



# County of Monterey

Board of Supervisors  
Chambers  
168 W. Alisal St., 1st Floor  
Salinas, CA 93901

## Board Report

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**File #:** BC 19-022, **Version:** 1

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- a. Receive an update on the Auditor Controller's Fiscal Year 2018-19 Internal Audit Plan; and,
- b. Support approval of Fiscal Year 2019-20 Internal Audit Projects.

### RECOMMENDATION:

It is recommended that the Budget Committee:

- a. Receive an update on the Auditor Controller's Fiscal Year 2018-19 Internal Audit Plan; and,
- b. Support approval of Fiscal Year 2019-20 Internal Audit Projects.

### SUMMARY/DISCUSSION:

On September 25, 2018, the Board of Supervisors (Board), through Resolution No. 18-316, approved the Internal Audit Policy and revised Budget Committee Roles and Responsibilities recommended by the CAO's Office.

On December 12, 2018 the Board approved the Auditor-Controller Internal Audit Division's (IAD) Internal Audit Policies and Operations Manual and the Fiscal Year 2018-19 Internal Audit Plan.

Attachment A is the Budget Summary contained in the approved Fiscal Year 2018-19 Internal Audit Plan. Attachment B is a visual depiction of the scheduled audits and their timing. Both attachments have been updated to reflect budget vs. actual activity.

Originally, the plan contained a total of 13 projects covering a period of 7 months. As of March 13, The IAD has started 5 projects (4 audits and 1 Risk Assessment). Although still open for completion, projects range from 70% - 95% complete. We anticipate issuing two audit reports in March and the remaining two in April. Fieldwork for the Risk Assessments has been completed, however, refinement of the Risk Assessment is necessary as discussed later in this report.

The primary reason for the gaps in the Internal Audit Plan is the Chief Deputy's lack of familiarity with County operations. The work load distribution and assigned hours were estimated based on the Chief Deputy's prior experience working for private organizations, not with any direct experience auditing County operations. The key constraints not considered in the original plan relate to the amount of administrative work relating to developing and drafting Request for Proposals (RFP), Board Reports, attending board, committee and department meetings. and training internal audit staff. Additionally, the performance of the County-wide Risk Assessment and the Cal Park Concession Audit are significant and complex projects for the County and require the Chief Deputy's intense focus. Adhering to the plan is necessary, however, quality of audit work and adding value to the County take precedence. With more experience and insight into County operations and understanding of training and administrative needs, the IAD will moderate items planned and provide more reasonable expectations going forward.

Attachment C is the External Audit Plan schedule, which list those audits completed, scheduled or anticipated. Changes to this schedule include the completion of the CAFR, Measure X, and Treasury Oversight Committee audits and the addition of an RFP for audit services surrounding the District Attorney's Fraud Programs. These

services are funded through grant programs.

Fieldwork on the County-wide Risk Assessment has been completed. The IAD recently (March 8, 2019) received a draft copy. We would like to share the results with the Budget Committee and the Board, however, in its current state, the Risk Assessment is not ready for presentation. The IAD's next steps are to clarify ambiguous items with Macias, Gini & O'Connell, LLP (MGO) the accounting firm who assisted with the Risk Assessment. Then share related results with the Board and senior management members who participated in the Risk Assessment. We expect to submit the finalized Risk Assessment for the Board's review in May 2019. Although the Risk Assessment is a rough draft the Chief Deputy IAD has reviewed the content and has developed a list of proposed audits and review work (See Attachment D). The list is preliminary. Once the Risk Assessment has been refined and finalized, the proposed audit listing will be updated, and audits deemed having high priority will be scheduled into the final Internal Audit Plan. The final Internal Audit Plan will be submitted with the Risk Assessment in May 2019.

In its current state of just two internal audit employees, the IAD will achieve little progress to meaningful completion of many of the projects identified. The sole staff member of the department, although motivated and knowledgeable about the County, is not proficient with the auditing standards, documentation requirements, and analytical techniques. This requires substantial training and coaching to ensure the work product is meeting the quality standards of the profession. With the Chief Deputy unable to delegate important task, he is required to perform all of them. (e.g. strategy setting, planning, administration, information management, work paper review and quality assurance, performing audit procedures, drafting Board report, Audit reports, attending Board and Committee meetings etc.) We ask that the Budget Committee support our FY 2019-20 IAD position augmentation requests during the Board's upcoming budget deliberations. In this way, the IAD and the County is equipped to execute on our finalized Internal Audit Plan.

An additional General Fund (GF) contribution of \$424,649 in FY 2019-20 is being requested. Related costs will contribute to the successful operation of department programs funded by federal and state agencies and fees and hence be recoverable under the grant or fee structure. Both GF and non-GF departments will benefit from these programs.

#### OTHER AGENCY INVOLVEMENT:

This Board Report and related materials are in-line with the CAO's Internal Audit Policy and the Institute of Internal Auditors, International Professional Practices Standards, which require the IAD to 1) present an Internal Audit Plan based on prioritization using a risk-based assessment of County programs and operations, 2) explain any significant divergence from the approved Internal Audit Plan, and 3) the impact of any resource limitations.

#### FINANCING:

There are no financing implications as a result of this report.

#### BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The internal audit activity is a key cog in the risk management framework. The mission of the Auditor-Controller's Internal Audit Division is to help Monterey County's Board of Supervisors and Department Heads achieve their stated initiatives and goals by providing effective audit and consulting services designed to provide objective assurance, advice, and insight.

Check the related Board of Supervisors Strategic Initiatives

☒ Economic Development  
☒ Administration  
☒ Health & Human Services  
☒ Infrastructure  
☒ Public Safety

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Attachments:

Attachment A - FY2018-19 Budget Summary

Attachment B - FY2018-19 Internal Audit Plan Schedule

Attachment C - FY2018-19 External Audit Plan Schedule

Attachment D - FY2019-20 Internal Audit Proposals

Attachment E - Interim Audit Report - Lakes Operations