



**COUNTY OF SAN LUIS OBISPO
BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Auditor-Controller-Treasurer- Tax Collector	(2) MEETING DATE 9/22/2020	(3) CONTACT/PHONE Mark Maier (805) 781-4267	
(4) SUBJECT Submittal of the FY 2019-20 Internal Audit Division Annual Report, Quality Assurance and Improvement Program Self-Assessment Report, and the FY 2020-21 Audit Plan. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board 1) receive, review, and file the FY 2019-20 Internal Audit Division Annual Report and Quality Assurance and Improvement Program Self-Assessment Report and 2) approve the FY 2020-21 Audit Plan.			
(6) FUNDING SOURCE(S) N/A	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Board Business (Time Est. _____)			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input checked="" type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date <u>9/10/2019</u> , Item # <u>10</u>	
(17) ADMINISTRATIVE OFFICE REVIEW Emily Jackson			
(18) SUPERVISOR DISTRICT(S) All Districts			



COUNTY OF SAN LUIS OBISPO

TO: Board of Supervisors

FROM: James W. Hamilton, CPA, Auditor-Controller-Treasurer-Tax Collector

DATE: 9/22/2020

SUBJECT: Submittal of the FY 2019-20 Internal Audit Division Annual Report, Quality Assurance and Improvement Program Self-Assessment Report, and the FY 2020-21 Audit Plan. All Districts.

RECOMMENDATION

It is recommended that the Board 1) receive, review, and file the FY 2019-20 Internal Audit Division Annual Report and Quality Assurance and Improvement Program Self-Assessment Report and 2) approve the FY 2020-21 Audit Plan.

DISCUSSION

We are pleased to offer our annual report on the status of the County Auditor-Controller-Treasurer-Tax Collector's Internal Audit Division in accordance with the *International Standards for the Professional Practice of Internal Auditing* requirements. This report contains a summary of issues from our FY 2019-20 internal audit reports, a summary of the FY 2019-20 Whistleblower Hotline Complaints, and our proposed FY 2020-21 Audit Plan. Additionally, included are the results of our Quality Assurance and Improvement Program Self-Assessment.

Along with performing audits, the Internal Audit Division's responsibilities include the coordination and preparation of various financial reports and review of the fee calculations prepared by departments. Our proposed FY 2020-21 Audit Plan is based on the estimated remaining time available to carry out audit work and allocates time for departmental, transient occupancy tax, and cannabis related business tax audits. Further detail on the audits selected is available in the FY 2020-21 Audit Plan Report. We are asking the Board to approve our proposed FY 2020-21 Audit Plan.

OTHER AGENCY INVOLVEMENT/IMPACT

None

FINANCIAL CONSIDERATIONS

None

RESULTS

A well-functioning internal audit division inspires and elevates public trust in government by assisting and supporting the County, the Board of Supervisors and other stakeholders in achieving their mission with transparency and integrity.

ATTACHMENTS

- 1 FY 2019-20 Internal Audit Division Annual Report
- 2 FY 2020-21 Audit Plan
- 3 Quality Assurance and Improvement Program Self-Assessment



COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

**Internal Audit Division
Annual Report to the
County Board of Supervisors**

September 2020

JAMES W. HAMILTON, CPA
Auditor-Controller • Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO

AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

Overview

We are pleased to offer our annual report on the status of the County Auditor-Controller-Treasurer-Tax Collector's Internal Audit Division in accordance with the *International Standards for the Professional Practice of Internal Auditing* requirements. This report contains a summary of issues from our FY 2019-20 audit reports, a summary of the FY 2019-20 Whistleblower Hotline Reports, and our proposed FY 2020-21 Audit Plan.

Purpose, Authority, & Responsibility

The Internal Audit Division exists to inspire and elevate public trust in government by assisting and supporting the County, the Board of Supervisors, and other stakeholders in achieving their mission with transparency and integrity. We accomplish this vision by providing reliable, independent, and objective evaluations and advisory services which utilize a systematic and disciplined approach to add value and improve operations. We contribute expertise in the evaluation and enhancement of controls and other processes, minimization of risks, and enhancement of operational effectiveness for stakeholders.

The authority for the Internal Audit Division is California Government Code Sections 26881 and 26883. In Accordance with Government Code Section 1236, we follow the *International Standards for the Professional Practice of Internal Auditing (Standards)*.

Our responsibilities include maintaining independence and objectivity, continually enhancing our skills and knowledge, and providing consistent, clear communication as we perform our work. Our audit duties include the performance of:

- **Assurance Audits** – the main purpose of assurance audits is to provide an objective assessment of evidence and an independent opinion or conclusion regarding an operation, function, process, system, or other subject matter. Such audits may focus on the reliability of financial or operating information, on systems of internal control over recordkeeping, and/or the adequate safeguarding of assets. These audits may also include a review of controls implemented to ensure compliance with policies, plans, procedures, laws, and regulations.

Examples of assurance audits completed in the past fiscal year include:

- ✓ District Attorney Cash Procedures and Internal Controls
- ✓ Transient Occupancy Tax Collection, Reporting and Remitting



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- **Consulting Audits** – Consulting audits are advisory in nature and are generally performed at the specific request of a client. The nature and scope of the consulting engagement are subject to agreement with the client.

Examples of consulting audits in the past fiscal year include:

- ✓ Department of Social Services' Status of Claims Against Households Food and Nutrition Services 209 Report Validation
- ✓ District Attorney Workers' Compensation Insurance Fraud Grant

In addition to our audit duties, the Internal Audit Division has a number of other responsibilities including:

- Monitoring the County's Whistleblower Hotline
- Coordinating preparation of the County's Comprehensive Annual Financial Report (CAFR) and acting as liaison with the external auditors
- Preparing the County Financial Transactions Report (CFTR)
- Monitoring special districts' compliance with financial audit submissions (California Government Code Section 26909)
- Review of department fees and fee development methodologies
- Review vehicle citation appeals

Independence

The Internal Audit Division consists of three staff auditors who report directly to the Auditor-Controller-Treasurer-Tax Collector (ACTTC). The ACTTC achieves organizational independence via election by the citizens of San Luis Obispo County. Both the ACTTC and the Internal Audit Manager have unhindered access to the County Administrative Officer and the Board of Supervisors.

Each year the ACTTC, Assistant ACTTC, and individual members of the Internal Audit Division affirm their independence by signing a Statement of Independence and Objectivity.



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Likewise, Statements of Independence are completed for each individual engagement by team members assigned to the engagement.

[Internal Audit Division Charter](#)

The Internal Audit Division Charter is the guiding document for our audit work. The Charter includes the *Core Principles for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors. No updates to the Charter have occurred in the past fiscal year.

[Quality Assurance and Improvement Program Results](#)

The auditing *Standards* require that we maintain a quality assurance and improvement program consisting of both ongoing and periodic assessments of our operations and audit work to determine conformance with the Institute of Internal Auditor's *Definition of Internal Auditing, Code of Ethics, and Standards*.

[External Assessment](#)

The *Standards* specify that an external assessment, also known as a peer review, be conducted every five years. Our last peer review occurred in FY 2016-17 for the period July 1, 2011 through June 30, 2016. Our next peer review will be performed in FY 2021-22 and will cover July 1, 2016 through June 30, 2021.

[Internal Periodic Assessment](#)

In the 2019-20 fiscal year, the Internal Audit Division completed a periodic internal assessment. We are submitting the results of our internal assessment along with this report. Our internal assessment identified one area of improvement related to the development of the audit plan.

[Ongoing Monitoring](#)

In the 2019-20 fiscal year, the Internal Audit Division complied with the ongoing monitoring requirement through soliciting stakeholder feedback, using checklists and taking advantage of automated systems to provide assurance that processes had been followed. We also monitored project budgets and analyzed additional performance metrics, including those reported below.



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The results of our ongoing monitoring demonstrate that we are perceived as being professional and knowledgeable, that our work helps management improve business processes and controls, and that our recommendations are being implemented.

The Internal Audit Division categorizes audit issues into two levels and provides recommendations for each issue identified. The seriousness of the issue determines the type of department response required:

- Findings – issues which present a serious enough risk to require consideration by management and a written response to our recommendation(s). The Internal Audit Division conducts follow-up monitoring on all issues identified as Findings.
- Verbal Recommendations – issues which are lower risk and/or a best practice that could be adopted to improve controls and/or enhance operations. Verbal Recommendations do not require a written department response and are not included in the individual engagement report.

All Findings and Verbal Recommendations are discussed with the Department’s management prior to a report being issued. In most cases the department has made a change to address the issue before the audit is complete.

At the end of fiscal year 2018-19 we had eight open recommendations that had yet to be verified as implemented. Below is a summary of the recommendations and current status:

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/2020</u>
➤ Improve bank reconciliation documentation	Health Agency – Animal Services	Closed – New audit will be performed at a later date.
➤ Improve timeliness of bank reconciliations	Health Agency – Animal Services	Closed – New audit will be performed at a later date.
➤ Document missing receipts for Cal-Card purchases	Health Agency – Animal Services	Closed – New audit will be performed at a later date.
➤ Document authorization for petty cash purchases	Health Agency – Animal Services	Closed – New audit will be performed at a later date.
➤ Obtain secondary approval of one-time vendor payments	One-Time Vendor Accounts: Airport, Clerk-Recorder, and Public Works	Closed – Verified as implemented in FY 19-20 follow-up audit



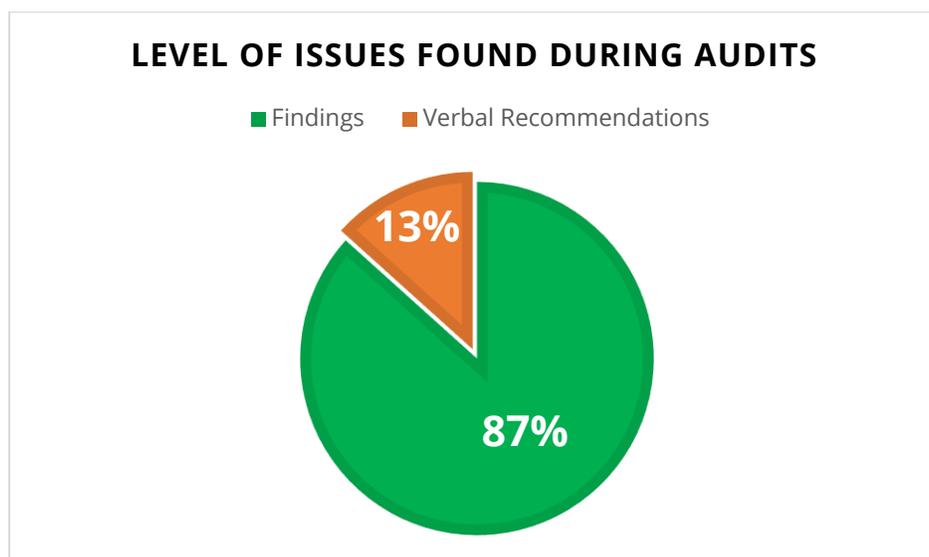
COUNTY OF SAN LUIS OBISPO
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<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/2020</u>
➤ Increase change fund security	Library	Closed – Verified as implemented in FY 19-20 follow-up audit
➤ Reconcile all sales to cash register receipts	Library	Closed – Verified as implemented in FY 19-20 follow-up audit
➤ Issue receipts for donations	Library	Closed – Verified as implemented in FY 19-20 follow-up audit

In addition, the two following recommendations were issued in FY 2019-20 and resolved prior to the end of the fiscal year.

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/2020</u>
➤ Document all staff's acknowledgement of the Cash Hash Handling Policy	District Attorney	Closed – Verified as implemented prior to completion of audit
➤ Document all staff's acknowledgement of the Information Technology Acceptable Use Policy	District Attorney	Closed – Verified as implemented prior to completion of audit

In FY 2019-20 we made 30 total recommendations. 26 issues were classified as Findings and 4 issues were classified as Verbal Recommendations:





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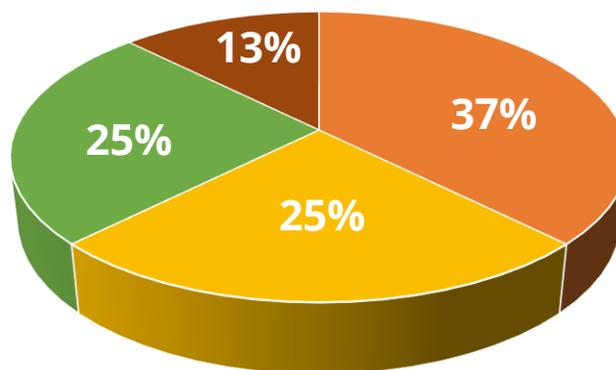
The following three recommendations were made during FY 2019-20 and remain open as of June 30, 2020:

<u>Recommendation</u>	<u>Department/Contractor</u>	<u>Status as of 6/30/2020</u>
➤ Segregate cash receipting and depositing duties	District Attorney	To be verified in FY 20-21 follow-up audit
➤ Mark Victim Witness Assistance Fund's petty cash receipts as "Paid"	District Attorney	To be verified in FY 20-21 follow-up audit
➤ Update department's computer inactivity settings	District Attorney	To be verified in FY 20-21 follow-up audit

Findings for consulting engagements are not included in this report as those audits are performed at the request of the department and do not routinely have follow-up audits performed.

Most of the audit issues we addressed related to financial reporting errors which made up 37% of audit findings for FY 2019-20. The following chart displays broad categories of audit findings and the percentage of each:

FY 2019-20 Percentage of Audit Finding by Category



- Financial Reporting Errors
- Weak Internal Controls Around Cash & Cash Equivalents
- Weak Internal Controls Around Payment & Procurement
- Noncompliance with Contracts, Policies, Guidelines, Laws, and/or Regulations



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FY 2019-20 Internal Audit Plan Status

The annual audit plan is intentionally created with an ambitious goal of completion and with the realistic understanding that the Division’s time is flexible and continuously changing to fit the needs of the both the ACTTC’s office and the County as a whole.

Additionally, COVID-19 impacted the audit plan in two ways.

1. It reduced the number of audit hours available as a staff member was assigned as a disaster service worker to assist in the County’s response to the pandemic.
2. It eliminated the ability to conduct in-person fieldwork.

Audit Category	Entity	Type of Engagement	Audit Plan Classification	Engagement Status
Mandated				
	State Worker's Compensation Insurance Fraud (District Attorney)	Consulting	Original	Completed
	Workforce Innovation and Opportunity Act (DSS) - 2019	Consulting	Original	Completed
	Annual Cash Shortages and Overages Report	Assurance	Original	Completed
	Internal Quality Assurance and Improvement Program	N/A	Amended	Completed
	FNS-209 Validation (DSS)	Consulting	Added	Completed
In Progress				
	Workforce Innovation and Opportunity Act (DSS) - 2018	Consulting	Original	Completed
	Bryan's House Recovery Home (Health Agency)	Consulting	Original	Completed
	Cash Review - District Attorney	Assurance	Original	Completed
	TOT - Calendar Year 2018	Assurance	Original	Completed
Follow-up				
	One-Time Vendor Payment Accounts Follow-Up	Assurance	Original	Completed
	Library Cash Procedures and Internal Controls Follow-up	Assurance	Original	Completed
Transient Occupancy Tax				
	TOT - Calendar Year 2019	Assurance	Amended	In Progress
Cash and Internal Controls				
	Department #1	Assurance	Original	Carried forward to 20-21
	Department #2	Assurance	Original	Carried forward to 20-21
	Clerk Recorder - Trust Funds, Disbursements Review	Assurance	Original	Completed
	Department #4	Assurance	Original	Carried forward to 20-21
	Department #5	Assurance	Original	Carried forward to 20-21
	Internal Control Assessment	Consulting	Added	Completed
Carry Forward From Prior Year				
	Airport Concessionaire - Rental Cars	Assurance	Original	Reassessed for 20-21
	IT Asset Management Audit	Assurance	Original	Reassessed for 20-21
	Asset Verification (2-3 assets)	Assurance	Original	Reassessed for 20-21



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The following changes were made to the internal audit plan during fiscal year 2019-20:

<u>Audit</u>	<u>Action</u>	<u>Reason for Change</u>
➤ Integrated Waste Management Authority- Internal Controls Risk Assessment	Added	Management request
➤ Status of Claims Against Households Food and Nutrition Services 209 Report Validation (DSS)	Added	Management request
➤ Internal Quality Assurance and Improvement Program	Hours Increased	Originally schedule to be performed in FY 2020-21 and was moved up to accommodate COVID-19 scheduling
➤ Transient Occupancy Tax	Hours Reduced	Operators audited were reduced to accommodate COVID-19 scheduling

Overall, we completed 15 audits, including 6 Transient Occupancy Tax audits.

Feedback solicited from these engagements resulted in an average overall audit services ranking of 3.92 out of 4, an increase from the average of 3.72 in FY 2018-19.

Non-Audit Highlights

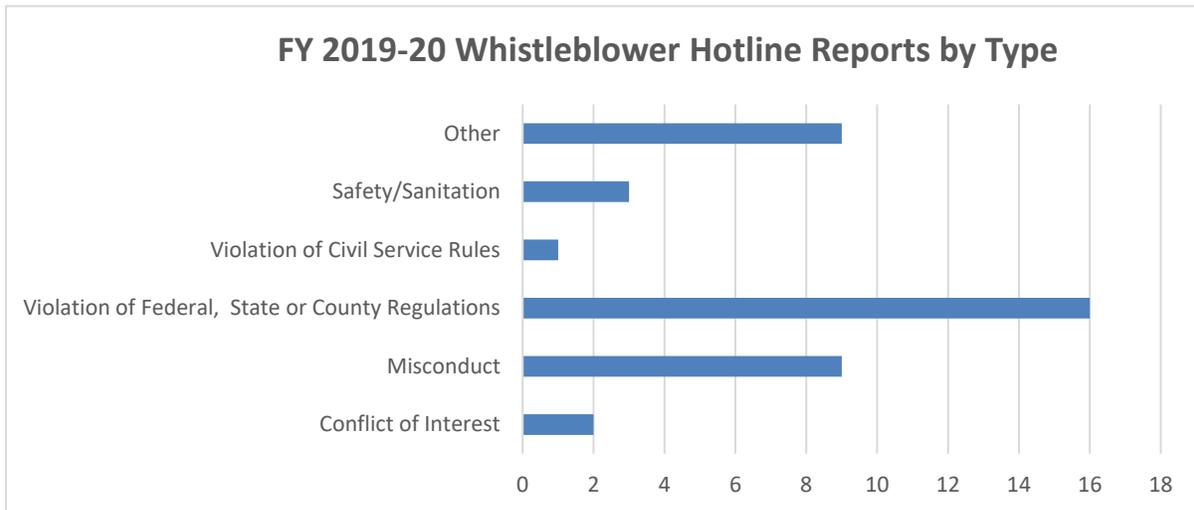
During the FY 2019-20, the Internal Audit Division addressed a diverse range of non-audit tasks in response to departmental and County needs. Highlights from these activities include:

- Consulted on the update to the County's Cash Handling Policy.
- Conducted four fee calculation training sessions with staff from more than 15 different departments.
- Continuous monitoring of the segregation of duties in the County's financial system for payment disbursements.

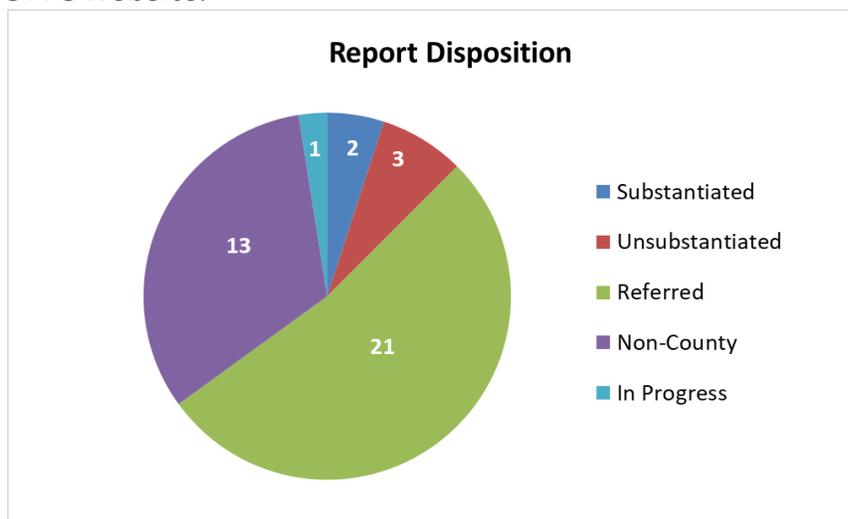


Whistleblower Hotline Results

The Internal Audit Division monitors the Whistleblower Hotline, refers reports to related departments or agencies, and conducts follow-up procedures as necessary. In FY 2019-20, the Whistleblower Hotline received 40 reports of alleged fraud, waste, or abuse, an 11% decrease from the prior year's 45 reports. Reports were received regarding the following categories:



Reports related to employee misconduct that were not related to alleged fraud, waste, or abuse were referred to Human Resources and were not classified as substantiated or unsubstantiated. The remainder of the reports were either substantiated, unsubstantiated, referred, or not related to County operations. Quarterly Whistleblower Hotline reports are posted on the ACTTC website.





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FY 2020-21 Internal Audit Plan

The proposed FY 2020-21 Audit Plan contains mandated audits, audits in progress, follow-up audits, and audits recommended for the current year. Details are presented below for the Board’s review and approval. The audit plan may be modified during the year to accommodate significant new issues or risks which may arise and require the immediate attention of the Internal Audit Division.

Additional details on the development of the audit plan can be viewed in the attached audit plan report.

	Total Productive Internal Audit Staff Hours Available ¹		5,400	
	Audit Team Non-Audit Work Hours:			
	Financial Reporting (CAFR and CFTR) and Fee Review		2,200	
	Administrative Tasks/Training/Vehicle Hearings/ Whistleblower Hotline		820	
	COVID-19 Disaster Service Work		750	
	Subtotal Non-Audit Work		3,770	
	Audit Hours Available		1,630	
Audit Hours Detail				
Audit Category	Audit Name	Risk	Estimated Hours	Type of Engagement
<u>Mandated</u>	State Worker's Compensation Insurance Fraud (District Attorney)	Low	60	Consulting
	Workforce Innovation and Opportunity Act (DSS)	Medium	140	Consulting
	Annual Cash Shortages and Overages Report	Low	60	Assurance
<u>In Progress</u>	Transient Occupancy Tax - CY 2019	Medium	40	Assurance
	Internal Quality Assurance and Improvement Program	N/A	40	N/A
<u>Follow-up</u>	Cash Procedures and Internal Controls Review (District Attorney)	Low	30	Assurance
	Integrated Waste Management Authority Internal Controls Assessment	Medium	20	Consulting
<u>Transient Occupancy Tax</u>	Transient Occupancy Tax - CY 2020 (6-8 establishments)	Medium	320	Assurance
<u>Cannabis Business Tax</u>	Cannabis Business Tax (3-4 operators)	High	600	Assurance
<u>Cash and Internal Controls</u>	Department #1	Medium	60	Assurance
	Department #2	Medium	100	Assurance
	Department #3	Low	60	Assurance
	Department #4	Low	100	Assurance
	Total Estimated Audit Hours		1,630	
	Total Internal Audit Staff Hours Scheduled		5,400	
	¹ 1,800 annual productive hours per staff ((2,080-280) * 3)			



COUNTY OF SAN LUIS OBISPO AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

In developing our annual audit plan, we consider the assessed risk of programs and activities, any input received from management and the Board, and the time and staffing resources available within the division.

The Internal Audit Division maintains a continuous risk assessment throughout the year. We calculate the risk of programs and activities based on three major factors:

1. Financial factors which include but are not limited to the dollar amount of receipts or expenditures and the types of funding being received.
2. Operational factors such as the vulnerability of the population being served, the types of services being provided, and significant staffing or systems changes.
3. The likelihood of significant financial or operational impact if internal controls should fail.

COVID-19 Impacts

COVID-19 has presented two additional considerations in preparing the annual audit plan. First, overall audit hours for the year have been reduced by 750 hours for staff time allocated as a disaster service worker to assist in the County's response to the virus in its declared state of emergency. Second, traditional in-person auditing will be eliminated when possible and be replaced with remote auditing. To facilitate remote auditing, technology will be used to provide alternatives to face-to-face meetings and interviews and allow for requested documentation to be shared electronically.



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AUDITOR - CONTROLLER • TREASURER – TAX COLLECTOR

**Internal Audit Division
Audit Plan**

Fiscal Year 2020-21

JAMES W. HAMILTON, CPA
Auditor-Controller • Treasurer-Tax Collector



COUNTY OF SAN LUIS OBISPO

AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

James W. Hamilton, CPA Auditor-Controller • Treasurer-Tax Collector

Lydia J. Corr, CPA Assistant Auditor-Controller • Treasurer-Tax Collector

Proposed Annual Audit Plan

The Internal Audit Plan for Fiscal Year 2020-21 summarizes the audits we recommend performing during the year. The plan is based on the results calculated by our risk assessment, stakeholder input, and available audit hours. It is important to note the plan is a working document and can be adjusted throughout the year as priorities and risk change.

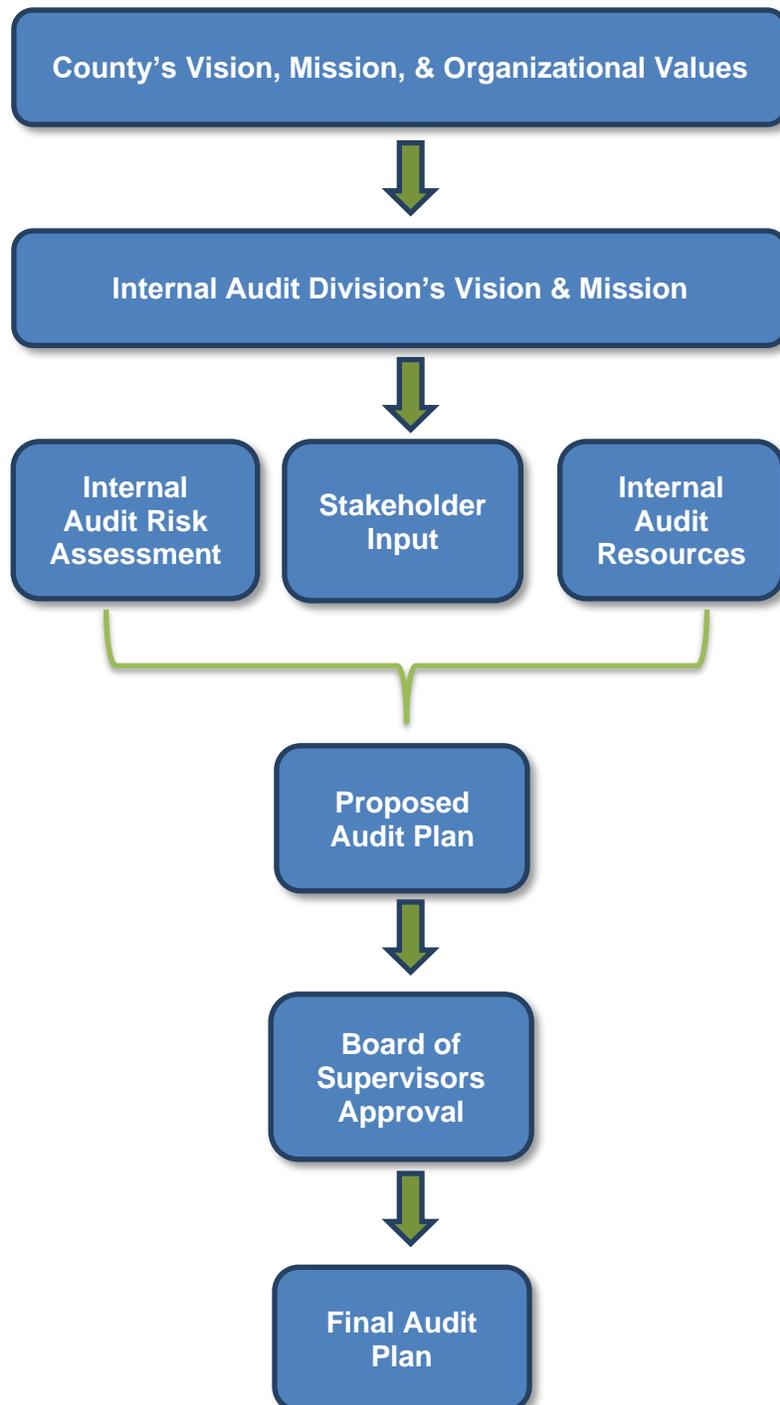
Additional detail regarding the development of the audit plan is available in the following pages. Objectives of the audits listed can be found at the end of the report.

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Developing the Audit Plan

The following guide shows the audit plan’s development process and relationship of the plan to the County’s objectives.





COUNTY OF SAN LUIS OBISPO

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County Vision, Mission, and Organizational Values



A Safe Community – The County will strive to create a community where all people – adults and children alike – have a sense of security and well-being, crime is controlled, fire and rescue response is timely and roads are safe.

A Healthy Community – The County will strive to ensure all people in our community enjoy healthy, successful and productive lives, and have access to the basic necessities.

A Livable Community – The County will strive to keep our community a good place to live by carefully managing growth, protecting our natural resources, promoting lifelong learning, and creating an environment that encourages respect for all people.

A Prosperous Community – The County will strive to keep our economy strong and viable and assure that all share in this economic prosperity.

A Well Governed Community – The County will provide high quality “results oriented” services that are responsive to community needs.



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Internal Audit Vision and Mission



- We exist to inspire and elevate public trust in government by assisting and supporting the County, the Board of Supervisors, and other stakeholders in achieving their mission with transparency and integrity.



- Our Mission is to provide reliable, independent, objective evaluations and advisory services to County management, the Board of Supervisors, and other stakeholders. By utilizing a systematic, disciplined approach, our services will add value to and improve operations. We will provide expertise to evaluate and improve the effectiveness of controls and other processes, minimize risks, and enhance operational effectiveness for stakeholders; as well as contribute to protecting and safeguarding resources and assets.

To carry out our vision we will engage in the following core activities:

- ✓ We will provide excellent support to the County's management, staff, and stakeholders by conducting independent, effective, and efficient analyses which enhances customers' ability to meet their objectives.
- ✓ We will provide reasonable assurance of accountability, transparency, and due diligence, by conducting audits and reviews of operations, programs, and projects to ensure public funds are spent appropriately and within the scope of the intended purpose.
- ✓ We will help to ensure public funds are used in the most efficient and effective manner through the development and monitoring of internal controls and processes.
- ✓ We will help to prevent fraud, waste, and abuse by continuous assessment, education, and monitoring of risk.



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- ✓ We will help to ensure the County is in compliance with necessary reporting, monitoring and compliance requirements governed by various statutes, codes, and regulations.
- ✓ We will ensure internal audit staff are properly trained and kept apprised of new accounting and auditing standards and best practices.
- ✓ We will conduct a quality assurance and improvement program which assesses the efficiency and effectiveness of the internal audit activity, including promoting effective control at a reasonable cost, and identifying opportunities for improving the internal audit activity’s performance and ability to add value.

Types of Audits

The audits that we will perform will fall into two categories.

<u>Assurance</u>	<u>Consulting</u>
To provide an objective assessment of evidence and an independent opinion or conclusion regarding an operation, function, process, system, or other subject matter. Such audits may focus on the reliability of financial or operation information, on systems of internal control over recordkeeping, and/or the safeguarding of assets to ensure systems are adequate and effective. These audits may also include review of structures established to ensure compliance with policies, plans, procedures, laws, and regulations.	Advisory in nature and are generally performed at the specific request of a client. The nature and scope of the consulting engagement are subject to agreement with the client.

Risk Assessment

The risk assessment is a systematic process used to evaluate, identify, and prioritize potential audits based on the level of risk to the County. Risk is defined as the possibility of an event occurring that will have a financial or operational impact on the achievement of the County’s objectives and is measured in terms of impact and likelihood. The assessment identifies exposures that would disrupt the organization’s operations, interfere with County and departmental goals and business objectives, and serve as obstacles in the compliance of local and federal governances.



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Stakeholder Input

Development of the plan allows for input from the Board of Supervisors, the County Administrator, departments, and other public stakeholders. At least annually, input is requested from the Board of Supervisors, the County Administrator, and departments.

Internal Audit Resources

The Internal Audit Division consists of 3 full-time members. Collectively, staff have a broad range of professional and educational backgrounds. Staff have attained professional certifications as a Certified Public Accountant, Certified Internal Auditor and Certified Information Systems Auditor. In addition to conducting audits, the team oversees a variety of other responsibilities, including, reviewing County fees and the preparation of the County's annual financial statements and other financial State reporting. The audit plan takes into account the estimated amount of time staff will have available to perform audits.

<u>Number of Staff</u>	<u>Total Annual Hours Available*</u>	<u>Total Non-Audit Hours</u>	<u>Total Audit Hours Available</u>
3	6,240	4,610	1,630

* A detailed breakout of hours is available in the audit plan.

COVID-19 Impacts

COVID-19 has presented two additional considerations in preparing the annual audit plan. First, overall audit hours for the year have been reduced by 750 hours for staff time allocated as a disaster service worker to assist in the County's response to the virus in its declared state of emergency. Second, traditional in-person auditing will be eliminated when possible and be replaced with remote auditing. To facilitate remote auditing, technology will be used to provide alternatives to face-to-face meetings and interviews and allow for requested documentation to be shared electronically.



COUNTY OF SAN LUIS OBISPO

AUDITOR - CONTROLLER • TREASURER - TAX COLLECTOR

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Proposed Audit Plan

The audit plan contains mandated audits, audits in progress, follow-up audits, and audits recommended for the current year, all of which align with the County's vision, mission, and values.

Mandated Audits (All Required Annually)

State Worker's Compensation Insurance Fraud Program Grant (*Consulting*)

To determine if the District Attorney's Workers' Compensation Fraud Program is in compliance with grant award requirements and state regulations for FY 2019-20.

Workforce Innovation and Opportunity Act Fiscal and Procurement Monitoring (*Consulting*)

To determine if WIOA funds used complied with federal and state laws, regulations, policies, and directives for PY 2020-21.

Annual Cash Shortages and Overages Report (*Assurance*)

To report on cash shortages and overages as required by Board Resolution 84-40 for FY 2020-21.

Audits in Progress

Transient Occupancy Tax (*Assurance*)

To determine the accuracy of Transient Occupancy Tax (TOT), Tourism Marketing District (TMD), and Business Improvement District (BID) amounts remitted to the County in CY 2019.

Follow-up Audits

District Attorney Cash Procedures and Internal Controls (*Assurance*)

To review any unresolved recommendations issued in the October 2019 audit report.

Integrated Waste Management Authority Internal Controls Assessment (*Consulting*)

To review any unresolved recommendations issued in the September 2019 audit report.



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Recommended Audits

Transient Occupancy Tax (Assurance)

To determine the accuracy of Transient Occupancy Tax (TOT), Tourism Marketing District (TMD), and Business Improvement District (BID) amounts remitted to the County in CY 2020.

Cannabis Business Tax (Assurance)

To determine the accuracy of Cannabis Business Tax amounts remitted to the County.

This is the first year cannabis business tax audits have been included in our annual audit plan.

Departmental Cash Procedures and Internal Controls (Assurance)

Audit objectives can vary by department but are generally performed to determine compliance with the Cash Handling Policy, establish accountability of cash on hand, and review internal controls of cash procedures.



COUNTY OF SAN LUIS OBISPO
AUDITOR - CONTROLLER • TREASURER – TAX COLLECTOR

Internal Audit Division
Quality Assurance and Improvement Program
Self-Assessment

September 2020

JAMES W. HAMILTON, CPA
Auditor-Controller • Treasurer-Tax Collector



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Overview

The San Luis Obispo County Internal Audit Division is required by auditing standards to have an external assessment of our operations once every five years along with ongoing internal monitoring. Auditor-Controller-Treasurer-Tax Collector policy requires an internal quality improvement and assurance assessment biennially, in order to assess the division's strengths, challenges, and compliance with standards. The background and results of our assessment are detailed below.

Structure and Reporting Standards

The Internal Audit Division is comprised of three Auditor-Analysts who report directly to the Auditor-Controller-Treasurer-Tax Collector. The Internal Audit Division follows the *International Standards for the Professional Practice of Internal Auditing (Standards)* put forth by the Institute of Internal Auditors (IIA). The *Standards* are encompassed within the IIA's *International Professional Practices Framework*, commonly referred to as the *Red Book*.

The *Standards* require the Internal Audit Division to have a quality assurance and improvement program (QAIP) which includes periodic internal and external assessments, as well as on-going monitoring of performance. The purpose of the QAIP is to evaluate the Internal Audit Division's conformance with the *Standards*, to assess the efficiency and effectiveness of the internal audit function, and to identify opportunities for improvement.

This report presents the results of our internal assessment, covering April 1, 2018 through June 30, 2020. To perform the self-assessment, we utilized the IIA's Quality Assessment Manual and conducted surveys and interviews of selected County management and internal audit staff.

Results

We determined the Internal Audit Division is in general compliance with the *Standards* overall, and we identified several best practices the division utilizes consistently. There were no identified areas of noncompliance with the *Standards*; however, a best practice area where improvement could be made was identified. A summary of conformance with individual standards is available in Appendix A.



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Best Practices Being Utilized

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

Internal audit staff demonstrate a strong dedication to the team's vision of inspiring and elevating public trust in government by assisting and supporting the County, the Board of Supervisors, and other stakeholders in achieving their mission with transparency and integrity. The division focuses on performing audits that add value to County operations.

2. Collaborative and educational approach

The Internal Audit Division makes an effort to work with departments and other stakeholders in a collaborative manner and keeps the focus on education and finding workable solutions to identified issues.

3. Risk-based approach

The Internal Audit Division performs a thorough risk assessment of County activities and operations in developing its audit plan. In developing the audit plan, department and management input is sought to help identify high risk areas. Additionally, individual engagement areas of focus are determined based on an evaluation of high-risk activities.

4. Use of electronic tools to facilitate continuous monitoring

The Internal Audit Division utilizes electronic audit workpaper software to document adherence to the *Standards*, document supervision provided throughout an audit, and track audit recommendations requiring future follow-up. These methods allow for greater efficiency in achieving compliance with the *Standards*.

Best Practice Area for Improvement

1. Improve strategic audit plan

While elements of a strategic audit plan were included in the audit plan presented in the Internal Audit Division's annual report to the Board of Supervisors, creation of a stand-alone strategic audit plan expands on the plan's development process and clarifies the alignment of the audit plan with the County's objectives as an organization.

Current Status: The strategic audit plan will be reported to the Board of Supervisors with the Division's annual report.



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Follow-up to August 2018 QAIP Self-Assessment Best Practice Recommendations

1. Finalize and update procedures

The internal audit manual is out of date, and the electronic workpaper and risk assessment procedures manuals are unfinished. Standard 2040 requires the Chief Audit Executive (CAE) to establish policies and procedures to guide the Internal Audit Division; however, the form and content of policies and procedures may be dependent upon the size and structure of the Internal Audit Division and the complexity of its work. Because the Internal Audit Division is small, and policies and procedures are easily communicated, formal documentation has not been a priority.

Follow-up: Completed. The Internal Audit Division issued a finalized Internal Audit Manual in June 2019.

2. Create a strategic plan

The Internal Audit Division does not have a strategic plan. Best internal auditing practices require the Internal Audit Division to have developed a Strategic Plan as outlined in the IIA's Practice Guide, *Developing an Internal Audit Strategic Plan*. Staff have been focused on the update of policies and procedures; however, the Division may be missing critical areas that should be assessed due to lack of a strategic plan.

Follow-up: Completed. The strategic audit plan will be reported to the Board of Supervisors with the Division's annual report.

3. Formalize Electronic Records Retention Policy

The Internal Audit Division does not have a documented retention policy for electronic records. Standard 2330 requires the CAE to develop policies governing the custody and retention requirements for engagement records regardless of the medium used to store each record.

Follow-up: Completed. The Internal Audit Division electronic records retention policy was created and implemented on July 31, 2018.

4. Report Open Audit Recommendations to the Board of Supervisors Annually

The Division has historically tracked and followed-up all unresolved recommendations, the status of these recommendations has not been summarized and periodically reported to the Board of Supervisors. Standard 2500 requires the CAE to establish a follow-up process



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to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action. In the County setting, it is the Board of Supervisor's responsibility to determine the acceptance of inaction. The CAE did not realize it is a best practice to report open recommendations to the Board periodically. The Board may have been denied the opportunity to question or take actions on open recommendations.

Follow-up: Completed. Open audit recommendations are included in the Internal Audit Division's annual report to the Board of Supervisors.

5. Update Audit Charter to Include IPPF Core Principles Element

The prior audit charter did not reference the mandatory IPPF Core Principles of Professional Practice and Internal Auditing element. Standard 1010 requires that the internal audit charter recognize the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, Definition of Internal Auditing, Code of Ethics, and the *Standards*. Staff believed the charter had satisfied all the required elements of the IPPF; however, the Internal Audit Division is not in full compliance with the *Standards*.

Follow-up: Completed. The Internal Audit Charter was updated to include the required element and approved by the Board of Supervisors on August 21, 2018.



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APPENDIX A

Quality Assessment Evaluation Summary—Overall Evaluation		GC	PC	DNC
OVERALL EVALUATION		√		
Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
1000	Purpose, Authority, and Responsibility			
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	√		
1100	Independence and Objectivity	√		
1110	Organizational Independence	√		
1111	Direct Interaction with the Board	√		
1112	Chief Audit Executive Roles Beyond Internal Auditing	√		
1120	Individual Objectivity	√		
1130	Impairment to Independence or Objectivity	√		
1200	Proficiency and Due Professional Care	√		
1210	Proficiency	√		
1220	Due Professional Care	√		
1230	Continuing Professional Development	√		
1300	Quality Assurance and Improvement Program	√		
1310	Requirements of the Quality Assurance and Improvement Program	√		

GC = Generally Conforms

PC = Partially Conforms

DNC = Does Not Conform



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Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
1311	Internal Assessments	√		
1312	External Assessments	√		
1320	Reporting on the Quality Assurance and Improvement Program	√		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	√		
1322	Disclosure of Nonconformance	√		
2000	Managing the Internal Audit Activity	√		
2010	Planning	√		
2020	Communication and Approval	√		
2030	Resource Management	√		
2040	Policies and Procedures	√		
2050	Coordination	√		
2060	Reporting to Senior Management and the Board	√		
2070	External Service Provider & Org Responsibility for Internal Auditing	√		
2100	Nature of Work	√		
2110	Governance	√		
2120	Risk Management		√	
2130	Control	√		

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Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
2200	Engagement Planning	√		
2201	Planning Considerations	√		
2210	Engagement Objectives	√		
2220	Engagement Scope	√		
2230	Engagement Resource Allocation	√		
2240	Engagement Work Program	√		
2300	Performing the Engagement	√		
2310	Identifying Information	√		
2320	Analysis and Evaluation	√		
2330	Documenting Information	√		
2340	Engagement Supervision	√		
2400	Communicating Results	√		
2410	Criteria for Communicating	√		
2420	Quality of Communications	√		
2421	Errors and Omissions	√		
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	√		
2431	Engagement Disclosure of Nonconformance	√		

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Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
2440	Disseminating Results	√		
2450	Overall Opinions	√		
2500	Monitoring Progress	√		
2600	Communicating the Acceptance of Risks	√		

GC = Generally Conforms

PC = Partially Conforms

DNC = Does Not Conform