

# INTERNAL AUDIT DEPARTMENT

## POLICIES AND PROCEDURES MANUAL

Effective Date: June 30, 2014  
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INTERNAL AUDIT  
DEPARTMENT

CITY OF SANTA FE

*Santa Fe: The  
City Different,  
The City  
Prepared*



**City of Santa Fe**  
**Internal Audit Department Policies and Procedures**  
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**SUBJECT:**

<b>Internal Audit Policies and Procedures Manual</b>	<b>Policy Number</b>	<b># Pages</b>
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**1.0 PURPOSE:**

- 1.1** These policies and the underlying procedures are intended to serve as a reference and guide for the auditor and the auditee, to help ensure that work is of high quality, complies with audit standards, and helps to explain the work process to interested parties.

**2.0 APPLICABLE TO:**

- 2.1** Internal Audit Department and auditees.

**3.0 REFERENCES:**

- 3.1** Santa Fe City Code 1987 (SFCC) §2.22
- 4.1** City Ordinances NO. 2012-32, and NO. 2013-34, Internal Audit;
- 3.2** City Ordinance 2013-35, Audit Committee;
- 3.3** Generally Accepted Governmental Auditing Standards Government Auditing Standards (GAGAS) issued by the United States Government Accounting Office (GAO); and
- 3.4** International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditor (IIA).

**4.0 DEFINITIONS:**

For the purpose of these policies and procedures, the following definitions shall apply unless the context clearly indicates or requires a different meaning.

- 5.1** *Auditees* mean the city related departments, programs, activities, agencies, vendors, contractors, employees, public officials or other city related entities affected by an audit or investigation;
- 4.2** *Auditor* refers to the person conducting audit or investigation;
- 4.3** *Continuing Professional Education* refers to the hours required to maintain professional certification;
- 4.4** *Governing Body* refers to the Mayor and members of the City Council;
- 4.5** *Independence* refers to a state of being that is free from outside influence;
- 4.5.1** *Independence of Mind* - The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

**4.5.2** *Independence of Appearance* - The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised (GAGAS 3.03).

**4.6** *Methodology* is the approach taken to complete and to document the audit.

**4.7** *Objectives* are what the audit is intended to accomplish.

**4.8** *Objectivity* refers to basing decisions on persuasive evidence;

**4.9** *Professional Judgment* requires the auditor to plan and perform the audit exercising professional skepticism and to base judgments on persuasive evidence rather than personal opinion.

**4.10** *Scope* is the boundary of the audit and is directly tied to the audit objectives.

**4.11** *Specialists* refer to individuals on staff or hired as contractors to perform an audit that requires specialized knowledge;

**4.12** *Technical Competence* requires that the auditors conducting an audit collectively have the required skills, training, and experience to conduct the audit.

## **5.0 POLICY:**

The Internal Audit Department shall adhere to Generally Accepted Governmental Auditing Standards as defined by the United States Government Accounting Office, and to all pertinent City Ordinances in conducting its work.

### **5.1 MISSION & AUTHORITY**

#### **5.1.1 Vision Statement**

An audit function that has earned the trust of the City's citizens, elected officials, and employees.

#### **5.1.2 Mission Statement**

The mission of the City of Santa Fe Internal Audit Department is to provide independent, objective assurance and review services designed to promote transparency, accountability, efficiency, and effectiveness of City government for the citizens of the City of Santa Fe.

#### **5.1.3 Authority & Reporting Structure**

The Internal Audit Department and the role of Internal Auditor were created by City Ordinance No. 2012-32 and amended by City Ordinance No. 2013-34, Section 2-22 SFCC 1987. The Internal Audit Department derives its authority to conduct audits of City departments, programs, vendors and contracts from these ordinances.

The Internal Auditor is the head of the Internal Audit Department and shall report to the City Manager.

The ordinance directs the Internal Auditor to conduct audits in accordance with Generally Accepted Governmental Auditing Standards (GAGAS) promulgated by the United States Comptroller General.<sup>1</sup>

Government Auditing Standards are available at: <http://gao.gov/yellowbook>

#### **5.1.4 Auditor's Annual Budget**

City Ordinance 2012-34 2-22.4 (J) stipulates that Internal Audit will have a budget as a separate department. The budget shall be sufficient to allow Internal Audit to carry out its responsibilities and shall include sufficient funding for continuing professional education and professional certification as required by GAGAS.

### **5.2 AUDIT QUALITY**

The Internal Audit Department has a commitment to achieving a high level of audit quality. Audit quality is achieved through adherence to professional auditing standards and through proper training and the peer review process. The standards detailed below are adopted to ensure a consistently high level of audit quality.

#### **5.2.1 Professional Auditing Standards**

The Internal Audit Department is committed to achieving a high level of audit quality and a measurable impact related to City operations. Audit quality is achieved through the adherence to professional auditing standards including proper training and periodic peer reviews.

All audits will be conducted in accordance with GAGAS standards.

#### **5.2.2 Ethical Requirements**

The Internal Audit Department complies with and adheres to applicable ethical requirements. These include compliance with general City mandates contained in City Policies and Procedures, and ordinances as well as guidance promulgated by the IIA U.S. (See **APPENDIX Form #1, Code of Ethics**).

#### **5.2.3 Auditee Relations**

The cooperation of City officials, employees and contractors is mandated in SFCC §2-22.10 (A).

The Internal Auditor is expected to be courteous and tactful, and to conduct him or herself in a professional manner that reflects favorably on the Internal Audit Department.

#### **5.2.4 Contact with the Governing Body and Members of the Media**

Contact with members of the Governing Body is required from time to time and is an important aspect of independence. Judgment and prudence are key elements to discerning if and when contact is necessary.

At times it may be necessary to directly email or otherwise contact the Mayor or other members of the Governing Body, for example when doing interviews for the annual audit plan.

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<sup>1</sup> Government Auditing Standards, GAO-12-331G, December 2011.

At times it may be necessary to have contact with the media. Contact with the media should be done through the City Information Officer.

When contact with the governing body or the media occurs it may be appropriate to copy or notify the City Manager so that he is informed if they have questions. This may not be the case in all situations and discernment is required.

### **5.2.5 Competence and Training**

The Internal Audit Department is committed to ensuring maintenance of professional proficiency and achievement of professional growth through continuing education and training.

GAGAS requires technical competence in performing an audit. Whether the department has one staff or fifteen, the requirement holds. Competence is recognized through the certification process and therefore professional certifications including specialty certifications are strongly encouraged. These certifications require annual continuing professional education hours which shall be supported by the department to the extent that they serve the Internal Audit function and the City.

Every audit shall include a completed form asserting to the technical competence of the staff conducting the audit (**See APPENDIX Form #2, Auditor's Technical and Competence Statement**).

Staff assigned to perform an audit or attestation engagement must collectively possess adequate professional competence for the tasks required. The standard places responsibility on the audit department to ensure that each audit or attestation engagement is performed by a team that, taken as a whole, possesses the technical knowledge, skills, and experience necessary to be competent for the type of work being performed. The success of the Internal Audit department in carrying out its mission depends on having a competent, well-trained staff.

GAGAS 3.76 requires that "auditors performing work in accordance with GAGAS, including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work in accordance with GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates. Auditors who are involved in any amount of planning, directing, or reporting on GAGAS audits and auditors who are not involved in those activities but charge 20 percent or more of their time annually to GAGAS audits should also obtain at least an additional 56 hours of CPE (for a total of 80 hours of CPE in every 2-year period) that enhances the auditor's professional proficiency to perform audits. Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year periods. Auditors hired or initially assigned to GAGAS audits after the beginning of an audit organization's 2-year CPE period should complete a prorated number of CPE hours."

See table on following page:



<b>CPE Estimates</b>	<b>Overlap with other Certifications</b>	<b>CPE Requirement</b>	<b>How Often</b>	<b>Minimum Annual</b>	<b>Annual Requirement</b>
Chief Auditor	Varies	24 (Govt.)+ 56 (General)+40 (Specialty)	Every 2 years	20	60 (12 govt. +28 gen, 20 remainder - specialty)
Staff Auditor	Yes	24 (Govt.)	Every 2 years	20	40
Specialist, CISA	Conditional (only if related to IT controls)	120 hours	Every 3 years	20	40
Specialist, CIA	Yes	120 hours	Every 3 years	20	40
Specialist, CPA	Yes	120 hours	Every 3 years	20	40

Each auditor should schedule sufficient hours of training to meet the hourly requirements described above, as applicable, as well as those required for retaining other certifications that support the internal audit function, if any. The Internal Audit Department maintains a record of the training and education received by audit staff.

Specialists assisting in performing a GAGAS assignment should be qualified and maintain professional competence in their areas of specialization. Because internal specialists apply specialized knowledge in government audits, training in their areas of specialization qualify under the requirement for 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates but are not required to meet the GAGAS CPE requirements. Auditors should assess the professional qualifications of such specialists and document their findings and conclusions.

#### **5.2.6 Independence and Objectivity**

The Internal Audit Department and the City of Santa Fe are committed to having an independent internal audit function. SFCC 2-22.5 (B) states that “The internal auditor shall adhere to generally accepted governmental auditing standards in conducting its work and will be considered independent as defined by those standards.”

The Internal Audit Department complies with GAGAS 3.02 independence standards that state “In all matters relating to the audit work, the audit organization, and the individual auditor, whether government or public, must be independent.”

In order to ensure and strengthen independence the Internal Auditor shall report results to the City Manager, the Audit Committee and the Governing Body.

### **GAGAS Conceptual Framework Approach to Independence**

GAGAS has a conceptual framework designed to direct the auditor through a series of questions that identify threats, if any, to independence. If threats exist the auditor needs to document those threats, and to determine if safeguards exist to mitigate the threat(s) to an acceptable level. If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired (GAGAS 3.09).

This conceptual framework has been used to create a checklist (See **APPENDIX Audit Form #3, Auditor's Independence and Objectivity Checklist**).

The checklist needs to be completed:

- 1) Annually;
  - a. Also complete “**Auditor's Annual Independence and Objectivity Statement**” (See **APPENDIX Audit Form #4**).
  - b. This form and the completed checklist are to be filed at  
m:\auditor\Administrative\Perm File – Internal Audit\Annual Signed Independence Statements
- 2) Prior to commencing an assignment:
  - a. Also complete “**Auditor's Assignments – Independence and Objectivity Statement**” (See **APPENDIX Audit Form #5**).
  - b. This form and the completed checklist are to be filed in the planning section of electronic workpapers for each audit.

### **Assessing Organizational Threats to Independence**

Based on GAGAS requirements (GAGAS 3.31 Internal Auditor Independence) and the assessment of the Internal Audit Department, which is summarized on the following page:

*The City of Santa Fe, Internal Audit Department is considered free from organizational impairments to independence.*

GAGAS Criteria for Internal Audit to be considered independent of City Management:	Assessment by the Internal Audit Department	References / Citations / Comments
<b>The Department Head:</b>	<b>Legal Precedence</b>	
<b>a.</b> Is accountable to the head or deputy head of the government entity or those charged with governance.	The City of Santa Fe <b>meets this criteria</b> in SFCC §2.22.4 (A).	“The internal audit department is created as an independent office of city government. The internal auditor is the head of the internal audit department and shall report to the city manager.”
<b>b.</b> Reports the audit results both to the head or deputy head of the government entity and to those charged with governance.	The City of Santa Fe <b>meets this criteria</b> in SFCC §2.22.4 (E).	“The internal auditor is required to submit reports to the City Manager, The City Council via the Finance Committee, and to the Audit Committee.”
<b>c.</b> Is located organizationally outside the staff or line management function of the unit under audit.	The City of Santa Fe <b>meets this criteria</b> in SFCC §2.22.4 (A).	“The internal audit department is created as an independent office of city government. The internal auditor is the head of the internal audit department and shall report to the city manager.”  The Internal Auditor has a direct reporting line to the City Manager as an independent department.
<b>d.</b> Has access to those charged with governance.	The City of Santa Fe <b>meets this criteria</b> in SFCC§2.22.10 (A).	“All city officials, employees and contractors shall provide the internal auditor full unrestricted access to all city offices, employees, records, information, data, reports....”  The Internal Auditor is granted unrestricted access to all city officials, employees and contractors, and records.
<b>e.</b> Is sufficiently removed from political pressures to conduct audits and report findings / issues, opinions, and conclusions objectively without fear of political reprisal.	The City of Santa Fe <b>meets this criteria</b> in SFCC §2.22-2 (E) (4).  Additionally, a whistleblower section was added: Ordinance 2013-4 2.22.10 (B).	The internal auditor “is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of reprisal.”

### 5.2.7 Professional Judgment

Professional judgment must be used in planning and performing audits and attestation engagements and in the reporting of the results.

Auditors must:

- 1) Exercise reasonable care and diligence and observe the principles of serving the public interest and maintaining the highest degree of integrity, objectivity, and independence in applying professional judgment to all aspects of their work;
- 2) Use professional judgment in determining the type of assignment to be performed and the standards that apply to the work; defining the scope of work; selecting the methodology; determining the type and amount of evidence to be gathered; and choosing the tests and procedures for their work. Professional judgment also should be applied in performing the tests and procedures and in evaluating and reporting the results of the work;
- 3) Exercise professional skepticism, which is an attitude that includes a questioning mind and a critical assessment of evidence. Auditors use the knowledge, skills, and experience called for by their profession to diligently perform, in good faith and with integrity, the gathering of evidence and the objective evaluation of the sufficiency, competency, and relevancy of evidence. Since evidence is gathered and evaluated throughout the assignment, professional skepticism should be exercised throughout the assignment;
- 4) Neither assume that management is dishonest nor assume unquestioned honesty; in exercising professional skepticism, auditors should not be satisfied with less than persuasive evidence because of a belief that management is honest.

The exercise of professional judgment allows auditors to obtain reasonable assurance that material misstatements or significant inaccuracies in data will likely be detected if they exist. Absolute assurance is not attainable because of the nature of evidence and characteristics of fraud. Therefore, an audit or attestation engagement conducted in accordance with GAGAS may not detect a material misstatement or significant inaccuracy, whether from error or fraud, illegal acts, or violations of provisions of contracts or grant agreements. Accordingly, while the standard places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing an assignment, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization (GAGAS 3.60 – 3.68).

### 5.2.8 Confidentiality

#### 5.2.9 Audit reports are subject to confidentiality rules as specified in SFCC §22 and the Inspection of Public Records Act NMSA 1978. **Record Retention and Access**

The Internal Audit Department will retain records in accordance with New Mexico State Auditor's Regulation NMAC§1.15.3.148 which states that audit records will be kept for a period of five years after close of fiscal year audited.

These records consist of paper, electronic, and other media formats. Hard copy and paper audit documentation is stored and secured on site in the file room. Electronic files are stored in the M:\auditor\FYE 20XX\Audits\name of audit\Workpapers and or Report. These files are backed up routinely. Access to the shared drive is limited.

### 5.2.10 Customer Satisfaction Surveys

The Internal Audit Department issues customer satisfaction surveys to the recipients of internal audit services. The Internal Audit Department adheres to a policy that emphasizes the importance of maintaining effective relations with auditees and that relies on constructive feedback to propel internal continuous improvement activities. The Internal Audit Department strives for high customer satisfaction ratings (See **ADDENDIX Audit Form #6, Survey**).

### 5.2.11 Quality Assurance

GAGAS requires that audit organizations have an external quality control review at least every three years. An external quality control review, or peer review, consists of a team of external audit professionals assessing the adequacy of the audit organization's internal quality control system and its overall level of compliance with GAGAS.

This is also mandated in SFCC 2-22.5 (C) which states that "the internal audit department is subject to a peer review by an appropriate non-partisan group every three to five years. A copy of the written report shall be furnished to the city manager, audit committee, and governing body, via the finance committee."

The Internal Auditor will participate in the Association of Local Government Auditors (ALGA) peer review process in order to mitigate the costs of the review and to enhance the quality of the internal audit process. The Internal Auditor will participate as a reviewer as required, and will be subject to an external quality control review by an independent ALGA team every three years. These reviews are done by audit professionals from other local governments using the *ALGA Peer Review Guide*. The Internal Auditor will schedule and arrange the review and communicate the results as specified above. Any deficiencies noted in the review will be addressed and corrected in a timely manner. Upon completion, the peer review report will be made available to the public on the Internal Audit Department's website (See **Section 5 (L)**, and **APPENDIX Audit Form #12, Audit Quality Assurance Checklist**).

### 5.2.12 Position Descriptions

The Internal Audit Department consists of one Internal Auditor.

The job description for the Internal Auditor<sup>2</sup> is as follows:

- 1) "Assists with and conducts development of audit scope and objectives; conducts audits of City operations and internal systems controls that include all operational areas including compliance, documentation, and operating practices; audits department records to assure accurate recording of transactions, and compliance with laws, regulations, policies, procedures and management goals; inspects accounting systems to determine the protective value; assesses the proper accountability of assets, documents findings and formulates recommendations to correct deficiencies, reduce risk and costs, and improve performance.
- 2) Interviews staff, and analyzes the reliability and effectiveness of operational policies and practices; reviews performance measures and reporting methods; analyzes data obtained for evidence of deficiencies in controls, duplication of effort, extravagance, fraud, or lack of compliance with laws, regulations, policies and procedures.

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<sup>2</sup> Classification Description for Internal Auditor, received from Human Resources, dated 08/30/12

- 3) Documents audit findings; prepares draft report of findings and recommendations for management to correct deficiencies; meets with the organization to present findings and recommendations; conducts follow up reviews to assure implementation of recommendations.
- 4) Conducts special studies to analyze compliance and internal control issues, fraud prevention, and allegations of inappropriate activity as assigned.”
- 5) Also, the Internal Auditor will provide status updates to the Audit Committee, including draft information, and will provide the Audit Committee with final reports prior to delivery and publication.

In addition the Internal Auditor is also responsible for the following duties:

- 1) Sending out and compiling the annual Risk Assessment;
- 2) Completing and communicating an annual Audit Plan (due 60 days prior to FYE);
- 3) Staff liaison to the Audit Committee:
  - a. Assisting with preparing the agenda;
  - b. Ensuring that packet is complete;
- 4) Coordinating the Lodger’s Tax audit:
  - a. Developing Scope of audit;
  - b. Issuing request for proposal (RFP);
  - c. Participating in the selection committee;
- 5) Coordinating other audits as approved by City Council:
  - a. Developing scope of audit;
  - b. Issuing request for proposal (RFP), as applicable;
  - c. Participating in the selection committee;
- 6) Reports:
  - a. Writing;
  - b. Editing, with assistance from the Audit Committee;
  - c. Quality assurance; and
  - d. Communicating results;
- 7) Communicating final audit reports to:
  - a. Audit Committee;
  - b. City Manager;
  - c. Governing Body via the Finance Committee; and
  - d. Posting on website;
- 8) Budget:
  - a. Creating;

- b. Adjusting; and Monitoring;
- 9) Policies and Procedures:
  - a. Writing; Editing;
  - b. Updating; and posting on website;
- 10) Website:
  - a. Creation;
  - b. Editing; and
  - c. Maintenance
- 11) Developing an annual training plan to ensure all CPE requirements are met;
- 12) Facilitating the Peer Review process;
- 13) Benchmarking with other local government internal audit departments;
- 14) Maintaining membership in professional organizations and participating, as time permits, in governance.

### **5.2.13 Audit Assignment Process**

Audits are assigned based on the audit plan. Any changes to the audit plan must be approved by the Audit Committee.

## **5.3 TYPES OF AUDITS & SERVICES**

### **5.3.1 Overview**

The Internal Audit Department examines and evaluates City departments and programs as a service to City management, elected officials and the general public. The Internal Audit Department promotes the disciplines of accountability, transparency, and fiscal stability by providing critical services and information to citizens, elected officials and management regarding compliance and the performance of City departments and programs. The Internal Audit Department serves in the capacity of an objective and independent monitoring and internal control resource, as well as providing a key enterprise-wide threading conduit, the Internal Audit Department is an indispensable part of the City's operational structure. The Internal Audit Department retains skilled personnel who are focused on helping City management and employees continuously improve their performance in support of the City's strategic themes and goals.

The Internal Audit Department issues final reports to the Audit Committee, Mayor, City Council and senior City management officials, who use the information to monitor and improve City operations. Additionally, all final audit reports are deemed public documents and are posted on the Internal Audit Department's website. The Internal Audit Department also provides management advisory services to City departments and programs to enhance their operational effectiveness and to help them realize City goals.

The following is a general overview of the products and services provided by the Internal Audit Department to enhance the efficiency and effectiveness of City government operations. These services can be combined when reviewing or auditing City department and program operations.

The Internal Audit Department conducts the following types of performance and financial audits as defined by GAGAS, and as specified in City Ordinance SFCC §2-22.6 (B):

### 5.3.2 Performance Audits

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient and appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability (GAGAS 2.10 – 2.11).

A performance audit is a dynamic process that includes consideration of the applicable standards throughout the course of the audit. An ongoing assessment of the objectives, audit risk, audit procedures, and evidence during the course of the audit facilitates the auditors' determination of what to report and the proper context for the audit conclusions, including discussion about the sufficiency and appropriateness of evidence being used as a basis for the audit conclusions. Performance audit conclusions logically flow from all of these elements and provide an assessment of the audit findings and their implications.

Performance audit objectives may vary widely and include assessments of program effectiveness, economy, and efficiency; internal control; compliance; and prospective analyses. These overall objectives are not mutually exclusive. Thus, a performance audit may have more than one overall objective. For example, a performance audit with an initial objective of program effectiveness may also involve an underlying objective of evaluating internal controls to determine the reason for a program's lack of effectiveness or how effectiveness can be improved (GAGAS 2.11).

### 5.3.3 Financial Audits

Financial audits provide an independent assessment of and reasonable assurance about whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with recognized criteria. Reporting on financial audits performed in accordance with GAGAS also includes reports on internal control, compliance with laws and regulations, and provisions of contracts and grant agreements as they relate to financial transactions, systems, and processes (GAGAS 2.07 – 2.09).

### 5.3.4 Attestation Engagements

Attestation engagements can cover a broad range of financial or non-financial objectives and may provide different levels of assurance about the subject matter or assertion depending on the users' needs. Attestation engagements result in an examination, a review, or agreed-upon procedures about a subject matter that is the responsibility of another party (GAGAS 2.09).

***The Internal Audit Department generally does not perform Financial or Attestation Engagements. If and when the Internal Audit Department engages in either a Financial or Attestation Engagement the Department adheres to applicable GAGAS requirements.***

### 5.3.5 Advisory (Non-Audit) Services

In addition to conducting performance and financial audits, the Internal Audit Department may provide a range of advisory services to assist managers in achievement of their goals and objectives. GAGAS does not cover professional services (non-audit services). As a result, the Internal Audit Department does not report that non-audit services are conducted in accordance with GAGAS. Advisory services are dependent upon the availability of audit staff with appropriate



skills, and the level of risk relative to other audit plan commitments. Additionally, Internal Audit Department management will conduct an evaluation of each advisory service provided to ensure that the non-audit services will not impede independence either in fact or appearance with respect to the entities they audit. A description of certain standard advisory services follows:

- 1) **Management Advisory Services** – Management Advisory Services provide information on comprehensive organizational assessments, investigations, evaluations and implementation solutions at the request of City management. Specifically, these services can be used to assist management in implementing audit recommendations. Generally, the Internal Audit Department will provide these services when it has the skills sets or specialized knowledge required to add value, otherwise it will source other City or external resources to assist the advisory team. The following are examples of management advisory services:
  - a. Overall organizational evaluations;
  - b. Thorough risk assessments;
  - c. Evaluation of substantial organizational change;
  - d. Research and evaluations that assist in the development of controls systems (management controls, balanced scorecard, performance measures, etc.); and
  - e. Business process re-engineering.
- 2) **Special Advisory Services** – Special Advisory Services are utilized for time critical engagements including assessments, investigations, limited reviews or evaluations as generally requested by City management. These services allow for critical information to be provided in a quick and flexible manner and can be focused on singular issues. Following are examples of special advisory services:
  - a. Investigations into critical issues or management concerns;
  - b. Limited, focused risk assessments;
  - c. Special Investigations or inquiries; and
  - d. Limited walk-through of internal controls.

#### 5.3.6 Audit Deliverables

**Audit Reports** – Written final audit reports comply fully with published standards for audit professionals thereby increasing the likelihood that such professionals will reach the same conclusions.

- 1) **Special Advisory Services (SAS) Reports** – Special Advisory Services final reports provide information based on the results of limited reviews or time critical assessments, investigations or evaluations requested by management, and limited walkthrough of internal controls. Special Advisory Services final reports further City objectives by providing a reporting vehicle that is flexible, can be issued quickly, and can be focused on singular issues.
- 2) **Audit Alerts** – Audit Alerts function as a tool for rapidly disseminating information to other City departments or to members of senior management that have the same or similar functions, key information, recommendations, and procedures identified in an audit. The departments can then complete a self-assessment and, if applicable, quickly self-correct any deficiencies. Audit Alerts are also used to notify City Elected Officials and Executive

Management of key and sensitive information developed during the course of Internal Audit Department work activities that must be relayed in a timely manner to mitigate a significant risk or operational weakness.

## 5.4 ANNUAL RISK ASSESSMENT AND AUDIT PLAN

The Internal Audit Department adheres to a structured process for selecting and conducting audits and reviews of City departments and programs. This Chapter describes the audit plan development and special audit request processes.

### 5.4.1 Overview - Audit Plan Requirements

SFCC2-22-6 Scope of Audits stipulates:

- 1) “Within *sixty (60) days before the beginning of each fiscal year*, the internal auditor shall submit a one-to-five-year audit plan to the audit committee, the city manager and the governing body for review and comments, but the internal auditor shall have final authority to select the audits planned. The proposed plan shall include the rationale for the selections, for auditing departments, offices, boards, activities, subcontractors and agencies for the period. This plan may be amended after review;
- 2) The final plan and any amendments will be presented to the audit committee, the city manager, and is subject to approval of the governing body;
- 3) In the selection of audit areas and audit objectives, the determination of audit scope and the timing of audit work, the internal auditor should consult with federal, state and other external auditors so that the desirable audit coverage is provided and audit effort is properly coordinated.”

In order to comply with this mandate and to ensure that audit activities are focused on the most significant areas of risks to the City, the Internal Audit Department adheres to the approach described below for developing the annual audit plan.

## 5.4.2 Audit Plan Development

### Annual Audit Plan

The Internal Audit Department of the City of Santa Fe adheres to an overall audit strategy that a high quality and clear annual audit plan is critical for meeting the goals, objectives, and mission of the department. Internal Audit utilizes professional standards and guidelines developed by the Institute of Internal Auditors (IIA) in the development of the annual audit plan. These guidelines recognize that an annual audit plan and work schedule benefits the organization by:

- 1) Establishing which agencies, programs, contracts, or other areas will be prioritized for audits on an annual basis;
- 2) Permitting an efficient allocation of limited audit resources;
- 3) Providing a flexible basis for managing audit personnel;
- 4) Projecting an estimated timetable for initiating and completing audits for the year;
- 5) Eliminating the potential for overlapping audits within the Division and with other audit organizations;
- 6) Providing an identifiable basis for the role of the Internal Audit Department and justification for obtaining budgetary funds.

### 5.4.3 Preparing the Annual Audit Plan

Audits included in the annual audit plan are selected and prioritized using a risk-based approach. Risk assessment is a process used to identify and prioritize audits based upon specific risk factors related to the quality of internal controls and the estimated liability and level of exposure to the City of Santa Fe related to various City departments, programs, activities, and contracts. The risk factors used are:

- 1) **Governance** - The risk that City Ordinances, policies and procedures, and internal controls are not adequate.
- 2) **Perception of Risk** – is the subjective judgment that the stakeholder makes about the characteristics and severity of a risk.
- 3) **Reputation Risk** - The risk that the City's public image will be tarnished due to improper actions on the part of officials, management, or staff.
- 4) **Economic Factors** – The risk that a significant financial impact may result in the event of a breakdown in the internal control structure.
- 5) **Environmental Factors** – The risk that a highly regulated department or division will lose funding if compliance conditions are not met.
- 6) **Organizational Changes** – The risk that new management being assigned to a department or division do not have the skills to perform the job function – or alternately, the risk that no change has occurred when it needs to occur leaving the City vulnerable.
- 7) **Time Last Audited** - The risk that certain high risk areas within the City are not audited on a periodic basis.

Weights for risk assessment factors are not included in this manual as they are subject to change.

A risk assessment is sent to each of the City's departments annually and the results are compiled on

a spreadsheet. The summary spreadsheet is included in the Annual Audit Plan. This risk assessment is used as a tool to facilitate planning of a series of interviews with senior management. The determination of the audits to be performed is made after the interviews are conducted. Another factor taken into consideration in developing the audit plan is whether or not a department is already being audited by the external financial auditor, a state or federal auditor, or a contract auditor. If the department is already being audited, the need to do an internal audit is decreased.

#### **5.4.4 Audit Horizon**

The audit plan is based on developing a realistic audit horizon of planned high-risk audits covering a three-year period. Internal Audit bases its annual audit plan on the development of such an audit horizon rather than developing a subjective, overly complex, and incomplete “audit universe.” Historically, many audit organizations have attempted to develop a comprehensive “audit universe” from which to identify and prioritize audits. However, this process is cumbersome, time consuming, and generally reveals that there are literally thousands of possible audits that would require tens of thousands of audit hours and other resources. Additionally, the inclusion of such a “universe” could potentially mislead City officials and citizens to believe that all of the audits included on the listing will be performed and, perhaps more significantly, that any departments, programs, activities, or contracts not included in the universe are not subject to audit.

As a result, instead of developing an “audit universe,” Internal Audit utilizes a realistic audit horizon strategy and approach to identify, prioritize, and manage audits deemed to be critical to City operations. Specifically, using the risk-based methodology described throughout the audit plan, Internal Audit identifies and prioritizes a select number of audits for inclusion into the annual audit plan as well as listing potential audits for the ensuing two years.

The audits included in the horizon are based on available audit hours each year to ensure that realistic expectations are established and stated goals are met. The approach also builds ample hours into the plan for specially requested audits not originally captured on the plan, and for urgent audit issues that arise throughout the year. This approach provides the Auditor with a great deal of flexibility to address emerging issues in a timely manner and for providing high quality and responsive customer service to elected officials and operational management.

This strategy and accompanying risk assessment methodology will allow the City to execute a less cumbersome annual audit planning process and generate a more realistic, flexible and transparent set of goals and work activities for the upcoming year. The audit horizon approach aligns well with the evolution of the audit profession where, in today’s increasingly complex operational environments, audit functions must stretch beyond traditional risk-assessment processes, generally focused on short-term risks, to identify and address emerging and long-term strategic risks.

## 6.0 PROCEDURES:

### 6.1 MANAGING THE AUDIT PROCESS

#### 6.1.1 Overview

One of the primary objectives of the Internal Audit Department is to maintain good working relations with the auditee. Our scope and objectives are communicated and management's concerns are considered prior to the performance of any auditing procedures. The Internal Audit Department strives to maintain a free flow of both formal and informal communications to develop recommendations that are effective and helpful for the auditee. Because the Internal Audit Department recognizes that additional time is required of the auditee personnel during an audit, the Internal Audit Department wishes to express appreciation for all efforts in helping the department complete the audit as efficiently as possible.

The policies and procedures in this chapter of the manual have been prepared to guide the Internal Audit Department staff in managing and conducting audit work. By studying and adhering to the following guidelines, audit staff help ensure that audits are conducted in a consistent and professional manner.

The steps detailed below are primarily focused on performance audits. If a financial audit, attestation engagement or non-audit service is provided please refer to GAGAS for specific guidance and to enhance checklists.

Every audit is unique and the order that steps are performed may vary or overlap; however, a formal audit would typically include the following:

#### 6.1.2 Engagement Memo

The engagement memo should be sent out prior to commencing an audit. This memo can define preliminary objectives, and scope of the audit. This memo should be sent to the City Manager, Audit Committee, and the Division Director notifying them of the pending audit and apprising them of the preliminary audit objectives. Certain preliminary information may be requested at this time, such as organization charts, internal office procedure's manuals, etc. Once all the information has been gathered and evaluated the objectives and scope may be re-defined; if re-defined that information will be discussed at the Entrance Conference. For an example and template to use for an engagement memo (See **ADDENDIX Audit Form #7, Engagement Letter and Request List**).

#### 6.1.3 Audit Planning Phase

Planning involves developing an understanding of the issue under audit, determining audit scope and objectives, planning the work necessary to answer the objectives, and communicating about the project with management. *Government Auditing Standards* require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives.

Guidance from the Institute of Internal Auditor's Practice Advisory 2200-1; Engagement Planning is also incorporated into the planning process. Prior to the engagement's commencement the Internal Auditor needs to gather enough information to ascertain the nature of the audit including identifying the scope, objectives, timing of the audit and resource allocation. For the City of Santa Fe, the initial interviews with senior management have occurred during the risk assessment and audit planning phase of the audit. These interviews help to formulate the Internal Audit Plan and give basic information about the nature of the audit to be conducted. However, this is just a

starting point and more information needs to be gathered prior to the commencement of the audit. The “**Planning Checklist**” (See **APPENDIX Audit Form #8**) should be used to assist in accomplishing these objectives.

In addition, the Planning Checklist will provide quality assurance that steps taken throughout the planning phase have been properly accomplished and to verify that audit work performed complies with GAGAS and the Internal Audit Department’s Policies and Procedures.

Planning is designed to reduce audit risk to an appropriate level for the auditor’s to provide reasonable assurance that the evidence is sufficient and appropriate to support the auditors findings and conclusions.

Per GAGAS 6.11, the auditor/team must ensure that by the end of planning it has achieved a general understanding of:

- 1) The nature and profile of the department or program being audited and the needs of the potential users of the audit report;
- 2) Internal control as it relates to the specific objectives and scope of the audit;
- 3) Information systems controls for purposes of assessing audit risk and planning the audit within the context of the audit objectives;
- 4) Provisions of laws, regulations, contracts, and grant agreements, and potential fraud, and abuse that are significant within the context of the audit objectives;
- 5) Ongoing investigations or legal proceedings within the context of the audit objectives;
- 6) The results of previous audits and attestation engagements that directly relate to the current audit objectives;

If the Internal Auditor determines that specialists, other staff, or interns should perform some of the audit work, then the auditor considers their qualifications to complete the work. The auditor documents the assessment in the work papers.

Planning results in the formulation of audit **objectives**, **scope**, and **methodology**.

**Objectives** are what the audit is intended to accomplish. Some examples of general audit objectives are to evaluate:

- 1) Controls, policies and procedures;
- 2) Actual and budgeted expenditures;
- 3) Compliance with department policies and procedures, City rules, regulations and Ordinances, State Statutes and other applicable rules and regulations;
- 4) Compliance with professional service agreements; and
- 5) Performance measures.

The **scope** is the boundary of the audit and is directly tied to the audit objectives. The scope defines:

- 1) Subject matter that the auditor will assess and report on;
- 2) Necessary documents or records, such as a professional services agreement;
- 3) Program, process, contract, or operation being audited;
- 4) Time period being audited;
- 5) Locations that will be audited.

The **methodology** is documented in an audit program. Collectively, the audit program steps should:

- 1) Address the audit objectives;
- 2) Avoid unnecessary work; and be designed to ensure that:
- 3) Work is within the planned scope of the audit;
- 4) Sufficient, competent, and reliable evidence is gathered to support findings and conclusions relevant to the audit objectives.

#### **6.1.4 Entrance Conference**

This is a meeting between the managers of the area being audited and Internal Audit personnel. The scope of the audit will be discussed at this meeting as well as any scheduling concerns. Every reasonable attempt will be made to schedule audit procedures around busy times. The audit will be designed to be as least disruptive as possible to normal operations. Managers are given the opportunity to share any concerns that they may have. If there is a particular area of concern that a manager would like to have reviewed, the auditor will consider including it in the audit plan. For an example and template to use (**See APPENDIX Audit Form #9, Entrance Conference Agenda**). High level minutes of the meeting should be taken to document information conveyed to auditees, and any changes to the objectives, scope or timing of the audit.

#### **6.1.5 Fieldwork**

This phase may include interviewing employees, flow charting processes and testing transactions. Some of the work will be performed at the area under audit, and some of the work will be performed in the internal audit office. Appropriate managers are kept informed of any findings and recommendations as the audit progresses. The principal objectives will be accomplished by:

- 1) Control reviews which require discussions with and observations of the personnel responsible for various operating and accountability functions to evaluate the existence and adequacy of internal controls.
- 2) Detailed testing, which requires review of transaction documentation and observation of events to evaluate compliance with existing contractual, departmental and City policies and procedures.

#### **6.1.6 Draft Report**

Once fieldwork is completed, a draft of the audit report will be written which will state procedures performed findings and observations, and any recommendations for improvement. The draft will be provided to the City Manager, the Audit Committee, and anyone else deemed appropriate by the

Internal Auditor and the auditee. Management will be asked to provide written responses to the recommendations that will be included in the final report.

#### **6.1.7 Supervision**

- 1) One-person internal audit department – The Internal Auditor, as a one-person program must be equally comfortable completing all facets of audit work as well as completing reports and communicating the results to City management. To provide a high level of quality in reports all work should be self-reviewed at the completion of the project. The draft report findings and recommendations will be shared with the auditee. If there are any questioned facts in the report, those will be double-checked by the auditor until they and the auditee are comfortable with the facts as described. If significant matters merit consultation, the Internal Auditor should document those consultations in the work file. Those are likely to be with other local government auditors that would have the relevant experience to provide a second opinion on the matter.
- 2) With two or more auditors – the same criteria as stated above will be applied, as applicable. In addition, the auditor's will also review each other's work-papers and provide feedback as appropriate.

#### **6.1.8 Workpaper Documentation**

Workpaper documentation shall include the following:

- 1) Excel Spreadsheets:
  - a. Sign off in upper left hand corner:
    - i. WP #
    - ii. Prepared By: Date:
    - iii. Reviewed By: Date: (even if same person – as in one person shop).
  - b. (as applicable, e.g. a worksheet summarizing findings)
    - i. Source;
    - ii. Objectives *or* Purpose;
    - iii. Scope;
    - iv. Methodology;
    - v. Findings;
    - vi. Conclusion.
- 2) Word Documents (formal memos excluded, e.g. engagement memo, etc.)
  - b. Sign off in upper left hand corner:
    - i. WP #
    - ii. Prepared By: Date:
    - iii. Reviewed By: Date: (even if same person – as in one person shop).



#### 6.1.9 Audit Findings and Issues

An audit finding is defined as an area of potential control weakness, policy violation, financial misstatement, or other problematic issue identified during the audit. Audit findings will be discussed with management as they present themselves during the audit. After discussing the audit finding with auditee management and determining that the finding is legitimate, the finding is included in the draft audit report. Audit findings will have each of the following components:

**Condition** – The condition is the situation as it exists. It should be factually documented in enough detail to allow the reader of the report to gain an accurate perspective.

**Criteria** – The laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.

**Cause** – The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria. Auditors should strive to find the ‘root’ cause.

**Effect or potential effect** – Effect provides a clear, logical link to establish the impact of the difference between what the auditors found (condition) and what should be (criteria). Effect is easier to understand when it is stated clearly, concisely, and, if possible, in quantifiable terms. The significance of the reported effect can be demonstrated through credible evidence.

**Recommendations** – Description of the Auditor’s recommended course of action to eliminate or mitigate the root cause(s) of the problem. The main objective is for management to act on recommendations issued by the Internal Auditor and to eliminate the root cause(s) of the finding.

#### 6.1.10 Developing Recommendations

Throughout the audit, the Internal Audit Department and auditee personnel will discuss findings with auditee management. The objective of these discussions is to communicate audit findings/issues and obtain agreements on resolution by joint formulation of recommendations. While developing audit issues, the auditor will present the apparent root cause and how the issue can best be resolved. Thus, when reviewing a draft of the issue for the first time, auditee management should take this into consideration and feel free to discuss modifications of the proposed recommendations to more closely reflect a feasible solution, if appropriate.

#### 6.1.11 Exit Conference & Draft Report

The exit conference is a meeting between departmental management and Internal Audit personnel to discuss the results of the audit and to go over the draft report, including findings and recommendations. If management discovers any factual errors or believes that anything has been misinterpreted, they should provide that information at this meeting so appropriate corrections can be made prior to report publication. On occasion, there may be items that are not appropriate to include in the written report, but need to be brought to the attention of management. At the

discretion of the Internal Auditor, those items will be discussed during the exit conference, included in the report as a management letter comment or they might be included in a separate management letter.

#### **6.1.12 Auditee Response**

The auditee has 14 days to respond to the report with their response(s) to the findings. Their response(s) must include a remediation plan, and a remediation date, and must use available resources. A report cannot stay in draft format for more than 30 days.

Instructions should be given to auditee to help them respond more effectively to the audit findings **(See APPENDIX Audit Form #10, Auditee Instructions for Responding to a Finding)**.

#### **6.1.13 Final Audit Report**

Once the auditee provides the responses to the audit report or 30 days has passed a final report will be issued. The auditee responses, if received, will be included in the final report. If no responses are received the Internal Auditor will note the fact in a transmittal letter and will release the report without a remediation plan. The final report with the auditee responses will be reviewed by the auditee, the City Manager, and the Audit Committee prior to being released. The final report will be provided to the auditee (management), the City Manager, the Audit Committee, and the governing body via the Finance Committee. Once final review and approval is obtained from the City Manager, and the Audit Committee the report is distributed or presented as appropriate. The final report is addressed to the City Manager, with a copy to the Mayor, Members of the City Council and Audit Committee, and the External Auditor. If appropriate (i.e. indicators of fraud) it will also be sent to the State Auditor's Office. In addition it will be posted on the Internal Audit website **(See APPENDIX Audit Form #11, Report Checklist)**.

#### **6.1.14 Audit Follow-Up**

The auditee responses in the audit report should specify the completion dates and other measures that will determine the success of implementation. It is the responsibility of auditee management to ensure the recommendations are completed and the audit findings are resolved in a timely manner. The internal auditor may perform an audit follow-up as time permits to determine the status of all open report issues approximately one year after the audit is completed. The Internal Audit Department provide audit follow-up reports to the individuals who received a copy of the audit report as well as the City Manager, Audit Committee, and the Governing Body via the Finance Committee. Items not cleared may be referred to the City Manager for appropriate action.

#### **6.1.15 Administration**

Audits are stored electronically in the Internal Audit shared drive. Audits are separated by year.

In addition, key workpapers are printed out and filed, in the file room within the Internal Audit Department. Copies of the Final Report are kept electronically at M:\Administrative\Administrative\Perm File – Internal Audit\Reports Issued\_Final\FYE20XX folder, and hard copy in the file room with "Final Reports". All final reports, the audit plan and policies and procedures will also be posted on the Internal Audit Department website.

All phases of audits and/or other assignment are documented using Excel and Word documents.

#### **6.1.16 Audit Quality Assurance Checklist**

At the conclusion of each audit fill out the audit checklist and make sure all items have been addressed. This checklist is based on the Association of Local Government Auditors Review of Audit/Engagement Documentation from the ALGA Peer Review Guide (2011). The checklist includes items relevant to performance audits. If another type of audit is being done, review and reference the appropriate sections in GAGAS and modify the checklist accordingly. The checklist can be found in the appendix (**See APPENDIX, Audit Form #12, Audit Quality Assurance Checklist**).

#### **6.1.17 Annual Review Monitoring**

**GAGAS 3.95** The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.

# **7.0 APPENDIXES:**

**City of Santa Fe  
Internal Audit Department**

**“Code of Ethics”<sup>3</sup>**

**PRINCIPLES**

Internal auditors are expected to apply and uphold the following principles:

- *Integrity*: The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- *Objectivity*: Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- *Confidentiality*: Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- *Competency*: Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

**RULES OF CONDUCT**

**1. Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

**2. Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

**3. Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

**4. Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2. Shall perform internal audit services in accordance with” GAGAS.
- 4.3. “Shall continually improve their proficiency and the effectiveness and quality of their services.”

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<sup>3</sup> Code of Ethics is taken from the IIA’s mandatory standards, except for 4.2 which in the IIA standards states “*Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards).*” SFCC 2-22.5 B. requires that internal audits be performed using GAGAS.

**City of Santa Fe  
Internal Audit Department**

**WP#**

**Prepared By:   Date:**

**Reviewed By:   Date:**

**Auditor's Technical Knowledge and Competence Statement**

Under Generally Accepted Government Auditing Standards (GAGAS) 3.72 titled Technical Knowledge as revised on December 2011 the staff assigned to conduct an audit in accordance with GAGAS should collectively possess the technical knowledge, skills, and experience necessary to be competent for the type of work being performed before beginning work on that assignment. Each staff member must promptly notify the Internal Auditor, in writing, concerning any situation that would impair the staff member's or the Office's ability to comply with this standard. If a staff member has any doubt about whether a situation may prevent or impair compliance with this standard he or she should consult with the Internal Auditor. If the Internal Auditor has any doubt about whether a situation may prevent or impair his or her compliance with this standard he or she should consult with the Audit Committee and the City Manager.

**Employee:** \_\_\_\_\_ **Position:** \_\_\_\_\_

**Client/Auditee Name:** \_\_\_\_\_ **Audit Period:** \_\_\_\_\_

**Possible Impairments to Technical Knowledge on this Audit.** I have reviewed my personal situation with respect to this audit. I am not aware of any circumstances that might impair my ability to comply with GAGAS standard 3.72.

<b>Description of Impairment – “The staff assigned to a GAGAS audit or attestation engagement should collectively possess:</b>	<b>In Compliance (Y/N/N/A)</b>	<b>Possibly Applicable</b>
A. Knowledge of GAGAS applicable to the type of work assigned and the education, skills, and experience to apply this knowledge to the work being performed;		
B. General knowledge of the environment in which the audited entity operates and the subject matter under review;		
C. Skills to communicate clearly and effectively, both orally and in writing; and		
D. Skills appropriate for the work being performed. For example staff or specialist skills in:		
1) Statistical or non-statistical sampling if the work involves use of sampling;		
2) Information technology if the work involves review of information systems;		
3) Engineering if the work involves review of complex engineering data;		
4) Specialized audit methodologies or analytical techniques, such as the use of complex survey instruments, actuarial-based estimates, or statistical analysis tests, if such skills are important to; or		
5) Specialized knowledge in subject matters, such as scientific, medical, environmental, educational, or any other specialized subject matter, if the work calls for such expertise.”		

**Responsibility to Update this Disclosure.** I understand that I am responsible for making a timely written notification to the Internal Auditor, Audit Committee, and City Manager in the event that any circumstance may arise during the course of this audit that might impair or appear to impair my ability to comply with GAGAS standard 3.72 with respect to the audit.

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

City of Santa Fe  
Internal Audit Department  
**AUDITOR'S INDEPENDENCE AND OBJECTIVITY CHECKLIST**

**WP#**

**Prepared By:     Date:**

**Reviewed By:     Date:**

**Independence and Objectivity Checklist**

**Fiscal Year:** \_\_\_\_\_

**and/or**

**Project Name:** \_\_\_\_\_

**Purpose**

This checklist is designed to help the Internal Auditor and Audit Staff, as applicable, maintain **independence** to perform **objective** services. Following are examples of circumstances that create threats to independence that the Internal Auditor or Audit Staff might identify when applying the GAGAS conceptual framework.

**If the response to a question is "Yes", describe the identified threat in the appropriate column.**

"A threat to independence is not acceptable if it either: (a) could impact the auditor's ability to perform a service without being affected by influences that compromise professional judgment; or, (b) could expose the Internal Auditor or the Internal Audit Department to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the Internal Audit Department, the Internal Auditor, or audit staff had been compromised." (GAGAS 3.22).

"When the Internal Auditor identifies threats to independence and, based on an evaluation of those threats, determines that they are **not** at an acceptable level, the Internal Auditor and/or the designated Audit Manager should determine whether appropriate safeguards are available and can be applied to eliminate the threats or reduce them to an acceptable level. The Internal Auditor should exercise professional judgment in making that determination, and should take into account whether both independence of mind and independence in appearance are maintained. The Internal Auditor should evaluate both qualitative and quantitative factors when determining the significance of a threat." (GAGAS 3.23).

"In cases where threats to independence are **not** at an acceptable level, thereby requiring the application of safeguards, the Internal Auditor should document the threats identified, and the Internal Auditor should apply safeguards to eliminate the threats or reduce them to an acceptable level." (GAGAS 3.24).

"Certain conditions may lead to threats that are so significant that they cannot be eliminated or reduced to an acceptable level through the application of safeguards, resulting in impaired independence. Under such conditions, the Internal Auditor should decline to perform a prospective service or terminate a service in progress." (GAGAS 3.25). An auditor in a government entity may be required to perform a nonaudit service that could impair the auditor's independence with respect to a required audit. If the auditor cannot, as a consequence of constitutional or statutory requirements over which the auditor has no control, implement safeguards to reduce the threat to an acceptable level,"..."the auditor should disclose the nature of the threat"..."and modify the GAGAS compliance statement accordingly." (GAGAS 3.44).

**DETAILS OF CONFLICTS FOR STAFF MUST BE COMMUNICATED TO THE INTERNAL AUDITOR.**

**DETAILS OF CONFLICTS FOR THE INTERNAL AUDITOR MUST BE COMMUNICATED TO THE AUDIT COMMITTEE AND CITY MANAGER.**

**Last Revised June 30, 2014**

**APPENDIX – Audit Form #3**

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**Policies and Procedures**

City of Santa Fe  
Internal Audit Department  
**AUDITOR'S INDEPENDENCE AND OBJECTIVITY CHECKLIST**

**AUDIT:**

**FYE:**

- 1) **"Self-Interest Threat** - The threat that a financial or other interest will inappropriately influence the Internal Auditor's judgment." (GAGAS 3.14 a).

PLEASE INITIAL AND DATE YOUR RESPONSE	Yes	No	If "Yes" describe the threat to independence	Describe safeguard(s) if available, to eliminate/reduce threat to acceptable	Threat eliminated or reduced (Yes/No)
<i>Examples of self-interest threats</i>					
1.a) Does the Internal Auditor have a direct financial interest in the entity or program? This does not preclude the Internal Auditor from auditing the City of Santa Fe's (City) pensions plans that they participate in if: (1) The Internal Auditor has no control over the investment strategy, benefits, or other management issues associated with the pension plan; and, (2) The Internal Auditor belongs to the City's pension plan as part of their employment with the City, provided that the plan is normally offered to all employees in equivalent employment positions.					
1.b) Is the Internal Auditor entering into employment negotiations with the entity or program?  <i>Threats to independence would exist when the Internal Auditor enters into discussions and/or takes formal actions, such as submitting an application with the City or an entity or program regarding employment.</i>  <i>When the Internal Auditor is considering solicited and/or unsolicited offer(s) of employment from other City Departments / entity or programs should immediately inform the Internal Auditor of the offer.</i>					
1.c) Have any significant errors been identified when evaluating the results of a previous audit or professional service performed by Internal Audit?					



**City of Santa Fe**  
**Internal Audit Department**  
**AUDITOR'S INDEPENDENCE AND OBJECTIVITY CHECKLIST**

- 2) **“Self-Review Threat** - The threat that the Internal Audit Department has provided nonaudit services and will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to a service.”  
**(GAGAS 3.14 b)**

PLEASE INITIAL AND DATE YOUR RESPONSE  <i>Examples of self-review threats</i>	Yes	No	If “Yes” describe the threat to independence	Describe safeguard(s) if available, to eliminate/reduce threat to acceptable	Threat eliminated or reduced (Yes/No)
2.a) Has the Internal Audit Department issued a report on the effectiveness of the operation of financial or performance management systems after designing or implementing the systems?					
2.b) Has the Internal Audit Department prepared the original data used to generate records that are the subject matter of the audit?					
2.c) Has the Internal Audit Department performed a service for an entity or program that directly affects the subject matter information?					
2.d) Was the Internal Auditor recently employed by the audited entity or program and in a position to exert significant influence over the subject matter?					

- 3) **“Bias Threat** - The threat that the Internal Auditor will as a result of political, ideological, social, or other convictions, take a position that is not objective.” **(GAGAS 3.14 c)**

PLEASE INITIAL AND DATE YOUR RESPONSE  <i>Examples of bias threats</i>	Yes	No	If “Yes” describe the threat to independence	Describe safeguard(s) if available, to eliminate/reduce threat to acceptable	Threat eliminated or reduced (Yes/No)
3.a) Does the Internal Auditor have preconceptions about the objectives of a program, that are sufficiently strong to impact the Internal Auditor’s objectivity?					
3.b) Does the Internal Auditor have biases associated with political, ideological, or social convictions that result from membership or employment in, or loyalty to, a particular type of policy, group, organization, or level of government that could impact the Internal Auditor’s objectivity?					

**City of Santa Fe  
Internal Audit Department  
AUDITOR'S INDEPENDENCE AND OBJECTIVITY CHECKLIST**

- 4) **“Familiarity Threat** - The threat that aspects of a relationship with management or personnel of an entity, such as a close or long relationship, or that of an immediate or close family member, will lead the Internal Auditor to take a position that is not objective.” (GAGAS 3.14 d).

PLEASE INITIAL AND DATE YOUR RESPONSE	Yes	No	If “Yes” describe the threat to independence	Describe safeguard(s) if available, to eliminate/reduce threat to acceptable	Threat eliminated or reduced (Yes/No)
<i>Examples of familiarity threats</i>					
4.a) Does the Internal Auditor have a close or immediate family member who is a principal or senior manager of the entity or program?					
4.b) Does the Internal Auditor have a close or immediate family member who is an employee of the entity or program and is in a position to exert significant influence over the subject matter of the audit?					
4.c) Is a principal or employee of the audited entity or program in a position to exert significant influence over the subject matter of the audit having recently been employed by the Internal Audit Department?					
4.d) Has the Internal Auditor accepted gifts or preferential treatment from a audited entity or program unless the value is trivial or inconsequential?					
4.e) Does the Internal Auditor have a long association with the audited entity or program?					

**City of Santa Fe**  
**Internal Audit Department**  
**AUDITOR'S INDEPENDENCE AND OBJECTIVITY CHECKLIST**

- 5) **“Undue Influence Threat** - The threat that external influences or pressures will impact the Internal Audit Department or the Internal Auditor’s ability to make independent and objective judgments.” (GAGAS 3.14 e).

PLEASE INITIAL AND DATE YOUR RESPONSE	Yes	No	If “Yes” describe the threat to independence	Describe safeguard(s) if available, to eliminate/reduce threat to acceptable	Threat eliminated or reduced (Yes/No)
<i>Examples of undue influence threats</i>					
5.a) Is there external interference or influence that could improperly limit or modify the scope of an audit or threaten to do so?					
5.b) Is there external interference with the selection or application of project procedures or in the selection of transactions to be examined?					
5.c) Are there unreasonable restrictions on the time allowed to complete an audit or issue the report?					
5.d) Is there external interference over the assignment, appointment, compensation, and promotion of Internal Audit personnel?					
5.e) Is there authority to overrule or to inappropriately influence the Internal Auditor’s judgment as to the appropriate content of the report?					
5.f) Is there a threat of replacing the Internal Auditor over a disagreement with the contents of a project’s report, the conclusions, or the application of an accounting principle or other criteria?					
5.g) Are there influences that jeopardize the Internal Auditor’s continued employment for reasons other than incompetence, misconduct, or the need for other services?					

City of Santa Fe  
Internal Audit Department  
**AUDITOR'S INDEPENDENCE AND OBJECTIVITY CHECKLIST**

- 6) **“Management Participation Threat** - The threat that results from the City Auditor or an staff auditor taking on the role of management or otherwise performing management functions on behalf of the entity or program being audited.” (GAGAS 3.14 f).

PLEASE INITIAL AND DATE YOUR RESPONSE	Yes	No	If “Yes” describe the threat to independence	Describe safeguard(s) if available, to eliminate/reduce threat to acceptable	Threat eliminated or reduced (Yes/No)
<i>Examples of management participation threats</i>					
6.a) Has the Internal Auditor been a senior manager of the audited entity or program?					
6.b) Is the Internal Auditor serving as a voting member of the audited entity or program management committee or board of directors, making policy decisions that affect future direction and operation of an audited entity or program, supervising entity or program’s employees, developing or approving programmatic policy, authorizing an entity or program’s transactions, or maintaining custody of an entity or program’s assets?					
6.c) Is the Internal Auditor recommending a single individual for a specific position that is key to the entity or program, or otherwise ranking or influencing management’s selection of the candidate?					
6.d) Is the Internal Auditor preparing management’s corrective action plan to deal with deficiencies detected in the audit?					

- 7) **“Structural Threat** - The threat that the Internal Audit Department’s placement within the City of Santa Fe, in combination with the structure of the department or program being audited, will impact the Internal Audit Department’s ability to perform work and report results objectively.” (GAGAS 3.14 g).

PLEASE INITIAL AND DATE YOUR RESPONSE	Yes	No	If “Yes” describe the threat to independence	Describe safeguard(s) if available, to eliminate/reduce threat to acceptable	Threat eliminated or reduced (Yes/No)
<i>Examples of structural threats</i>					
7.a) Is the structural placement of the Internal Audit Department’s function within the reporting line of the areas under audit?					
7.b) Is administrative direction for the Internal Audit Department received from the audited entity or program management?					

City of Santa Fe  
Internal Audit Department

WP#

Prepared By:     Date:

Reviewed By:     Date:

**Auditor's Annual Independence and Objectivity Statement**

**TO BE COMPLETED EACH FISCAL BY THE INTERNAL AUDITOR, STAFF, OR SPECIALISTS ASSISTING WITH THE INTERNAL AUDIT ASSIGNMENTS.**

**FORM SHOULD BE COMPLETED AFTER APPROVAL OF THE INTERNAL AUDIT PLAN**

(Retain signed forms (CHECKLIST AND ANNUAL INDEPENDENCE AND OBJECTIVITY FORM) electronically in M:\auditors\administrative\Perm File – Internal Audit\Annual Signed Independence Statements)

I acknowledge that I have completed the Annual Checklist and based on my assessment:

- ☐ I **do not have** any threats to independence. See attached **Checklist**.
- ☐ I **have** disclosed threats to independence. See attached **Checklist**.
- Staff shall notify the Internal Auditor; and
  - The Internal Auditor shall notify the City Manager and Audit Committee of any threats to independence for the Internal Auditor.

The following section only needs to be filled out if threats were found:

- ☐ The threat(s) **Was/Were** eliminated or reduced to an acceptable level. See attached **Checklist**.
- ☐ The threat(s) **Was/Were not** eliminated or reduced to an acceptable level. See attached **Checklist**.

I acknowledge that this \_\_\_\_ **will not keep me OR** \_\_\_\_ **will keep me** from **objectively**, planning, conducting, or otherwise participating on the projects included in the proposed (or approved, if applicable) Audit Plan for the upcoming fiscal year. I will reevaluate threats to my independence should my assignments or circumstances change. If threats are found to exist:

- Staff shall notify the Internal Auditor; and
- The Internal Auditor shall notify the City Manager and Audit Committee of any threats to independence for the Internal Auditor.

Print Name: \_\_\_\_\_  
Signature: \_\_\_\_\_ Date: \_\_\_\_\_

I acknowledge that I have reviewed this independence statement and have assessed the impact of any noted threats to independence on project assignments.

Internal Auditor (As Head of Internal Audit): \_\_\_\_\_ Date: \_\_\_\_\_

City of Santa Fe  
Internal Audit Department

WP#

Prepared By:     Date:

Reviewed By:     Date:

**Audit Assignments Independence and Objectivity**

**TO BE COMPLETED FOR:**

- (1) ASSIGNMENTS (AUDITS, PROJECTS), AND  
(2) THREATS TO INDEPENDENCE IDENTIFIED PRIOR TO OR DURING AN ASSIGNMENT

(Retain signed forms (CHECKLIST AND AUDITOR'S ASSIGNMENT - INDEPENDENCE AND OBJECTIVITY STATEMENTS) electronically in applicable audit workpapers planning section).

**SECTION A - To be completed by the AUDITOR, STAFF, OR SPECIALIST**

- ☐ I **do not have** threat(s) to independence that was/(were) identified **prior to or during** the project specified below. If my circumstances change, I will re-evaluate independence and promptly notify the appropriate chain of command if threats to independence are identified.
- Staff shall notify the Internal Auditor; and
  - The Internal Auditor shall notify the City Manager and Audit Committee of any threats to independence for the Internal Auditor.
- ☐ I **do have** threat(s) to independence that was/(were) identified **prior to or during** the project specified below. See Project **Checklist** attached.
- Staff shall notify the Internal Auditor; and
  - The Internal Auditor shall notify the City Manager and Audit Committee of any threats to independence for the Internal Auditor.

**AUDIT/PROJECT:** \_\_\_\_\_

**Name and**

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**SECTION B - To be completed by the INTERNAL AUDITOR (As Head of Internal Audit)**

I acknowledge that:

- ☐ I have reviewed the independence statement for the specified project.
- ☐ The identified threat(s) to independence **was/were** eliminated or reduced to an acceptable level during the project. See Project **Checklist**.
- ☐ The identified threat(s) to independence **was/were not** eliminated or reduced to an acceptable level during the project. See Project **Checklist**.

**Internal Auditor:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**City of Santa Fe  
Internal Audit Department  
Auditee Survey**

**Client Satisfaction Survey**

**Note:** Surveys are in Survey Monkey. User name: LizaK001, password: Cityofsf1

Auditee survey

Exit this survey

**1. Please rate the quality of the performance audit**

	Excellent	Good	Fair	Poor	Don't know
Communication and feedback during the work	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Opportunity to comment on the final draft report	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Clarity of the written report	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Accuracy of the audit findings	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Value of the recommendations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Overall quality of the audit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**2. Was there anything about the performance audit and process that you especially liked?**

**3. Was there anything about the performance audit and process that you especially disliked?**

**4. Do you have any other comments or suggestions?**

City of Santa Fe  
Internal Audit Department  
Engagement Letter and Request List



## City of Santa Fe – Internal Audit

200 Lincoln Ave, Santa Fe, NM 87504-0909

(505) 955-5728, cell (505) 490-3372

Liza A. Kerr, Internal Auditor

DATE: Date of letter  
TO: Auditee, Director Level  
FROM: Auditor  
CC: City Manager, Audit Committee and Staff you will be working with...

### Engagement Memo and Request List

The Internal Audit Department will be conducting a **performance audit** (or whatever type of audit) – **description of the audit that will be done**. The **scope** of the audit will include an audit (**See example following – fill in with applicable data**) of 1) the alignment of City Ordinances or State law to amounts billed for false alarms, 2) the revenue paid to the City by PSC upon collection of fees, and fines, and 3) balances written off. Items 2 and 3 will be limited to a period of time from 07/01/2012 to 09/30/2013. An entrance conference is scheduled for (**date and time**) to discuss the audit process.

Our audit will be conducted in accordance with generally accepted governmental auditing standards, with the exclusion of a Peer Review. Auditing standards will be utilized in evaluating the internal control structure. Accordingly, we shall include such tests of records and other auditing procedures as we consider necessary to accomplish our audit objectives.

Our audit **objectives** are designed to ensure:

- 1) Compliance with State and Local Laws,
- 2) Compliance with the PSA between the City and PSC, including verification of:
  - a. Amounts billed for false alarms being within mandated guidelines, and
  - b. Accuracy of revenue paid to the City upon collection of fees and fines.
- 3) Account receivable balances that have been written off are properly supported through adjudication.

We expect the **timeline** of the audit to be as follows:

- Phase 1 - Walkthrough & Information Gathering 10/01 to 10/31/13
  - During this phase a physical walkthrough will be done to determine how the City interfaces with PSC. This walkthrough will include talking with City employees and team members from PSC to understand and document the software interface, billing procedures and payments to the City for revenue generated. Documentation will be obtained and reviewed in regards to applicable ordinances, state law, policies and procedures, and reports generated.
- Phase 2 - Field Work 10/15 to 11/30/13
  - During this phase of the audit, we will request information to conduct the audit including, but not limited to, detailed backup to support 1) customer billings, 2) revenue payments made to the City, and 3) accounts written off. Additional test work that becomes apparent during Phase 1 may also be done at this time.
- Phase 3 – Wrap up and Report 12/01 to 12/31/13
  - During this phase of the audit, all of the gathered information is analyzed and presented in a report to management. A response to findings is required within 14 days.



**City of Santa Fe  
Internal Audit Department  
Engagement Letter and Request List**

**Request List**

At this time, please provide the internal audit department with the following items:

- Organizational Charts, with names and positions;
- City Ordinances and State and Federal Laws or provisions thereof that impact the department or process being audited;
- Grant terms;
- Relevant contracts;
- Policies and Procedures;
- Budget;
- If applicable;
  - Performance measures;
- Identified Internal Controls as they relate to the stated audit objectives;
  - Manual; and
  - Information technology controls;
- Results of any previous audits or attestation engagements;
- Annual Reports.

***(Auditor's to add any other applicable data required to research auditee or department being audited)***

In addition,

- We will need to schedule time with your staff for interviews;
- Discuss any recent fraud investigations;
- Discuss any ongoing or recent investigations;
- Discuss any ongoing or recent legal proceedings.

**City of Santa Fe  
Internal Audit Department  
Planning Checklist**

**WP#**

**Prepared By:     Date:**

**Reviewed By:     Date:**

**Planning Checklist**

This checklist is to be used to facilitate the planning phase of the audit.

<b>AUDIT:</b>				<b>FYE:</b>
<b>Please initial and date your response</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>	<b>Comments</b>
1. Plan and document work necessary to define audit objectives, scope, and methodology such that work provides reasonable assurance that sufficient, appropriate evidence supports conclusions. (GAGAS 6.06, 6.07, 6.10)				
2. Assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following: a) Nature of the program and user needs (GAGAS 6.11a, 6.13) b) Design and implementation of internal controls (GAGAS 6.11b, 6.16) c) Design and effectiveness of information system controls (GAGAS 6.11c, 6.24, 6.27) d) Legal, regulatory, contract, and/or grant agreement provisions, and potential fraud and abuse (GAGAS 6.11d, 6.28, 6.30-6.32, 6.34) e) Impact on ongoing investigation and legal proceedings (GAGAS 6.11e, 6.35) f) Results of previous audits (GAGAS 6.11f, 6.36)				
3. Identify potential criteria to the extent relevant to the audit objectives. Planning allows auditors to identify potential criteria and sources of evidence, and evaluate whether to use the work of other auditors or experts. (GAGAS 6.12 a-c; 6.37; 6.38; 6.40-6.42)				

**City of Santa Fe  
Internal Audit Department  
Planning Checklist**

<b>Please initial and date your response</b>	<b>Yes</b>	<b>No</b>	<b>NA</b>	<b>Comments</b>
4. Determine the type and amount of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives. Evaluate whether internal control or other program weaknesses are the cause when auditors conclude that sufficient, appropriate evidence is not available. (GAGAS 6.39)				
5. Extend audit procedures when there are indications that fraud or abuse significant to the audit objectives may have occurred; do not interfere with legal proceedings or investigations. (GAGAS 6.32; 6.34-6.35)				
6. Based on the assessment of the evidence, apply additional procedures, redefine the audit objectives, or revise the findings and conclusions, if necessary. (GAGAS 6.71-6.72)				
7. Plan and perform procedures to develop the elements of a finding to address audit objectives and develop recommendations for corrective action. (GAGAS 6.73)				
8. Prepare and maintain audit documentation related to planning, conducting, and reporting on the audit to support findings, conclusions, and recommendations before issuing the report (GAGAS 6.79-6.83)				
9. Prepare and update a written audit plan. (GAGAS 6.12f; 6.51)				
10. Properly supervise staff. Review work performed and document review of work before issuing the audit report. (GAGAS 6.53-6.55, 6.83c)				
11. Obtain sufficient, appropriate evidence to provide reasonable basis for findings and conclusions. (GAGAS 6.56-6.57)				<b>Fieldwork</b>
12. Assess sufficiency and appropriateness of computer-processed information. (GAGAS 6.66)				<b>Fieldwork</b>



# City of Santa Fe – Internal Audit

200 Lincoln Ave, Santa Fe, NM 87504-0909

(505) 955-5728, cell (505) 490-3372

## CITY OF SANTA FE INTERNAL AUDIT ENTRANCE CONFERENCE

*Name of audit*

*date*

*Time*

### Entrance Conference

*(This document is flexible – needs or concerns of management can be added and the scope and objectives may be slightly different than when the engagement memo was sent due to analysis of data gathered and analyzed in the planning phase).*

#### 1. INTRODUCTIONS

2. **DISCUSS SCOPE OF THE AUDIT** - The **scope** of the audit will include an audit of ..... a period of time from **beg date** to **end date**.

#### 3. EXPLAIN OBJECTIVES OF AUDIT

Our audit **objectives** are designed to ensure:

- A. Compliance with State, Local and Federal Laws; **(as applicable)**
- B. Compliance with the **xyz** including verification of: **(for example)**
  - i. Amounts billed for false alarms being within mandated guidelines, and
  - ii. Accuracy of revenue paid to the City upon collection of fees and fines.
- C. Account receivable balances that have been written off are properly supported through adjudication.

#### 4. DISCUSS APPROACH AND TIMING OF FIELDWORK

- A. Phase 1 - Walkthrough & Information Gathering XX/00 to XX/00/XX
  - During this phase a physical walkthrough will be done to determine how the City ..... This walkthrough will include talking with City employees and team members from **((department name))** to understand and document the **(process...describe, x, y, z)** software interface, **(as applicable) (and other relevant procedures)** ....Documentation will be obtained and reviewed in regards to applicable ordinances, state law, policies and procedures, and reports generated.
- B. Phase 2 - Field Work XX/00 to XX/00/XX
  - During this phase of the audit, we will request information to conduct the audit including, but not limited to, detailed backup to support 1) customer billings, 2) revenue payments made to the City, and 3) accounts written off. Additional test work that becomes apparent during Phase 1 may also be done at this time.
- C. Phase 3 – Wrap up and Report XX/00 to XX/00/XX
  - During this phase of the audit, all of the gathered information is analyzed and presented in a report to management. A response to findings is required within 14 days.

#### 4. OTHER MATTERS AS NEEDED

#### 5. ADJOURNMENT

City of Santa Fe  
Internal Audit Department  
Instructions to Auditee for Responding to an Audit Finding



## *City of Santa Fe – Internal Audit*

200 Lincoln Ave, Santa Fe, NM 87504-0909

(505) 955-5728, cell (505) 490-3372

Liza A. Kerr, Internal Auditor

Date: *(Fill in appropriate fields)*  
To: Auditee  
City Manager  
From: Liza Kerr, Internal Auditor

### **Instructions to Auditees for Responding to Audit Findings**

#### **Timing**

A response is required from the auditee/management within 14 work days of the exit conference at which time a draft report will be presented (City Ordinance 2013-34 2-22.7 E. 1).

During the exit conference or at any time during that 14 day period the auditee is able to contact the Internal Auditor for clarification about the finding including making recommendations on improving the language of the recommendation. The auditee should feel free to discuss modifications to the recommendation that make it more feasible.

#### **Content – “Management’s Response”**

- 1) Read the entire finding;
- 2) Respond in detail to the recommendation;
- 3) Responses must include;
  - a. A remediation plan specifying dates and corrective action to be taken to resolve the issue (City Ordinance 2013-34 2-22.7 E);
  - b. Use of current resources, whenever possible;
  - c. The person(s) responsible for the remediation.

#### **Remediation/Follow-up**

Internal audit will do a follow-up audit to assure that all findings were remediated by the date as given in the original response. To make this process more efficient, please send internal audit evidence of remediation when it is complete. For example, send final copies of policies and procedures.

If you have further questions please contact internal audit directly at (505) 955-5728, or via email [LaKerr@ci.santa-fe.nm.us](mailto:LaKerr@ci.santa-fe.nm.us)

**City of Santa Fe**  
**Internal Audit Department**  
**Instructions to Auditee for Responding to an Audit Finding**

**Examples of a Finding and a Response**

**FINDING**

Lack of formal annual testing of file server back-ups and recovery procedures

**Condition**

- 1) A formal annual testing of the file servers doing mirrored backup of the I-Series financial data is not being done. ITT is in the process of negotiating a contract with Vision Solutions - iTera to provide this service, but it is not expected to occur until after July 1, 2013. The contract would include three virtual roll swaps and three actual backups over the course of a year.
- 2) A formal annual testing of the file servers doing mirrored backup of the non-financial data is not being done.
- 3) Internal Audit was unable to do a full restore on either the weekly or the annual system saves due to capacity issues in the test environment. ITT is planning on building a test LPAR in July 2013 that will have sufficient capacity to allow them to do this.
- 4) City and State data retention requirements for electronic data may not be retained for the appropriate time periods.

**Criteria**

A formal annual test of file server recovery / procedures needs to occur to ensure data integrity and disaster recovery capabilities.

Data retention, including retention of electronic data, needs to adhere to legal and regulatory requirements including City ordinances and NM State Statute 1.18.341, Executive Records Retention and Disposition Schedules.

**Cause**

Internal controls pertaining to annual testing of file server recovery / procedures are not effective. These deficiencies in the internal control environment can affect operations of the City.

**Effect**

Not performing an annual test on file server recovery / procedures to ensure data integrity and disaster recovery capabilities may result in a failed recovery in the event of a disaster. This may impact the City's ability to continue with business operations. The City is vulnerable to not being able to recover in the event of a disaster.

**Recommendation**

- 1) Establish contract with vendor to begin testing the mirrored backup at the RECC site;
- 2) Develop a plan for annual testing of financial and non-financial file server recovery;
- 3) Ensure that City and State data retention requirements adhere to legal and regulatory requirements.

City of Santa Fe  
Internal Audit Department  
Instructions to Auditee for Responding to an Audit Finding

**Management's Response and Implementation Date**

ITT management agrees with the finding. ITT Management currently has a negotiated engagement with Vision Solutions to conduct three virtual role swaps and three live role swaps of the logical partitions for the City's IBM System I (iSeries or AS400). Vision Solutions is finalizing City of Santa Fe business license requirements, and should be prepared to sign the Professional Services Agreement by August 31, 2013. ITT Management estimates that at least one virtual role swap and one live role swap will be conducted **within 90 days**. These tests will be conducted on an annual basis, with test results maintained for **not less than 36 months**.

Moreover, the ITT Division Director, in collaboration with the Network Operations Manager and the Systems & Programming Manager will immediately begin drafting a formal data retention policy that is based upon City and State legal and regulatory requirements. The policy will specify data retention methods and data retention periods for iSeries data (AS400 or IBM System I) and open systems data (email and file servers); in addition to annual testing requirements. This finding will be remediated **within 90 days**.

**Evaluation of Management's Response**

*If management's response is adequate there is no need for a comment here.*

If auditor does not agree with response they need to clearly state why.

*It should be noted that the above response received from management addressed all of the points raised in the recommendation, includes enough information for a reasonable person to be able to clearly follow, and includes timeframes for the resolution of the issue.*

**City of Santa Fe  
Internal Audit Department  
Report Checklist**

**WP#**

**Prepared By:     Date:**

**Reviewed By:     Date:**

**Report Checklist**

<b>AUDIT:</b>	<b>YES</b>	<b>N O</b>	<b>NA</b>	<b>FYE:</b>
<b>PLEASE INITIAL AND DATE RESPONSE</b>				<b>COMMENTS</b>
1. Issue audit report, make the report available to the public, unless specifically limited, if audit is terminated, document results of work completed and reason for termination.(GAGAS 7.03 to 7.06)				
2. If, after the report is issued, auditors discover they did not have sufficient, appropriate evidence, follow appropriate procedures. (GAGAS 7.07)				
3. Audit reports should contain the objectives, scope, and methodology of the audit and the audit results. (GAGAS 7.08-7.13)				
4. Present sufficient, appropriate evidence to support the findings and conclusions in relation to audit objectives. Describe any evidence limitations and deficiencies in internal control, etc. (GAGAS 7.14-7.18)				
5. Report scope of work on internal controls and any significant deficiencies found. Refer to separate written communication to officials in audit report.(GAGAS 7.19)				
6. Report likely fraud, illegal acts, and significant violations of contracts or grant agreements, or significant abuse.(GAGAS 7.21-22)				
7. Report known or likely fraud, illegal acts, violations of contracts or grant agreements, or abuse to any appropriate outside parties. (GAGAS 7.24-7.26)				
8. Report conclusions based on objectives and findings.(GAGAS 7.27)				
9. Recommend actions to correct identified problems and to improve programs and operations.(GAGAS 7.28)				



**City of Santa Fe  
Internal Audit Department  
Report Checklist**

PLEASE INITIAL AND DATE YOUR RESPONSE	YES	NO	NA	INITIALS/DATE/COMMENTS
10. Use the language in GAGAS 7.30 to cite compliance with GAGAS in report when all applicable requirements are followed, disclose when not followed. (2.23-2.24, 7.08, 7.30-7.31)				
11. Include a copy of written comments from responsible officials or a summary of written or oral comments. Evaluate the validity of the comments and revise report as necessary. (GAGAS 7.08, 7.32, 7.34-7.35, 7.37-7.38)				
12. If information is prohibited from public disclosure or excluded from the report due to its confidential or sensitive nature, disclose that certain information has been omitted and the reason for its omission. (GAGAS 7.08, 7.39, 7.42-7.43)				
13. Submit report to those charged with governance, appropriate officials, and appropriate oversight bodies; document any limitation on report distribution. (GAGAS 7.44)				
14. Make appropriate individuals and audit documentation available to other auditors or reviewers upon request, subject to applicable laws and regulations. (GAGAS 6.85)				

City of Santa Fe  
Internal Audit Department  
Audit Quality Assurance Checklist

WP#

Prepared By:     Date:

Reviewed By:     Date:

**Audit Quality and Assurance Checklist**

**Audit project:** \_\_\_\_\_

This checklist is based on the Association of Local Government Auditors Review of Audit/Engagement Documentation from the *ALGA Peer Review Guide* (2011). The checklist includes items relevant to performance audits. Refer to applicable sections of GAGAS for specifications for other types of audits. *This form is intended as a cross reference to applicable checklists and does not have to be filled out. It is used for quality assurance to ensure that all items are addressed at some point during the audit.*

DESCRIPTION	YES	NO	N A	COMMENTS
<p>1. The audit organization and the individual auditor, whether government or public, must be independent (GAGAS 3.02). Quality Control System procedures should include:</p> <p>a) Verify auditors were independent during the period covered by the subject matter of the audit and the period of the engagement(GAGAS 3.05)</p> <p>b) Identify threats to independence, evaluate their significance, determine if identified threats to independence have been eliminated or are at an acceptable level, and apply and document safeguards as necessary (GAGAS 3.08, 3.20-3.23, 3.24, 3.59)</p> <p>c) Evaluate the categories of threats to independence: self-interest, self-review, bias, familiarity, undue influence, management participation, and structural (GAGAS 3.14)</p> <p>d) Decline or terminate audit if threats can't be eliminated or reduced to acceptable level (GAGAS 3.25)</p> <p>e) Evaluate the impacts of threats identified after report issuance and take appropriate steps.(GAGAS 3.26)</p>				See Independence and Objectivity Checklist
2. Evaluate the impact on independence of any previously performed nonaudit services before accepting prospective audit. (GAGAS 3.42)				See Independence and Objectivity Checklist

**City of Santa Fe  
Internal Audit Department  
Audit Quality Assurance Checklist**

<b>DESCRIPTION</b>	<b>Y ES</b>	<b>N O</b>	<b>NA</b>	<b>COMMENTS</b>
3. When performance of a nonaudit service could impair independence with respect to a required audit, disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS statement accordingly. (GAGAS 3.44)				<b>See Independence and Objectivity Checklist</b>
4. Assess skill needs to consider whether the essential skills match those necessary to perform a particular audit. (GAGAS 3.69, 3.70)				<b>See Auditor's Knowledge and Technical Competence Statement</b>
5. Staff assigned to conduct an audit should collectively possess the technical knowledge, skills, and experience necessary. (GAGAS 3.72)				<b>See Auditor's Knowledge and Technical Competence Statement</b>
6. External/internal specialists assisting with or performing GAGAS audits are qualified and competent. (GAGAS 3.79-3.81)				<b>See Auditor's Knowledge and Technical Competence Statement</b>
7. Plan and document work necessary to define audit objectives, scope, and methodology such that work provides reasonable assurance that sufficient, appropriate evidence supports conclusions. (GAGAS 6.06, 6.07, 6.10)				<b>See Planning Checklist</b>
8. Assess audit risk and significance within the context of the audit objectives by gaining an understanding of the following: a) Nature of the program and user needs (GAGAS 6.11a, 6.13) b) Design and implementation of internal controls (GAGAS 6.11b, 6.16) c) Design and effectiveness of information system controls (GAGAS 6.11c, 6.24, 6.27) d) Legal, regulatory, contract, and/or grant agreement provisions, and potential fraud and abuse (GAGAS 6.11d, 6.28, 6.30-6.32, 6.34) e) Impact on ongoing investigation and legal proceedings (GAGAS 6.11e, 6.35) f) Results of previous audits (GAGAS 6.11f, 6.36)				<b>See Planning Checklist</b>

**City of Santa Fe  
Internal Audit Department  
Audit Quality Assurance Checklist**

<b>DESCRIPTION</b>	<b>YES</b>	<b>NO</b>	<b>NA</b>	<b>COMMENTS</b>
9. Identify potential criteria to the extent relevant to the audit objectives. Planning allows auditors to identify potential criteria and sources of evidence, and evaluate whether to use the work of other auditors or experts. (GAGAS 6.12 a-c; 6.37; 6.38; 6.40-6.42)				<b>See Planning Checklist</b>
10. Determine the type and amount of evidence needed to obtain sufficient, appropriate evidence to address the audit objectives. Evaluate whether internal control or other program weaknesses are the cause when auditors conclude that sufficient, appropriate evidence is not available. (GAGAS 6.39)				<b>See Planning Checklist</b>
11. Extend audit procedures when there are indications that fraud or abuse significant to the audit objectives may have occurred; do not interfere with legal proceedings or investigations. (GAGAS 6.32; 6.34-6.35)				<b>See Planning Checklist</b>
12. Assess qualifications and independence of specialists. (6.12d, 6.43-44)				<b>See Auditor's Knowledge and Technical Competence Statement</b>
13. Assign sufficient number of appropriately skilled staff and document work performed by specialists. (GAGAS 6.12d; 6.45-6.46)				<b>See Auditor's Knowledge and Technical Competence Statement</b>
14. Communicate planned testing and reporting to management, those charged with governance and requestors. Document communications. Follow appropriate requirements if audit is terminated before completed. (GAGAS 6.12e; 6.47-6.50)				<b>Engagement Letter</b>
15. Prepare and update a written audit plan. (GAGAS 6.12f; 6.51)				<b>See Planning Checklist</b>
16. Properly supervise staff. Review work performed and document review of work before issuing the audit report. (GAGAS 6.53-6.55, 6.83c)				<b>See Planning Checklist</b>

**City of Santa Fe  
Internal Audit Department  
Audit Quality Assurance Checklist**

<b>DESCRIPTION</b>	<b>YES</b>	<b>NO</b>	<b>NA</b>	<b>COMMENTS</b>
17. Obtain sufficient, appropriate evidence to provide reasonable basis for findings and conclusions. (GAGAS 6.56-6.57)				See Planning Checklist
18. Assess sufficiency and appropriateness of computer-processed information. (GAGAS 6.66)				See Planning Checklist
19. Based on the assessment of the evidence, apply additional procedures, redefine the audit objectives, or revise the findings and conclusions, if necessary. (GAGAS 6.71-6.72)				See Planning Checklist
20. Plan and perform procedures to develop the elements of a finding to address audit objectives and develop recommendations for corrective action. (GAGAS 6.73)				See Planning Checklist
21. Prepare and maintain audit documentation related to planning, conducting, and reporting on the audit to support findings, conclusions, and recommendations before issuing the report. (GAGAS 6.79-6.83)				See Planning Checklist
22. Make appropriate individuals and audit documentation available to other auditors or reviewers upon request, subject to applicable laws and regulations. (GAGAS 6.85)				See Report Checklist
23. Issue audit report, make the report available to the public, unless specifically limited, if audit is terminated, document results of work completed and reason for termination. (GAGAS 7.03-7.04, 7.06)				See Report Checklist
24. If, after the report is issued, auditors discover they did not have sufficient, appropriate evidence, follow appropriate procedures. (GAGAS 7.07)				See Report Checklist
25. Audit reports should contain the objectives, scope, and methodology of the audit and the audit results. (GAGAS 7.08-7.13)				See Report Checklist

**City of Santa Fe  
Internal Audit Department  
Audit Quality Assurance Checklist**

<b>DESCRIPTION</b>	<b>YES</b>	<b>NO</b>	<b>NA</b>	<b>COMMENTS</b>
26. Present sufficient, appropriate evidence to support the findings and conclusions in relation to audit objectives. Describe any evidence limitations and deficiencies in internal control, etc. (GAGAS 7.14-7.18)				See Report Checklist
27. Report scope of work on internal controls and any significant deficiencies found. Refer to separate written communication to officials in audit report. (GAGAS 7.19)				See Report Checklist
28. Report likely fraud, illegal acts, and significant violations of contracts or grant agreements, or significant abuse. (GAGAS 7.21-7.22)				See Report Checklist
29. Report known or likely fraud, illegal acts, violations of contracts or grant agreements, or abuse to any appropriate outside parties. (GAGAS 7.24-7.26)				See Report Checklist
30. Report conclusions based on objectives and findings. (GAGAS 7.27)				See Report Checklist
31. Recommend actions to correct identified problems and to improve programs and operations. (GAGAS 7.28)				See Report Checklist
32. Use the language in GAS 7.30 to cite compliance with GAGAS in report when all applicable requirements are followed, disclose when not followed. (GAGAS 2.23-2.24, 7.08, 7.30-7.31)				See Report Checklist
33. Include a copy of written comments from responsible officials or a summary of written or oral comments. Evaluate the validity of the comments and revise report as necessary. (GAGAS 7.08, 7.32, 7.34-7.35, 7.37-7.38)				See Report Checklist
34. If information is prohibited from public disclosure or excluded from the report due to its confidential or sensitive nature, disclose that certain information has been omitted and the reason for its omission. (GAGAS 7.08, 7.39, 7.42-7.43)				See Report Checklist
35. Submit report to those charged with governance, appropriate officials, and appropriate oversight bodies; document any limitation on report distribution. (GAGAS 7.44)				See Report Checklist

**City of Santa Fe  
Internal Audit Department  
Audit Quality Assurance Checklist**

If completing this checklist identifies any systematic issues related to compliance with *Government Auditing Standards* or audit policies and procedures, then describe those issues and include any recommendations.

**City of Santa Fe  
Internal Audit Department  
Annual Review Monitoring**

WP#

Prepared By:     Date:

Reviewed By:     Date:

### **Annual Review Monitoring**

*Government Auditing Standards* (2011) require:

**“3.95** The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.”

This checklist is intended to guide the annual review, document the review, and summarize the results.

Review:

- ☐ Completed checklists for each performance audit released in the previous year
- ☐ The most recent external peer review report
- ☐ The most recent annual review monitoring summary.

Were any systemic or repeated issues identified? If so, what should be done to strengthen controls to reduce the likelihood of the issues affecting the quality of the audit work?



City of Santa Fe  
Internal Audit Department  
Annual Review Monitoring

Review completed \_\_\_\_\_

**City of Santa Fe  
Internal Audit Department  
REVIEW AND APPROVALS**

**8.0 REVIEW AND APPROVALS:**

**PREPARED BY:** \_\_\_\_\_  
**Liza Kerr, Internal Auditor** **Date**

**REVIEWED BY:** \_\_\_\_\_  
**Audit Committee, Clark de Schweinitz, Chair** **Date**

**APPROVED BY:** \_\_\_\_\_  
**Brian Snyder, City Manager** **Date**

**APPROVED BY:** \_\_\_\_\_  
**Kelley Brennan, Interim City Attorney** **Date**

**EFFECTIVE DATE: JUNE 30, 2014**

**REVISION DATE: JUNE 30, 2014**

City of Santa Fe  
Internal Audit Department  
REVIEW AND APPROVALS

8.0 REVIEW AND APPROVALS:

PREPARED BY: Liza Kerr 6/18/14  
Liza Kerr, Internal Auditor Date

REVIEWED BY: Clark de Schweinitz June 5, 2012  
Audit Committee, Clark de Schweinitz, Chair Date

APPROVED BY: Brian Snyder 07/03/2014  
Brian Snyder, City Manager Date

APPROVED BY: Kelley A. Brennan 6/18/14  
Kelley Brennan, Interim City Attorney Date

EFFECTIVE DATE: JUNE 30, 2014

REVISION DATE: JUNE 30, 2014