



External Assessment of the Solano County Internal Audit Division

April 2025



COUNTY OF SAN MATEO
OFFICE OF THE CONTROLLER

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April 4, 2025

Ms. Sheila O. Turgo
Acting Auditor-Controller
Solano County Auditor-Controller's Office
675 Texas Street, Suite 2800
Fairfield, CA 94533-6338

Dear Ms. Turgo,

We have completed a peer review of the Solano County Internal Audit Division for the period July 1, 2019 through June 30, 2024. In conducting our review, we followed the standards and guidelines contained in the Peer Review Guide for Assessing Conformance with International Standards for the Professional Practice of Internal Auditing (the Standards) published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests to determine whether your internal quality control system was adequately designed and operating effectively to provide reasonable assurance of conformance with the Standards issued by the Institute of Internal Auditors. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff and management.

Per the Standards, due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case but does imply adherence in most situations. Organizations can receive a rating of generally conforms, partially conforms, or does not conform. Solano County Internal Audit Division has received a rating of generally conforms.

Based on the results of our review, it is our opinion that the Solano County Internal Audit Division's internal quality control system was adequately designed and operating effectively to provide reasonable assurance of conformance with the Standards for engagements during the period July 1, 2019 through June 30, 2024.

Sincerely,

Kristie Silva

Kristie Silva
Assistant Controller
County of San Mateo

Team Leader: Sam Burkey, CPA, CIA
Internal Audit Manager
County of San Mateo

Team Members: Helen Vu, CPA
Senior Internal Auditor
County of San Mateo

Curt Limsico
Senior Internal Auditor
County of San Mateo

EXECUTIVE SUMMARY

The Institute of Internal Auditors' (IIA's) International Standards for the Professional Practice of Internal Auditing (Standards) requires that an external quality assessment of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the quality assessment process. The quality assessment can be accomplished through a full external assessment or a self-assessment with independent validation.

As requested by Solano County's Acting Auditor-Controller, the County of San Mateo's Internal Audit Division staff conducted an external quality assessment of the internal audit activity of the Solano County Auditor-Controller's Office. The principal objectives of the quality assessment were to assess the internal audit activity's conformance to the Standards and the Code of Ethics, evaluate the internal audit activity's effectiveness in carrying out its mission (as set forth in its charter and expressed in Solano County's Internal Audit Division Policies and Procedures), and identify opportunities to enhance its management and work processes, as well as its value to Solano County.

Solano County's Internal Audit Division (IAD) is established within the Solano County Auditor-Controller's Office and is comprised of five full-time employees (staff auditors, senior auditor, journey auditor, and audit manager) who report to the Acting Auditor-Controller. The Auditor-Controller is the elected chief accounting officer of Solano County overseeing the accounting and financial activities under the control of the Board of Supervisors. The duties of the Auditor-Controller are defined under the various codes of the State of California and by Solano County Ordinance. The Office adheres to the professional codes and standards defined by various standard-setting accounting bodies.

OPINION AS TO CONFORMANCE WITH THE STANDARDS AND THE CODE OF ETHICS

Based on the information evaluated during the quality assessment review, we determined that the IAD generally conforms with the Standards and the Code of Ethics. Details of our assessment by each standard are included in Attachment A of this report, which describes whether the IAD generally conforms (GC), partially conforms (PC) or does not conform (DNC) to an individual standard. Also included in Attachment A are detailed definitions for the conformance ratings. Additionally, review results indicate the IAD is seen as independent, skilled, dedicated, and a provider of value to Solano County. The quality assessment team identified opportunities for improvement, details of which are provided in this report.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of the assessment were to assess the internal audit activity's conformance to the Standards and the Code of Ethics. We also evaluated the internal audit activity's effectiveness in carrying out its mission as set forth in the internal audit charter; identified successful internal audit practices demonstrated by IAD; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the organization, processes, and the value to their residents.

The scope of the external quality assessment of Solano County's IAD included review of audit engagement workpapers and administrative documents; interviews with internal audit management and staff; and comparison of current practices to those required by the Standards for the fiscal years 2019-20 through 2023-24.

These Standards are comprised of two main categories: Attribute and Performance Standards. Attribute and Performance Standards apply to all internal audit services.

- Attribute Standards (Standards 1000-1322) address the attributes of the organization and individuals performing internal auditing.
- Performance Standards (Standards 2000-2600) describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured.

The Code of Ethics outlines the fundamental principles that internal auditors must adhere to, emphasizing integrity, objectivity, confidentiality, and competence as the core pillars guiding their professional conduct, ensuring ethical behavior in all internal audit activities. It sets the standard for how internal auditors should act with honesty, impartiality, discretion, and professional capability in their work.

SUCCESSFUL INTERNAL AUDIT PRACTICES OBSERVED

Throughout our review we noted areas where successful internal audit practices were in effect. We identified the following Standards that fall into this category:

1. **Standard 1100 – Independence and Objectivity**

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. 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. We found Solano's IAD to be independent, and the internal auditors are objective in performing their work. This is demonstrated by multiple documents, including:

- The internal audit charter

- The organizational chart with reporting responsibilities
- The IAD Policies and Procedures Manual that includes policies on independence, objectivity, addressing conflicts, and performance evaluation
- Training records
- Conflict-of-interest disclosure forms

2. Standard 2000 – Managing the Internal Audit Activity

The members of the internal audit team are highly engaged in their work and approach each audit with a value-added approach that reflects their commitment to the improvement of Solano County. Staff are provided with timely feedback, support for educational and career goals, and the opportunity to effect change. We found the internal audit activity is effectively managed due to the following:

- It achieves the purpose and responsibility included in the internal audit charter.
- It conforms with the Standards.
- Its individual members conform with the Code of Ethics and the Standards.
- It considers trends and emerging issues that could impact the organization.

3. Standard 2060 – Reporting to Senior Management and the Board

The Auditor-Controller reports periodically on IAD's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. The Auditor-Controller publishes an annual IAD Audit Plan. The plan includes an introduction and background on IAD and how audits are selected, which includes mandated audits, County-wide risk assessment, and recommendations from County management. A summary provides how the IAD prioritizes and audits activities, processes, and programs identified as High Risk within the current year. The Audit Plan also provides a description of the project, the department, and the budget hours for the upcoming year and the list of the completed projects from the last two fiscal years. All of these items demonstrate Solano's conformance with Standard 2060.

4. Standard 2400 – Communicating Results

The Solano County IAD Policies and Procedures demonstrated conformance with Standard 2400, which includes a full chapter on communicating audit results. In communicating results, internal auditors consider the communication plan, including criteria for communicating (Standard 2410), the quality of the communications (Standard 2420), and the dissemination of results (Standard 2440). The Solano County IAD Policies and Procedures includes definitions, elements of a finding, a points and disposition worksheet, discussion with management, and basic guidelines for drafting the management letter. Engagements performed by the IAD are thorough with discussions with management of the findings before finalizing, the chief audit executive meets weekly with the ACO to discuss projects and provide status updates.

GAPS TO CONFORMANCE WITH THE STANDARDS OR THE CODE OF ETHICS

Gaps to conformance with the Standards or the Code of Ethics refers to areas where IAD is operating in a manner that falls short of achieving one or more major objectives of the Standards or the Code of Ethics that result in an opinion for an individual standard of “partially conforms” or “does not conform.” We identified the following Standards that fall into this category:

1. Standard 1311 – Internal Assessments and Standard 1320 – Reporting on the Quality Assurance and Improvement Program

Internal assessments must include ongoing monitoring of the performance of the internal audit activity and periodic self-assessments. During our review, we noted that IA has not implemented a formal internal Quality Assurance and Improvement program (QAIP) which includes reporting on the QAIP. Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. The two interrelated parts of internal assessments — ongoing monitoring and periodic self-assessments — provide an effective structure for the internal audit activity to continuously assess its conformance with the Standards and whether internal auditors apply the Code of Ethics. Additionally, they may allow for identification of improvement opportunities. Reporting on the QAIP by the chief audit executive should communicate the results of the QAIP to senior management and the board.

Audit Management’s Response:

We agree with the observation. The internal audit division will update and implement policies and procedures related to the QAIP.

2. Standard 2340 – Engagement Supervision

Standard 2340 requires engagements to be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. Appropriate evidence of supervision needs to be documented and retained.

Evidence of conformance with Standard 2340 may include engagement workpapers, either initialed and dated by the engagement supervisor (if documented manually) or electronically approved (if documented within a workpaper software system). Partial/incomplete signoffs of workpapers were identified in two of the sample audit files selected for the external assessment. Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Audit Management's Response:

We agree with the observation. While the internal audit division staff work closely with the supervisor throughout each project, improvements will be made to the process for closing projects.

OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

Opportunities for continuous improvement describes ways the IAD can enhance the efficiency or effectiveness of the organization and processes. These items do not indicate a lack of conformance with the Standards or Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the Standards or Code of Ethics. We identified the following Standards that fall into this category:

1. Standard 1230 – Continuing Professional Development

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development. Unlike staff with internal audit or other professional certifications, staff without certifications have no minimum hour requirement. The Solano County IAD Policies and Procedures, however, requires a minimum of 40 hours of continuing professional education per year. In the first four fiscal years reviewed, approximately half the members of the IAD met this requirement. This requirement was fully met only in the last fiscal year reviewed.

Audit Management's Response:

We agree with the observation. The internal audit division will review the policies and procedures for continuing professional education and make revisions as necessary to align our practices with audit standards.

2. Standard 2040 – Policies and Procedures

The Solano County IAD Policies and Procedures should be reviewed and revised for relevancy and applicability. For example, the audit workpapers section references physical documentation that is no longer applicable, since all documentation is now being created and stored electronically based on observations and interviews. We recommend reviewing and updating the Policies and Procedures.

Audit Management's Response:

We agree with the observation. The internal audit division will make updates to our policies and procedures to recognize changes in practices that have occurred due to a new audit software and updated audit standards.

3. Standard 2440 – Disseminating Results

The chief audit executive must communicate results to the appropriate parties. Through our review and interviews, we noted that the method of report issuance varied and was

not always documented. We recommend retaining and including any copies of any written communication of results in workpaper documentation. Evidence of verbal communication of results should be maintained through meeting minutes, presentations and memos that identify attendees receiving the communication. It is important to keep records that verify the chief audit executive's approval of the final communication and delivery of the engagement results to identified recipients. This observation was due only to lack of workpaper documentation and does not indicate any issues with distribution of results to necessary parties.

Audit Management's Response:

We agree with the observation. The internal audit division has begun retaining documentation of the dissemination of results within each project.

CONCLUSION

Based on the information evaluated during the quality assessment review, we determined that the IAD generally conforms with the Standards and the Code of Ethics. It is our opinion that the IAD's internal quality control system was adequately designed and operating effectively to provide reasonable assurance of conformance with the Standards for engagements during the period July 1, 2019 through June 30, 2024.

ATTACHMENT A
Solano County Internal Audit Division
External Quality Assessment Evaluation Summary

RATING DEFINITIONS

The following are the quality assessment rating levels, as defined by the Institute of Internal Auditors:

GC - "Generally Conforms" means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the Standards or the Code of Ethics and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC - "Partially Conforms" means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or the 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.

DNC- "Does Not Conform" means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly 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 of the organization.

ATTACHMENT A
Solano County Internal Audit Division
External Quality Assessment Evaluation Summary

Quality Assessment Evaluation Summary – Overall Evaluation		GC	PC	DNC
OVERALL EVALUATION		X		
Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program		X	
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments		X	
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program		X	
1321	Use of <i>"Conforms with the International Standards for the Professional Practice of Internal Auditing"</i>	X		
1322	Disclosure of Nonconformance	X		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	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 & Organizational Responsibility for Internal Auditing	X		
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision		X	
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		

Performance Standards (2000 through 2600)		GC	PC	DNC
2430	Use of <i>"Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"</i>	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		

Code of Ethics		GC	PC	DNC
	Code of Ethics	X		