City of El Paso

Internal Audit Current State, Maturity, and Needs Assessment – *Preliminary Results*

June 2025

Table of Contents

1. Approach and Procedures

2. Maturity Model and Scale

3. Preliminary Summary of Results

4. Results Overview

5. Engagement Team

Engagement Scope and Approach

The **scope** of the engagement was to assess the current structure, organization, roles, responsibilities, and practices implemented within the City's Internal Audit Department and coordinating activities to determine if they reflect best practices and have the tools, resources, and capabilities to address the needs of the City.

To effectively assess the scope, Weaver utilized a **customized** maturity model for the City of El Paso to **benchmark** current practices, which was informed by:
- Capability Maturity Model Framework (CMM)
- International Professional Practices Framework (IPPF) / Global Audit Standards
- Generally Accepted Government Auditing Standards (GAGAS)
- COSO Integrated Risk Management Framework

While El Paso's IA function has demonstrated necessary alignment with the above audit standards via required peer reviews, this assessment focused on the **current maturity level** of the City's Internal Audit function to provide a clear **roadmap** to support both **short** and **long-term** improvement initiatives aligned with leading internal audit practices.

Management

Strategy | Goals & Objectives | Policies & Procedures | Appetites & Thresholds

Business

Engagement Procedures

Our assessment involved a comprehensive review of the Internal Audit function, including:

1. **Evaluation against Standards**
   Evaluated the Internal Audit program against IIA Global Internal Audit Standards, the IPPF, GAGAS requirements, and recognized best practices across:
   - **5 Key Elements**:
     - A. Ethics, independence, and professional judgment
     - B. Governance over the IA Function
     - C. Management of the IA Function
     - D. Engagement Level Planning and Execution
     - E. Communication, Reporting, and Monitoring
   - **14 Components**
   - **55 Evaluation Criteria**

2. **Stakeholder Engagement and Future-State Alignment**
   Conducted document reviews and interviews with City management, the Mayor, Councilmembers, the Chief Audit Executive and Internal Audit managers, and other stakeholders to obtain insight on the current roles, responsibilities, function and collaboration with the IA Department and to establish a target maturity level aligned with future goals.

3. **Peer Review Analysis and Benchmarking**
   Reviewed prior IA peer review results and supporting documentation to identify sufficiency of current practices and procedures against IIA and GAGAS standards. Sought additional recommendations and best practices for IA optimization from comparable peer audit functions

4. **Workpaper Sampling**
   Sampled Internal Audit engagement files, including planning, analysis, review, and reporting documentation, to determine the level of support for each sampled report.

5. **Policy and Procedure Review**
   Assessed Internal Audit policies, manuals, procedural guides, and directives including internal audit staff training plans and requirements.

6. **Risk Assessment Process Review**
   Performed a detailed review of the IA function's risk assessment methodology and tools that are utilized to develop the internal audit plan.
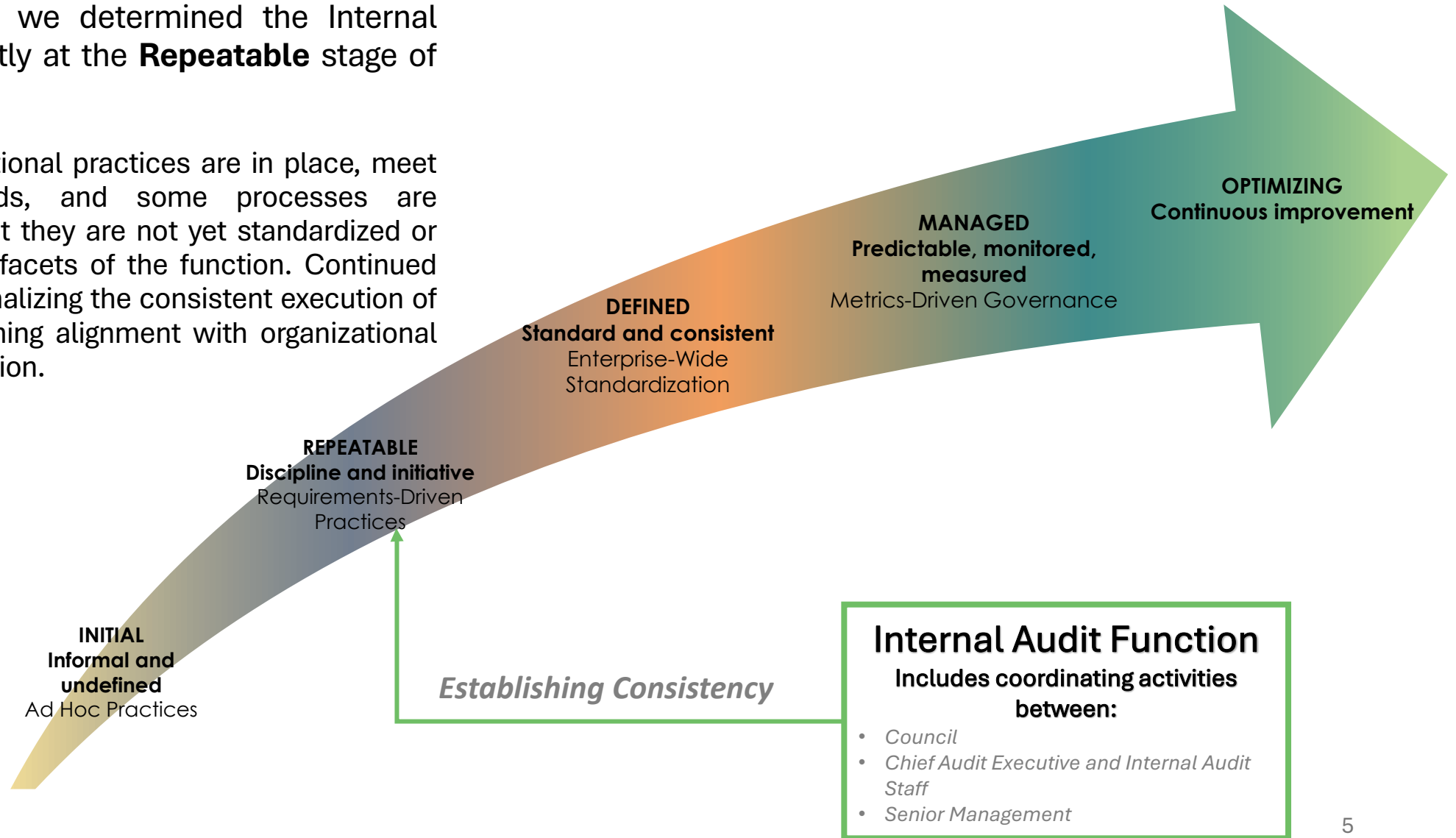
7. **IA Charter Review**
   Evaluated the Internal Audit Charter for alignment with professional standards and current organizational expectations.

Current State Maturity Assessment

From our assessment, we determined the Internal Audit function is currently at the **Repeatable** stage of maturity.
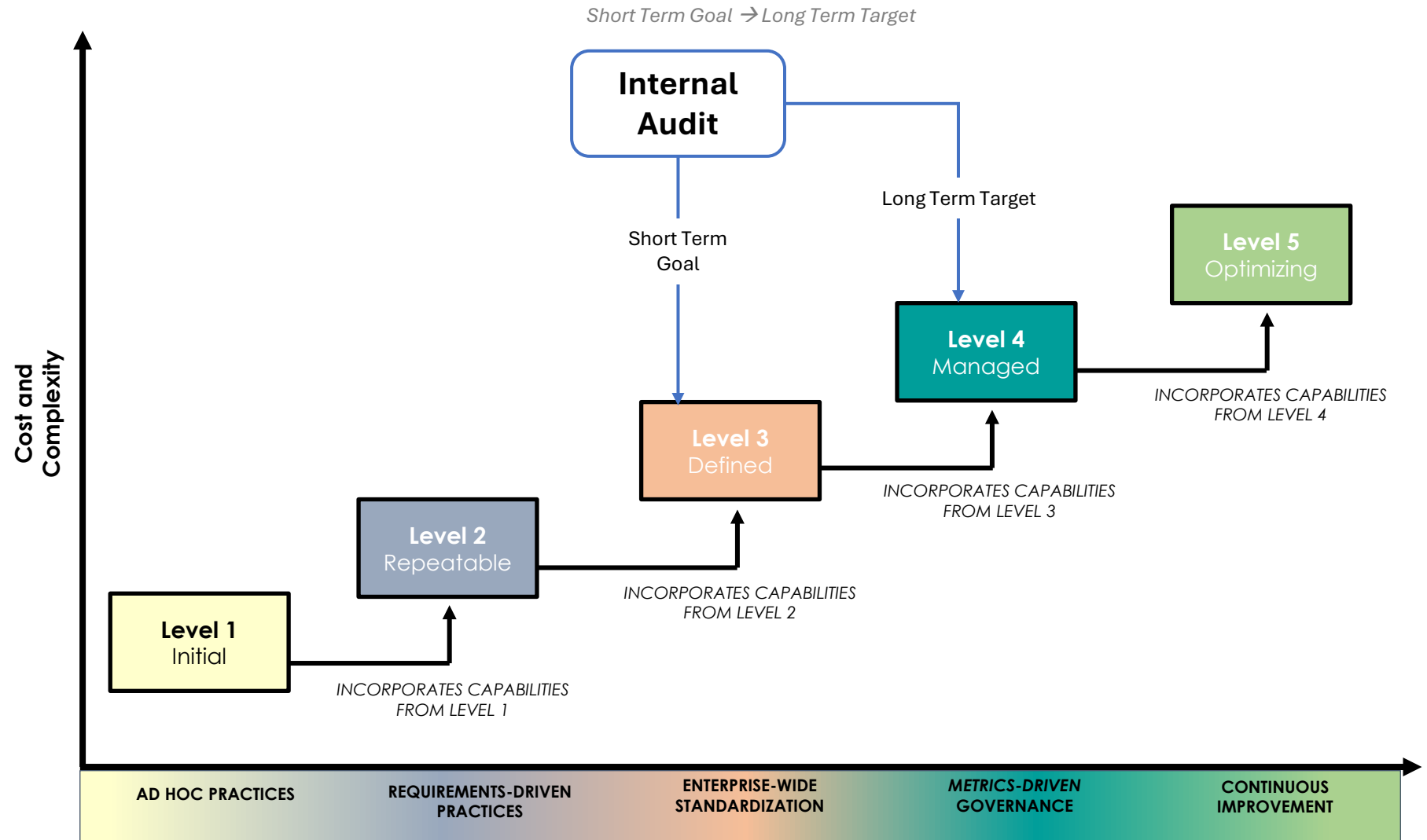
This indicates that foundational practices are in place, meet minimum audit standards, and some processes are performed consistently, but they are not yet standardized or fully integrated across all facets of the function. Continued progress will focus on formalizing the consistent execution of procedures and strengthening alignment with organizational objectives, strategy, and vision.

INITIAL
Informal and undefined
Ad Hoc Practices

REPEATABLE
Discipline and initiative
Requirements-Driven Practices

DEFINED
Standard and consistent
Enterprise-Wide Standardization

MANAGED
Predictable, monitored, measured
Metrics-Driven Governance

OPTIMIZING
Continuous improvement

Establishing Consistency

Internal Audit Function
Includes coordinating activities between:

- *Council*
- *Chief Audit Executive and Internal Audit Staff*
- *Senior Management*

Internal Audit Maturity Goals

Organizations should expect that moving from each level of maturity includes additional components of:
- Cost
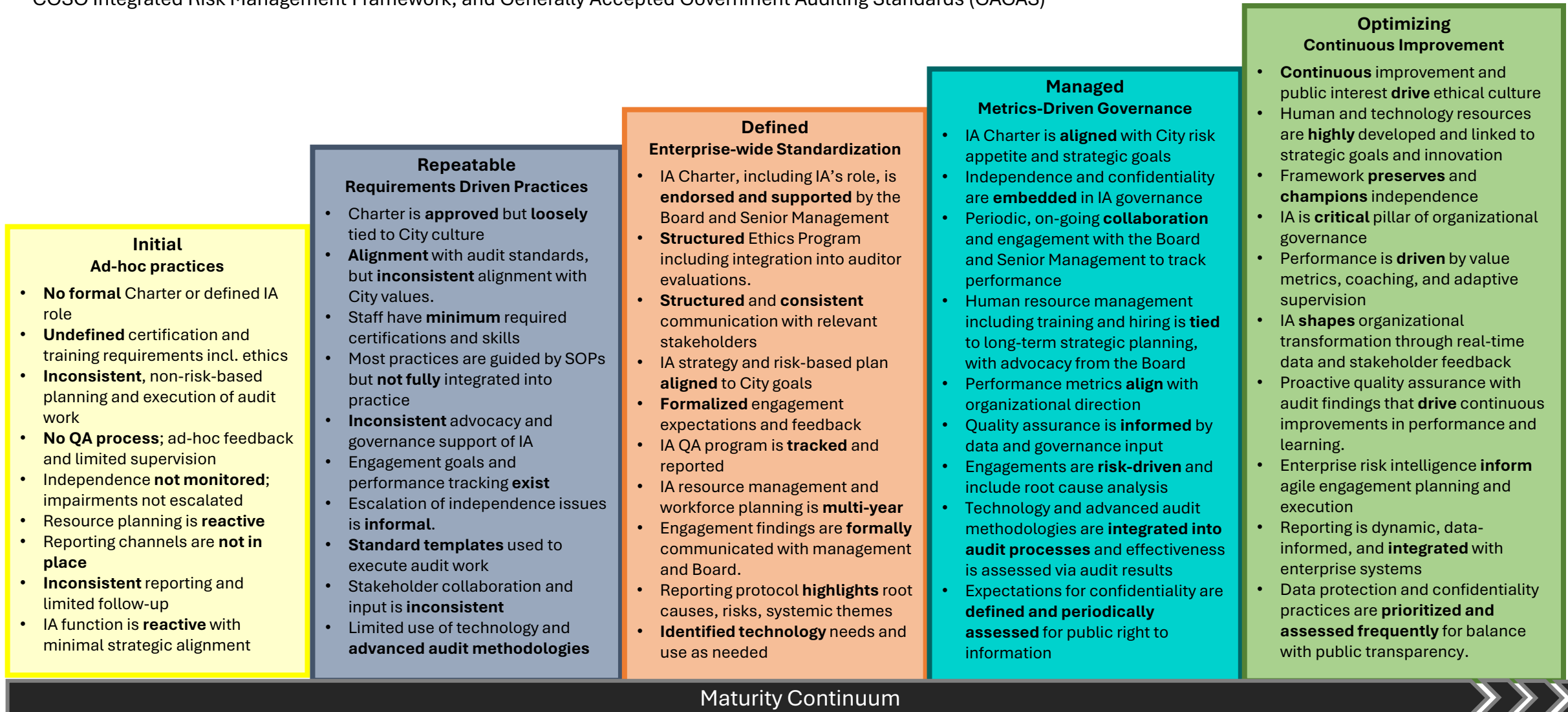- Complexity
- Advanced Business Practices

Short Term Goal → Long Term Target

Internal Audit

Short Term Goal

Long Term Target

Level 5 Optimizing

Level 4 Managed

INCORPORATES CAPABILITIES FROM LEVEL 4

Level 3 Defined

INCORPORATES CAPABILITIES FROM LEVEL 3

Level 2 Repeatable

INCORPORATES CAPABILITIES FROM LEVEL 2

Level 1 Initial

INCORPORATES CAPABILITIES FROM LEVEL 1

Cost and Complexity

| AD HOC PRACTICES | REQUIREMENTS-DRIVEN PRACTICES | ENTERPRISE-WIDE STANDARDIZATION | METRICS-DRIVEN GOVERNANCE | CONTINUOUS IMPROVEMENT |

Internal Audit Maturity Scales

The below scale provides the definitions used in the Internal Audit Assessment for the City of El Paso. It is modeled using the IIA Global Internal Audit Standards framework, COSO Integrated Risk Management Framework, and Generally Accepted Government Auditing Standards (GAGAS)

Initial
Ad-hoc practices

- **No formal** Charter or defined IA role
- **Undefined** certification and training requirements incl. ethics
- **Inconsistent**, non-risk-based planning and execution of audit work
- **No QA process**; ad-hoc feedback and limited supervision
- Independence **not monitored**; impairments not escalated
- Resource planning is **reactive**
- Reporting channels are **not in place**
- **Inconsistent** reporting and limited follow-up
- IA function is **reactive** with minimal strategic alignment

Repeatable
Requirements Driven Practices

- Charter is **approved** but **loosely** tied to City culture
- **Alignment** with audit standards, but **inconsistent** alignment with City values.
- Staff have **minimum** required certifications and skills
- Most practices are guided by SOPs but **not fully** integrated into practice
- **Inconsistent** advocacy and governance support of IA
- Engagement goals and performance tracking **exist**
- Escalation of independence issues is **informal**.
- **Standard templates** used to execute audit work
- Stakeholder collaboration and input is **inconsistent**
- Limited use of technology and **advanced audit methodologies**

Defined
Enterprise-wide Standardization

- IA Charter, including IA's role, is **endorsed and supported** by the Board and Senior Management
- **Structured** Ethics Program including integration into auditor evaluations.
- **Structured** and **consistent** communication with relevant stakeholders
- IA strategy and risk-based plan **aligned** to City goals
- **Formalized** engagement expectations and feedback
- IA QA program is **tracked** and reported
- IA resource management and workforce planning is **multi-year**
- Engagement findings are **formally** communicated with management and Board.
- Reporting protocol **highlights** root causes, risks, systemic themes
- **Identified technology** needs and use as needed

Managed
Metrics-Driven Governance

- IA Charter is **aligned** with City risk appetite and strategic goals
- Independence and confidentiality are **embedded** in IA governance
- Periodic, on-going **collaboration** and engagement with the Board and Senior Management to track performance
- Human resource management including training and hiring is **tied** to long-term strategic planning, with advocacy from the Board
- Performance metrics **align** with organizational direction
- Quality assurance is **informed** by data and governance input
- Engagements are **risk-driven** and include root cause analysis
- Technology and advanced audit methodologies are **integrated into audit processes** and effectiveness is assessed via audit results
- Expectations for confidentiality are **defined and periodically assessed** for public right to information

Optimizing
Continuous Improvement

- **Continuous** improvement and public interest **drive** ethical culture
- Human and technology resources are **highly** developed and linked to strategic goals and innovation
- Framework **preserves** and **champions** independence
- IA is **critical** pillar of organizational governance
- Performance is **driven** by value metrics, coaching, and adaptive supervision
- IA **shapes** organizational transformation through real-time data and stakeholder feedback
- Proactive quality assurance with audit findings that **drive** continuous improvements in performance and learning.
- Enterprise risk intelligence **inform** agile engagement planning and execution
- Reporting is dynamic, data-informed, and **integrated** with enterprise systems
- Data protection and confidentiality practices are **prioritized and assessed frequently** for balance with public transparency.

Maturity Continuum

Internal Audit Maturity Model

Elements and Components

The Maturity Assessment for the City of El Paso's Internal Audit function was based on both the Institute of Internal Auditors' International Professional Practices Framework (IPPF)/Global Internal Audit Standards and the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards (GAGAS). These frameworks are principle-focused and provide a comprehensive foundation for performing, promoting, and continuously improving internal auditing in the public sector.

ELEMENTS						
Ethics, Independence, and Professional Judgment			Governance over the Internal Audit Function		Management of the Internal Audit Function	
COMPONENTS						
Ethics and Integrity	Internal Audit Professionalism	Structural Independence and Objectivity	Internal Audit Mandate	Authorization and Oversight of IA	Performance Management	Strategic and Organizational Alignment	Quality Management
CRITERIA						
Ethics Training Program	Professional Certifications	Audit Reporting Structure and Positioning	IA Mandate	Board oversight and monitoring	Engagement objectives and performance goals	IA Strategy	Defined QA Program and Objectives
Alignment to Organizational Ethics Objectives	Technical Competencies	Auditor Qualifications and Requirements	IA Charter	Resource and budget governance	Engagement-level supervision	Strategic Alignment with Organizational Priorities	External Assessments
IA Contribution to Ethical Expectations	Confidentiality of Information	Independence Considerations for Nonaudit Services	Board and Senior Management Support	IA role within the organizational strategy	Feedback and Improvement Communication	Methodology-Driven Execution	Internal Assessments
Stakeholder Feedback on Ethical Standards	Public Transparency	Board Communication and Interaction				Audit Plan Integration with Strategy	Alignment of QA Results to Drive Improvement
Ethics-Related Auditor Performance Evaluation		Management Communication and Interaction					

Internal Audit Maturity Model *(cont.)*

ELEMENTS					
Engagement Level Planning and Execution					**Communication, Reporting, and Monitoring**
COMPONENTS					
Engagement Independence and Individual Objectivity	**Engagement Planning and Alignment**	**Engagement Resource Management**	**Engagement Execution and Findings**	**Technology**	**Communicate Engagement Results and Monitor Action Plans**
CRITERIA					
Policies and Individual Independence Framework	Pre-engagement information gathering	IA Resourcing Strategy	Gathering Audit Evidence and Analysis	Technological Resource Management	Communication of audit results
Independence Risk Awareness	Engagement objectives and scope	IA Financial Budget	Documentation and Workpapers	Technology Strategic Alignment	Reporting format
Impairment Recognition and Documentation	Evaluation Criteria	IA Hunan Resource Management	Developing Findings	Collaboration with Technology stakeholders	Value of Audit Results
Applying safeguards	Structured, Risk-Informed Engagement Plan and Work Programs		Audit Recommendations and Action Plans	Technology Fluency	Recommendations, Action plans, and monitoring
					Reporting disclosures and limitations

Summary of Preliminary Results

Weaver's assessment over the City of El Paso's Internal Audit (IA or 'the function') function indicated that the function is operating at the '**Repeatable**' level with some progress into **'Defined'**. This is consistent with the expectations and understanding shared by City of El Paso stakeholders at the initiation of this review.

The Core Themes:

1. Stakeholder Engagement, Communication, and Collaboration

- Enhanced, ongoing communication with governance and management stakeholders is critical to reinforcing Internal Audit's role as a **trusted, collaborative advisor**. There is an opportunity to strengthen how and when stakeholders (especially the FOAC and senior management) are engaged, ensuring **alignment on roles, responsibilities, expectations**, and **feedback** throughout the audit lifecycle. A mutual understanding of these roles will support objectivity, transparency, and responsiveness, while enabling the delivery of timely, relevant, and strategic insights.

2. Strategic Alignment of Audit Outcomes

- Internal Audit should **strengthen the alignment** of engagement objectives and outcomes with the **City's strategic goals** and key risks to ensure that audit work **supports decision-making** and **drives measurable improvement**. Audit reports should be clear, **consistently formatted**, and **tailored to stakeholder needs**. Current risk assessment results and the audit plan are not fully aligned, which may limit the function's ability to address the most critical areas.

3. Performance Measurement and Accountability

- Establishing a structured approach to **evaluating performance** for both IA staff and leadership may help reinforce **alignment with the City's goals** and internal audit standards.
- Establishing technical, ethical, and behavioral **competencies** into evaluations could support **continuous development** and clarity around expectations. There is an opportunity to strengthen the broader understanding of how Internal Audit's performance is measured to enhance **accountability** to those tasked with governance.

The Core Themes:

4. Transparency of Procedures
- Internal audit processes may benefit from **increased visibility**, particularly around risk assessment and engagement selection. **Involving management** more formally in planning discussions, **soliciting on-going feedback**, and aligning audit recommendations with organizational priorities will improve **responsiveness** and **agility** of audit work, while supporting **stronger connections** between enterprise risk and individual engagements.

5. Technology and Resource Enablement
- There is an opportunity to **modernize audit execution**, reporting, and collaboration through more **effective use of technology**. Transitioning from manual and paper-based processes to **electronic tools**, expanding data analysis capabilities, **integrating technology** into daily workflows, and assessing staff's **technological proficiency** may help Internal Audit operate more efficiently, avoid potential loss and destruction of audit work products, and position the function as a modern, forward-looking function.

6. Strengthening Public Trust and Visibility
- Internal Audit is a key part of the **City's governance structure**, supporting transparency, accountability, and public value. While the City emphasizes **public trust** and meaningful outcomes, there is a disconnect between stakeholders' perceptions of **Internal Audit's role**. Clarifying this role, as both an **assurance provider** and a contributor to **public outcomes**, can help realign expectations. Enhancing transparency in audit planning, prioritization, and reporting, while preserving confidentiality, will reinforce Internal Audit's credibility and role in **safeguarding the City's integrity.**

Summary of Preliminary Results (cont.)

The Core Themes:

|	Undefined Elements	Summary Action Points
1. Stakeholder Engagement, Communication, and Collaboration	• Clear role/responsibility definitions between IA, FOAC, and Senior Management • Inconsistent stakeholder engagement • Limited two-way communication and feedback loops	• Establish clear communication guidelines that define stakeholder responsibilities under what capacity (who/what/when) • Establish structured feedback mechanisms that include follow up procedures to ensure accountability
2. Strategic Alignment of Audit Outcomes	• Misalignment of audit planning procedures, audit objectives, and City strategic goals • Inconsistent reporting mechanisms to Council and City management • Outcome-based performance indicators	• Establish a consistent methodology to align the audit plan with City strategic initiatives and key risk areas. The Risk Assessment process should be transparent, well understood by stakeholders, and document clear linkage to City risks. • In coordination with council and city management, establish agreed upon content and mechanism for reporting audit results, both at the engagement level and governance level. This includes performance indicators to report on Internal Audit status and effectiveness.
3. Performance Measurement and Accountability	• Holistic performance evaluation framework for IA function and CAE • Visibility over audit procedures	• Develop and implement a performance evaluation system aligned with IIA standards to identify, assess, and track effectiveness of the IA function. Performance criteria should include technical, ethical, and behavioral competencies in alignment with City culture and objectives.
4. Transparency of Procedures	• Limited visibility into how audit objectives are selected and prioritized • Minimal or inconsistent involvement and feedback opportunities for management in engagement planning, execution, reporting, and development of action plans	• Facilitate internal communication protocols to understand IA procedures and solicit involvement – this may be in the form of educational resources, delivered on an on-going basis to management and City departments.
5. Technology and Resource Enablement	• Heavy reliance on manual processes including physical documentation and sign-offs on audit work papers • Underutilization of how data analytics are used to inform risk and audit methodologies • Limited use of data visualization to communicate audit results	• Conduct an analysis over technological resources to identify and address gaps in resource utilization. • Convert manual and paper processes to electronic versions through the use of existing tools and resources • Explore audit workpaper tools to convert all audit procedures and practices to electronic formats for proper security, retention, availability.
6. Strengthening Public Trust and Visibility	• Misalignment between internal view of IA role and public perception • Inconsistent understanding and communication regarding IA's purpose and value within the City, and to external constituents • Misbalance between confidentiality and transparency	• Clarification of IA's dual role as assurance provider, trusted advisor, and contributor to public outcomes • Unified communication and understanding of the need to balance confidentiality and transparency through collaboration and dialogue within the City regarding IA's role and mandate

Overall Maturity Achievement

The graphic highlights the current overall status of the Internal Audit Function across each of the assessment Elements.

Furthermore, the image depicts the level of progress toward achieving the **next highest maturity level** for each component.
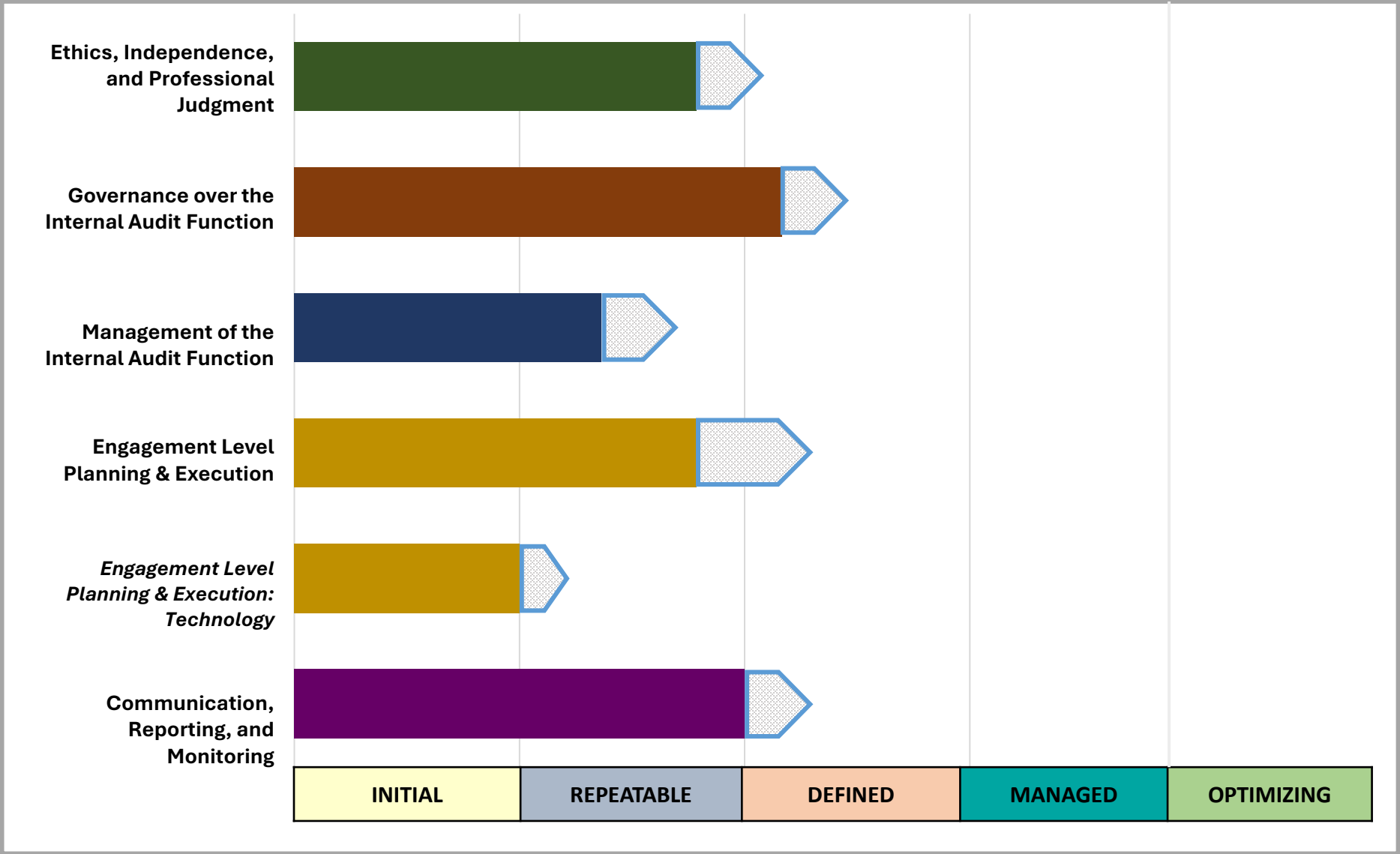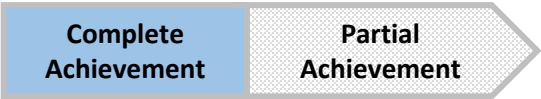
Overall Maturity Achievement
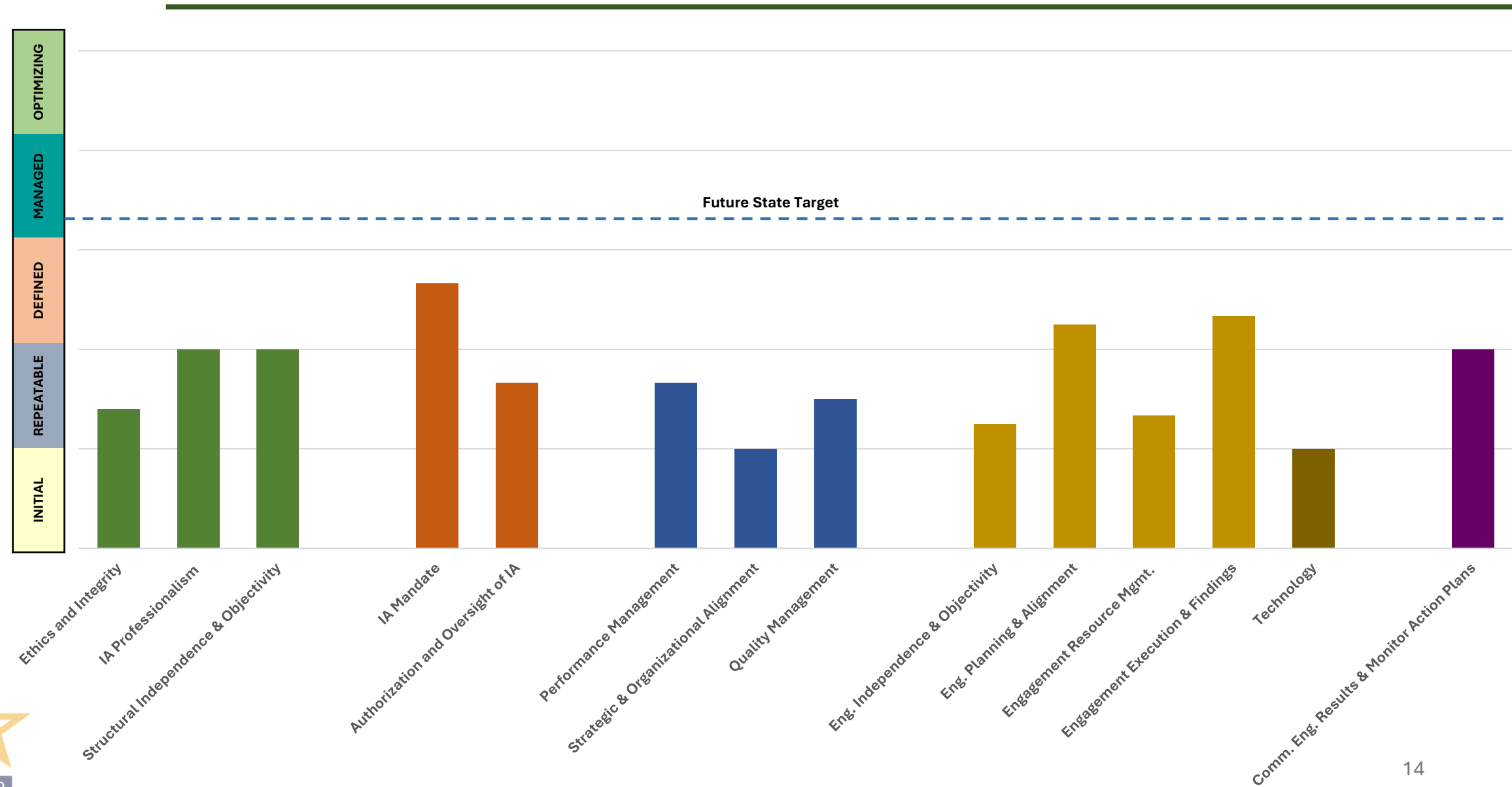
Next Steps

Following this meeting and consideration of feedback received, Weaver will:

- **Finalize detailed action steps at the <u>component level</u>**
  This includes short term and long-term actions steps for desired maturity and optimization in the following areas:

Ethics, Independence, and Professional Judgement	Governance Over the IA Function	Management of the IA Function	**Engagement Level Planning and Execution**	Communication, Reporting, & Monitoring
•Ethics & Integrity •Internal Audit Professionalism •Structural Independence & Objectivity	•IA Mandate •Authorization and Oversight of IA	•Performance Management •Strategic Oversight and Alignment •Quality Management	•Engagement Independence & Individual Objectivity •Engagement Planning & Alignment •Engagement Resource Management •Engagement Execution & Findings •Technology	•Communicate Engagement Results and Monitor Action Plans

- **Present summary of final report to the City Council on June 23, 2025**

- **Provide detailed _final report_ for the City of El Paso Internal Audit Current State, Maturity, and Needs Assessment on June 23, 2025**
  This includes the detailed road map to achieving short- and long-term desired maturity level for the IA function

Questions

Engagement Team

Brandon Tanous, CIA, CFE, CGAP, CRMA
Engagement Partner

Holly Hart, CPA, CIA
Senior Manager

Chelsea Wong, CIA
Senior Associate

Diana Esquivel
Associate

Appendix A: Internal Audit Current State & Future Targets

This section presents the expanded summary level results of the Internal Audit maturity assessment, focusing on both:

1. **Current State Results**, and
2. **Future State Targets** aligned to leading practices and stakeholder expectations.

NOTE: these results are not inclusive of all detailed results for each component of the maturity model analyzed. These results will be included in the final detailed report.

Objectives:

Ensure **future state** considerations are accurate, contextually appropriate, and aligned with the City's evolving governance, oversight, and operational needs to support risk-aligned improvements. Goals were developed using input from the City Mayor, Council Members, FOAC, City Manager, City Attorney, CFO, and CAE. Stakeholder insights were synthesized with El Paso's organizational context and peer city comparisons to define practical, forward-looking targets.

The City has undergone **several developments** in leadership and culture, including:

- Appointment of a new FOAC Chair and committee members
- Transition in Mayoral leadership
- Initial progress in reestablishing communication channels and clarifying collaboration expectations across stakeholders

These developments represent **critical momentum** for **initiating change** and should be reflected in the City's approach to adopting the results and recommendations.

Additional context or priority areas identified through ongoing stakeholder engagement will be incorporated to ensure recommendations remain aligned, practical, and actionable.

A. Ethics, Independence, and Professional Judgment

Criteria

IIA Standards:
- ☐ IIA Principle 1: Demonstrate Integrity
- ☐ IIA Principle 3: Demonstrate Competency
- ☐ IIA Principle 4: Exercise Due Professional Care
- ☐ IIA Principle 5: Maintain confidentiality
- ☐ IIA Principle 7: Positioned Independently

GAGAS:
- ☐ 3.01 - 3.10: Ethical Considerations
- ☐ 3.11 - Objectivity
- ☐ 3.12 - 3.15: Proper Use of Government Info
- ☐ 3.17 -3.20: Practical Considerations for Independence
- ☐ 5.47 - 5.50: Independence, Legal, and Ethical Requirements
- ☐ 3.109 - 3.114: Professional Judgement

Stakeholder Engagement, Communication, and Collaboration

Strategic Alignment of Audit Outcomes

Strengthening Public Trust and Visibility

Current State Analysis	Future State Target → DEFINED – MANAGED
OPTIMIZING / **MANAGED** / **DEFINED** / **REPEATABLE** / **INITIAL** • Ethical values are referenced in policies and training but are not fully integrated into internal audit practices, culture, or public trust-building efforts. • Professional standards are observed at a foundational level, but practical application, competency development, and performance assessment are consistently adopted. • While policies and reporting lines support independence in structure, inconsistent practices and lack of transparency impact perceived objectivity and impartiality. **Missing Elements:** - Alignment between the City's and IA's ethical values, culture, and documented directives (EG: Ethics Ordinances). - Collaboration between City leadership, stakeholders, and the CAE to actively communicate expectations, solicit feedback, and verify audit outcomes to reflect public accountability. - Discussion and reporting of auditor performance through the lens of integrity, objectivity, and professional courage to reassure accountability of governance stakeholders	**Short term Goals** • **Identify gaps, weakness, and points of misalignment** between IA and the City's ethical directives to prioritize enhancements of IA ethical directives. • **Review and tailor existing ethics training** to reflect both professional standards and the City's Ethics Ordinance, including examples specific to the City's public service mission. • **Enhance performance feedback mechanisms** to include assessments of ethical behavior, professional courage, and judgment (e.g., peer or stakeholder feedback surveys). • **Initiate more structured stakeholder engagement** (FOAC, City management) during the audit process and when reporting to Council to improve understanding and effectiveness of audit results and management actions on recommendations **Long-term Target** • Integrate **ethics and professionalism metrics** into IA performance evaluations and advancement pathways for all IA staff and the CAE. • Establish a **formal CAE competency framework** that outlines professional expectations, reporting responsibilities, and stakeholder communication standards. **Benefits** • Further enhanced ethical culture both within Internal Audit and across the City • Increased credibility and legitimacy of the Internal Audit function among governance bodies, City staff, and the public. • Improved decision-making and risk mitigation, through audit insights grounded in ethical conduct, objectivity, and professional judgment. • Enhanced stakeholder engagement and support, making it easier to secure resources, cooperation, and buy-in. • Audit alignment with public service values, reinforcing the City's commitment to integrity and transparency. **Challenges** • Cultural shift required to embedding ethics into performance expectations • Labor and time investments to review and re-develop training, updated and enhance reporting methodologies, stakeholder education, and update policies • Need for consistent leadership commitment, including from the CAE, City management, and FOAC, to drive and sustain improvements

A. Ethics, Independence, and Professional Judgment

🔍 **FOCUS: City of El Paso Hotline Practices**

📄 **Transparency of Procedures**

🤝 **Strengthening Public Trust and Visibility**
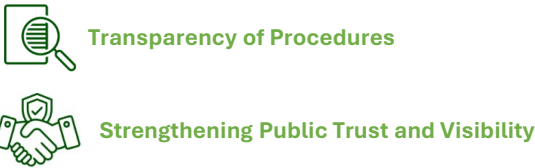
City of El Paso Hotline Guidance:

- City of El Paso Employee Ethics Course (hotline has a page)
- Employee Handbook (pg. 40 – reporting fraud or other illegal acts)
- 'My El Paso' – HR Services Page includes instructions for using the City Hotline

Current State

- Internal Audit manages the City's employee hotline; however, procedures for intake, triage, and resolution tracking are unclear and inconsistently applied.
- FOAC reporting lacks standardization – some summaries have included unnecessary information without clear confidentiality safeguards.
- Hotline use has extended to non-employee (public) reporting, though it is intended for City employees only.
- Awareness and communication around the hotline's purpose, access, and protections appear limited across the organization.
- Policies and procedures are outdated or insufficient to guide intake, escalation, confidentiality, and reporting protocols.

Opportunities for Improvement → Action Plan

- Establish a **strategic communication channel** that outlines Hotline access procedures, reporting expectations, and resolution protocols for both users and administrators. Communication protocols should include provisions for sensitive information handling that is aligned with City Ethics Ordinance and hotline best practices. Specifically, provisions should address:
  - Timeliness of incident response, escalation, and reporting
  - Caller confidentiality safeguards
  - Operational oversight procedures

- Establish a **standardized reporting format** and schedule for oversight bodies (FOAC), ensuring quarterly updates that include high-level summaries while safeguarding confidentiality. Consideration should be made to utilize data visualization tools (EG: trend analysis, charts) to communicate high-level issues or recurring themes.

Missing Elements

- **Formalization of Hotline requirements and practices** to clarify roles and responsibilities of the Internal Audit function to operate a hotline and investigate reports of fraud, waste, and abuse
- **Centralized communication channel** to ensure uniform distribution of Hotline practices to users (EG: access methods, reporting protocols, and resolution expectations) and administrators (EG: data handling, escalation, and resolution processes).
- **Standardized reporting format** for updates to the oversight bodies (IE: FOAC) including defined frequency (quarterly) and content expectations (high-level summaries of outcomes excluding sensitive personnel details)
- **Clearly delineated roles and responsibilities** that define hotline intake, triage, resolution tracking and reporting. This should be communicated to all to City employees and governance stakeholders to facilitate accountability

Benchmarking and Best Practices

- Association of Certified Fraud Examiners (ACFE)
- The Institute of Internal Auditors (IIA)

✓ **Uniform Awareness of Hotline protocols**

✓ **Ensure Confidentiality and Protection from Retaliation**

✓ **Clear and Consistent Handling and Investigative Processes**

✓ **Continuous Monitoring, Reporting and Oversight for Effectiveness**

B. Governance over the Internal Audit Function

Criteria

IIA Standards:
- ☐ IIA Principle 6: Authorized by the Board
  6.3 (Board/Mgmt. support)
- ☐ IIA Principle 8: Overseen by the Board
  8.1 (Board Interaction)
  8.2 (Resourcing)

GAGAS:
- ☐ 1.04, 1.05, 1.07
- ☐ 5.45 – 5.46: Governance and Leadership

Stakeholder Engagement, Communication, and Collaboration

Strategic Alignment of Audit Outcomes

Performance Measurement and Accountability

Current State Analysis	Future State Target →	DEFINED – MANAGED

Maturity Levels (left column, bottom to top): INITIAL, REPEATABLE, DEFINED, MANAGED, OPTIMIZING

Current State Analysis

- The Internal Audit Mandate and Charter is formally approved and includes required elements for independent audit services, but lacks strategic alignment and responsiveness to organizational changes
- Oversight and support for the Internal Audit function is reactive, fragmented, and personnel-dependent, with limited strategic engagement, unclear stakeholder responsibilities, and minimal cross-City collaboration

Missing Elements:
- Strategic alignment between the IA charter to City priorities to accurately reflect stakeholder expectations and enhance clarity of IA direction and purpose.
- The IA function is not widely perceived as a trusted partner in achieving strategic objectives and reinforcing organizational ethics.
- Regular, structured communication channels between the CAE, FOAC, and senior leadership that supports trust, transparency, and alignment of audit focus with evolving risks and priorities.

Future State Target

Short-term Goals
- Establish a **formal schedule** for reviewing, **discussing, and updating the IA Charter** that includes FOAC and City Manager's involvement. Expected roles and responsibilities of each party should be clearly outlined in alignment with audit standards.
- Establish a clearly documented **IA function governance and oversight framework** leveraging the existing FOAC expectations document. Roles and responsibilities, including **expectations for input into the Charter**, plan, and resourcing, should be clearly documented with consideration applied to ensure alignment with audit standards to maintain structural independence
- Develop a **communication protocol** to formalize discussions between the CAE, FOAC, and City leadership to actively discuss IA plan progress, emerging risks, and IA resource requirements including IA priorities and limitations.
- Ensure **IA governance stakeholders** have a baseline understanding of IA's strategy, plans, and resourcing constraints and provide informed, risk-based support for resource decisions.

Long-term Target
- Develop a **collaborative, risk-aware governance structure** to review and update and discuss the IA Charter, IA plan, and budget and resource strategies.
- Embed **IA as a strategic partner** in **City governance conversations**, including ethics, performance, and enterprise risk.

Benefits
- Enhanced clarity and alignment between Internal Audit's purpose and the City's strategic goals.
- Stronger oversight and accountability over IA outputs: reducing reliance on individuals and enhancing institutional knowledge.
- More strategic and effective use of IA resources, ensuring audits target areas of greatest value to the City.
- Increased collaboration and support from City leadership, helping elevate IA's advisory role beyond compliance.

Challenges
- Time and personnel resources required to participate in establishing strategic engagement between stakeholders and clarifying overlapping roles (IE: CAE, FOAC, City Manager).
- Need for consistent leadership commitment, including from the CAE, City Management, and FOAC, to drive and sustain improvements

B. Governance over the Internal Audit Function

🔍 Internal Audit Charter Analysis

We performed a detailed analysis and review over **The City of El Paso Internal Audit Charter** (Publicly available, and effective: 07/20/2023) against criteria established by:

- COSO Integrated Risk Management Framework
- The International Professional Practices Framework (IPPF) and Global Internal Audit Standards
- Generally Accepted Government Auditing Standards (GAGAS)

In alignment with the criteria above, we verified the quality of the IA Charter to include the following **mandatory provisions**:

- Mission and Purpose
- Authority and Responsibilities (scope of services)
- Independence and objectivity
- Access to Records
- Compliance with standards
- Alignment with current organizational structure
- Charter Proposal Process and Approval

The IA Charter Future State Recommendations:

- Establish a **review procedure** to update the IA Charter on a defined basis in collaboration with Governance stakeholders, including the FOAC, City Management, and other senior leadership to ensure strategic alignment with City priorities.
- Consideration for **greater clarity** of the IA's purpose, authority, role, and responsibilities within the City defined within the Charter. Oversight responsibilities, including review of the CAE's performance and expenses, should be included to support transparency and accountability. This also includes expectations for hotline monitoring and investigation.
- Establish a **communication channel** to ensure the final, approved charter is understood by all key stakeholders to reinforce Internal Audit's governance role

Provision Reviewed	Procedure	Validation Outcome	Criteria
Mission and Purpose	Compared to IIA & GAGAS standards to confirm presence of clear mission statement and defined purpose.	Clearly defined & complies with IIA requirements	IIA 6.2
Authority & Responsibilities	Checked description of internal audit authority, responsibilities, and scope.	Fully documented; includes scope, authority, and responsibilities.	IIA 6.2
Independence & Objectivity	Evaluated reporting lines and safeguards to ensure functional independence from management.	Charter supports direct reporting to FOAC.	IIA 6.2, GAGAS 3.21-3.24
Access to Records	Verified that unrestricted access to records, personnel, and property is documented.	Access rights clearly established in the Charter.	IIA 6.2
Compliance with Standards	Reviewed references to IIA and GAGAS standards.	Charter references adherence to both IIA and GAGAS standards.	IIA 6.2
Alignment with Org Structure	Compared reporting relationship to the City of El Paso's City Charter (Article III).	Reporting aligns with City Charter governance and FOAC oversight.	IIA 6.2
Charter Proposal and Approval	Reviewed discussions over charter and approval of the latest IA charter.	IA charter approved on 07/20/2023 by FOAC members and CAE, including input by legal counsel.	IIA 6.2

22

Three Lines Governance Model

Stakeholder Communication and Collaboration: Understanding the roles and responsibilities

The IIA's Three Lines Governance Model provides structure and processes to assist in the achievement of objectives by facilitating strong governance and risk management. Each of the three lines plays a distinct role within the City of El Paso's control environment.
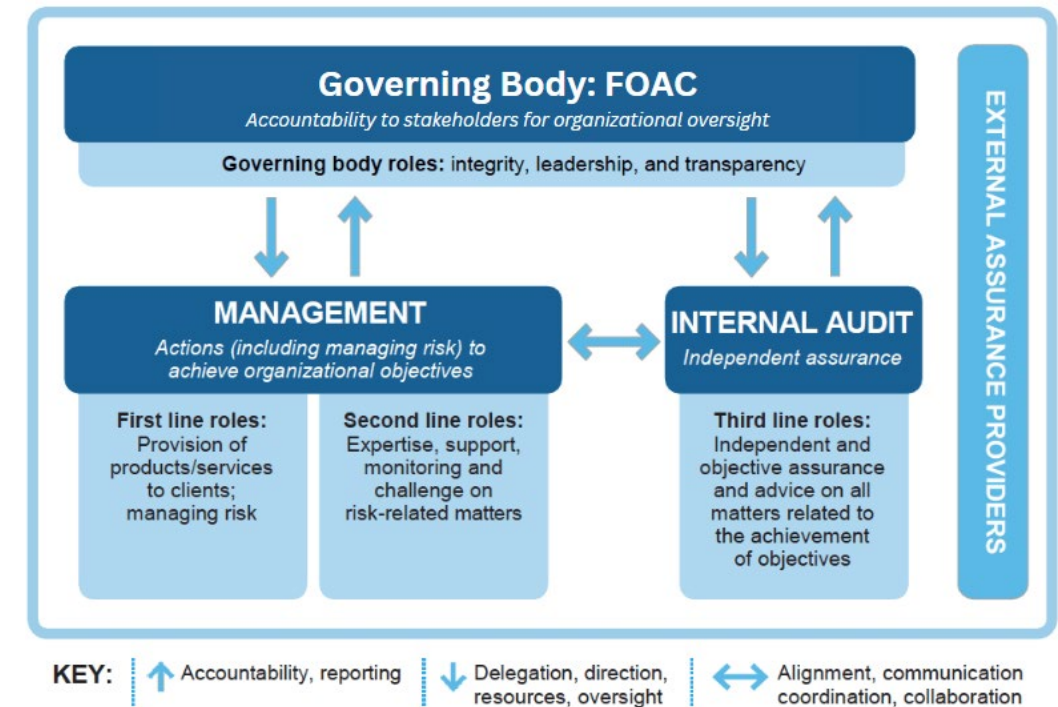
City of El Paso Financial Oversight and Audit Committee:
- The Financial Oversight and Audit Committee (FOAC) provides overarching accountability, responsibility, and oversight over the Internal Audit function's ability to achieve objectives.

Management
- **First Line** Management is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis within their business units including identifying and assessing controls and mitigating risks.

- **Second Line** Helps build and monitor first line controls and ensures risk and controls are effectively managed. Reviews and challenges the effectiveness of controls established by the First Line, ensuring alignment with broader organizational risk policies and regulatory requirements

- **Third Line – Internal Audit**
  Provides assurance to senior management and the FOAC that the First- and Second-Line's efforts are consistent with expectations and requires a high level of organizational independence and objectivity.

  IA may not direct or implement processes but should provide advice and recommendations regarding processes.

  IA also coordinates with internal and external providers of assurance services to consider reliance on their work to prevent duplication of efforts, highlight gaps in coverage of key risks, and enhance value to the City of El Paso.

Governing Body: FOAC
Accountability to stakeholders for organizational oversight

Governing body roles: integrity, leadership, and transparency

MANAGEMENT
Actions (including managing risk) to achieve organizational objectives

INTERNAL AUDIT
Independent assurance

EXTERNAL ASSURANCE PROVIDERS

First line roles: Provision of products/services to clients; managing risk

Second line roles: Expertise, support, monitoring and challenge on risk-related matters

Third line roles: Independent and objective assurance and advice on all matters related to the achievement of objectives

KEY: ↑ Accountability, reporting   ↓ Delegation, direction, resources, oversight   ↔ Alignment, communication coordination, collaboration

C. Management of the Internal Audit Function

Strategic Alignment of Audit Outcomes

Transparency of Procedures

Performance Measurement and Accountability

Current State Analysis		Future State Target →	DEFINED

Maturity levels (bottom to top): INITIAL, REPEATABLE, DEFINED, MANAGED, OPTIMIZING

Current State Analysis

- Engagement (audits, follow-ups, and non-audit work) completion rates are tracked against the IA plan and reported to the FOAC quarterly, however there is no consistent framework for evaluating auditor performance or linking engagement outcomes to departmental improvement or training plans.
- IA directives and methodologies exist, however planning and risk assessment processes are unclear, inconsistently executed, do not align with the City's evolving objectives, and include varied levels of feedback from governance stakeholders, management, and auditees, resulting in unclear prioritization and limited strategic impact.
- Although a QAIP and supporting tools are in place, quality assurance practices are limited to basic procedural checks and periodic external reviews, without a robust internal self-assessment process, actionable follow-up plans, or formal mechanisms to translate quality findings into continuous improvement.

Missing Elements:
- Formalized performance management framework to align engagement, department, and City strategic outcomes
- Centralized process for aligning IA planning and resource allocation with City-wide strategic goals
- Integration and use of Quality Assessment results for continuous improvement

Future State Target

Short-term Goals
- Establish an **engagement-level assessment framework that** includes **performance targets** (EG: audit cycle times, report issuance deadlines, and issue resolution rates) and **reporting protocols** to enhance accountability. Define corrective procedures to address gaps in performance. Utilize data analysis tools **to review performance trends** to identify opportunities for training and methodology improvements.
- Create a documented **internal audit strategy**, aligned with the IA Charter, IA Mandate, and the City's strategic plan. New IIA standards require the CAE to establish a comprehensive plan that outlines how the internal audit function will contribute to the organization's overall success and remain relevant and add value.

Long-term Target
- Establish a transparent **risk assessment process** with clear scoring rationale, stakeholder input, and alignment to strategic priorities to ensure accuracy, consistency, and relevance of the audit plan.
- Operationalize a **quality improvement tracking system** that links internal and external QA findings to corrective action plans, ownership, and timelines.
- Enhance the **quality of IA reporting** to governance stakeholders, emphasizing **strategic alignment**, audit impact, and **value contribution.**

Benefits
- Enhanced relevance and value of audit work and outcomes as
- Clear expectations, transparent procedures, and performance metrics support effective oversight
- Enhanced structure and visibility positions Internal Audit as a key partner in risk and governance.

Challenges
- Personnel and time resources to review and enhance current QA frameworks, training plans, and establish performance metrics in alignment with audit standards, best practices, and City strategic objectives.
- Commitment from leadership to coordinate across stakeholders to align strategic direction between personnel may be resource intensive

D. Engagement Level Planning and Execution

Stakeholder Engagement, Communication, and Collaboration

Strategic Alignment of Audit Outcomes

Technology and Resource Enablement

Current State Analysis

Maturity Level
OPTIMIZING
MANAGED
DEFINED
REPEATABLE
INITIAL

- Policies and training regarding auditor independence and objectivity concepts lacks a systematic and proactive approach in practice to identifying, documenting, and managing engagement-specific threats, impairments, or conflicts of interest.
- Engagements are executed with strong documentation standards however, there is limited alignment between engagement-level objectives and the City's broader risk assessment.
- Engagements are staffed using standardized checklists and documented personnel hour estimates, but there is no formalized process for addressing resource or skill gaps, succession planning, or aligning staffing strategy with organizational priorities or audit complexity.
- The IA Function has limited use of technology

Missing Elements:
- Transparent protocol to identify, escalate, and resolve threats to auditor independence and objectivity
- Structured engagement planning process that includes collaborative risk discussions with management, alignment with City-wide priorities, and direct linkage from risk assessment to engagement objectives and work programs.
- Coordinated multi-year internal audit resourcing strategy that includes proactive planning for financial needs, skill gaps, succession, and co-sourcing where necessary.
- IA Function technology strategy to opportunities to integrate new technology and enhance IA agility, efficiency, and value of outcomes

Future State Target → DEFINED

Short-term Goals
- Establish protocols to identify **IA resourcing needs**, limitations, and **performance expectations**, and communicate plans to address them with oversight bodies and senior management through feedback and approval.
- Develop procedures to support consistent identification, documentation, and escalation of **independence or objectivity** concerns during audit planning and execution.
- Align **engagement planning practices with City, and department risk priorities**, seeking management input to increase transparency and **strengthen management adoption** of audit purpose, objectives, scope, and rationale.
- Transition away from paper-based audit files to utilizing available **digital resources** such as SharePoint and cloud-based storage solutions.

Long-term Target
- **Institutionalize structured communication** between the CAE, oversight bodies, and senior management to facilitate ongoing alignment of audit priorities, resources, and management of independence impairments.
- **Independence and objectivity safeguards** should be integrated into audit methodology, including tailored engagement-level risk assessments and supervisory checkpoints.
- Create an **IA technology strategy** that integrates appropriate tools to enable more consistent and agile execution of audit work
- Define and implement a consistent process for **resolving disagreements with management** on audit findings to strengthen trust and ensure actionable results.

Benefits
- Transparent IA procedures and enhanced collaboration between stakeholders increases IA's alignment with City goals and priorities ensures greater value of IA outputs
- Proactive identification and resolution of City-wide risks
- Technology integration facilitates advanced yet efficient audit practices
- More effective retention and protection of audit work products

Challenges
- Adjustments and training to understand and integrate appropriate technology into existing processes
- Personnel and time resources required to facilitate stakeholder discussions, collaboration, and constrictively address differences in opinion
- Need for consistent leadership commitment, including from the CAE, City Management, and FOAC, to drive and sustain improvements

E. Communication, Reporting, and Monitoring

Stakeholder Engagement, Communication, and Collaboration

Strategic Alignment of Audit Outcomes

Transparency of Procedures

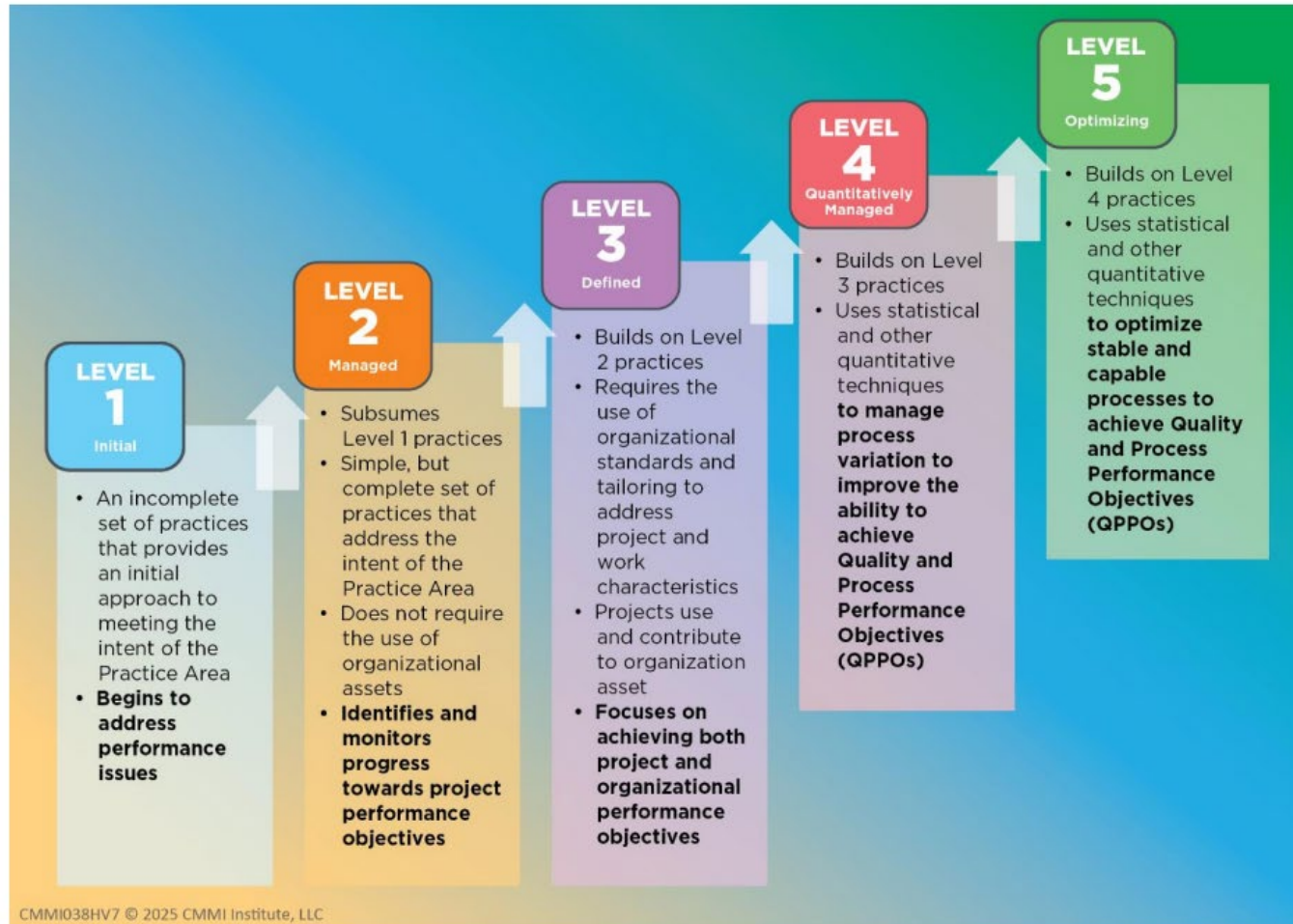| Current State Analysis	Future State Target →	DEFINED

Maturity levels (bottom to top): INITIAL, REPEATABLE, DEFINED, MANAGED, OPTIMIZING

Current State Analysis

- Communication of engagement results lacks consistency and strategic clarity, specifically around including and reporting management responses. IA report formats are consistent, but do not consider stakeholder needs, and do not clearly link of findings to root causes or risk prioritization.
- Currently, follow-up and monitoring of action plans is inconsistently executed, with no structured process for tracking management progress, prioritizing corrective actions, or resolving disagreements. Governance stakeholders have limited visibility into risk severity and the status of key issues.

Missing Elements:
- Defined communication protocols that identify which stakeholders should be engaged at each stage of the audit process, including reporting, recommendation validation, and follow-up discussions
- Guidance and protocols to verify that all engagement findings are addressed with management responses, and ensure risk-based, actionable plans identify responsible owners, deadlines, and are aligned with the severity of identified issues
- Procedures to identify and address stakeholder reporting needs, including visual communication tools (EG: executive summaries, risk heatmaps, charts).
- A structured, transparent approach to follow-up monitoring, that clearly links original audit results and follow-up scope, documented progress tracking, and periodic reporting.

Future State Target

Short-term Goals
- Define and document the expectations for audit reporting roles, responsibilities, and communication protocols in alignment with audit standards to reduce inconsistent stakeholder engagement.
- Establish minimum standards for audit reporting and management responses, including procedures to identify and address lack of clarity, structure, and risk relevance across engagements.
- Integrate guidance to help IA staff consistently identify and articulate root causes, organizational themes, and risk implications in findings, which may be accomplished by defining a risk rating for effects identified.
- Encourage mechanisms for collaborative review of findings and recommendations with management to support shared understanding and verify root cause issues are addressed by recommendations/action-plans.

Long-term Target
- Establish a reporting protocol that effectively identifies and includes relevant parties regarding audit result communication.
- Implement a process to systematically track and analyze recurring findings and themes, and integrate results into key decision-making procedures to inform future audit planning and elevate oversight focus on systemic issues.
- Establish a framework to document, escalate, and resolve disputes regarding audit findings and resolutions.
- Integrate feedback loops from stakeholders to assess the effectiveness and clarity of audit communications and make continuous improvements.

Benefits
- Structured, intentional stakeholder-align communications increases transparency and credibility of audit work
- Directly addressing root cause issues with actionable and risk-prioritized recommendations will enhance the strategic value of audit reports.
- On-going collaboration with management facilitates trust and accountability of results for enhanced implementation

Challenges
- Time and personnel resource demands to understand and balance the needs of different stakeholder groups
- Need for consistent leadership commitment, including from the CAE, City Management, and FOAC, to drive and sustain improvements

Appendix B: Capability Maturity Model

The Capability Maturity Model (CMM) is a development model created in 1986 after a study of data collected from organizations that contracted with the U.S. Department of Defense, who funded the research. The term "maturity" relates to the degree of formality and optimization of processes, from ad hoc practices, to formally defined steps, to managed result metrics, to active optimization of the processes.