

3BB-1

PALM BEACH COUNTY
BOARD of COUNTY COMMISSIONERS
AGENDA ITEM SUMMARY

Meeting Date: May 20, 2014 ☒ [X] Consent ☐ [] Regular
☐ [] Public Hearing

Department:
Submitted By: Internal Auditor's Office

I. EXECUTIVE BRIEF

Motion and Title: Staff recommends motion to receive and file:

Peer Review Report on the Palm Beach County Internal Auditor's Office conducted by the Association of Local Government Auditors.

Summary: Government auditing standards require peer reviews every three years of the Internal Auditor's Office. The Association of Local Government Auditors conducted the peer review and found that, except for two deficiencies noted, the Office's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards. The report also makes suggestions for improvement in the Office's system of quality control. Countywide (PFK)

Background and Policy Issues: The peer review took place during January, 2014 and covered the period October 1, 2010 through September 30, 2013. The deficiencies noted included lack of a formal annual review of monitoring procedures intended to identify systemic issues in audit quality, and a need for improved documentation of audit engagement risk assessments. The Internal Auditor's Office is committed to implementing the necessary changes to its quality control system by September 30, 2014. The peer review team also pointed out two areas in which the Office excels which are: the significant number of audit completed relative to its staffing level; and assembling a well qualified team of audit professionals and ensuring the team's skills are maintained by encouraging cost effective training that goes beyond the minimums required by Government Auditing Standards.

Attachments:

Peer review report consisting of an opinion letter, a letter to audit management recommending improvements, the Internal Audit response to the opinion letter and the Internal Audit response to the management letter

Recommended by: Joseph F. Bergeron 10 April 2014
Internal Auditor Date

Recommended by: [Signature] 4/15/14
County Administrator Date

II. FISCAL IMPACT ANALYSIS

A. Five Year Summary of Fiscal Impact:

Fiscal Years	2014	2015	2016	2017	2018
Capital Expenditures					
Operating Costs					
External Revenues					
Program Income (County)					
In-Kind Match (County)					
NET FISCAL IMPACT	None ✱				
# ADDITIONAL FTE					
POSITIONS (Cumulative)					

Is Item Included In Current Budget? Yes ____ No ____
Budget Account No.: Fund ____ Agency ____ Org. ____ Object ____
Program Number ____ Revenue Source ____

B. Recommended Sources of Funds/Summary of Fiscal Impact:

✱ No fiscal impact

A. Department Fiscal Review:

III. REVIEW COMMENTS:

A. OFMB Fiscal and/or Contract Administration Comments:

[Signature] 4/14/2014
Budget/OFMB *AM* 4/14/14
BN 4/11

[Signature] 4/14/14
Contract Administration
4.14.14 *[Signature]*

B. Legal Sufficiency:

Paul F. [Signature] 4/15/14
Assistant County Attorney

C. Other Department Review:

Department Director



External Quality Control Review

of the
Palm Beach County Internal
Auditor's Office

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**

for the period October 1, 2010 through
September 30, 2013



Association of Local Government Auditors

January 17, 2014

Joseph F. Bergeron
Palm Beach County Internal Auditor
2300 North Jog Road
West Palm Beach, FL 33411

Dear Mr. Bergeron,

We have completed a peer review of the Palm Beach County Internal Auditor's Office (PBCIAO) for the period October 1, 2010 to September 30, 2013. In conducting our review, we followed the standards and guidelines contained in the Peer Review Guide by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that, except for the deficiencies noted below, the PBCIAO's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period October 1, 2010 to September 30, 2013.

Deficiencies found in your internal quality control system included those related to standards on quality control and assurance, (GAS 3.95) and, assessing audit risk, (GAS 6.11). These control deficiencies resulted in recurring nonconformance with *Government Auditing Standards*. We offer the following observations and suggestions to help your organization achieve full compliance with *Government Auditing Standards*:

- Quality Control and Assurance

GAS 3.95 requires that an audit organization should analyze and summarize the results of its monitoring procedures at least annually, with identification of any systemic issues needing improvement along with recommendations for corrective actions. (Under GAGAS, reviews of the work and report that are performed as part of supervision are not monitoring controls when used alone.) PBCIAO does not have policies or procedures to address this requirement, and it did not prepare a summarization of the results of monitoring procedures. This observation was also identified in PBCIAO's previous peer review but the required procedures have not yet been implemented.

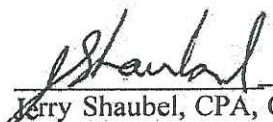
We recommend the PBCIAO should analyze and summarize the results of its monitoring procedures at least annually in compliance with GAS 3.95

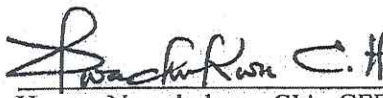
- Assessing Audit Risk

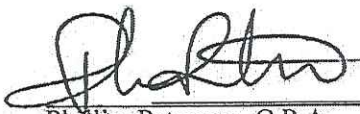
GAS 6.11 requires auditors to assess audit risk and significance within the context of audit objectives by gaining an understanding of significant aspects of the operations of the entity being audited. The risk assessment should include, but not be limited to, internal controls, information system controls, relevant laws and legislation, contracts, agreements, results of previous audits etc. PBCIAO has ceased using a formal risk assessment matrix however has not implemented alternate procedures to ensure that risks are adequately assessed and that this assessment is documented. Of the eight performance audits we reviewed five did not demonstrate that an appropriate risk assessment had been performed.

We recommend the PBCIAO should establish and document procedures to ensure the audit planning process includes a formalized risk assessment in compliance with GAS 6.11.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.


Jerry Shaubel, CPA, CA, CISA, CGAP
Audit Director
Auditor General's Office
City of Toronto, Ontario


Horace Nwachukwu, CIA, CFE, CGAP,
Commission Auditor
Board of County Commissioners
Osceola County, Florida


Phillip Peterson, C.P.A.
Public Accounts Auditor
Office of the Council Auditor
Jacksonville, Florida



Association of Local Government Auditors

January 17, 2014

Joseph F. Bergeron
Palm Beach County Internal Auditor
2300 North Jog Road
West Palm Beach, FL 33411

Dear Mr. Bergeron,

We have completed a peer review of the Palm Beach County Internal Auditor's Office (PBCIAO) for the period October 1, 2010 to September 30, 2013 and issued our report thereon dated January 17, 2014. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- the PBCIAO completes a significant number of audits relative to its staffing establishment. We believe that this is a result of ensuring audits are focused on specific operations and care is taken to ensure that project scope does not extend beyond the intended area of focus.
- the PBCIAO has assembled a well qualified team of audit professionals and has ensured that their skills have been maintained by encouraging cost effective training that goes beyond the minimums required by Standards.

We offer the following observations and suggestions to help your organization achieve full compliance with *Government Auditing Standards*:

Policies and Procedures

GAS 3.82 requires that auditors should establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements. GAS 3.84 requires that each organization document its quality and control procedures.

We commend the PBCIAO for amending its Audit Manual to correct several of the deficiencies reported in the 2010 peer review. We also note that the Audit Manual contains several dated references to *Government Auditing Standards* that have since been revised in 2011. While the 2011 changes to the Standards were not significant in the context of the operations of the the PBCIAO, it is important to ensure that the Audit Manual accurately encompasses all aspects of *Government Auditing Standards*.

We also note that the Audit Manual has not been updated to reflect the PBCIAO's decision to no longer complete a risk matrix for each engagement. Although the Audit Manual should be amended to reflect this operational decision, as noted in our companion report to this management letter, it is equally important to ensure that the Audit Manual contains appropriate direction on the procedures that will be used to demonstrate due diligence in assessing engagement risk in place of the risk matrix.

We recommend that the PBCIAO update its Audit Manual to ensure it reflects the most current *Government Auditing Standards* and accurately guides PBCIAO staff on the Office's expectations for the conduct of audit engagements.

Documentation

GAS 6.82 describes that, "Audit documentation serves to (1) provide the principal support for the auditors' report, (2) aid auditors in conducting and supervising the audit and, (3) allow for the review of audit quality." Our review of audit engagement files noted three areas where improvements could be made:

1. There is minimal cross referencing within the engagement files. Good cross referencing allows for supervisors to easily identify support for audit findings in their review of the work of subordinates.
2. The "point sheets", or findings worksheets, often did not indicate the disposition of each finding, i.e. whether the finding was included in the audit report, verbally discussed with management, or not reported at all. The disposition of individual findings is important information to ensure all findings are dealt with appropriately.
3. One engagement file we reviewed contained personal information, (copies of Social Security Cards). State of Florida Statute 119 requires an auditor to make files available on request. Although there would be an opportunity to remove any personal information prior to disclosure pursuant to a request, greater assurance on the inadvertent disclosure of personal information would be obtained by not including such information in engagement files.

We recommend that PBCIAO staff ensure that audit engagement files:

1. include sufficient cross referencing of audit work to allow for efficient supervisory review,
2. point sheets include an indication of the final disposition of each finding, and
3. do not include personal information that should not be disclosed.



Association of Local Government Auditors

We extend our thanks to you and your staff for the hospitality and cooperation extended to us during our review.

Sincerely,

Jerry Shaubel, CPA, CA, CISA, CGAP
Audit Director
Auditor General's Office
City of Toronto, Ontario

Horace Nwachukwu, CIA, CFE, CGAP,
Commission Auditor
Board of County Commissioners
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**Palm Beach County
Board of County
Commissioners**

Priscilla A. Taylor, Mayor

Paulette Burdick, Vice Mayor

Hal R. Valeche

Shelley Vana

Steven L. Abrams

Mary Lou Berger

Jess R. Santamaria

County Administrator

Robert Weisman

"An Equal Opportunity
Affirmative Action Employer"

Official Electronic Letterhead

January 17, 2014

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Audit Director
Auditor General's Office
City of Toronto, Ontario

Horace Nwachukwu
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Board of County Commissioners
Osceola County, Florida

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Jacksonville, Florida

Re: Management Response to Peer Review Report Recommendations for the Palm Beach County Internal Auditor's Office

Gentlemen:

The Peer Review Report on the Palm Beach County Internal Auditor's Office (PBCIAO) made two recommendations for improvement in our quality control system. Following are the recommendations made and our response thereto:

Recommendation 1: We recommend the PBCIAO should analyze and summarize the results of its monitoring procedures at least annually in compliance with GAS 3.95.

Management Response: We concur with the recommendation and will implement a practice of conducting post-engagement "Lessons Learned" reviews after every engagement. We will document these reviews as part of each engagement's audit files and also maintain separate copies of these documents for periodic review by audit management. The Audit Manual will be updated to reflect these practices.

Recommendation 2: We recommend the PBCIAO should establish and document procedures to ensure the audit planning process includes a formalized risk assessment in compliance with GAS 6.11.

Management Response: We agree with the recommendation and will update the Audit Manual to reflect that recommendation and the recently initiated practice described following. We recently began a practice of conducting brainstorming sessions during our audit

Gentlemen
Response to Peer Review Report Recommendations
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planning to better understand the auditee's environment and identify potential risk factors and considerations.

I would also like to commend the peer review team for their courtesy and professionalism during this peer review. My discussions with the review team members gave me some new insights into ways to improve our processes, and I very much appreciate that. The team members also agreed to provide me samples of some of the audit forms and procedures they implement in their own shops which will be of significant help to me going forward.

Sincerely,

A handwritten signature in dark ink, reading "Joseph F. Bergeron". The signature is written in a cursive, flowing style with a large initial "J".

Joseph F. Bergeron
Palm Beach County Internal Auditor



Internal Auditor's Office

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Jacksonville, Florida

Re: Management Response to Peer Review Management Letter
Recommendations for the Palm Beach County Internal Auditor's
Office

Gentlemen:

The Peer Review Management Letter on the Palm Beach County Internal Auditor's Office (PBCIAO) made four recommendations for improvement in our quality control system. Following are the recommendations made and our response thereto:

Recommendation 1: We recommend that the PBCIAO update its Audit Manual to ensure it reflects the most current *Government Auditing Standards* and accurately guides PBCIAO staff on the Office's expectations for the conduct of audit engagements.

Management Response: We concur with the recommendation and will plan on completing the update by June 30, 2014.

Recommendation 2: We recommend that PBCIAO staff ensure that audit engagement files include sufficient cross referencing of audit work to allow for efficient supervisory review.

Management Response: We agree with the recommendation and will incorporate into the update to the Audit Manual recommended above a requirement to provide for bi-directional referencing so that the reviewer cannot only locate the source work paper, but the specific location on the source work paper. We have recently implemented a procedure requiring a review of work paper references by another auditor not part of the engagement team to begin addressing this subject.

Gentlemen

Response to Peer Review Management Letter Recommendations

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January 17, 2014

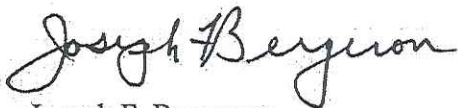
Recommendation 3: We recommend that PBCIAO staff ensure that audit engagement files point sheets include an indication of the final disposition of each finding.

Management Response: We agree with the recommendation and will incorporate the recommendation in the update to the Audit Manual recommended above. Our standard practice has always been to review point sheets at the completion of field work before we develop the draft audit report. The point sheet forms have always provided a space for indicating the disposition of the point sheet. We will take steps to ensure that the point sheet forms are fully completed and/or updated following the review with audit management.

Recommendation 4: We recommend that PBCIAO staff ensure that audit engagement files do not include personal information that should not be disclosed.

Management Response: We agree with the recommendation and will include in our update to the Audit Manual more specific direction regarding redaction of personally identifiable information.

Sincerely,



Joseph F. Bergeron
Palm Beach County Internal Auditor