



# County of Yolo

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HOWARD H. NEWENS, CIA, CPA  
AUDITOR-CONTROLLER

June 21, 2002

Mr. William A. Eldridge *WAE*  
Auditor-Controller  
County of Solano  
600 Texas Street  
Fairfield, CA 94533

Dear Mr. Eldridge: *Bill*

Pursuant to the Peer Review Program sponsored by the State Association of County Auditors, we conducted a quality assessment (QA) of the Internal Audit Services (IA Services) of Solano County for the period July 1, 1998 through June 30, 2001. The principal objectives of the QA were to assess the IA Services' conformity to The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate IA Service's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of Solano County's management), and identify opportunities to enhance its management and work processes, as well as its value to Solano County.

## Scope of Review

As part of the preparation for the QA, IA Services prepared a self-study, with detailed documentation, and sent out surveys to its staff and to a representative sample of audit clients. A summary of the survey results and accompanying comments (without identifying the individual survey respondents) has been furnished to IA Services. Prior to commencement of the onsite work by the QA team on June 3, 2002, we made a preliminary visit to Solano County to gather additional background information, select executives for interviewing during the onsite fieldwork, and finalizing planning and administrative arrangements for the QA. In addition to interviewing Solano County's external auditors, selected executives, and IA Services staff, we reviewed IA Services risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of IA Services' working papers and reports.

The IA Services environment where we performed our review is well organized and positive. The staff understands the *Standards*, and management is developing a highly professional staff. Our comments and recommendations are intended to build on the foundation already in place in IA Services.

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## Recommendations

Highlights of the more significant of our recommendations are set forth below, with details provided in Exhibit A - Observations and Recommendations. Less significant suggestions for improvement have been transmitted to the Deputy Auditor-Controller under separate cover.

1. **Create an audit committee** whose responsibilities include review of the annual audit plan and countywide risk assessments.
2. **Complete the new risk assessment process**, create an annual high level update process and communicate the results of the assessment to County management.
3. **Perform a regular update of the master internal control review** as it is relied upon in the majority of audit performed by IA Services.
4. **Develop a strategy to address risk caused by reliance on Information Systems** as the County is highly dependent on information systems.

Recommendation number 4 was also included in the prior QA review.

## Opinion As To Conformity To The Standards

Our opinion on the IA Services conformity to the *Standards* is formed based on the following criteria:

- “Generally conforms”- means that an internal audit activity 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 deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the IA Services from performing its responsibilities in an acceptable manner or
- “Does not conform”- means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

It is our opinion that IA Services generally conforms to the following *Standards*:

- 1000 – Purpose, Authority, and Responsibility (Charter),
- 1100 – Independence and Objectivity,
- 1200 – Proficiency and Due Professional Care,
- 1300 – Quality Assurance/Improvement Program,
- 2000 – Management the Internal Audit Services,

- 2100 – Nature of Work,
- 2200 – Engagement Planning,
- 2300 – Performing the Engagement,
- 2400 – Communicating Results,
- 2500 – Monitoring Progress
- 2600 – Management’s Acceptance of Risks, and
- The Institute of Internal Auditor’s *Code of Ethics*

We appreciate this opportunity to be of services to Solano County. We will be pleased to respond to questions concerning this report and to furnish any desired information.



Howard H. Newens, CIA, CPA

Auditor-Controller

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**Solano County Internal Audit Services Quality Assessment**  
**For The Years Ended June 30, 1999, 2000 and 2001**  
**Observations and Recommendations**

**1. Establish An Audit Committee**

Solano County does not currently have an audit committee. A properly constituted audit committee helps to enhance the auditor's real and perceived independence of management by providing a direct link between the auditor and the governing board.

**Recommendation:**

We recommend that Solano county establish an audit committee whose responsibilities include review of the annual audit plan, audits findings prepared by the internal audit division and review of the countywide risk assessment.

We also recommend that an Audit Committee Charter be established and contain the purpose, authority, composition, and meeting frequency of the committee. In addition, the responsibilities of the committee should include review of financial statements, internal control reviews, internal audits, external audits and monitoring of compliance with laws and regulations. The Audit Committee should also approve the selection of the County's independent auditors. The charter should define the committee's reporting and other responsibilities. The Audit Committee should meet periodically during the year with the Auditor-Controller and Deputy Auditor-Controller to review progress on the current year's audit plan and note changes that would benefit the County.

**Audit Management Response:**

*The Auditor-Controller who oversees the internal audit function is an elected official. Being an elected official, he is independent in fact and in appearance.*

*We will however conduct a survey to determine what other counties are doing with regard to this issue. This will allow us to obtain and perform an evaluation of the roles and responsibilities of an audit committee, its composition, the related reporting structure, and the overall value that an audit committee adds to the internal audit function in a local government setting.*

**2. Complete the New Risk Assessment Process**

The last comprehensive Countywide risk assessment was performed in fiscal year 1994/95. All audit plans since fiscal year 1995/96 have used this risk assessment as a foundation for the development of the plan.

**Recommendation:**

It is recommended that IA Services complete the newly developed countywide risk assessment process and create a process for a high level annual update to the risk assessment. It is also recommended that the risk assessment be communicated annually to the Auditor-Controller and CAO.

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**Audit Management Response:**

*In February 2002, we initiated a countywide risk assessment to assist us in identifying high risk areas. We intend to complete the risk assessment by December 2002.*

*In a local government environment, the organizational expenditure and funding levels of county departments do not drastically change from year to year. In view of this, we plan to conduct a detailed update of the countywide risk-assessment on a three or four-year cyclical update process. We will also conduct a high-level annual update to coincide with the development of the annual audit plan.*

**3. Perform A Regular Update of the Master Internal Control Review**

The Master Internal Control Review that is relied upon for most audits has not been updated and tested since fiscal 1996-1997.

Relying on a Master Internal Control Review during an audit that has not been recently updated and tested can result in relying on internal controls that are no longer adequate.

**Recommendation:**

The Master Internal Control Review should be done at least every other year or more frequently if significant changes occur in the Auditor-Controller's office and an annual review of procedural changes should be included in the audit plan.

**Audit Management Response:**

*We agree with the finding. In August 2002, we commenced the update of the Master Internal Control Review.*

**4. Develop A Strategy To Address Risk Caused By Reliance On Information Systems**

Currently, IA Services does not perform information systems audits as the staff is not trained to perform such audits. The staff does review the controls surrounding system inputs, processes, outputs and general controls during the course of their audit work. Thus, a potentially high risk area is excluded from the annual audit plan.

**Recommendation:**

We recommend that IA Services develop a strategy to address risk caused by reliance on information systems.

**Solano County Internal Audit Services Quality Assessment  
For The Years Ended June 30, 1999, 2000 and 2001  
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**Audit Management Response:**

*We agree with the finding. Due to significant staff turnover and vacancies for the past several years, our plan to develop and expand expertise in the area of information systems audits has been put on hold.*

*We will develop a plan that will address information systems audits by the end of fiscal year 2002/03.*