



Agenda Item Cover Sheet

Agenda Item N^o: B-4

Meeting Date April 07, 2010

- Consent Section
 Regular Section
 Public Hearing

Subject: Peer Review of Internal Performance Auditor (IPA) - Follow Up	
Department Name: Procurement Services	
Contact Person: Tom Fesler, Interim Director	Contact Phone: 301-7090
Sign-Off Approvals:	
Eric Johnson <small>Assistant County Administrator</small>	Tom Fesler <small>Department Director</small>
03/29/2010 <small>Date</small>	03/29/2010 <small>Date</small>
Eric Johnson <small>Management and Budget – Approved as to Financial Impact Accuracy</small>	Sacha Brown-Taylor <small>County Attorney – Approved as to Legal Sufficiency</small>
03/29/2010 <small>Date</small>	03/29/2010 <small>Date</small>

Staff's Recommended Board Motion:

Consider the recommendations and proposal from Richard H. Tarr, CISA, CIA to conduct the follow-up of the Peer Review Report of the County Internal Performance Auditor.

The FY 10 adopted budget includes \$10,664 in unallocated countywide general funds in the area of performance audits. This funding can be used as a partial funding source to support the services proposed by Mr. Tarr. Should the Board desire to fund the full proposal of \$21,000, County Administration will be prepared to recommend a funding option.

Financial Impact Statement:

The FY 10 adopted budget includes \$10,664 in unallocated countywide general funds in the area of performance audits. This funding can be used as a partial funding source to support the services proposed by Mr. Tarr. Should the Board desire to fund the full proposal of \$21,000, County Administration will be prepared to recommend a funding option.

Background:

At the March 3, 2010 Regular Board meeting, the Board received the IPA Peer Review Report presented by Richard H. Tarr CISA, CIA (Item B-3). The Board's discussion resulted in a determination that Richard Tarr should be engaged to assist the Board in further understanding his recommendations

and with the implementation of those recommendations with which there is agreement.

Mr. Tarr was provided with the captioning script from the Board meeting and requested to provide a proposal that would reflect his understanding of the Board's direction. His proposal, dated March 15, 2010, is attached for consideration. Additionally, the proposal was provided to the IPA and his comments are also attached.

To summarize, Mr. Tarr's proposal includes a proposed scope of services that he estimates will take 140 hours and has stated an hourly rate of \$150.00 for a total of \$21,000.00. Acceptance of any or all of the proposal, however, is at the discretion of the Board.

List Attachments:

Richard H. Tarr Proposal dated 3/15/2010 and IPA Comments regarding Tarr Proposal dated 3/18/2010 and IPA Peer Review Report to the BOCC dated February 2010

Richard H. Tarr CISA, CIA
Audit/IT Consulting & Training
P.O. Box 560716
Orlando, FL 32856-0716
407.896.2760 rtarr@racar.com

March 15, 2010

John Hollingshead, CPPB, FCPM, FCPA
Procurement Services Supervisor
Hillsborough County - BOCC
Department of Procurement Services
601 E. Kennedy Blvd., 18th Floor
Tampa, Florida 33602

Dear Mr. Hollingshead:

This is my proposal to conduct a follow-up to the recommendations that I made in the Peer Review Report of the Internal Performance Auditor (IPA) that was released on February 22, 2010. What follows covers the objectives of the work to be conducted, the planned activities, and my estimation of the hours to complete the work, my fee, and timing for conducting the follow-up work that was approved in a motion that was approved by the Board of County Commissioners on March 3, 2010.

Objectives and scope of the work

The objectives of the work are to examine, discuss and implement the recommendations that were made in Part I and II of the Peer Review Report of the Internal Performance Auditor. Part I of the report contained recommendations to correct infrastructure deficiencies that have contributed directly to the environment that allowed the deficiencies in the processes that the IPA has in place. The deficiencies in the IPA processes were addressed in Part II of the report.

As was stated in the report, deficiencies identified in Part I and Part II of the report are not mutually exclusive. Implementing the recommendations in Part II without also correcting the deficiencies discussed in Part I might correct the non compliance issues in the IPA activity in the short run, but would not enable the IPA to function in a manner that would be independent, objective, and competent going forward. For this reason, while the follow-up work will focus primarily on implementing the recommendations in Part I that address the infrastructure deficiencies, the recommendations in Part II will also be reviewed to insure that what the IPA implements are consistent with what is

implemented in Part I and is in compliance with Professional Standards and best practices.

The scope of the work will include developing policies, procedures and organizational reporting structures that implement the recommendations in Part I of the Peer Review Report. To accomplish this it will be necessary to conduct detailed discussions with the Charter Review Committee, each of the County Commissioners, commission staff, senior county administrators and legal management, and the IPA. The purpose of these discussions will be to explain and get agreement on solutions that implement applicable professional standards and best practices.

Planned Activities

The planned activities include the following:

1. Researching, designing, proposing, and communicating specific policy and procedural recommendations that will overcome the infrastructure deficiencies that were identified in Part I and the action plans that will needed to implement the agreed upon recommendations.
2. Reviewing the internal auditing techniques that the IPA implements to address the deficiencies in Part II of the Peer Review Report to insure that they are consistent with professional standards and best practices.
3. Identifying ways to increase the value of the services the IPA activity provides to the HBCC by; focusing on ways to improve communication with the Commissioners, creating more effective reporting formats, and identifying additional opportunities for improving the economy and efficiency of the IPA processes that are implemented to address Part II of the Peer Review Report.

Estimation of Hours to Complete the Work

The following is my best estimate as to the hours that will be necessary to address the recommendations contained in Part I and Part II of the Peer Review Report:

Part I

1. Establish an Audit Committee to oversee the internal audit process.

This is estimated to take 60 hours.

This will probably be the most time consuming recommendation to implement because of the necessity to develop, document, and communicate to the each of the Commissioners

and get their agreement on how the Audit Committee would be structured, its responsibilities, how committee members would be selected and how the committee would communicate with the Board of County Commissioners.

2. Revise Section 4.10 “County Internal Performance Auditor” of the County Charter to segregate the positions of the IPA and the Budget Analyst.

This is estimated to take 10 hours.

This will involve meeting with the Charter Review committee and explaining why these two positions need to be separated to avoid a conflict of interest under professional standards.

3. Revise Section 4.10 “County Internal Performance Auditor” of the County Charter to change the name of the “Internal Performance Auditor” to “Internal Auditor.”

This is estimated to take no additional hours.

This can be combined with, and accomplished along with, recommendation 2 above.

4. Eliminate the current impairments to the IPA’s independence.

This is estimated to take about 20 hours.

This will involve meeting with each of the Commissioners and the County Administrator to identify how the current impairments to the IPA’s independence can be eliminated by documenting how the Administrator and the IPA will communicate and what the IPA’s responsibilities will be concerning annual budgeting and staffing processes.

5. The BOCC should relocate the office space the IPA currently occupies to another part of the building.

This is estimated to take no additional hours.

This can be combined with, and accomplished along with, recommendation 4 above.

6. Someone should be assigned to oversee and report on the status of the recommendations above that the BOCC agrees should be implemented.

This is estimated to take about 10 hours.

This would involve preparing and giving update reports in writing or verbally to the Commission at their regular meetings.

Part II

This is estimated to take about 40 hours.

This would involve reviewing, making comments on, and reporting on the following that the IPA has committed to implementing in response to the recommendations outlined in Part II of the Peer Review Report:

- Updated Financial budget
- Updated Risk Assessment and Annual Audit Plan
- Development of a Policies and Procedures manual
- Development of workpaper standards
- Development of an audit project tracking system

Fees and Timing

The hourly fee for conducting this work will be \$150 per hour. It is estimated that the total hours required to complete the work, as outlined above should not exceed 140 hours for a total cost of \$21,000. However this is contingent upon getting agreement from the principal stakeholders on the proposed policies, procedures and structures that are developed to address the deficiencies identified in Part I of the Peer Review Report.

This fee includes the time necessary to: research, design, and communicate specific policy and procedural recommendations, conduct detailed discussions with the Charter Review Committee, each of the County Commissioners, commission staff, senior county administrators and legal management, the IPA, and review the processes that are implemented by the IPA to address Part II of the Peer Review Report. Also included in this fee are all travel, lodging, and any out of pocket expenses associated with the work that is conducted as outlined above.

My preference is that I will invoice what hours were spent working on the project and what was accomplishing on a bi-weekly basis and will be paid bi-weekly for the hours that are invoiced.

Jardieu, Jan

From: Barnes, James
Sent: Thursday, March 18, 2010 3:42 PM
To: Jardieu, Jan
Cc: Hollingshead, John
Subject: Richard Tarr Agreement

Jan & John:

I have reviewed the proposed consulting agreement from Mr. Tarr regarding implementing recommendations in the Peer Review Report. I have no issues with it other than I suspect that the total number of hours he proposes will be exceeded. If we limit the number of hours, the quality and completeness of his efforts may not be realized. I also believe formal reports of his work effort should be deliverables. Although this office cannot be compliant with professional/government auditing standards until his recommendations in Part I of the report are realized (and this may take at least 6 months), I want a report (interim, status, or otherwise) to the Board indicating that recommendations in Part II effecting my internal operations have been fully implemented.

Thanks for giving me an opportunity to review and comment on his proposal.

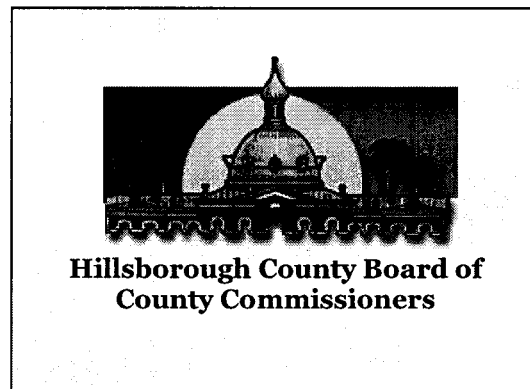
Jim

JIM BARNES, CIA, CGAP, CGPM
COUNTY INTERNAL PERFORMANCE AUDITOR
HILLSBOROUGH COUNT
sTAMPA, FL
813-272-5331

Peer Review Report

Internal Performance Auditor Hillsborough County, Florida

February 2010



Prepared by:
Richard H. Tarr, CISA, CIA
3035 Dawley Ave.
Orlando, FL 32806
Ph/Fax: 407-896-2760
E-mail: rtarr@racar.com

Summary

Overview

Richard H. Tarr, CIA, CISA, was engaged to conduct a Peer Review (PR) of the Internal Performance Auditor (IPA) for the Hillsborough County Board of County Commissioners (BOCC). The review was performed January 25 - February 12, 2010.

The IPA currently has a staff of three: the IPA is a Certified Internal Auditor (CIA), and a Certified Government Audit Professional (CGAP); one Senior Performance Auditor who is a Certified Public Account (CPA), a Certified Internal Auditor (CIA), a Certified Government Audit Professional (CGAP), a Certified Controls Self-Assessor (CCSA); and one Assistant County Auditor, who is a Certified Internal Auditor (CIA), and a Certified Government Audit Professional (CGAP).

The primary objectives of the Peer Review were to determine whether the office of the Internal Performance Auditor for Hillsborough County is (1) suitably designed, and (2) operating effectively to provide reasonable assurance that the work conducted is in compliance with the United States Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS, aka. the Yellow Book), so that the audit work performed can be relied upon to be independent, objective, and competent.

It was also an objective to identify what changes might be necessary, in the structure of the IPA activity, its relationships with its stakeholders, its processes, and how it plans its work, conducted the work and communicated the results; in order to bring the IPA activity into compliance with professional standards.

There are two widely accepted sources of standards for auditing activities, the Yellow Book and the Institute of Internal Auditor's (IIA) Standards for the Professional Practice of Internal Auditing (*IIA Standards, aka. the Red Book*). The Yellow Book standards are required to be used by Federal Inspectors General and external auditors conducting financial audits of government and non-profit organizations receiving federal funds

subject to the audit requirements of U.S. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Both require that an external Peer Review, also called a Quality Assurance Review, be conducted periodically by someone not affiliated with the organization being reviewed.

The Yellow Book and Red Book standards are referred to collectively as the “internal auditing professional standards.” It is important to make the distinction between internal auditors and external auditors. Internal auditors are employees of the organizations that they audit. External auditors, sometimes referred to as the independent auditors, are not employees of the organizations they audit, and as such the organizations have no control or input into the scope or extent of the audit work that is undertaken. Public accounting firms or CPA firms are considered external auditors and as such are required to follow a set of professional standards that is completely different from those of internal auditors. In the United States those professional standards are published by the Public Company Accounting Oversight Board (PCAOB). External auditors conduct primarily financial statement audits that attest to the fairness and reliability of published financial information that is relied upon by third parties, such as investors, financial institutions or regulatory organizations.

Internal auditors, however, are frequently called upon to conduct a wide variety of audit engagements that might include; financial, attestation, performance, operational, compliance, information technology, and management reviews. As a result internal auditing professional standards accommodate a broad spectrum of professional practices beyond just financial statement audits.

Peer Reviews are conducted by reviewing the policies and processes found in place and comparing them against professional standards to assess whether or not they provide reasonable assurance that the audit work being performed can be relied upon to be independent, objective, and most importantly, reliable. A Peer Review focuses on whether the work is being undertaken through the application of a systematic,

disciplined approach, which follows the practices contained in the professional standards.

For the purposes of this review both the Yellow Book and the Red Book standards were referenced as the professional standards. The scope of the Peer Review that was conducted of the IPA included: an evaluation of existing IPA policies and procedures; an evaluation of the risk assessment methodologies that are used; an analysis of the audit project planning processes; and a review of a representative sample of audit workpaper files and reports. The workpaper reviews included evaluations of the scope, planning, and documentation that supported the work performed, and especially the conclusions and recommendations that were contained in the audit reports. The annual internal audit planning process was examined, including a review of the policies and procedures for planning, documenting, and communicating audit results, and the procedures for following-up on audit recommendations.

In preparing for the Peer Review, the IPA provided detailed information related to: its authority; the scope of the work it performs; its audit planning process; its policies and procedures; and its staffing. The IPA's reporting relationship, its communication with the BOCC, as well as the objectivity of the audit work performed, was reviewed to determine the IPA's independence. The knowledge, skills, discipline, and training of the staff were evaluated by examining examples of their workpapers and their administrative records. While identifying ways to increase the efficiency and effectiveness of the IPA were considered, the primary objective was to determine compliance with professional standards.

The scope of the review included interviews with Commissioners:

- Rose Ferlita, District 1
- Kevin White, District 3
- Al Higginbotham, District 4
- Jim Norman, District 5

- Kevin Beckner, District 6
- Mark Sharp, District 7
- Ken Hagan, District 2, did not respond to requests for an interview.

In addition to the Commissioners, interviews were also held with: Pat Bean, the County Administrator; Renee Lee, the County Attorney; Eric Johnson, Management Services Administrator; Jim Barnes, the Internal Performance Auditor; and Ken Gentile, the Senior Performance Auditor.

Opinion

The compliance rating system that was used for expressing the opinions in his review has three levels of conformance: generally conforms, partially conforms, and does not conform. "Generally Conforms" (the best) means that an audit activity has policies, procedures, and a charter that were judged to be in accordance with professional standards, however, opportunities for improvement may exist. "Partially Conforms" means deficiencies in practice were found that deviated from professional standards, however, these deficiencies were considered not significant enough to seriously impair the activity from carrying out its responsibilities in compliance with professional standards. "Does Not Conform," means deficiencies in practice were found that were considered significant enough to seriously impair the activity from carrying out its responsibilities in compliance with professional standards.

Based on the work outlined above, it is the opinion of this independent reviewer that the Internal Performance Auditor activity under the Hillsborough County BOCC **does not conform** to professional standards.

The recommendations that follow identify what the BOCC and the IPA need to implement in order to bring the IPA activity into compliance with professional standards.



Richard H. Tarr, CISA, CIA

Recommendations

The recommendations that follow are divided into two parts:

- **Part I** – Contains recommendations directed specifically to the BOCC - Those items concern the design and structure of the Internal Performance Auditor (IPA) activity as a whole and identify recommendations that would need to be implemented by the BOCC. These recommendations are necessary to correct infrastructure deficiencies that are impacting the ability of the IPA activity to be in compliance with professional standards and to be effective and efficient in performing projects that could provide value to the organization. There are no responses to these recommendations contained in his report.
- **Part II** – Contains recommendations directed specifically to the IPA activity - Those items relate to the processes that the IPA activity has in place, and include: managing audit activities; audit project planning; the nature of the audit work performed; audit project execution and supervision; communicating the results of audit projects; and other matters that should be implemented by the IPA to be in compliance with professional standards. In addition to recommendations that are necessary to be in compliance with professional standards, recommendations are also included that would improve the efficiency and effectiveness of the IPA activity. The IPA has included responses to each of the recommendations.

Parts I and II of this report are **not mutually exclusive**. The infrastructure deficiencies identified in Part I have contributed directly to the environment that helped create the deficiencies in the processes that are discussed in Part II. Implementing the recommendations in Part II without also correcting the deficiencies discussed in Part I might correct the non compliance issues in the IPA activity in the short run, but would

not enable the IPA to function in a manner that would be independent, objective, and competent.

Part I – Recommendations for the BOCC.

1. Establish an Audit Committee to oversee the internal audit process.

Within the current organizational structure of the IPA activity, which has been in place since the IPA position was created, the IPA has no job description and a direct reporting relationship to each of the seven commissioners. In addition, each of the commissioners (interviewed) has a limited knowledge of internal auditing and differing requirements of the IPA. Furthermore, the only avenue available for the IPA to present or address issues is to place them on a list of BOCC agenda items covering many important topics that need to be discussed within a limited time frame in a public forum. For these reasons, it is the opinion of the reviewer that the BOCC should create a separate Audit Committee for the purpose of overseeing the IPA activity.

The BOCC should identify individuals within the business community who would be willing to serve on an Audit Committee that would oversee internal and external auditing activities for the County. This committee should be made up of three to five members who have business and management experience and who have an understanding of how an audit function would be effectively utilized. At least one of the members should be literate in accounting principals, possibly a CPA, and have an understanding of basic financial statements and budgets. An important trait for selecting individuals willing to serve as committee members, would be their ability to obtain information through others, and a willingness to devote the time necessary to understand the issues brought before the committee and understand and endorse the recommendations made by the auditor that address the right issues. Corporate executives, successful business owners, bankers, partners or managers with public accounting firms, and educators typically make good Audit Committee candidates.

The responsibilities of the Audit Committee in general would include:

- Responsibility for, oversight of, and advice relating to internal audits.
- Responsibility for, oversight of, and advice relating to the external audits.
- Advice for ensuring and/or evaluating adequate levels of responsibility for internal controls.

The oversight responsibilities of the Audit Committee relating to internal audits would include:

- Review the purpose, authority, and responsibility of the internal audit function, including audit policies and procedures, the IPA's financial budget, risk assessment methodology, the annual audit plan, staffing, and make recommendations to the BOCC who would retain final authority over all audit activities.
- At least quarterly, review the effectiveness of the internal audit activity by reviewing the status of planned audit work, performance measures and whether or not the work being performed is in accordance with BOCC policy and professional auditing standards.
- Ensure there are no unjustified restrictions or limitations, on the internal audit activity and make recommendations to the BOCC on the most efficient use of the limited resources.
- Review annually, and make recommendations to the BOCC, on the IPA's performance and his ability to meet agreed upon performance measures.
- Work with the Human Resources Department to develop a job description for the IPA and the existing staff positions for the BOCC's approval.
- Determine which professional standards should be followed in guiding the audit work undertaken by the IPA.

2. Revise Section 4.10 “County Internal Performance Auditor” of the County Charter to segregate the positions of the IPA and the Budget Analyst.

Analyzing the budget is the responsibility of the County Administrator. The IPA can not analyze the budget for the BOCC and objectively audit the budget processes. For the same reason, the IPA should also discontinue reviewing consent agenda items. If the IPA conducted an analysis of budget items and provided opinions or interpretations concerning the reliability or application of those budget items and later on was asked to audit the budget process that created those items, the IPA would not be able to be objective; having already relied on those items in performing the previous analysis. The same argument can be made for reviewing consent agenda items. Once consent agenda items have been reviewed and passed on by the IPA, any subsequent review of those in the context of an audit could not be performed objectively by the IPA.

While the BOCC may ask for a review of a specific item, asking the IPA to review all consent agenda items above a specific dollar amount butts the IPA in the position of the BOCC, making decisions about whether items are appropriate.

Any analysis or explanation of the County budget should be able to be provided by the individuals in the administration who prepared it. If these people can not adequately explain how the budget was developed and how the items in the budget were arrived at in a manner that can be relied upon, then an analysis by the IPA is not an adequate solution in addressing this deficiency. A more appropriate approach would be for the Administrator to assign to each Commissioner a specific staff liaison person whose job would be to respond to budget questions and provide requested analyses.

Paragraph 3.03 in the Yellow Book states: “Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information. Auditors should avoid situations that could lead

objective third parties with knowledge of the relevant information to conclude that the auditors are not able to maintain independence and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.”

3. Revise Section 4.10 “County Internal Performance Auditor” of the County Charter to change the name of the “Internal Performance Auditor” to “Internal Auditor.”

Titling the position of IPA the “Internal Performance Auditor” is inaccurate, and confusing. The IPA has undertaken, and likely will continue to be called upon, to undertake audit projects that are not performance audits. The nature of an audit can vary depending upon what the objectives are of the parties who have requested the audit. Audits might focus on objectives that include; financial, attestation, performance, operational, compliance, information technology, or management reviews. It would significantly limit the value that the IPA could provide to the BOCC if the position was limited to only conducting performance audits. Continuing to call the IPA the Internal Performance Auditor leaves the impression that the IPA only conducts performance audits and, in the opinion of the reviewer, that was not the intent for the position when it was created.

While there has been a lot of discussion about what an audit project is and what is not, everything the IPA does should be considered an audit. This is important if the IPA is to remain independent for the purposes of conducting audit work. Auditors must adhere to two overarching principals described in paragraph 3.22 in the Yellow Book: “(1) audit organizations must not provide nonaudit services that involve performing management functions or making management decisions and (2) audit organizations must not audit their own work or provide nonaudit services in situations in which the nonaudit services are significant or material to the subject matter of the audits.” Every project undertaken by the IPA is an audit. This approach would enable a consistent application of the

exemption rule under Florida Statute 119.0713(2) regarding public records requests of audit reports before they become final.

4. Eliminate the current impairments to the IPA's independence.

The County Administrator should not have control over, nor be able to directly influence, the IPA's staffing, compensation, budget or access to the BOCC. These should be under the direct control of the BOCC after having been reviewed and commented on by Audit Committee.

Currently the agenda for BOCC meetings is controlled by the County Administrator. Also, IPA budget and staffing requirements have to be submitted, reviewed, and possibly adjusted by the County Administrator, before being submitted to the BOCC for approval. Paragraph 3.10 of the Yellow Book states in part: "Audit organizations must be free from external impairments to independence. Factors external to the audit organization may restrict the work or interfere with auditors' ability to form independent and objective opinions, findings, and conclusions. External impairments to independence occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations. For example, under the following conditions, auditors may not have complete freedom to make an independent and objective judgment, thereby adversely affecting the audit:"

(For brevity, some of the items contained in paragraph 3.10 of the Yellow Book have intentionally been excluded from the following :)

- d.** externally imposed restriction on access to records, government officials, or other individuals needed to conduct the audit;
- e.** external interference over the assignment, appointment, compensation, and promotion of audit personnel;

- f. restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities;
- g. authority to overrule or to inappropriately influence the auditors' judgment as to the appropriate content of the report;"

5. The BOCC should relocate the office space the IPA currently occupies to another part of the building.

The Director of Human Resources in July of 2006, in his needs assessment report of the previous IPA, observed that the Yellow Book standards suggest that whether actual or perceived, the professional skepticism of the IPA is enhanced when external impairments are minimized. Having the offices of the IPA located physically within the same area as the BOCC may give the perception that the activities of the IPA may not be able to be conducted objectively. This is a good recommendation that should be implemented.

6. Someone should be assigned to oversee and report on the status of the recommendations above that the BOCC agrees should be implemented.

The BOCC should establish a central point of contact to ensure that the details associated with the implementation of these recommendations and with those under Part II below, are addressed on a timely basis and are properly coordinated between the BOCC, the Audit Committee and the IPA. While the County Administrator and the County Attorney should provide their input to the implementation of these recommendations, the implementation of these recommendations should be coordinated by someone who can be relied upon to be independent and objective as the tasks move forward.

Part II - Recommendations for the IPA.

1. The IPA should prepare and submit to the BOCC for approval the following:

- a. A financial budget for the IPA activity that reflects the current staffing level for the remainder of FY 2010. The budget should include resources that would allow each staff member to attend continuing professional education for a minimum of 20 hours per year while obtaining a total of 80 hours in every 2-year period, as outlined by paragraph 3.26 of the Yellow Book. The budget should also contain a funding request in the budget to pay for the ACL software upgrade that is necessary if the vendor is to continue supporting this valuable computer file extract tool.
- b. With input from the County Administrator and her staff, develop and document a risk assessment methodology and create a risk assessment analysis. The current risk assessment analysis was developed from the IPA's perspective. Involving the various stakeholders in the process has the potential to greatly enhance the usefulness of the analysis in identifying where audit work should be undertaken.
- c. Using the risk assessment analysis from b. above, develop an audit plan for the remainder of FY 2010 and FY 2011. This plan should include the identification of specific audit projects, and information on how existing staffing resources will be allocated to accomplish the projects within specific schedules. For planning purposes, audit projects should not initially be scheduled to take longer than 400 staff hours.

IPA Response:

Concur. The budget process which includes the risk assessment, work plan and annual budget has been prepared in accordance with County Administration input and

oversight as well as submitted annually to the BOCC. We will update and prepare the same and redouble our efforts to seek and document input provided. The risk assessment, work plan and budget process works most effectively when it includes a diversified input stream, buy-in and approval. We will also modify projects not to exceed 400 hours and adjust scope accordingly. We will also modify the FY2011 budget to include continuing professional education hours and the purchase of an ACL software upgrade.

2. Develop and implement a set of policies and procedures that implement the requirements of the professional standards.

There are not currently in place processes, or a set of policies and procedures that implement the requirements of the professional standards. While the previous IPA evidently had documented a set of policies and procedures, they were unavailable to the current IPA until recently. The current policies and procedures do not adequately address the standards. In the mean time the staff has drafted a replacement set of policies and procedures, but as yet has not adopted them nor have they been followed consistently.

IPA Response:

Concur. The "approved" procedures that were approved by the BOCC in November 2006 do not adequately address the Yellow Book or Red Book standards. They contain insufficient references to standards and do not currently reflect business practices. The current draft procedures do cite the standards and will be finalized with a three person staff, MOU with the clerk and outsourcing performance audits. We will also ensure that these procedures are followed consistently.

3. Develop and implement a set of workpaper standards to insure that workpapers contain all the elements required by professional standards.

While a review of selected workpapers showed that the work performed was not adequately documented, the format and content of the workpapers were inconsistent and not always easy to follow. There also was little evidence that the workpapers had been reviewed by the IPA, as required by professional standards.

The IPA Director should develop a set of workpaper standards to ensure that the workpapers are consistently prepared and contain all the elements that are required by professional standards. Workpapers document the principal evidence and information obtained as well as the analysis made that supports the basis for the observations and recommendations contained in the audit reports. Workpapers should generally:

- Provide the principal support for conclusions and recommendations.
- Aid in the planning, performance, and review of the work performed.
- Document whether audit objectives were achieved.
- Facilitate third-party reviews, and
- Demonstrate the department's compliance with professional standards.

Workpaper documentation should evidence the following aspects of an audit engagement:

- Engagement planning,
- Procedures performed, the information obtained, and the conclusions reached during the engagement,
- Information that is sufficient, reliable, relevant, and useful in supporting the conclusions.
- Supervisory review of the work performed,
- Communication with the audit client, including entrance and exit conferences and
- Follow-up on the implementation of the recommendations.

Workpapers should also contain both forward and backward references so that the work can be clearly and easily followed. There should be forward references from the purpose, objective, and audit program steps to where the work performed is documented, and backward references from the conclusions and recommendations contained in the report to where they are supported in the workpapers.

While it is understood that an internal audit department needs to be efficient with its resources, it is important that the workpapers contain sufficient documentation to “stand on their own” in supporting the conclusions and recommendations that are contained in audit reports.

The IPA should evaluate the costs and efficiencies that could be realized by implementing a workpaper management software tool like TeamMate, that would enable the staff to standardize the format of their workpapers and help ensure that they get appropriately reviewed prior to the issuing of audit reports. Small audit departments may have less supervisory review, and documentation of policies and procedures, however, a certain level is still critical to ensure the quality of the work performed.

IPA Response:

Concur. The current work papers consist of a combination of electronic and manual files. We will modify our procedures to ensure there are a single source of documented workpapers that are in compliance with the standards and aspects outlined in the report (i.e. cross referencing, documentation of supervisory review etc.) as well as the facilitation of a peer review. We will update our procedures accordingly and investigate the cost and feasibility of a Teammate software solution.

4. The IPA should implement an audit project tracking and reporting system.

The IPA should implement a formal audit project tracking system that will enable him to stay informed on the progress of the projects that have been assigned to the audit staff. Without a formal tracking system that sets beginning and ending dates and tracks projects against a plan, it is difficult to ensure that staff resources are being effectively and efficiently utilized. With an audit project tracking system, when it appears that a project is not going to meet its expected completion date, the IPA will be able to assess whether a scope reduction is necessary or whether the additional expenditure of staff resources is justified, given the objective of the audit and the impact on the other projects in the annual plan and report this to the Audit Committee.

Project tracking systems are most effective when each staff member provides an estimate, every other week, of the percent complete for each project phase so that the IPA can quickly determine whether or not remaining budgeted hours are sufficient to complete the project on schedule. This approach also motivates the audit staff to realistically evaluate what has been accomplished and what still needs to be done to complete their complete the project on schedule. The existing project tracking system was not consistently followed or evidenced in the workpapers. xi

IPA Response:

Concur. Although we have implemented a bi-weekly reporting of audit activity and adhered to a rigorous tracking of time we recognize that improvement is still needed in cross referencing time tracking to audit workpapers and reporting of time spent in an overall reporting format. We will look to improve this process internally and with the potential purchase of Teammate which tracks audit activity by project.