



**Quality Self-Assessment of the
Internal Audit Office (IIA
Standards)
Audit Report**

Issued by the
Internal Audit Office
June 22, 2007

The City of El Paso
Internal Audit Office
Quality Self-Assessment of the Internal Audit Office per IIA Standards
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EXECUTIVE SUMMARY

As directed by The Institute of Internal Auditors (IIA), we conducted a quality self-assessment of the internal audit activity of the Internal Audit Office (IAO). The principal objectives of the self-assessment were to assess IAO's conformity to The IIA's *Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate IAO's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of IAO's management), and identify opportunities to enhance its management and work processes, as well as its value to the City of El Paso.

As part of the preparation for IAO's external peer review, a self-assessment was performed using the methodology outlined in the IIA's *Quality Assessment Manual, 5th Edition*. This self-study included detailed documentation, staff surveys along with staff interviews (without identifying the individual survey respondents) were used to obtain sufficient documentation to allow us to assess the overall compliance with the *Standards*. We also reviewed IAO's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes to obtain a broad overview of IAO's internal audit activity.

The internal audit activity environment is well structured and progressive where the IIA Standards are understood and followed. The audit activity continually strives to enhance its quality assurance process by continuous improvement of its processes in order to provide a higher value-added service to the City of El Paso. The audit activity management has also undertaken the challenge to inspire all staff members to become Certified Internal Auditors and to seek other professional certifications and education by providing the means for staff to obtain study materials, pay for exam fees, and by allowing staff to attend professional training. This self-assessment report is intended to build on the professional foundation already in place at IAO.

OPINION AS TO CONFORMITY TO THE STANDARDS

It is our opinion that the Internal Audit Office *generally conforms* to the following Standards:

- 1000 – Purpose, Authority, and Responsibility (Audit Charter),
- 1100 – Independence and Objectivity,
- 1200 – Proficiency and Due Professional Care,
- 1300 – Quality Assurance/Improvement Program,
- 2000 – Managing the Internal Audit Activity,
- 2100 – Nature of Work,
- 2200 – Engagement Planning,
- 2300 – Performing the Engagement,
- 2400 – Communicating Results,

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- 2500 – Monitoring Progress,
- 2600 – Management’s Acceptance of Risks, and
- The IIA’s Code of Ethics.

In our terminology, “*generally conforms*” means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the Standards or the IIA’s Code of Ethics, with some opportunities for improvement, as discussed in our recommendations. “*Partially conforms*” means deficiencies in practice are noted that are judged to deviate from the Standards, but these deficiencies should not preclude the internal audit activity from performing its responsibilities in an acceptable manner. “*Does not conform*” means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

OBSERVATIONS AND RECOMMENDATIONS

These observations and recommendations originated principally from the comments received from the staff survey, our interviews with staff, general practices, and review of the policies and procedures in place at the Internal Audit Office.

Our recommendations relate to the IAO's activity structure, staffing, deployment of resources, and similar matters that should be implemented within IAO, with support from management.

Issues Related to the Standards

Standard 1210 - Internal Auditor Proficiency

Overall, the internal audit activity staff has the knowledge, skills, and disciplines needed to carry out its audit responsibilities. Staff members are encouraged to meet certain minimum hours of CPE's each year, obtain professional certifications, and participate in professional associations. The internal audit activity has adequate numbers and levels of auditing staff. The personnel appraisal process is performed adequately and helps set goals (personal, professional, improvement) for the auditors to achieve and become better professionals. However, a review of the activity's Policies and Procedures Manual does not reflect current staff policies and should be amended to reflect current practice.

Recommendation

The Chief Internal Auditor should consider amending the Policies and Procedures Manual to include the following:

- An organizational chart delineating the reporting structure within the activity.
- The policy of offering to pay for professional certification study materials, registration fees, and exam fees, as well as, documenting the support of staff member's involvement in professional associations.
- A section on employee performance appraisals; which should indicate the Human Resource standards for which an appraisal is based on.

Management Response

Updates will be made to the Policies and Procedures Manual to include a:

- Reporting structure within the Internal Audit Office.
- Policy to pay for study material, registration fees, exam fees, and support for professional associations.
- Statement on employee performance appraisals.

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Responsible Party

Edmundo S. Calderon, Chief Internal Auditor

Implementation Date

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Standard 2010 - Planning the Audit Engagement

Overall, the internal audit activity has considered the organization's risk areas, management environment, strategic plans, and significant business activities. There are various areas covered by this section that should be considered by the Chief Internal Auditor. A review of the current audit plan does not include an audit of an Information Technology area or a technology system. A large part of audits are scheduled for single-member audit teams and the synergies that audit teams impart may not be fully realized. Engagement efficiency may be increased by implementing technology upgrades.

Recommendation

The Chief Internal Auditor should plan and assign audit engagements of the various types of technology systems. The I.T. function/area generally represents a high organizational risk area in any business setting, especially in an organization, such as the City, where the departments/groups are distributed throughout a large metropolitan area. The Chief Internal Auditor should plan and assign audit engagements within the Information Technology Department to include audits of; management controls, policies and procedures, planning process, budgeting/procurement activities, system development, asset management, enterprise risk management, information security, networks and databases, etc. Technology areas represent high-risk areas as the systems become increasingly complex, are constantly changing, and the increased threat of cyber-intrusion.

The Chief Internal Auditor should consider assigning engagement assignments to auditor teams instead of audits being performed by a single auditor. This will allow the audit activity to take advantage of the synergies created within the teams by the sharing of their audit experience and expertise with the other team members thus allowing on the job cross-training. Team members should be rotated among the teams to help foster sharing of knowledge between all staff members.

The Chief Internal Auditor should upgrade the existing technology infrastructure to include the upgrade of computer systems and the use of software packages or other technology products (such as ACL, TeamMate, or IT specific probing software like 8e6 Enterprise Reporter) to help streamline the audit process, have a more "value-added"

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impact on the organization, and to increase efficiency. The three software packages mentioned above can be utilized by the internal audit activity for the following purposes: ACL is a software tool utilized to perform various data mining queries; TeamMate is an electronic workpaper tool to maintain audit file data in an electronic, encrypted format to increase the efficiency and productivity of the entire audit process including risk assessment, scheduling, preparation, review, report generation, and global issue tracking; and 8e6 Enterprise Reporter is a software tool that allows querying and reporting of an entire organization's internet usage to determine trends and problem areas where security threats might originate.

Management Response

In preparation for the upcoming 2007-2008 Fiscal Year:

- A more in depth risk assessment will be completed of the IT area. Plans are to develop an IT auditor internally by providing necessary training to a staff member while outsourcing could be a possibility, if budget money is available.
- We will consider including the team concept in audits. The team concept has been used in the past for an audit of Sun Metro.
- ACL has already been purchased and installed. TeamMate & other computer aided auditing tools will be considered when funding sources are available. ACL training will be budgeted for the year.

Responsible Party

Edmundo S. Calderon, Chief Internal Auditor

Implementation Date

Fiscal Year 2007-2008

Standard 2030 - Completion of Audit Plan

Standard 2060 - Reporting to Senior Management and the Board

Overall, the internal audit activity adequately communicates to City management of its activity status, program accomplishment, and value-added services. However, there are a few areas for improvement. The administrative time budgeted for Fiscal Year 2007 appears to be high which causes the direct effort time available for audits and projects to be below what is considered "standard."

The quarterly reports to senior management and the audit committee did not indicate which audits were to be carried forward. Also, the table that shows all planned audits for the fiscal year and the hours that have been spent "to date" does not indicate which audits

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have been completed, which are in progress, and which have not been started.

Recommendation

The Chief Internal Auditor should consider adjusting its administrative hours (the other time categories are generally considered “fixed”) to increase direct effort hours. Usually for an internal audit activity to be considered “efficient,” its ratio of direct audit hours to all available hours should be between 75-80% direct effort time according to the quality assessment guide used for this review.

The Chief Internal Auditor should consider adding an extra column to the table of planned audits to more effectively convey to the reader which audits are currently in-progress, which are carry forwards from the previous year, which audits are postponed to the next Fiscal Year, and which have not been started.

Management Response

- Administrative hours are decreasing which is helping increase the direct hour percentage available for audits. The Internal Audit Office does not have an administrative assistant; therefore administrative duties are distributed among the staff.
- Revision will be made to the Quarterly Reports.

Responsible Party

Edmundo S. Calderon, Chief Internal Auditor

Implementation Date

October 31, 2007

Other Miscellaneous Issues

Review of Customer Surveys

Customer survey forms are not labeled with the name of the audit assignment for which a response is requested. This makes it very difficult, if not impossible, to know which particular survey corresponds to an audit assignment if the respondent decided to remain “anonymous” by not signing the survey.

Recommendation

The audit project name should be included in the heading of surveys to make survey identification easier.

Management Response

Changes will be made to the Survey.

Responsible Party

Edmundo S. Calderon, Chief Internal Auditor

Implementation Date

Immediate

Internal Audit Activity Staff Survey

The internal audit staff expressed very positive comments regarding the internal audit organization. They also expressed several comments on areas for improvement. Some of the areas concern technology upgrades within the Internal Audit Office, direction and training on internal audit processes and procedures, and a better quality assurance process. The staff would also like more input in the processes during an audit engagement and the ability to take more control over their work. Specifically the responses indicate the staff would like an opportunity to change audit objectives and procedures, have more input on the scope, would like a better review process, and more leadership opportunities. See Appendix A.

Recommendation

The Chief Internal Auditor should consider the following:

- Upgrading and modernizing the IT infrastructure within the Internal Audit Office.

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- Send auditors to training related to assigned audit areas.
- Improve the internal Quality Assurance Process.
- Solicit the input from staff in the beginning stages of an audit.

Management Response

- New laptops have been budgeted.
- ACL has been purchased. More licenses will be purchased.
- Funds are available to provide training for the staff.
- More input will be solicited from the staff on audit planning, risk assessment, and assignments.

Responsible Party

Edmundo S. Calderon, Chief Internal Auditor

Implementation Date

October 31, 2007

Information Technology Engagements and Use

The internal audit activity does not have in its audit plan an audit of an Information Technology area or a technology system. A follow-up audit was performed during the current year, but no other assignments are planned.

The internal audit activity does not have someone that is a dedicated I.T. auditor or with an I.T. specific background. The majority of the internal audit activity staff members have attended I.T. auditing trainings/seminars. Having previous exposure to I.T. training, the staff possesses the basic knowledge of key information technology risks and controls and available technology-based audit resources to be able to perform assigned I.T. engagements and seek assistance from subject-matter experts when needed.

The internal audit activity does not have any computer assisted auditing tools (CAATS) that are specific to I.T. auditing. The activity does not have any CAATS that can be used in general audits (ACL, TeamMate, 8e6 Reporting). The only tools that the activity uses are the standard Microsoft Office Suite software programs. Chief Internal Auditor expressed that the internal audit activity will purchase the ACL software in the upcoming fiscal year.

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The activity contracts data mining services to a third-party consultant. The data mining that the contractor provides is through the use of ACL software. Any major data mining that needs to be performed for an engagement is sent to the consultant.

Recommendation

The Chief Internal Auditor should plan and assign audit engagements of the various types of technology systems. Technology areas represent high-risk areas as the systems become increasingly complex, are constantly changing, and the increased threat of cyber-intrusion.

The internal audit activity should either hire a full-time auditor to conduct the IT related audits, contract the work out to a capable firm, or ensure that at least one staff member has the necessary/required IT auditing skills by sending them to available training and workshops. This action will help the internal audit activity in ensuring better coverage is given to the entire audit universe.

The Chief Internal Auditor should upgrade the existing technology infrastructure to include the use of software packages and other technology products (ACL, TeamMate, IT specific probing software like 8e6 Enterprise Reporter) to help streamline the audit process, have a more “value-added” impact on the organization, and to increase efficiency. The availability of in-house computer assisted auditing tools (such as ACL - a data mining tool) will help decrease the current lengthy response time experienced by sending the information to an outside, third party consultant. For example, with the availability of ACL, it can be utilized to help other City departments with data mining situations and serve as an additional value-added function to the City.

Management Response

- ACL has been purchased and more licenses will be purchased.
- Lead Auditor will be developed to help with IT audits.
- IT risks will be expanded and identified in FY 2007-2008 audit plan.

Responsible Party

Edmundo S. Calderon, Chief Internal Auditor

Implementation Date

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Planning and Conducting the Engagement, Workpaper Review, Audit Report, and Monitoring Progress

Overall, the audit engagement files reviewed met the applicable IIA standards under review and we did not observe major deficiencies. However, there were a few issues that we observed as well as areas for improvement. First, two of the 5 audit files reviewed have taken more than a month (up to 11 months) to have the internal Quality Assurance Program (QAP) review completed. Second, the date section within the assignment sheet for one file was not completed. This file was completed by an auditor who no longer is part of the current internal audit activity staff.

The current Policies and Procedures Manual for the internal audit activity does not state that each completed audit file must go through the QAP review process in addition to the workpaper peer review. Current practice is for a staff member that is not involved in a particular audit engagement (either as a preparer or reviewer) to be selected to perform the QAP review. The objective of the QAP review is to determine whether the audit file has been properly completed and that it is ready to be filed away.

Recommendation

The Chief Internal Auditor should implement a policy within the Policies and Procedures Manual where audit files must go through the QAP process within a reasonable time period after the issuance of the audit report. A reasonable time period should not exceed a month after the report is distributed.

The Policies and Procedures Manual should be amended to include a better detailed process of how an audit engagement file is handled from engagement inception to final file disposition.

Management Response

- Improvement will be made to the QAP review process. The Policies and Procedures manual will be updated to reflect that the QAP review will take place within 30 days of the report being issued.
- The Policies and Procedures Manual will be amended to reflect a detailed audit file process.

Responsible Party

Edmundo S. Calderon, Chief Internal Auditor

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We appreciate this opportunity to be of service to the Internal Audit Office. We will be pleased to respond to further questions concerning this report and to furnish any desired information.

Signature on file
Miguel Montiel, CIA, CGAP
Lead Auditor

Signature on file
Cesar L. Martinez, CIA, CGAP
Audit Manager

Distribution:

Fiscal Affairs & Management Support/ Internal Audit Committee

Joyce A. Wilson, City Manager

William F. Studer Jr., Deputy City Manager – Financial & Administrative Services

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-Appendix A- INTERNAL AUDIT ACTIVITY STAFF SURVEY SUMMARY

Evaluation Criteria		High		Low		
		4	3	2	1	N/A
I.	Rate the importance of each area in your job.					
	1. Audit committee expectations	75%	25%	-	-	-
	2. Management expectations	75%	25%	-	-	-
	3. Understanding of corporate governance and mission	100%	-	-	-	-
	4. Understanding of the IA activity mission and goals	100%	-	-	-	-
	5. IA activity policies and procedures	100%	-	-	-	-
	6. Relationships with auditing customers	100%	-	-	-	-
	7. Internal auditing standards	100%	-	-	-	-
	8. Knowledge of the organization operations and processes	100%	-	-	-	-
	9. Documentation and review of systems or processes	100%	-	-	-	-
	10. Evaluation of internal control	100%	-	-	-	-
	11. Objectivity and independence of internal auditors	100%	-	-	-	-
	12. Audit risk	100%	-	-	-	-
	13. General auditing tools/techniques	75%	25%	-	-	-
	14. Current technology, equipment, and software	25%	75%	-	-	-
	15. Information technology auditing tools/techniques	25%	50%	25%	-	-
	16. Interviewing skills	75%	25%	-	-	-
	17. Performance audit concepts	75%	25%	-	-	-
	18. Report writing	75%	25%	-	-	-
	19. Communication and interpersonal skills	75%	25%	-	-	-
II.	Rate whether the IA activity has provided you with appropriate opportunities in training/experience.					
	20. In-house training seminars: specific subjects	50%	-	25%	-	25%
	21. In-house training seminars: broad topics	50%	-	25%	-	25%
	22. Outside seminars: audit topics	75%	25%	-	-	-
	23. Outside seminars: other	25%	-	-	-	75%
	24. Receiving specific training for auditing assignments	-	25%	25%	-	50%

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Evaluation Criteria		High			Low	
		4	3	2	1	N/A
	25. On-the-job training	75%	-	25%	-	-
	26. Rotation between auditing and operating departments	-	25%	-	25%	50%
	27. Membership/participation in professional organizations	75%	-	25%	-	-
	28. Support for professional certification programs	75%	-	25%	-	-
III. Rate whether the IA activity has provided you with appropriate opportunities to apply these practices.						
	29. Ability to be objective/activity independence	100%	-	-	-	-
	30. Understanding/application of activity's core values	75%	25%	-	-	-
	31. Empowerment and self-accountability	75%	25%	-	-	-
	32. Staff involvement in audit planning	75%	25%	-	-	-
	33. Input into individual audit scope	25%	75%	-	-	-
	34. Staff allowed to change audit objectives and procedures	50%	-	25%	25%	-
	35. Risk-based auditing	75%	25%	-	-	-
	36. Consulting and partnering with management	50%	25%	-	-	25%
	37. Helpfulness of supervision to strengthen auditing work	75%	25%	-	-	-
	38. Satisfaction with performance review process	25%	50%	-	-	25%
	39. Career satisfaction	75%	25%	-	-	-
	40. Leadership opportunities	50%	25%	-	25%	-
List five of the above that are the most important to the customer:						
	i. Management's expectations.					
	ii. Relationships with auditing customers.					
	iii. Objectivity and independence of internal auditors.					
	iv. Risk-based auditing.					
	v. Evaluation of internal controls.					
	vi. Consulting and partnering with management.					
	vii. Communication and interpersonal skills.					
	viii. Understanding/application of activity's core values.					
	ix. Knowledge of the organization operations and processes.					
	x. Documentation and review of systems or processes.					
	xi. Training and certifications will increase the quality of the audit work.					
Please add here any specific comments you may have on the areas covered in items 1-						

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	40, as well as your general comments about internal auditing in your organization.
	41. What are the three things you like the most about your job?
	i. Challenging.
	ii. Very professional.
	iii. Well experienced supervisors.
	iv. The department's tone at the top.
	v. The large audit universe.
	vi. Training opportunities.
	vii. I like the fact that every day is different and challenging.
	viii. I like the atmosphere and the kindness of my co-workers. As well as the flexibility I have been provided to work around my school schedule.
	ix. I like the high learning curve and the fact that I learn new things every day.
	x. As an auditor, I feel a great deal of support from both the Audit Director and Audit Manager. They are always accessible and assist in the development of the audit staff by providing guidance and instruction at every stage of an audit. They value and invest in trainings and certifications that will increase the audit staff's knowledge and credibility.
	xi. I appreciate the fact that all the audit assignments are challenging and address issues that will help the departments. The lessons learned from each audit make me feel better prepared for the next one.
	xii. Last, but certainly not least, I feel very fortunate to work with such a great group of people. Not only do we all get along but each has knowledge and experience that I can tap into.
	42. What are the three things (e.g., policies, practices, "culture," resources, etc.) you would change to improve the IA activity?
	i. Additional direction on internal audit process for the department.
	ii. Additional training on internal audit procedures for the department.
	iii. Sharing more techniques and skills related to internal audit work.
	iv. The involvement and experience level of the audit committee.
	v. Make sure each audit file goes through a quality assurance process.
	vi. Installing the ACL software.
	vii. Upgrading the laptop computers.
	viii. Upgrading our phone system so that we can get voicemails.
	ix. I honestly have not encountered a thing that I have not liked. This could be to my inexperience or short time of experience here at the City of El Paso Internal Audit.
	43. Additional comments:
	Very satisfied with the overall department operations and processes in place.
	44. I request an opportunity to discuss these matters further with the review team: None.
	Name (optional): Summary of IA Staff