



Memorandum

May 3, 2011

TO: County Executive Office

FROM: Dr. Peter Hughes, CPA
Director of Internal Audit 

SUBJECT: Internal Audit Department 2011 Business Plan Update

As requested please find attached the updated performance measures for the 2011 Business Plan Update.

For the fiscal year 09-10, we successfully met our two key outcome measures. Our audit efforts and the diligence and responsiveness of County management contributed to the achievement of these measures. Our two key outcome measures were successful last year because:

1. Overall, IAD received an average rating of **4.8 out of 5** by the customer in our customer satisfaction surveys.
2. County management concurred with our recommendations at **98%** or better levels.

The Internal Audit Department's performance measurements align with the Board of Supervisors' 2007 Strategic Initiative: Building for the Future of Our Community and Great Goal 1.

In addition to the above performance measures, the Internal Audit Department implemented a Balanced Scorecard process in fiscal year 09-10, where 14 Key Performance Indicators (KPI) were established as indicators of our success towards achieving our strategic vision and mission.

Please direct any questions to Eli Littner, Deputy Director, at (714) 834-5899.

Attachment: Internal Audit Department's 2011 Business Plan Update



Internal Audit Department
2011 Business Plan Update
KEY PERFORMANCE MEASURES (MEASURES AND REPORTING)

Performance Measure:				
Client Satisfaction				
What: Customer satisfaction surveys measure the value of our audit services and report products.				
Why: The customer satisfaction survey provides feedback regarding auditors' professionalism, timely communications, partnering, technical knowledge, and whether recommendations were practical and reasonable.				
FY 09-10 Results	FY 10-11 Plan	FY 10-11 Anticipated Results	FY 11-12 Plan	How are we doing?
Overall, IAD received an average rating of 4.8 out of 5 in our customer satisfaction surveys.	Achieve an average rating of 4.0 out of 5 in our customer satisfaction surveys.	We anticipate achieving an average rating of 4.0 or more in our customer satisfaction surveys.	Achieve an average rating of 4.0 or more in our customer surveys.	We continue to receive high ratings of our services.

Performance Measure:				
Usefulness of Reports				
What: Management concurrence with audit recommendations measures the usefulness of our report product.				
Why: Management concurrence with audit recommendations assures the validity and reasonableness of our report product.				
FY 09-10 Results	FY 10-11 Plan	FY 10-11 Anticipated Results	FY 11-12 Plan	How are we doing?
Management either fully concurred or partially concurred with over 98% of audit recommendations	Achieve management's full or partial concurrence of 80% or better of audit recommendations	We anticipate achieving management's full or partial concurrence of 80% or better of audit recommendations	Achieve management's full or partial concurrence of 80% or better of audit recommendations	We continue to receive management concurrence on a high percentage of audit recommendations



Internal Audit Department 2011 Business Plan Update

KEY PERFORMANCE MEASURES (MEASURES AND REPORTING)

PERFORMANCE MEASURES STRATEGIES EMPLOYED	MEASURES & REPORTING
1. Conduct and or update the annual Risk Assessment as the basis for the annual Audit Plan.	The annual Audit Plan's emphasis and content is agreed upon and approved by the AOC.
2. Develop an annual Audit Plan and direct audit resources to "higher risk" areas first unless otherwise directed by the Board of Supervisors (BOS) or the Audit Oversight Committee (AOC).	The annual Audit Plan's emphasis and content is agreed upon and approved by the AOC.
3. Apply audit resources in accordance with the annual Audit Plan to complete all mandated audits and grants, and to provide assessments of critical business functions.	Each quarter, IAD will submit a status report to the AOC on our progress in completing the audits on the annual Audit Plan.
4. Follow-Up Audits on all audit findings and recommendations are initiated within six to twelve months of the release date of the final original audit report.	Audit recommendations from all audits will be followed-up. We will conduct the first follow-up audit beginning after 6 months, and then proceed to a second follow-up beginning six months after the first follow-up audit report is issued. After that, any unresolved issue is brought to the attention of the AOC.
5. Keep the Board of Supervisors informed of emerging issues as these come to the attention of the IAD, including those not specifically identified through the audit process.	Each member of the Board and/or their staff will be briefed by Director of Internal Audit Dr. Hughes and his staff on audit matters monthly or at their convenience. The Director of Internal Audit will also submit monthly and quarterly reports as part of the Board agenda. Board EA's will be briefed as necessary to increase awareness of audit issues.



Internal Audit Department 2011 Business Plan Update

KEY PERFORMANCE MEASURES (MEASURES AND REPORTING)

PERFORMANCE MEASURES STRATEGIES EMPLOYED	MEASURES & REPORTING
<p>6. Provide information to the Board of Supervisors and County management regarding both the adequacy and integrity of key controls over their business systems</p>	<p>a) All audit reports will be distributed to the Board Members, Grand Jury, AOC Members (includes the County Executive Officer), relevant Department Heads, and formally to the Clerk of the Board, pursuant to AOC Administrative Procedure No. 1.</p> <p>b) Each quarter, obtain a status of all third party or external audit activity from the County departments and agencies. Compile and report the information quarterly to the AOC, including highlighting any material or significant issues, pursuant to the AOC Administrative Procedure No. 2.</p> <p>c) All quarterly Audit Oversight Committee meetings will be fully supported by the IAD including: (A) preparation of agendas and minutes, distribution of same and exhibits and documents beforehand, (B) submission of quarterly status reports regarding completion of the audit plan and progress of each audit, and (C) briefings as appropriate on audit issues and findings.</p>
<p>7. As required by Government Code Section 1236, complete all audits in compliance with the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors or by the relevant professional standards. This includes using COSO as the framework for internal control.</p>	<p>a) Each audit assignment will be internally reviewed for compliance with the professional standards and this review will be documented in the audit working papers (using a quality assurance checklist) for every audit completed.</p> <p>b) Every three years, IAD will undergo a Peer Review to obtain independent assurance of our compliance with the IIA standards. In 2001, we underwent a Peer Review that concluded we are in compliance with IIA standards. We completed four further Peer Reviews; two in 2004, one in 2007 and one in 2010. All five concluded the department complied with all professional standards relating to internal audit and in many areas was a model for how an internal audit department should operate. Our next Peer Review is scheduled for 2013.</p>



Internal Audit Department 2011 Business Plan Update

KEY PERFORMANCE MEASURES (MEASURES AND REPORTING)

PERFORMANCE MEASURES STRATEGIES EMPLOYED	MEASURES & REPORTING
8. Provide training opportunities and reimbursement to staff for professional development and to meet certification requirements.	Each auditor will complete and document at least 40 hours of continuing professional education training.
9. Effectively implement, establish, promote and monitor the Executive Management Appraisal Program (EMAP), Performance for Pay (P4P), Performance Incentive Program (PIP) and all other training as required by the CEO or County HR.	Managers and Supervisors will accomplish this by meeting with staff and the Director of Internal Audit to address PIP and P4P goals and answer questions and concerns. Internal Audit feels this collaborative process will ensure that both the department's goals and objectives and individual goals are consistent.



Internal Audit Department
2011 Business Plan Update
KEY PERFORMANCE MEASURES (MEASURES AND REPORTING)

IAD Balanced Scorecard

In addition to the above performance measures, the Internal Audit Department implemented a Balanced Scorecard process in fiscal year 09-10, where **14 Key Performance Indicators (KPI)** were established as indicators of our success towards achieving our strategic vision and mission.

We measure these **14 Key Performance Indicators (KPI)** in order to continuously improve our strategic performance and results for the Board of Supervisors (Board) and the County. We have adopted the four perspectives of a Balanced Scorecard as our framework for performance measurement. The balanced scorecard is a way of measuring our success by balancing long-term and short-term goals and balancing how successful we are in 4 key categories:

- A) *Serving the Board and Audit Client*** (Customer Perspective)
- B) *Running the Business*** (Process Perspective)
- C) *Managing the Resources*** (Financial Perspective)
- D) *Developing our Employees*** (Innovation and Learning Perspective)

We achieved all 14 KPI as validated by the County of San Diego Office of Audits & Advisory Services.

A. *Serving the Board and Audit Client* (Customer Perspective)

- ★1. Customer Surveys
- ★2. Materiality of Audit Coverage
- ★3. Breadth of Audit Coverage
- ★4. Responsiveness to Board Directives
- ★5. Responsiveness to Audit Oversight Committee Direction
- ★6. Transparency of Audit Function

B. *Running the Business* (Process Perspective)

- ★7. Percentage of Audit Findings Concurred with by Management
- ★8. Percentage of Audit Recommendations Implemented
- ★9. Completion of Annual Risk Assessments & Audit Plans
- ★10. Percentage of Audit Engagements Completed Each Year

C. *Managing the Resources* (Financial Perspective)

- ★11. Percentage of Chargeable Audit Time
- ★12. Ratio of Auditors to County Employees

D. *Developing the Employees* (Innovation and Learning)

- ★13. Average years of Professional Experience
- ★14. Percentage of Auditors who are CPAs and CIAs



Internal Audit Department
2011 Business Plan Update
KEY PERFORMANCE MEASURES (MEASURES AND REPORTING)

IAD Balanced Scorecard continued

Each of these measures is an indicator of our success towards achieving our strategic vision and mission as outlined in the diagram below.

