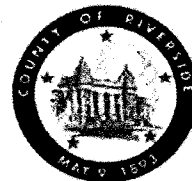# SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

9,10

FROM: County Auditor-Controller

SUBMITTAL DATE:
November 14, 2011

SUBJECT: Approval of the Request for Ratification of Professional Service Contract with IntelliBridge Partners for an Internal Audit review.

RECOMMENDED MOTION: That the Board of Supervisors authorize the Chairperson to ratify the attached agreement for an Independent Review of Internal Audit on behalf of the elected Auditor Controller and direct the Auditor-Controller to make the budget adjustments in Attachment A

BACKGROUND: IntelliBridge Partners, LLC conducted a professional review of the County ACO internal audit group (June 16th to July 27th, 2011). This timely review greatly assisted the newly elected ACO in determining a new, more focused direction, for the Internal Audit Division, at a time of a mandated 24% cut in personnel and service.

The ACO believed it had signature authority to engage IntelliBridge and with that understanding the ACO engaged IntelliBridge. It is the professional opinion of the ACO that IntelliBridge's timely and independent input allowed the ACO to develop an affirmative strategic plan at a time of unprecedented personnel cuts. The ACO is more familiar with the professional services policies now and has taken the appropriate steps to ensure compliance in the future.

Jim Brown -

Jim Brown - Deputy

for

Paul Angulo, CPA, MA
County Auditor-Controller

FORM APPROVED COUNTY COUNSEL
BY: DALE A. GARDNER DATE 11/9/11
Departmental Concurrence

Mark Seiler, Assistant Director

Purchasing:

Dep't Recomm.: ☒ Policy ☐ Consent

Per Exec. Ofc.: ☒ Policy ☐ Consent

FINANCIAL DATA	Current F.Y. Total Cost:	$ 38,000	In Current Year Budget:	No
	Current F.Y. Net County Cost:	$ 38,000	Budget Adjustment:	Yes
	Annual Net County Cost:	$ 0	For Fiscal Year:	11/12

SOURCE OF FUNDS: General Fund Committed Fund balance

Positions To Be Deleted Per A-30	☐
Requires 4/5 Vote	☒

C.E.O. RECOMMENDATION: APPROVE

BY: _____
Karen L. Johnson

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Ashley, seconded by Supervisor Tavaglione and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes:	Buster, Tavaglione, Stone, Benoit and Ashley	
Nays:	None	Kecia Harper-Ihem
Absent:	None	Clerk of the Board
Date:	November 22, 2011	By: _____
xc:	Auditor(2), E.O., Purchasing	Deputy

Prev. Agn. Ref.: 9/13/2011, 3.103	District: A11	Agenda Number:

3.4

ATTACHMENTS FILED
WITH THE CLERK OF THE BOARD

RE: Approval of the Request for Ratification of Professional Service Contract
with IntelliBridge Partners for an Internal Audit Review
Date: November 14, 2011
Page 2

Attachment A

Increase Appropriations:
10000-1300200000-525440   Professional Services   38,000

Decrease Committed Fund Balance:
10000-1000100000-330152   CFB – ACO Internal Audit   38,000

IntelliBridge Partners

One Firm. All Angles·

June 16, 2011

Mr. Jim Brown
County Administrative Center
4080 Lemon Street, 11th Floor
P. O. Box 1326
Riverside, CA 92501-1326

Dear Jim,

On behalf of IntelliBridge Partners, I am pleased enter into an agreement of the scope of services requested from your office. We will perform an operational review of the internal audit division.

The scope of the review will examine the following functions, both manual and electronic:
- annual audit planning process
- risk assessment process
- selecting audit engagements
- budget-staffing and qualifications of audit personnel
- execution of audit engagements including supervision and quality control
- existing documentation for policies, procedures, and work programs for the internal audit function
- review of established historical files that the department keeps, provide observations/recommendations
- make recommendations that will include analytics that can be utilized in audit reports for standardized analysis and fraud/irregularities detection

Below are the key tasks that we expect to perform for this project. However, these tasks may change and/or additional tasks may be added as we begin our fieldwork and gain additional understanding of how the County's implements its internal audit processes.

Task 1: Develop implementation plan. The first phase of this engagement is to develop a strategy that will guide the direction and approach for the project. The strategy will be the roadmap for the remainder of the project. In our experience, the plan will also document the deliverable schedule and deliverable submission protocol.

Task 2: Hold Kick Off Conference. The objectives of this meeting will be to introduce the key members of our project team to the County and to confirm both parties' understanding of key study parameters such as scope, deliverables, timelines, and to discuss the project management plan that will be used for the engagement.

Phase II: Implementation Phase
We will utilize a number of review and evaluation techniques in this project, as briefly outlined below:

intellibridgepartners.con

- **Interviews.** We will conduct customer, employee, and other stakeholder interviews as necessary to obtain relevant supporting data and information regarding required and recommended internal audit management activities.

- **Comparisons to required and industry best practices:** We will compare audit operations against key required auditing standards and other noteworthy state and federal agency practices.

- **Review of issued audit reports:** We will review a sample of represented audit reports to assess the quality of reporting and effectiveness of conveying audit results and recommendations. We will also review the reports for adherence to auditing standards for reporting.

- **Assessment of audit tools:** We will inventory and assess the strengths and weaknesses of the audit tools used by the internal audit department to carry out its mission. These tools will include risk assessment models, fraud prevention programs, audit documentation and supervisory tools, planning tools, data analysis and reporting activities.

- **Utilization of audit documentation management system:** We will evaluate how Team Mate is currently utilized by the audit department and to determine how it can be used more effectively.

- **Staffing analysis:** We will assess the training records of staff and survey their skills set to perform audits per today's best practices.

Phase III: Reporting
The Reporting Phase will consist of conducting an exit conference to discuss the principal findings and results of the review. Upon completion of the exit conference, our staff will prepare the draft report and submit the draft report to the Auditor-Controller for review and comment. We will incorporate official County response into the final report.

We anticipate that key tasks will include:
- Summarize the findings
- Hold an exit conference with auditor-controller staff
- Prepare the draft report
- Perform internal quality report review
- Issue the draft report to the County
- Receive agency comments
- Finalize and issue the report

Project Needs
Our firm believes that to perform the request scope of services within the timeframe requested, the following key items are needed:
1. Line item County budget that provides sufficient breakdown of detailed salary and benefit Expenditures of audit department staff.
2. Number of staff by audit position.
3. Most recent peer review report
4. List of audit reports issues in the prior 3 years

2

IntelliBridge proposes a project schedule which assumes a realistic view of the complexity and required thoroughness for assessing the Indigent Program. We break out our project schedule into three aligned with the project work plan. MCG's schedule is dependent on both timely response from the County when needed, as well as the quality of information collected. Dependencies include:

- Timely scheduling of meetings with the County for scope of work elements requiring consultation with Department staff,
- Timely response from the County to review project deliverables

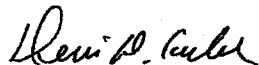| Schedule Task	Timeline		Staff
Begin Planning	June 19		Kousser
Kick off Conference	June 22		Callahan
Begin Implementation Phase	June 27		Callahan/Kousser
Exit Conference	July 12		Callahan
Draft Report Issuance	July 19		Callahan
Agency Feedback		TBD	
Issue Final Report	July 30		Callahan/Kousser

Ms. Denise Callahan and Ms. Kate Kousser will conduct the work required for this project. Work will begin immediately upon formal authorization. Our total fee for the review is $38,000. Invoices will be rendered on a monthly basis and are payable on presentation.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please do not hesitate to contact me at 213.286.6413. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us. If the need for additional services arises, our agreement with you will need to be revised. It is customary for us to enumerate these revisions in an addendum to this letter.

Very truly yours,

INTELLIBRIDGE PARTNERS

By:

Partner

RESPONSE:

3

This letter correctly sets forth the understanding of the scope of work for operational review of the County of Riverside Audit Division.

By: _____

Title: _____Deputy Auditor - controller_____

Date: _____16 June 2011_____

County of Riverside

Auditor-Controller

Operational Review of the Internal Audit Division

FINAL REPORT

July 2011

Submitted by _Paul Angulo_

11/21/11
(date)

Item 3.4

Table of Contents

IntelliBridge Partners

Study Highlights

Why IntelliBridge Partners Did This Review

The Auditor-Controller requested that we conduct an assessment of the Internal Audit Division's operations. Our specific objectives were to: (1) assess its efficiency and effectiveness in the audit planning, execution and reporting processes and (2) examine its organizational structure.

How We Conducted This Review

To accomplish our objectives, we met with all available audit staff and managers to discuss audit planning activities, communication, and supervisory activities. We reviewed available documentation on audit process policies and procedures, budget information, and performed a comprehensive review of audit reports and working papers to assess the utilization of advanced planning tools and the application of advanced audit approaches. Finally, we assessed quality control and reporting, and evaluated overall performance of internal audit department operations, including obtaining customer satisfaction feedback from four County departments.

July 26, 2011

Paul Angulo, CPA, MA
County Auditor-Controller
4080 Lemon Street, 11th floor
Riverside, CA 92502

Dear Mr. Angulo,

We are pleased to present the results of our operational review of the County of Riverside's Internal Audit Division. The objective of our engagement was to assess the efficiency and effectiveness of this division. This report presents our findings and recommendations.

The management and staff from the County of Riverside's Internal Audit Division participated in this review either through interviews, focus groups, or completing a survey questionnaire. We would like to take this opportunity to thank these people for their collective interest, cooperation, and dedication which greatly enhanced the results of this project.

Sincerely,

IntelliBridge Partners

IntelliBridge Partners

Study Highlights

What we found

In a number of areas, opportunities are present to enhance the efficiency and effectiveness of the County's Internal Audit Division. Overall, while some efforts have been made to update its audit process, the role of the Internal Audit Division and how it performs its work needs revamping.

SUMMARY OF RESULTS

Summary of Results

We identified a number of issues that are further discussed throughout this report. The issues are related to the following areas:

- Audit Structure

- Risk Assessment and Work Plan Development

- Audit Process

- Audit Reporting

- Performance Monitoring

- Quality Assurance Activities

- Document Management System

- Training

County of Riverside Audit Department

Function	Issue
Audit Structure	The Internal Audit Division primarily examines the sufficiency of internal controls and the implementation status of prior audit recommendations. In comparison to today's audit departments, this role is too narrow and represents only a small segment of the types of activities that should take place in an internal audit department. The Internal Audit Division has spent too much effort (80 to 250 hours of effort) on conducting audits of prior audit report recommendations. Because the Internal Audit Division conducts full audits on all of its prior audit recommendations, the work performed by the staff far exceeds the sufficiency of evidence requirements for these types of reviews. In other audit departments, the most common method of performing this function is a desk review (about 3 hours of effort per audit.) To meet sufficiency of evidence requirements during a desk review the audit department requests information to verify that the agency has implemented its prior audit recommendations. If the Internal Audit Division were to reduce the number of comprehensive follow-up audits it performs and instead, conduct desk reviews, it can substantially increase the amount of staff available to conduct other more substantive audits.

Summary of
Results (con't)

Function	Issue
Audit Structure	The Internal Audit Division needs to have an Audit Chief who can enhance the efficiency and effectiveness of audit operations to add greater value to the County departments. The person who fills this position should have a myriad of skills in assurance and performance improvement.
Audit Structure	The Internal Audit Division is not effectively right-sized because its audit manager to staff ratio is higher than industry averages – 1 to 4 versus 1 to 8. Eliminating one position may not be necessary if the Internal Audit Division were to expand its role and provide other types of audit services.
Risk Assessment and Work Plan Development	Risk Assessment is a common way to prioritize limited audit resources and allows auditors to focus on issues and areas that matter most. While the Internal Audit Division has begun to utilize risk assessments on individual audits, our review shows that the results of these risk assessments are not often used to shape the scope or methodology of the audit. Also, the results of a county wide risk assessment should be the primary means to develop the Internal Audit Division's work plan. Presently, the Division's management develops its work plan based on County requirements to audit each county department bi-annually, follow-up on prior audits and other County feedback. The current County requirement to audit each County department every two years prevents the Internal Audit Division from utilizing a risk-based management approach to audit selection, which would more effectively allocate audit resources.

Summary of Results (con't)

Function	Issue
Audit Process	None of the audits that we reviewed utilized the latest available audit planning tools because the Division's current role focuses primarily on conducting follow-up reviews and examining select internal controls that do not require their use.
Audit Process	An effectively performing audit department ensures its independence by performing assurance and performance improvement services only. Conducting non-audit services and implementing non-audit related projects hinders the ability of the Internal Audit Division to complete its work plan and creates conflict for the Internal Audit Division when performing subsequent audits.
Audit Reporting	With some exceptions, the Internal Audit Division has generally issued adequate audit reports that meet standards. Thirty-one of 34 reports contained audit objectives that were aligned with the audit results and sufficiently addressed the purpose of the work. The remaining three reports did not accomplish this goal. For these reports, audit results did not adequately address the audit objectives, or the purpose of audit was not sufficiently reflected in the audit objectives. To increase audit department credibility, all reports should be sound without exception.
Audit Reporting	Twenty-eight of 34 reports that we reviewed did not incorporate best practices in reporting techniques or formats to more effectively convey audit results. For example, only five reports included a table and one report contained a bar chart to help visually convey the audit results. Increasing the effectiveness of how audit results are communicated increases the likelihood among departments to request assistance from the Internal Audit Divisions.

Summary of
Results (cont)

Function	Issue
Performance Monitoring	Of seven performance measures to assess the efficiency and effectiveness of audit departments, the County's Internal Audit Division performed well in one critical area – the extent that County departments implement audit report recommendations. County departments implemented about 75 percent of audit recommendations. The Division's performance can improve on the other six performance measures: completion of audit work plan; number of audits completed on budget; average time size per audit; supervisor to staff ratios; identification of cost savings; and the level of customer satisfaction.
Document Management System	The Internal Audit Division underutilizes its document management system. One of the six available modules in the documentation management system is in use. Utilization of the other modules, except for the time and expense module, can help update the Division's audit processes.
Training	The Internal Audit Division has not developed a robust internal training program of new staff, which is essential for implementing uniform and quality audit projects. Staff receive training to accomplish required continuing professional education requirements, but the training received does not appear to be aligned with current needs of the Division. Staff can benefit from training in conducting other types of audits, such as performance and compliance auditing; information technology; and statistical analysis. Training in these areas are imperative to increase staff skill sets and audit knowledge, which will influence the quality of future internal audits conducted by the Division.
Communication	We noted the Division's internal communication activities could be more open and transparent. While audit management meets with the Deputy Auditor-Controller on regular basis to discuss audit related issues, the results of those meetings, when applicable, are not often to communicated to staff. Audit staff reported that a need to hear firsthand the priorities and other feedback provided by the Auditor-Controller's Office.

CONCLUSIONS

CONCLUSIONS

While the Internal Audit Division complies with many audit standards, those standards do not directly establish guidance on how well, or effectively, audit activities and operations should be completed. The Division faces a number of issues that impair its effective functioning that can be addressed primarily through better leadership. Changes to the Internal Audit Division operations, however, cannot occur unless the Auditor-Controller works to update the County requirement to audit every department bi-annually.

The most critical area to update is the role of the Division. Today's audit departments no longer focus all of their attention on audits of selected internal controls and follow-up on prior audits. The Division should also assess the effectiveness of service delivery; identify cost savings; and comprehensively mitigate the risks of fraud, waste, and abuse. By enhancing its role, the Division can play a valuable role by identifying additional cost savings for the Auditor-Controller and the Board of Supervisors, especially when budget reductions are necessary. With an enhanced role, a more effective audit process is also needed and begins with a formal countywide risk assessment to identify those areas that offer a potential opportunity for improvement or cost savings. The results of the risk assessment should drive the development of the audit work plan. Staff expertise should be aligned with the work plan with a mix of staff trained in performance auditing, internal auditing, fraud, compliance, and financial auditing.

Given the size of the County, the size of the Division is likely insufficient to address all of the County's audit needs, but the results of the formal risk assessment can help right-size and organize the Division. Should the Division continue to operate "as is" by not implementing any change to its operations, then its staffing levels will need to remain the same. However, should the Division make basic changes to the performance of follow-up audits of prior report recommendations, then it can utilize the excess resource capacity to perform additional internal control audits.

RECOMMENDATIONS

Recommendations

To implement a more efficient and effective Internal Audit Division, the Auditor-Controller should consider implementing 14 changes to. the Division. We organized our suggested solutions by priority order (the most important first) and estimated the cost of implementation.

The recommendations include changes in the following areas:

- County Code
- Staffing
- Risk Assessment
- Audit Structure
- Training
- Information System
- Audit Process
- Performance Monitoring
- Communication

Category	Recommendation	Cost
County code	1. Work with the County Board of Supervisors to revise County Board Policy 83-338 to audit every County department every two years to auditing County departments based upon risk-based management criteria (e.g. poses high risks of fraud, waste, abuse or having a high potential to identify cost savings, or to enhance service delivery.)	Staff costs
Staffing	2. Hire an Audit Chief Executive from outside of the County that has experience in conducting all types of audits (e.g. internal, financial, performance, and compliance) and has a demonstrated track record of working with key stakeholders to produce cost savings and enhance service delivery.	Up to $140,000
Risk Assessment	3. Conduct a formal countywide risk assessment that identifies potential opportunities for cost savings, enhancements to service delivery, and increased compliance with local, state and federal requirements. All County departments should be included in the scope of the work and the results of the assessment should analyze the likelihood and impact that a subsequent audit could accomplish in the areas of cost savings and service delivery. The results of this risk assessment should be used to develop the annual audit work plan in conjunction with input from the Auditor-Controller's Office, Board of Supervisors and County departments that received a substantial proportion of General Fund revenue.	Staff costs

Recommendations (cont)

Category	Recommendation	Cost
Audit Structure	4. Expand the role of the Internal Audit Division to provide assurance and performance improvement services, which will result in greater accomplishments in identifying cost savings, enhancing service delivery by County departments, and the identification of fraud, waste, and abuse.	$0
Training	5. Develop a comprehensive internal training program for all staff and new hires in the future. The training program should incorporate the following: a. Various methods of planning audits, the types of methodologies that can be applied, and the various methods of reporting. b. Data and statistical analysis techniques. c. Red Book (International Internal Auditing Standards) and Yellow Book requirements (Generally Accepted Government Auditing Standards.) d. Data collection techniques. e. Display of audit results.	$10,000
Information System	6. Configure all modules of Team Mate, except the Time and Expense Capture module. These modules include the Universe Risk Assessment, Project and Resources Scheduling, Content Management, and Project and Exception Tracking. Upon its configuration, perform training throughout the Department on the system.	Bid

Recommendations (cont)

Category	Recommendation	Cost
Audit Process	7. Develop better audit planning and reporting templates. These templates should guide staff on better alignment of audit objectives with coinciding data collection and analysis activities. Reporting templates should encompass a variety of report types, such as Board reports, briefing reports, letter reports, and comprehensive audit reports.	Staff costs
Audit Process	8. Change how follow-up audits of prior audit report recommendations are executed by: a. Performing desk reviews only of recommendations. These desk reviews can be accomplished by requesting the necessary documentation from the department, reviewing the documentation to assess whether it sufficiently addresses the recommendation. Testing to verify the status of the recommendation should not be performed. b. Follow-up reviews of audit findings only should be performed, if deemed necessary. c. Eliminate the preparation of follow-up audit reports on the status of recommendations. d. Dedicate ¼ to ½ Full-Time Equivalents to perform and report on all desk reviews of prior audit recommendations. e. Report, on a quarterly basis, the status of the prior audit recommendations among all affected departments to the Board of Supervisors. The quarterly follow-up report should describe the affected department, the number of recommendations implemented, the number of recommendations outstanding, the months remaining to implement, and a description of outstanding recommendations.	$0

Recommendations (cont)

Category	Recommendation	Cost
Audit Process	9. Focus the available resources of the Internal Audit Division to perform audits only and other non-audit work should be re-assigned to other Auditor-Controller Divisions, as this can impair future independence of the Internal Audit Division.	Staff costs
Audit Process	10. The Chief Audit Executive should ensure that all working papers have timely review and sign-off and conduct quarterly spot checks to ensure adherence to this standard.	Staff costs
Communication	11. Conduct audit team meetings with Auditor-Controller management at both the beginning of the planning phase and near the completion of the project implementation phase.	Staff costs
Communication	12. Conduct a formal report message meeting with Auditor-Controller management and the audit team prior to the development of the draft report to ensure audit objectives and the results of the audit are clear; and to discuss how results will be conveyed and pertinent recommendations.	Staff costs

Recommendations
(cont)

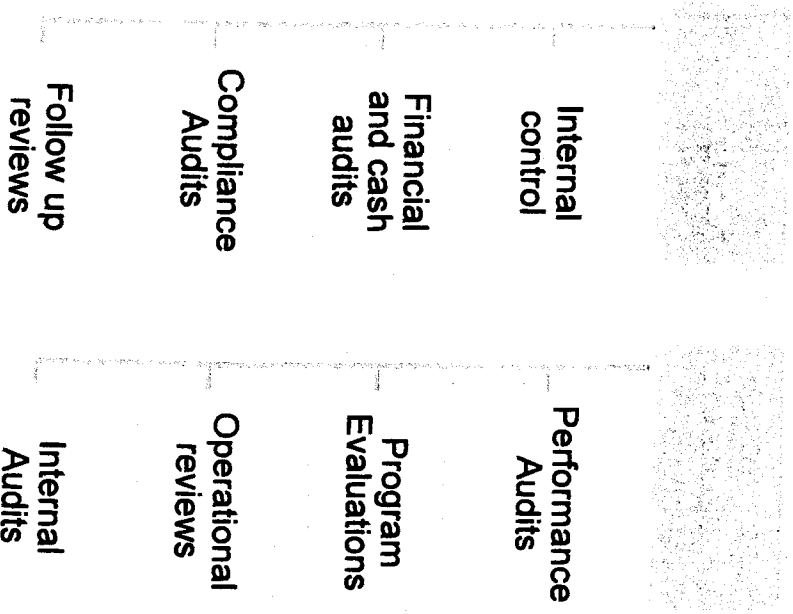| Category	Recommendation	Cost
Performance Monitoring	13. Develop a program to report on the accomplishments and outcomes of the Internal Audit Division. The program should include the development of performance measures assessing the effectiveness of the Audit Division, including the cost savings identified, service delivery enhancements made, and the identification of fraud, waste, and abuse. The program should also include a process to review issued reports to monitor quality and identify training needs. The Division should submit an annual performance report at least annually to the Auditor-Controller.	Staff costs
Communication	14. Upon revamping the Internal Audit Division, the Auditor-Controller management and the Chief Audit Executive should formally announce and discuss audit processes changes with all County departments.	Staff costs

APPENDIX 1 - PRINCIPLE RESULTS

Audit Department Needs To Expand Its Role

A well-managed audit department has key components in place, described in Figure 1.0, which are designed to add value to the audited department. Audit departments should be structured to provide audit assurance services and operational improvement services. Assurance services encompass compliance audits, internal control audits, financial and cash management audits and fraud audits. Staff with the appropriate skill sets are dedicated to these areas. Operational improvement or performance enhancement services include efficiency and effectiveness audits, program evaluation, operational reviews, internal audits and performance audits. Generally, auditors who perform these types of services have different skill-sets than those possessed by financial or internal auditors. Presently, staff within the Audit Division could benefit from enhanced knowledge and expertise in this area.

The Internal Audit Division is structured to conduct single focus reviews – audits of internal controls and follow-up audits. In all of the reports that we reviewed, the scope of work either addressed reviewing and examining the existence and effectiveness of selected internal controls, or conducting follow up audits of recommendations related to controls, or both.

Figure 1.0: Today's Audit Department Structure

- Internal control
  - Performance Audits
- Financial and cash audits
  - Program Evaluations
- Compliance Audits
  - Operational reviews
- Follow up reviews
  - Internal Audits

Audit Department Needs
To Expand Its Role (con't)

7/26/2011

(Continued from page 19) While internal controls form the foundation for governmental accountability and are integral to assurance services, examining internal controls should not necessarily be the entire focus of the Internal Audit Division. Instead, internal controls should be a smaller part of the overall audit approach and more emphasis placed on examining the entire business function of the department. In some reports, when the Internal Audit Division was required to examine a business process, the scope of work had evolved into examining selected internal controls, which did not effectively accomplish the purpose of the review. For instance, in one audit report, the Division was requested to examine the billing process, but the scope of the work evolved into a more limited testing of selected controls. In other reports, the situation was reversed – the Internal Audit Division assessed animal protection business processes when the scope was designed to test controls. Without having a well-defined audit structure, the Internal Audit Division is missing opportunities to identify improvements.

Additionally, a well-structured audit department does not perform non-audit related services. The most critical element of an internal audit department is its ability to be free of impairments to its independence. When the Internal Audit Division is utilized to assist with the development of cost allocation activities and other projects, such as tracking whether special district submit financial statements to the County, it precludes the Internal Audit Division from conducting subsequent audits and reviews on these same activities.

GAO Yellow Book, Overarching Independence Principles

Section 3.22 "The following two overarching principles apply to auditor independence when assessing the impact of performing a nonaudit service for an audited program or entity: (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."
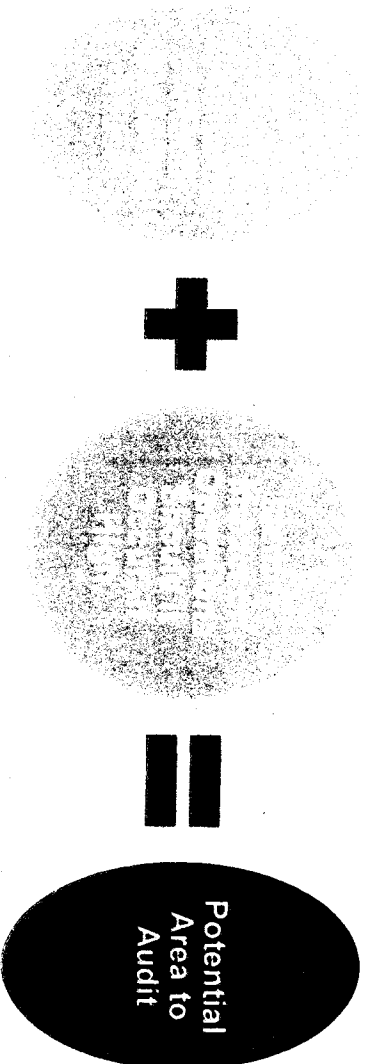
Audit Work Plan Needs Greater Rigor

Every internal audit department should have a work plan. The work plan prioritizes the audits that should be conducted in a given year by the audit department. Its development should be based on a formal and systematic approach to assess the potential for fraud waste and abuse and identify opportunities for cost savings and enhanced service delivery. Per the 2011 audit plan, its development was driven by County mandates that requires an audit of every department every two years, risk assessments, and information gathered through consultations with county management. If these activities were carried out effectively, the audit work plan would not be focused primarily on audits of internal controls.

While the County code mandates subjecting each County department to an audit every two years, this mandate will inhibit the Internal Audit Division from redefining its audit role within the County. While the County should be commended for promoting governmental accountability, audit departments have evolved since the establishment of the County's audit requirement. Internal audits should be conducted using a risk based management approach which allows for more efficient and effective utilization of limited audit resources.
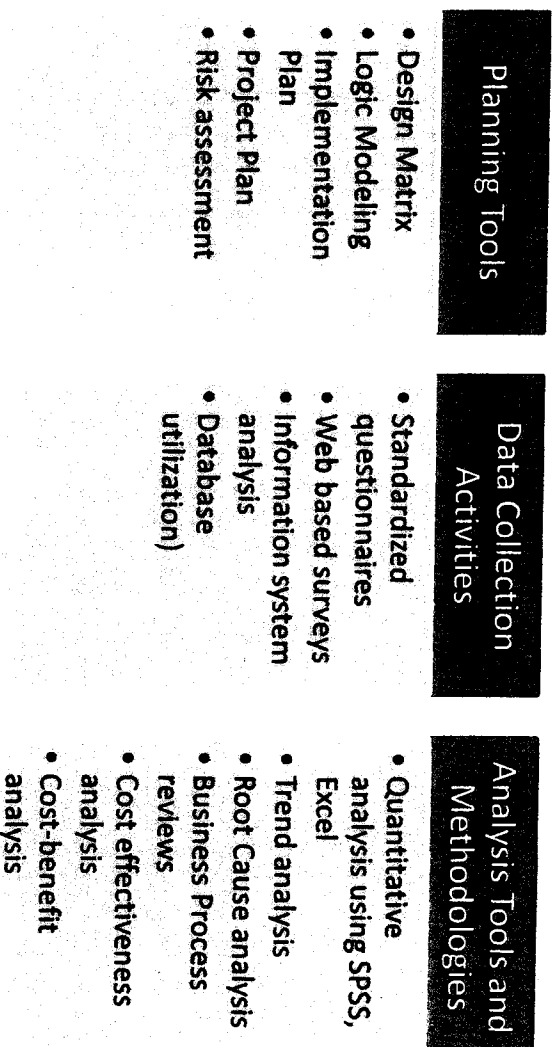
7/26/2011

Formal Risk Management Approach is Needed

Potential Area to Audit

Audit Work Plan Needs Greater Rigor

Sample Model of Formal Risk Assessment

Enter Assessment Scores

Run the Calculation Program

Analyze the Results

IntelliBridge
Partners   One Firm. All Angles

IntelliBridge Partners

Audit Process Needs Revamping

The first step in the audit process is planning. As shown in Figure 2.0, planning involves a number of activities from developing a project plan, to estimating the time required to complete audit tasks, to determining how the data will be collected, analyzed and reported. The Internal Audit Division can benefit from the use of better planning tools. The first tool required is a budget estimation tool that guides staff on how to estimate total hours required for an audit. For example, the tool should require 1 hour of effort to follow-up on each prior audit recommendation. This hour includes requesting and reviewing the documentation, and making a determination of the completeness of the department's implementation efforts. Additionally, interviews, on average, should take about 2.5 hours to complete, including write up of the interview results, and analysis for follow up audit work. By having a detailed project plan that includes that type of common activities that take place on all audits, and includes the average time for completion per audit activity, budget estimation will have greater accuracy.   (Continued on page 23)

Figure 2.0: Best Practices in Audit Department Planning Activities

Planning Tools
• Design Matrix
• Logic Modeling
• Implementation Plan
• Project Plan
• Risk assessment

Data Collection Activities
• Standardized questionnaires
• Web based surveys
• Information system analysis
• Database utilization)

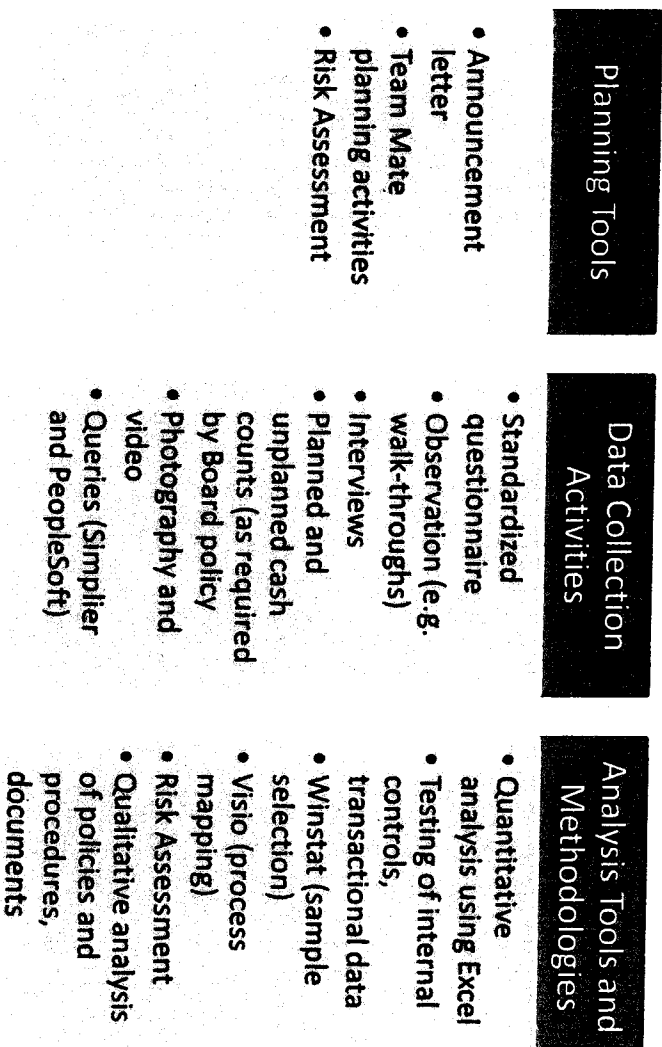| Analysis Tools and Methodologies |
| --- |
| • Quantitative analysis using SPSS, Excel |
| • Trend analysis |
| • Root Cause analysis |
| • Business Process reviews |
| • Cost effectiveness analysis |
| • Cost-benefit analysis |

Audit Process Needs Revamping (cont)

(Continued from page 22) Without this guidance, the Internal Audit Division faces a substantial risk of exceeding its audit budgets which jeopardizes the Division's ability to complete its audit work on a timely basis.

Another tool used in audit planning is a risk assessment. Risk assessment(s) conducted in the planning process helps to identify the existence of and/or gaps in controls and weighs the risk of potential fraud, waste and abuse. The results of risk assessments are used to aid in decisions on whether to conduct audits and can influence the size and scope of audit work. Risk assessments were developed in six of 34 projects that we reviewed. Although risk assessments were extensive in four of the six audits, the results did not otherwise change the scope of the review with one exception, where audit was expanded.

Yet another tool is the use of a template to guide the auditor on how to plan the execution of the audit. Audit execution (or implementation) is the audit phase where most data collection and analysis activities take place, to provide the evidence necessary to identify and support issues and findings. It is critical that more planning takes place to determine the best methods of data collection to efficiently and effectively address the audit objectives. (Continued to page 24)

7/26/2011

Figure 3.0: Audit Department Planning Activities

Planning Tools	Data Collection Activities	Analysis Tools and Methodologies
• Announcement letter • Team Mate planning activities • Risk Assessment	• Standardized questionnaire • Observation (e.g. walk-throughs) • Interviews • Planned and unplanned cash counts (as required by Board policy • Photography and video • Queries (Simpiler and PeopleSoft)	• Quantitative analysis using Excel • Testing of internal controls, transactional data • Winstat (sample selection) • Visio (process mapping) • Risk Assessment • Qualitative analysis of policies and procedures, documents

Audit Process Needs Revamping (con't)

Our analysis of the 34 audits showed the Internal Audit Division did not consistently use a formal process to plan its audits. Although Team Mate was used to document the audit objectives, scope and methodology, the content was more boiler plate than a direct and comprehensive explanation of how each audit objective will be addressed. Generally, a planning template is used to specifically describe the audit objectives, the sources of information to be utilized to address the audit objectives, how the data will be collected and analyzed, and more importantly what the analysis will allow the auditor to report on. Having a template that outlines these key components will streamline the audit planning process and provide greater clarity to all stakeholders and customers about the purpose of the audit, including how it will be carried out.

Moreover, our analysis of what methods of data collection were actually administered by the Internal Audit Division comprised of walkthroughs, testing of controls, interviews and observation, as shown in Figure 3.0 (on page 23). While these are traditional methods for data collection, other more sophisticated techniques were not commonly utilized, such as trend analysis, root cause analysis, and advanced surveying because the Internal Audit Division's primary focus on auditing controls generally does not require complex methodologies. When data analysis is needed, the Division frequently utilizes WinStat, a statistical add-on program to MS Excel to perform sampling. The Division also performs queries in PeopleSoft to extract data for testing, but only one person in the Division has sufficient knowledge to perform this activity on a regular basis.

Quality Assurance Activities Could Be More Timely

The Chief Audit Executive is responsible for developing and maintaining a quality assurance program that ensures adherence to internal auditing standards. We did find the workpapers complied with basic quality standards in terms of content, review and sign-off. Nonetheless, we identified some inconsistency in the completeness and relevance of the working papers and found it was dependent on the individuals involved in the preparation. This is generally true for the audit professional as whole, as some auditors are more detailed oriented than others.

The primary tool used to ensure audit quality is supervision by the audit manager and audit chief. Auditing standards require review of workpapers to demonstrate compliance with auditing requirements and to ensure audit quality, as described in Figure 4.0. In general, supervisory review is usually accomplished using a specialized questionnaire (in addition to placing comments directly on the working paper) to facilitate analysis and to document feedback on the audit work performed. Although we did not find such a checklist in Teammate, Figure 5.0 on the subsequent page shows that the majority of the audits that we reviewed had proper supervisory review. (Continued on page 26)
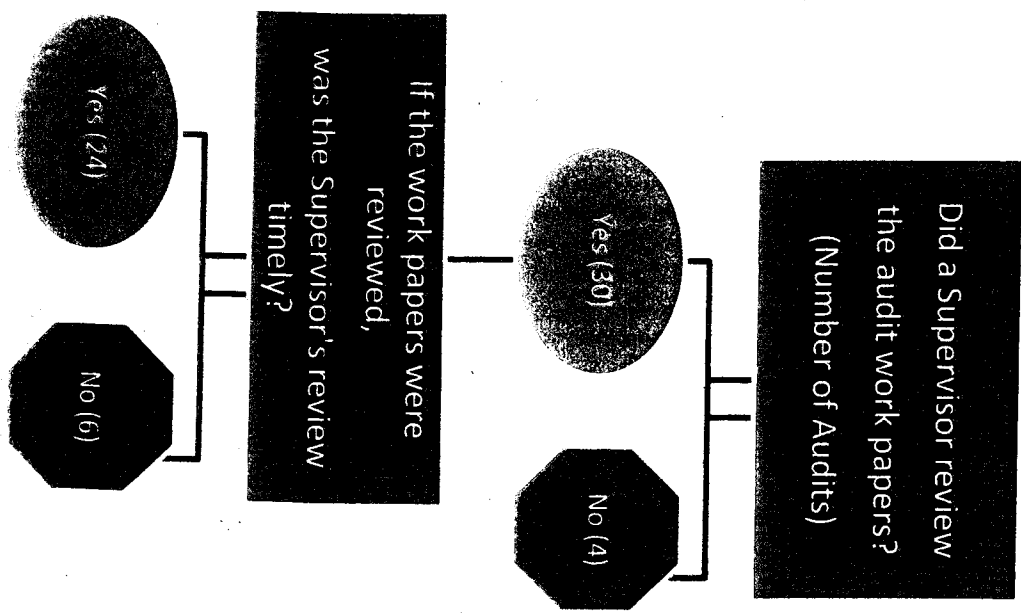
Figure 4.0: Quality Assurance Activities

- **Completeness**
- **Accuracy**
- **Organization**
- **Relevance & Conciseness**

- **Source**
- **Scope**
- **Reference**
- **Sign-off**
- **Tick mark legend**
- **Exceptions**

Quality assurance activities (con't)

(Continued from page 25) Of the 34 audits in our sample, 30 were reviewed and many of them were reviewed in a timely manner. As shown in Figure 5.0, for six of the 30 audits (or 17 percent) in our sample, a timely review of working papers was not always performed. As many as 114 weeks elapsed between work paper sign off and review. Without adequate supervision of less experienced auditors who perform the majority of the fieldwork, including delayed review of working papers, there is higher risk of report quality issues.

Figure 5.0: Audit Division's Timeliness of Supervision

Did a Supervisor review the audit work papers?
(Number of Audits)

Yes (30)

No (4)

If the work papers were reviewed, was the Supervisor's review timely?

Yes (24)

No (6)

Reporting Enhancements Needed

Conveying audit results in a clear and concise manner is critical to gaining acceptance of audit findings and recommendations among audited departments. In our review of 33 audit reports, 27 of them had conveyed clear audit objectives and findings, but the findings for five audits did not directly address the audit objective, as shown in Figure 6.0.

While the Internal Audit Division generally satisfies audit requirements for reporting, improvements can be made in conveying audit results. Internal audit reports have evolved into simpler, easier to read formats with graphics to allow the reader to focus on the key points of the report. Twenty of 34 reports that we reviewed did not incorporate other reporting techniques or formats to more effectively convey audit results. For example, only five reports included a table and one report contained a bar chart to help visually convey the audit results. Current versions of software such as MS Excel have easy to use tools to develop pivot tables, charts and other graphical displays of information that can enhance the communication of results to departments. To add value through reporting, the Internal Audit Department should better consider its audience and to take into account the communication needs and resources of the stakeholders. The audit report should be easy for readers to navigate, and if appropriate, it should prioritize recommendations.

Figure 6.0 Number of Audit Department Reports With Clearly

No   Unknown   Yes

Are the findings and objectives clear?

2 audits
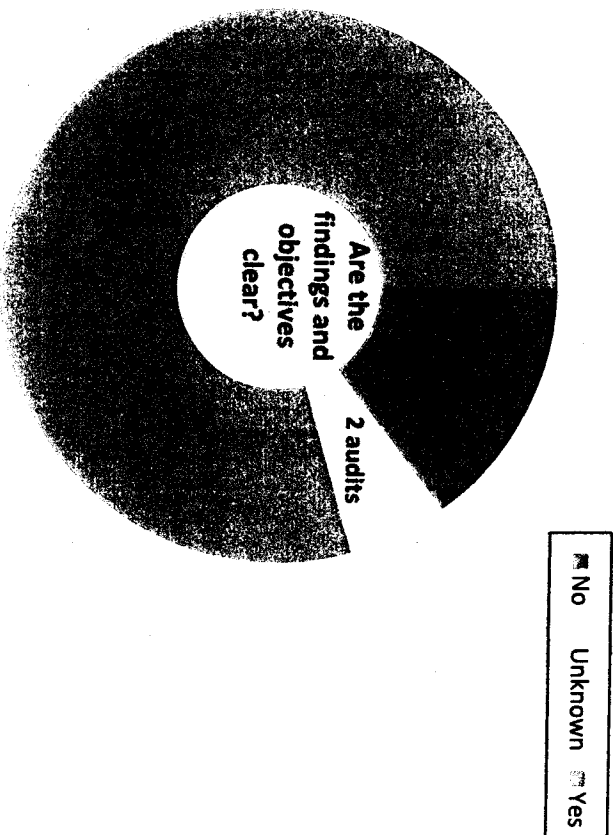
Performance Monitoring Needs Development

An important tool to communicate the value of an internal audit function to the Board of Supervisors and other stakeholders is to report on the results of performance measures. Examples of performance measures include: progress toward completion of the audit work plan; meeting budget requirements set for audit projects; timeliness of reporting; audit accomplishments; and customer satisfaction. These measures can provide a key role in monitoring the efficiency and effectiveness of the audit department's operations through continuous self-assessment. Figure 7.0 illustrates the role of performance measures in a performance based management model.
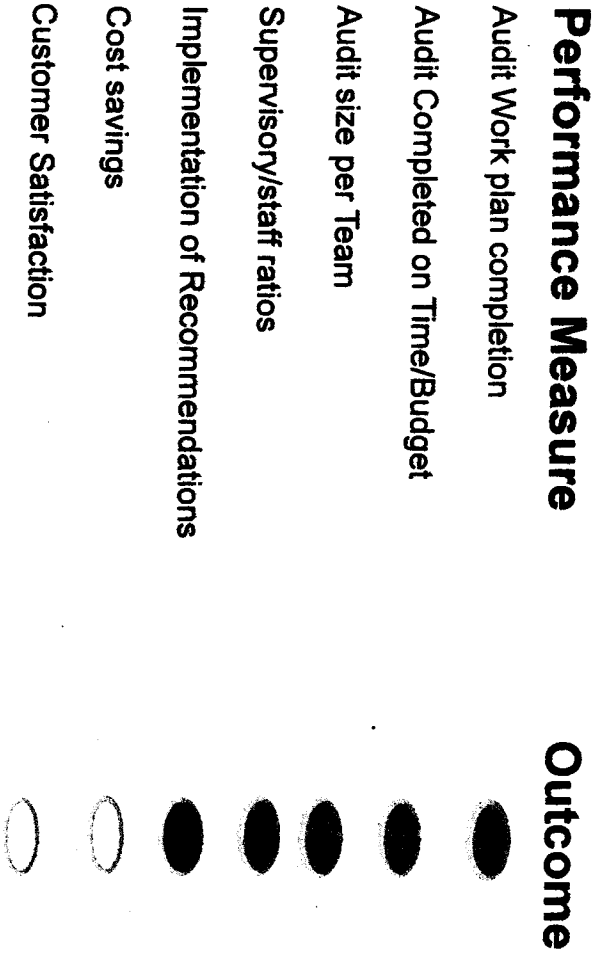
Our review of the County's audit reports, work paper system and monitoring documents indicates that the Division currently collects some of the primary data needed to develop and implement performance measures, but the Division does not formally report on its outputs and outcomes. Figure 7.1 on the subsequent pages shows the overall performance of the Division using both internal and external oriented measures.

Figure 7.0 Performance Based Management Model
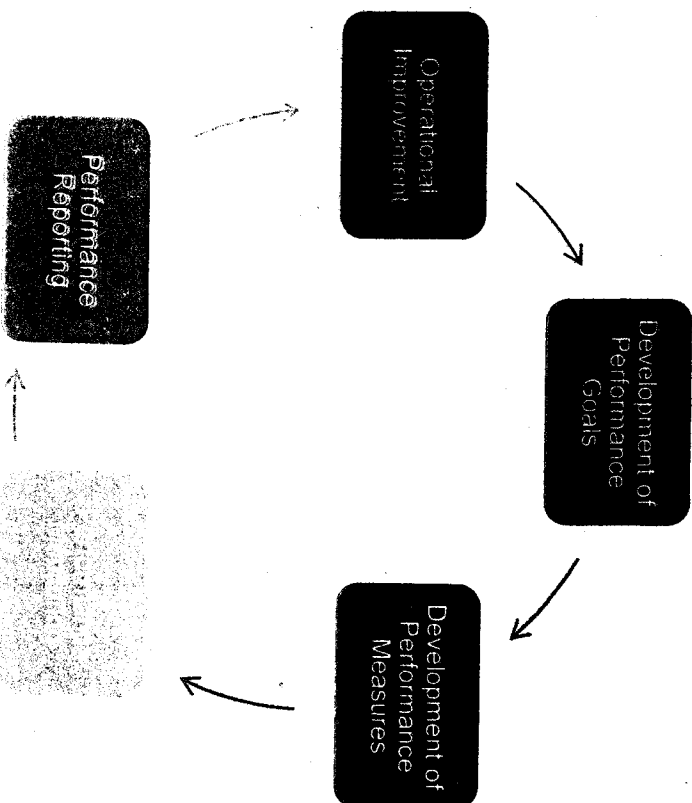
Overall Audit Department Performance

Figure 7.1: Overall Audit Department Performance

Performance Measure

Audit Work plan completion

Audit Completed on Time/Budget

Audit size per Team

Supervisory/staff ratios

Implementation of Recommendations

Cost savings

Customer Satisfaction

Outcome

IntelliBridge
Partners

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Completion of Audit Work Plan is Poor

The Internal Audit Division currently tracks compliance with its audit plan in an internal tracking spreadsheet. We analyzed the ability of the Division to complete its work plan for FY 2010-11 and found the Division fell well short of completion, as of June 30th. As shown Figure 8.0, of the 54 planned audits for FY 2010-11, 52 percent or 28 audits were completed. Another 19 were in progress that will need to be carried over into FY 2011-12. The remaining seven scheduled audits were not yet started and will likely be carried over to FY 2011-12.

The Internal Audit Division routinely carries over audits from prior years. Of the 54 planned audits for FY 2010-11, 16 were prior year audits in need of completion from 2010. Another 20 were new projects and the remaining 18 were follow ups of prior audit recommendations. Given about 33 percent of the work plan is dedicated to follow-up audits, more progress should have been made in completing the work plan. However, as previously described in this report, the Division spends too much of its resources conducting audit work on follow-up reviews than what is necessary. Additionally, audit staff explained that up to three staff were reassigned to work on special projects, including the cost allocation project in 2010 that hindered completion of the audit plan. When this occurs, management loses its ability to hold staff accountable for the Division's performance.

Figure 8.0: Audit Work Plan Progress

Completed

■ In Progress

Not Yet
Started
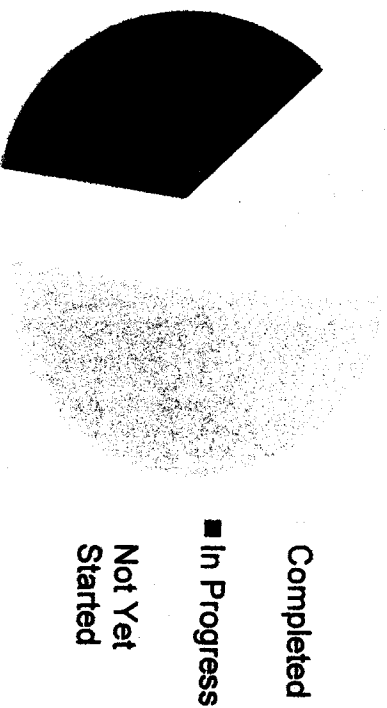
Internal Performance

Audits Completed On Budget

Completing individual audits on-budget and on-time is essential to completing the overall audit work plan. The Division routinely documents the budgeted hours in Team Mate, but the actual hours expended were not regularly captured at the end of the engagement. As a result, we were unable to determine if audits were regularly completed on-time and on-budget due to the incomplete record-keeping in Team Mate. Of the 33 audits that we reviewed, we were able to determine hours assigned and actual hours spent on 10 audits. As illustrated in Figure 9.0, four were under the budgeted number of hours, one was on-budget and five were over-budget. We found at most, audits were completed in excess of 64.5 to 682 hours of the original allocation for five of ten audits. The Division could benefit from more accurate tracking the hours, not only by audit but by each audit phase (planning, execution, reporting) in order to more accurately allocate hours for future projects.
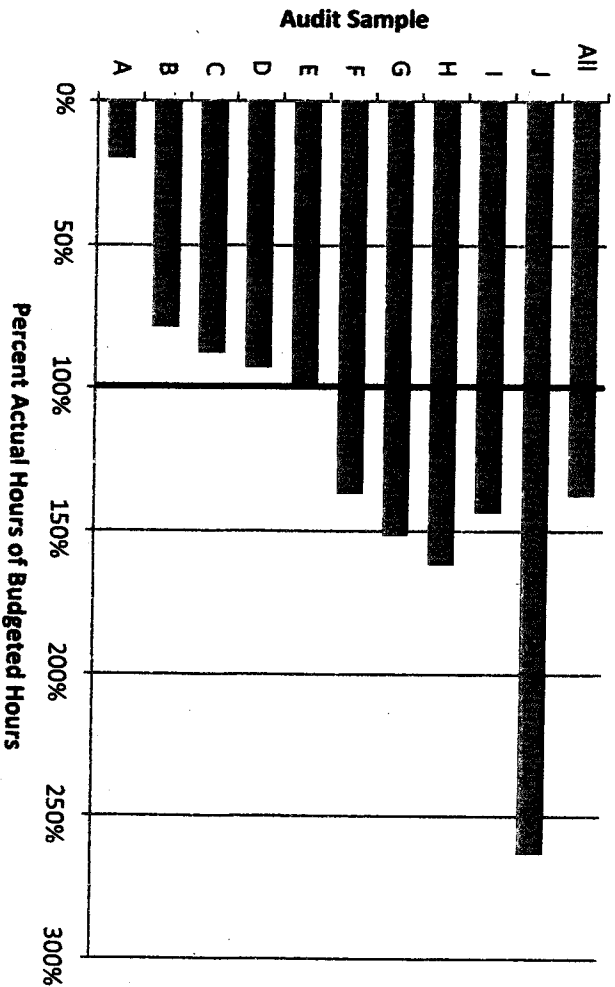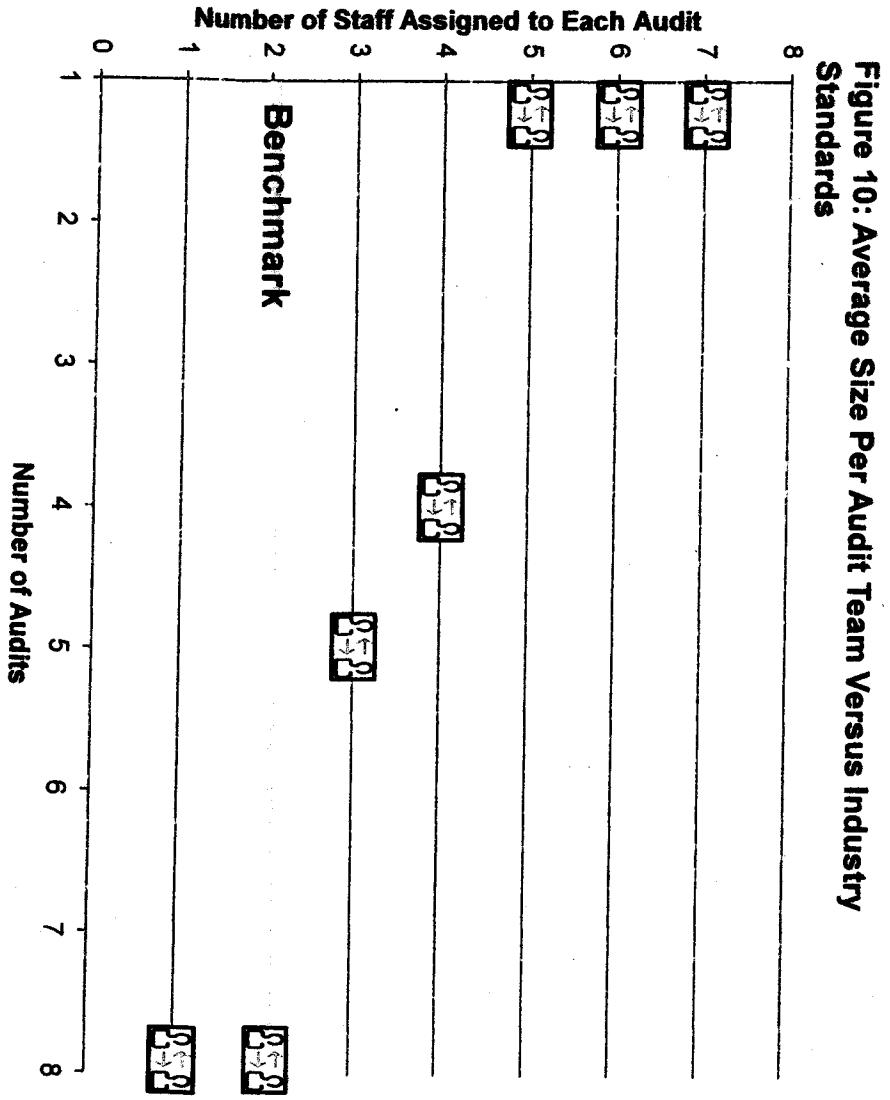
Figure 9.0: On Budget Audit Completion

Audit Sample / Percent Actual Hours of Budgeted Hours

Audit Team Size Per Team

Audit Team Size Per Team

Rightsizing audit engagements is critical to executing audits in a cost effective manner. Generally, for audits conducted under auditing standards, a minimum of two auditors are needed to plan, execute, and report on the findings. The two auditors can include one auditor in charge and one auditor, or one audit manager and one auditor. For follow-up audits, however, one auditor is generally needed. As shown in Figure 10, our analysis of the 34 audits that we reviewed showed the Division was slightly above the minimum standard needed for staffing audit projects, at 2.6 auditors per engagement. We noted that some of the larger audits had a three member team which can account for the higher metric. Nevertheless, even large audits, should require no more than two auditors on them. Audit management explained that larger audit teams occurred when staff were transferred in and out on audits so that other competing priorities can be completed. Having too many rotations on individual audits can impair the transfer of knowledge and understanding of audit issues, which is critical for report preparation.

Figure 10: Average Size Per Audit Team Versus Industry Standards

Number of Staff Assigned to Each Audit

Benchmark

Number of Audits

Internal Performance

Supervisory/Staff Ratios

Another measure of internal efficiency is the audit supervisor to audit staff ratio. Based on our experience in working with other governmental internal audit departments, the optimal audit manager to staff ratio is 1 to 8 up to 1 to 12. In comparison, the Internal Audit Division has a 1 to 4 audit supervisor to staff ratio, as shown in Figure 11. Consequently, the Division may have an additional supervisor than needed if the Division should revamp its procedures for conducting follow-up audits. While it is difficult to determine how many managers and auditors are actually needed within the Division until a countywide risk assessment is performed for the development of an audit work plan, it is important to note the Audit Division may not be ready, at this time, to move to an optimal supervisor to staff ratio of 1 to 8 because of the restructuring and staff training that are needed. As an interim step, an audit supervisor to staff ratio of about 1 to 6 would help the Internal Audit Division address the needs that we outlined in this report on a more timely basis.

Figure 11: Supervisor to Auditor Ratio

Ideal Ratio

Riverside
Ratio
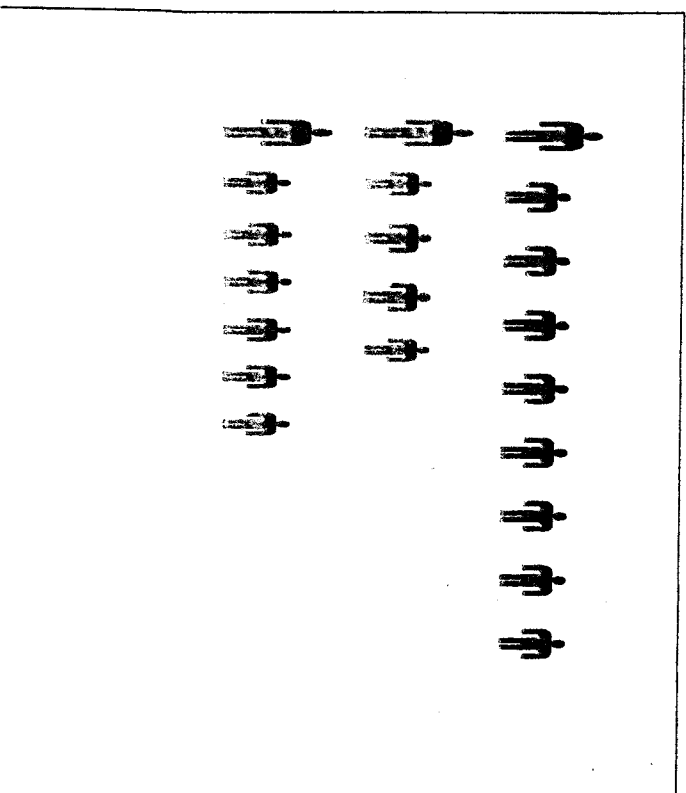(current)

Interim
Ratio

External Performance

Recommendations Are Implemented

Examining the percentage of audit recommendations implemented by audited departments provides an indication of either the quality of the audit recommendation, or of their compliance culture. In our experience, about 70 percent of audit recommendations issued by internal audit departments are subsequently implemented. We reviewed eight follow-up audit reports issued in 2009 and 2010 and the Internal Audit Division had good success with subsequent implementation by County departments. As shown in Figure 12, nine of 12, or 75 percent, of the recommendations were implemented by the audited County department.
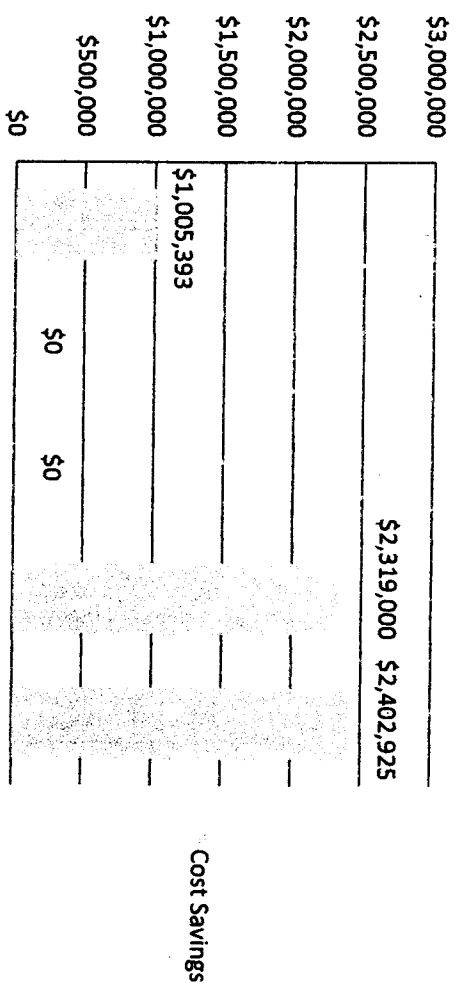
Figure 12: Recommendations Implemented

79
77
75
73
71
69
67

Benchmark

Riverside

Recommendations
Implemented
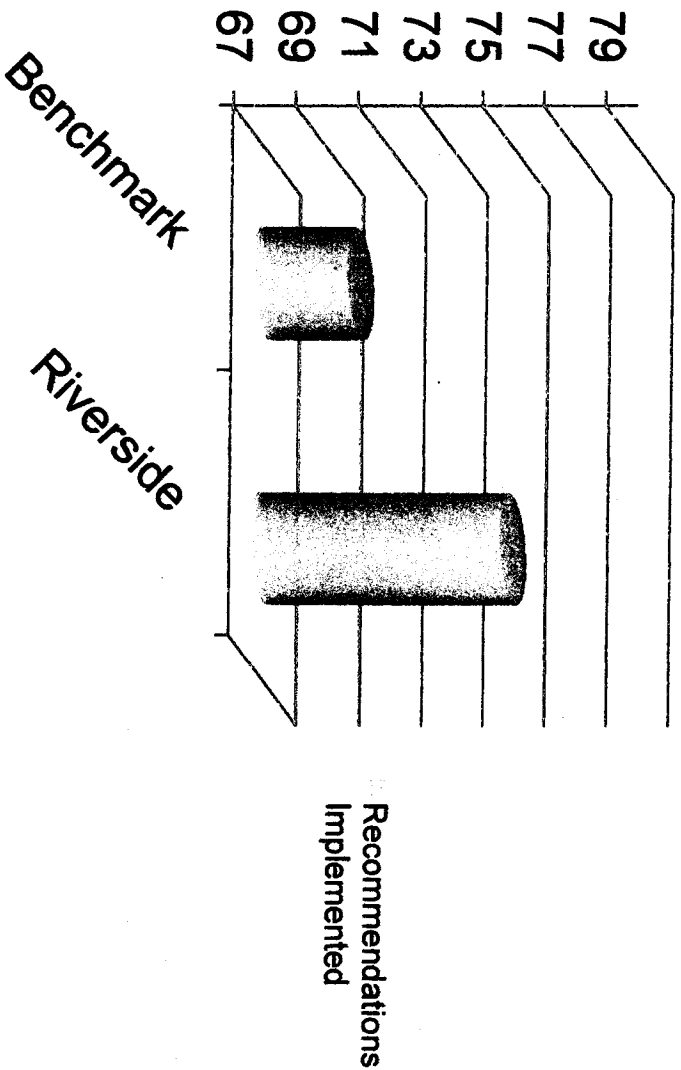
External Performance

More Outcomes Need To Be Accomplished

An audit department's ability to identify cost savings and to enhance service delivery through increased efficiency and effectiveness of the programs and services are critical performance measures. Outcomes in these areas provide concrete evidence on the value of internal audits to County operations, especially when budgets are shrinking. The Division currently tracks cost savings and as shown in Figure 13, the cost savings identified annually have increased. For FY 2009-10, $2.4 million in cost savings were identified. In 2008-09, the results of one audit report identified about $2.3 million in cost savings. Other outcomes are not tracked, however, such as improving efficiency and effectiveness of programs and services. These are not tracked because the Division does not perform audits in these areas.

Figure 13: Cost Savings Accomplished

$3,000,000	
$2,500,000	$2,319,000 $2,402,925
$2,000,000	
$1,500,000	
$1,000,000	$1,005,393
$500,000	
$0	$0 $0

FY2005-06 FY2006-07 FY2007-08 FY2008-09 FY2009-10

Cost Savings

Customer Satisfaction Needs Improvement

Implementation of a customer satisfaction survey provides an excellent gauge on whether an audit department is conducting its audits in a professional, cost efficient and effective manner. The Division, in contrast to many other internal audit departments, routinely sends customer satisfaction surveys to each County department upon completion of an audit. As of June 2011, 15 departments had submitted feedback to the Division with mixed results on the Division's performance. While departments consistently praised the professionalism of the staff, departments varied in their satisfaction about the department's role in adding value and the transparency of the audit process. Of the four county departments that we contacted to assess satisfaction with the Audit Division, one responded to date, and the results questioned the value added of the audit.

Internal Audit Division Customer Satisfaction Survey Feedback

The department appreciates the value and feedback received from the report and auditors

Continued pleasure to work with the Internal Audit Division on strengthening internal controls, a true group of professionals

Audit Process took over a year. Auditor did not pass on information significant to the audit for over 5 months

The first audit took over a year to complete.
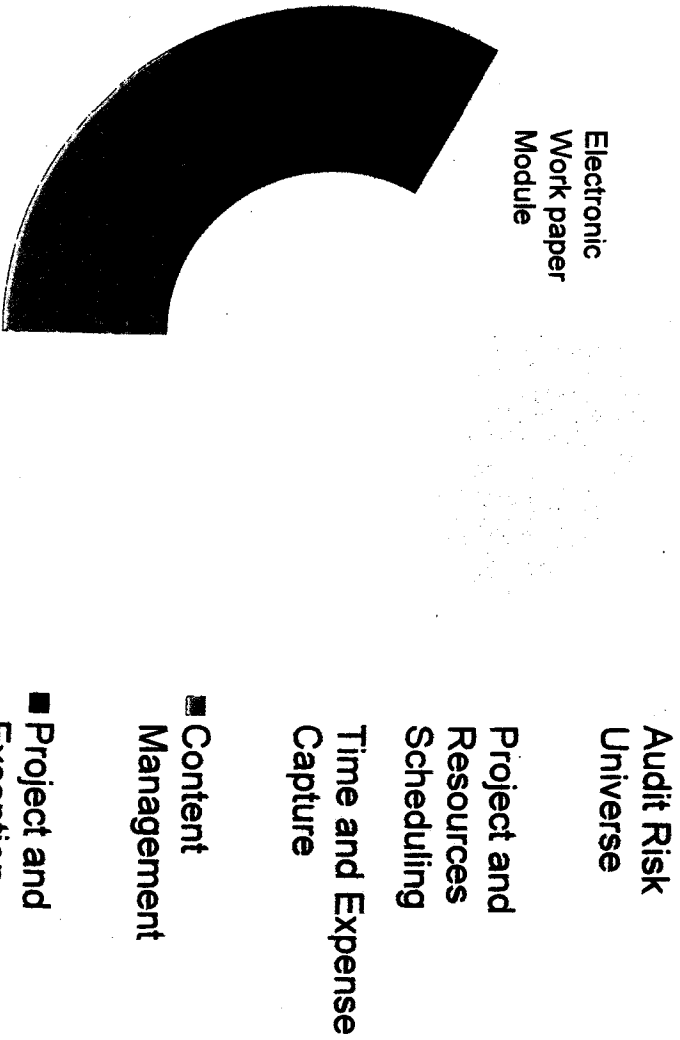
Additional direction would have been appreciated.

Other Issues

Better utilization of document management system provides an opportunity to update audit process

Audit document management systems have evolved to allow for electronic administration and documentation of operations within an audit department. The Division utilizes Team Mate Software, which is a commonly used application among internal audit departments. The application provides five modules -- Audit Universe Risk Assessment, Project and Resources Scheduling, Time and Expense Capture, Content Management, Electronic Work Paper, and Project and Exception Tracking. At present, the Division only uses the Electronic Working Paper module for central document management, as shown Figure 15. The types of working papers maintained in the system include documents, spreadsheets, transactional data, entrance and exit conference agendas, records of interviews, surveys, draft and final reports. Audit management staff explained the other modules were not configured for use and the Division no plans are in the future to do so. Configuring many of the remaining modules can help address many of the gaps in operations that we describe in this report, including risk assessment activities, project and exception tracking.

Figure 15:Team Mate Module Utilization

Electronic Work paper Module

Audit Risk Universe

Project and Resources Scheduling

Time and Expense Capture

Content Management

Project and Exception Reporting

Other Issues

Better Training Strategy Can Enhance Auditor Skill Sets

All staff who perform audits in accordance with international internal auditing standards or generally accepted governmental auditing standards must have 80 continuing professional education credits every two years. The Division generally fulfills this requirement by sending staff to training seminars sponsored by professional associations. As shown in Figure 16, the Western Internal Audit Association (IIA) is the most common resource utilized for training.

Of the nearly 120 courses taken among audit staff in the last three years, the learning topics covered all aspects of the audit process from planning to reporting, but only a few staff have taken courses in performance auditing and information technology, audit areas that other internal audit organizations have evolved to include. Given that some members of the audit staff are closely involved with the local IIA chapter, with one member serving as the local Chapter President, audit training through this organization could perhaps be planned to address the training needs of the Division.

One of the more substantial training areas in need of development is an internal training program for newly hired audit staff. All of the audit staff reported having some type of hands-on training on the County's internal audit process upon arrival, and many also rely on their audit training received from other agencies. Having a centralized internal audit training program will help ensure that all staff implement County audits in a consistent and uniform manner. A training program should address approaches to audit planning, execution and reporting, including training on the myriad of methods for collecting and analyzing data.

Figure 16: Training Sources Utilized by Audit Staff
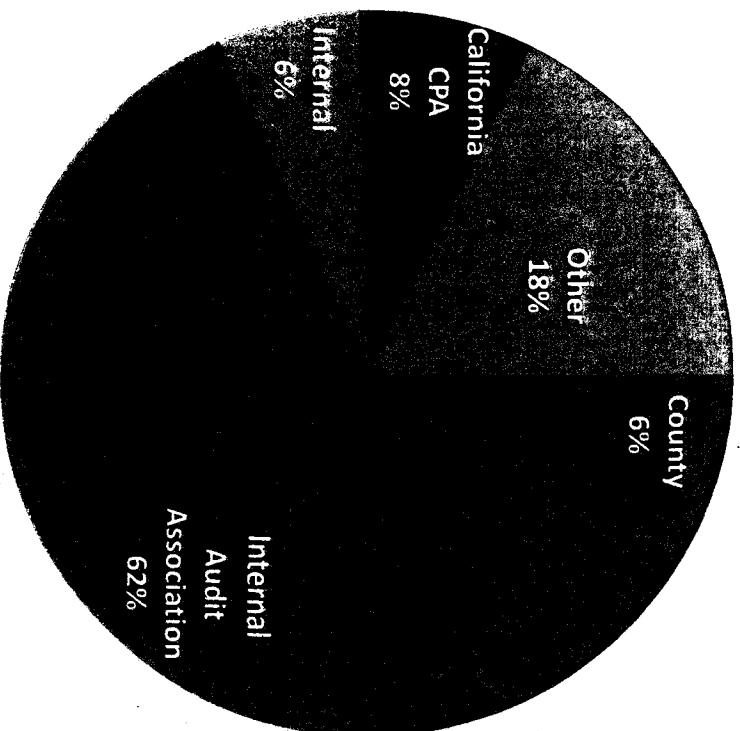
Other Issues

More Open Communication Can Benefit Internal Audit Division

Effective communication throughout the audit process between audit management, audit team members, and auditees ensures awareness among all participants of the purpose of the audit, how audit work is to be performed, amount of progress made, audit related issues that need mitigation, and the overall direction. We noted internal communication activities could be more open and transparent. For example, while audit management meets with the Deputy Auditor-Controller on a regular basis to discuss audit related issues, the results of those meetings, when applicable, are not often to communicated to staff. Audit staff reported a desire to hear firsthand the priorities of management and other feedback provided by the Auditor-Controller's Office. Establishing a protocol for communicating with all key participants and stakeholders requires stabilization in the Chief Audit Executive position, which has not been permanently filled because of recent changes in the Auditor-Controller position.

Effective communication can enhance teambuilding

APPENDIX II – OBJECTIVES, SCOPE, AND METHODOLOGY

IntelliBridge Partners

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Objectives and Methodology

Objectives

IntelliBridge Partners conducted an operational review of the internal audits division to assess the:

1. Annual audit planning process, including risk assessment, selecting audit engagements, budgeting and staffing;

2. Training and hiring of audit personnel;

3. Execution of audit engagements including supervision, analytics used, and quality control; and

4. Compliance with internal policies and procedures, as well as industry standards, for auditing.

The County also asked IntelliBridge Partners to make recommendations that include analytics that can be utilized in audit reports for standardized analysis and fraud detection.

Methodology

To determine how the internal audit division develops its annual audit plan, IntelliBridge Partners reviewed documentation including policies and procedures related to the planning process, prior years' audit plans, budgets, and historical audit files. We reviewed this documentation to assess the extent the planning process is based on risk; complies with industry best practices, and was an efficient allocation of the division's resources.

To evaluate if the division has the knowledge, skills and abilities to produce high-quality audits, we interviewed managers and staff to document the current qualifications and training needs. We also reviewed documents containing training records to determine strengths and weaknesses.

To assess the efficiency and effectiveness of the audit implementation and reporting processes, we randomly selected 34 of 84 historic audits conducted in fiscal years 2007-2010 to determine if audits had been delivered on-time/budget, and the extent standardized analytics were used. We interviewed managers and staff to determine if there is adequate supervision of staff and managers. We also interviewed County executives and audited departments to discuss if audit results are communicated effectively.

To identify ways to improve the execution of audit engagements, we reviewed the sample of historical audit files, and policies and procedures, to assess if the system of quality of control meets industry standards.

Riverside County Board of Supervisors
Request to Speak

✓

Submit request to Clerk of Board (right of podium),
Speakers are entitled to three (3) minutes, subject
Board Rules listed on the reverse side of this form.

SPEAKER'S NAME: PAUL ANGULO

COUNTY ▬▬▬▬ AUDITOR- CONTROLLER

(only if follow-up mail response requested)

City:_____**Zip:**_____

Phone #: X 5 3 8 0 6

Date: 11/22/11   **Agenda #** 3, 4

PLEASE STATE YOUR POSITION BELOW:

Position on "Regular" (non-appealed) Agenda Item:

✓___**Support**   _____**Oppose**   _____**Neutral**

Note: If you are here for an agenda item that is filed
for "Appeal", please state separately your position on
the appeal below:

_____**Support**   _____**Oppose**   _____**Neutral**

I give my 3 minutes to:_____