DGS

MEMORANDUM

Date: October 7, 2008

File No.: 8173

To: Will Bush, Director
Department of General Services
707 3rd Street, 8th Floor
West Sacramento, CA 95605

From: **Department of General Services**
Office of Audit Services

Subject: **QUALITY ASSURANCE REVIEW**

Attached is the final report on a quality assurance review conducted of the Office of Audit Services (OAS) to verify that its operations are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that a quality assurance review be performed of internal audit activities at least once every five years. To comply with this provision, the OAS performed a self-assessment of its operations which is allowed by the Standards as a method to meet this requirement.

The Self-Assessment Team concluded that the OAS generally conforms to the Standards. This opinion means that policies, procedures, and an internal auditing charter existed and were deemed to be in accordance with the Standards. The review team did not identify any areas for improvement, which reflects favorably on the professionalism of the internal audit activity within the Department of General Services.

The Department of Finance, Office of State Audits and Evaluations (OSAE), was engaged to conduct an independent validation of the OAS' self-assessment. The OSAE fully concurred with the Self-Assessment Team's conclusions (See Attachment B of the report).

If you have any questions, please call me at (916) 376-5058.

Rick Gillam

RICK GILLAM, CPA, CIA
Chief, Office of Audit Services

Attachment

cc: Will Semmes, Chief Deputy Director
Scott Harvey, Chief Deputy Director
Audit Committee (Deputy Directors)

Quality Assurance Review
Self-Assessment with Independent Evaluation

Department of General Services
Office of Audit Services

Prepared By:
Self-Assessment Team
Office of Audit Services
Department of General Services

Report No. 8173

September 2008

TABLE OF CONTENTS

Preface ii

Introduction 1

Opinion 3

Conditions and Recommendations 4

Conclusion 8

Attachment A: Standards Conformance Evaluation Summary
Attachment B: Independent Validation Statement

The Department of General Services (DGS) serves as business manager for the State of California, with more than 4,000 employees and a budget in excess of one billion dollars. The DGS helps to better serve the public by providing a variety of services to State agencies through innovative procurement and acquisition solutions, creative real estate management and design, state-of-the-art telecommunications, environmentally friendly transportation, and funding for the construction of safe schools. The mission of the DGS is "Working together, we deliver innovative solutions and services with efficiency, economy and integrity to help our customers succeed."

The DGS' Office of Audit Services (OAS) provides an independent, objective assurance and consulting function designed to add value and improve the DGS' operations. The OAS helps the DGS accomplish its objectives by brining a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

The OAS' goal is to perform both a comprehensive internal and external audit function that will assist the Director and other members of the DGS in the effective discharge of their responsibilities. To this end, the OAS furnishes analyses, appraisals, recommendations, counsel, and information concerning the activities it reviews with the emphasis on the promotion of effective control at reasonable cost.

The OAS conducted this quality assurance review in accordance with Government Code Section 13071, which requires the State's internal auditors to comply with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (Standards). The Standards require that the OAS receive a quality assurance review at least once every five years. Practice Advisory 1312-2 of the Standards allows a self-assessment with independent validation as an acceptable approach to meet this requirement. The following report contains the results of the Self-Assessment Team's determination of the extent of internal audit conformance with the Standards, and a statement by the Department of Finance, Office of State Audits and Evaluations, which was engaged to conduct an independent validation of the OAS' self-assessment.

This report is intended solely for the information and use of the DGS' management and is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.

Self-Assessment Team:

Gregg Gunderson, CIA, Audit Supervisor

Christine Pham, Associate Management Auditor

Olivia Haug, Associate Management Auditor

Review Objectives

Our primary objectives were to: (1) determine the Office of Audit Services' (OAS) compliance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (Standards), (2) appraise the quality of the OAS' operations, and (3) provide recommendations for improving the OAS' compliance with the Standards.

The Standards encompass the following:

- The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*

  Attribute Standards:
  1000—Purpose, Authority, and Responsibility
  1100—Independence and Objectivity
  1200—Proficiency and Due Professional Care
  1300—Quality Assurance and Improvement Program

  Performance Standards:
  2000—Managing the Internal Audit Activity
  2100—Nature of Work
  2200—Engagement Planning
  2300—Performing the Engagement
  2400—Communicating Results
  2500—Monitoring Progress
  2600—Resolution of Management's Acceptance of Risks

- The Institute of Internal Auditors' *Code of Ethics*.

Review Scope

The Department of Finance, Office of State Audits and Evaluations (OSAE), issued a Quality Assessment Review of the Department of General Services' (DGS) Office of Audit Services (OAS) in April 2001 for fieldwork completed in December 2000. In order to assess the OAS' current compliance with the Standards, we reviewed its activities from January 1, 2001 to April 30, 2008, the period subsequent to the OSAE review. We conducted our review in accordance with the Institute of Internal Auditors' *Quality Assessment Manual, Fifth Edition*. The scope of our review included:

- An evaluation of the organizational structure of the OAS within the DGS to determine whether it is strategically positioned to enable it to contribute to the department's objectives and performance.

- A determination whether the OAS' processes enable achievement of its objectives and audit plan and allow the OAS to be responsive to the changing needs of the DGS.
- An analysis of the OAS' activity structure and responsibilities.
- A review of the OAS' risk assessment and audit planning processes.
- An appraisal of the OAS' staff professional proficiency to verify that it is requisite to deliver the approved objectives and annual audit plan.
- A review of selected audit reports and working papers.
- A summary of the evaluation of the OAS' compliance with the Standards. The Self-Assessment Team completed a Standards Compliance Evaluation Summary providing examples of evidence, sound practices, and other considerations to demonstrate compliance with each standard.

We conducted our fieldwork during the months of May through August 2008.

Opinion

In forming an overall opinion on the OAS' compliance with the Standards, we used the opinions delineated in the Institute of Internal Auditors' *Quality Assurance Review Manual, Fifth Edition*, as defined below.

Generally Conforms—Policies, procedures, and an internal auditing charter existed and were deemed to be in accordance with the Standards. Any deficiencies found in applying the policies, procedures, and charter provisions were deemed minor.

Partially Conforms—Policies, procedures, and an internal auditing charter existed, but they were not in complete compliance with the Standards, or significant deficiencies in practice were found that deviated from the Standards.

Does Not Conform—Existing policies, procedures, and an internal auditing charter, where present, were deemed not to comply with the Standards, and/or deficiencies in practice were so significant as to seriously impair audit quality.

DATE: September 26, 2008

TO: **RICK GILLAM**, Chief
Office of Audit Services

We have completed a self-assessment quality assurance review of the Office of Audit Services (OAS) based on an evaluation of the OAS' practices and audits completed during the period January 1, 2001 to April 30, 2008. In our opinion, the OAS generally conforms to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (Standards).

This opinion means that policies, procedures, and an internal auditing charter existed and were deemed to be in accordance with the Standards. Our opinion is based on fieldwork conducted during the months May through August 2008.

Our observations on the OAS' compliance with the Standards are described in the *Conditions and Recommendations* section of this report. For a list of conformance to individual standards see *Attachment A*.

Gregg Gunderson

Gregg Gunderson, CIA, Audit Supervisor
Self-Assessment Team
Office of Audit Services
(916) 376-5061

This section contains our observations on the Office of Audit Services' (OAS) compliance with the *International Standards for the Professional Practice of Internal Auditing* (Standards). For each category, we cite the Standard and discuss the OAS' compliance.

A. 1000—Purpose, Authority, and Responsibility (Charter): The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the *Standards*, and approved by the board of directors/audit committee.

As with the model Internal Audit Activity Charter in the Institute of Internal Auditors' *Quality Assessment Manual, Fifth Edition*, the OAS Charter establishes the mission, authority, organizational placement, independence and responsibility of the OAS necessary for the effective functioning of the office. A new audit charter was adopted by the Audit Committee in December 2006.

The OAS updated its internal audit manual in 2006, making references to the new Standards that became mandatory for all Institute of Internal Auditors' members effective January 1, 2004.

B. 1100—Independence and Objectivity: The internal audit activity should be independent, and internal auditors should be objective in performing their work.

The OAS' independence is achieved through its reporting structure and organizational status. As the OAS is located in the Executive Office and its Audit Chief, who is the Chief Audit Executive (CAE), reports directly to the DGS Director and both Chief Deputy Directors, the OAS is free of any influence which would curtail freedom of action or impair the objectivity of the office in the performance of the audit function

C. 1200—Proficiency and Due Professional Care: Engagements should be performed with proficiency and due professional care.

OAS management appropriately supervises staff to assure conformance with the Standards. OAS management and staff collectively possess the knowledge and skills essential for the professional practice of internal auditing. The CAE, who holds certifications in both public accounting and internal auditing, has 30 years of audit experience comprised of 20 years in his current position and 10 years with the Department of Finance. Both supervisors hold certifications in internal auditing and have over 25 years of audit experience.

D. 1300—Quality Assurance and Improvement Program: The CAE should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness.

The CAE has a close working relationship with the DGS Director and the Chief Deputy Directors, and the DGS executive management has direct access to the CAE. The direct feedback received on each assignment allows the manager to readily judge quality. Further, the CAE reviews every audit workpaper package to ensure that that each assignment is conducted properly and that all findings are adequately supported. In addition, the CAE prepares Supervisor Review Sheets for recording questions and comments from the audit and ensures that the questions are satisfactorily answered. The OAS also uses a working paper checklist to confirm and certify that key audit standards related to working paper preparation and techniques have been completed. Finally, the OAS provides staff training and evaluations to enhance the quality and effectiveness of its activities and promote continuous improvement.

E. 2000—Managing the Internal Audit Activity: The CAE should effectively manage the internal audit activity to ensure it adds value to the organization.

The CAE submits annually to the Audit Committee for adoption and to the Director and Chief Deputy Director for approval, a formal risk-based internal audit plan that includes goals and objectives, an audit work schedule, a staffing plan, and a summary of accomplishments that outline its prior year activities. The distribution process for issuing audit reports ensures that management is kept informed. Specifically, the members of the department's executive management team receive copies of all audit reports within their purview.

To align the internal audit activity's priorities, scope of work, and use of resources with the DGS' enterprise risk management framework, the CAE performs a risk analysis of each of the offices within the DGS and incorporates that analysis when determining audit priorities. Matters considered in establishing audit priorities include: (1) the date and results of the last audit; (2) financial exposure; (3) potential loss and risk; (4) requests by management; (5) major changes in operations, programs, systems, and controls; and, (6) opportunities to achieve operating benefits.

F. 2100—Nature of Work: The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach.

The nature of the OAS' work conforms to the Standards. The scope of work includes the examination and evaluation of the DGS' internal control systems, compliance reviews, special reviews and investigations requested by DGS management, and

coordination of all audit activities performed within the DGS by external audit agencies.

G. 2200—Engagement Planning: Internal auditor should develop and record a plan for each engagement, including the scope, objectives, timing and resource allocations.

The OAS' audit work is performed in accordance with the Standards. The working papers contain evidence of planning for each engagement though a summary of survey results including audit objectives and scope, and an audit program based on approved objectives and available information on the activities, operations, and procedures of the entity being examined. The OAS' management tracks the progress of each assignment, initiating revisions as required, using information provided from an Assignment Request and Completion Report and from automated time sheets.

H. 2300—Performing the Engagement: Internal auditors should identify, analyze, evaluate, and record sufficient information to achieve the engagement's objectives.

The OAS' audit work is performed in accordance with the Standards. The working papers contain sufficient, competent, and relevant evidence and information to support the conclusions and reports.

I. 2400—Communicating Results: Internal auditors should communicate the engagement results.

The OAS' audit work is performed in accordance with the Standards. Audit reports are accurate, objective, constructive, and complete.

J. 2500—Monitoring Progress: The CAE should establish and maintain a system to monitor the disposition of results communicated to management.

The OAS' audit work conforms to the Standards. The OAS follows up to ascertain that appropriate action is taken on reported audit findings. This activity is primarily accomplished through the obtaining of six-month status reports from the auditee.

At the request of the DGS Director, the OAS has also implemented a system to track on a quarterly basis internal and external findings and recommendations until resolution. As part of this process, the OAS requires Deputy Directors to report quarterly on the progress made in addressing outstanding issues impacting operations and programs under their purview.

In addition, for each report issued by the Bureau of State Audits (BSA) involving DGS' operations, the OAS coordinates the preparation of status reports to the BSA

within sixty-days, six-months, and one year of report issuance on the department's efforts to implement applicable recommendations.

K. **2600—Resolution of Management's Acceptance of Risks: When the CAE believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the CAE should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the CAE and senior management should report the matter to the board of directors/audit committee for resolution.**

The OAS' audit work is performed in accordance with the Standards. The CAE reports regularly, directly and freely to the Director and Chief Deputy Director on matters of significance. The CAE discusses significant matters, including risk management, with these parties. Executive management have the option of selecting where audit resources will be directed as well as the amount of such resource commitments in relation to the risks assumed and benefits derived from any additional auditing.

L. **The *Code of Ethics*: The Code of Ethics are principles relevant to the profession and practice of internal auditing, and rules of conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.**

The OAS' management and staff reflect, through their work, that they uphold and follow the *Code of Ethics*. In addition, all employees subject to filing Form 700, Statement of Economic Interests, must attend ethics training every two years.

CONCLUSION

This report discusses the Office of Audit Services' (OAS) responsibility to operate under the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (Standards), the objective of self-assessment quality assurance review, and an overview of the OAS' compliance with the Standards. Based on the results of its review, the self-assessment team concluded that the internal audit structure and procedures of the OAS provide reasonable assurance of conforming to the Standards.

The Department of Finance, Office of State Audits and Evaluations, performed an independent validation of the OAS' self-assessment and provided an *Independent Validation Statement,* which is included as *Attachment B* to this report.

DEPARTMENT OF GENERAL SERVICES
OFFICE OF AUDIT SERVICES
SELF-ASSESSMENT TEAM'S REPORT

STANDARDS COMFORMANCE EVALUATION SUMMARY

		("X" Evaluator's Decision)[1]		
		GC	PC	DNC
OVERALL EVALUATION		X		
ATTRIBUTE STANDARDS		X		
1000	**Purpose, Authority, and Responsibility**	X		
1100	**Independence and Objectivity**	X		
1110	Organizational Independence	X		
1120	Individual Objectivity	X		
1130	Impairments 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	Quality Program Assessments	X		
1320	Reporting on the Quality Program	X		
1330	Use of "Conducted in Accordance with the *Standards*"	X		
1340	Disclosure of Noncompliance	X		
PERFORMANCE STANDARDS		X		
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 the Governing Authority and Senior Management	X		

[1] GC – Generally Conforms; PC – Partially Conforms; DC – Does Not Conform. See Page 2 of the report for the definition of these terms.

		("X" Evaluator's Decision)		
		GC	PC	DNC
2100	**Nature of Work**	X		
2110	Risk Management	X		
2120	Control	X		
2130	Governance	X		
2200	**Engagement Planning**	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	Recording Information	X		
2340	Engagement Supervision	X		
2400	**Communicating Results**	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2430	Engagement Disclosure of Noncompliance with the *Standards*	X		
2440	Disseminating Results	X		
2500	**Monitoring Progress**	X		
2600	**Management's Acceptance of Risks**	X		
IIA *Code of Ethics*		X		

ATTACHMENT B

DEPARTMENT OF FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

Mr. Rick Gillam, Chief
Department of General Services
Office of Audit Services
707 Third Street, 4th floor
West Sacramento, CA 95605

Dear Mr. Gillam:

Independent Validation Statement

The Department of Finance, Office of State Audits and Evaluations, was engaged to conduct an independent validation of the Department of General Services (Department), Office of Audit Services' (OAS) self-assessment dated September 2008. The primary objective of the validation was to verify assertions made in the self-assessment report concerning adequate fulfillment of the Department's expectations of the OAS and its conformity with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (Standards). Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of best practices and governance, were excluded from the scope of this independent validation by agreement with the Chief Audit Executive (CAE).

In acting as a validator, we are independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period July 16, 2008 through September 17, 2008 consisted primarily of reviewing and testing the procedures and results of the self-assessment. In addition, interviews were conducted with the CAE and other Department executives.

We concur fully with OAS's conclusions of its self-assessment report dated September 2008.

Our independent validation was conducted in accordance with the IIA's *Quality Assessment Manual, Fifth Edition.* This validation is intended only for inclusion with the OAS's self-assessment report dated September 2008, and is not intended for any other purpose.

David Botelho, CPA
Chief, Office of State Audits and Evaluations

September 29, 2008