

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**EXTERNAL QUALITY CONTROL REVIEW
FOR THE PERIOD
JUNE 1, 1995 THROUGH MAY 31, 1998**

Issued June 5, 1998

NALGA

National Association of Local Government Auditors

NALGA Peer Review Committee
1220 SW Fifth Ave., Room 120
Portland, OR 97204
(503) 823-3542

Donna Collins
Director, Internal Audit
Interagency Internal Audit Authority
Winchester Hall
Frederick, Maryland 21701

June 5, 1998

Dear Ms. Collins,

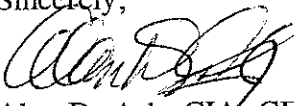
We have completed an external quality control review of the Interagency Internal Audit Authority for audits issued during the period June 1, 1995 through May 31, 1998. In conducting our review, we followed the standards and guidelines contained in the NALGA Quality Control Review Guide (NALGA Guide) published in May 1995 by the National Association of Local Government Auditors.

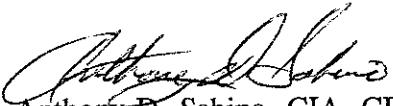
As prescribed by the NALGA Guide, we reviewed the internal quality control system of the Interagency Internal Audit Authority and tested a sample of audits conducted by that office for compliance with government auditing standards issued by the Comptroller General of the United States (Government Auditing Standards, 1994 Revision). Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal control was suitably designed and provided reasonable assurance that applicable government auditing standards were followed in your audit work. We have also concluded from the sample of audits tested that your quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review. This review will complete the achievement of all requirements for compliance with government auditing standards. Consequently, all future audit reports may include a statement that the audit was performed in compliance with *Government Auditing Standards*.

It is our opinion, therefore that the Interagency Internal Audit Authority was in compliance with *Government Auditing Standards* during the period June 1, 1995 through May 31 1998. We have prepared and enclosed herewith a separate letter offering suggestions which, in our opinion, will further increase the value of the Interagency Internal Audit Authority to the participating agency legislative bodies and management.

Sincerely,


Alan D. Ash, CIA, CFE, CGFM
City Auditor
Gainesville, Florida


Anthony D. Sabino, CIA, CBA
Lead Auditor
Northampton County, Pennsylvania

NALGA

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Interagency Internal Audit Authority
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June 5, 1998

Dear Ms. Collins,

We have completed an external quality control review of the Interagency Internal Audit Authority for audits issued during the period June 1, 1995 through May 31, 1998. We have issued a report stating our opinion that the Interagency Internal Audit Authority was in compliance with *Government Auditing Standards*. We are presenting you with this companion letter offering additional observations and some suggestions which, in our opinion, will further increase the value of the Interagency Internal Audit Authority to the legislative bodies and management of the participant agencies.

First, the following are some areas where, in our opinion, your office excelled:

- Responses from the County Manager and Comptroller reflect good relations between the Interagency Internal Audit Authority and County management.
- The Interagency Internal Audit Authority has attracted and maintained a professional and competent staff with complementary skills.
- The system in place to maintain and track Continuing Professional Education required by *Government Auditing Standards* is organized and effective.
- The newly implemented quality assurance procedure requiring the completion of the NALGA Review of Audit Engagement Form upon completion of each audit should prove beneficial in providing continued compliance with *Government Auditing Standards*.

Additionally, the Frederick County Commissioners, Frederick County Board of Education and the Frederick Community College are to be commended for recognizing the value of having and supporting an independent audit office.

The above are only some of the many qualities and activities of the Interagency Internal Audit Authority that impressed us during the review. We offer the following comments and suggestions to support your efforts to continuously improve your operations.

Frederick County Resolution No. 86-26

Consideration should be given to updating the resolution to reflect changes and current practices. We believe such revisions will prove beneficial to your operations and management. As a sample,

we noted the following:

- **Types of Audits:** Consideration should be given to amending the Resolution and Office Policies and Procedures to include the types and definitions of audits contained in *Government Auditing Standards*. This would provide you with a better basis for applying the standards and should provide a more accurate description of the nature of work performed by the Interagency Internal Audit Authority and should simplify the general understanding of the types of audits performed.
- **Strategic Plan:** A section should be added to provide for the development of a strategic plan which outlines the major exposure areas in each participating organization and your three to five year plans to audit those areas as well as other general objectives which reflect your vision for the Interagency Internal Audit Authority and expectations of the participating organizations.
- **External Quality Control Review:** A section should be added to incorporate the requirement of *Government Auditing Standards*. These reviews should be completed every three years.

Recurring and Follow-Up Audits

We noted that considerable effort was spent on recurring audits. You may wish to discuss this with the management of the participating agencies and obtain their agreement that implementation of their agreed-upon corrective actions to your audit recommendations is their responsibility with the oversight of the legislative body. Based on those discussions, you and the Interagency Internal Audit Authority may then want to present to the appropriate legislative body recommendations setting out the responsibilities of management. This will ensure that their action plans are implemented. For example, implementing the agreed-upon corrective action plans should be the responsibility of management and the appropriate legislative body. While the Interagency Internal Audit Authority is charged with performing a follow-up and reporting on corrective actions taken, numerous follow-up audits should not have to be performed although some monitoring and verification may be necessary.

The time you and your staff spend on multiple follow-up audits could then be utilized to audit new areas that may benefit more from your audit resources.

Audit Coverage

When preparing the annual audit plan you should consider expanding the universe of your audit coverage to include additional areas of major exposure. The Frederick County Board of Education and Frederick Community College with their major assets and varied systems will benefit from increased audit coverage. Your expansion of performance (operational) audits to major operating areas should be of greater assistance to the participating agencies in formulating their policy and budgetary decisions.

Audit Planning and Supervisory Review

As part of the audit planning process, *Government Auditing Standards* require auditors to define the audit's scope, objectives and design methodology to provide sufficient, competent and relevant evidence. Our review of your workpapers indicated that an audit plan containing the scope, objectives and design methodology was not developed prior to the inception of testing and fieldwork. We noted that the scope, objectives and design methodology were included in the final audit report however it appeared that these important planning tools were developed after completion of the audit work. Steps should be taken to develop and document an audit plan complete with scope, objective and design methodology during the planning stages of audit.

During our review of audit workpapers we noted that evidence of supervisory review of audit workpapers was limited. We observed evidence of supervisory review only on the audit program for each audit. In discussions with staff we inquired as to the level of supervisory involvement and were informed that the Audit Director is kept informed of audit status on an ongoing basis. *Government Auditing Standards* require adequate evidence of supervisory review. Therefore, we believe more emphasis should be placed on preparing and placing evidence of supervisory review during the course of the audit in the workpapers. Examples of evidence of supervisory review include a supervisory log which documents the date, time and issues discussed prepared by the auditor and signed by the reviewer. Other methods include supervisor initials and date on significant audit workpapers. Audit management may wish to consider initialing all workpapers to ensure compliance with *Government Auditing Standards*.

Performance Audits

Conduct of Audit: When conducting Performance Audits, a detailed audit plan and program should be prepared listing objectives and all steps to be performed. Procedures should be designed to achieve the stated objectives, and should include detailed tests designed to measure the efficiency and effectiveness of the area under audit. Workpapers should clearly show the results of these measurements and should be fully cross-referenced to the Audit Program.

Job Descriptions and Training: We noted that Senior Auditors are currently conducting performance audits. The job description for this position limits the type of audits to be performed by the incumbent to financial or financial related audits. Consideration should be given to expanding the job description of the Senior Auditor to include performance audits. Although the qualifications of the incumbents in this position are adequate for performing these audits, we believe additional performance audit training is appropriate.

Policies and Procedures

Consideration should be given to updating office policies, procedures and practices in order to maintain compliance with *Government Auditing Standards*. We believe such revisions will prove beneficial to your operations and management. Office policies and procedures should be updated to include provisions to ensure:

- workpapers include an independence statement signed by the responsible auditor and Audit Director;
- written audit plans and programs are developed and approved by the Audit Director prior to beginning fieldwork and testing;
- guidance is provided regarding conducting inquiries and tests before relying on the work of others;
- the use of the “Five Elements of a Finding” form or its equivalent to better evaluate/document audit findings.
- proper procedures are followed and documentation maintained in the event an audit is terminated prior to completion;
- issues requiring further study are properly documented and referred to auditors responsible for planning future audit work;
- the nature of issues prohibited from general disclosure but omitted from the report and the requirement that makes the omission necessary are reported.

Administration

The portion of the audit process related to the final review of audit workpapers could be enhanced with the use of a final review checklist. At a minimum, the checklist should include procedures to insure the auditor’s statement of independence is signed/dated and included in workpapers, all workpapers are footed and cross-footed as appropriate, all workpapers contain headers including audit title and number and are appropriately initialed by the preparer and the Audit Director. Consideration should be given to the development of a standard form for workpaper review and including review notes in the workpaper file.

Greater emphasis should be placed on referencing and cross referencing workpapers throughout the audit process. This should assist auditors and reviewers in locating records and information necessary to ascertain the evidence that supports the auditors’ significant conclusions and judgments.

Adequate documentation should be maintained to ensure proper evidence that attendance at training classes can be substantiated. In instances where documentation is not provided, the Audit Director should prepare a memo for the file indicating date, type of training and the number of CPEs achieved.

Audit Reports

Consideration should be given to revising the procedure for the development, structure, and

distribution of audit reports. For example:

- Currently audit reports are signed by, issued and presented to the Interagency Internal Audit Authority. As the Interagency Internal Audit Authority is the preparer of the audit report, we believe that the final audit report and management's response should also be presented to the legislative body responsible for the audited agency for agreement. This will provide reasonable assurance that appropriate corrective action is taken. This form of presentation, approval and distribution serves both the Interagency Internal Audit Authority and the participating agencies as report contents are better understood by the appropriate officials, full disclosure in accordance with *Government Auditing Standards* is achieved, and implementation of audit recommendations is facilitated as the governing board of the audited agency through its approval of the recommendations and management's response provides a mandate for implementation.
- Audit report format, readability and content should be reevaluated to consider presentation styles that are more reader friendly. In some instances, we found the audit report format cumbersome and difficult to follow and in other cases too detailed and technical for the average reader.
- Audit findings should be listed in order of importance and indicate financial implications of findings and recommendations. Determining the level of importance can be achieved by considering the impact a finding has on the overall functioning of the area under review. For instance, the lack of written policies and procedures can greatly impact the effectiveness of a given function, and should be given prominence within the report.
- Financial audit reports should include appropriate language as required in *Government Auditing Standards*. Consideration should be given to issuing a standard opinion letter, compliance letter, and internal control letter. Examples of these letters can be obtained in the publication *Audits of State and Local Governments* published by the AICPA.

We hope that the above comments assist you in continuing the professional work we observed during the review.

Thank you, your staff and the Interagency Internal Audit Authority for the hospitality and cooperation extended to us during our short visit to Frederick, Maryland.

Sincerely,



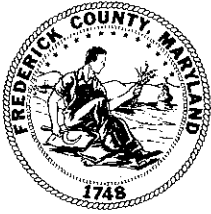
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FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY
COMMUNITY COLLEGE BOARD OF EDUCATION COUNTY GOVERNMENT

Winchester Hall
Frederick, Maryland 21701
(301) 694-1154

June 4, 1998

Alan Ash
Anthony Sabino
NALGA Quality Control Review Team

Dear Mr. Ash and Mr. Sabino,

Thank you for agreeing to provide a quality control review of the Frederick County Interagency Internal Audit Authority. We are pleased to know that we are in compliance with *Government Auditing Standards* and appreciate your thoughtful suggestions for improving the operation of our audit function. We look forward to implementing your suggestions as follows.

Frederick County Resolution No.86-26

We agree that our resolution should be updated to reflect the policy that our audits are to be performed in accordance with *Government Auditing Standards* (G.A.S) and to reflect G.A.S. terminology regarding the types and definitions of audits we perform. We also agree that the resolution should include a provision for the development of a strategic plan and for obtaining an external quality control review every 3 years. With the approval of the Interagency Internal Audit Authority (IAA), the County Attorney will be contacted to initiate these revisions to the resolution.

Recurring and Follow-Up Audits

Your observation that we spend a significant amount of our time on recurring audits is well-received. The majority of these audits are performed annually due to the high-risk nature of the related functions and because we have agreed to provide our external auditors audit coverage of certain operations. However, we agree that for those audits resulting in no significant audit findings, changing to a cyclical audit basis would continue to provide adequate audit coverage, while allowing us additional audit hours for new areas. We will meet with our external auditors to determine whether the scope and amount of testing we perform for our recurring work can be reduced while continuing to meet their needs. We will then re-evaluate our audit workplan with the intent of decreasing the number of hours spent on recurring audits and increasing those of new performance audits meeting certain risk criteria. We also agree that we should reduce the

RESPONSE TO EXTERNAL QUALITY CONTROL REVIEW

amount of hours spent on follow-up audits and appreciate the suggestions made at the exit interview for streamlining this process, which we intend to implement. Your suggestion that the IIAA present to appropriate legislative bodies recommendations for enforcing management's responsibility for taking corrective action will be discussed at an upcoming Authority meeting.

Audit Coverage

Historically, our audit coverage has been disproportionate in favor of Frederick County due to the fact that its operations are more diverse than those of the Board of Education (BOE) and Frederick Community College (FCC). In the future, we agree to budget additional hours for performance audits at the BOE and FCC to assure that these entities receive their proportionate share of audit services.

Audit Planning and Supervisory Review

Although we determine audit scope, objectives and design methodology during the initial stage of our audits, we agree that our workpaper documentation of the planning process should be improved. As a means of assuring compliance with this requirement, we will devise a standard audit program to be used for all audits which includes detailed procedures for performing and documenting audit planning.

We appreciate the importance of adequate documentation of supervisory review in that it benefits staff, the supervisor as well as peer reviewers. We agree to improve such documentation through the use of supervisory logs and reflecting the Director's initials on each workpaper as approval.

Performance Audits

We concur with your observation that our performance audit process should be more clearly defined and documented and found the suggested techniques you described during the exit interview to be very helpful. As mentioned above, a standard audit program will be devised which will provide clear guidance for performing each step of the audit process and which will include a logical flow between audit objectives, risk assessment, detailed tests and audit results and provide for proper cross-referencing. This will assure conduct of the audit in accordance with the standards as well as provide a consistent format among all of our workpaper files.

Job descriptions of Senior Auditors will be revised to properly include their responsibility for performing performance audits in addition to financial and financial-related audits. A distinction will be made according to level of risk so as distinguish between performance audits assigned to the Management Analyst as opposed to those assigned to the Senior Auditors. Training in performance auditing will be provided to Senior Auditors via attendance at seminars.

RESPONSE TO EXTERNAL QUALITY CONTROL REVIEW

Policies and Procedures

Our audit manual will be revised to reflect the provisions you outlined which will ensure that our policies and procedures address all requirements of G.A.S. Standard forms will be developed where applicable to facilitate compliance with the requirements.

Administration

We agree that a final review checklist will assist in assuring the quality of our workpapers in addition to providing for a more efficient review process. A standard form will be devised for inclusion in each file reflecting the items you suggested and any others deemed appropriate.

Our audit manual will be revised to reflect more specific cross-referencing techniques and staff will be provided with training to assure consistency among workpaper files.

Procedures for documenting continuing professional education will be improved to provide for adequate support which includes date and type of training and number of hours. This documentation will be in the form of a memo prepared by the Director when a certificate providing the necessary information is not available.

Audit Reports

Your recommendation for presenting our audit reports to the legislative body responsible for the audited agency will be discussed with the IAA at our next meeting. Currently, our reports are issued for response to the highest level of authority who can take corrective action, with copies of final reports (including auditee's responses) provided to the appropriate legislative body. Any audit recommendations which are deemed significant by the IAA and are not implemented may be subsequently presented to the legislative body to enlist their support for implementation. We recognize the benefit of making formal presentations for our larger performance audits upon receiving the response from management. We appreciate the thought you put into this recommendation and will give it significant consideration.

Audit reports from other audit organizations will be reviewed with the intent of improving the readability and content of our audit reports. In addition, we will institute a policy requiring report findings to be listed in order of importance and will provide guidance for distinguishing between conditions and advisory comments.

We will assure that financial audits meet the requirements of G.A.S. by devising a standard audit program which addresses each area of compliance.

RESPONSE TO EXTERNAL QUALITY CONTROL REVIEW

We found the quality control review to be a very positive experience and believe that our efficiency and effectiveness will be greatly enhanced with the implementation of your recommendations. We especially appreciated the time you took to explain the various procedures you employ in your own audit organizations and are anxious to put these techniques into practice. Thank you for providing us with this valuable tool for improving our operation.

Sincerely,

A handwritten signature in cursive script that reads "Donna Collins".

Donna Collins, CIA
Director, Internal Audit