



# AGENDA REQUEST

<b><u>AGENDA HEADING:</u></b> Consent Agenda No. 1	<b><u>COMMISSION MEETING DATE:</u></b> November 21, 2016	<b><u>AGENDA ITEM NO:</u></b> IV.A.2.		
<b>BY</b> City Auditor and Clerk <hr/> Originating Department	Pamela M. Nadalini <hr/> Department Head	City Auditor and Clerk Nadalini <hr/> Presenter		
<b><u>SUBJECT:</u></b> Approval Re: Acceptance of the Self-Assessment with External Independent Validation Report for the City's Internal Audit Division of the Office of the City Auditor and Clerk				
<b><u>COMMISSION PRIORITIES:</u></b> Business Requirement				
<b><u>EXPLANATION:</u></b> The Internal Audit Division's FY2016 budget included a budget issue for a external quality assessment. In July 2016, the City Auditor and Clerk engaged the Institute of Internal Auditors (IIA) to perform a Self-Assessment with External Independent Validation. The Independent Validator arrived on-site in October and performed a review and testing, and conducted interviews with several individuals. Provided in the backup material is the final report, provided by the IIA, which indicates an overall opinion of "Generally Conforms" with the Standards and Code of Ethics, which is the highest attainable rating.				
<b><u>ADMINISTRATION'S RECOMMENDATION:</u></b> Motion to accept the Self-Assessment with External Independent Validation Report, as presented.				
<b><u>APPROVAL SUMMARY:</u></b>				
<b>Approval</b> City Auditor and Clerk Approval	<b>Required</b> Y	<b>Date Completed</b> 11/14/2016	<b>Completed By</b> Pamela Nadalini	<b>Status</b> APPROVED



# AGENDA REQUEST

**ADDITIONAL EXPLANATION:**

**ADDITIONAL ADMIN RECOMMENDATION:**

**FUNDING SOURCE:**

**AMOUNT:**

**HOUSING IMPACT (Per House):**

**NEW CONSTRUCTION:**

**REHABILITATION:**

\$ 0

\$ 0

**SUPPORT DEPARTMENTS:**

-

## AGENDA DISPOSITION

**COMMISSION ACTION:**

Final Action Motion: \_\_\_\_\_

Motion By: \_\_\_\_\_ Second By: \_\_\_\_\_

Vote: \_\_\_\_\_



Date: November 14, 2016

To: Mayor Willie Charles Shaw  
Vice Mayor Shelli Freeland Eddie  
Commissioner Liz Alpert  
Commissioner Susanne Atwell  
Commissioner Susan Chapman

From: Pamela M. Nadalini, MBA, BBA, CMC,  
City Auditor and Clerk/Chief Audit Executive

Subject: Internal Audit Quality Assessment Final Report

Attached, please find the final report of the quality assessment of the City of Sarasota's Internal Audit Division. I am pleased to report that Internal Audit has received an overall rating of "Generally Conforms," which is the highest of the three ratings that may be assigned by The Institute of Internal Auditors when evaluating conformance with the International Standards for the Professional Practice of Internal Auditing.

The report outlines one observation/recommendation pertaining to the Quality Assurance and Improvement Program (QAIP), which consists of ensuring the performance of periodic internal assessments, as well as external assessments at least once every five years, in accordance with Standards 1311 and 1312. We agree with the recommendation and will work to enhance our QAIP.

It was a pleasure to work with The Institute of Internal Auditors on our first quality assessment, which proved to be a great learning experience. I would like to extend my appreciation to all members of the City of Sarasota who participated in the process and look forward to maintaining a quality high audit program in the future.

Please do not hesitate to contact me with any questions or if I may be of further assistance.

c: Charter Officials  
Internal Audit Division  
File

# **Self-Assessment with External Independent Validation**

**City of Sarasota Internal  
Audit Activity**

**November 2016**

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## EXECUTIVE SUMMARY

The self-assessment team conducted a quality assessment of the Internal Audit activity of the City of Sarasota (The City) in preparation for validation by an independent assessor. The principal objectives of the quality assessment were to assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate the internal audit activity's effectiveness in carrying out its mission (as expressed in the expectations of the City's management), and identify opportunities to enhance its management and work processes, as well as its value to the City.

The Internal Audit function for the City of Sarasota is considered the oldest municipal internal audit function in Florida, dating back to 1950. The City Auditor and Clerk (CAC) is a Charter Official of the City and serves various roles, including as the Chief Audit Executive (CAE). The internal audit function operates under the authority of the City Charter. The current CAE is Pamela Nadalini, who was appointed as CAC on February 25, 2010. Over most of the last 10 years the internal audit function has consisted of a Manager, Internal Audit and a Senior Internal Auditor (2nd Senior Internal Auditor added in October 2013). Internal Audit's mission is to perform independent and objective assurance and consulting services that provide management with accurate, valuable and appropriate evaluations and recommendations that will assist the City in utilizing public resources in a manner that is equitable, efficient, and effective.

## OPINION AS TO CONFORMANCE WITH THE *STANDARDS*

**It is our opinion that the internal audit activity generally conforms with the *Standards* and the Code of Ethics.** For a detailed list of conformance with individual *Standards*, please see attachment A. The Institute of Internal Auditors Independent Validators Statement, which expresses agreement with our opinion, is included as Attachment B to this report. The quality assessment team identified opportunities for further improvement, details of which are provided in this report.

The IIA's *Quality Assessment Manual* suggests a scale of three ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform." "Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

## SCOPE AND METHODOLOGY

As part of the preparation for the quality assessment, the internal audit activity prepared an advanced preparation document with detailed information and had surveys sent out to its commissioners, staff, charter officials and the City's management. A summary of the survey results (without identifying the individual survey respondents) has been furnished to the internal audit activity. Before commencement of the onsite work by the Independent Assessor on October 24, 2016, the Assessor conducted a preliminary meeting with the City's Internal Audit Division to gather additional background information, select executives for interviews during the onsite fieldwork, and finalize planning and administrative arrangements for the quality assessment. In addition to extensive interviews with the City's commissioners, executives (including heads of operating and support divisions), internal audit activity staff, were also interviewed. The internal audit activity's risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the internal audit activity's workpapers and reports were also reviewed.

## RECOMMENDATIONS AND OBSERVATIONS: SUMMARY

The internal audit activity environment is well structured and progressive where the *Standards* are understood, and management is endeavoring to provide useful audit tools and implement appropriate practices. Some successful practices are: automated software, frequent

professional training for Internal Audit staff, training directed at obtaining CIA designation and strong working relationship with auditees.

Consequently, our comments and recommendations are intended to build on this foundation already in place in the internal audit activity.

Recommendations and observations are divided into three groups:

- Recommendations that relate to the internal audit activity's structure, staffing, deployment of resources, and similar matters that should be implemented within the internal audit activity, with support from senior management.
- Observations that recognize best practices employed by the internal audit activity leading to a level of performance beyond generally conforming to the mandatory guidance of The IIA's International Professional Practices Framework (IPPF).
- Observations of process improvement opportunities for the internal audit activity to consider in its continuous improvement efforts. These do not indicate a lack of conformance to mandatory guidance of the IPPF. They are offered as suggestions for the continued growth of the internal audit activity's successful internal audit practice.

Highlights of the more significant recommendations and observations are summarized below, with detailed descriptions following later in the report.

## **PART I—RECOMMENDATIONS FOR THE INTERNAL AUDIT ACTIVITY**

1. Ensure periodic internal and external assessments are conducted as part of the internal audit activity's Quality Assurance and Improvement Program (QAIP) (Standard 1312).

## **PART II—OBSERVATIONS OF BEST PRACTICES**

1. The internal audit activity develops and documents a plan for each engagement based on preliminary assessment of risks relevant to the area being reviewed (including the

probability of fraud), and engagement objectives reflect the results of the risk assessment.

### **PART III—OBSERVATIONS OF PROCESS IMPROVEMENT OPPORTUNITIES**

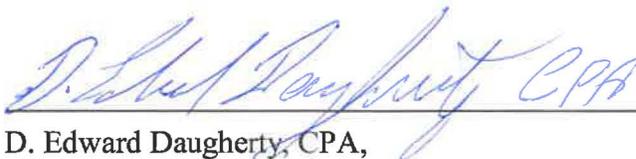
1. Internal Audit staff should consider enhancing use of computer-assisted audit techniques (CAATs) to assist with streamlining the audit processes. The Internal Audit Division is not currently fully utilizing CAATs to generate and analyze test data.
2. Survey respondents indicated that they either didn't agree or didn't know about Internal Audit objectivity or that the Division has Standards and a Code of Ethics that are followed.

Thank you for the opportunity to be of service to the City. We will be pleased to respond to further questions concerning this report and furnish any desired information.



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Pamela M. Nadalini, MBA, BBA, CMC,  
Chief Audit Executive and City Auditor and Clerk, City of Sarasota



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D. Edward Daugherty, CPA,  
Internal Audit Manager, City of Sarasota

# RECOMMENDATIONS AND OBSERVATIONS: DETAILS

## PART I— RECOMMENDATIONS FOR THE INTERNAL AUDIT ACTIVITY

### 1. Establish Procedures to Perform Periodic Internal Assessments

*Standard 1311 requires periodic internal assessments that include both ongoing monitoring and periodic review as part of the internal audit activity's Quality Assurance and Improvement Program (QAIP).* While ongoing monitoring of the internal audit activities is considered adequate, there are no procedures in place for performing periodic internal assessments as required by Standard 1311. In addition, the internal audit activity has not had external assessments at least once every five years (Standard 1312) in the past. The results of these assessments should be reported to senior management and the board (Standard 1320).

#### ***Recommendation***

Ensure periodic internal assessments are conducted as part of the internal audit activity's QAIP. These assessments should address conformance with Attribute and Performance Standards, the Definition of Internal Auditing, and the Code of Ethics. The results of the QAIP, including both internal and external assessments, should be reported to senior management and the board.

#### ***Internal Audit Response***

Agreed. Although we believe that Internal Audit's resources are used effectively and efficiently, there is room for improvement in both areas. Internal Audit will ensure periodic internal assessments are conducted and adequately documented. The Chief Audit Executive will provide the results of the QAIP, both of the internal and external assessments to senior management and the board.

## **PART II—OBSERVATIONS OF BEST PRACTICES**

### **1. Engagement Planning**

The internal audit activity develops and documents a plan for each engagement based on preliminary assessment of risks relevant to the area being reviewed (including the probability of fraud). The Committee of Sponsoring Organizations (COSO) framework is included as part of the guidelines for evaluation during the internal audit planning stage and is also reevaluated after completion of audit fieldwork. Additionally, engagement objectives properly reflect the results of the risk assessment.

## **PART III—OBSERVATIONS OF PROCESS IMPROVEMENT OPPORTUNITIES**

### **1. Increase Use of Computer-assisted Audit Techniques for Continuous Auditing**

Internal Audit currently uses computer-assisted audit techniques with regards to electronic workpaper software. Internal Audit also has ACL; however it is not being utilized to its full potential at this time. There are opportunities to expand knowledge of these techniques which may offer an opportunity to develop continuous auditing routines in which testing is performed periodically or on an ongoing basis rather than only during an audit project. Continuous auditing routines have the ability to improve the Internal Audit Division's monitoring of risks and controls and can be shared with management to be used for self-assessment.

### **2. Stakeholder Education**

Based upon the survey results received from stakeholders, the internal audit activity should identify opportunities to provide information regarding Internal Audit's value within the organization and to promote appropriate ethics-related programs.

# ATTACHMENT A

## City of Sarasota

### Quality Assessment Evaluation Summary

(GC = Generally Conforms, PC = Partially Conforms, DNC = Does Not Conform)

Quality Assessment Evaluation Summary—Overall Evaluation	GC	PC	DNC
<b>OVERALL EVALUATION</b>	X		

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	X		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the <i>Standards</i> in the Internal Audit Charter	X		
<b>1100</b>	<b>Independence and Objectivity</b>	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>		X	

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
1310	Requirements of the Quality Assurance and Improvement Program		X	
1311	Internal Assessments		X	
1312	External Assessments - N/A			
1320	Reporting on the Quality Assurance and Improvement Program		X	
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”		X	
1322	Disclosure of Nonconformance	X		
<b>2000</b>	<b>Managing the Internal Audit Activity</b>	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing -N/A			
<b>2100</b>	<b>Nature of Work</b>	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
<b>2200</b>	<b>Engagement Planning</b>	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation - N/A			
2240	Engagement Work Program	X		
<b>2300</b>	<b>Performing the Engagement</b>	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
<b>2400</b>	<b>Communicating Results</b>	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of “Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> ” -N/A			
2431	Engagement Disclosure of Nonconformance -N/A			
2440	Disseminating Results	X		
2450	Overall Opinions	X		

Quality Assessment Evaluation Summary—Major/Supporting Standards		GC	PC	DNC
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		
	The IIA's Code of Ethics	X		

## RATING DEFINITIONS

**“Generally Conforms”** means the assessor has concluded the following:

- For individual standards, that the internal audit activity conforms to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or elements of the Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual standards and/or elements of the Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

**“Partially Conforms”** means the assessor has concluded the following:

- For individual standards, the internal audit activity is making good faith efforts to conform to the requirements of the standard (e.g., 1000, 1010, 2000, 2010, etc.) or element of the Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (e.g., 1000,

1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.

- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

**“Does Not Conform”** means the assessor has concluded the following:

- For individual standards, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the standard (e.g., 1000, 1010, 2000, 2010, etc.) and/or elements of the Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (e.g., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual standards within the section/category and/or elements of the Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.



The Validator was engaged to conduct an independent validation of the City of Sarasota internal audit (IA) activity's self-assessment. The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the IA activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*. Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive (CAE).

In acting as Validator, I am fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted from Sarasota, FL, consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with the Mayor and one other elected member of the city commission. We also interviewed the City Manager and two audit clients to determine the quality of working relationships between the Auditor and Clerk and the operating managers in the city.

We concur with the IA activity's conclusions in the self-assessment report attached. Implementation of all the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the IA activity and ensure its full conformity to the *Standards*.

Donald E. Kirkendall, CIA  
Independent Validator  
IIA Quality Services, LLC

Joyce Vassiliou, CIA, CRMA, CCSA  
Vice President, Governance  
IIA Quality Services, LLC