



A Tradition of Stewardship  
A Commitment to Service

Agenda Date: 10/16/2018

Agenda Placement: 6H

## NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

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**TO:** Board of Supervisors  
**FROM:** Tracy Schulze - Auditor-Controller  
Auditor - Controller  
**REPORT BY:** Karen Dotson, Audit Manager - 707-253-4588  
**SUBJECT:** Fiscal Year 2018-19 Internal Audit Plan and Summary of 2017-18 Audits

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### **RECOMMENDATION**

Auditor-Controller requests the Board approve and instruct the Clerk of the Board to file the Internal Audit Plan for Fiscal Year 2018-19.

### **EXECUTIVE SUMMARY**

In accordance with sections 1111 and 2020 of the *International Standards for the Professional Practice of Internal Auditing* the Auditor-Controller is required to communicate the Internal Audit Plan to the Board of Supervisors and seek acceptance. The Internal Audit Plan includes a detailed list of engagements to be performed by the Auditor-Controller's Internal Audit staff during Fiscal Year 2018-19.

### **PROCEDURAL REQUIREMENTS**

1. Staff reports.
2. Public comments.
3. Motion, second, discussion and vote on the item.

### **FISCAL IMPACT**

Is there a Fiscal Impact?                      No

**ENVIRONMENTAL IMPACT**

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

**BACKGROUND AND DISCUSSION**

In accordance with sections 1111 and 2020 of the Standards, the Auditor-Controller is required to communicate the Internal Audit Plan to the Board of Supervisors and seek their approval of the plan. Internal audits evaluate an organization's management of risk. All organizations face risk, but the key to a successful organization is how those risks are managed and mitigated. Internal controls and policy compliance are two important areas where risks can be mitigated. The internal auditing team consists of professional staff, under direction of the Auditor-Controller, that have the skills and knowledge necessary to evaluate and audit records and systems to ensure that controls are in place and that policies are being followed. These staff are required each year to complete 40 hours of continuing education to maintain current on auditing standards and best practices, including the identification of high risk areas that could potentially result in fraud or misuse of public funds.

Accordingly, staff is requesting approval of the following plan which would be completed by June 30, 2019:

**Audit Plan Fiscal Year 2018-19**

County-Wide Engagements - County-wide engagements are to focus on the overall compliance of our current policies and procedures within the County instead of focusing on specific departments. The four areas listed below have been identified as high-risk areas where fraud or misuse could exist. During the implementation of the procurement card, annual auditing was established as a good practice and recommended by the Auditor-Controller and County Executive Officer. Security role review within the County's PeopleSoft program includes both roles and security in the Financial and HR systems to ensure that proper controls are in place and being implemented. This should be monitored each year, but resources and other priorities do not provide the ability to conduct an audit of this size annually. This was also a recommendation over the last two years by our County's Independent Auditors. Computer purchases and usage of County-owned vehicles are areas that have not been audited in several years and could provide opportunity for fraud and misuse. In addition, for all of these areas, the goal is not only to ensure that proper security and controls are in place, but also to provide efficiencies and recommendations on process changes for improvement, where possible.

- | Procurement card monitoring
- | Security role review within the County's PeopleSoft program
- | Computer purchases – authorization process and approvals
- | Vehicle usage of County owned vehicles

Contracted Services - These are the contracts engaged by the agency listed for the Internal Audit Division to complete each year.

- | Napa-Vallejo Waste Management Authority - Quarterly monitoring of Devlin Road Transfer Station contractor
- | Napa County Housing Agency – Quarterly monitoring of County Farm Worker Centers operations contractor
- | Upper Valley Waste Management Authority - Review solid waste hauling contract compliance and rate review

- | Napa County - Zone 1 Garbage and Berryessa Garbage Service rate reviews for the protection of the rate payers

### Other Tasks

- | Two District Attorney's Grant Fund Audits (Mandated by the State)
- | Treasurer's Quarterly Cash Counts (Mandated by the State)
- | Nine Transient Occupancy Tax Audits (TOT Ordinance Compliance)
- | Revolving Fund Monitoring (Policy Compliance)
- | Donation Reporting (Policy Compliance)

Completion of the above plan is contingent upon additional tasks of higher risk or priority being assigned during the fiscal year as well as maintaining the current staffing level. In addition, we continue to work with Department Heads and the CEO office to determine specific departmental audits as resources allow. We also encourage Board of Supervisors input if there is an area of concern.

### **Summary of Fiscal Year 2017-18 Audits**

See attached memo for a summary of audits completed with summary reports of county-wide internal audits completed during fiscal year 2017-18.

### **Status of Independence**

The majority of the engagements performed by the Auditor-Controller's Internal Audit staff are performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* (Standards). In accordance with Standards, specifically attribute standard 1100 – Independence and Objectivity; the internal audit activity must be independent, and internal auditors must be objective in performing their work. This is interpreted by the standard as follows:

*Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.*

*Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

The Auditor-Controller is considered to be independent in accordance with the Standards with the exception of the claims processed for the expenses incurred by the Auditor-Controller's Office. Employee's of the Auditor-Controller's Office involved in engagements performed internally are required to evaluate and certify their independence based on the proposed audit plan for the up coming fiscal year. All certifications were completed by July 31, 2018.

**SUPPORTING DOCUMENTS**

- A . Memo to the Board
- B . Attachment A - Capital Assets Observation
- C . Attachment B - Employee Reimbursements
- D . Attachment C - Procurement Card Monitoring

CEO Recommendation: Approve

Reviewed By: Leigh Sharp