

August 6, 2008

Mr. Phil Wood, City Auditor
City of Tulsa
Tulsa, OK

RE: Quality Assessment

Dear Mr. Wood:

We have completed our Quality Assessment (QA) of the City of Tulsa's Office of City Auditor for the five-year period ended June 30, 2007. The assessment was conducted in accordance with the IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.

The accompanying report is organized into two sections: (1) an Executive Summary and (2) Observations and Recommendations. The Executive Summary includes our opinion as to the Audit Office's conformance with standards and provides an overview of the recommendations we offer. The Observations and Recommendations section presents the detail information supporting our recommendation and includes a response by the Audit Office to each recommendation.

We wish to acknowledge the high level of cooperation and assistance extended to our review team by both the Audit Office and City management. The candid and constructive comments we received were valuable in our review.

Respectfully,

Crawford & Associates, P.C.

Crawford & Associates P.C.

Enclosure

EXECUTIVE SUMMARY

Crawford & Associates, P.C. (the "firm") was engaged to conduct a Quality Assessment (QA) of the City of Tulsa, Oklahoma's Office of City Auditor (the "Audit Office") for the five-year period ended June 30, 2007. The QA was conducted in August 2008, using a team of experienced, independent auditors from the firm. The principal objectives of the QA were to assess the Audit Office's conformity to the Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing* (Standards), evaluate the Audit Office's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of the City's management), and to identify opportunities to enhance its management and work processes, as well as its value to the City.

As part of the preparation for the QA, the Audit Office prepared a self-study, with detailed documentation, and also sent out surveys to its staff. In conjunction with the commencement of the onsite work by the QA team on August 4th, 2008, the team leader gathered additional background information, including a review of the self-study and responses to the surveys, selected certain senior City management for interviews during the onsite fieldwork, and finalized the planning and administrative arrangements for the QA. In addition to interviews with senior City management, we also interviewed selected Audit Office staff. We also reviewed the Audit Office's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the Audit Office's working papers and reports.

The Audit Office environment where we performed our QA is adequately structured (although certain improvements could be made), well managed and progressive, the IIA *Standards* are understood and management is endeavoring to provide useful audit tools and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation already in place at the Audit Office.

Our recommendations are divided into two groups:

- Those that concern the City as a whole and suggest actions by senior management. These matters came to our attention through the review of the self-study, responses to the audit surveys and interviews. We include them because we believe they will be useful to City management and because they impact the effectiveness of the Audit Office and the value, independence and safeguards it can add.
- Those that relate to the Audit Office's staffing, deployment of resources and similar matters that should be implemented within the Audit Office, with support from senior City Management.

Highlights of the more significant of our recommendations are set forth below, with details in the main body of the report.

PART I – MATTERS FOR THE CONSIDERATION OF CITY MANAGEMENT

1. **Enhance the independence and communication of the Audit Office** by changing the City Charter to eliminate the current Mayor's Audit Advisory Committee, and replace it with a standing audit committee of the City Council.
2. **Safeguard the independence and integrity of the Audit Office** by changing the City Charter to allow for the appointment of, rather than the election of, the City Auditor and establish professional qualifications necessary for such appointment.
3. **Enhance the ability of the Audit Office to further comply with the IIA *Standards*** by changing the City Charter to allow the Audit Office to evaluate the adequacy and effectiveness of controls encompassing the City's governance and the goals and objectives for programs without a request of the City Council.

PART II – ISSUES SPECIFIC TO THE AUDIT OFFICE

1. **Improve the percentage of direct time spent on audits** to conform more closely to IIA guidance and best practices related to the percentage of direct time in relation to total available time.
2. **Improve the efficiency and effective use of time spent on audits** to ensure audit resources are appropriate, sufficient, and effectively deployed to achieve the approved audit plan.
3. **Enhance the effectiveness of the annual risk assessment and audit planning process** by including a comprehensive consideration of IT audit risk.

OPINION AS TO CONFORMITY TO THE STANDARDS

It is our opinion the Audit Office generally conforms to the following *Standards*:

- 1000-Purpose, Authority and Responsibility,
- 1100-Independence and Objectivity,
- 1200-Proficiency and Due Professional Care,
- 1300-Quality Assurance and Improvement Program,
- 2000-Managing the Internal Audit Activity,
- 2100-Nature of Work,
- 2200-Engagement Planning,
- 2300-Performing the Engagement,
- 2400-Communicating Results,
- 2500-Monitoring Progress,
- 2600-Resolution of Management's Acceptance of Risks, and
- The IIA's *Code of Ethics*,

With opportunities for further improvement in such areas as changing the City Charter and increasing the efficiency and effectiveness of the Audit Office.

In our lexicon, "generally conforms" means that an Audit Office has a charter, policies and processes that are judged to be in accordance with the *Standards*, with some opportunities for improvement, as discussed in our recommendations. "Partially conforms" means that deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the Audit Office from performing its responsibilities in an acceptable manner. "Does not conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the Audit Office from performing adequately in all or in significant areas of its responsibilities.

We appreciate this opportunity to be of service to the City. We will be pleased to respond to further questions concerning this report and to furnish any desired information.



Frank Crawford, CPA
Project Manager, Crawford & Associates P.C.

OBSERVATIONS AND RECOMMENDATIONS

PART I – MATTERS FOR THE CONSIDERATION OF CITY MANAGEMENT

1. ENHANCE THE INDEPENDENCE AND COMMUNICATION OF THE AUDIT OFFICE

Observation

As we have reported in our previous quality assessments, the Audit office continues to function without the guidance, oversight, and communication from a single audit committee with broad representation. The Audit Office currently has some audit committee relationships with several groups, including the elected City Auditor, the Mayor's Audit Advisory Committee, the City Council Finance Committee, and the Mayor's Management Team. It should be noted that subsequent to our previous Quality Assessment, the Mayor's Audit Advisory Committee was not fully operational and has not until recently started functioning in its previous capacity. Although this committee appears to be the closest single entity to a traditional audit committee, all of the members are appointed by the Mayor. This form of organization prevents the Committee from being truly representative and independent which consequently hinders its ability to function as an effective audit committee as defined by the Standards. As a result, the Audit Office has no single entity available to provide input to and approve the annual audit plan, receive and review final reports, and monitor overall performance of the Audit Office. An effective audit committee should be comprised of individuals who are for the most part independent of the day-to-day management of the government and who have the necessary program and/or management expertise to perform their review function effectively.

Recommendations

The City should establish an effective City Council Audit Committee, by charter amendment, with members chosen by the elected City Council to ensure broad representation. To address political concerns, the ideal representation on this committee would consist of representatives from the City Council, the executive branch, and the public.

Audit Office Response

Internal Auditing agrees with the finding and recommendation. The members of the Mayor's Audit Advisory Committee are capable and supportive of the internal audit function. However, creation of the committee via executive order lacks both independence and authority sufficient to meet recommended standards for audit committees. Amendment of the City Charter is outside control of the Audit Office. The City Auditor has previously submitted recommendations for such charter change, creating increased awareness by the Mayor and City Council of the need for this improvement. Therefore, Internal Auditing will again provide this recommendation to the Mayor and City Council for their consideration and action.

2. SAFEGUARD THE INDEPENDENCE AND INTEGRITY OF THE AUDIT OFFICE

Observation

The present city Charter permits an individual to hold the office provided "such person shall be a qualified elector and resident of the City at the time of filing for the office." There currently are not professional qualifications for education, experience or certification found in the Charter.

In our opinion, professional qualifications should be and could be required if the auditor were an appointed position rather than an elected position. Auditing standards also state the internal auditors "should be organizationally located outside the staff or line management function of the unit under audit."

Recommendation

We feel that the movement toward an appointed City auditor would enhance the Audit Office's independence and integrity, with some type of professional certification required such as a Certified Internal Auditor (CIA) or a Certified Public Accountant (CPA). This would need to occur in conjunction with the establishment of a City council Audit committee for reporting purposes as described in Finding 1 above.

Audit Office Response

Internal Auditing agrees with the finding and recommendation. Implementation of requirements for professional qualifications for an appointed City Auditor would help ensure improved conformance with audit standards. This recommendation, related to both Observations Part I. 1. and Part I. 3. regarding amendment of the City Charter, has been previously submitted by the City Auditor for consideration by the Mayor and City Council, with increasing interest each time. Internal Auditing will again provide this recommendation for consideration and possible action by the Mayor and City Council.

3. ENHANCE THE ABILITY OF THE AUDIT OFFICE TO FURTHER COMPLY WITH IIA STANDARDS

Observation

Audit standards state that the internal audit activity of any public or non-public entity should evaluate the adequacy and effectiveness of controls encompassing the organization's governance, operations and information systems. This entails examining the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, regulations and contracts. The standards also state the "internal auditors should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended." The current City Charter does not appear to allow for an easy selection by the city Auditor of audits to determine the effectiveness and efficiency of operations or evaluation of the goals and objectives for operations and programs, also known as performance auditing. Performance audits are defined by the audit standards as "an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action."

Recommendation

Since the ability to initiate performance audits is a key ingredient for an internal audit activity to be of value to a government, we recommend that the City Charter be modified to allow the Audit Office to incorporate performance audits into the audit universe so that each year, certain performance audits could be selected and added to the audit plan. Again, we feel that this should be done in conjunction with the Charter changes mentioned in Findings 1 and 2 above.

Audit Office Response

Internal Auditing agrees with the finding and recommendation, with reservations. Internal Auditing agrees that adding authority for the City Auditor to conduct performance audits would increase compliance with audit standards and add value to the City of Tulsa. However, the City Charter's not authorizing performance audits is a safeguard to its current provision for an elected City Auditor with no requirement for professional qualifications, and for the lack of oversight by an independent audit committee.

As such, this recommendation should only be implemented in conjunction with charter changes to create a Council Audit Committee and to require professional qualifications for an appointed City Auditor. Authority for performance auditing by an elected auditor without these safeguards presents a significant risk of possible misuse of the audit function for political purposes. Internal Auditing will again provide this recommendation, along with the recommendations for Observation Part I. 1. and Part I. 2. for consideration and possible action by the Mayor and City Council.

PART II – ISSUES SPECIFIC TO THE AUDIT OFFICE

1. IMPROVE THE PERCENTAGE OF DIRECT TIME SPENT ON AUDITS

Observation

IIA guidance and best practices imply that the amount of direct time spent on audits as a percentage of total available time should be approximately 75% - 80%. However, the guidance is very subjective and broad-based, and may not consider the many nuances of the governmental audit arena. Based upon the Audit Office self-study hours schedule, the Audit Office direct time percentage was 46% during 2007. This is a decrease from 52% in 2002.

Recommendation

Although the recommended percentage of direct time is more of a best practice without regard to the type of audit environment, we suggest that management of the Audit Office perform some further benchmarking with similar audit organizations to determine an appropriate percentage of time ratio. Once a benchmark has been set, the Audit Office could then measure themselves more accurately with the norms for a governmental audit environment. If an unfavorable percentage of time ratio remains after comparison to benchmarking data, we suggest the Audit Office attempt to determine the cause(s) of the variance from the benchmarking data and instigate new policies and procedures to improve the efficiency of the Audit Office.

Audit Office Response

Internal Auditing agrees with the finding and recommendation. For some time, management has recognized the need to improve low direct time percentage. Internal Auditing participates with the Association of Local Government Auditors (ALGA) "Benchmarking and Best Practices Survey". Ratios of direct time to total time for City of Tulsa's peer groups from the last three ALGA surveys were 62.0% for 2002, 62.9% for 2004, and 68.9% for 2006. Based on this survey information, Internal Auditing will establish a goal to reach a range of 60% to 65% direct to total time ratio.

Management will emphasize improvement of direct time percentages with implementation of the following activities:

- a. Specific performance objectives for improving direct time of individual audit staff have been implemented as part of annual performance planning. Management will increase these goals and include them on individual audit project evaluation forms of audit staff in addition to the annual reviews in the next review period. Management's increased monitoring will emphasize achievement of improved direct time goals.
- b. Project duration goals have been implemented as part of annual performance planning, as described in the response to recommendation II.2.a. Management will reduce project duration goals to emphasize timely completion of audit projects. In turn, this should improve staff direct time percentages.

c. Project team meetings will be held by management and audit team members on a routine basis to monitor progress of projects, ensure work assignments are adequately allocated among team members, and improve productivity of audit staff.

d. Departmental audit status reports will be discussed monthly at staff meetings to ensure audit projects are on target and encourage staff to meet their target due dates. These status reports were being discussed on a quarterly basis during the prior year.

2. IMPROVE THE EFFICIENCY AND EFFECTIVE USE OF TIME SPENT ON AUDITS

Observation

IIA Standards state, "The Chief Audit Executive should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan." We noted that time spent on engagements consistently exceeded time budgets. This will ultimately lead to the internal audit function being unable to achieve goals and objectives regarding audit coverage. This may be caused by: (1) unrealistic time budgets, (2) inefficient and ineffective use of audit resources, or (3) a combination of the first two factors.

Recommendation

We suggest the Audit Office consider the appropriateness of the original budgets as well as whether or not audit resources are being used efficiently and effectively.

Audit Office Response

Internal Auditing agrees with the finding and recommendation. Management recognizes the need for improvement in completion of internal audit projects within time budgets and planned completion dates. Management will improve the efficient and effective use of audit resources spent on audits by implementing the following activities:

a. Project duration goals have been implemented as part of individual audit staff performance planning, as mentioned in the response to recommendation II.1.b. These project duration goals will be reduced by two months to encourage more timely completion of audit projects.

b. To improve timeliness, management will reduce and more specifically define the scope of large audit projects. Management will also divide projects into phases and set due dates for each phase. Management will monitor due dates and review them in the project team meetings mentioned in response to recommendation II.1.c.

c. Management will monitor and discuss with staff the progress of audit projects when status reports are reviewed monthly in staff meetings, as mentioned in the response to recommendation II.1.d.

We believe reduced project duration goals, improved scope statements for large audit assignments, enhanced project timelines, and increased management monitoring will improve the efficiency and effectiveness of audit resources.

3. ENHANCE THE EFFECTIVENESS OF THE ANNUAL RISK ASSESSMENT AND AUDIT PLANNING PROCESS

Observation

IIA Standards state that the Chief Audit Executive (CAE) should establish risk-based plans on at least an annual basis to determine the priorities of the internal audit activity, which, in turn, should be consistent with the organization's goals and strategies. To develop a risk-based audit plan, CAEs should first perform a organization-wide risk assessment.

The proper execution of an appropriate IT risk assessment — that is part of the overall risk assessment — is a vital component of organization-wide risk management practices and a critical element for developing an effective audit plan. The IT risk assessment process goes beyond incorporation of Computer Assisted Audit Techniques (CAATs), such as the use of data mining software, during the audit process. According to the IT Governance Institute's Control Objectives for Information and Related Technology (COBIT), "For many organizations, information and the technology that supports it represent the organization's most valuable assets." We noted during our review of the Audit Office's risk assessment and planning process that they are not comprehensively considering IT risk at the entity-wide level.

Recommendation

We suggest the Audit Office incorporate a comprehensive consideration of IT risk during their annual risk assessment and planning process. To assist them in this process, the Audit Office may want to consider using a resource such as the *Global Technology Audit Guide: Developing the IT Audit Plan* promulgated by the Institute of Internal Auditors.

Audit Office Response

We agree with the finding and recommendation. Management recognizes the need for improving IT risk assessment and audit coverage. Management will improve the annual enterprise risk assessment process by expanding the audit program to specifically include IT risk at the entity-wide level. Internal Auditing also plans to request addition of a second IT Auditor position for the department beginning in fiscal year 2009-10.

In 2008, Internal Auditing worked with the IT Department to assess 15 high-risk areas of concern to IT management. In the 2009 risk assessment process, Internal Auditing plans to use the COBIT framework to start analysis of 32 of the 34 COBIT control objectives which are applicable to the City of Tulsa's IT environment.