 2130 relates to assessing the adequacy of control processes and Performance Standard 2110 relates to governance. The response below is based upon Performance Standard 2110. The Internal Audit division communicates improvement of governance, risk management and control processes throughout the audit process. The division communicates with the audit client during audit fieldwork, the audit exit conference, and during the draft report process. In addition, county management is given a copy of every report produced by the division either electronically or written along with the final report presented to the Board of Supervisors at a minimum once a year.*

This report is intended solely for the information of the County of Stanislaus' Auditor-Controller and Internal Audit Division. Further distribution of this report is at the discretion of the County of Stanislaus' Audit Chief.

We thank the Auditor-Controller, Assistant Auditor-Controller, Audit Chief, and IA Division staff for their cooperation and courtesies extended to the successful completion of this review.

Respectfully,



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Auditing Division  
County of San Joaquin  
(Quality Assurance Review Team Leader)

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