



INTERNAL SELF-ASSESSMENT WITH INDEPENDENT EXTERNAL VALIDATION

As of June 30, 2012

City of Tulsa Internal Auditing
June 2014



INTERNAL SELF-ASSESSMENT WITH INDEPENDENT EXTERNAL VALIDATION

City of Tulsa Internal Auditing

A handwritten signature in black ink, appearing to read 'Vicki Peters', written over a horizontal line.

Vicki Peters, CBA, MBA
Senior Internal Auditor

A handwritten signature in blue ink, appearing to read 'Steve Jackson', written over a horizontal line.

Steve Jackson, CPA
Internal Audit Manager

AUDIT TEAM:

Steve Jackson, CPA — Internal Audit Manager
Vicki Peters, CBA, MBA — Senior Internal Auditor



June 4, 2014

Ms. Cathy Criswell
City Auditor
Office of the City Auditor
175 East 2nd Street, Suite 6-65
Tulsa, OK 74103

Dear Ms. Criswell:

Crawford and Associates, P.C. was engaged to conduct an independent validation of the City of Tulsa Office of the City Auditor internal audit (IA) activity's self-assessment. The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the IA activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*. Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive (CAE).

In acting as validator, we are fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the time period of June 2 - 4, 2014, consisted primarily of a limited review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with the City Auditor, Internal Auditing staff, the Director of Finance, the Financial Services Manager in the Finance Department, the Mayor's Chief of Staff, and a member of the Mayor's Audit Advisory Committee.

We concur fully with the IA activity's conclusions in the self-assessment report attached. Implementation of all the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the IA activity and ensure its full conformity to the *Standards*.

We would like to express our appreciation for all the courtesy and assistance we received from staff during our work at the City and hope that this report will be of benefit to the Office of the City Auditor.

Crawford & Associates, P.C.

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INTRODUCTION

Government auditing strengthens public governance by providing for accountability and protecting the core values of government by ensuring managers and officials conduct the public's business transparently, fairly, and honestly.

EXECUTIVE SUMMARY

We conducted a quality assessment (QA) of the internal audit (IA) activity of the City of Tulsa in preparation for validation by an independent assessor.

The principal objectives of the quality assessment were:

1. To fully assess Internal Audit's conformance to the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards,) their Code of Ethics and with the definition of Internal Auditing.
2. To determine the status of prior quality assurance review findings (both internal and external).
3. To identify opportunities for improving the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

According to the Standards, the quality assurance and improvement program must include:

- Ongoing monitoring of the performance of the IA activity. This includes day-to-day supervision, review, and measurement of the IA activity;
- Periodic reviews to evaluate conformance with the definition of Internal Auditing, their Code of Ethics, and the Standards; and,
- External assessments conducted at least once every five years.

This reviewer would like to acknowledge that she was given complete freedom to perform the quality assessment and at no time did the Chief Audit Executive (CAE) or her assigned Audit Manager impede the work performed. The review team was provided the highest level of cooperation and assistance, and our recommendations were met with thoughtful consideration and a desire to build on the structural foundation already in place at the City of Tulsa City Auditor's Office.

SCOPE AND METHODOLOGY

As part of the preparation for the QA, the IA activity prepared a self-study document with detailed information, and also sent surveys to department managers of areas audited by IA. Extensive background information was gathered by IA to provide a view

of the IA department after the retirement of Auditor Wood. The IA department has had three elected City Auditors since the last external quality assessment and has experienced, with the exception of one senior auditor, a total staff turnover during this period. We, therefore, did not send surveys to the IA staff as normally would be done. We used the IIA Quality Assessment Manual, Updated 6th Edition, to perform the review. We reviewed the IA activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA activity's workpapers and reports.

The purpose of this report is to provide observations and recommendations for improvement based on the work performed by the City Auditor's office from July 1, 2007 to June 30, 2012 and to express an opinion as to Internal Auditing's conformity with the IIA Standards and their Code of Ethics.

SIGNIFICANT RESULTS:

Audit customers were surveyed on their level of satisfaction with the quality of services provided and rated Internal Auditing an average of 3.45 out of a 4.0 scale, reflecting an overall "**good**" rating. The selection of customers was based on project completion date during the period July 1, 2010 through June 30, 2012.

Highlights of our more significant recommendations are set forth below, with detailed findings presented to the elected City Auditor and the Chief Internal Auditor. As in prior internal and external quality assurance reviews, we have substantive observations and recommendations for which the Office of the City Auditor does not have the authority to implement. These are presented separately for the consideration of City Management. All workpapers and review findings will be presented to the firm engaged to conduct an independent validation of this quality assurance review.

OPINION AS TO CONFORMITY TO THE STANDARDS

The IIA's Quality Assessment Manual suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms," is the top rating and means that an internal audit (IA) activity has a charter, policies, and processes that are judged to be in conformance with the Standards. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies **do not** preclude the IA activity 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 IA activity from performing adequately in all or in significant areas of its responsibilities.

It is our opinion the City Auditor's Office generally conforms to the following *Standards*:

- 1000-Purpose, Authority and Responsibility
- 1100-Independence and Objectivity
- 1200-Proficiency and Due Professional Care
- 2100-Nature of Work
- 2200-Engagement Planning
- 2300-Performing the Engagement
- 2400-Communicating the Results
- 2500-Monitoring Progress
- 2600-Management's Acceptance of Risks
- The IIA's *Code of Ethics*

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

- 1300-Quality Assurance and Improvement Program, (Attribute Standard)
- 2000-Managing the Internal Audit Activity, (Performance Standard)

MATTERS FOR THE CONSIDERATION OF CITY MANAGEMENT

Observation 1

We reviewed the status of findings of the prior External Quality Assurance Review, report dated August 6, 2008.

- A. **ENHANCE THE INDEPENDENCE AND COMMUNICATION OF THE AUDIT OFFICE.** The Mayor's Audit Advisory Committee should be eliminated and replaced with an Audit Committee with representation from the City Council, the Executive branch, and the public. This has been recommended in all five prior External Quality Assurance Reviews.

We reviewed then Auditor Wood's letter to the City Council that recommended changes to the Charter. The City Council took no action on this proposal. We reviewed documentation that indicated support from the Mayor's office and the Chief Internal Auditor, Ron Maxwell.

- B. **SAFEGUARD THE INDEPENDENCE AND INTEGRITY OF THE AUDIT OFFICE** by changing the City Charter to allow for the appointment, rather than the election, of the City Auditor and establish professional qualifications necessary for such appointment.

We agree with this recommendation as did former City Auditor Wood. A letter was sent to the City Council that recommended changes on the Charter. The City Council took no action on the appointment of the City Auditor rather than the election, but did propose the professional qualification component. The citizens approved the proposed Charter changes on November 10, 2009 and the charter changes were approved by the Governor on January 5, 2010.

- C. **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 incorporate performance audits in the audit universe so that each year certain performance audits could be selected and added to the audit plan. 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.

We agree with this recommendation. A letter recommending the Charter change was sent to the City Council. **Council as in prior years took no action on this proposal.**

Internal Auditing has agreed with the proposed changes but has maintained that all of the recommendations should be implemented as a whole. Authority for example for

performance auditing by an “elected auditor” presents a significant risk of possible misuse of the audit function for political purposes.

MANAGEMENT RESPONSE

Agree with the finding and recommendation.

These conditions and recommendations have been repeated in all five external quality assurance reviews going back to 1993. The members of the Mayor’s Advisory Audit 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 professional guidance for audit committees. Appointment rather than election of the City Auditor would reduce risk and provide consistency of professionalism for the internal audit function. City Auditor authority for performance auditing would increase conformance with internal audit standards.

Amendment of the City Charter or adoption of City Ordinance is outside control of the Audit Office. The City Auditor and department management have repeatedly applied significant efforts proposing such Charter Amendment and/or City Ordinance to the City Council and Mayor, creating increased awareness of the need for these improvements. Internal Auditing will, once again, provide these recommendations to the City Council and Mayor for their consideration and action.

OBSERVATIONS AND RECOMMENDATIONS — ISSUES SPECIFIC TO THE CITY AUDITOR’S OFFICE

Observation 1 — Quality Assurance and Improvement Program

An external review of Internal Audit’s compliance with the Standards is required every five years. The last review was for the five-year period ended June 30, 2007 and the published report was dated August 6, 2008.

IIA Standard 1312 requires an external assessment by a qualified, independent reviewer at least once every five years. The department has had five previous external assessments. Turnover in the City Auditor position and in the internal audit department, along with mandatory furloughs, created an environment where the focus was on completion of the projects in the audit pipeline. The necessary staffing to do a qualified internal self-assessment with independent validation was not present in the department with the loss of three Senior Auditors. The City’s compensation structure for the Senior Internal Audit positions is below the private sector and results in a significant increase in the time taken to fill vacant positions. The department did not have sufficient personnel to perform the quality assurance review until July 2012.

Recommendations

The City Auditor should engage an external firm to conduct an independent validation of this quality assurance review. The City Auditor is responsible for discussing with the Mayor’s Advisory Audit Committee the form and frequency of external assessments, and the qualifications and independence of the external assessor or assessment team, including any conflict of interest. The Chief Audit Executive should continue the long-standing practice of conducting internal quality assurance reviews.

Management’s Response

Agree with the finding. Efforts are currently underway to procure an independent reviewer for performance of an external validation of the department’s self-assessment. Once the external validation is complete, the department will regain compliance with the external quality assurance standard.

Observation 2 — Managing the Internal Audit Activity

Internal auditors must adhere to The IIA Code of Ethics and Standard 1000 states the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the definition of Internal Auditing, IIA Code of Ethics, and the Standards. Standard 2040, 'Policies and Procedures,' mandates the Chief Audit Executive establish policies and procedures to guide the internal audit activity.

The Chief Audit Executive **has** developed written policies and procedures for the department. The manual does address ethics and has a written "conflict of interest" statement which indicates internal auditors have been provided with a copy of IIA's Code of Ethics upon employment and that an annual independence statement will be completed by the department's auditors. We noted the two auditors hired since the last internal quality assurance review were not provided a copy of the Code of Ethics. A review of the annual Conflict of Interest Statements indicated all were over one year old and one was missing. A review of the department's Intranet folder labeled "Conflict of Interest Statements" indicated electronic statements were maintained for July 2007, August 2011, and January 2012. This indicates for the period ending July 2008 through July 2010, the department was not obtaining annual updates of the Conflict of Interest Statements as mandated by department policy number 260.05 and that the last statements obtained in January 2012 were four months past the annual date.

Significant turnover in the department's assistant staff auditor position has resulted in the policy violation. The Code of Ethics provides a level of assurance about the principles under which Internal Audit will operate.

We noted the department's Audit Manual was last updated in 2004. The Chief Audit Executive should ensure the Audit Manual is updated on a regular basis to ensure documented procedures are in line with industry practice.

Recommendations

- A. We recommend the department's policies and procedures manual be updated to include IIA's Code of Ethics or a hyperlink to the Code be inserted. We recommend the assistant staff auditor report on an annual basis to the Chief Audit Executive the level of compliance with receipt of Conflict of Interest Statements.
- B. We recommend the manual be updated to include specific processes and procedures for documentation and reporting of deleted projects, special projects, control assessments, and procedures to follow if the auditor suspects fraud.
- C. We recommend the Audit Manual be placed on a three-year review cycle. The responsibility for this could be delegated to the two department managers. Our

review indicated audit projects are not being labeled in accordance with the department's procedures manual and this break in policy, along with failure to file audit projects in a timely basis resulted in a very lengthy process to determine the actual number of documented audit activities performed by the department. Hyperlinks or inclusion of IIA's Standards in the manual is also recommended.

The Chief Internal Auditor, Ron Maxwell, immediately began corrective action during the course of our review.

Management's Response

Agree with the finding. The International Professional Practices Framework (IPPF) including the IIA Code of Ethics has been and remains available to all staff members on the department share drive at: J: IA Official\IPPF. However, the two new staff members referenced in the finding may not have been informed of such. Filling of the Assistant Staff Auditor position should improve on-boarding communications with new employees including informing of the file location of the IIA Code of Ethics on the share drive and completion of the conflict of interest statements. Department annual conflict of interest statements have been completed for all current employees as of August 2013.

Update of the department's Policies and Procedures Manual is planned to be completed after implementation of the audit software project currently in-process.

Observation 3 — Standards 2010 (Planning) and 2020 (Communication and Approval)

The Office of the City Auditor must plan engagements based on an annual risk assessment as required by IIA Standards. The Office of the City Auditor must effectively manage the Internal Audit activity to ensure it adds value to the organization. The City Auditor's practice has been to publish an annual report which detailed annual audit results, outlined the risk assessment methodology, and the audit program (plan) for the upcoming year. Each annual report stated the following: "Each year, we publish the plan and distribute it to the Mayor and Council," ensuring compliance with Standard 2020 –Communication and Approval.

Our review indicated the Office of the City Auditor did not publish an annual audit risk assessment and internal audit plan for:

- Fiscal year 2010
- Fiscal year 2011

A risk assessment and audit plan was performed and published for the period January 2012 through June 30, 2013.

Risk-based plans must be established which are consistent with the organization's goals, to determine the priorities of the internal audit activity. The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management must be considered in the process.

Recommendation

We recommend internal audit develop an annual risk assessment process that incorporates flexibility into the process. Many internal audit groups are now updating their risk assessments more than once a year in order to be responsive to a complex and changing government environment. The annual plan should be one which can reasonably be achieved with the current staff. Documented input from the Mayor's Office, the Council, and Senior Managers of the City departments should be included as in prior years.

Management's Response

Agree with the finding and recommendation. Although a Standards and department policy requirement, annual risk assessments that historically had been completed were not practical during the period due to a back-log of in-process projects and insufficient department staffing capacity to take on new projects. This resulted in priority being placed on completion of audit project reports rather than devoting time to the risk assessment.

Comprehensive risk assessments have now been completed for City of Tulsa information technology infrastructure, processes and programs and the City's financial account structure. Completion of the risk assessments should be facilitated and improved with implementation of audit software planned to be completed by June 30, 2014. The audit software has capability to not only conduct an annual risk assessment but to actually complete audit unit risk assessments as a part of the conduct of the audit work. This will result in essentially a "continuous" update of the risk assessment of the audit universe.

Observation 4 — Audit Workpapers

Audit workpapers have not been properly controlled and filed.

Internal Audit must be able to demonstrate successful completion of audit plans. Standard 2030, “Resource Management,” states, “The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.” Integral to the department’s conformance to Standard 2030, completion of audit plans is physical evidence of the performance of audit activities (regular audits, special projects, consulting engagements, control assessments, etc.).

During our review we noted workpapers in vacant offices of auditors who have left the City that had not been completed, reviewed, and filed. Workpapers from different projects were found mixed together. The electronic files reviewed were not consistently maintained and the file contents did not always match what was in the physical files. As noted above, the entire department has experienced extensive turnover and the CAE indicated they have moved three times in a five-year period.

Recommendation

We recommend that sign-out logs for workpapers once again be utilized and controls be implemented to ensure electronic workpapers are complete and filed in a systematic manner. We recommend the inventory we began to account for all department projects be completed. We recommend management consider providing the assistant staff auditor with the necessary authority to ensure audit files (both physical and electronic) are filed within a reasonable timeframe after completion of audit activities. Physical controls and necessary approval policies should be updated to reflect when projects should be filed and periodic inventories conducted to ensure all workpapers are filed and secured.

Management’s Response

Agree with the finding and recommendation.

Authority of the administrative assistant to secure the files and related locking of the files has been completed. Procedure to note the department’s Status Reports for in-process projects for which the report has been issued but with wrap-up and final approval for filing pending has been established and discussed in staff meeting. Significant clean-up of electronic work-papers has occurred and will continue. The conduct of semi-annual inventories will be considered. However, historically, file security of the department has not been a problem prior to the conditions described in the finding. As such, a practical solution may be to complete such inventories during

the annual internal quality assurance process. Planned implementation of audit software should also further improve archiving of audit work-papers.

Observation 5 — Percentage of Direct Time Spent on Audits

Internal Audit has developed a management information system to track, summarize, and analyze time used to complete audit projects and compare to budgeted hours providing a tool for managing the audit activities and achieving audit plans and other management goals. IIA Standard 2030 “Resource Management” states ‘The Chief Audit Executive’ must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.’ IIA guidance and best practices imply that the amount of direct time spent on audits as a percentage of total available time should be between seventy-five to eighty percent. This guide is broad and somewhat industry specific.

Internal Audit staff’s average direct time percentage for the five-year period was 46.4%. The five-year average for the audit managers’ was 44.6%.

Recommendation

We recommend the Audit Office determine if benchmarking against governmental audit departments is **practical**, given the structure of the department. We again recommend, given current staffing and the hiring challenges, audit projects be analyzed to determine a practical scope which can be accomplished with the current staffing structure.

Management’s Response

Agree with the finding and recommendation. Low direct time has been a chronic challenge for the department for many years. Steps have been taken to include direct time performance measures as part of the annual PPR evaluation process for all internal audit staff members. Improvement is occurring with direct to net available time reaching 64.12% as of December 31, 2013. The department goal is to reach 75% direct to net available time.

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