DATE: December 29, 2016

TO: Distribution List

FROM: Cathy Criswell *Cathy Criswell*

SUBJECT: Internal quality assurance review

To ensure consistent quality in our audit work, The Office of the City Auditor follows the International Standards for the Professional Practice of Internal Auditing from the Institute of Internal Auditors. As chief audit executive, I am responsible for establishing a Quality Assurance and Improvement Program that meets the requirements of Standard 1300. The required elements include ongoing quality assurance activities, periodic internal quality assessments, and external quality assessments every five years.

The report on the internal quality assurance review for fiscal years 2015 and 2016 is attached. We are pleased to have received a "generally conforms" rating and customer surveys that indicate we are adding high value (overall score of 3.62 on a 4-point scale).

Distribution List:
Mayor
City Council
Deputy Mayor
Mayor's Chief of Staff
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Office of Performance Strategy and Innovation
Director of Finance
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External Auditor
City of Tulsa Audit Committee

Audit Report
December 2016

Subject: **Internal Quality Assurance Review (IQAR), Fiscal Years 2015-2016**

Auditors: Catherine Moore, Audit Data Analyst
                      Steve Jackson, Internal Audit Manager

Scope:

For the period July 1, 2014 through June 30, 2016, determine whether the Internal Auditing Department conforms to the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards).

Objectives:

- Appraise and express an opinion as to Internal Auditing's conformity with the IIA *Standards and the Code of Ethics*, and as appropriate, include recommendations for improvement.
- Monitor the status of prior quality assurance review findings (both internal and external).
- Identify opportunities to improve performance of audit activities and offer ideas to the Chief Internal Auditor.

Conclusion: (Generally Conforms, Partially Conforms, or Does Not Conform)
                        Generally Conforms with IIA *Standards and 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 3.62 out of a 4.0 scale, reflecting an overall "excellent" rating. The selection of customers was based on audits and other projects performed from July 1, 2014 through June 30, 2016.

Recommendation:

Evaluation of engagement resource allocation should be assessed and documented in the workpapers for each engagement. This evaluation process should be clarified and consolidated in the Internal Auditing Policies and Procedures Manual

Management Response: (Accepts recommendation, Accepts recommendation with
                                  Modifications, or Disagrees)
                                    Accepts recommendation

**Implementation Date
Of Recommendation:**   June 30, 2017

Evaluation of engagement resource allocation is not documented.

Summary
Standard 2230, entitled Engagement Resource Allocation, in the International Standards for the Professional Practice of Internal Auditing states, "Internal Auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources." There was no documentation of an evaluation of appropriate and sufficient resources to achieve engagement objectives in the workpapers for any of the projects in our review.

Although various sections of the Internal Auditing Policies and Procedures cover budget-to-actual comparison and assignment of audit staff to projects, the manual does not have a clear and concise directive of performing an evaluation of resources in setting the scope and objectives in the planning phase of engagements.

The scope and objectives of engagements may change during the planning phase which could change the resources that should be allocated to the project. Such resource allocation could be substantially different from that estimated when the annual plan was developed. With limited resources available in Internal Auditing, inefficiencies in maximizing resources with the department could occur.

Recommendation
Evaluation of engagement resource allocation should be assessed and documented after the scope is set for each engagement. This evaluation process should be clarified and consolidated in the Internal Auditing Policies and Procedures Manual.

Response
Agree with the finding and recommendation. Internal Auditing general matters program step I. 11. and procedure 240.60 (budget to actual comparison) pertain to preparation of a time budget and schedule of completion dates by audit areas during the initial planning phase of an audit. These steps include consideration of evaluation of engagement resource allocation but have not been consistently documented due to time constraints or have been waived as not applicable for various special projects. The following measures will be taken to improve work paper documentation of evaluation of engagement resource allocation:

1. Emphasis for completion of general matters program step I.11. and Internal Auditing procedure 240.60 for large audit projects was discussed with Internal Auditing staff on December 8, 2016.

2. Procedure 240.60 is designed specifically for large audit projects and may not be suitable or efficient for small audits and/or special projects.   As such, Internal Auditing will begin using a "planning memo" in lieu of the budget to actual comparison of procedure 240.60 for some smaller audit projects and special projects to accomplish documentation of compliance with IIA Standard 2230.

3. Internal Auditing uses a "Status Report" spreadsheet to track and manage audits and special projects. Changes for project time budgets, due dates and needed resources

during the course of project completion are discussed at bi-weekly staff meetings. However, results of these discussions for adjustment of project plans are not captured for documentation in the project work papers. After the vacant Assistant Staff Auditor position is filled; the position will be assigned to make notes of project planning adjustments discussed during review of the project "Status Reports" and provide the information to In-charge Auditors for update of project planning documentation in the project work papers.

4. Update of the Internal Auditing Policies and Procedures Manual is planned as part of an on-going project for implementation of an audit software system. Features of the audit software planning module may change the current project planning process and will automate work paper documentation of such. Therefore, clarification and consolidation of the project planning process; including evaluation of engagement resource allocation, will be addressed during update of the Manual following implementation of the audit software.

<u>**Status of Prior Quality Assurance**</u>
<u>**Review Findings (External and Internal)**</u>

Summary of Findings-External Quality Assurance Review, which was the Internal Self-Assessment with Independent External Validation issued in June 2014.

<u>**MATTERS FOR THE CONSIDERATION OF CITY MANAGEMENT**</u>

1. **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.

<u>**Status--Complete**</u>
City Council passed ordinance #23163 creating an audit committee of the City of Tulsa with membership representing the City Council, Executive branch, and the public.
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2. **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.
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<u>**Status--Will not be implemented**</u>
Amendment of the City Charter or adoption of City Ordinance is outside control of the Audit Office. Following each of the five previous external quality assurance reviews the City Council and City Auditor discussed appointment vs. election of the City Auditor. The Council decided to not proceed with a charter change to appoint rather than elect the City Auditor. Consensus was to leave this power in the hands of Tulsa's citizens. As such, the recommendation is considered effectively declined.

3. **ENHANCE THE ABILITY OF THE AUDIT OFFICE TO FURTHER COMPLY WITH 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 operation and programs, also known as performance auditing.

<u>**Status--Complete**</u>
City Council passed ordinance #23162 assigning new duties to the City Auditor including: performance audit, governance audit, risk management audit, and internal controls audit.

OBSERVATIONS AND RECOMMENDATIONS--ISSUES SPECIFIC TO THE CITY AUDITOR'S OFFICE

Observation 1---Quality Assurance and Improvement Program.

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Recommendation

The City Auditor should engage an external firm to conduct an independent validation of the 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.

Status--Complete.

An external firm was engaged to conduct an independent validation of the internal audit activity's self-assessment and issued their report on June 4, 2014. The "Internal Self-Assessment with Independent External Validation" report was presented to and discussed with the Mayor's Advisory Audit Committee during the June 12, 2014 meeting.

Observation 2---Managing the Internal Audit Activity.

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.

Status--Partially Complete.

Subsequent to the quality review, Internal Audit Staff were informed that both the IIA International Professional Practices Framework (IPPF) and the IIA Code of Ethics are available to all staff on the department share drive at J: IA_Official\IPPF. Conflict of Interest Statements were completed for FY 2016 and are in-process of update for FY 2017. Update of the audit policies and procedures manual is pending and planned for completion after implementation of the audit software project currently in-process. Current target date is 6/30/2017.

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

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.

Status--Complete

Annual risk assessments have been consistently completed following the deferrals for fiscal years 2010 and 2011. As a further improvement, the department also began developing two-year internal audit plans with an annual risk assessment update starting in fiscal year 2015.

Observation 4—Audit Workpapers

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.

Status—Complete

All workpapers listed as unfiled/missing during the quality review were located except for 1 of 3 binders for the 09-04 Sensitive Payments review. This binder was identified as unlocated prior to the quality review and was likely lost during the three department moves occurring prior to the review period. All completed hard-copy workpapers are now secured in locked file cabinets under control of the Assistant Staff Auditor. An electronic filing system has been designed and most projects transitioned to electronic filing. Procedures to flag electronic workpapers for filing after report issuance have been implemented and are reviewed as part of the department's bi-monthly status reports process.

Observation 5---Percentage of Direct Time Spent on Audits

Recommendation

We recommended 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.

Status---Complete
While direct time remains variable due to staffing circumstances, improvement for fiscal years 2014, 2015, and 2016 has ranged from 52% to 62% (direct to total) which is consistently above the five-year average of 46% during the quality assurance review period. Direct to net available time (total available time less benefit time) ranged from 63% to 76%. These ranges reasonably compare to the average direct to total time of 62% and average direct to net available time of 71% in the 2014 Association of Local Government Auditors Benchmarking Survey. Department goals have been established to reach 65% direct to total time and 75% direct to net available time.

Distribution List

Mayor
Councilor, District 1
Councilor, District 2
Councilor, District 3
Councilor, District 4
Councilor, District 5
Councilor, District 6
Councilor, District 7
Councilor, District 8
Councilor, District 9
City Auditor
Deputy Mayor
Mayor's Chief of Staff
Mayor's Deputy Chief of Staff
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