



**MEMORANDUM  
OFFICE OF THE CITY AUDITOR**

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DATE: January 31, 2018  
TO: Mayor GT Bynum, City Council  
FROM: Cathy Criswell *Cathy Criswell*  
SUBJECT: 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 (“The Standards”) 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 external quality assurance review for fiscal years 2013-2017 is attached. We are pleased to have received a “generally conforms” rating, which is the highest rating defined by The Standards.

## MEMORANDUM

January 22, 2018

To: Ms. Cathy Criswell, City Auditor  
Ms. Mary Ann Vassar, Chief Internal Auditor

From: James H. Sleezer, External Assessment Team Leader  
Christine McKeown, Team Member  
Jennifer A. Gerrior, Team Member

Attached is our final report of a quality assessment review (QAR) of the Office of City Auditor (OCA) for the City of Tulsa. We have incorporated your responses into the final report but have not verified any corrective actions you reported.

Our opinion is that IA ***generally conforms*** to the *Standards* and is entitled to state that engagements are “conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.” ***Generally conforms*** is the highest rating as defined in the IIA’s Quality Assessment Manual for the Internal Audit Activity. It means that OCA has policies, procedures, practices, and a charter that are judged to be generally in accordance with the *Standards*. However, we identified several opportunities for improvement that, along with continuing good practices, will enhance the effectiveness and value of OCA.

This review was conducted as a project of the IIA Tulsa Chapter’s Peer Review Program. We appreciate the courtesy and cooperation of City of Tulsa and OCA personnel as we conducted the review. We would be pleased to discuss our recommendations or related issues should you have questions or concerns. The team leader may be contacted at 918-853-5114.

# Quality Assessment Review of the Office of City Auditor for the City of Tulsa

Independent External Assessors:

James H. Sleezer. Team Leader

Christine McKeown

Jennifer A. Gerrior

October 2017

# Quality Assessment Review

## Office of City Auditor

### City of Tulsa

As requested by the City Auditor and Chief Internal Auditor, we conducted an external quality assessment review (QAR) of the Office of City Auditor (OCA) for the City of Tulsa (the City). The principal objectives of the QAR were to evaluate OCA's conformance to The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)* and Code of Ethics; evaluate OCA's effectiveness in carrying out its mission (as set forth in the City Charter and expressed in the expectations of City leaders); and identify opportunities to enhance its management and work processes, as well as its value to the City.

## Scope and Methodology

This quality assessment review focused on the 15-month period from July 2016 through September 2017. We reviewed documentation prepared by OCA and surveyed selected administrators and operating management personnel. We conducted an onsite visit October 9-11, 2017 that included

- ✓ interviews with the Chair of the Audit Committee;
- ✓ interviews with selected officials including the current Chair of the City Council, representatives of the Mayor's Office, the Chief Fiscal Officer, and the Chief Information Officer;
- ✓ discussions with the City Auditor, the Chief Internal Auditor, and selected OCA staff members; and
- ✓ reviews of additional documentation including annual audit plans, risk assessments, policies and procedures, audit engagement and staff management practices, and selected audit reports and supporting work papers.

## Overall Opinion as to Conformance

Based on procedures performed, it is our overall opinion OCA is effective for the City and ***generally conforms*** with the ***Standards*** and Code of Ethics. As noted in the table below, OCA is assessed as ***generally conforms*** with all four major Attribute Standards and six of seven major Performance Standards. Assessment of ***partially conforms*** to one major Performance Standard and seven supporting standards, while significant, does not rise to a level that diminishes the overall assessment of ***generally conforms***. ***Generally conforms is the highest rating as defined in the IIA's Quality Assessment Manual for the Internal Audit Activity.*** It means that OCA has policies, procedures, practices, and a charter that are judged to be in accordance with the ***Standards*** while recognizing that opportunities for improvement may still exist.

## Conformance to Major Category Standards

### Attribute Standards

1000	Purpose, Authority, and Responsibility	<i>Generally Conforms</i>
1100	Independence and Objectivity	<i>Generally Conforms</i>
1200	Proficiency and Due Professional Care	<i>Generally Conforms</i>
1300	Quality Assurance and Improvement Program	<i>Generally Conforms</i>

### Performance Standards

2000	Managing the Internal Audit Activity	<i>Generally Conforms</i>
2100	Nature of Work	<i>Generally Conforms</i>
2200	Engagement Planning	<i>Generally Conforms</i>
2300	Performing the Engagement	<i>Generally Conforms</i>
2400	Communicating Results	<i>Generally Conforms</i>
2500	Monitoring Progress	<i>Partially Conforms</i>
2600	Communicating the Acceptance of Risks	<i>Generally Conforms</i>

Recommended actions to increase conformance with the *Standards* and enhance the effectiveness and value of OCA are provided in the Opportunities for Improvement section.

## Observations of Good Practices

Staff members are dedicated and inspire trust. The City Charter defines the role of OCA and the organizational placement of OCA contributes to its independence and ability to fulfill its responsibilities. An active Audit Committee enhances the ability of OCA to evaluate and contribute to the improvement of the City's governance, risk management, and control processes. City officials interviewed during the QAR reported satisfaction with the activities of OCA. Further, annual internal quality assessments support general compliance with the *Standards*.

The effectiveness and value of OCA can be enhanced by continuing these good practices and by considering the recommendations and opportunities for improvement described below. These actions also support conformity to the *Standards*.

## Opportunities for Improvement for the Office of City Auditor

Although OCA has an extensive Policy and Procedures Manual it has not been updated since 2004 and should be modified to reflect current policies, procedures, and practices as well as recent changes in the *Standards*. Opportunities for improvement listed below are ordered by major Standard number. Note that even when the internal audit activity *generally conforms* with a Standard, opportunities for improvement may still exist.

## 1. Purpose, Authority, and Responsibility (Standard 1000) – Generally Conforms

**Observations:** Article IV of the City of Tulsa Charter, effectively the Internal Audit Charter, does not recognize the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing as required by supporting standard 1010. The *Standards* have had several updates since 2004 and were updated in 2017 to include Core Principles. Additionally, the Charter does not define assurance services or consulting services as described in implementation standards 1000.A1 and 1000.C1.

**Recommendations:** Recognition of the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *Standards*, and the Definition of Internal Auditing should be considered as an amendment to the City Charter (See also Observations for the Consideration of the Mayor and City Council). While the definitions of assurance and consulting services may not rise to the level of inclusion in the City Charter, at a minimum, OCA should define these activities in its formal policies and procedures.

**City Auditor’s Response:** “Since its inception in 1988, OCA has adhered to the requirements of the International Standards for the Professional Practice of Internal Auditing. This is stated in OCA’s policy 110.0. OCA agrees to include in our policies and procedures a definition of all the project types this office completes, including definitions of assurance and consulting services. Target completion date for policies update is June 30, 2018.

“OCA does not plan to pursue a Charter change. While following the Standards has been our tradition for almost 30 years, another City Auditor may choose to follow other auditing standards such as the Generally Accepted Government Auditing Standards issues by the U.S. GAO. This choice should be at the City Auditor’s discretion rather than being decided by a citizen vote.”

## 2. Quality Assurance and Improvement Program (Standard 1300) – Generally Conforms

**Observations:** OCA completes periodic internal quality assessments as well as external assessments at five-year intervals as required by supporting standards 1311 and 1312. The results of these assessments consistently support that engagements are conducted in conformance with the *Standards* and the Internal Audit Policy and Procedures Manual provides strong guidance for the performance of audit activities. However, the Manual does not describe corrective activities when the guidance is not followed.

**Recommendations:** OCA is entitled to state that it “conforms with the *International Standards for the Professional Practice of Internal Auditing*” and should incorporate this statement into audit reports. OCA should document internal quality improvement activities in the Policy and Procedures Manual.

**City Auditor’s Response:** “OCA’s policy 130.0, entitled “Quality Control Standards,” enumerates several practices designed to ensure quality in our work. Section 130.04 requires internal quality assurance reviews to be completed annually and external quality assurance reviews every five years. In addition, OCA uses publications from the Institute of Internal

Auditors that provide guidance and procedures for a Quality Assurance and Improvement Program. These publications include the *International Standards for the Professional Practice of Internal Auditing* and a manual that provides detailed procedures for conducting a quality assurance review.”

### 3. Managing the Internal Audit Activity (Standard 2000) – Generally Conforms

**Observations:** Supporting standard 2010 requires the chief audit executive to establish a risk-based plan to determine the priorities of the internal audit activity. We did not find a process that assessed risk in project selection. OCA conducted interviews with multiple city officials and reported the frequency with which potential issues were mentioned; however, this process does not necessarily reflect the risk associated with an issue. There is not a city-wide risk assessment that could be used as a starting point for the identification and risk classification of projects. We also observed that OCA conducted a higher than expected number of consulting engagements.

Supporting standard 2020 states that significant interim changes to the annual audit plan should be communicated to senior management and the board. While the annual audit plan was presented to the Audit Committee as part of an annual report, we did not observe reports of significant changes to the plan including the addition of many special projects and the delayed completion of planned projects being reported.

Supporting standard 2030 requires the chief audit executive to ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. Recent retirements have left OCA with several open positions and, thus, insufficient personnel resources to properly complete its annual plan.

**Recommendations:** Select projects for the annual audit plan based on assessed risk. Among other factors, risk includes the likelihood and impact of an issue and should consider the city’s strategies, key business objectives, and their associated risks. Projects, including consulting, that are considered for addition to the annual plan should be risk assessed and only undertaken if their risk is higher than planned projects. The process should be documented including discussion as to why a project was selected or, in the case of a project not carried forward from the prior year, discussion as to the reason the project was not included in the current year audit plan.

Changes to the annual audit plan remain the responsibility of the City Auditor; however, changes to the plan should be timely and regularly communicated to the Audit Committee in response to the committee’s duty to “review, and advise the City Auditor on, the annual internal audit plan.” Consulting engagements and other special projects, although helpful to many city departments, should not routinely delay assurance activities.

OCA should implement a recruitment strategy to fill open positions. Consideration should be given to establishing an appropriate mix of knowledge, skills, and other competencies needed to perform the annual plan.

**City Auditor’s Response:** “Because of their daily involvement with city activities, OCA believes department heads and elected officials are the best source of insight into the city’s

risks. These discussions help us identify significant city-wide risks, and OCA bases selection of audit projects on this. OCA policies describe a different process, which was used in the past. This risk assessment process was done at a much more micro-level than the city-wide risk assessment currently completed. Our current process was adopted because the micro-level point of view often missed significant city-wide issues. OCA agrees our risk assessment process can be improved by considering both city-wide and department-level risks. OCA will adopt a new risk model for our fiscal year 2020 planning. This will also include factors to consider when deciding whether to accept special project requests. OCA policy will be updated to reflect the revised risk model.

“OCA will discuss with the Audit Committee whether they want to change their operating procedures to provide more frequent updates on the audit plan. OCA will request this discussion be scheduled on the January 2018 meeting agenda.

“OCA is developing a long-term resource strategy that will consider staffing and staff development. This strategy will be completed in connection with our fiscal year 2019 budget planning.”

#### 4. **Nature of Work (Standard 2100) – Generally Conforms**

**Observation:** We did not see evidence that risk management processes are discussed with the City Audit Committee and City officials. OCA is expected to contribute to the improvement of risk management processes (supporting standard 2120).

**Recommendations:** Using professional judgment, periodically summarize for the Audit Committee and City officials risk management processes and their effectiveness as evidenced during multiple engagements. City departments should be encouraged to adopt improved risk management processes based on these reports. Enterprise risk management (ERM) remains a responsibility of City departments and officials; however, encourage the City to establish a formal ERM process including creating a chief risk officer position.

**City Auditor’s Response:** “The Audit Committee’s Operating Procedure 11 includes an objective to annually inquire of management, the City Auditor, and the independent auditors about significant risks or exposures facing the government organization; assess the steps management has taken or proposes to take to minimize such risks to the government organization; and periodically review compliance with such steps. This was completed by the committee at their August 24, 2017 meeting.

“OCA agrees a formal ERM process should be established. The City Auditor will discuss this with Mayor Bynum by 6/30/18.”

#### 5. **Engagement Planning (Standard 2200) – Generally Conforms**

**Observations:** Supporting standard 2201 requires that significant risks to an activity’s objectives, resources, and operations are being considered in the planning of engagements. Per discussion with staff, a risk assessment at the project level is performed; however, review of the Control Objectives and Techniques document and the Summary of Internal Control does not document the identification and assessment of risks. Implementation standard



2210.A1 states that the engagement objectives should reflect the results of a preliminary risk assessment.

**Recommendations:** Management should include risk assessment documentation that specifically identifies risks of the process(es) under review, correlates the control activities to each risk, and discusses assessment of the risk environment based on the internal control design and operating evaluation.

**City Auditor's Response:** "Audit staff informally considers risk assessment at the engagement level. OCA will develop a procedure for completing formal risk assessment and related documentation for audit engagements. The procedure will be written by June 30, 2018."

#### **6. Communicating Results (Standard 2400) – Generally Conforms**

**Observations:** We observed a variety of formats being used to communicate the results of engagements. Among other things, the standards require clear communication.

**Recommendations:** A consistent format would enhance the clarity of communications.

**City Auditor's Response:** "Report format will be evaluated and improved. The policy on reporting will be updated by June 30, 2018."

#### **7. Monitoring Progress (Standard 2500) – Partially Conforms**

**Observations:** We noted many formats were used to communicate the management response/action plan for report findings. The documented responses often lacked enough detail to effectively monitor whether the issue noted in the finding was adequately addressed. Additionally, it appears the formal/documented follow-up process for all findings only occurs once annually and follow-up responses are not always detailed enough to gain comfort that the issue originally noted was adequately addressed.

**Recommendations:** OCA should request the following information be included in management's responses: Management's corrective action plan, responsible party, and target date for completion. OCA should alter the current follow-up procedures to include more frequent follow-ups with the responsible parties to monitor status and timely completion of all corrective action plans.

**City Auditor's Response:** "OCA does not have authority to require responses be formatted in a particular way. At our closing meeting with the party who will respond, OCA provides and discusses a response content document entitled "Guidelines for Responding to Internal Audit Reports," which is one of the practice aids listed in OCA policy 270.2. This document suggests responses include the following components:

1. The response should state clearly agreement or disagreement with each finding and recommendation.

2. The response should also include one of the following:
  - If the response states agreement with the recommendation, it should describe what corrective action will be taken and an estimated date when action will be completed.
  - If the response states disagreement with the finding or recommendation, it should describe the reasons for the disagreement.

“When a response does not meet the above guidelines or the basis of a disagreement is not valid, OCA may choose to include Auditor’s Comments in the report. It is our preference to limit the use of Auditor’s Comments and encourage responses that directly address findings and recommendations.

“OCA sends follow-up inquiries by email when conducting our annual Report of Management Actions. When conducting the fiscal year 2017 follow-up project, OCA will evaluate using audit management software to automate follow-up inquiries so an email will be generated when the due date for corrective action is reached.”

## **Observations for Consideration by the Mayor and City Council**

The organizational placement of the Office of City Auditor (an elected official) contributes to its independence and ability to fulfill its responsibilities. The City Charter defines the role of OCA and requires that any person filing for the office of City Auditor must be a Certified Public Accountant or Certified Internal Auditor (CIA). However, Article IV of the City of Tulsa Charter, which serves as the Internal Audit Charter, does not require adherence to any standards for the performance of audits. Amending the Charter to require OCA to conform with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by The Institute of Internal Auditors or with *Generally Accepted Government Auditing Standards* as issued by the U.S. Government Accounting Office (GAO) would strengthen direction for OCA and could reduce the likelihood of the position being used as a political tool (see above, Item 1 under Opportunities for Improvement for OCA).

## Evaluation Summary Includes Major and Supporting Standards

(GC = Generally Conforms, PC = Partially Conforms, DNC = Does Not Conform)

Quality Assessment Evaluation Summary	GC	PC	DNC
<b>OVERALL EVALUATION</b>	<b>X</b>		

### Attribute Standards

<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	<b>X</b>		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	<b>X</b>		
<b>1100</b>	<b>Independence and Objectivity</b>	<b>X</b>		
1110	Organizational Independence	<b>X</b>		
1111	Direct Interaction with the Board	<b>X</b>		
1120	Individual Objectivity	<b>X</b>		
1130	Impairment to Independence or Objectivity	<b>X</b>		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>	<b>X</b>		
1210	Proficiency	<b>X</b>		
1220	Due Professional Care	<b>X</b>		
1230	Continuing Professional Development	<b>X</b>		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>	<b>X</b>		
1310	Requirements of the Quality Assurance and Improvement Program		<b>X</b>	
1311	Internal Assessments	<b>X</b>		
1312	External Assessments	<b>X</b>		

1320	Reporting on the Quality Assurance and Improvement Program	X		
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	X		
1322	Disclosure of Nonconformance	X		

**Performance Standards**

<b>2000</b>	<b>Managing the Internal Audit Activity</b>	X		
2010	Planning		X	
2020	Communication and Approval		X	
2030	Resource Management		X	
2040	Policies and Procedures	X		
2050	Coordination	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
<b>2100</b>	<b>Nature of Work</b>	X		
2110	Governance	X		
2120	Risk Management		X	
2130	Control	X		
<b>2200</b>	<b>Engagement Planning</b>	X		
2201	Planning Considerations		X	
2210	Engagement Objectives		X	
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		

<b>2300</b>	<b>Performing the Engagement</b>	<b>X</b>		
2310	Identifying Information	<b>X</b>		
2320	Analysis and Evaluation	<b>X</b>		
2330	Documenting Information	<b>X</b>		
2340	Engagement Supervision	<b>X</b>		
<b>2400</b>	<b>Communicating Results</b>	<b>X</b>		
2410	Criteria for Communicating	<b>X</b>		
2420	Quality of Communications	<b>X</b>		
2421	Errors and Omissions	<b>X</b>		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	<b>X</b>		
2431	Engagement Disclosure of Nonconformance	<b>X</b>		
2440	Disseminating Results	<b>X</b>		
2450	Overall Opinions	<b>X</b>		
<b>2500</b>	<b>Monitoring Progress</b>		<b>X</b>	
<b>2600</b>	<b>Communicating the Acceptance of Risks</b>	<b>X</b>		
	<b>The IIA’s Code of Ethics</b>	<b>X</b>		

## Rating Definitions

**Generally Conforms** means the assessor has concluded the following:

- For individual standards, that the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual standards and/or elements of the Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these do not represent situations where the internal audit activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

**Partially Conforms** means the assessor has concluded the following:

- For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or element of the Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some objectives.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

**Does Not Conform** means the assessor has concluded the following:

- For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the standard (e.g., 1000, 1010, 2000, 2010, etc.) and/or elements of the Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

## Background and Independent Reviewers' Biographies

The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* require external assessments (Quality Assessment Reviews or QARs) to be performed at least once every five years by a qualified, independent assessor or assessment team from outside the organization. In acting as assessors, we are independent of the Office of City Auditor and have the necessary knowledge and skills to undertake this engagement. It was conducted as a project of the IIA's Tulsa Chapter Peer Review Program.

**James H. (Jim) Sleezer**, MBA, retired in 2014 as the manager of quality assurance and improvement after nearly 20 years with the Department of Internal Audits for the Oklahoma State University/A&M Board of Regents. While an internal auditor, he conducted reviews and audits of many higher education activities including information technology, financial systems, human resource systems, student information systems, medical systems, and research administration. Jim has presented seminars on preparing for and conducting QARs for the Association of College and University Auditors (ACUA) and the Institute of Internal Auditors (IIA) Tulsa Chapter. He has been a frequent presenter at IIA Conferences, IIA and ISACA Chapter Meetings, and Big 12 Internal Auditors Conferences. He is a former board member-at-large, member of the Professional Education Committee, and director of distance learning for ACUA and is the recipient of the association's 2010 Excellence in Service Award. Jim completed the IIA's QAR training in 2012 and has participated in assessments for more than a dozen colleges and universities.

**Christine (Chrissy) McKeown**, MS, CIA, CPA, is a Senior Quality & Audit Methodology Manager at Stinnett & Associates. She has over 18 years of experience with internal controls. Chrissy has performed internal audit and Sarbanes-Oxley compliance services for public and private companies of all sizes. In 2014, Chrissy transitioned from client service into a professional practice support position with Stinnett. In this role, she is responsible for developing and maintaining standards for both internal audit and Sarbanes-Oxley compliance projects. Additionally, Chrissy manages the internal quality assessment program. She has a Bachelor of Business Administration degree and a Master of Science degree in Accounting from Texas A&M University. She is a certified public accountant, a certified internal auditor, and a member of the Institute of Internal Auditors. Chrissy completed QAR training with the IIA Tulsa Chapter in 2017.

**Jennifer A. Gerrior**, BSBA, is a manager of internal audit for TargaResources. She has over 9 years of experience with internal audit and internal controls in both private and public companies. She holds a Bachelor of Science in Business Administration-Accounting from Rogers State University. Jennifer is a member of the Institute of Internal Auditors and completed QAR training with the IIA Tulsa Chapter in 2017.