



# INTERNAL AUDIT DEPARTMENT



## **Audit Oversight Committee (AOC) Virtual Retreat Binder**

**October 01, 2020**

### **OC Board of Supervisors**

CHAIRWOMAN MICHELLE STEEL  
2nd DISTRICT

VICE CHAIRMAN ANDREW DO  
1st DISTRICT

SUPERVISOR DONALD P. WAGNER  
3rd DISTRICT

SUPERVISOR DOUG CHAFFEE  
4th DISTRICT

SUPERVISOR LISA A. BARTLETT  
5th DISTRICT



# AUDIT OVERSIGHT COMMITTEE (AOC) VIRTUAL RETREAT BINDER OCTOBER 1, 2020

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# AUDIT OVERSIGHT COMMITTEE (AOC) VIRTUAL RETREAT BINDER OCTOBER 1, 2020

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  - ii. Best Practice Round Table

# A G E N D A

## SPECIAL MEETING AUDIT OVERSIGHT COMMITTEE VIRTUAL RETREAT & TRAINING



**Tuesday, October 1, 2020, 9:30 a.m.**

Zoom Virtual Meeting:

<https://zoom.us/j/99135346034>

Join by Phone: +1(669)900-6833, Meeting ID: 991 3534 6034

In-Person Reservations:  
County Administration South  
601 N. Ross Street, Room 103  
Santa Ana, CA 92701

### MEETING HELD BY TELECONFERENCE

**\*\*PURSUANT TO THE PROVISIONS OF CALIFORNIA GOVERNOR'S EXECUTIVE ORDER N-29-20, ISSUED ON MARCH 17, 2020, THIS MEETING WILL BE HELD BY TELECONFERENCE\*\***

**ROBERT BROWN (2023)**  
AOC CHAIRMAN  
Private Sector Member, Fifth District

**MARK WILLE, CPA (2021)**  
AOC VICE CHAIRMAN  
Private Sector Member, Third District

**SUPERVISOR MICHELLE STEEL**  
BOARD CHAIRWOMAN  
Second District  
Member

**SUPERVISOR ANDREW DO**  
BOARD VICE CHAIRMAN  
First District  
Member

**FRANK KIM**  
COUNTY EXECUTIVE OFFICER  
Member

**DREW ATWATER (2021)**  
Private Sector Member, First District

**VACANT**  
Private Sector Member, Second District

**STELLA ACOSTA (2023)**  
Private Sector Member, Fourth District

#### **Non-Voting Members**

Treasurer-Tax Collector:  
Auditor-Controller:  
Internal Audit Director:

Shari Freidenrich, CPA  
Frank Davies, CPA  
Aggie Alonso, CPA

#### **Staff**

Internal Audit Assistant Director:  
Deputy County Counsel:  
AOC Clerk:

Scott Suzuki, CPA  
Ronnie Magsaysay  
Gabriela Cabrera

The Audit Oversight Committee (AOC) welcomes you and encourages your participation. This agenda contains a general description of each item to be considered. If you would like to speak on a matter that does not appear on the agenda, you may do so during the Public Comments period at the end of the meeting. When addressing the AOC, please state your name for the record. Except as otherwise provided by law, no action shall be taken on any item not appearing in the agenda.



# **A G E N D A**

## **AUDIT OVERSIGHT COMMITTEE VIRTUAL RETREAT & TRAINING**

*All supporting documentation is available for public review 72 hours before the meeting. Documents are available online at <http://www.ocgov.com/gov/ia/aoc/agemin> or in the office of the Internal Audit Department located in the County Administration South Building, 601 N. Ross Street, Santa Ana, CA 92701, 7:00 a.m. - 4:00 p.m., Monday through Friday.*

**\*\*In compliance with the Americans with Disabilities Act, those requiring accommodation for this meeting should notify the Internal Audit Department 72 hours prior to the meeting at (714) 834-5475\*\***

# A G E N D A

## AUDIT OVERSIGHT COMMITTEE VIRTUAL RETREAT & TRAINING

9:30 a.m.

### Speaker

- |   |   |
|---|---|
| 1. Roll Call and Opening Remarks            | <i>Robert Brown<br/>AOC Chairman</i>                                |
| 2. Agenda Walkthrough, Goals, and Logistics | <i>Aggie Alonso, CPA<br/>Director<br/>Internal Audit Department</i> |

### **Session 1: Audit Oversight Committee Orientation**

- |   |   |
|---|---|
| 3. Orientation and Overview of Internal Audit                             | <i>Aggie Alonso, CPA<br/>Director<br/>Internal Audit Department</i> |
| 4. Audit Oversight Committee Duties                                       | <i>Mark Wille, CPA<br/>AOC Vice Chair</i>                           |
| 5. Overview of the County's Annual External Audit and Financial Reporting | <i>Roger Alfaro, CPA<br/>Partner<br/>Eide Bailly</i>                |
| 6. Overview of Mandated Audits/Financial Statements & Reporting           | <i>Frank Davies, CPA<br/>Auditor-Controller</i>                     |
| 7. Overview of Performance Audits   | <i>Michelle Aguirre<br/>County Financial Officer</i>                |

### **Session 2: Audit Committee Best Practices Round Table**

- |  |                                      |
|--|--------------------------------------|
| 8. Review of Bylaws  | <i>Robert Brown<br/>AOC Chairman</i> |
| 9. Review of Audit Committee Best Practices Survey Results and Recommend Potential Changes to AOC and Internal Audit Department Procedures in the following categories:<br>a. Comprehensive Framework of Internal Control and Countywide Training<br>b. Internal Audit Resources<br>c. External and Internal Audit Coordination and Coverage<br>d. AOC Member Requirements<br>e. Chief Audit Executive Evaluation, Hiring and Firing | <i>Robert Brown<br/>AOC Chairman</i> |

# A G E N D A

## AUDIT OVERSIGHT COMMITTEE VIRTUAL RETREAT & TRAINING

### Session 3: Internal Audit Department Fiscal Year 2020-21 Audit Plan Highlights

- |  |   |
|--|---|
| 10. Agile Auditing                         | <i>Scott Suzuki, CPA<br/>Assistant Director<br/>Internal Audit Department</i>   |
| 11. Information Technology Audits          | <i>Jimmy Nguyen<br/>IT Audit Manager II<br/>Internal Audit Department</i>       |
| 12. Business Process Improvement Workshops | <i>Michael Dean, CPA<br/>Senior Audit Manager<br/>Internal Audit Department</i> |

**PUBLIC COMMENTS:** At this time, members of the public may address the AOC on any matter not on the agenda but within the jurisdiction of the AOC. The AOC may limit the length of time each individual may have to address the Committee.

*Robert Brown  
AOC Chairman*

**AOC COMMENTS:** At this time, members of the AOC may comment on agenda or non-agenda matters and ask questions of, or give directions to staff, provided that no action may be taken on off-agenda items unless authorized by law.

*Robert Brown  
AOC Chairman*

### **ADJOURNMENT:**

### **NEXT MEETING:**

Regular Meeting, November 19, 2020, 10:00 a.m.



# County of Orange Virtual Audit Retreat Orientation and Overview of Internal Audit

Tuesday, October 1st  
9:30am - 12:30pm

Presented By: Aggie Alonso, CPA, CIA, CRMA  
Internal Audit Director

# History of Internal Audit and Audit Oversight Committee (AOC)

1889

- On August 1, 1889, the County of Orange was formed.
- Since that time, the OC has had a County Auditor.

1982

- Granted the County Auditor the duties of the County's Chief Accounting Officer (e.g., Controller).
- County Auditor is elected and shall serve ex-officio as the County Controller.  
*Resolution 82-162*

1994

- On December 6, 1994, Orange County declared Chapter 9 bankruptcy.



# History of Internal Audit and Audit Oversight Committee (AOC)

- Established the Internal Audit Department separate from the Auditor-Controller and created the AOC to provide oversight over the County's internal audit function.

*Resolution No. 95-271*

1995

- Board affirmed and amended the duties and responsibilities of the AOC due to:
  - Creation of the position of Performance Audit Director
  - Transfer of internal audit responsibilities to the Auditor-Controller

*Resolution No. 16-014*

2016

- Board re-established Internal Audit Department independent from the Auditor-Controller's office, reporting directly to the Board of Supervisors

*Resolution No. 18-068*

2018

# AOC Purpose



## Advisory Committee

Internal Audits  
External Audits  
Mandated Audits  
Performance Audits



Ensure the independence of the internal audit function



Approve annual audit plans



Ensure corrective action taken

# AOC Membership



Member Composition



Public Member Terms



Attendance





# Chair and Vice Chair



Elected to one-year terms



Elections only made by the public members of the AOC



Chair's Duties



CAFR Drafts



Chair's Report



Sensitive/Restricted Audit Reports

# AOC Meetings



Photo courtesy Orange County Archives.

Meets Quarterly

Brown Act  
Requirements

Quorum

Schedule

# AOC Bylaws

The AOC's Bylaws shall be submitted to the Board of Supervisors for approval.

The Bylaws shall be reviewed periodically, no less than once every three years, by the AOC and reaffirmed by the Board of Supervisors.

Reassessments should specifically take into account any changes that may be needed as the result of changes in law, regulation, or professional standards.

# AOC Responsibilities and Duties

- ▶ Representation Letter
- ▶ Oversight of the Internal Audit Department
- ▶ Financial Statements and Reporting
- ▶ Oversight of the Auditor-Controller's Mandated Audit
- ▶ Oversight of Performance Audit
- ▶ Follow-up Audits
- ▶ Peer Review/Quality Control
- ▶ Comprehensive Framework of Internal Control
- ▶ Oversight of Fraud Hotline

# Oversight of Internal Audit



Charter



Resources



Annual Risk Assessment and Audit Plan



Audit Plan vs Work Performed



Scope limitations

# Oversight of Internal Audit (Cont'd)



Significant findings and recommendations



Auditing Internal Controls



Follow-Up Audits



Coordination and Scheduling of Audits



Resolution of Audits

# AOC Members - Ethics Requirements

## ▶ California Government Code

- ▶ Requires specific County officials to complete **at least** two (2) hours of Ethics (AB 1234) Training within one (1) year of appointment and every two (2) years thereafter.

## ▶ County of Orange Ethics

- ▶ Requires that specified officials take qualifying Ethics (AB 1234) Training by December 31st in the year s/he is appointed and in every even year thereafter.

## ▶ Gift Ban Ordinance

- ▶ AOC members are required to adhere to the County's Gift Ban Ordinance. Violation could result in a misdemeanor.

# Questions & Comments?





# AUDIT OVERSIGHT COMMITTEE DUTIES



# HISTORY



- Bankruptcy – one public member, AC, Treasurer, CEO, Performance, 2 Supervisors
- Eight years ago 4 Public Members from 1
- Four years ago 5 public members (majority), CEO, 2 Supervisors significant governance change

# WHY AOC?

- The supervisors can't be everywhere
- We are their eyes and ears
- As we are appointed by a supervisor if we see something, we contact them with concerns directly if required.
- We must be diligent!



# DUTIES OF MEMBER

- Read and Understand the Bylaws – ask questions





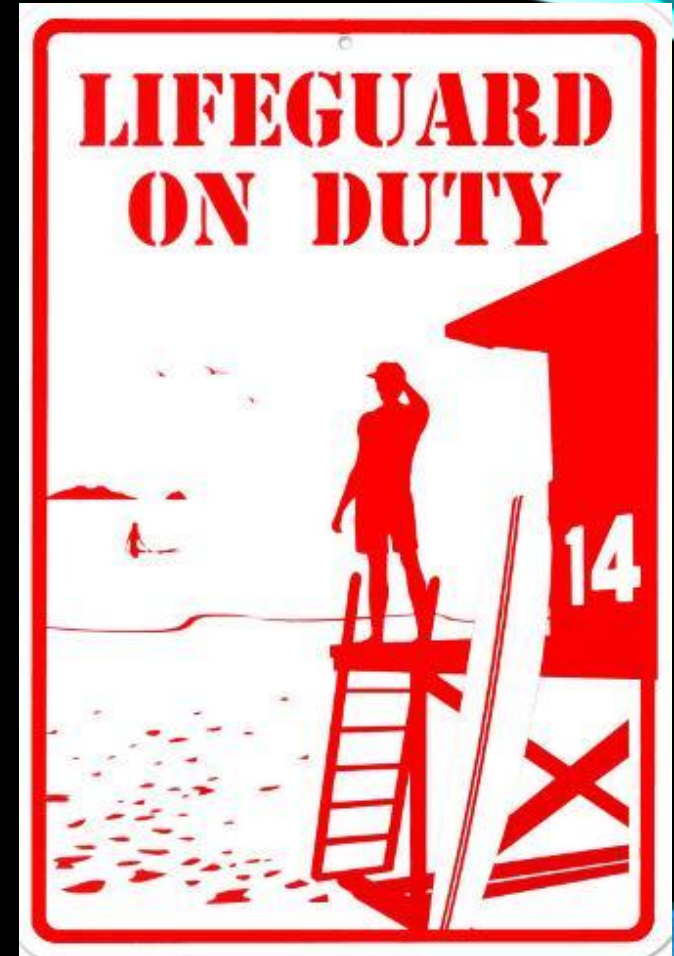
# DUTIES OF MEMBER

- Oversight the outside external auditor (and in effect the financial health of the county)
- So we are reviewing outside auditors as well as county financial health with this function
- Read the Comprehensive annual financial report and ask questions – examples of importance



# DUTIES OF MEMBER

- Monitor Large or unusual items (unfunded pension amount)
- Monitor internal control findings making certain they are addressed and corrected (not swept under rug)



# DUTIES OF MEMBER

- Oversight the outside external auditor (and in effect the financial health of the county)
- Review and understand the Heat Map
- Review findings and make certain they are corrected asking questions – again making certain we run the process to ground



# DUTIES OF MEMBER

- Oversight the Auditor-Controllers mandated audits
- Oversight the mandated audits and ask questions
- Drill down on findings





# DUTIES OF MEMBER

- Oversight the Performance Audits
- We are in a new method of PA administration
- Review ask questions and help make the new program better
- Drill down on findings



# DUTIES OF MEMBER

- Oversight the Fraud Hot Line
- Mandated by our bylaws but not a current function of the committee
- Drill down with supervisors asking what they would like.



# TIME COMMITMENT

- Attend all meetings
- Review materials before meeting
- You can't read every audit report that comes out – what is important?
- Meeting separately with county employees as necessary



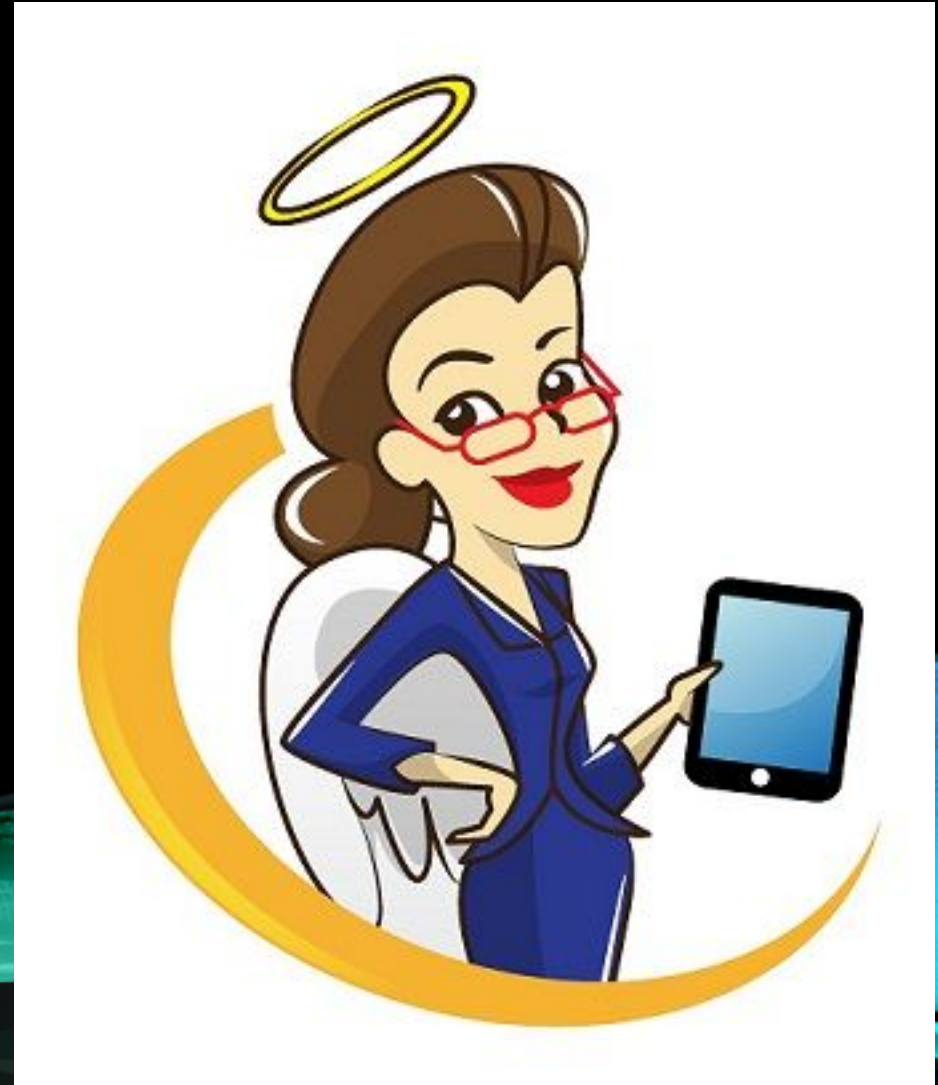


# MORAL COMMITMENT

- We are the last line oversight
- We perform an important function for the county
- It is not a feather in our cap – it is a duty
- It takes time and effort and commitment

# OUR REWARDS ARE ON THE OTHER SIDE

- Thank you for your commitment





**CPAs & BUSINESS ADVISORS**

## **COUNTY OF ORANGE**

Audit Oversight Committee Retreat  
October 1, 2020





# AUDIT SCOPE

Perform the audit of the:

- Comprehensive Annual Financial Report (CAFR), including standalone reports for:
  - ✓ John Wayne Airport (including passenger facility charges)
  - ✓ Orange County Waste & Recycling
  - ✓ Orange County Development Agency Successor Agency
- 2 CFR 200 Single Audit
- We will not audit the following, but will refer to the separate audits in our report:
  - ✓ CalOptima



# AUDIT SCOPE

Other engagements performed:

- Agreed Upon Procedures:
  - ✓ Tobacco Settlement Revenue
  - ✓ Appropriations Limit Calculations for County of Orange and Orange County Flood Control District
  - ✓ Section 8 Cluster
  - ✓ Treasurer's compliance
- Audit of Treasurer's Schedule of Assets
- Audit of certain grants of the OC District Attorney's Office

# OUR RESPONSIBILITY

U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*.

Express opinions about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in conformity with generally accepted accounting principles:

- Reasonable, not absolute assurance;
- Audit does not relieve the management of its responsibilities.

For Single Audit, express an opinion on compliance applicable to major federal programs.





# OUR RESPONSIBILITY



Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures:

- Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity;
- No opinion on internal control will be expressed.

# OUR RESPONSIBILITY

## Communicate other matters:

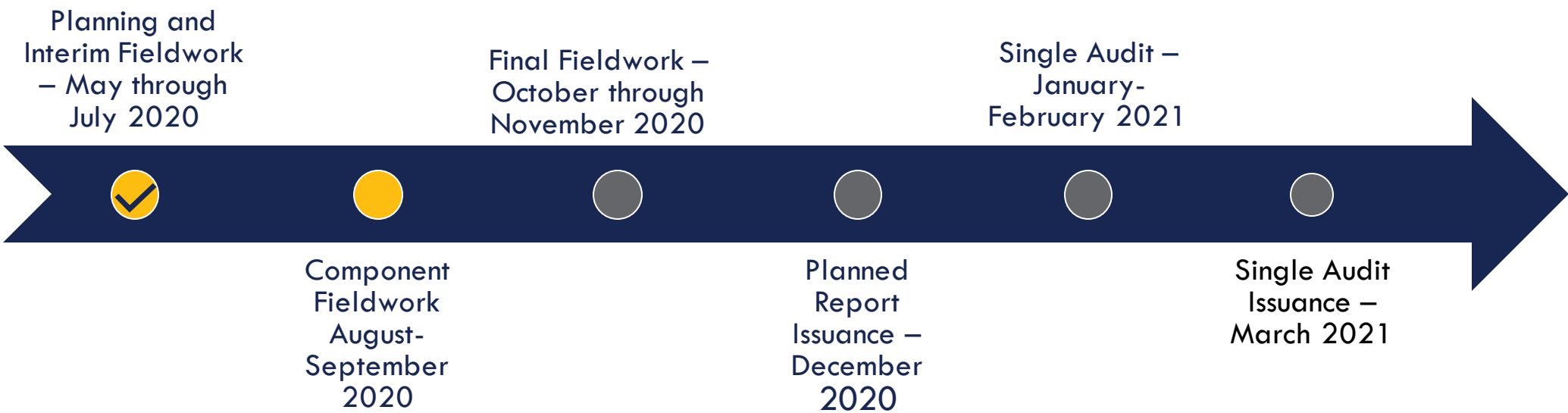
- Qualitative aspects of accounting policies, accounting estimates and note disclosures
- Difficulties encountered
- Uncorrected misstatements
- Material corrected misstatements
- Disagreements with management
- Management representations
- Consultations with other accountants



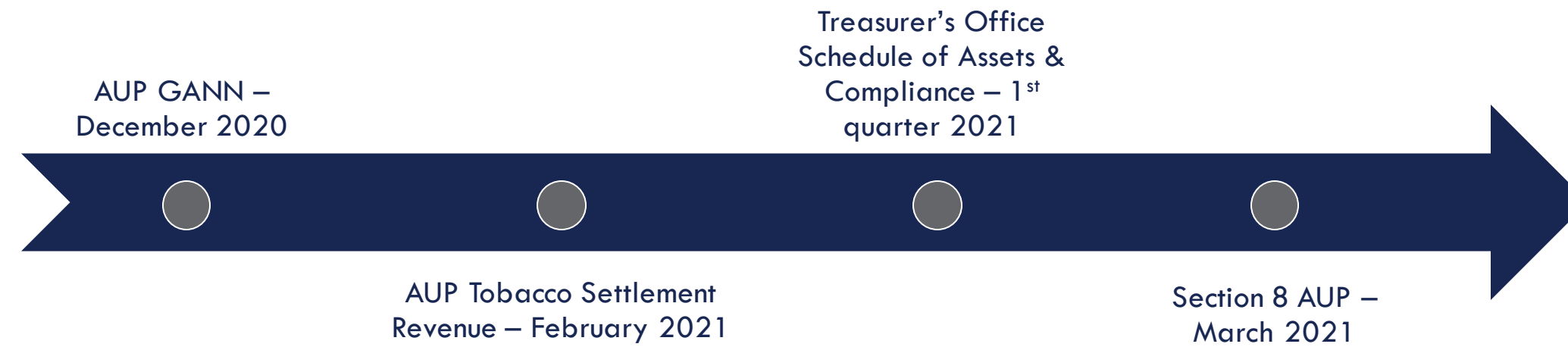


# TIMELINES

## Financial Reporting



## Other Projects



# MANAGEMENT'S RESPONSIBILITIES

- 1 Design, implement, establish and maintain effective internal control over financial reporting, federal awards and goals and objectives.
- 2 Prevent and detect fraud, and inform us of any known or suspected fraud.
- 3 Compliance with laws and regulations.
- 4 Ensure that management and financial information is reliable and properly reported.
- 5 Make all personnel, financial records and related information available to us to prepare the financial statements.
- 6 Provide us a written representation letter.

# OUR APPROACH

## Planning and Risk Assessment:

- Meet with Management
- Obtain an understanding of the entity, its environment and risks
- Identify audit risk areas
- Inspect financial and other information
- Consider/inquire regarding fraud risks
- Tone at the Top
- Understand the design and implementation of internal control
- Prepare risk assessment and audit plan
- Test key business cycles – revenue, disbursements, payroll, investments, capital assets, financial reporting, IT and budget
- Conduct periodic status meetings throughout fieldwork
- Single Audit – preliminary planning



# OUR APPROACH

## Final

- Address key audit areas
- Review financial statements and disclosures prepared by management
- Perform tests, on a sample basis, on account balances and classes of transactions
- Test journal entries
- Assess accounting principles used and significant estimates
- Confirm contingencies with legal counsel
- Consider subsequent events
- Review audits performed by other auditors

## Exit

- Propose / discuss audit adjustments
- Present findings and recommendations
- Provide required communications to those charged with governance

# NAVIGATING THE FUTURE

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## Collaboration on Statements that Affect you:

- GASB 84 – Fiduciary Activities
- GASB 87 – Leases
- GASB 90 – Majority Equity Interests
- GASB 91 – Conduit Debt Obligations
- GASB 92 – Omnibus 2020
- GASB 93 – Replacement of Interbank Offered Rates
- GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance
- GASB 96 – Subscription-Based Information Technology Arrangements
- GASB 97 – Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans

## Other Current GASB Projects that will result in issued Statements in the next 5 years:

- Financial Reporting Model
- Revenue and Expense Recognition
- Footnote Disclosure





# QUESTIONS?

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.

# Auditor-Controller Internal Audit Mandated Audits

County of Orange



# Overview of Auditor-Controller Mandated Audits

- **Cash Shortage Replenishments**
- **Audit and Reviews of Schedule of Assets**
- **Audit of Juvenile Books and Accounts**
- **Collection of JPA and Special District Audited Accounts and Records**



## Cash Shortage Replenishments

- ➔ Mandate: Government Code Sections 29390 and 29390.1
- ➔ Objective: To determine whether to approve replenishment of cash shortages up to \$2,500.
- ➔ Replenishment requests are submitted by department heads and the Auditor-Controller relies on the submitted documentation to approve replenishment of shortages up to \$1,000.
- ➔ For shortages between \$1,000 and \$2,500, the Auditor-Controller submits the documentation to the Internal Audit Department and relies on its review and recommendation to approve the replenishment.



## Audit and Reviews of Schedule of Assets

- Mandate: Government Code Section 26920
- Objective: To perform, or cause to be performed, a quarterly review and annual audit of the Treasurer's Schedule of Assets.
- In a review we report whether we are aware of any material modifications that should be made to the Schedule of Assets for it to be in accordance with the modified-cash basis of accounting.
- The Auditor-Controller currently contracts with the external auditors to perform the annual audit of the Schedule of Assets.





## Audit of Juvenile Books and Accounts

- **Mandate:** Welfare and Institutions Code Section 275
- **Objective:** To audit Probation's internal control over its books and accounts relating to receipts, disbursements, and case file management of juvenile cases is adequate and effective to comply with WIC Section 275.
- The audit is performed biennially on a fiscal year basis and a report must be submitted to the Judge of the Superior Court and County Supervisors before January 31<sup>st</sup> of the succeeding year.



## Collection of JPA and Special District Audited Accounts and Records

- ➔ Mandate: Government Code Sections 6505 and 26909
- ➔ Objective: To ensure that reports of audited accounts and records for all joint powers authorities (JPAs) whose home office is located in the County are filed as public records with the Auditor-Controller.
- ➔ To make or contract with a CPA to make an audit of the accounts and records of every special district with the county for which an audit by a CPA is not otherwise provided.



Any Questions?

County of Orange



# Auditor-Controller Financial Reporting & Mandated Cost Financial Statements and Reporting

County of Orange



# Overview of Auditor-Controller Financial Statements and Reporting

- **Comprehensive Annual Financial Report (CAFR)**
- **Single Audit Report**
- **Gann Limit Agreed Upon Procedures**





# CAFR

- The CAFR is an annual report prepared by the Auditor-Controller, which presents County's financial information in conformity with GAAP.
- Mandated by Government Code Sections 25250 and 25253.
- It is used by the public, bond-rating agencies, governments, and internally to examine the financial health of the County.
- The CAFR is audited by an independent CPA firm to provide reasonable assurance about whether the County's financial statements are free of material misstatement.
- The CAFR is submitted annually to the GFOA to obtain the Certificate of Achievement for Excellence in Financial Reporting, which the County has received for 27 consecutive years.



# Single Audit

- The Single Audit is a federal requirement for governments that receive federal financial assistance and awards of \$750,000 or more each year (the County received approximately \$704M in FY 2018-19).
- The Auditor-Controller prepares the Schedule of Expenditures of Federal Awards, a program-by-program report, to show the County's expenditures of Federal awards.
- The audit is performed by an independent CPA firm to ensure recipients comply with applicable federal and state laws and regulations. The external auditors subsequently issue the Single Audit Report.
- For any federal award finding identified by the external auditors the County must implement corrective actions in the following year.



# Gann Limit Agreed Upon Procedures

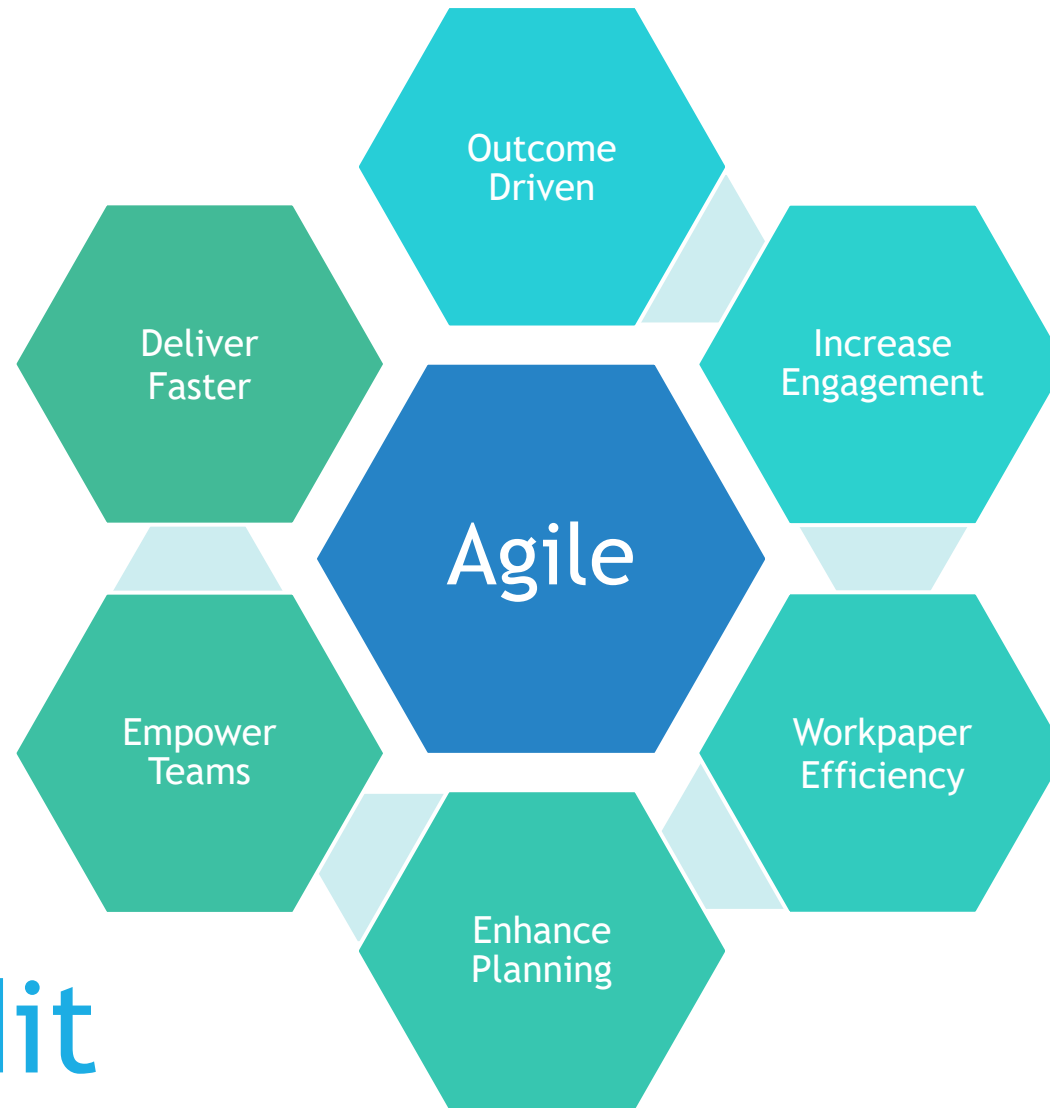
- Proposition 4 approved by the voters in 1999 added Article 13B to the State Constitution, which places a limit on appropriations of revenue identified as proceeds of taxes. This limit is commonly referred as the Gann limit.
- The limit for each year is equal to prior year's limit adjusted for changes in the cost-of-living and population.
- The Auditor-Controller prepares the appropriation limit calculation using one of the methods allowed under Article 13B and presents it to the Board of Supervisors for approval in accordance to Government Code Section 7910.
- External Auditors issue the Gann Limit Agreed-Upon Procedures Report to the Board of Supervisors.



Any Questions?

County of Orange





# Agile Audit

Presented By: Scott Suzuki, CPA, CIA, CISA, CFE  
Assistant Director



# What is Agile Audit?



Derived from software development methodology; many variations



Goals are to reduce time, deliver faster, improve quality (all three)



Deliver results at the end of short cycles and involve the client more actively

# Agile Audit Objectives



## **Clearer Outcomes**

Confirm/disprove hypothesis based upon risk assessment

Focus on an outcome which guides fieldwork and reporting



## **Increased Engagement**

Collaborate with client to prioritize risks for audit and focus on client needs

Identify resources and deploy for fieldwork



## **Improved Documentation**

Right-sizing workpapers

Deliver prompt and concise results with more visuals

Do not explain and justify every procedure in documentation

# Agile Audit Changes



## Enhanced Planning

Identify risk areas and modify as the engagement progresses depending on variables such as new information developed, resource constraints, and client availability; no fixed audit program



## Empowered Teams

Collaborate with client by sharing real-time results and determine if more/less assurance is needed resulting in additional/less work performed



## Faster Delivery

Expedite audit cycles by developing well-defined procedures with deadlines resulting in faster reporting to the client/timely information sharing

# Agile Audit Comparison

Traditional	Agile
Reporting at end of audit plan	Reporting during and at end of sprints
Rigid audit procedures	Flexible procedures
Comprehensive documentation	Relevant documentation
Established chain-of-command	Empowered field team roles
Preset audit plans	On-the-go audit plans
Regular communications	Frequent communications

# Agile Manifesto

## INTERNAL AUDIT DEPARTMENT AGILE MANIFESTO

Our guiding principles in executing our agile audits are:

1. Focus on risk, outcomes, and value.
2. Right-selected, right-sized projects (one-size does not fit all) at the right-time.
3. Collaborate and communicate with our clients and stakeholders
4. Challenge the status quo/it's always been done this way.
5. Make decisions “as we go” with transparency and alignment.
6. Be swift and flexible vs. confined to a plan
7. Consider impact over thoroughness; good enough (80/20 rule)



# Comparison

Traditional



Agile



Reference: Deloitte Becoming Agile series

# Agile Workflow



## Discovery

- Client business
- Subject research
- Audit canvas
- Risk & control matrix
- Audit backlog



## Execution

- Sprint planning
- Definition of ready
- Sprint backlog
- Sprint tasks
- Daily standup
- Definition of done
- Sprint point-of-view



## Close-Out

- Workpaper QA
- Final point-of-view
- Retrospective

# Questions & Comments?



# IT Audit

**Presented By:** Jimmy Nguyen, CISA, CFE, CEH  
IT Audit Manager

# What is IT Audit?

- ▶ An **IT audit** is the examination and evaluation of an organization's information technology infrastructure, policies and operations. Information technology audits determine whether IT controls **protect corporate assets, ensure data integrity** and are **aligned with the business's overall goals**.
- ▶ Mitigate Cybersecurity risk!



# IT Audit Objectives?



IT General Controls



Cybersecurity



Integrated Audits



Advisory Services

# IT General Controls

IT Governance

Security Management

Change Management / System Development Life Cycle (SDLC)

Computing Operations

# Cybersecurity

Continuous Education through  
Training

County Cybersecurity Joint Task  
Force Meetings



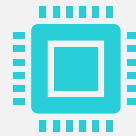
Ransomware!!!



# Integrated Audits



Collaboration of Internal Control Audit and IT Audit

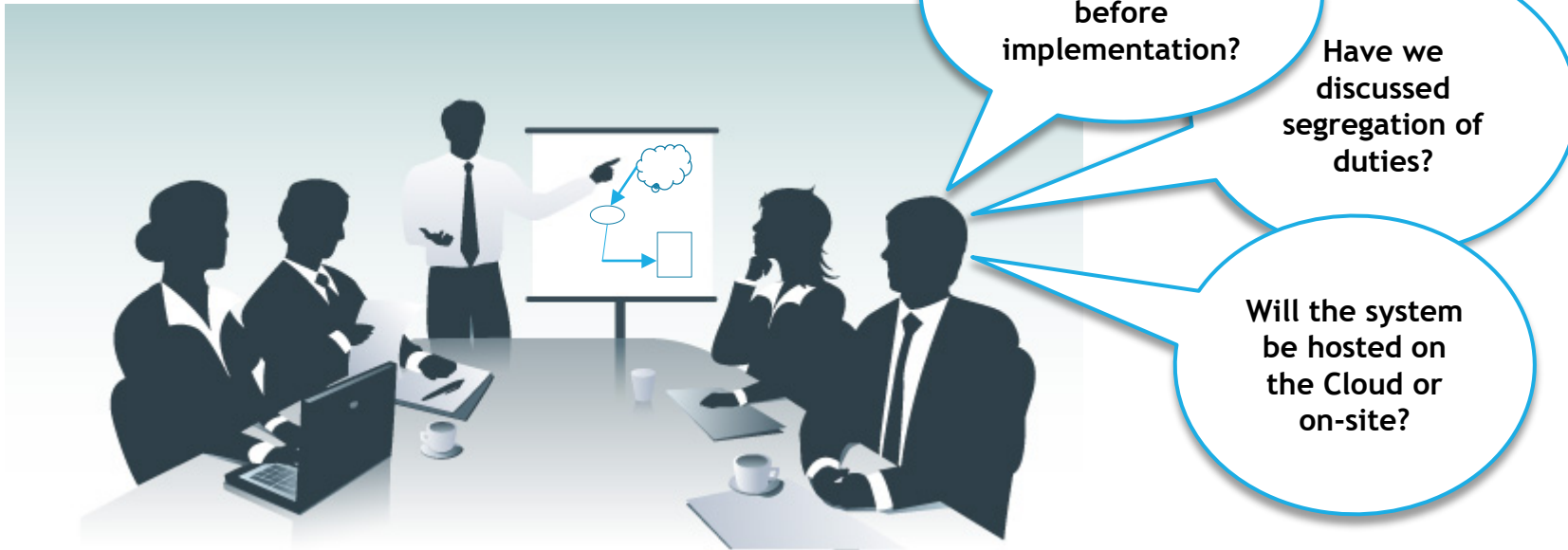


Business Process Supported by Technology!



Evaluate IT Controls that Support the Business Process in Review

# IT Advisory Services



- ▶ Assist Departments with New System Implementation
- ▶ IT Internal Control Security Posture Assessment



# Questions & Comments?



# Business Process Improvement Workshops

Presented By: Michael Dean, CPA, CIA, CISA, CCSA  
Senior Audit Manager



# Facilitated Workshops

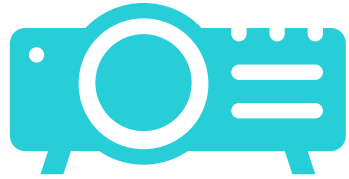
- ▶ BPI workshops are not an audit!
- ▶ Employee teams getting together with their manager and specialist facilitators to analyze the strengths and concerns that impact their ability to achieve their business objectives and decide upon appropriate action.



# Resources Required



Laptop with Microsoft Word or other word processor



Projector



Large sticky notes (two colors)



Large black markers



Software/Voting technology (optional)



Facility  
Selection: Offsite is better

# Department Selection



Need champion or volunteer  
as first department



IAD must sell the benefits as  
this program is optional

# Department Selection

## Executive Management

- Find out which “teams” would benefit from a workshop.

## Team Manager

- Select good cross-section of employees.

## Participant Meetings

- Think about “strengths” and “concerns” related to achieving their objectives.



# Workshop Rules

- ▶ Get buy-in to rules:
  - ▶ Open communication
  - ▶ Allow everyone a chance to speak
  - ▶ Group comments may be shared, but individual anonymity must be preserved.
- ▶ Ask group to add rules - helps with buy-in.

# Part 1 - the “Post-It Note Exercise”



Three biggest strengths and concerns.



Vote on how important they are now and in the future.



Select a category to discuss.



Facilitate discussion by starting with strengths:

How do you know it's a strength?  
What could happen if you make it better?  
What are some action items to make it better?

# Part 1 - the “Post-It Note Exercise”



**Facilitate discussion with group's concerns:**

How do you know it's an issue?

What could happen if nothing is done?

What are some action items to address this concern?



**During facilitated discussion, other facilitator “captures” group comments, which are projected for the group to see.**

Facilitators have participants periodically look at screen to self-edit their comments.

## Part 2 - Voting on Level of Agreement with Statements

- ▶ Using scale of 1-7, vote in the following areas:
  - ▶ Values and beliefs
  - ▶ Team environment
  - ▶ Communication
  - ▶ Rewards and Recognition
- ▶ Sample Values and Beliefs Statement: *Our department demonstrates commitment to its mission.*

# Deliverables

## Workshop Summary

Anonymity is maintained: no names used and not publicly distributed.

## Action Plan

Developed by the team to address the concerns and build on the strengths noted.

## Final Report

Report issued through normal channels.

# Internal Audit's BPI Workshop

- April 8, 2019
  - Director of Internal Audit Aggie Alonso starts
- April 29, 2019
  - BPI Workshop conducted with IAD facilitator and Dr. Peter Hughes from LA County
- May 9, 2019
  - Aggie issues Action Plan to staff



# Results



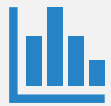
## Strengths

- Teamwork
- Flexibility
- Technology & Innovation
- Strong Management
- Professional Development
- Knowledgeable AOC/  
Respected Department

## Concerns

- Staffing/Resource Issues
- Staff Advancement
- Outdated P&Ps
- Cooperation with  
Elected Officials

# Action Plan



IAD management received workshop summary:

PowerPoint slides  
Graphs of voting results  
Captured comments



Action Plan developed



Action taken

# Questions & Comments?



# **BUSINESS PROCESS IMPROVEMENT**

## **Informational Summary of Comments, Impressions & Voting Results**



**Internal Audit Department  
April 29, 2019**

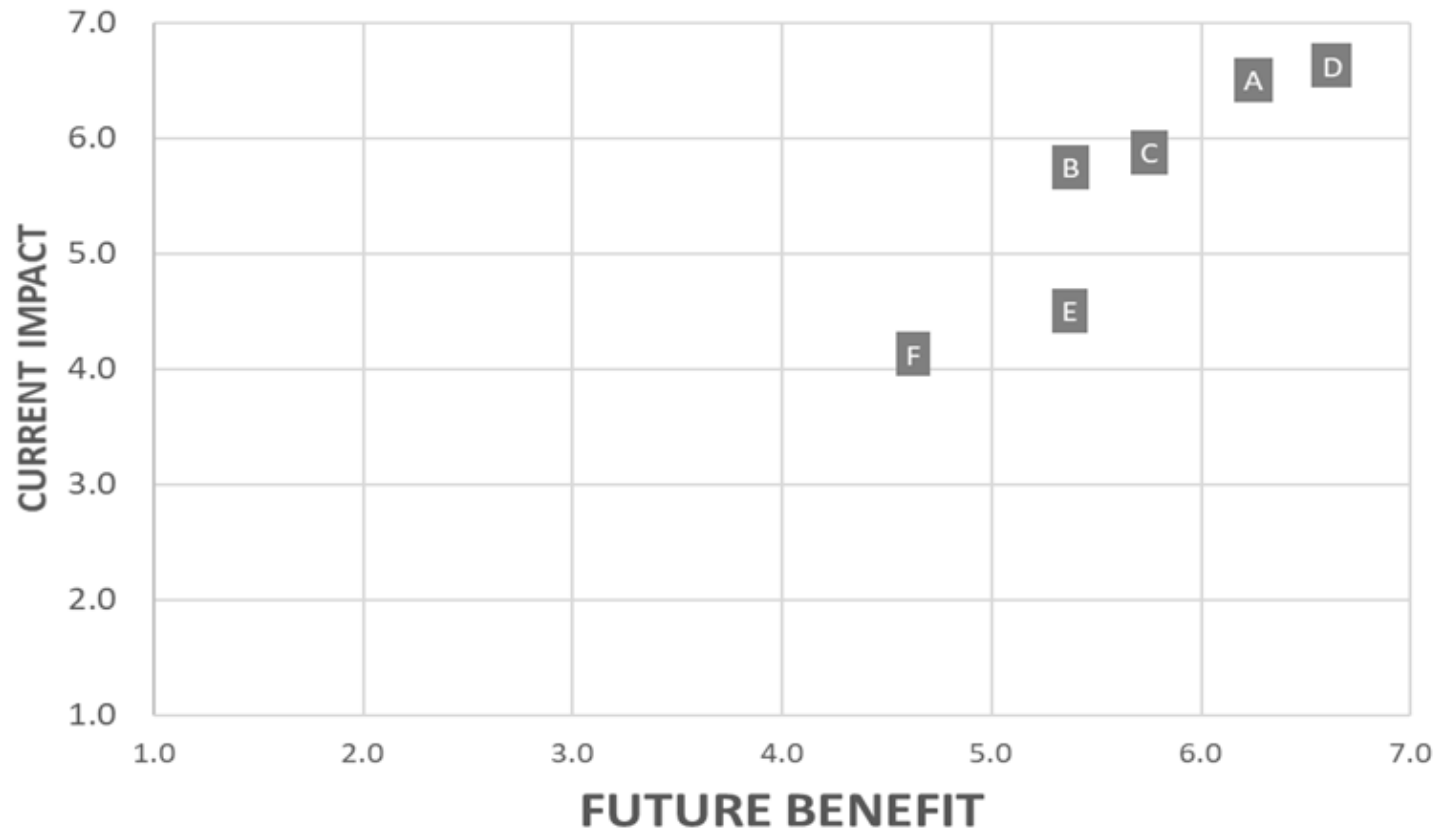
**Workshop Summary Prepared and Facilitation Conducted by the  
Orange County Internal Audit Department &  
Los Angeles County Auditor-Controller Audit Division**

**Facilitators:**

Michael Dean, Senior Audit Manager, CPA, CIA, CISA, CCSA  
Zan Zaman, Audit Manager, CPA, CIA  
With Special Guest Facilitator  
Dr. Peter Hughes, LA County Assistant Auditor-Controller

# **Process Appraisal (Post-It Note Exercise)**

# Strengths



A - Teamwork

B - Flexibility

C - Technology & Innovation

D - Strong Management

E - Professional Development

F - Knowledgeable AOC/Respected Dept



## **Strengths – Discussion**

### **E – Professional Development**

#### **Evidence (List Accomplishments)**

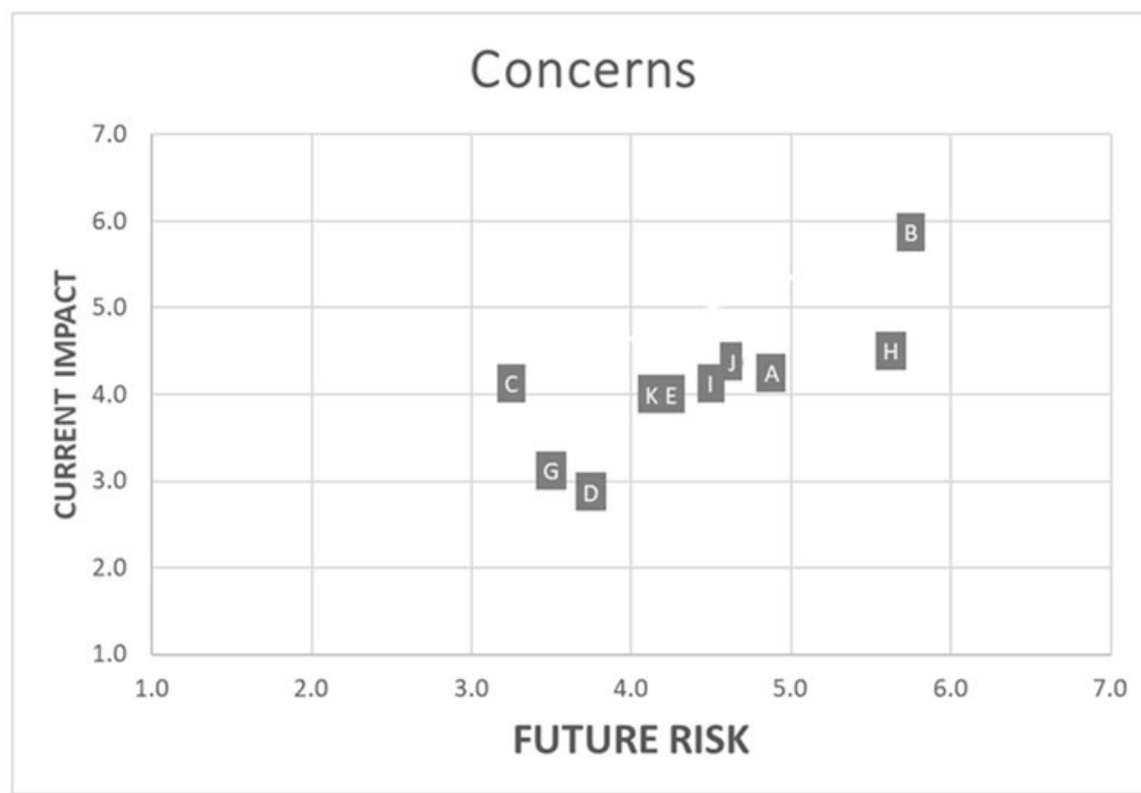
- Internal Audit currently has 55 training hours for CPE.
- Staff are encouraged to get different certifications (CPA, CIA, CISA, and CFE).
- The maximum EPRP allowance is \$3,000.
- All Management and some staff have certifications.
- Internal audit allows other trainings beside CPE.

#### **What Could Happen From Further Utilization**

- Having more staff getting certifications.
- Management and staff will have a stronger knowledge base.
- The department's credibility will increase due to more certifications.

#### **What Should The Group Do?**

- The Director will consider modifying the plan to allow for 60 training hours for CPE.
- The Director will consider allowing time to study at work for certifications.
- The Department can consider higher budget for training.
- The Director will consider allowing CPE to be done at home.



A - Outdated P&P's

B - Staffing/Resources Issues

C - Telecommuting

D - Transparency

E - Resistance to Change

F - Report Process

G - Exposure to Integrated Audits

H - Staff Advancement

I - Management Communication

J- Cooperation with Elected Officials

## Concerns - Discussion

### H – Staff Advancement

#### Evidence (Currently a Problem)

- There is limited growth for advancement for staff.
- The staff's pay is too low.
- There aren't any bonuses for having certifications.
- It is hard to retain staff.
- Staff pay needs to be more competitive with other counties.

#### What Could Happen If No Action is Taken

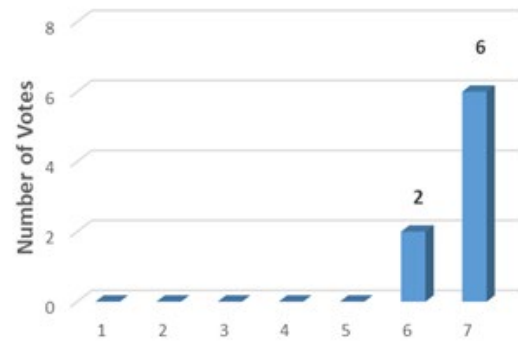
- The department could have low retention for staff.
- Staff could become unhappy.

#### What Should The Group Do?

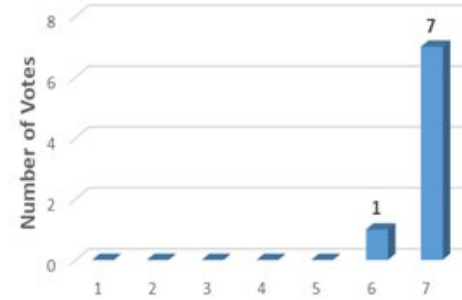
- The Director has plans to look at the organization chart to determine if there could be opportunity for advancement.
- Management can develop staff at next level regardless of department has openings.
- There could be cross training between audits for IT and ICA.
- The Director can re-implement telecommuting.
- The administrative manager staff classification study will be reviewed.
- The Department can benchmark with other counties for salaries.
- The Director will consider other forms of recognition ILO compensation.

## Workshop Evaluation

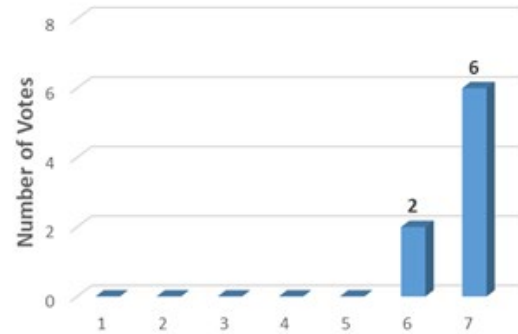
EV 1a- I understand the purpose of Process Improvement & Innovation



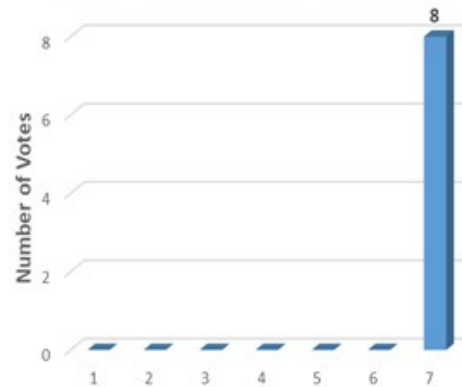
EV 1b - The workshop helped to highlight the issues significant to this team.



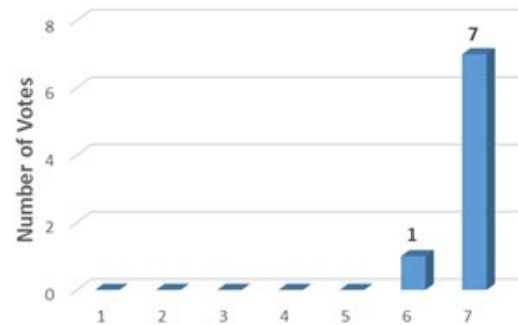
EV 1c - I was able to express my opinions freely



EV 1d - The Facilitators did a good job



EV 1e- I would recommend this process to other teams





## INTERNAL AUDIT DEPARTMENT

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**AGGIE ALONSO, CPA, CIA, CRMA**  
DIRECTOR

**SCOTT SUZUKI, CPA, CIA, CISA**  
ASSISTANT DIRECTOR

**MICHAEL DEAN, CPA, CIA, CISA**  
SENIOR AUDIT MANAGER

**JIMMY NGUYEN, CISA, CFE, CEH**  
IT AUDIT MANAGER II

**GIANNE ACOSTA, CIA**  
AUDIT MANAGER

**MARI ELIAS, CPA**  
ADMIN SERVICES MANAGER

**SCOTT KIM, CPA, CISA**  
IT AUDIT MANAGER I

**ZAN ZAMAN, CPA, CIA**  
AUDIT MANAGER

**GABBY CABRERA**  
SENIOR AUDITOR

**VIRGINIA NGUYEN**  
SENIOR AUDITOR

**STEPHANY PANTIGOSO**  
SENIOR AUDITOR

DATE: May 9, 2019

TO: All Staff  
Internal Audit Department

FROM: Aggie Alonso, CPA, CIA, CRMA  
Internal Audit Department Director

SUBJECT: Process Improvement & Innovation (PI&I) Workshop Internal  
Action Plan

The following is an action plan document prepared in response to the Process Improvement & Innovation workshop held on April 29, 2019. Scott, Michael, and I reviewed the workshop summary that was issued on April 30, 2019. In the workshop, categories were created from the concerns we listed on post-its. This action plan addresses the three highest concern categories according to the voting results. This action plan also addresses the next two most common concerns noted in the categories. We also created categories from the strengths we listed on post-its and held a discussion regarding those strengths. We've taken some of the suggestions to build on those strengths as action plan items to address the five concern categories.

### HIGH-PRIORITY CONCERNS

1. Staff Advancement
2. Staffing/Resource Issues
3. Outdated Policies and Procedures

### POST-IT CONCERNS (not addressed above in High-Priority Concerns)

1. Telecommuting
2. Exposure to Integrated Audits

### HIGH PRIORITY CONCERN #1 - STAFF ADVANCEMENT

Staff are concerned about a lack of promotional opportunities and low pay.

### ACTIONS PLANNED:

1. IAD management will review the administrative manager classification and compensation study results when issued by the CEO (time TBD). This could result in salary adjustments.
2. The Director will consider alternatives in lieu of compensation, such as telecommuting, by October 31, 2019 (see below) and offsite online continuing professional education by May 31, 2019 (see below).
3. The Director will increase budgeted training hours for all audit staff to 60 hours per fiscal year, effective July 1, 2019, to allow for professional development that could result in staff advancement.
4. IAD management will continue and emphasize stretch goals and challenging assignments to develop staff for promotional opportunities.

### **HIGH PRIORITY CONCERN #2 - STAFFING/RESOURCE ISSUES**

Staff are concerned about staffing levels and resources.

#### **ACTIONS PLANNED:**

1. The Director will review the organization chart and determine the status of the vacant audit manager II position by July 31, 2019.
2. IAD management will allow IT and ICA Audit Manager Is to cross-train during the FY 2019-20 audit plan. Senior Auditors will be given an opportunity to work on IT projects (see below).
3. The Director is also assessing the needs of the Internal Audit Department and if additional resources or a departmental re-organization is necessary, the Director will develop a plan of action by September 30, 2019

### **HIGH PRIORITY CONCERN #3 - OUTDATED POLICIES AND PROCEDURES**

Staff are concerned about outdated audit templates and policies and procedures.

#### **ACTIONS PLANNED:**

1. The Assistant Director will lead a project to update the audit manual by June 30, 2020.
2. The Senior Audit Manager will assign ICA Audit Managers the duty of updating internal control questionnaires for all seven ICA cycles by December 31, 2019.

### **POST-IT CONCERN #1 - TELECOMMUTING**

Staff would like the option of telecommuting.

#### **ACTIONS PLANNED:**

1. The Director will implement a pilot program for telecommuting period by October 31, 2019.
2. The Director will allow online continuing professional education to be done offsite, effective May 31, 2019.

### **POST-IT CONCERN #2 - EXPOSURE TO INTEGRATED AUDITS**

Staff would like exposure to integrated audits.

#### **ACTIONS PLANNED:**

1. IAD management will allow IT and ICA auditors (Audit Manager Is and Senior Auditors) to cross-train during the FY 2019-20 audit plan cycle by June 30, 2020.
2. For one ICA to be performed in the FY 2019-20 audit plan cycle (TBD), the ICA team will have the IT team review IT controls over the relevant area under audit by June 30, 2020.

Thank you everyone for your participation in the workshop. Your input is valuable in improving the effectiveness and efficiency of our Internal Audit Department. Please contact Scott, Michael, or myself if you have any questions.





## INTERNAL AUDIT DEPARTMENT

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### AUDIT OVERSIGHT COMMITTEE SELF-ASSESSMENT CHECKLIST

This Checklist identifies 35 of the most impactful steps that an Audit Committee can take to support an effective, responsive and professional Internal Audit activity.

These “success factors” were drawn from five authoritative sources and selected from over a hundred key “success factors”.

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#### SOURCES

1. AICPA - Audit Committee Toolkit for Governmental Organizations
2. Government Finance Officers Association - Best Practices for Audit Committees
3. The Institute of Internal Auditors - Audit Committee Reporting: A Guide for Internal Auditing
4. The Institute of Internal Auditors Research Foundation and PricewaterhouseCoopers LLC - Audit Committee Effectiveness: What Works Best, 4th Edition
5. EY Center for Board Matters – Staying on Course: A Guide for Audit Committees



#	Self-Assessment Checklist	Yes %	No %
1.	The audit committee periodically reviews the effectiveness of the entity's fraud deterrence educational and monitoring programs.	29%	71%
2.	<b>Tone at The Top &amp; Governance - The audit committee inquires and discusses with management, the CAE and the External Auditor the effectiveness of both the departmental and the entities' ETHICS educational, training and monitoring programs. Specific attention is accorded to the most vulnerable activities such as procurement of goods and services, real estate transactions involving leases, acquisitions and sales of property and facilities, and the handling of confidential and personal data.</b>	29%	71%
3.	<b>Members of the audit committee are members of the governing body or their designees, and no member exercises managerial responsibilities over the areas that are audited.</b>	38%	63%
4.	The audit committee periodically conducts a 'self-assessment' of its own effectiveness utilizing available industry criteria and assessment tools.	38%	63%
5.	<b>The audit committee members are consulted in the hiring, termination and evaluation of the CAE.</b>	44%	56%
6.	The audit committee does the following: 1) approves the selection of the independent external Peer Reviewer for Audit; 2) receives and reviews the finished Peer Review Report; 3) receives and reviews the results of Internal Audit's periodic internal self-assessment and on an annual basis the results of its ongoing internal monitoring; 4) receives and reviews the annual confirmation from the CAE on the organizational independence of the Internal Audit activity.	56%	44%
7.	<b>The audit committee annually reviews and discusses the Internal Audit activity's budget and staffing level to ensure that it has adequate resources sufficient to effectively carry out its assigned responsibilities and its Risk-Based Audit Plan.</b>	57%	43%
8.	The audit committee reviews, discusses and approves the adoption of Key Performance Indicators or Measures recommended by the CAE regarding the effectiveness of the Internal Audit activity, and receives and reviews the results at least annually.	57%	43%
9.	The audit committee ensures that there are established procedures for the confidential, anonymous submission of concerns regarding questionable accounting or auditing matters, as well as for complaints regarding the potential waste, fraud and abuse of governmental funds and activities.	57%	43%
10.	<b>The audit committee periodically discusses the performance and professionalism of the Internal Audit activity considering the results of 'client' surveys, the completion of the audit plan, the assessment of the External Auditor and the finished work product.</b>	57%	43%
11.	<b>The audit committee chair discusses with the External Auditors the adequacy of the internal audit coverage, the quality of internal audit's work, the effective use of the internal audit resources, and the adequacy of their budget and staffing level.</b>	63%	38%
12.	The audit committee chair meets with the CAE between committee meetings to discuss resource issues, the degree of cooperation received from management, the nature and status of special assignments, coverage, and emerging issues.	71%	29%
13.	The audit committee inquires of executives, management, the External Auditor and the CAE about significant financial and reputational exposures, the key vulnerabilities, risks, hindrances and obstacles to programmatic successes,	71%	29%

#	Self-Assessment Checklist	Yes %	No %
	and the steps management has taken to reduce such risks to an acceptable level.		
14.	New members of the audit committee are provided with an orientation regarding both the role of the audit committee and the Internal Audit activity, and associated best practices for both. Ongoing development of members may include attendance at professional seminars on internal auditing offered by such professional associations as the Institute of Internal Auditors, the Government Finance Officers Association, and the Association of Local Governmental Auditors.	75%	25%
15.	Members of the audit committee collectively possess a basic understanding of the entities' programs, accounting, financial reporting, budgeting, internal controls and auditing.	86%	14%
16.	The audit committee ensures that the Internal Audit activity has established a process and criteria for effectively monitoring (following up on) the timely implementation of corrective action by management in response to audit findings and recommendations. Such results are presented in individual reports to the audit committee and may be summarized periodically according to their level of significance and interest.	86%	14%
17.	The audit committee inquires and discusses with management the existence and effectiveness of their internal risk assessment and mitigation programs, including their internal ongoing compliance and self-monitoring reviews.	86%	14%
18.	The audit committee reviews and approves the definition of the 'audit universe,' i.e., those business operations and activities that are subject to audit coverage, and ensures that any significant omissions of business processes or activities are discussed and disclosed.	88%	13%
19.	The audit committee in conjunction with the CAE develops criteria to rank the relative significance of control weaknesses identified by the Internal Audit activity to ensure prompt attention is directed to the most significant issues.	88%	13%
20.	The audit committee either reviews or approves the recommendation of the 'bid and selection committee' that identifies the winning bid for the external audit contract or has a member represented on the bid evaluation and selection committee.	88%	13%
21.	The governing body of the local government entity has established an audit committee.	100%	0%
22.	The audit committee is formally established by charter or enabling resolution that prescribes the scope of the committee's responsibilities, its structure, processes, and membership requirements.	100%	0%
23.	The audit committee has sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation; generally, no fewer than three members.	100%	0%
24.	The audit committee meets at least twice a year and prepares both an agenda and minutes of the meetings which are attended by the Chief Audit Executive (CAE), External Auditor and management.	100%	0%
25.	The audit committee periodically reviews its charter, at least once every five years, to assess its continued adequacy given changes in laws and best practices.	100%	0%
26.	The audit committee is adequately supported and has access to financial experts, legal counsel, and other appropriate specialists, as necessary to help it fulfill its responsibilities.	100%	0%
27.	The audit committee ensures that the Internal Audit activity is formally established by charter or enabling resolution that clearly defines its purpose,	100%	0%

#	Self-Assessment Checklist	Yes %	No %
	authority, and responsibilities consistent with the Institute of Internal Auditors' Auditing Standards.		
28.	The audit committee supports and ensures that the Internal Audit activity reports to a level within the organization that allows the activity to fulfill its responsibilities in an unbiased and objective manner.	100%	0%
29.	The audit committee supports and ensures that the Internal Audit activity assesses the internal control and programmatic risks of the entity utilizing an established 'Risk-Based' methodology.	100%	0%
30.	The audit committee exercises appropriate oversight in the development of the Audit Plan based upon a Risk-Based methodology to ensure its alignment with the Board's Strategic Goals and New Initiatives as well as its inclusiveness of emerging issues.	100%	0%
31.	The audit committee designates a specific agenda item that allots sufficient time to discuss, review and approve the Audit Plan (if necessary, schedules a separate meeting exclusively devoted to this discussion).	100%	0%
32.	The audit committee reviews, approves or rejects, if warranted, upon discussion with the CAE and management, all proposed 'material' revisions, postponements, additions, and deletions to the 'approved' Audit Plan.	100%	0%
33.	The audit committee receives and reviews at least annually relevant reports and discusses the success that the audit committee and the Internal Audit activity had in completing/fulfilling the Audit Plan. Such status reports include detailed matrixes and graphics that clearly illustrate the extent of audit coverage in total, by auditable units, or activities and by Board priorities.	100%	0%
34.	The audit committee discusses with the CAE and management significant audit findings and the status of corrective action and reasons for delays or inaction.	100%	0%
35.	The audit committee receives, reviews and discusses all mandatory reports and communications from the External Auditor and affords ample time to discuss the control weaknesses and related issues identified in their Management Letter.	100%	0%

## AUDIT OVERSIGHT COMMITTEE RETREAT BEST PRACTICE ROUND TABLE

Based on results from our audit committee best practice questionnaire, the AOC is meeting or exceeding the mark in the majority of areas. Specifically, for 22 of the 35 best practices (63%), the survey participants showed at least a 75% concurrence rate including 15 with a 100% concurrence rate. The following five best practices showed a concurrence rate of less than 75%. We are here to discuss actions to take to address those five best practices.

	Topic	Best Practice
1	<b>Comprehensive Framework of Internal Control and Countywide Training</b>	The audit committee inquires and discusses with management, the CAE, and the External Auditor the effectiveness of both the departmental and the entities' ETHICS educational, training and monitoring programs. Specific attention is accorded to the most vulnerable activities such as procurement of goods and services, real estate transactions involving leases, acquisitions and sales of property and facilities, and the handling of confidential and personal data.
2	<b>Internal Audit Resources</b>	<p>The audit committee annually reviews and discusses the Internal Audit activity's budget and staffing level to ensure that it has adequate resources sufficient to effectively carry out its assigned responsibilities and its Risk-Based Audit Plan.</p> <p>The audit committee periodically discusses the performance and professionalism of the Internal Audit activity considering the results of 'client' surveys, the completion of the audit plan, and the finished work product.</p>
3	<b>External and Internal Audit Coordination and Coverage</b>	The audit committee chair discusses with the External Auditors the adequacy of the internal audit coverage, the quality of internal audit's work, the effective use of the internal audit resources, and the adequacy of their budget and staffing level.
4	<b>AOC Member Requirements</b>	Members of the audit committee are members of the governing body or their designees, and no member exercises managerial responsibilities over the areas that are audited.
5	<b>Chief Audit Executive Evaluation, Hiring and Firing</b>	The audit committee members are consulted in the hiring, termination and evaluation of the Chief Audit Executive.



# AUDIT OVERSIGHT COMMITTEE (AOC) VIRTUAL RETREAT BINDER OCTOBER 1, 2020

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  - iii. Internal Audit Department
- d. AOC Bylaws
  - i. BOS Approved 07-14-20
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- e. IAD Charter
- f. FY 20-21 Risk Assessment & Audit Plan
- g. The Brown Act
- h. External Quality Assessment (EQA)
- i. OC Ethics (AB1234)
- j. Gift Ban Ordinance

## 2020 AOC Member Roster

<b>Board of Supervisors</b> <b><u>2 Members</u></b> (must be Chair and Vice Chair) <b>Voting Members</b>	
<b>Vice Chairwoman, Michelle Steel</b> , 2 <sup>nd</sup> District Hall of Administration 333 W. Santa Ana Blvd, 5 <sup>th</sup> Floor Santa Ana, CA 92701 (714) 834-3220, <a href="mailto:michelle.steel@ocgov.com">michelle.steel@ocgov.com</a>	<b>Vice Chairman, Andrew Do</b> , 1 <sup>st</sup> District Hall of Administration 333 W. Santa Ana Blvd, 5 <sup>th</sup> Floor Santa Ana, CA 92701 (714) 834-3110, <a href="mailto:andrew.do@ocgov.com">andrew.do@ocgov.com</a>
County Executive Officer, <b>Frank Kim</b> Hall of Administration 333 W. Santa Ana Blvd, 3 <sup>rd</sup> Floor Santa Ana, CA 92701 (714) 834-6200, <a href="mailto:frank.kim@ocgov.com">frank.kim@ocgov.com</a>	

<b>Private Sector Members</b> <b>Voting Members</b>	
<b>AOC Chairman, Robert Brown</b> , District 5 31331 Isle Vista Drive Laguna Niguel, CA 92677 BCC: (949) 365-5322/Cell: (949) 842-7966 <a href="mailto:robert.l.brown@morganstanley.com">robert.l.brown@morganstanley.com</a> TERM: 1.16.16 – 1.03.23	<b>AOC Vice Chair, Mark F. Wille</b> , District 3 1451 Quail St., #107 Newport Beach, CA 92660 BCC: (949) 852-1040 (x15)/Cell: (714) 404-1040 <a href="mailto:mfw@mfwcpa.com">mfw@mfwcpa.com</a> TERM: 9.24.19 – 1.03.21 Scheduling: <a href="mailto:sd@mfwcpa.com">sd@mfwcpa.com</a> , Sheila Davis (x10)
<b>Drew Atwater</b> , District 1 267 North Bush Street Santa Ana, CA 92701 BCC: (818) 935-0205 <a href="mailto:drew.atwater@gmail.com">drew.atwater@gmail.com</a> TERM: 1.1.18 – 1.12.21	<b>VACANT</b> District 2 Address  BCC: email TERM:
<b>Stella Acosta</b> , District 4 26 Somerset Dove Canyon, CA 92679 BCC: (562) 708-2486 <a href="mailto:stella@sacostacpa.com">stella@sacostacpa.com</a> TERM: 1.14.20-1.03.23	

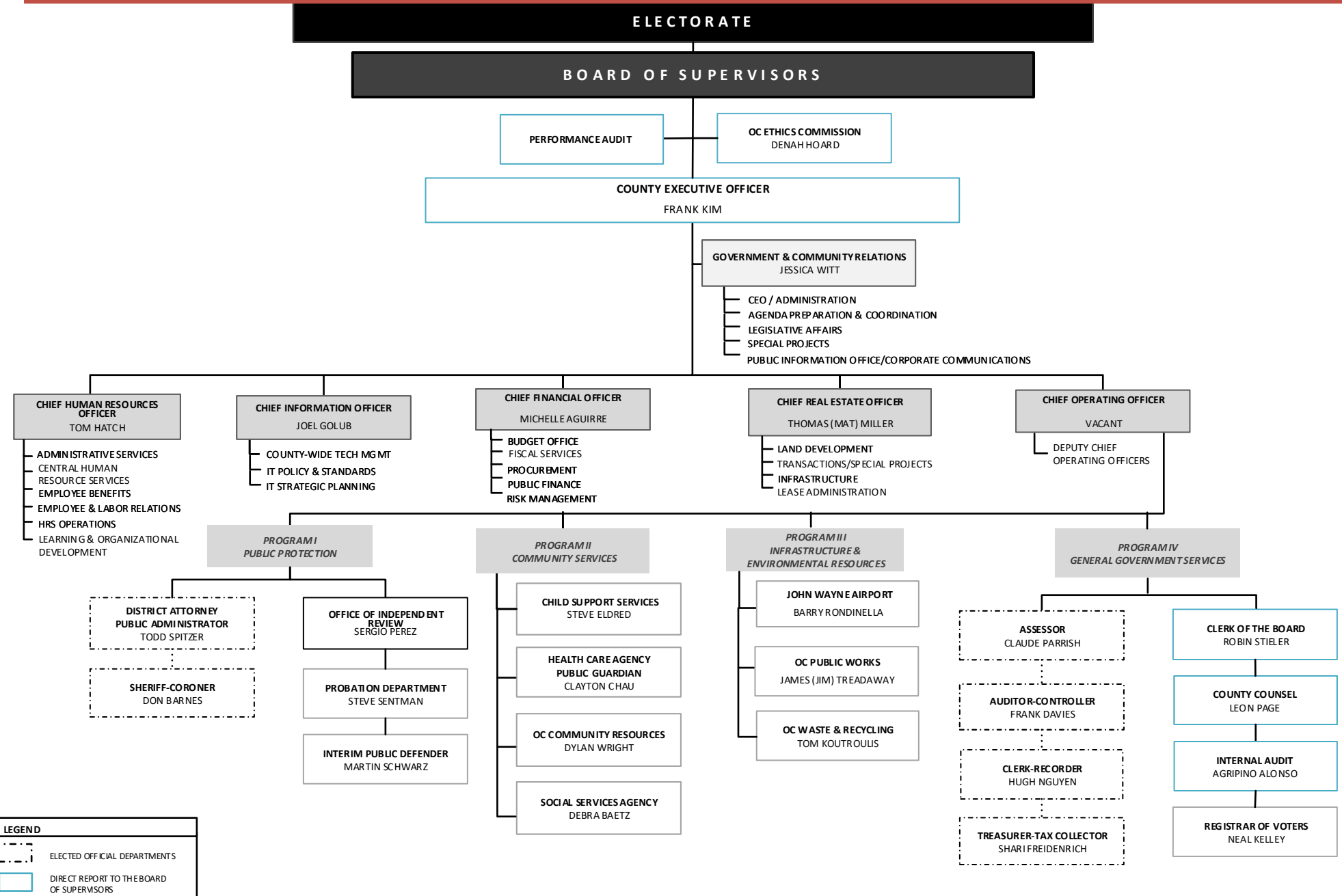
<b>Non-Voting Members</b>	
Auditor-Controller, <b>Frank Davies</b> 1770 N. Broadway, 4 <sup>th</sup> Floor Santa Ana, CA 92706 (714) 834-2457, <a href="mailto:frank.davies@ac.ocgov.com">frank.davies@ac.ocgov.com</a>	Treasurer-Tax Collector, <b>Shari Freidenrich</b> 601 N. Ross Street, 2 <sup>nd</sup> Floor Santa Ana, CA 92701 (714) 834-7625, <a href="mailto:shari.freidenrich@ttc.ocgov.com">shari.freidenrich@ttc.ocgov.com</a>
Internal Audit Director, <b>Aggie Alonso</b> 601 N. Ross Street, 5 <sup>th</sup> Floor Santa Ana, CA 92701 (714) 834-5442, <a href="mailto:aggie.alonso@ocgov.com">aggie.alonso@ocgov.com</a>	



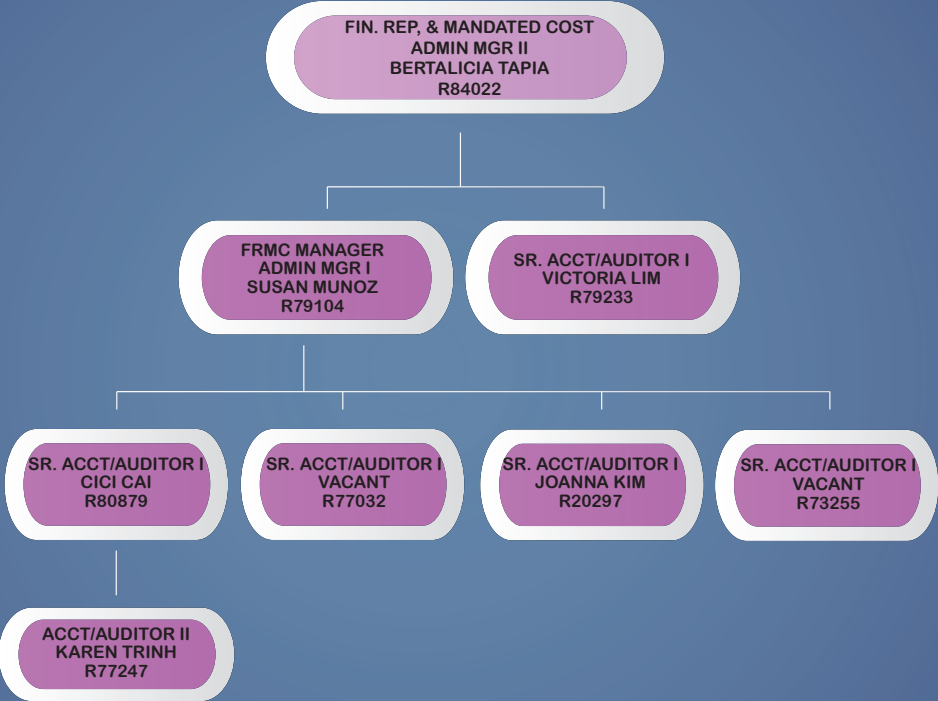


# COUNTY OF ORANGE ORGANIZATIONAL CHART

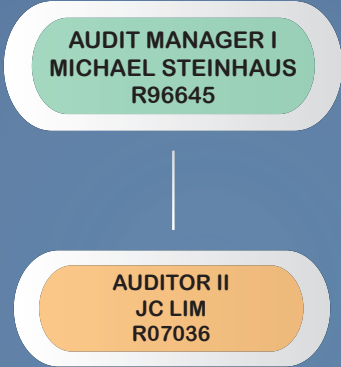
July 2<sup>nd</sup>, 2020



FINANCIAL REPORTING



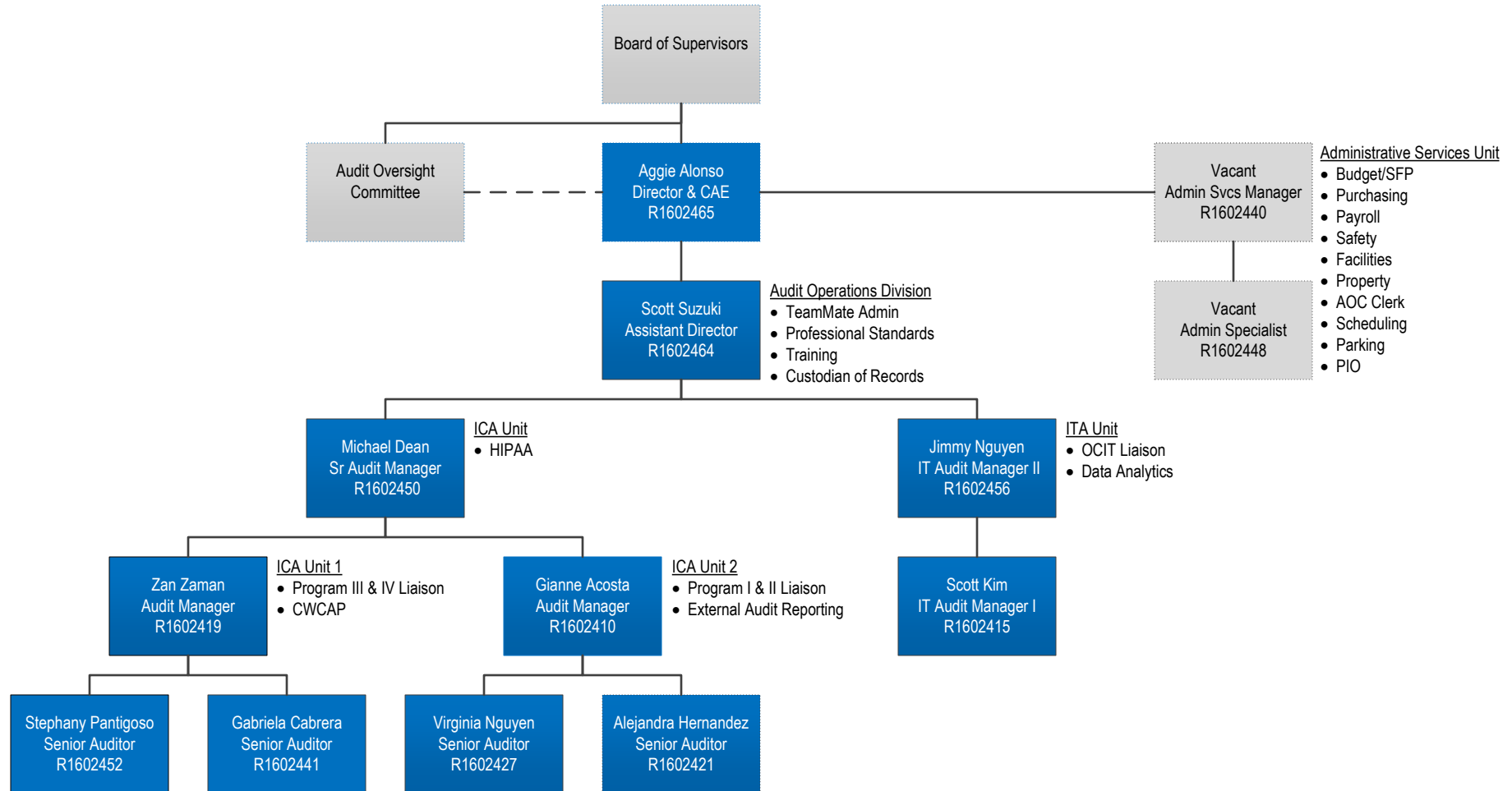
INTERNAL AUDIT





# INTERNAL AUDIT

AS OF 7/03/2020



**County of Orange**  
**Audit Oversight Committee Bylaws**  
(Approved by B.O.S. on 7/14/2020)

**ARTICLE 1 ESTABLISHMENT**

The Audit Oversight Committee (AOC) was originally established in 1995 by Board of Supervisors' Resolution No. 95-271 to provide oversight over the County's internal audit functions. This resolution was superseded by Resolution No. 2016-014, which affirmed and amended the duties and responsibilities of the AOC in light of the creation of the position of Performance Audit Director and the transfer of the internal audit responsibilities to the Auditor-Controller's office. In 2018, the Board of Supervisors adopted Resolution 18-068, establishing an Internal Audit Department independent from the Auditor-Controller and reporting directly to the Board of Supervisors.

**ARTICLE 2 PURPOSE**

The purpose of the AOC is to serve as an advisory committee to the Board of Supervisors on issues related to the County's internal audit function and the County's external audit coverage including the financial statements (e.g. CAFR, Single Audit Report and Management Letter) and federal and state audits. The AOC assists the Board of Supervisors in fulfilling their oversight responsibilities with respect to financial, operational, and compliance audit activities including, but not limited to: (i) external audit; (ii) internal audit; (iii) performance audit; and (iv) mandated audits. The AOC is responsible for ensuring the independence of the internal audit function, reviewing and recommending approval of the Internal Audit Department's and the County Executive Office's Annual Audit Plans, reviewing audit reports, and ensuring that corrective action is taken on audit findings.

**ARTICLE 3 MEMBERSHIP**

- 3.1 The membership of the AOC shall consist of the following: the Chairperson and Vice-Chairperson of the Board of Supervisors, the County Executive Officer (CEO), and five public members from the private sector appointed by the Board of Supervisors. All public members shall serve a term of office that is coterminous with the term of the member of the Board of Supervisors that nominated such public member, not to exceed four (4) years. Members selected to fill a vacancy for reasons other than the regular expiration of a term shall serve only for the remainder of that term. The public members may be reappointed or removed by the Board of Supervisors.
  - 3.1.1 Public members whose term has expired, including those coterminous with the Board of Supervisors as described in Section 3.1, shall continue to discharge their duties as a holdover appointee until their successor has been appointed by the Board of Supervisors or they have resigned from the AOC, whichever is earlier.
- 3.2 Each member of the Board of Supervisors may nominate one public member for appointment by the Board of Supervisors. Public members shall possess sufficient knowledge and experience in finance, business, and accounting to discharge the AOC's duties with an emphasis on prior audit experience (i.e., financial and internal controls).
- 3.3 In the event that a public member chooses to resign from the AOC, such member should notify the Chair of the AOC, in writing. The Chair of the AOC will then immediately notify the Board of Supervisors and the AOC of any such resignations. Upon notification, the CEO will then solicit nominations from the appropriate Board of Supervisors office that is responsible for nominating a public member for appointment by the Board of Supervisors to fill the vacancy.

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### **Audit Oversight Committee Bylaws**

- 3.4 Members are expected to consistently attend all meetings. If a public member is unable to attend a meeting, absent extenuating circumstances, the public member shall notify the AOC Chair of his or her anticipated absence, prior to the meeting.
- 3.5 The Director of Internal Audit, Auditor-Controller, and Treasurer-Tax Collector or their authorized designees, shall attend all AOC meetings. The Director of Internal Audit, Auditor-Controller, and Treasurer-Tax Collector shall not be voting members of the AOC.

#### **ARTICLE 4 CHAIR AND VICE CHAIR - POWERS AND DUTIES**

- 4.1 The Chair and Vice-Chair shall be elected for a one year term extending from January 1<sup>st</sup> to December 31<sup>st</sup>, which may be extended for one additional year by a majority vote of the AOC members.
- 4.2 The Chair's duties include presiding over all AOC meetings, establishing subcommittees, responding to members' requests for information, signing communications on behalf of the AOC and representing the AOC before the Board of Supervisors and other governmental and quasi-governmental bodies, subject to the approval of the other AOC members.
- 4.3 The Chair and Vice-Chair may review drafts of the Comprehensive Annual Financial Report upon request to the extent that the exemption for the production of such record can be preserved. The Chair and Vice-Chair shall maintain the confidentiality of such draft records and shall not retain copies of such drafts upon the completion of their review.
- 4.4 In the absence or inability of the Chair to preside over the meetings, the Vice-Chair will perform such duties. If neither the Chair nor Vice-Chair is able to preside, the AOC shall select one of the members to act as Chair for the meeting, and who shall have all the powers and duties of the Chair during the meeting.
- 4.5 The Chair and Vice-Chair may only be selected from the public members of the AOC. The Chair cannot serve as Vice-Chair in the year immediately following his service as Chair.
- 4.6 The Chair shall author a brief report to the Board of Supervisors, no later than thirty (30) days after each meeting, noting member attendance and any significant matters to come before the committee.

#### **ARTICLE 5 MEETINGS**

- 5.1 The AOC shall meet at least quarterly, with authority to convene additional meetings as circumstances require. All meetings shall be subject to the Ralph M. Brown Act.
- 5.2 An agenda shall be prepared for each meeting by IAD staff and approved for distribution by the AOC Chair. The agenda shall contain a brief general description of each item of business to be transacted or discussed at the meeting of the AOC or as required by the Brown Act. The agenda shall include any item of business that is carried forward from a prior regular meeting at the request of the AOC. The agenda shall be posted within the time and in the manner required by the Brown Act. Additional items may be added to the agenda after it is posted only in accordance with the Brown Act.

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### **Audit Oversight Committee Bylaws**

- 5.3 The AOC Chair is required to call a meeting if requested to do so by the Board of Supervisors or two public members.
- 5.4 The quorum for a meeting shall be a majority of the voting members, and decisions made by a majority vote of the voting members present shall be regarded as acts of the AOC.
- 5.5 All AOC members will have an equal voice in the decision-making process. Due to the scope of the AOC's assignment, and the value of each member's input, consistent attendance by all members is expected; however, the Chair and Vice-Chair of the Board of Supervisors and the County Executive Officer (CEO) may designate a substitute to attend an AOC meeting on their behalf by submitting the member's signed proxy to the Chair of the AOC at the start of the meeting.
- 5.6 The Chair may, as necessary, ask authorized representatives of the performance auditor, the Internal Audit Department (IAD), and Auditor-Controller to attend AOC meetings to discuss plans, findings and other matters of mutual concern.
- 5.7 IAD will keep minutes of each meeting and offer them for AOC approval as the first item on the subsequent meeting agenda.
  - 5.7.1 Minutes of each meeting shall contain a record of the persons present. The minutes should provide a record of decisions taken and a high-level summary of the discussion, providing insight on the topics and subtopics discussed.
  - 5.7.2 IAD shall distribute the draft minutes, which will be presented for approval by the AOC at its next scheduled meeting, as soon as reasonably practical following the meeting.
  - 5.7.3 If the minutes for a prior meeting are corrected or amended during an AOC meeting, such minutes will be sent to the AOC members once approved by the AOC.
- 5.8 Reports and other documents distributed in conjunction with the AOC agenda shall be distributed in accordance with the Ralph M. Brown Act in advance of the meeting to allow for their review.
- 5.9 The Chair shall preserve order and decorum. The AOC shall operate under Roberts' Rules and the Chair shall decide all questions of order (unless overridden by a majority of the committee members present) consistent with such rules.
- 5.10 The AOC's meeting schedule will normally be tentatively set out one year in advance and finalized each quarter so that County management and IAD staff can prepare the information and reports required to support the AOC's work.

#### **ARTICLE 6 OPERATIONS**

- 6.1 The AOC's Bylaws shall be submitted to the Board of Supervisors for approval. The Bylaws shall be reviewed periodically, no less than once every three years, by the AOC and reaffirmed by the Board of Supervisors. Reassessments should specifically take into account any changes that may be needed as the result of changes in law, regulation, or professional standards.



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### **Audit Oversight Committee Bylaws**

- 6.2 Members shall be briefed on the AOC's purpose, responsibilities, objectives, and on the business of the County upon joining the AOC by the Director of IAD. A process of continuing education (e.g., briefings and information on emerging issues and risks) shall be provided at the AOC meetings as approved by the AOC subject to available budget appropriations. Public members shall receive ethics training as required by AB 1234, Government Code sections 53234, *et seq.*, which shall be provided by the County.
- 6.3 The AOC shall be provided with the resources necessary to carry out its role, responsibilities, and duties. To the extent it deems necessary to meet its responsibilities, and in keeping with its Bylaws, the AOC has the authority to retain independent advice and assistance pursuant to County purchasing policy and procedures subject to available budget appropriations.
- 6.4 The AOC may request funds needed for its operation during the County's normal budget process. Such appropriation will be included within the IAD's budget to be administered by IAD staff.
- 6.5 The IAD shall provide staffing and support for the AOC. This includes:
- a. the timely preparation of all notices and draft agendas of meetings;
  - b. coordination of presentations and distribution of reports and/or related documents that are prepared for the AOC's information or consideration;
  - c. the timely preparation and distribution of minutes of meetings; and
  - d. the performance of other incidental duties as may be assigned.

#### **ARTICLE 7 RESPONSIBILITIES AND DUTIES**

- 7.1 *Representation Letter.* The County Executive Officer will annually provide the AOC with a copy of the signed representation letter issued to the external auditor. Furthermore, the CEO and all County agencies/departments under the authority of the CEO, will cooperate with internal/external auditors and will comply with all laws, regulations, policies, and standards of ethical conduct during the audits, and will request that County elected Department Heads similarly comply.
- 7.2 *Financial Statements and Reporting.* The AOC shall provide oversight of the County's independent external auditor and shall:
- a. review the quality of the County's financial reporting activities;
  - b. review all findings, recommendations, and management's responses related to all external audit reports and consult with external auditors regarding audit adjustments, weaknesses in internal controls, fraud, and compliance matters related to laws, regulations, contracts and grant agreements that would have a material impact on the basic financial statements, included in the Comprehensive Annual Financial Report (CAFR), Single Audit and other audit reports prepared by the County's independent external auditors;
  - c. provide oversight for the periodic review and selection of the County's independent external auditor to perform the audit of the County's basic financial statements included in the CAFR, including all component units and the Single Audit;
  - d. review any additional work beyond the original scope of work conducted by the independent external auditors on behalf of the County;
  - e. review the independent external auditor's scope and plan and any significant changes to the scope during the audit process;

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- f. review the draft of the County's CAFR and provide questions and/or comments to the Auditor-Controller for consideration (Chair and Vice-Chair only);
- g. discuss, as needed, with County Counsel, the independent external auditor, and the Director of Internal Audit, legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements and compliance with federal, state, and local laws and regulations, grant agreements and contracts;
- h. review with the independent external auditor the latter's judgments about the quality, not just the acceptability, of the County's accounting principles as applied in its financial reporting;
- i. review all matters required to be discussed by auditing standards generally accepted in the United States of America (GAAS) and Government Auditing Standards issued by the Comptroller General of the United States (GAS), including those specific matters covered in AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*;
- j. review with management and the independent external auditor the effect of any regulatory and accounting initiatives, such as related organizations financing structures, derivatives, or securities lending; and
- k. review all alternative treatments of financial information brought to the AOC's attention by the independent external auditor within accounting principles generally accepted in the United States of America (GAAP) that have been discussed with County management and the ramifications of each alternative and the treatment preferred by the County.

#### 7.3 *Oversight of the Audit Function of the Auditor-Controller (AC).* The AOC shall:

- a. review regularly and annually discuss the adequacy of resources of the audit function;
- b. review and approve the risk assessment and audit plan prepared by the AC and any subsequent revisions;
- c. compare the approved audit plan with actual work completed
- d. review significant findings during the year and management's responses thereto;
- e. discuss with the AC any significant difficulties encountered in the course of AC audits, including any restrictions on the scope of their work or access to required information;
- f. review and discuss, as necessary, critical impact findings and recommendations contained in audit reports and management action plans to address recommendations; and
- g. ensure AC establishes and audits agencies/department's compliance with a comprehensive framework of internal controls.

#### 7.4 *Oversight of the Internal Audit Department.* The AOC shall:

- a. review the County's IAD charter and recommend revisions with all revisions submitted to the Board of Supervisors for its review and approval;
- b. review regularly and annually discuss the adequacy of resources of the internal audit function;
- c. review and approve the risk assessment and internal audit plan prepared by the Director of Internal Audit and any subsequent revisions;
- d. compare the approved internal audit plan with actual work completed
- e. review significant findings during the year and management's responses thereto;
- f. discuss with the Director of Internal Audit any significant difficulties encountered in the course of IAD audits, including any restrictions on the scope of their work or access to required information;

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### **Audit Oversight Committee Bylaws**

- g. review and discuss, as necessary, critical impact findings and recommendations contained in audit reports and management action plans to address recommendations; and
- h. ensure IAD establishes and audits agencies/department's compliance with a comprehensive framework of internal controls.

**7.5**     *Oversight of Performance Audit.* The AOC shall:

- a. provide input regarding the County's performance auditing function, including oversight over the auditing activities of the performance auditor;
- b. review performance audit reports and determine whether they adequately address whether the audited functions are effective, efficient, economical, equitable, compliant with Federal and State laws, ethical, and are based on reliable data;
- c. review and discuss, as necessary, findings and recommendations contained in performance audit reports and management action plans to address recommendations; and
- d. review and make recommendations regarding the annual work plan prepared by the County Executive Office.

**7.6**     *Follow-up Audits.* The AOC shall:

- a. ensure that there are effective arrangements in place to monitor and follow-up on management action plans responding to recommendations from internal audits or other sources; and
- b. review and receive reports from the IAD and performance auditor on whether management's action plans have been implemented and whether the actions taken have been effective. The IAD reports shall identify any areas where it believes management has accepted a level of risk that is unacceptable to the County.

**7.7**     *Peer Review/Quality Control.*

- a. The AOC shall ensure that an external quality control review (Peer Review) of the IAD be conducted as required by an organization not affiliated with the IAD in accordance with the GAGAS and/or the Institute of Internal Auditors Standards at the discretion of the Director of Internal Audit.
- b. The AOC shall ensure that an external quality control review (Peer Review) of performance audit be conducted as required by an organization not affiliated with IAD in accordance with the guidelines contained in the Peer Review Guide published by the Association of Local Government Auditors (ALGA).

**7.8**     *Comprehensive Framework of Internal Control.* The AOC will review with the AC, IAD and CEO the adequacy of the County's internal control structure. The AOC should consider a number of factors:

- a. the adequacy of the County's internal controls including computerized information systems;
- b. determine adherence to the principle established in the COSO guidelines including cybersecurity
- c. significant risks or exposures identified by County management and the steps management has taken or proposes to take to minimize such risks;
- d. findings and recommendations of the independent external and internal auditors;
- e. audit adjustments;
- f. code of conduct;
- g. Fraud Hotline complaints; and
- h. pending accounting and regulatory changes.

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### **Audit Oversight Committee Bylaws**

- 7.9 *Oversight of Fraud Hotline.* The AOC shall ensure that the Auditor-Controller has established procedures for the receipt, retention, investigation and treatment of Fraud Hotline complaints, that have been referred to the Auditor-Controller.
- 7.10 *Coordination and Scheduling of Audits.* The AOC shall review and provide recommendations regarding the coordination and scheduling of external, internal and performance audits to avoid disruption of departmental work flows and duplication of effort.
- 7.11 *Resolution of Audits.* The AOC shall be made aware of incidents in which management does not concur with an audit's findings or recommendations. The AOC may, at its discretion, request applicable management and auditors to appear at an AOC meeting to discuss the differing opinions.

#### **ARTICLE 8 INDEMNIFICATION OF AOC MEMBERS**

The County of Orange will indemnify and defend AOC members, with counsel of the County's sole and exclusive choosing, for their participation, decisions, or actions taken on behalf of the AOC. Each AOC member should also familiarize him/herself with County of Orange Conflict of Interest Code and Gift Ban Ordinance requirements and file the appropriate annual certifications.

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## Audit Oversight Committee Bylaws

### ARTICLE 1 ESTABLISHMENT

The Audit Oversight Committee (AOC) was originally established in 1995 by Board of Supervisors' Resolution No. 95-271 to provide oversight over the County's internal audit functions. This resolution was superseded by Resolution No. 2016-014, which affirmed and amended the duties and responsibilities of the AOC in light of the creation of the position of Performance Audit Director and the transfer of the internal audit responsibilities to the Auditor-Controller's office. In 2018, the Board of Supervisors adopted Resolution 18-068, establishing an Internal Audit Department independent from the Auditor-Controller and reporting directly to the Board of Supervisors.

### ARTICLE 2 PURPOSE

The purpose of the AOC is to serve as an advisory committee to the Board of Supervisors on issues related to the County's internal audit function and the County's external audit coverage including the financial statements (e.g. CAFR, Single Audit Report and Management Letter) and federal and state audits. The AOC assists the Board of Supervisors in fulfilling their oversight responsibilities with respect to financial, operational, and compliance audit activities including, but not limited to: (i) external audit; (ii) internal audit; (iii) performance audit; and (iv) mandated audits. The AOC is responsible for ensuring the independence of the internal audit function, reviewing and recommending approval of the Internal Audit Department's and the County Executive Office's Annual Audit Plans, reviewing audit reports, and ensuring that corrective action is taken on audit findings.

### ARTICLE 3 MEMBERSHIP

- 3.1 The membership of the AOC shall consist of the following: the Chairperson and Vice-Chairperson of the Board of Supervisors, the County Executive Officer (CEO), and five public members from the private sector appointed by the Board of Supervisors. All public members shall serve a term of office that is coterminous with the term of the member of the Board of Supervisors that nominated such public member, not to exceed ~~of four (4) years, except that~~ four (4) years. ~~Members~~ Members selected to fill a vacancy for reasons other than the regular expiration of a term shall serve only for the remainder of that term. The public members may be reappointed or removed by the Board of Supervisors.
  - 3.1.1 Public members whose term has expired, including those coterminous with the Board of Supervisors as described in Section 3.1, shall continue to discharge their duties as a holdover appointee until their successor has been appointed by the Board of Supervisors or they have resigned from the AOC, whichever is earlier.
- 3.2 Each member of the Board of Supervisors may nominate one public member for appointment by the Board of Supervisors. Public members shall possess sufficient knowledge and experience in finance, business, and accounting to discharge the AOC's duties with an emphasis on prior audit experience (i.e., financial and internal controls).
- 3.3 In the event that a public member chooses to resign from the AOC, such member should notify the Chair of the AOC, in writing. The Chair of the AOC will then immediately notify the Board of Supervisors and the AOC of any such resignations. Upon notification, the CEO will then solicit nominations from the appropriate Board of Supervisors office that is responsible for nominating a public member for appointment by the Board of Supervisors to fill the vacancy.

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### Audit Oversight Committee Bylaws

3.4 Members are expected to consistently attend all meetings. If a public member is unable to attend a meeting, absent extenuating circumstances, the public member shall notify the AOC Chair of his or her anticipated absence, prior to the meeting.

3.54 The Director of Internal Audit, Auditor-Controller, and Treasurer-Tax Collector or their authorized designees, shall attend all AOC meetings. The Director of Internal Audit, Auditor-Controller, and Treasurer-Tax Collector shall not be voting members of the AOC.

#### ARTICLE 4 CHAIR AND VICE CHAIR - POWERS AND DUTIES

4.1 The Chair and Vice-Chair shall be elected for a one year term extending from January 1<sup>st</sup> to December 31<sup>st</sup>, which may be extended for one additional year by a majority vote of the AOC members.

4.2 The Chair's duties include presiding over all AOC meetings, establishing subcommittees, responding to members' requests for information, signing communications on behalf of the AOC and representing the AOC before the Board of Supervisors and other governmental and quasi-governmental bodies, subject to the approval of the other AOC members.

4.3 The Chair and Vice-Chair may review drafts of the Comprehensive Annual Financial Report upon request to the extent that the exemption for the production of such record can be preserved. The Chair and Vice-Chair shall maintain the confidentiality of such draft records and shall not retain copies of such drafts upon the completion of their review.

4.4 In the absence or inability of the Chair to preside over the meetings, the Vice-Chair will perform such duties. If neither the Chair nor Vice-Chair is able to preside, the AOC shall select one of the members to act as Chair for the meeting, and who shall have all the powers and duties of the Chair during the meeting.

4.5 The Chair and Vice-Chair may only be selected from the public members of the AOC. The Chair cannot serve as Vice-Chair in the year immediately following his service as Chair.

4.6 The Chair shall author a brief report to the Board of Supervisors, no later than thirty (30) days after each meeting, noting member attendance and any significant matters to come before the committee.

#### ARTICLE 5 MEETINGS

5.1 The AOC shall meet at least quarterly, with authority to convene additional meetings as circumstances require. All meetings shall be subject to the Ralph M. Brown Act.

5.2 An agenda shall be prepared for each meeting by IAD staff and approved for distribution by the AOC Chair. The agenda shall contain a brief general description of each item of business to be transacted or discussed at the meeting of the AOC or as required by the Brown Act. The agenda shall include any item of business that is carried forward from a prior regular meeting at the request of the AOC. The agenda shall be posted within the

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time and in the manner required by the Brown Act. Additional items may be added to the agenda after it is posted only in accordance with the Brown Act.

- 5.3 The AOC Chair is required to call a meeting if requested to do so by the Board of Supervisors or two public members.
- 5.4 The quorum for a meeting shall be a majority of the voting members, and decisions made by a majority vote of the voting members present shall be regarded as acts of the AOC.
- 5.5 All AOC members will have an equal voice in the decision-making process. Due to the scope of the AOC's assignment, and the value of each member's input, consistent attendance by all members is expected; however, the Chair and Vice-Chair of the Board of Supervisors and the County Executive Officer (CEO) may designate a substitute to attend an AOC meeting on their behalf by submitting the member's signed proxy to the Chair of the AOC at the start of the meeting.
- 5.6 The Chair may, as necessary, ask authorized representatives of the performance auditor, the Internal Audit Department (IAD), and Auditor-Controller to attend AOC meetings to discuss plans, findings and other matters of mutual concern.
- 5.7 IAD will keep minutes of each meeting and offer them for AOC approval as the first item on the subsequent meeting agenda.
  - 5.7.1 Minutes of each meeting shall contain a record of the persons present. The minutes should provide a record of decisions taken and a high-level summary of the discussion, providing insight on the topics and subtopics discussed.
  - 5.7.2 IAD shall distribute the draft minutes, which will be presented for approval by the AOC at its next scheduled meeting, as soon as reasonably practical following the meeting.
  - 5.7.3 If the minutes for a prior meeting are corrected or amended during an AOC meeting, such minutes will be sent to the AOC members once approved by the AOC.
- 5.8 Reports and other documents distributed in conjunction with the AOC agenda shall be distributed in accordance with the Ralph M. Brown Act in advance of the meeting to allow for their review.
- 5.9 The Chair shall preserve order and decorum. The AOC shall operate under Roberts' Rules and the Chair shall decide all questions of order (unless overridden by a majority of the committee members present) consistent with such rules.
- 5.10 The AOC's meeting schedule will normally be tentatively set out one year in advance and finalized each quarter so that County management and IAD staff can prepare the information and reports required to support the AOC's work.

#### **ARTICLE 6 OPERATIONS**

- 6.1 The AOC's Bylaws shall be submitted to the Board of Supervisors for approval. The Bylaws shall be reviewed periodically, no less than once every three years, by the AOC and reaffirmed by the Board of Supervisors. Reassessments should specifically take into



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account any changes that may be needed as the result of changes in law, regulation, or professional standards.

- 6.2 Members shall be briefed on the AOC's purpose, responsibilities, objectives, and on the business of the County upon joining the AOC by the Director of IAD. A process of continuing education (e.g., briefings and information on emerging issues and risks) shall be provided at the AOC meetings as approved by the AOC subject to available budget appropriations. Public members shall receive ethics training as required by AB 1234, Government Code sections 53234, *et seq.*, which shall be provided by the County.
- 6.3 The AOC shall be provided with the resources necessary to carry out its role, responsibilities, and duties. To the extent it deems necessary to meet its responsibilities, and in keeping with its Bylaws, the AOC has the authority to retain independent advice and assistance pursuant to County purchasing policy and procedures subject to available budget appropriations.
- 6.4 The AOC may request funds needed for its operation during the County's normal budget process. Such appropriation will be included within the IAD's budget to be administered by IAD staff.
- 6.5 The IAD shall provide staffing and support for the AOC. This includes:
  - a. the timely preparation of all notices and draft agendas of meetings;
  - b. coordination of presentations and distribution of reports and/or related documents that are prepared for the AOC's information or consideration;
  - c. the timely preparation and distribution of minutes of meetings; and
  - d. the performance of other incidental duties as may be assigned.

#### **ARTICLE 7 RESPONSIBILITIES AND DUTIES**

- 7.1 *Representation Letter.* The County Executive Officer will annually provide the AOC with a copy of the signed representation letter issued to the external auditor. Furthermore, the CEO and all County agencies/departments under the authority of the CEO, will cooperate with internal/external auditors and will comply with all laws, regulations, policies, and standards of ethical conduct during the audits, and will request that County elected Department Heads similarly comply.
- 7.2 *Financial Statements and Reporting.* The AOC shall provide oversight of the County's independent external auditor and shall:
  - a. review the quality of the County's financial reporting activities;
  - b. review all findings, recommendations, and management's responses related to all external audit reports and consult with external auditors regarding audit adjustments, weaknesses in internal controls, fraud, and compliance matters related to laws, regulations, contracts and grant agreements that would have a material impact on the basic financial statements, included in the Comprehensive Annual Financial Report (CAFR), Single Audit and other audit reports prepared by the County's independent external auditors;
  - c. provide oversight for the periodic review and selection of the County's independent external auditor to perform the audit of the County's basic financial statements included in the CAFR, including all component units and the Single Audit;
  - d. review any additional work beyond the original scope of work conducted by the independent external auditors on behalf of the County;

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- e. review the independent external auditor's scope and plan and any significant changes to the scope during the audit process;
- f. review the draft of the County's CAFR and provide questions and/or comments to the Auditor-Controller for consideration (Chair and Vice-Chair only);
- g. discuss, as needed, with County Counsel, the independent external auditor, and the Director of Internal Audit, legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements and compliance with federal, state, and local laws and regulations, grant agreements and contracts;
- h. review with the independent external auditor the latter's judgments about the quality, not just the acceptability, of the County's accounting principles as applied in its financial reporting;
- i. review all matters required to be discussed by auditing standards generally accepted in the United States of America (GAAS) and Government Auditing Standards issued by the Comptroller General of the United States (GAS), including those specific matters covered in AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*;
- j. review with management and the independent external auditor the effect of any regulatory and accounting initiatives, such as related organizations financing structures, derivatives, or securities lending; and
- k. review all alternative treatments of financial information brought to the AOC's attention by the independent external auditor within accounting principles generally accepted in the United States of America (GAAP) that have been discussed with County management and the ramifications of each alternative and the treatment preferred by the County.

#### 7.3 *Oversight of the Audit Function of the Auditor-Controller (AC).* The AOC shall:

- a. review regularly and annually discuss the adequacy of resources of the audit function;
- b. review and approve the risk assessment and audit plan prepared by the AC and any subsequent revisions;
- c. compare the approved audit plan with actual work completed
- d. review significant findings during the year and management's responses thereto;
- e. discuss with the AC any significant difficulties encountered in the course of AC audits, including any restrictions on the scope of their work or access to required information;
- f. review and discuss, as necessary, critical impact findings and recommendations contained in audit reports and management action plans to address recommendations; and
- g. ensure AC establishes and audits agencies/department's compliance with a comprehensive framework of internal controls.

#### 7.4 *Oversight of the Internal Audit Department.* The AOC shall:

- a. review the County's IAD charter and recommend revisions with all revisions submitted to the Board of Supervisors for its review and approval;
- b. review regularly and annually discuss the adequacy of resources of the internal audit function;
- c. review and approve the risk assessment and internal audit plan prepared by the Director of Internal Audit and any subsequent revisions;
- d. compare the approved internal audit plan with actual work completed
- e. review significant findings during the year and management's responses thereto;

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### **Audit Oversight Committee Bylaws**

- f. discuss with the Director of Internal Audit any significant difficulties encountered in the course of IAD audits, including any restrictions on the scope of their work or access to required information;
- g. review and discuss, as necessary, critical impact findings and recommendations contained in audit reports and management action plans to address recommendations; and
- h. ensure IAD establishes and audits agencies/department's compliance with a comprehensive framework of internal controls.

**7.5**     *Oversight of Performance Audit.* The AOC shall:

- a. provide input regarding the County's performance auditing function, including oversight over the auditing activities of the performance auditor;
- b. review performance audit reports and determine whether they adequately address whether the audited functions are effective, efficient, economical, equitable, compliant with Federal and State laws, ethical, and are based on reliable data;
- c. review and discuss, as necessary, findings and recommendations contained in performance audit reports and management action plans to address recommendations; and
- d. review and make recommendations regarding the annual work plan prepared by the County Executive Office.

**7.6**     *Follow-up Audits.* The AOC shall:

- a. ensure that there are effective arrangements in place to monitor and follow-up on management action plans responding to recommendations from internal audits or other sources; and
- b. review and receive reports from the IAD and performance auditor on whether management's action plans have been implemented and whether the actions taken have been effective. The IAD reports shall identify any areas where it believes management has accepted a level of risk that is unacceptable to the County.

**7.7**     *Peer Review/Quality Control.*

- a. The AOC shall ensure that an external quality control review (Peer Review) of the IAD be conducted as required by an organization not affiliated with the IAD in accordance with the GAGAS and/or the Institute of Internal Auditors Standards at the discretion of the Director of Internal Audit.
- b. The AOC shall ensure that an external quality control review (Peer Review) of performance audit be conducted as required by an organization not affiliated with IAD in accordance with the guidelines contained in the Peer Review Guide published by the Association of Local Government Auditors (ALGA).

**7.8**     *Comprehensive Framework of Internal Control.* The AOC will review with the AC, IAD and CEO the adequacy of the County's internal control structure. The AOC should consider a number of factors:

- a. the adequacy of the County's internal controls including computerized information systems;
- b. determine adherence to the principle established in the COSO guidelines including cybersecurity
- c. significant risks or exposures identified by County management and the steps management has taken or proposes to take to minimize such risks;
- d. findings and recommendations of the independent external and internal auditors;
- e. audit adjustments;

## County of Orange Audit Oversight Committee Bylaws

- f. code of conduct;
- g. Fraud Hotline complaints; and
- h. pending accounting and regulatory changes.

- 7.9 *Oversight of Fraud Hotline.* The AOC shall ensure that the ~~Auditor-Controller~~<sup>IAD</sup> has established procedures for the receipt, retention, investigation and treatment of Fraud Hotline complaints, ~~which~~<sup>that</sup> have been referred to the Auditor-Controller.
- 7.10 *Coordination and Scheduling of Audits.* The AOC shall review and provide recommendations regarding the coordination and scheduling of external, internal and performance audits to avoid disruption of departmental work flows and duplication of effort.
- 7.11 *Resolution of Audits.* The AOC shall be made aware of incidents in which management does not concur with an audit's findings or recommendations. The AOC may, at its discretion, request applicable management and auditors to appear at an AOC meeting to discuss the differing opinions.

### ARTICLE 8 INDEMNIFICATION OF AOC MEMBERS

The County of Orange will indemnify and defend AOC members, with counsel of the County's sole and exclusive choosing, for their participation, decisions, or actions taken on behalf of the AOC. Each AOC member should also familiarize him/herself with County of Orange Conflict of Interest Code and Gift Ban Ordinance requirements and file the appropriate annual certifications.

COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT  
CHARTER

**INTERNAL AUDIT DEPARTMENT MISSION**

The mission of the Internal Audit Department (IAD) is to provide highly reliable, independent, objective evaluations and business and financial consulting services to the Board of Supervisors (Board) and County management to assist them with their important business and financial decisions.

The IAD supports and assists the Board and County management in the realization of their business goals and objectives. The IAD's contribution to this effort is testing and reporting on the effectiveness of their internal control systems and processes. County management relies on these systems and processes for safeguarding the County's assets and resources, reasonable and prudent financial stewardship, accurate recording and reporting, and achieving the County's goals and objectives.

**PROFESSIONALISM AND DEFINITION OF INTERNAL AUDITING**

The IAD will adhere to the mandatory guidance issued by the Institute of Internal Auditors (IIA), including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance describes the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit function's performance.

The IAD will adhere to County policies and the IAD's operational procedures. The IIA defines internal auditing as follows:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

**INDEPENDENCE AND OBJECTIVITY**

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. The IAD will not implement internal controls, develop procedures, install or modify systems or prepare records, or engage in any activity that will impair judgment.

The IAD will remain free from interference including matters of audit selection, scope, procedures, frequency, timing, or report content to maintain independence and objectivity.

The Internal Audit Director (Director) will confirm to the Audit Oversight Committee (AOC), at least annually, the organizational independence of the internal audit function.

**ORGANIZATIONAL REPORTING**

The Director shall report directly to the Board and be advised by the AOC designated by the Board.

COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT  
CHARTER

**AUDIT OVERSIGHT COMMITTEE**

The AOC is an advisory committee to the Board and provides oversight over the IAD, performance audit function, mandated audits, and external audit coverage. The AOC assists the Board in ensuring the independence of the internal audit function and that appropriate action is taken on audit findings. The AOC helps to promote and enhance effective internal controls for County operations, and serves as an important communication link between external auditors, internal auditors, and operating management.

The AOC will:

- Approve the IAD Charter.
- Approve the annual Risk Assessment and Audit Plan.
- Receive communications from the Director on the IAD activity's performance relative to its plan and other matters.

**OBJECTIVE AND SCOPE**

The objective of internal auditing is to assist the Board, County Executive Officer, and County management in the effective discharge of their fiduciary responsibilities. To this end, internal auditing furnishes them with audits, analyses, evaluations, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective internal control at reasonable costs.

The scope of internal auditing encompasses the examination and evaluation of the adequacy of the County's system of internal control. The scope of internal auditing will include:

- Reviewing the reliability and integrity of financial and business information systems and the means used to identify, measure, classify, and report such information.
- Reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws, and regulations that are fundamental to the operation of the County and could have a significant impact on operations and financial reports and disclosures.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.

The scope of internal auditing may include:

- Appraising the economy and efficiency with which resources are employed and reviewing operations and programs to determine whether results are consistent with established objectives and goals, and if operations or programs are being carried out as planned.

**AUTHORITY AND RESPONSIBILITY**

The responsibility of the IAD is to serve the County in a manner that is consistent with the Standards and with professional standards of conduct in the Code of Ethics of the Institute of Internal Auditors, Inc., as required by Government Code Section 1236.

COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT  
CHARTER

In addition, when appropriate and necessary, and depending on the type of audit being conducted, the IAD follows the ethical and professional standards promulgated by the American Institute of Certified Public Accountants (AICPA), by the Information Systems Audit and Control Association (ISACA), and by the Government Accounting Office (GAO). In this context, the IAD is responsible for:

- Establishing policies for auditing and directing its technical and administrative functions.
- Developing and executing a comprehensive audit program for the evaluation of internal controls established over County financial and business activities.
- Assisting management in their stewardship of County resources and their compliance with established policies and procedures.
- Recommending improvements in internal control designed to safeguard County resources and to help ensure compliance with government laws and regulations.
- Reviewing procedures and accounting records for their completeness and accuracy to accomplish and report on intended objectives.
- Publishing reports on the results of audit examinations including recommendations for improvements in the internal control processes.
- Appraising the adequacy of actions taken by operating management to correct reported deficient conditions.
- Conducting special examinations and financial analyses.

**INTERNAL AUDITOR ACCESS TO INFORMATION AND PERSONNEL**

Except where prohibited by law, the Director and the IAD staff shall have complete and unrestricted access to all of the County's financial records, files, information systems, personnel, and properties. The Director shall promptly report in writing to the Chair of the AOC whenever significant barriers or resistance to access to information and personnel occurs. To protect legally confidential information, no internal audit report shall directly reference or quote confidential information that is protected.

Upon discovery of an audit involving potential or suspected financial fraud, the Director shall work with the County Counsel fraud hotline team and County Counsel for legal advice and coordination of efforts.

**BOARD OF SUPERVISORS ACCESS TO INTERNAL AUDIT**

The IAD reserves resources to accommodate Board requests. Individual Board members desiring specific audit projects shall place on the Board agenda their proposal for review and approval by Board majority. The Director reserves the right to determine how to best fit the directed review into the audit plan.

**ANNUAL RISK ASSESSMENT & AUDIT PLAN**

The Director shall be responsible for preparing an annual audit plan identifying the most productive and essential audit projects. The internal audit plan will include budget and resource requirements for the next fiscal year. The Director will communicate the impact of resource limitations and significant interim changes to the AOC. Once the AOC approves the audit plan, it will be presented to the Board for approval.



COUNTY OF ORANGE  
INTERNAL AUDIT DEPARTMENT  
CHARTER

The internal audit plan will be developed based on a prioritization of audits using a risk-based methodology, including input from the Board, CEO, and County departments. The Director will review and adjust the plan in response to changes in the County's business, risks, operations, programs, systems, and controls. All deviations from the approved internal audit plan will be communicated to the AOC through quarterly status reports.

**AUDIT REPORTING AND FOLLOW-UP**

A written report will be prepared and issued by the Director or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will be communicated to the Board.

In accordance with the Standards, the Director shall establish a system to follow up on reported audit findings. The system established should include updated comments and recommendations as appropriate.

**QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

The IAD will maintain a quality assurance program and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the IAD's conformance with the Definition of Internal Auditing, Code of Ethics, and the Standards.

The Director will report the results of the IAD's quality assurance and improvement program, including external assessments to the AOC and Board.

**EFFECTIVE DATE**

This charter and the policies therein become effective immediately upon adoption by the Board of Supervisors of the County of Orange.

Date of Adoption: 2/26/2019



# INTERNAL AUDIT DEPARTMENT



## Annual Risk Assessment & Audit Plan For Fiscal Year 2020-21

**Audit No. 1901**  
**Report Date: June 4, 2020**

### OC Board of Supervisors

CHAIRWOMAN MICHELLE STEEL  
SECOND DISTRICT

VICE CHAIRMAN ANDREW DO  
FIRST DISTRICT

SUPERVISOR DONALD P. WAGNER  
THIRD DISTRICT

SUPERVISOR DOUG CHAFFEE  
FOURTH DISTRICT

SUPERVISOR LISA A. BARTLETT  
FIFTH DISTRICT



## INTERNAL AUDIT DEPARTMENT

Audit No. 1901

June 4, 2020

To: Chairwoman Michelle Steel, Supervisor, 2<sup>nd</sup> District  
Vice Chairman Andrew Do, Supervisor, 1<sup>st</sup> District  
Supervisor Donald P. Wagner, 3<sup>rd</sup> District  
Supervisor Doug Chaffee, 4<sup>th</sup> District  
Supervisor Lisa A. Bartlett, 5<sup>th</sup> District  
Members, Audit Oversight Committee

From: Aggie Alonso, CPA, CIA, CRMA  
Internal Audit Department Director

Subject: Annual Risk Assessment & Audit Plan for Fiscal Year 2020-21

Attached for your review and approval is our Fiscal Year 2020-21 Annual Risk Assessment and Audit Plan, which was approved by the Audit Oversight Committee on June 4, 2020. On an annual basis, we perform a Countywide Risk Assessment that we use to develop our Audit Plan. The Risk Assessment, coupled with the Audit Plan, delivers a systematic approach for evaluating the effectiveness of internal controls and the efficiency of County business operations. For Fiscal Year 2020-21, we identified a total of 23 high-risk or high-priority areas in 14 County departments as follows:

DEPARTMENT	NUMBER OF HIGH-RISK/ HIGH-PRIORITY AREAS	AUDIT AREA
1. Auditor-Controller	1	Information Technology
2. Clerk of the Board	1	Information Technology
3. County Counsel	1	Information Technology
4. County Executive Office	4	Cash Disbursements & Payables Fiduciary & Special Revenue Funds Purchasing & Contracts (general) Purchasing & Contracts (CPM)
5. District Attorney-Public Administrator	1	Information Technology
6. Health Care Agency/Public Guardian	2	Fiduciary & Special Revenue Funds Information Technology
7. OC Community Resources	2	Cash Disbursements & Payables Purchasing & Contracts
8. OC Public Works	4	Fiduciary & Special Revenue Funds Cash Disbursements & Payables Purchasing & Contracts (general) Purchasing & Contracts (DCPM)

### Internal Audit Department Mission

*Our mission is to provide highly reliable, independent, objective evaluations, and business and financial consulting services to the Board of Supervisors and County management to assist them with their important business and financial decisions.*

<b>9. Probation Department</b>	<b>1</b>	Information Technology
<b>10. Public Defender</b>	<b>1</b>	Revolving Funds
<b>11. Registrar of Voters</b>	<b>1</b>	Information Technology
<b>12. Sheriff-Coroner</b>	<b>1</b>	Purchasing & Contracts
<b>13. Social Services Agency</b>	<b>2</b>	Fiduciary & Special Revenue Funds
		Purchasing & Contracts
<b>14. Treasurer-Tax Collector</b>	<b>1</b>	Cash Receipts & Accounts Receivable
<b>TOTAL HIGH-RISK/HIGH-PRIORITY AREAS</b>	<b>23</b>	

Due to limited staffing resources, our Audit Plan only includes audits addressing 20 of the 23 high-risk or high-priority areas. If hours become available in Fiscal Year 2020-21, we will incorporate the remaining three high-risk areas and two other department requested (time permitting) audits into the Audit Plan. The remaining high-risk and time permitting audits that have not been incorporated by the end of Fiscal Year 2020-21, will be included in our Fiscal Year 2021-22 Audit Plan.

We look forward to a successful year of providing professional, reliable, and objective audit and advisory services to the Board of Supervisors, County Executive Office, and County departments. If you have any questions, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

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# INTERNAL AUDIT DEPARTMENT

## EXECUTIVE SUMMARY

### INTRODUCTION

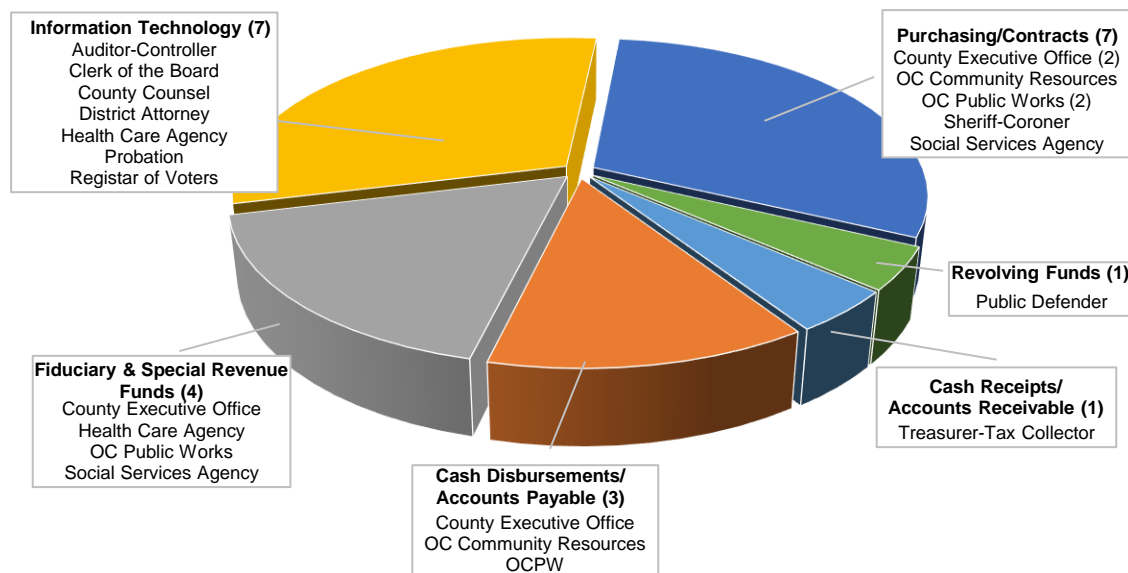
The mission of the Internal Audit Department is to provide highly reliable, independent, objective evaluations, and business and financial consulting services to the Board of Supervisors (Board) and County management to assist them with their important business and financial decisions.

We support and assist the Board and County management in the realization of their business goals and objectives. Our contribution to this effort is testing and reporting on the effectiveness of their internal control systems and processes as these relate to safeguarding the County's assets and resources, reasonable and prudent financial stewardship, accurate recording and reporting, and achieving the County's goals and objectives.

The Internal Audit Department utilizes professional standards for the development of the Audit Plan. The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing require the chief audit executive to establish a risk-based approach to determine the priorities for internal audit activities. Our methodology is to perform focused audits that address the most critical areas of operations and to provide a quick turnaround time to the department. We strive to minimize the disruption to department operations through this approach.

We completed a risk assessment to identify and measure risk and prioritize potential audits for the Audit Plan. We are committed to auditing business activities/processes identified: (1) as high risk by our risk assessment process or (2) high priority by Board, CEO, or department head request. Our approach is to provide coverage of the most critical/sensitive aspects of the activity identified. We may make exceptions to this approach when there are carryover audits from the prior year, where there has been recent audit coverage, or if our professional judgment determines otherwise.

Our Fiscal Year 2020-21 Risk Assessment identified 23 high-risk or high-priority areas in 14 County departments as illustrated in the chart below.



# INTERNAL AUDIT DEPARTMENT

## RESULTS

Our Fiscal Year 2020-21 Audit Plan includes 20 scheduled audits, 13 of which are new audits and seven (six high risk + one high priority department request) are carried over from Fiscal Year 2019-20.

10 NEW HIGH-RISK AUDITS SCHEDULED	+	6 CARRYOVER HIGH-RISK AUDITS SCHEDULED	+	3 NEW HIGH- PRIORITY AUDITS SCHEDULED	+	1 CARRYOVER HIGH-PRIORITY REQUEST SCHEDULED	=	20 AUDITS SCHEDULED
3 TIME PERMITTING HIGH-RISK AUDITS			+	2 TIME PERMITTING DEPARTMENT REQUESTED			=	5 TIME PERMITTING AUDITS
19 HIGH-RISK AUDITS			+	6 HIGH-PRIORITY OR DEPARTMENT REQUESTED AUDITS			=	25 TOTAL AUDITS IN PLAN

Due to limited staffing resources, our Audit Plan only includes audits addressing 20 of the 23 high-risk or high-priority areas. The 2020 COVID-19 pandemic affected completion of our prior year audit plan as some departments were not able to collaborate and complete originally scheduled audits resulting in an increased number of carryover audits. If hours become available in Fiscal Year 2020-21, we will incorporate the remaining three high-risk areas and the two time permitting department requested audits into the Audit Plan. Any audits that have not been incorporated by the end of Fiscal Year 2020-21 will be included in our Fiscal Year 2021-22 Audit Plan.

## RISK ASSESSMENT

### GENERAL RISK ASSESSMENT

The Internal Audit Department performed a general risk assessment that included discussion with members of the Board, the County Executive Office, and department executive management regarding risks affecting them. We distributed risk assessment questionnaires for input on risks and areas of audit interest in department business operations. We ranked and tabulated the results to develop a risk-based Audit Plan. Because of limited staffing resources, we evaluated all audit requests based on our risk assessment criteria. Special request audits from the Board and department heads were considered for inclusion in the Audit Plan.

We designed our risk-based Audit Plan to address what we considered to be the highest priority areas, while limiting the scope of work to what could realistically be accomplished with available staff resources. Our risk ratings were based on current information that fluctuates frequently given the nature, diversity, size, and impact of County operations on the public.

Our risk-based assessment is driven by numerous risk factors and is the reason we do not have a firm cycle of audits.





# INTERNAL AUDIT DEPARTMENT

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A department with a high-risk score indicates the services or functions it is responsible for are a high-risk activity because of factors, such as having a large amount of expenditures and/or revenues, having a high level of liquid assets such as cash, management's assessment of the control environment, or a high degree of public interest. A high-risk score indicates that if something were to go wrong, it could have a greater impact. A high-risk score does not mean that a business process is being managed ineffectively or that internal control is not adequate.

## INFORMATION TECHNOLOGY RISK ASSESSMENT

Due to the complexities and widespread use of information technology throughout County operations, a separate IT risk assessment was performed to augment the general risk assessment. The IT risk assessment was conducted with a comprehensive IT survey. We distributed the survey for input on risks and areas of IT audit interest in departments' business operations and summarized the results. A risk-ranking value was assigned to each department to illustrate each risk indicator.

A department with a high-risk score indicates the services or functions it is responsible for are a high-risk activity because of factors such as departments maintaining and managing systems that process sensitive information, on-site server rooms that host critical systems, and/or large number of privileged user access.

As with the general risk assessment, a high-risk score indicates that if something were to go wrong, it could have a greater impact. A high-risk score does not mean that an IT process is being managed ineffectively or that internal control is not adequate. The survey allowed an increased understanding of the department's IT environment. The result was a comprehensive and prioritized risk-based heat map of IT risks for development of the IT component of our Audit Plan.

## FY 2020-21 AUDIT PLAN

Our Audit Plan is based on 12,672 productive hours to be provided by seven audit professionals and two supervising audit managers. Audit hours for the director of Internal Audit and assistant director are not included in the above total, and time for the audit managers is adjusted to allow time for administrative duties. Some audits we identified as high risk are listed on the Audit Plan as "time permitting" audits. If hours become available, we will begin performing the time permitting audits. Otherwise, these audit areas will remain as high risk and will be included in next year's Audit Plan.

Our Audit Plan is submitted, reviewed, and approved by the Audit Oversight Committee prior to the beginning of each fiscal year. Our audit services are focused on improving internal control in standard business processes/cycles common to all departments with our primary emphasis on financial accounts and transactions. Examples of audits in our Audit Plan include Internal Control Audits and Information Technology Audits. In the table below is a description of these primary service areas, related objectives, and hours allocated to the service area.



## INTERNAL AUDIT DEPARTMENT

SERVICE	OBJECTIVE	HOURS	%
<b>Internal Control Audits (ICA)</b>	Review effectiveness and efficiency of departmental operations including the safeguarding of assets, reporting (internal and external, financial and non-financial), and compliance with laws, regulations, and procedures as related to the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework.	6,354	50%
<b>Information Technology Audits (ITA) &amp; Advisory</b>	Review IT controls such as general controls over computer operations, access to programs and data, disaster recovery/business continuity, program development, program changes, and provide advisory services for system implementations.	2,645	21%
<b>Business Process Improvement (BPI)</b>	Conduct facilitated workshops utilizing a balanced approach to discuss strengths, concerns and what the team can do to improve business processes. The process draws upon the expertise of employees and managers and encourages a team approach to identifying issues and problem solving.	315	3%
<b>Revenue Generating Lease Audits (RGL)</b>	Audit the records of businesses with revenue generating leases at John Wayne Airport, OC Community Resources, and OC Public Works to ensure the correct amount of rent is paid to the County based on a percentage of gross revenue, and that internal controls are adequate to ensure the integrity of records used to report gross revenues.	0	0%
<b>Board Requests &amp; Contingency Reserve</b>	Hours reserved for special request audits from the Board, position vacancies, and other unforeseen events.	1,658	13%
<b>Other Activities &amp; Administration</b>	Investigate cash losses; provide advisory services and technical assistance to departments on business, accounting, internal control, compliance, and policy and procedural issues; perform the annual risk assessment; compile and present External Audit Activity Reports to the AOC; compile and present oversight reporting to the AOC and Board; complete special projects.	1,700	13%
<b>TOTALS</b>		<b>12,672</b>	<b>100%</b>

For each engagement in the Audit Plan, we have listed the department, preliminary audit objectives, and estimated hours to complete the audit. Please refer to Appendix A for more details on the Audit Plan methodology.

The Audit Plan is subject to change for such events where the director of the Internal Audit Department, or Board majority assesses it is warranted to substitute, postpone, or cancel a scheduled audit due to timing, priority, resources, and/or other risk considerations. An example of an event is the evolving COVID-19 crisis which may affect business processes (e.g., procurement, payroll, cybersecurity) and necessitate modification of our Audit Plan. Such modifications will be noted in the Quarterly Status Reports submitted to the AOC. The acceptance of the Quarterly Status Report by the AOC authorizes any changes noted.



# INTERNAL AUDIT DEPARTMENT

AUDIT		PRELIMINARY AUDIT OBJECTIVES	HOURS
High-Risk Audits			
Internal Control Audits		Supervising Audit Manager: Michael Dean, Senior Audit Manager	
1. T-TC Accounts Receivable	To assess internal control over accounts receivable to ensure receivable accounts are accurate, valid, properly approved, and recorded.		400
2. CEO Cash Disbursements & Payables	To assess internal control over cash disbursements and accounts payable to ensure payments are properly reviewed and authorized, valid, supported, timely; and are compliant with County policy.		800
3. OCCR Cash Disbursements & Payables			
4. SSA Purchasing & Contracts			
5. OCIT Purchasing & Contracts (1624)			
6. OCPW Purchasing & Contracts (1911)	To assess procurement processes (other than human services) to ensure compliance with the Contract Policy Manual.		360
7. OCSD Purchasing & Contracts (1912)			
Carryovers from FY 2018-19			
8. OCCR/OC Parks/OC Dana Point Harbor Purchasing & Contracts	To assess contractor compliance with the Dana Point Master Lease (P3) and efficiency of the lease administration by OCCR.		400
9. PD Revolving Funds	To assess internal control over revolving fund expenditures to ensure they are proper and in compliance with County and departmental policy.		400
10. CEO Fiduciary Funds & Special Revenue Funds	To assess internal control over fiduciary or special revenue funds to ensure sources and uses of funds are proper and in compliance with County and departmental policy, procedures, and laws.		800
11. OCPW Fiduciary Funds & Special Revenue Funds			
12. SSA Fiduciary Funds & Special Revenue Funds (1823)			
Carryover from FY 2018-19			300



# INTERNAL AUDIT DEPARTMENT

AUDIT	PRELIMINARY AUDIT OBJECTIVES	HOURS
High-Risk Audits (con't)		
Information Technology Audits	Supervising Audit Manager: Jimmy Nguyen, IT Audit Manager II	
13. CAPS+ Application Security	Assess selected IT controls over security management.	400
14. District Attorney Cybersecurity	To assess controls over the IT environment, e.g., computer operations, access to programs and data, program development, and program changes.	400
15. Health Care Agency Cybersecurity (1943)		800
16. Clerk of the Board Cybersecurity (1944)		
Carryovers from FY 2019-20		
The following high-risk engagements are time permitting audits and will be completed as audit resources become available:		
17. ROV Cybersecurity	To assess controls over the IT environment, e.g., computer operations, access to programs and data, program development, and program changes.	0
18. Probation Cybersecurity		
19. County Counsel Cybersecurity		
Total High-Risk Audits		5,460

<b>High-Priority Department Requested Audits</b>		
<b>20. OCPW Design &amp; Construction Procurement Manual</b>	To assess whether recent changes to manuals for public works and purchasing are being complied with by County departments.	200
<b>21. CEO Contract Policy Manual</b>		200
<b>22. OCPW Toll Road and Transponder Usage for County Vehicles</b>	To assess compliance with OCPW's Toll Road and Transponder Usage for County Vehicles policy.	400
<b>23. HCA Fiduciary Funds</b> Carryover from FY 2019-20	To assess internal control over fiduciary or special revenue funds to ensure sources and uses of funds are proper and in compliance with County and departmental policy, procedures, and laws.	120



# INTERNAL AUDIT DEPARTMENT

AUDIT	PRELIMINARY AUDIT OBJECTIVES	HOURS
<b>Total High-Priority Department Requested Audits</b>		<b>920</b>

Department Requested Audits		
<b>24. JWA Cash Disbursements &amp; Payables</b> Time Permitting Audit	To assess internal control over cash disbursements and accounts payable to ensure payments are properly reviewed and authorized, valid, supported, timely; and are compliant with County policy.	0
<b>25. HRS Data Portal Access</b> Time Permitting Audit	To assess selected information technology general controls over security management.	0
<b>Total Department Requested Audits</b>		<b>0</b>

Follow-Up Audits		
Follow-Up Internal Control Audits	Follow-up on management’s implementation of audit recommendations provided in prior audit reports.	1,174
Follow-Up Information Technology Audits		845
Total Follow-Up Audits		2,019

Advisory Engagements		
<b>COVID-19 Assistance</b>	To assist the County with any internal control reviews of business processes affected by or created as a result of the 2020 COVID-19 crisis.	400
<b>Business Process Improvement Workshops</b>	Conduct facilitated workshops utilizing a balanced approach to discuss strengths, concerns and what the team can do to improve business processes.	315
<b>VTI System Replacement</b>	To advise on System Development Life Cycle (SDLC) internal control including project management, system functionality/integration testing, interfaces, data conversion, documentation & training, segregation of duties, and change management.	50



# INTERNAL AUDIT DEPARTMENT

AUDIT	PRELIMINARY AUDIT OBJECTIVES	HOURS
<b>Advisory Engagements (con't)</b>		
<b>T-TC Quantum Upgrade (1647)</b> Department Request Carryover from FY 2019-20	To advise on SDLC internal control including project management, system functionality/ integration testing, interfaces, data conversion, documentation & training, segregation of duties, and change management.	50
<b>Property Tax System Implementation (1754)</b> Department Request Carryover from FY 2019-20	To advise on SDLC internal control including project management, system functionality/ integration testing, interfaces, data conversion, documentation & training, segregation of duties, and change management.	50
<b>Countywide Cybersecurity</b>	Participate in Countywide Cybersecurity meetings.	50
<b>Total Advisory Engagements</b>		<b>915</b>

<b>Revenue Generating Lease Audits</b>		
<b>Revenue Generating Lease Audits</b>	To assess whether lessee records adequately support gross receipts reported to the county and compliance with lease terms.	0
<b>Total Revenue Generating Lease Audits</b>		<b>0</b>

<b>Other Activities &amp; Administration</b>	
<b>Countywide Internal Control Training Program</b> Special project	200
<b>Audit Management System (TeamMate+) Upgrade</b> Special project	200
<b>Other Special Projects</b>	300
<b>Annual Risk Assessment &amp; Audit Plan for Fiscal Year 2021-22</b>	300
<b>External Audit Reporting</b>	200
<b>On-Demand Department Advisory Services</b>	100



## INTERNAL AUDIT DEPARTMENT

### Other Activities & Administration (con't)

Board of Supervisors & Audit Oversight Committee Reporting	100
Annual Report	100
Cash Loss Investigations	100
Countywide Cost-Allocation Plan	100
<b>Total Other Activities &amp; Administration</b>	<b>1,700</b>

Board-Requested Audits	600
Contingency Reserve	1,058

<b>TOTAL HOURS</b>	<b>12,672</b>
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### ACKNOWLEDGEMENT

We appreciate the courtesy extended to us by departments that completed our requested surveys and met with Internal Audit Department staff. The information provided by departments was instrumental in preparing our risk assessment.

<b>PROJECT TEAM</b>	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Jimmy Nguyen, CISA, CFE, CEH Scott Kim, CPA, CISA, CFE Gianne Morgan, CIA Zan Zaman, CPA, CIA Mari Elias, MA, DPA	Assistant Director Senior Audit Manager IT Audit Manager II IT Audit Manager I Audit Manager Audit Manager Administrative Services Manager
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# INTERNAL AUDIT DEPARTMENT

## APPENDIX A: AUDIT PLAN METHODOLOGY

### 1. DEFINE AUDIT UNIVERSE

There are several approaches to defining all the potential areas subject to risk assessment and audits, or the “audit universe”. We defined the County audit universe as 19 departments excluding the Office of the Performance Auditor, Internal Audit Department, OC Ethics Commission, and Office of Independent Review.

We further defined our audit universe by nine standard business processes/cycles (see Table 1 below) including information technology common to all departments. This results in an audit universe consisting of 155 auditable business processes (19 departments, eight business processes/cycles, plus Fee-Generated Revenue which only applies to three departments).

**Table 1. County Audit Universe**

BUSINESS PROCESS/CYCLE	DESCRIPTION
<b>1. Cash Receipts &amp; Accounts Receivable</b> \$16 Billion for FY 2018-19	Review controls over receipting, recording, transferring, depositing, safeguarding, and reconciling of monies received in departments.
<b>2. Cash Disbursements &amp; Payables</b> \$5.9 Billion for FY 2018-19	Verifying receipt of goods/services, supervisory reviews and approvals adequacy, invoice processing timeliness, completeness and accuracy of payments, proper reconciliations, and safeguarding of assets.
<b>3. Fee-Generated Revenue</b> \$900 Million for FY 2018-19	Review department fee studies and fee-development processes, methodologies, and assumptions used for establishing cost-recovery fees charged to the public for “Licenses, Permits and Franchises,” and “Charges for Services,” and ensure they are submitted to the Board for approval.
<b>4. Purchasing &amp; Contracts</b> \$806 Million for FY 2018-19	County-issued purchasing cards, vendor payment review/approval processes, ensuring terms of contracts were met prior to issuing payments, reviewing justification of sole source contracts, and monitoring CPO's oversight responsibilities.
<b>5. Revolving Funds</b> \$6.7 Million for FY 2018-19	Validating compliance with the County Accounting Manual, ensuring revolving cash fund disbursements are proper, approved, monitored, and safeguarded.
<b>6. Payroll</b> \$2.2 Billion for FY 2018-19	Review timekeeping practices, premium and overtime pay practices, payroll unit supervision and payroll reports, Central Payroll's role in processing payroll, and monitoring for unauthorized payroll changes.
<b>7. Fiduciary Funds &amp; Special Revenue Funds</b> \$1.8 Billion for FY 2018-19	Validating the purpose/objectives of fiduciary funds and special revenue funds, ensuring sources and uses of the funds are in accordance with County policy or laws/regulations, and reconciliations are prepared timely/completely to safeguard funds.
<b>8. Information Technology (IT)</b>	Review controls over IT and cybersecurity including general controls, application controls, system development, network security, and computer operations.
<b>9. Revenue Generating Leases</b> \$151 Million for FY 2018-19	Review of records of businesses with revenue generating leases at OCCR, JWA, and OCPW to ensure the correct amount of rent is paid to the County.



# INTERNAL AUDIT DEPARTMENT

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## 2. APPLY WEIGHTED RISK FACTORS

Our Risk Assessment Schedule for FY 2020-21 (Attachment B) shows the 155 auditable business processes and assigned risk ratings. We consider the following factors in assigning risk levels:

- Financial Activity/Volume (50%). Assessed department financial information for each auditable business process.
- Department Changes (15%). Assessed factors such as management and/or organizational changes, significant increases/decreases in staffing and workloads, new/eliminated programs, and significant changes in laws/regulations or IT.
- Operating Environment (15%). Assessed factors related to changes in the operating environment such as public image, laws/regulations, safety and environmental issues, sensitivity to economic factors, major crises, pending litigation, and business continuity.
- Last Audit Performed (20%). Identified all Internal Control Audits, Financial Audits & Mandates, and Information Technology Audits conducted in the last 10 years. Areas with no recent or prior audits are assessed higher risk (see Attachment C).

## 3. CATEGORIZE RESULTS

Using the above criteria and professional judgment, an overall risk is assigned to each auditable business process as High Risk, Moderate Risk, or Low Risk. The overall risk levels assigned determine the focus of our audit resources and audit priorities.

Risk levels for the 155 auditable business processes we identify in our Risk Assessment Schedule for FY 2020-21 (Attachment B) are as follows:

- 19 (12%) are High Risk
- 123 (79%) are Moderate Risk
- 13 (9%) are Low Risk

## 4. IDENTIFY ENGAGEMENTS AND ALLOCATE AVAILABLE RESOURCES

Our Audit Plan is based on 8,999 available audit hours (12,672 productive hours less 315 hours for business process improvement, 1,700 hours for other activities and administration, 600 hours for Board requested audits, and 1,058 hours for contingency reserve) to be provided by seven audit professionals and two supervising audit managers. We ensure the ratio of gross hours to available audit hours aligns with industry norms. The contingency reserve is for position vacancies and other unforeseen events.

We judgmentally select the highest risk audits that we can realistically address with our existing audit staff resources. Because of budget and staffing constraints, we evaluate all audit requests based on our risk assessment criteria. Audits that cannot be accommodated are noted for future consideration.

Our Follow-Up Audit process ensures that our audit recommendations are implemented satisfactorily. Our First Follow-Up Audit generally begins about six months following the release of an audit report. If necessary, a Second Follow-Up Audit will generally be conducted about six months following the release of the First Follow-Up Audit report.



# INTERNAL AUDIT DEPARTMENT

## APPENDIX B: ACRONYMS

Acronym	Definition
A-C	Auditor-Controller
AOC	Audit Oversight Committee
C-R	Clerk-Recorder
CEO	County Executive Office
COB	Clerk of the Board of Supervisors
COCO	County Counsel
CPO	County Procurement Office
CSS	Child Support Services
HCA	Health Care Agency/Public Guardian
JWA	John Wayne Airport
OCCR	OC Community Resources
OCDA	District Attorney-Public Administrator
OCIT	CEO/Information Technology
OCPW	OC Public Works
OCSD	Sheriff-Coroner (Orange County Sheriff's Department)
OCWR	OC Waste & Recycling
PD	Public Defender
ROV	Registrar of Voters
SSA	Social Services Agency
T-TC	Treasurer-Tax Collector





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graph TD;
    Board[Board of Supervisors] --- AOCA[Audit Oversight Committee];
    Board --- Aggie[Aggie Alonso  
CPA, CIA, CRMA  
Director & CAE];
    Aggie -.- AOCA;
    Aggie --- ScottS[Scott Suzuki  
CPA, CIA, CISA, CFE  
Assistant Director];
    Aggie --- Mari[Mari Elias  
MA, DPA  
Administrative Services Manager];
    ScottS --- Michael[Michael Dean  
CPA, CIA, CISA  
Senior Audit Manager];
    ScottS --- Vacant1[Vacant  
Audit Manager II];
    ScottS --- Jimmy[Jimmy Nguyen  
CISA, CFE, CEH  
IT Audit Manager II];
    Michael --- Zan[Zan Zaman  
CPA, CIA  
Audit Manager];
    Michael --- Gianne[Gianne Morgan  
CIA  
Audit Manager];
    Zan --- Steph[Stephany Pantigoso  
Senior Auditor];
    Zan --- Gabriela[Gabriela Cabrera  
Senior Auditor];
    Gianne --- Virginia[Virginia Nguyen  
CPA  
Senior Auditor];
    Gianne --- Alejandra[Alejandra Hernandez  
Senior Auditor];
    Jimmy --- ScottK[Scott Kim  
CPA, CISA, CFE  
IT Audit Manager I];
```

- Certified Public Accountant (CPA)
- Certified Internal Auditor (CIA)
- Certified Information Systems Auditor (CISA)
- Certified Fraud Examiner (CFE)
- Certified Ethical Hacker (CEH)
- Certification in Risk Management Assurance (CRMA)
- Deputy Purchasing Agent (DPA)
- Master of Arts (MA)

**ATTACHMENT B: RISK ASSESSMENT SCHEDULE FOR FISCAL YEAR 2020-21**

BUSINESS PROCESS/CYCLE	1. Assessor	2. Auditor-Controller	3. Child Support Services	4. Clerk of the Board	5. Clerk-Recorder	6. County Counsel	7. County Executive Office	8. District Attorney-Public Administrator	9. Health Care Agency/Public Guardian	10. John Wayne Airport	11. OC Community Resources	12. OC Public Works	13. OC Waste & Recycling	14. Probation Department	15. Public Defender	16. Registrar of Voters	17. Sheriff-Coroner	18. Social Services Agency	19. Treasurer-Tax Collector	COMMENTS
CASH RECEIPTS & ACCOUNTS RECEIVABLE \$16 billion in FY 2018-19	M	M	M	L	M	M	M	M	M	M	M	M	M	M	M	M	M	M	H	Reflects all cash receipt transactions posted to 8010 Cash Account by the department that processed the transaction. A/R reported as year-end balances.
CASH DISBURSEMENTS & PAYABLES \$5.9 billion in FY 2018-19	L	M	M	L	M	M	H	M	M	M	H	M	M	M	M	M	M	M	M	Reflects all cash disbursements including automatic (A/P) disbursements, manual disbursements, and EFT/Wire disbursements.
FEE-GENERATED REVENUE \$900 million in FY 2018-19	M	M	L	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	Reflects revenue from cost-recovery fees (licenses, permits, franchises and charges for services) that are charged to the public and require BOS approval.
PURCHASING & CONTRACTS \$806 million in FY 2018-19	M	M	M	L	M	M	H	M	M	M	H	H	M	M	M	M	H	H	M	Reflects all purchases and contracts processed by departments including purchase orders, price agreements, and negotiated contracts.
REVOLVING FUNDS \$6.7 million in FY 2018-19	M	M	M	M	M	M	M	M	M	M	M	M	M	M	H	L	M	M	M	Reflects the total revolving fund replenishments to all departments.
PAYROLL \$2.2 billion in FY 2018-19	M	M	M	L	M	M	M	M	M	M	M	M	M	M	M	M	M	M	M	Reflects total payroll for our audit population of all departments shown.
FIDUCIARY & SPECIAL REVENUE FUNDS \$1.8 billion in FY 2018-19	M	M	M	L	M	L	H	M	M	M	M	H	M	M	M	M	M	H	M	Reflects year-end balances in Agency Funds and Private Purpose Trust Funds designated for restricted purposes and use.
INFORMATION TECHNOLOGY	M	H	L	H	L	H	M	H	H	L	M	M	M	H	L	H	M	M	M	Includes IT controls and cybersecurity including general controls, application controls, system development, network security, and computer operations.
REVENUE GENERATING LEASES \$151 million in FY 2018-19	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	M	M	M	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Includes revenue generating leases at OCCR, JWA, and OCPW.
AUDITS ON FY 2020-21 PLAN See Appendix A for Audit Plan Methodology		CAPS+ Application Security		Cybersecurity (carryover)		Cybersecurity	Cash Disbursements & Payables; Purchasing & Contracts (carryover); OCPI (high priority); HRS Data Portal (time permitting)	Cybersecurity	Cybersecurity (carryover) Fiduciary Funds (time permitting/carryover)	Cash Disbursements & Payables (time permitting)	Cash Disbursements & Payables Purchasing & Contracts	Purchasing & Contracts (carryover) Fiduciary & Special Revenue Toll Road Compliance (high priority) DCPI Review (high priority)		Cybersecurity	Revolving Funds	Cybersecurity	Purchasing & Contracts (carryover)	Fiduciary & Special Revenue (carryover) Purchasing & Contracts	Cash Receipts & Accounts Receivable	

High-Risk Processes:	19	12%	High-risk audit areas (as determined by risk assessment)
Moderate-Risk Processes:	123	79%	Moderate-risk audit areas (as determined by risk assessment)
Low-Risk Processes:	13	9%	Low-risk audit areas (as determined by risk assessment)
Total Auditable Business Processes/Cycles:	155		

**ATTACHMENT C: SCHEDULE OF 10-YEAR PRIOR AUDIT COVERAGE**  
For The Period July 2010 through June 2020

	1. Assessor	2. Auditor- Controller	3. Child Support Services	4. Clerk of the Board	5. Clerk-Recorder	6. County Counsel	7. County Executive Office	8. District Attorney- Public Administrator	9. Health Care Agency/Public Guardian	10. John Wayne Airport	11. OC Community Resources	12. OC Public Works	13. OC Waste & Recycling	14. Probation Department	15. Public Defender	16. Registrar of Voters	17. Sheriff- Coroner	18. Social Services Agency	19. Treasurer-Tax Collector
CASH RECEIPTS & ACCOUNTS RECEIVABLE		#1249, #1315 & #1415 Quarterly Reconciliation Compliance; #1818 AC Fiduciary Funds			#1159 Fund 12D		#1317 Community Facilities Districts	#1325 Fiduciary Funds 2006-2016 Annual Grants	#1325 Fiduciary Funds; #1018 Medical Billing; #1420 Fund 13Y; #1619 Unearned Revenue; #1914 PG Fund 165		#1456 OC Parks Ticket Sales; #1578 Animal Care; #1579 Library; #1655 OC Parks; #1619 Unearned Revenue; #1815 OCCR AC Cash Receipts	#1619 Unearned Revenue; #1734 Billing	#1525 Cash Receipts	GPS Programs 2011; #1567 Juvenile; #1724 Mandate			Inmate Welfare Fund 2011; #1918 OCSD Cash Receipts	#1619 Unearned Revenue; #1823 SSA Fiduciary Funds	2011, 2014 & 2017 Audits of Tax Redemption Officer; 2006 NSF ICR; 1998-March 2007 Qtrly Audits & 2004-2017 Annual TFA; 2010 Tax Collections; Admin. Budget Practices 2010; Annual Compliance 2010- 16
CASH DISBURSEMENTS & PAYABLES	#1626 Travel	#1025 HCA Cash Disb; #1027 OCWR; #1041 CAATS - Dup. Pymts.; Ongoing CAATS 2011; #1259, #1315 & #1415 Quarterly Reconciliation Compliance; #1626 Travel; #1811 A-C Claims; #1818 AC Fiduciary Funds		#1626 Travel	#1159 Fund 12D		#1216 and #1318 OCEA Pension Enhancement ; #1316 Retiree Medical; #1317 Community Facilities Districts; #1626 Travel	#1325 Fiduciary Funds 2005-2016 Annual Grants;	#1025 HCA Cash Disbursement; #1325 Fiduciary Funds; #1420 Fund 13Y; #1728 Mental Health Services Disbursements; #1914 PG Fund 165		OCCR Disbursements 2012	#1028 Fleet Svcs; #1029 Fuel Cards; #1223 Disbursements; #1626 Travel	#1027 Cash Disb	GPS Programs 2011; #1323 AB109; #1567 Juvenile; #1724 Mandate; #1822 Probation Cal Cards		#1626 Travel	Inmate Welfare Fund 2011; #1626 Travel	#1626 Travel; #1625 CalWorks / Rescare Contract; #1823 SSA Fiduciary Funds	2007-2017 Qtrly TFA; 2007-2017 Annual TFA; 2010 Tax Collections; #1583 Wire Transfers
FEE-GENERATED REVENUE					#1159 Fund 12D; #1919 Senate Bill 2		#1627 OC IT Billing		#1024 Fee Dev; #1327 Env. Health Fees; #1915 HCA FGR		#1222 Fee Dev	2011 Fee Generated revenues; #1820 OCPW FGR	#1023 Fee Dev; #1821 OCWR FGR	#1841 Probation Compliance SB- 190			#1632 OCSD Billing of Law Enforcement Services for DPH & JWA		
PURCHASING & CONTRACTS		#1522 Procurement					#1041 CAATS - Emp-Vendor Match; #1521 Procurement; #1624 OC IT Contract Admin; #1730 CEO/Real Estate Procurement- Revenue Generating Lease Administration Process; #1732 OCIT Capital Assets		#1030 Contract Admin; #1631 Procurement; #1819 Contracts & Procurement	#1008 Tech Asst. on Improvement Plan; #1125 Change Orders	10/11 Boat Slips; #1455 Expediter; #1426 Human Services Contracts	#1028 Fleet Mgmt; #1029 Fuel Card Admin.; #1225 Contract Admin.; #1455 Expediter; #1911 OCPW Purchasing & Contracts	#1334 La Pata Contract; #1455 Expediter			ICE Contract Admin 2011; City Contracts 2012; #1912 OCSD Purchasing & Contracts	#1224 Contract Admin; #1625 CalWorks / Rescare Contract		
REVOLVING FUNDS	Cash Advance Audit 2011; #1626 Travel	10/11 Rev. Fund audits; #1053 Pub. Def. Co.Co.; Cash Advance Audit 2011; #1626 Travel	Cash Advance Audit 2011	Cash Advance Audit 2011	Cash Advance Audit 2011	Cash Advance Audit 2011	Cash Advance Audit 2011; #1626 Travel	Cash Advance Audit 2011; #1913 OCDA Revolving Fund	Cash Advance Audit 2011	Cash Advance Audit 2011	Cash Advance Audit 2011; #1578 Animal Care; #1579 Library	Cash Advance Audit 2011; #1626 Travel	Cash Advance Audit 2011	Cash Advance Audit 2011; #1567 Juvenile; #1822 Probation Cal Cards	Cash Advance Audit 2011	Cash Advance Audit 2011; #1626 Travel	Cash Advance Audit 2011; #1626 Travel; #1917 OCSD Revolving Fund	Cash Advance Audit 2011; Revolving Funds 2011; #1633 Revolving Funds; #1626 Travel	Cash Advance Audit 2011
PAYROLL		#1041 CAATS Pay. Direct Dep.; #1350 Payroll					#1629 Payroll	#1629 Payroll	#1350 Payroll CAATS; #1812 HCA Payroll		#1813 OCCR Payroll	#1916 OCPW Payroll		#1630 Payroll			#1350 Payroll CAATS; #1632 OCSD Billing of Law Enforcement Services for DPH & JWA	#1350 Payroll CAATS; #1814 OCCR Payroll	
FIDUCIARY FUNDS & SPECIAL REVENUE FUNDS		#1259, #1315 & #1415 Quarterly Reconciliation Compliance; #1337 Fiduciary Funds; #1818 AC Fiduciary Funds	#1519 Fiduciary Funds		#1159 Fund 12D; #1519 Fiduciary Funds		#1317 CFDs; #1519 Fiduciary Funds	#1325 Fiduciary Funds; #1519 Fiduciary Funds; #1523 PA	#1325 Fiduciary Funds #1420 Fund 13Y; #1519 Fiduciary Funds; #1524 PG; #1914 PG Fund 165		#1423 DPH; #1519 Fiduciary Funds	#1421 Flood Fund; #1519 Fiduciary Funds		#1323 AB109; #1519 Fiduciary Funds		#1519 Fiduciary Funds	#1519 Fiduciary Funds; #1520 Special Revenue Funds	#1336 Special Revenue Funds; #1823 SSA Fiduciary Funds	2007-2017 Qtrly TFA & 2005-2017 Annual TFA; 2010- 2016 Annual Compliance Audit; #1519 Fiduciary Funds
INFORMATION TECHNOLOGY	#1844 Assessor Cybersecurity	#1357 2014 ARA; #1741 ITGC	#1644 ITGC		#1840 Vital Records Index Access System		#1454 Off-Site Data Backup; #1455 Expediter; #1644 ITGC	#1143 ITGC		#1444 ITGC; #1941 ITGC	#1644 ITGC	#1354 ITGC; #1644 ITGC	#1445 Paradigm; #1644 ITGC		#1942 PD ITGC		#1353 ITGC; #1845 ITGC	#1142 ITGC; #1644 ITGC; #1846 ITGC	

10-Year Prior Audit Coverage (2010 to June 2020)

5-Year Prior Audit Coverage (2015 to June 2020)

Current/In-Progress Audits

No Audit Coverage Within 10 Years

# I. The Brown Act

## II. Chairing A Meeting

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Presented by

Mark Servino, Senior Deputy County Counsel

May 16, 2016



# Part I

# THE BROWN ACT



# The Brown Act in a Nutshell

- The Brown Act (1953)
  - “All meetings of the legislative body of a local agency shall be open and public, and all persons shall be permitted to attend any meeting of the legislative body of a local agency, except as otherwise provided in this chapter.”
- Proposition 59 (2004)
  - “The people have the right of access to information concerning the conduct of the people’s business, and, therefore, the meetings of public bodies and the writings of public officials and agencies shall be open to public scrutiny.”



# Brown Act Checklist

1. Is the group in question a “legislative body”?
2. Is this entity a “local agency”?
3. Is the event actually a “meeting” of the members of the legislative body?
4. If so, what kind of meeting is it? Regular, Special, or Emergency?



## Brown Act Checklist (cont'd)

5. Depending on the type of meeting, what are the agenda requirements?
6. Will the items of business at the meeting be set for the public agenda or closed session?
7. If closed, will a report out of closed session be needed?
8. Has the agenda for the meeting been properly prepared, posted, and, if necessary, delivered?



Brown Act applies to any “legislative body” of a “local agency”:

“Legislative body” includes:

- The governing board of a local agency, or a local board created by statute (e.g., the Board of Supervisors, city councils, etc.)
- Any commissions, committee, task force, etc., created by formal action of a legislative body.

Gov. Code § 54952

# “Ad Hoc” Committee Exception

- An *ad hoc* advisory committee, composed solely of the members of the legislative body that are less than a quorum of the legislative body is not, itself, a “legislative body.” § 54952(b).
- However, “standing committees,” irrespective of their composition, which have continuing subject matter jurisdiction, or a meeting schedule fixed by formal action of a legislative body, are still subject to the open meeting requirements of the Act.



# "Local Agency" Is Broadly Defined

“Local agency” means a county, city, whether general law or chartered, city and county, town, school district, municipal corporation, district, political subdivision, or any board, commission or agency thereof, or other local public agency.

Gov. Code § 54951





# "Meetings" Under the Brown Act

Any congregation of a majority of the members of a “legislative body” at the same time and location to:

- hear
- discuss,
- deliberate, or
- take action

on any item of business that is within the subject matter jurisdiction of the body.

Gov. Code § 54952.2(a)

# What's a Quorum?

- A quorum is the minimum number of members who must be present at the meeting for business to be legally transacted.
- Generally, a quorum is a majority of the members of the body.
- Statute or bylaws may specify a higher (but not a lower) number.
- AOC Bylaws define a quorum as a majority (5) of the voting members (8).



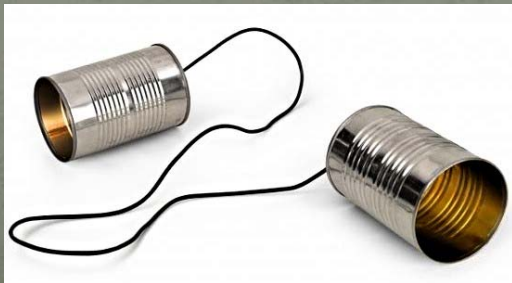
# Pop Quiz Question No. 1

- Question: The Board of Supervisors established the AOC, which has two of its five members serving as voting members. A third member of the Board of Supervisors wants to attend these meetings and participate. May she?
- Answer: She may attend, but only as an observer; she may not participate.

Government Code § 54952.2(c)(6)

# Serial Meetings Are Prohibited

A majority of the members of a legislative body shall not, outside a meeting..., use a series of communications of any kind, directly or through intermediaries, to discuss, deliberate, or take action on any item of business that is within the subject matter jurisdiction of the legislative body.



Gov. Code § 54952.2(b)(1)



# Examples of Serial Meetings

- A daisy chain meeting:
  - Example: Trustee Amy calls trustee Bob to talk about the approval of a contract, then Bob calls trustee Carl to talk about it, and finally Carl calls trustee Diane. A majority of the five person Board of Trustees have talked about the topic and established a collective concurrence.
- Hub and spoke meeting:
  - Example: Department Head Victor calls trustee William and gets his opinion on a project, then calls trustee Xavier then calls trustee Yang and then calls trustee Zed telling each what the other said. A majority of the board has indirectly discussed the topic outside of a meeting in violation of the Brown Act.

# "One Way" Briefings Are Permitted

Brown Act does not prevent “an employee or official of a local agency, from engaging in separate conversations or communications outside of a meeting ... with members of a legislative body in order to answer questions or provide information regarding a matter that is within the subject matter jurisdiction of the local agency, if that person does not communicate to members of the legislative body the comments or position of any other member or members of the legislative body.”

Gov. Code § 54952.2(b)(2)



# Exceptions to "Meeting" Definition

- Individual contacts or conversations between a member of a legislative body and “any other person” are not “meetings” of the legislative body, provided that they are not serial meetings.
- Attendance at a conference open to the public or at a community meeting.
- Attendance at a meeting of another local agency.
- Attendance at a purely social or ceremonial occasion.
- Attendance at a standing committee meeting, provided they attend only as observers.

Gov. Code § 54952.2(c)



# Regular, Special, and Emergency Meetings

There are three types of meetings:

- Regular – The AOC must formally set the time and place for its regular meetings in its bylaws or some similar formal rule.
- Special – Meetings called by either the Chairperson or by a majority of the voting members of the AOC to discuss a specific issue. No other business may be considered at a special meeting.
- Emergency – Meetings held, as allowed in § 54956.5 of the Brown Act to deal with emergency situations. Very unlikely that AOC would call an emergency meeting.

# Meetings Must Be Open and Public

- The Brown Act generally requires that all “meetings” as defined in the Act be open and public.
- Members of the public have a right to address the body on any item appearing on the agenda, before or at the time the legislative body considers the item.
- Each regular meeting agenda shall also provide an opportunity for members of the public to address the legislative body on any item of interest to the public within the subject matter jurisdiction of the body.



Gov. Code §§ 54953, 54954.3



# Meetings Must Be Open and Public

- No secret ballots; the legislative body shall publicly report action taken and the vote or abstension on that action of each member present.
- Fair and reasonable rules may be adopted to assist the body in processing comments from the public.
  - Regulating time and manner, such as reasonable time limits, is OK.
  - Regulating content is not OK.
- Members of the public are allowed to record or film meetings.

Gov. Code §§ 54953, 54953.5, 54954.4

# Meetings Must Be Open and Public

- Cannot require a person to sign in, register his/her name, provide other information, as a condition of attending the meeting.
  - Any sign-in sheet must clearly state that signing the document is voluntary.
- Meeting facility cannot charge for admission.
- Meeting facility must be accessible to disabled individuals.
- Meeting cannot be held in a place that discriminates.
- Cannot prohibit criticism of the agency or the acts or omissions of the legislative body.

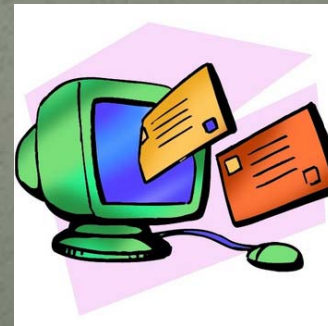
Gov. Code §§ 54953.3, 54961



# Pop Quiz Question No. 2

## *Question*

May a majority of the board members of a local public agency e-mail each other to develop a collective concurrence as to action to be taken by the board without violating the Brown Act if the e-mails are also sent to the secretary and chairperson of the agency, the e-mails are posted on the agency's Internet website, and a printed version of each e-mail is reported at the next public meeting of the board?



## Pop Quiz Question No. 2 (cont'd)

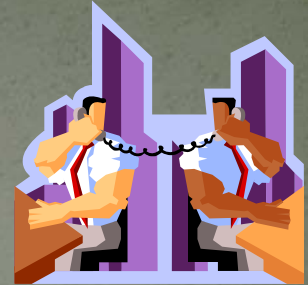
### *Answer*

No. These safeguards do not satisfy either the express wording of the Brown Act or its purposes. Specifically, such e-mail communications would not be available to persons who do not have Internet access. Even if a person had Internet access, the deliberations on a particular issue would be completed before an interested person had an opportunity to become involved.

84 Ops.Cal.Atty.Gen. 30



# Teleconference Meetings



- 54953(b)(1) permits the use of teleconferencing.
- Requirements for teleconferences include:
  - Teleconferences must comply with the rest of the Act.
  - All votes taken during a teleconference must be taken by roll call.
  - Agendas must be posted at all teleconference locations.
  - Teleconference locations must be identified in agenda.
  - Teleconference locations must be accessible to the public.
  - At least a quorum of the board must participate from locations within the County's boundaries.
  - The agenda must provide for public comment at each teleconference location.

# Meeting Materials Are a Public Record

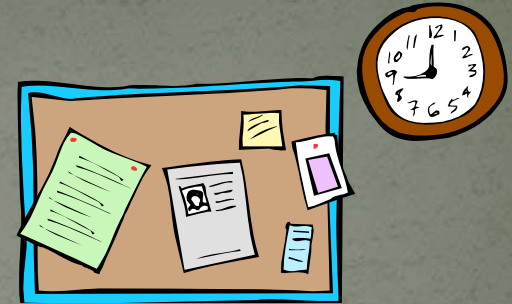
- Documents that are distributed to a majority of a legislative body, which are not exempt from disclosure under the Public Records Act, shall be made available upon request to members of the public without delay.
- Members of the public can make a standing request for agenda materials to be mailed to them, though agency can charge a fee that does not exceed its actual costs.

Gov. Code §§ 54954.1, 54957.5



# Agenda Posting/Notice

- Regular Meeting- at least 72 hours
- Special Meeting- at least 24 hours
- Emergency Meeting- 1 hour telephonic notice to media required; with dire emergency, notice to media may be **contemporaneous** with the meeting
- Physical posting at a location fully accessible to the public is required.
- If the AOC maintains an internet site, then it must post its agenda on the site.



Gov. Code § 54954.2

# Meeting in Closed Session

- Meeting in closed session is allowed **only** for specific matters as expressly authorized by statute.
- Major Closed Session Topics:
  - Personnel matters
  - Anticipated or pending litigation, or initiation of litigation
  - Labor negotiations
  - Real property negotiations
  - Public security threats



Gov. Code § 54954.



# Required Agenda Content

- An agenda must contain a brief general description of each item of business to be transacted or discussed at the meeting, including items to be discussed in closed session.
- A brief general description of an item generally need not exceed 20 words.
- The purpose of the brief general description is to inform interested members of the public about the subject so that they can determine whether to monitor or partipate in the meeting of the legislative body.

Gov. Code § 54952.2(a)(1)

# Pop Quiz Question No. 3

The agenda for a regular meeting contains the following items of business:

- Consideration of a report regarding traffic on 4th Street
- Consideration of contract with ABC Consulting

Are these descriptions adequate?





# Pop Quiz Question No. 3 (cont'd)

Answer:

- If the first is, it is barely adequate. A better description would provide the reader with some idea of what the report is about and what is being recommended.
- The second is not adequate. A better description might read “consideration of a contract with ABC Consulting in the amount of \$50,000 for traffic engineering services regarding traffic on 4th Street.”

# Action on Items Not On Agenda

- After the agenda is posted, action on an item that does not appear on an agenda may be taken:
  - Upon a determination that an emergency situation affecting public health or safety exists;
  - On a newly arising item after agenda was posted that 2/3 of members determine requires immediate action; or
  - On an item continued from a previous meeting held not less than five calendar days earlier.
- As an advisory oversight body, the AOC generally will not be utilizing these action exceptions.

Gov. Code § 54952.2(b)



# Discussion of Items Not on Agenda

- Members of a legislative body or its staff may briefly respond to statements made or questions posed by persons exercising their public testimony rights.
- On their own initiative or in response to questions posed by the public, a member of a legislative body or its staff may ask a question for clarification, make a brief announcement, or make a brief report on his or her own activities.

Gov. Code § 54954.2(a)(2)

# Discussion of Items Not on Agenda

(cont'd)

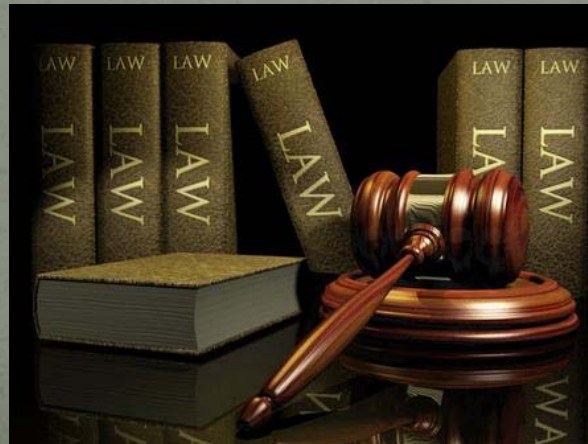
- A member of a legislative body, or the body itself, may provide a reference to staff or other resources for factual information, request staff to report back to the body at a subsequent meeting concerning any matter, or take action to direct staff to place a matter of business on a future agenda.

Gov. Code § 54954.2(a)(2)



# Penalties & Remedies

- Criminal Penalties
  - Knowing violations are a misdemeanor
- Civil Remedies
  - Any interested person may bring a lawsuit
  - Body has chance to cure and correct
  - Certain illegal actions may be voided
  - Costs and attorney fees



# Part II

## Chairing a Meeting





# The Elements of a Meeting

## Standard Order of Business

- Call to Order
- Roll Call
- Reading/Approval of Minutes
- Officer's (and others) Reports
- Committee Reports
- Unfinished Business
- New Business
- Adjournment



# Meeting Basics – The Chair

- All meetings are facilitated by a chairperson who is responsible for making sure that the meeting is conducted smoothly and fairly.
- The chairperson is impartial during all debate and should have the respect of all meeting participants.
- The chairperson does not have final decision making authority.
- The meeting participants have this authority and largely have the responsibility to decide how the meeting will be conducted.



# Meeting Basics – Motion

- The basis of discussion at a meeting is a motion.
- A motion is put forward by an eligible meeting participant for the purpose of focusing the discussion.
- Each motion must have a “mover” – the person who makes the motion and a “seconder” who shows that there is some support for the motion.
- When a motion is “put on the floor” for discussion by the participants, that discussion must focus on the substance of the current motion.
- Another motion cannot be introduced while there is a motion on the floor.
- A meeting participant making a motion – “the mover”- must state the motion before speaking.

# Meeting Basics – Motion Script

Step	What to Say
1. The member rises and addresses the chair	“Mr./Madam Chairperson”
2. The chair recognizes the member.	“The chair recognizes Ms. Allan.”
3. The member makes a motion.	“I move to approve the AOC’s Bylaws and recommend it for approval by the Board of Supervisors.”
4. Another member seconds the motion.	“Second.”

# Meeting Basics – Motion Script (cont'd)

Step	What to Say
5. The chair states the motion.	“It is moved and seconded to approve the AOC’s Bylaws. Discussion?”
6. The members debate the motion.	“The chair recognizes Ms. Allan to speak to her motion.”
7. The chair puts the question, and the members vote.	“Those in favor of approving the AOC’s Bylaws, say ‘Aye.’ [pause] Those opposed, say ‘No.’
8. The chair announces the result of the vote.	“The ayes have it, and the motion carries.”



# Meeting Basics – Reports That Do Not Require a Motion

- *The chair recognizes \_\_\_\_\_ for the \_\_\_\_\_ report.*
- [Script for motions arising from the report]
- *Thank you \_\_\_\_\_.*



# Resources

- California Attorney General <http://ag.ca.gov>
- League of California Cities [www.cacities.org](http://www.cacities.org)
  - Open and Public IV, A User's Guide to the Ralph M. Brown Act

**External Quality Assessment of  
the Internal Audit Activity at**

**County of Orange**

**April 2017**

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## EXECUTIVE SUMMARY

The Orange County Auditor-Controller (A-C), who is an independently elected official, is the chief audit executive (CAE) of the County. He provides audit oversight, through his Internal Audit Division (IAD), of all county operations, including those under the County Board of Supervisors and those directed by other independently elected County officials, as well as his Accounting Division.

As requested by the CAE, IIA Quality Services, LLC (Quality) conducted an external quality assessment (QA) of the A-C's IAD. The principal objective of the QA was to assess IAD's conformance to The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*), evaluate the IAD's effectiveness in carrying out its mission, and identify opportunities to enhance its management and work processes, as well as its value to the County.

## OPINION AS TO CONFORMANCE

**It is our overall opinion that the IAD “Generally Conforms” to the IIA’s *Standards*.** For a detailed list of the *Standards*’ ratings, please see Attachment A of this report. Additionally, the QA team identified opportunities for further enhancing IAD operations, details of which are provided in this report.

The IIA *Quality Assessment Manual* suggests a scale of three ratings, “*Generally Conforms*,” “*Partially Conforms*,” and “*Does Not Conform*.” “*Generally Conforms*” is the top rating and means that an internal audit activity has a charter, policies, and processes that are judged to be in harmony with the intent of the mandatory element(s) of the IPPF. “*Partially Conforms*” means practice(s) are noted that are judged to diverge from the intent of the mandatory element(s) of the IPPF, but the practice(s) does/do not preclude the internal audit activity from performing its responsibilities in an acceptable manner. “*Does Not Conform*” means there are deficiencies in practice that 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 QA, the IA activity provided advanced document guides with detailed information and sent out surveys to its staff and a representative sample of County of Orange executives and managers. Summaries of the survey results (without identifying the individual survey respondents) have been furnished to the IAD. Prior to commencement of the onsite work by the assessment team, the team leader conducted a preliminary conference, by telephone, with the Director of the Internal Audit Division (DIAD) to gather additional background information, select executives and managers for onsite interviews, and finalize planning and administrative arrangements for the QA. As a part of the review, extensive interviews were held with County of Orange’s Chair of the Board of Supervisors, Chair of the Audit Oversight Committee, executives and operating managers, external auditors, and IA activity staff. Also reviewed were the IAD risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of IAD working papers and reports.



## **OBSERVATIONS AND POSITIVE ATTRIBUTES**

The IAD environment is well-structured and progressive, the *Standards* are understood and IAD management is endeavoring to provide useful audit tools and implement appropriate practices. Some successful practices observed were:

- IA activity staff is well credentialed
- Engagement work papers are complete and well prepared
- Developed an excellent audit policies and procedures manual
- Implemented “Annual Reporting” on IAD activities to Orange County citizens
- Developed a highly effective and informative Annual Plan process
- Developed a leading class quality self-assessment report providing excellent observations of best practices and process improvement opportunities
- Assembled a highly-qualified information technology (IT) audit team
- Developed a cooperative relationship with the County Chief Information Security Officer to raise awareness of cyber security risks
- Outsourced a project to conduct a comprehensive, County-wide IT risk assessment and build an appropriate IT audit universe
- Developed COSO training classes for County managers and staff
- Implemented the use of a software package for preparing engagement work papers
- Implemented the use of a software package for data mining and continuous auditing; the package is used by the entire audit staff

Consequently, observations and recommendations are intended to build on this foundation already in place within the IAD.

## **RECOMMENDATIONS**

Recommendations are divided into three groups:

- First are those that relate to the County Auditor-Controller and suggest matters for his consideration that have the potential to enhance the effectiveness of the IAD.
- Second are those that relate to IAD’s conformance with individual *Standards* regarding the County governance structure, and approval of audit engagement work programs.
- Third are those that relate to potential opportunities for the IAD to enhance its efficiency and effectiveness.

Highlights of the recommendations are set forth below, with details in the main body of the report.

## **PART I – MATTERS FOR CONSIDERATION OF THE AUDITOR-CONTROLLER**

1. **Clarify the mission of the IAD and the nature of their audit services** by holding discussions with County management to explain the purpose, focus, and impact of government over-sight auditing. (Successful Practice)
2. **Enhance the appearance of the IAD independence in the A-C’s Office.** Consider engaging a third-party contractor to assess the independence and objectivity of the IAD’s annual plan and audit engagements relative to the A-C’s Accounting Division during years when an external quality assessment is not performed.  
(Implementation Guidance 1112)

## **PART II – CONFORMANCE ISSUES FOR THE INTERNAL AUDIT DIVISION**

1. **Supplement IAD efforts to improve County governance processes** by including them within the annual planning process and conducting audit engagements with scopes that are focused on governance. (Standard 2110)
2. **Strengthen procedures for approving engagement work programs** by ensuring the review and approval process is properly and timely documented within the engagement work papers. (Standard 2240)

## **PART III – OPPORTUNITIES TO ENHANCE THE INTERNAL AUDIT DIVISION**

1. **Consider activities to enhance staff proficiency** such as assigning staff as client liaisons to County operating management, and increasing participation in professional organizations. (Successful Practice)
2. **Consider actions to enhance IAD efficiency and effectiveness** such as expanding the performance measures used in status reporting and leveraging audit work performed by external auditors. (Successful Practices)

Thank you for the opportunity to be of service to County of Orange. The QA team will be pleased to respond to further questions concerning this report and to furnish any desired information.



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**Team Leader**  
George J. Shemo, CPA

**Team Members:**  
David MacCabe, CIA  
Steve Goodson, CIA



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Tracy Darakjian, CIA  
Director, Quality  
IIA Quality Services, LLC

## **OBSERVATIONS AND RECOMMENDATIONS**

### **PART I – MATTERS FOR CONSIDERATION OF THE AUDITOR-CONTROLLER**

These observations and recommendations originated principally from comments received from the management surveys, the interviews conducted with selected County executives and managers, and follow-up on the issues by the QA Team. They are provided as potential opportunities to enhance the effectiveness of the IAD and the value it adds to the County.

#### **1. Clarify the Mission of the IAD and the Nature of Audit Services**

The Auditor-Controller (A-C) of Orange County is an independently elected county-wide official. He is the CAE of the County, and has responsibility to conduct audits of all County operations. The audits are conducted by his Internal Audit Division (IAD), under the direction of the Director of the Internal Audit Division (DIAD). Additionally, the A-C is responsible for the accounting operations of the County.

The County Board of Supervisors (BOS), comprised of five independently elected officials representing all districts within the County, is responsible for most County operations and services. In addition to the A-C, services are also provided by five other independently elected officials. They are the Assessor, Clerk-Recorder, District Attorney, Sheriff-Coroner, and the Treasurer-Tax Collector. The A-C is responsible for auditing all these operations and services, including those within his own accounting operations.

As an independently elected official, the A-C does not have functional or administrative reporting relationships within Orange County government; he is solely accountable to the citizens of the County. He does have quasi-functional interaction with the BOS through its Audit Oversight Committee (AOC). The AOC reviews and provides recommendations regarding the “approval” of the IAD annual plan and IAD Charter to the BOS. The A-C maintains that this functional interaction is advisory in nature, and is not binding on his preparation of the annual plan or on conducting County audits. By law, the BOS can require the A-C to conduct an audit of specific County operations, if the BOS deems it necessary.

The IAD was originally part of the A-C’s Office, and was eventually moved to the BOS for a period. IAD was moved back to the A-C in August 2015. Since then, the A-C has reestablished the mission of the IAD as an advocate for the citizens of Orange County, to promote public oversight, provide accountability, and support financial decision-making for the County. Implementing this mission marks a change from the audit approach IAD had adapted while under the BOS. The nature of IAD audit services has shifted from a focus of aligning with the strategies, objectives of County managers to accountability, oversight, and transparency in County government financial operations.

Interviews with County managers indicated a clear and significant difference in the current approach to IAD auditing, from assistance to oversight. While the IAD meets the requirements of the *Standards*, the mission is more compatible with the nature and intent of government auditing standards.

## **Recommendations**

*To address concerns of County management regarding the nature of audit services, the A-C should consider initiating discussions with senior County management, the Board of Supervisors, the Audit Oversight Committee, and other independently elected County officials to articulate the vision of providing the County with the types of effective government audits performed at the Federal, State, and local levels, and have been proven to provide essential oversight, accountability and transparency over government programs. The A-C could use this opportunity to demonstrate that even with a shift in focus and nature of auditing, the output of the work performed should still provide IAD the ability to assist in identifying risk and achieving the organization's objectives.*

## **Auditor-Controller Response**

**Concur.** The Auditor-Controller will meet with senior County management, the Board of Supervisors, the Audit Oversight Committee, and other independently elected County officials to articulate how, as noted by the Institute of Internal Auditors, the audit function “has shifted from a focus of aligning with the strategies, objectives of County managers to accountability, oversight, and transparency in County government financial operations.”

The Institute of Internal Auditors also noted that while the audit division “meets the requirements of the [Red Book] *Standards*, the mission is more compatible with the nature and intent of [Yellow Book] government auditing standards.” The Auditor-Controller will explain the audit division’s obligations under the Government Auditing Standards (the “Yellow Book”) issued by the Comptroller General of the United States, who heads the Government Accountability Office.

As described by the Institute of Internal Auditors, the Auditor-Controller has reestablished the audit mission “as an advocate for the citizens of Orange County, to promote public oversight, provide accountability, and support financial decision-making for the County.” The Auditor-Controller will discuss how this mission of oversight and accountability is still compatible with assisting in identifying risk and achieving the County’s objectives.

## **2. Enhance the Appearance of Independence**

Under the County’s legal structure, the independently elected A-C has responsibilities for auditing the County, and maintaining the County’s accounting system. He is accountable directly to the citizens of the County, and has no formal administrative and functional reporting relationships elsewhere within the County government structure. The A-C’s IAD provides audit coverage of all County operations, including the accounting function for which the A-C has responsibility.

The assessment concluded that IAD is appropriately independent and objective, in fact, regarding all County operations, including the A-C’s accounting function. The IAD annual planning and risk assessment process properly determines audit coverage of the A-C’s accounting function, and their audit engagement/reporting process results in complete, accurate and objective oversight of

that function. However, given the legal reporting structure, maintaining the appearance of independence is an inherent challenge for the IAD.

### **Recommendations**

*Currently IAD audit reports are available for review on the A-C Office public website, including any reports on the accounting function. Continuation of this practice and consideration of further steps toward enhancement of the appearance of IAD independence is encouraged. Since external assessments are required once every five years, consider engaging with an independent third party to review and attest to the independence of the IAD's audit planning and engagement processes, specifically relative to the accounting function, in those years when a routine external assessment is not required.*

### **Auditor-Controller Response**

**Concur.** Subject to budget constraints, the Auditor-Controller will consider engaging with an independent third party to review and attest to the independence of the audit division's audit planning and engagement processes, specifically relative to the accounting function, in those years when a routine external assessment is not required. The Institute of Internal Auditors concluded that the audit division "is appropriately independent and objective, in fact, regarding all County operations, including the A-C's accounting function." As such, the Auditor-Controller welcomes periodic re-confirmation of this independence and objectivity by an independent third party, subject to budget constraints.

## **PART II – CONFORMANCE ISSUES FOR THE INTERNAL AUDIT DIVISION**

### **1. Enhance Efforts to Improve County Governance Processes**

The focus of IAD audits is to provide oversight, accountability, and transparency of County financial operations and reporting, with emphasis on reviewing the control structure County management employs. While the IAD annual planning process provides an appropriate basis to conduct audits of controls at the detailed operating level, the planning process does not adequately include an overall evaluation of County governance as part of the general control system.

### **Recommendation**

*The DIAD should consider periodically assessing and making recommendations to improve the County's governance processes. This can be achieved by placing governance processes in the audit universe and including engagements in the annual plan to specifically assess these processes. Also, standard steps could be included in all audit engagement programs to assess elements of governance, whenever the opportunity exists.*



## **Internal Audit Division**

**Concur.** The IAD will consider inclusion of assessments of County governance in future audits and engagement work programs.

## **2. Strengthen Procedures for Approving Engagement Work Programs**

Based on a review of IAD audit engagement work papers, the work performed was found to be well planned and supported by detailed audit work programs that are effective in achieving the objectives of the engagements. The programs properly include procedures for identifying, analyzing, evaluating and documenting information during the engagement. However, the procedures in place do not provide for sufficient documentation to determine audit work programs are formally approved by appropriate supervisory staff prior to implementation.

### ***Recommendation***

*The DIAD should revise audit engagement procedures to ensure that the supervisory review and approval of engagement work programs, and any subsequent changes to these programs, are properly documented within the engagement work papers before audit staff can proceed with performing their audit work. The DIAD could consider imbedding this procedure within the IAD's audit software package.*

## **Internal Audit Division**

**Concur.** The IAD will retrain staff and engagement supervisors to ensure engagement work programs are approved in a timely manner and as required by policy.

## **PART III – OPPORTUNITIES TO ENHANCE THE INTERNAL AUDIT DIVISION**

### **1. Consider Activities to Enhance Staff Proficiency**

Potential opportunities for enhancement of staff proficiency, including staff empowerment and professional development should be considered.

### ***Recommendation***

*Consider the following to enhance staff proficiency:*

- *Assign audit staff members as liaisons to County operating departments to maintain communication links, answer questions, and provide advice. Also, the liaisons should be made part of the IAD annual planning process as a source of information to help identify audit engagements that are focused on operational need.*
- *Encourage and support audit staff members to assume leadership roles in professional organizations such as the IIA, ALGA, and ISACA. These staff members should be*

*utilized as sources of information to keep current with professional practice and to benchmark IAD with other audit organizations.*

### **Internal Audit Division**

**Concur.** The IAD will analyze the feasibility of assigning departments to staff as liaisons and IAD will consider increasing participation in professional organizations.

## **2. Consider Actions to Enhance Efficiency and Effectiveness**

There are potential opportunities to enhance IAD efficiency and effectiveness in adding value to County operations.

### ***Recommendation***

*Consider the following initiatives:*

- *Develop additional performance metrics to increase ability to identify areas of continuous improvement, and provide expanded status reporting.*
- *Utilize the DIAD web page of the A-C Office to develop the capability to advise County management on emerging issues and audit findings that could relate to their own operations. The DIAD could consider using the capability of the IAD audit software package.*
- *Increase effort to leverage work of the external financial statement auditors. This would include reviewing their engagement plan, audit programs, and engagement work papers as appropriate.*
- *Increase communication and status reporting with operating management throughout all stages of audit engagements to ensure the closing meeting and report drafting process minimize delays in finalizing and issuing audit reports. Emphasis on communication could be especially beneficial on occasions when audit work is stopped for a period.*

### **Internal Audit Division**

**Concur.** The IAD will consider additional key performance metrics, increasing communications with departments on emerging issues and engagement status, and increasing involvement with the external auditor.

## County of Orange

		GC	PC	DNC
<b>OVERALL EVALUATION</b>		<b>x</b>		
<b>ATTRIBUTE STANDARDS</b>		<b>x</b>		
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	<b>x</b>		
1010	Recognition of the Definition of Internal Auditing	<b>x</b>		
<b>1100</b>	<b>Independence and Objectivity</b>	<b>x</b>		
1110	Organizational Independence	x		
1111	Direct Interaction with the Board	x		
1112	CAE Roles Beyond Internal Auditing	x		
1120	Individual Objectivity	x		
1130	Impairments to Independence or Objectivity	x		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>	<b>x</b>		
1210	Proficiency	x		
1220	Due Professional care	x		
1230	Continuing Professional Development	x		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>	<b>x</b>		
1310	Requirements of the Quality Assurance and Improvement Program	x		
1311	Internal Assessments	x		
1312	External Assessments	x		
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>PERFORMANCE STANDARDS</b>		<b>x</b>		
<b>2000</b>	<b>Managing the Internal Audit Activity</b>	<b>x</b>		
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	x		

<b>2100</b>	<b>Nature of Work</b>	<b>x</b>		
2110	Governance		x	
2120	Risk Management	x		
2130	Control	x		
<b>2200</b>	<b>Engagement Planning</b>	<b>x</b>		
2201	Planning Considerations	x		
2210	Engagement Objectives	x		
2220	Engagement Scope	x		
2230	Engagement Resource Allocation	x		
2240	Engagement Work Program		x	
<b>2300</b>	<b>Performing the Engagement</b>	<b>x</b>		
2310	Identifying Information	x		
2320	Analysis and Evaluation	x		
2330	Documenting Information	x		
2340	Engagement Supervision	x		
<b>2400</b>	<b>Communicating Results</b>	<b>x</b>		
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> "	x		
2431	Engagement Disclosure of Nonconformance	x		
2440	Disseminating Results	x		
2450	Overall Opinions	x		
<b>2500</b>	<b>Monitoring Progress</b>	<b>x</b>		
<b>2600</b>	<b>Management's Acceptance of Risks</b>	<b>x</b>		
	<b>IIA Code of Ethics</b>	<b>x</b>		

## **ORANGE COUNTY AB 1234 ETHICS TRAINING POLICY**

### ***Every two year training requirement:***

AB 1234, effective January 1, 2006, requires that specified officials complete ethics training the year in which they begin service and every two years thereafter. To simplify the process and to avoid tracking numerous different expiration dates, Orange County requires that specified officials take the ethics training the year in which they are elected or appointed and every even numbered year thereafter.

### ***County officials required to take ethics training:***

1. All County Elected Officials.
2. Members of all boards, commissions & committees (BCCs) under the jurisdiction of the Board of Supervisors that are subject to the Brown Act (i.e., the BCC was created by a legislative body, such as the Board of Supervisors) and who either receive compensation for their service or are reimbursed for their expenses (i.e., receive a stipend or per diem; reimbursement for mileage, meals, or transportation; parking validation; or workshop, training or conference costs paid by the County, etc.).
3. Members of all BCCs under the jurisdiction of the Board of Supervisors who are designated filers under the County's Conflict of Interest Code.

### ***When officials must take the ethics training:***

- Prior to December 31<sup>st</sup> of the year in which they are elected or appointed.
- Prior to December 31<sup>st</sup> of every even numbered year thereafter.

#### **Examples:**

1. If an official is appointed to a BCC on October 16, 2009, that official would take the ethics training prior to December 31, 2009 and then again the following year prior to December 31, 2010 (to get on the even year cycle).
2. If an official is appointed to a BCC on June 10, 2010, that official would take the ethics training prior to December 31, 2010 and again during 2012, prior to December 31, 2012.

### ***How officials take the ethics training:***

- The Fair Political Practices Commission (FPPC) has established an online training program that allows local officials to satisfy the requirements of AB 1234 on a cost-free basis. When the official has completed the program, they must print the certificate of completion provided at the end of the course and submit the certificate to the Clerk of the Board. The course can be accessed on the FPPC's website: <http://localethics.fppc.ca.gov/login.aspx>.



- Ethics trainings are also offered by a variety of organizations, and other online sources. An ethics training certificate of completion from any qualified provider will satisfy the ethics requirement.

***Where officials file their certificate of completion:***

- Officials listed in 1 & 3 of “*County officials required to take Ethics Training*” section, file their certificates with the Clerk of the Board of Supervisors.
- Officials listed in 2 of “*County officials required to take Ethics Training*” section, file their certificates with the County Department that supports the BCC.
- An official who is required to file their certificate of completion with various agencies (i.e., because they hold a County elected position and serve on a BCC not under the jurisdiction of the Board of Supervisors) may submit a copy of the original certificate to the County.

***Failure/refusal to take the ethics training:***

- The Clerk of the Board shall be responsible for providing three (3) written notices to elected officials and officials listed in 2 or 3 of “*County officials required to take ethics training*” section who have failed to complete the ethics training. In the case of written notices to a member of a BCC, the Clerk of the Board shall provide a copy of the second and third written notices to the Supervisor who nominated that BCC member for appointment by the Board of Supervisors. Thereafter, the Clerk of the Board is relieved of providing any further notification of non-compliance with the ethics training requirement.
- Non-completion of this mandatory requirement by an official who is listed in 2 or 3 of “*County officials required to take ethics training*” section, will result in the official’s removal from their BCC position. Upon appointment, such official will sign a “Consent to Removal and Forfeiture of Appointment Due to Non-Compliance with AB 1234 Ethics Training” which memorializes his/her agreement and understanding that failure to complete ethics training when required (i.e., upon appointment and every numbered year thereafter) will result in his/her automatic removal and forfeiture of position without further action of the Board of Supervisors or the pertinent BCC. An official’s non-compliance will be reported by the Clerk of the Board to the Chairperson of the pertinent BCC and/or Department contact. The automatic removal and forfeiture of position shall occur 31 days from the date the training is to be completed as provided above. Signed consent forms shall be forwarded to the Clerk of the Board. Failure of an official to sign the consent form or failure of the Clerk to Board to receive an official’s signed consent form shall not preclude the automatic removal and forfeiture of position for non-compliance.

***Record retention:***

- The Clerk of the Board of Supervisors will maintain original or copies of original certificates of completion of elected officials and officials who are designated filers under the County Conflict of Interest Code, i.e., officials who file Statements of Economic Interests (Form 700s).

- Department contacts will maintain original certificates of completion of officials who are not designated filers under the County Conflict of Interest Code.
- Certificates of completion must be retained as public records for at least five years.

## COUNTY OF ORANGE GIFT BAN ORDINANCE

### Sec. 1-3-22. Definitions.

For the purposes of this article:

- (a) *County* means the County of Orange.
- (b) *County officer* means every person who is elected or appointed to an office in the County which is specified in section 87200 of the California Government Code.
- (c) *Designated employee* means every employee of the county who is designated in the County's Conflict of Interest Code to file a statement of economic interests and every member of a board or commission under the jurisdiction of the Board of Supervisors required to file such a statement.
- (d) *Doing business with the County* means:
  - (1) Seeking the award of a contract or grant from the County; or
  - (2) Having sought the award of a contract or grant from the County in the past twelve (12) months; or
  - (3) Being engaged as a lobbyist or lobbyist firm, as defined in this article, from the time of such engagement until twelve (12) months after the award of the contract grant, license, permit, or other entitlement for use, which was the subject of the engagement; or
  - (4) Having an existing contractual relationship with the County, until twelve (12) months after the contractual obligations of all parties have been completed; or
  - (5) Seeking, actively supporting, or actively opposing the issuance, by the County, of a discretionary license, discretionary permit, or other discretionary entitlement for use, or having done any of these things within the past twelve (12) months.
- (e) *Gift* shall have the meaning it is defined to have in the California Political Reform Act, and the regulations issued pursuant to that Act, except that the following shall not be deemed to be gifts:
  - (1) Meals, beverages, and free admission at any event sponsored by, or for the benefit of, a bona fide educational, academic, or charitable organization, and commemorative gifts from such organizations with a cumulative value from any single source, of fifty dollars (\$50.00) or less during any twelve-month period.
  - (2) Flowers, plants, balloons or similar tokens which are given to express condolences, congratulations, or sympathy for ill health, or to commemorate special occasions, provided that gifts made or received under this exemption shall not exceed a value of fifty dollars (\$50.00) from any single source in any calendar year.

- (3) A prize awarded on the basis of chance in a bona fide competition not related to the official status of the public official.
  - (4) Gifts from any agency of a foreign sovereign nation, provided that such gifts are unconditionally donated by the public official to the Director of the Public Facilities and Resources Department within forty-five (45) days of receipt, and the public official does not claim any tax deduction by virtue of such donation.
  - (5) Food, beverages, and free admission provided by a governmental agency or provided to the public at large, for ceremonial functions commemorating the groundbreaking, opening, or naming of a governmental facility.
  - (6) Food and beverages consumed by a public official that total less than \$5.00 per occasion.
- (f) *Lobbyist* shall mean any individual, including an attorney, who is employed or contracts for consideration, other than reimbursement of reasonable travel expenses, to communicate directly with any County officer or staff member of a County Supervisor for the purpose of seeking, actively supporting, or actively opposing the award of a contract or grant from the County, or the issuance, by the County, of a discretionary license, discretionary permit, or other discretionary entitlement for use. An attorney shall not be considered a lobbyist when performing activities which can only be performed by a person admitted to the practice of law.
- (g) *Lobbyist firm* shall mean (1) any business entity, which is employed or contracts for consideration, other than reimbursement of reasonable travel expenses, to communicate directly with a County officer or staff member of a County Supervisor for the purpose of seeking, actively supporting or actively opposing the award of a contract or grant from the County, or the issuance, by the County, of a discretionary license, discretionary permit, or other discretionary entitlement for use, or (2) any business entity of which any member or employee is a lobbyist.
- (h) *Principal* shall mean any individual or business entity which employees or contracts with a lobbyist or lobbyist firm for any of the purposes stated in subsection (f) or (g) of this section.
- (i) An individual or business entity shall be deemed to be employed or contracting to communicate directly with a County officer or staff member of a County Supervisor if it is reasonably foreseeable that in the course of employment or in the course of performing the contract the individual or an employee of the entity will have a telephone conversation or a discussion with any County officer or staff member of a County Supervisor, outside of any meeting governed by the Ralph M. Brown Act (which is codified in the California Government Code commencing with section 54950), for the purpose of seeking, actively supporting, or actively opposing the award of a contract or grant from the County, or the issuance, by the County, of a discretionary license, discretionary permit, or other discretionary entitlement for use.
- (j) An individual lobbyist who is an officer, partner or employee of his or her principal shall be deemed to be “engaged” within the meaning of this section on the first occasion on which he or she engages in a telephone conversation or discussion

(k) described in subsection (i) of this section. A lobbyist firm, or an individual lobbyist who is not an officer, partner or employee of his or her principal shall be deemed to be “engaged” within the meaning of this section upon the completion an agreement, oral or written, to provide the services specified in subsection (f) or (g) of this section.

(l) *Public official* means every County officer and every designated employee.

**b) Section 1-3-23. Prohibitions.**

(a) No person who is doing business with the County shall make any gift to any County officer.

(b) No person who is doing business with the County shall make any gift to any designated employee who, by virtue of his County employment, could make a governmental decision, participate in making a governmental decision, or use his or her official position to influence a governmental decision regarding the pending business of the donor, or who has done any of the above during the twelve (12) months preceding the donation.

(c) No County officer shall solicit or accept any gift from any person whom he knows, or has reason to know, is doing business with the County.

(d) No designated employee shall solicit or accept any gift from any person whom he knows, or has reason to know, is doing business with the County, when such employee, by virtue of his County employment, could make a governmental decision, participate in making a governmental decision, or use his or her official position to influence a governmental decision regarding the pending business of the donor, or has done any of the above during the twelve (12) months preceding the donation.

(e) No public official shall accept any gift when the identity of the donor is not known to the public official.

**c) Section 1-3-24. Violations and enforcement.**

(a) Any County officer who violates section 1-3-23 shall be guilty of a misdemeanor.

(b) Any designated employee who violates section 1-3-23 shall be subject to discipline for such violation, including, in appropriate cases, termination of employment.

(c) Any member of any County board or commission, other than a board or commission established by the Constitution or a statute of the State of California, who violates section 1-3-23 shall be subject to removal from office.



- (d) Any person who violates section 1-3-23(a) or 1-3-23(b) shall be guilty of a misdemeanor.
- (e) These enforcement provisions are in lieu of the penalty provided in section 1-1-34, are cumulative, and are not mutually exclusive.



# AUDIT OVERSIGHT COMMITTEE (AOC) VIRTUAL RETREAT BINDER OCTOBER 1, 2020

## TABLE OF CONTENTS

### 3. RELEVANT RULES & REGULATIONS

- a. OC Board of Supervisors Resolutions
  - i. 95-271 Establishment of an Internal Audit Unit Independent from the County Auditor-Controller, Reporting Directly to the BOS
  - ii. 16-014 Establishment of an Audit Oversight Committee
  - iii. 18-068 Establishment of an Internal Audit Department Independent from the County Auditor-Controller, Reporting Directly to the BOS
  - iv. 82-162 Duties and Responsibilities of the Auditor-Controller
  - v. 95-946 Establishment of New Treasury Oversight Committee (SB 866)
- b. Government Codes
  - i. 25250 BOS Biennial Audit of Financial Records
  - ii. 26881 Auditor-Controller as Chief Accounting Officer
  - iii. 26883 Auditor-Controller Audits of Departments
- c. FY 19-20 IAD Independence Attestation
- d. Brief History of Orange County

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2  
3 RESOLUTION OF THE BOARD OF SUPERVISORS

4 ORANGE COUNTY, CALIFORNIA

5 April 25, 1995

6 On motion of Supervisor Silva, duly seconded and carried, the  
7 following Resolution was adopted:

8 NOW, THEREFORE, BE IT RESOLVED that this Board does hereby:

9 1. Establish an Internal Audit Unit independent from the  
10 Auditor-Controller reporting directly to the Board of Supervisors to  
11 perform the biennial audits of County Officers required by Government  
12 Code Section 25250.

13 2. Authorize the Internal Audit Unit to perform the Auditor-  
14 Controller's legally required audits, if requested by the Auditor-  
15 Controller.

16 3. Establish an Audit Oversight Committee consisting of a  
17 Member of the Board of Supervisors, Treasurer-Tax Collector, Auditor-  
18 Controller, Chief Executive Officer (CEO), and two Department Heads  
19 selected by the CEO.

20 a. Direct this Committee to act in an oversight  
21 capacity to the Internal Audit Unit, including approval of  
22 the annual audit plan.

23 b. Appoint Supervisor James W. Silva as the  
24 representative from the Board of Supervisors on the Audit  
25 Oversight Committee for 1995.

26 **RESOLUTION NO. 95-271**  
27 Establishment of an Internal  
28 Audit Unit Independent from the  
County Auditor-Controller  
Reporting Directly to the  
Board of Supervisors

4. Establish the class of Director of Internal Audits, Class Code 7840, Salary Schedule ML-E, and adopt the attached classification specification.

5. Direct the Human Resources Department to begin a recruitment for the position of Director of Internal Audits. Selection of the Director will be through the Audit Oversight Committee with final approval by the Board of Supervisors.

6. Authorize the Auditor-Controller to establish Agency Number 079 within the County General Fund as a separate budget unit for the new Internal Audit Unit.

7. In accordance with Government Code Section 29130, approve the following adjustments to the County General Fund agency/department FY 1994/95 budgets:

Agency Code	Agency Name	Expenditure Object	Account	Recommended Increase/Decrease
003	Auditor-Controller	0101	Salaries	(120,000)
079	Internal Audit Unit	0101	Salaries	120,000

8. Amend the County Master Position Control effective April 25, 1995 per the following:

a. Delete 13 positions from the Auditor-Controller (Agency 003 as follows:

1 Chief of Audits Position (Class Code 7838)  
4 Accountant/Auditor Manager I positions (Class Code 7817)  
1 Principal Accountant/Auditor position (Class Code 7816)  
6 Accountant/Auditor II positions (Class Code 7807)  
1 Office Technician position (Class Code 0522)

b. Add 13 positions to the Internal Audit Unit (Agency 079) as follows:

1 Director of Internal Audits (Class Code 7840)  
2 Accountant/Auditor Manager I positions (Class Code 7817)  
3 Senior Accountant/Auditor II positions (Class Code 7815)  
6 Accountant/Auditor II positions (Class Code 7807)  
1 Secretary II position (Class Code 0578)

//

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1           9.    Direct the CEO and the Auditor-Controller to effect the  
2 transfer of internal audit responsibilities and staff from the  
3 Auditor-Controller's Office to the Internal Audit Unit, including  
4 specific actions as follows:

- 5           a.    The CEO will assume responsibility for the Internal Audit  
6                Unit pending appointment of the Director of Internal Audits.  
7           b.    The CEO will work with the Auditor-Controller to prepare a  
8                recommended budget for the Internal Audit Unit to be  
9                incorporated into the County of Orange FY 1995/96 Proposed  
10               Budget.  
11          c.    The transfer shall provide for completion of any audits  
12                required by Government Code Section 25250 and audits that  
13                are legally required of the Auditor that are in progress on  
14                the effective date of the transfer.

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*Gaddi Vasquez*  
Chairman of the Board of Supervisors

SIGNED AND CERTIFIED THAT A COPY  
OF THIS DOCUMENT HAS BEEN DELIVERED  
TO THE CHAIRMAN OF THE BOARD

*Kathleen E. Goodno*  
Kathleen E. Goodno  
Acting Clerk of the Board of Supervisors  
County of Orange, California

AYES: SUPERVISORS JAMES W. SILVA, GADDI H. VASQUEZ,  
WILLIAM G. STEINER, ROGER R. STANTON

NOES: SUPERVISORS MARIAN BERGESON

ABSENT: SUPERVISORS NONE

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss.

I, KATHLEEN E. GOODNO, Acting Clerk of the Board of Supervisors  
of Orange County, California, hereby certify that the above and  
foregoing Resolution was duly and regularly adopted by the said Board  
at a regular meeting thereof held on the 25th day of April, 1995, and  
passed by a four-fifths vote of said Board.

IN WITNESS WHEREOF, I have hereunto set my hand and seal this  
25th day of April, 1995.

*Kathleen E. Goodno*  
Kathleen E. Goodno  
Acting Clerk of the Board of Supervisors  
of Orange County, California

RESOLUTION OF THE BOARD OF SUPERVISORS OF  
ORANGE COUNTY, CALIFORNIA

February 9, 2016

WHEREAS, on April 25, 1995, this Board established the Internal Audit Department and transferred internal audit responsibilities and staff from the Auditor-Controller's Office to the Internal Audit Department through its adoption of Resolution No. 95-271; and

WHEREAS, Resolution No. 95-271 also established an Audit Oversight Committee to act in an oversight capacity over audits conducted by the Internal Audit Department; and

WHEREAS, the Audit Oversight Committee performs an important function in assisting the Board of Supervisors in fulfilling its oversight responsibilities with respect to financial reporting, internal controls, and internal and external auditor activities; and

WHEREAS, on July 24, 2007, this Board approved the creation of a performance audit function reporting directly to the Board and the Performance Audit Director position; and

WHEREAS, on August 4, 2015, this Board rescinded Sections 1 and 9 of Resolution No. 95-271, and transferred internal audit responsibilities from the Internal Audit Department back to the Auditor-Controller's Office effective August 21, 2015; and

WHEREAS, the Board of Supervisors desires to affirm and amend the duties and responsibilities of the Audit Oversight Committee in light of the creation of the position of Performance Audit Director and the transfer of internal audit responsibilities to the Auditor-Controller's office.

NOW, THEREFORE, BE IT RESOLVED that this Board does hereby:

1. Repeal Resolution No. 95-271 dated April 25, 1995.
2. Establish an Audit Oversight Committee ("AOC") to provide independent review and oversight of the County's financial reporting processes and the County's internal controls, a review of the external auditor's report and follow-up on management's corrective action, and compliance with laws, regulations and policies.

3. Direct that the AOC shall be comprised of the following eight members: The Chair and Vice-Chair of the Board of Supervisors, the County Executive Officer, and five public members. Each member of the Board of Supervisors may nominate one public member for appointment by the Board of Supervisors. The term for each public member shall be four (4) years. The public members may be appointed or removed by the Board of Supervisors at any time.
4. Appoint the public members of the AOC established under Resolution No. 95-271 to the AOC established under this Resolution. The terms of the public AOC members appointed under this Section 4 shall run from the date they were last appointed to the AOC.
5. Direct that the newly created fifth public member shall serve an initial two (2) year term from January 1, 2016 to December 31, 2017 and each term thereafter shall be for four (4) years.
6. While public members need not be accountants, they should possess sufficient knowledge and experience in finance, business, or accounting to discharge the committee's duties.
7. Direct the AOC to perform the following duties to assist the Board of Supervisors, Auditor-Controller, and Performance Audit Director in fulfilling their oversight responsibilities with respect to: financial reporting; internal controls; and internal, external, and performance auditor activities:
  - a. Oversee the establishment and maintenance of the County's internal control structure, including oversight over the auditing activities of the Auditor-Controller.
  - b. Oversee the establishment and maintenance of the County's performance audit function, including oversight over the auditing activities of the Performance Audit Director.

- c. Consider the effectiveness of the frameworks for internal controls, review the effectiveness of systems for monitoring compliance with laws and regulations, and review the processes for communicating the County's compliance policies to County personnel and monitoring compliance therewith.
  - d. Review the quality of the County's financial reporting activities.
  - e. Provide oversight for the periodic review and selection of external auditors.
  - f. Review all findings in audit reports and consult with external auditors regarding any irregularities and deficiencies disclosed in the Comprehensive Annual Financial Report (CAFR) and other audit reports prepared by the County's external auditors.
  - g. Notify the Board of Supervisors should the AOC determine any significant or material irregularity exists in County operations.
  - h. Review the County's financial policies and procedures as requested by the Auditor-Controller and County Executive Officer.
  - i. Review the Auditor-Controller's receipt, retention, investigation and treatment of complaints to the County's Fraud Hotline, which are referred to the Auditor-Controller, but may not review records pertaining to the investigation of complaints.
  - j. Provide recommendations regarding the coordination and scheduling of external, internal and performance audits to avoid disruption of departmental work flows and duplication of effort.
- 8. Direct the Auditor-Controller's office to provide staffing and support for the AOC, but the Auditor-Controller shall not be a voting member of the AOC.
  - 9. Direct the Auditor-Controller, or his or her designee, to attend all AOC meetings.
  - 10. Direct the Performance Audit Director, or his or her designee, to attend all AOC meetings.

Attachment B

11. Direct the Treasurer-Tax Collector, or his or her designee, to attend all AOC meetings.
12. Direct that the AOC shall meet at least quarterly with authority to convene additional meetings as circumstances require.
13. Direct that meetings of the AOC be open to the public and subject to the Ralph M. Brown Act.



The foregoing was passed and adopted by the following vote of the Orange County Board of Supervisors, on February 09, 2016, to wit:

AYES: Supervisors: TODD SPITZER, LISA A. BARTLETT, ANDREW DO  
MICHELLE STEEL, SHAWN NELSON  
NOES: Supervisor(s):  
EXCUSED: Supervisor(s):  
ABSTAINED: Supervisor(s):


  
\_\_\_\_\_  
CHAIRWOMAN

STATE OF CALIFORNIA    )  
                                  )  
COUNTY OF ORANGE    )

**I, ROBIN STIELER, Clerk of the Board of Orange County, California, hereby certify that a copy of this document has been delivered to the Chairman of the Board and that the above and foregoing Resolution was duly and regularly adopted by the Orange County Board of Supervisors**

**IN WITNESS WHEREOF, I have hereto set my hand and seal.**



  
\_\_\_\_\_  
ROBIN STIELER  
Clerk of the Board  
County of Orange, State of California

Resolution No: 16-014  
Agenda Date: 02/09/2016  
Item No: 27



I certify that the foregoing is a true and correct copy of the Resolution adopted by the Board of Supervisors, Orange County, State of California

Robin Stieler, Clerk of the Board of Supervisors

By: \_\_\_\_\_  
Deputy

**RESOLUTION OF THE BOARD OF SUPERVISORS OF  
ORANGE COUNTY, CALIFORNIA**

June 26, 2018

WHEREAS, the Board of Supervisors serves as the constitutional governing board of the County of Orange under Article XI, section 1, of the California Constitution; and

WHEREAS, under Government Code section 25303, the Board of Supervisors has a statutory duty to supervise the official conduct of all County officers to insure they faithfully perform their duties and may require them to make reports and present their books and accounts for inspection; and

WHEREAS, managing the County's financial affairs is entrusted to the Board of Supervisors and is an essential function of this Board; and

WHEREAS, under the County Budget Act, the Board of Supervisors is responsible for adopting the County's annual budget; and

WHEREAS, under Government Code section 25250, the Board of Supervisors is required at least biennially to examine and audit, or cause to be audited, the financial accounts and records of all officers having responsibility for the care, management, collection, or disbursement of money belonging to the County or money received or disbursed by them under authority of law; and

WHEREAS, under Government Code section 25251, the Board of Supervisors is required to examine, settle, and allow all accounts legally chargeable against the county, except salaries of officers and those demands that are authorized by law to be allowed by some other person or tribunal, and must order warrants to be drawn on the county treasurer for them; and

WHEREAS, in 1995 through the adoption of Resolution 95-271, the Board of Supervisors created the Internal Audit Department, which was separate from the Auditor-Controller, that was initially charged with performing the audits of County officers required by Government code section 25250, as well as well as discretionary audits as requested by the Board; and

WHEREAS, in 2015, the Board of Supervisors transferred internal audit responsibilities to the Auditor-Controller by rescinding the sections of Resolution 95-271 that established the *Internal Audit Department*; and

WHEREAS, sufficient funds have been appropriated and shall continue to be appropriated to the Auditor-Controller to perform the audits that the office is statutorily required to conduct.

NOW, THEREFORE, BE IT RESOLVED that this Board does hereby:

1. Find and determine that the foregoing recitals are true and correct.
2. Establish an Internal Audit Department independent from the Auditor-Controller reporting directly to the Board of Supervisors to perform the following audits effective July 1, 2018:
  - a. Audits of County officers required by Government Code section 25250; and
  - b. Audits requested by the Board of Supervisors of any department, office, board or institution under its control and of any district whose funds are kept in the County treasury.
3. Authorize the Internal Audit Department to perform the Auditor-Controller's legally required audits under the Auditor-Controller's direction and control if requested by the Auditor-Controller.
4. Direct the Auditor-Controller to establish Department Number 079 within the County General Fund as a separate budget unit for the new Internal Audit Department.
5. Direct the CEO and the Auditor-Controller to effect the transfer of the internal audit responsibilities and staff from the Auditor-Controller's office to the Internal Audit Department.
6. Direct the Director of Internal Audit to attend all meetings of the Audit Oversight Committee, which was established pursuant to Resolution No. 16-014.

The foregoing was passed and adopted by the following vote of the Orange County Board of Supervisors, on June 26, 2018, to wit:

AYES:	Supervisors:	ANDREW DO, SHAWN NELSON, MICHELLE STEEL, LISA A. BARTLETT
NOES:	Supervisor(s):	TODD SPITZER
EXCUSED:	Supervisor(s):	
ABSTAINED:	Supervisor(s):	

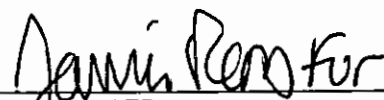
  
\_\_\_\_\_  
CHAIRMAN

STATE OF CALIFORNIA    )  
                                  )  
COUNTY OF ORANGE    )

I, ROBIN STIELER, Clerk of the Board of Orange County, California, hereby certify that a copy of this document has been delivered to the Chairman of the Board and that the above and foregoing Resolution was duly and regularly adopted by the Orange County Board of Supervisors

IN WITNESS WHEREOF, I have hereto set my hand and seal.



  
\_\_\_\_\_  
ROBIN STIELER  
Clerk of the Board  
County of Orange, State of California

Resolution No: 18-068  
Agenda Date: 06/26/2018  
Item No: 85



I certify that the foregoing is a true and correct copy of the Resolution adopted by the Board of Supervisors, Orange County, State of California

Robin Stiel, Clerk of the Board of Supervisors

By \_\_\_\_\_  
Deputy

RESOLUTION OF THE BOARD OF SUPERVISORS OF

ORANGE COUNTY, CALIFORNIA

February 2, 1982

On motion of Supervisor Wieder, duly seconded and carried, the following Resolution was adopted:

BE IT RESOLVED that this Board does hereby order that Resolution 59-415 dated April 8, 1959 and Resolution 69-733 dated July 22, 1969, are revised to read as follows:

I. That the provisions of Chapter 3.5, Title 3, Division 2, Part 3 of the Government Code be and they are hereby adopted and made operative on and after July 1, 1959, in the County of Orange.

II. That the County Auditor shall be ex-officio County Controller and the Chief Accounting Officer of the County.

III. That, in order for the County Auditor-Controller to effectively carry out the responsibilities set forth in this Resolution, the following policy is hereby adopted:

Upon recommendation of the County Auditor-Controller and with approval of the Board of Supervisors, the County Auditor-Controller shall be given direct line authority over the accounting staffs of County Agencies/Departments and Districts governed by the Board of Supervisors.

IV. That the County Auditor-Controller as the Chief Accounting Officer of the County shall:

A. Prescribe and exercise a general supervision over the accounting forms and methods of keeping the accounts of all offices, departments/agencies, institutions and districts under the control of the Board of Supervisors, and of all districts whose funds are kept in the treasury of

Resolution No. 82-162  
Duties and Responsibilities  
of Auditor-Controller  
WJM:lg



1 said County; define the accounting requirements for all manual, mechanical  
2 and computer based accounting systems and assist in their development,  
3 including design, testing and installation; advise on internal controls  
4 of information systems when such systems impact accounting systems or when  
5 requested to do so by the user; audit and review those systems as he deems  
6 necessary.

7 B. Maintain such accounts and statistics and prepare such reports  
8 therefrom as the Board of Supervisors may request for its information and  
9 use in the management and control of the operations of the County and  
10 those districts under its control.

11 C. Audit the accounts, records, accounting procedures and operating  
12 practices, money and securities of departments/agencies, offices, boards  
13 or institutions under the control of the Board of Supervisors, and of any  
14 district whose funds are kept in the treasury of this County as required  
15 by law or as directed by the Board of Supervisors.

16 1. Audits of these entities will be conducted in accordance  
17 with generally accepted auditing standards and will include a review of  
18 compliance with applicable laws and regulations.

19 2. Reports of such audits shall be filed with the Board of  
20 Supervisors and a copy thereof with the District Attorney.

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1 AYES: SUPERVISORS HARRIETT M. WIEDER, RALPH B. CLARK, ROGER R.  
2 STANTON, THOMAS F. RILEY AND BRUCE NESTANDE


3 NOES: SUPERVISORS NONE

4 ABSENT: SUPERVISORS NONE

5 STATE OF CALIFORNIA )  
6 ) ss.  
7 COUNTY OF ORANGE )

8 I, JUNE ALEXANDER, Clerk of the Board of Supervisors of Orange  
9 County, California, hereby certify that the above and foregoing Resolution  
10 was duly and regularly adopted by the said Board at a regular meeting  
11 thereof held on the 2nd day of February, 1982, and passed by  
12 a unanimous vote of said Board.

13 IN WITNESS WHEREOF, I have hereunto set my hand and seal this  
14 2nd day of February, 1982.

15   
16 JUNE ALEXANDER  
17 Clerk of the Board of Supervisors of  
18 Orange County, California  
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OFFICE OF  
COUNTY COUNSEL  
ORANGE COUNTY

FD-192-208 (6/77)

1  
2 RESOLUTION OF THE BOARD OF SUPERVISORS OF  
3 ORANGE COUNTY, CALIFORNIA

4 December 19, 1995

5 On the motion of Supervisor Bergeson, duly seconded  
6 and carried, the following Resolution was adopted

7 WHEREAS, in order to promote the restoration of confidence in  
8 the Office of County Treasurer-Tax Collector following the  
9 investment pool collapse, on March 1, 1995, this Board of  
10 Supervisors (the "Board"), by Resolution Number 95-84 established  
11 the Treasury Oversight Committee pursuant to California Government  
12 Code (the "Code") Sections 25303 and 31000.1; and

13 WHEREAS, California Governor Pete Wilson signed Senate Bill  
14 866 ("SB 866") into law on or about October 12, 1995; and

15 WHEREAS, effective January 1, 1996, SB 866 adds Code Sections  
16 27130, 27131, 27132, 27132.1, 27132.2, 27132.3, 27132.4, 27133,  
17 27134, 27135, 27136 and 27137, which generally require the Board to  
18 establish a treasury oversight committee in conformity with SB 866  
19 requirements; and

20 WHEREAS, this Board of Supervisors desires to adopt a treasury  
21 oversight committee pursuant to such legislation;

22 NOW, THEREFORE, BE IT RESOLVED as follows:

23 1. Resolution Number 95-84 is hereby rescinded;

24 2. Pursuant to Code Section 27131, this Board does hereby  
25 establish the Treasury Oversight Committee (the "Committee");

26 Resolution No. 95-946  
27 Establishment of New Treasury Oversight  
28 Committee Pursuant to Provisions of SB 866  
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COUNTY CLERK  
ORANGE COUNTY

92-210 (5/77)

1           3.    The Treasurer has nominated, and this Board hereby  
2 confirms the appointment to the Committee of the County Auditor-  
3 Controller, the County Chief Executive Officer (as the  
4 representative appointed by the Board) and the County  
5 Superintendent of Schools or his or her designee as Committee  
6 Members. A member of the public shall be appointed as a Committee  
7 Member by this Board. The Committee Membership shall be consistent  
8 with the committee size requirements of Code Section 27131 and  
9 member categories outlined in Code Section 27132;

10           4.    The Committee shall be responsible for the following:

11               a)   The Committee shall review the Treasurer's investment  
12 policy, including any and all proposed amendments or  
13 modifications to such policy, to insure compliance with Code  
14 Section 27133 and any other applicable requirements;

15               b)   The Committee shall cause an annual audit to be  
16 conducted, which audit shall determine the Treasurer's  
17 compliance with Article 6 (commencing with Code Section 27130)  
18 to Chapter 5 of Division 2 of Title 3 of the Code. Such audit  
19 may include matters relating to the structure of the  
20 investment portfolio and risk;

21               c)   The Committee shall investigate any and all  
22 irregularities in the treasury operation which become known to  
23 the Committee;

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OFFICE OF  
COUNTY CLERK  
ORANGE COUNTY

92-210 (5/77)

1        5. The Committee shall be entitled to receive all reports  
2 completed by the Treasurer, including, but not limited, to those  
3 reports required under Code Sections 27063, 53607, 53646 (effective  
4 January 1, 1996) and 27135 (effective January 1, 1996), as  
5 applicable and all other public information reasonably requested;

6        6. The Committee shall meet no less frequently than annually.  
7 The Committee shall present an oral and written report to this  
8 Board during open session no less frequently than annually. In all  
9 instances, the Committee shall be required to immediately report to  
10 this Board any substantial concern relative to the Treasurer's  
11 compliance with applicable law, County policy or treasury policy,  
12 if such shall come to the attention of the Committee;

13       7. All Committee meetings shall be open, public and subject  
14 to the Ralph M. Brown Act;

15       8. In no event shall the Committee direct any individual  
16 investment decision, select individual investment advisors, brokers  
17 or dealers, or in any way impinge on the day-to-day operations of  
18 the treasury;

19       9. The Committee Members shall elect their own Chair and  
20 shall prescribe their own rules and procedures within written  
21 bylaws which shall be presented to, and approved by, this Board.

22       10. This Resolution shall take effect January 1, 1996.

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*Roger R. Stanton*  
Chairman of the Board of Supervisors

SIGNED AND CERTIFIED THAT A COPY  
OF THIS DOCUMENT HAS BEEN DELIVERED  
TO THE CHAIRMAN OF THE BOARD

*Kathleen E. Goodno*

KATHLEEN E. GOODNO  
Acting Clerk of the Board of Supervisors  
County of Orange, California

AYES: SUPERVISORS MARIAN BERGESON, DONALD J. SALTARELLI AND  
ROGER R. STANTON

NOES: SUPERVISORS NONE

ABSENT: SUPERVISORS JAMES W. SILVA AND WILLIAM G. STEINER

STATE OF CALIFORNIA )  
COUNTY OF ORANGE ) ss:

I, KATHLEEN E. GOODNO, Acting Clerk of the Board of Supervisors of  
Orange County, California, hereby certify that the above and foregoing  
Resolution was duly and regularly adopted by the said Board at the  
regular meeting thereof held on the 19th day of December, 1995, and  
passed by a unanimous vote of said Board members present.

IN WITNESS WHEREOF, I have hereto set my hand and seal this 19th  
day of December 1995.

*Kathleen E. Goodno*  
KATHLEEN E. GOODNO  
Acting Clerk of the Board of Supervisors  
of Orange County, California

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**State of California**

**GOVERNMENT CODE**

**Section 25250**

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25250. At least biennially the board of supervisors shall examine and audit, or cause to be audited, the financial accounts and records of all officers having responsibility for the care, management, collection, or disbursement of money belonging to the county or money received or disbursed by them under authority of law. The audit shall encompass the immediately preceding two-year period, or any portion thereof not included in a prior audit. This financial examination or audit may be performed in coordination with the investigations conducted by the grand jury under Section 925 of the Penal Code, or the board of supervisors may resolve to accept reports delivered pursuant to Section 933 of the Penal Code in lieu of its own separate examination if such reports are found to fulfill some or all of the requirements of this section. In connection with the requirements of this section and Section 25253, the board of supervisors may employ the services of an independent certified public accountant or licensed public accountant to perform an examination of the financial statements in accordance with generally accepted auditing standards.

(Amended by Stats. 1981, Ch. 800, Sec. 3.)



**State of California**

**GOVERNMENT CODE**

**Section 26881**

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26881. The county auditor, or in counties that have the office of controller, the auditor-controller shall be the chief accounting officer of the county. Upon order of the board of supervisors, the auditor or auditor-controller shall prescribe, and shall exercise a general supervision, including the ability to review departmental and countywide internal controls, over the accounting forms and the method of keeping the accounts of all offices, departments and institutions under the control of the board of supervisors and of all districts whose funds are kept in the county treasury.

(Amended by Stats. 2002, Ch. 454, Sec. 9. Effective January 1, 2003.)



**State of California**

**GOVERNMENT CODE**

**Section 26883**

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26883. In addition to the power now possessed by the board of supervisors to enter into contracts for audits the board shall have the power to require that the county auditor-controller shall audit the accounts and records of any department, office, board or institution under its control and of any district whose funds are kept in the county treasury. The county auditor-controller's report on any such audit shall be filed with the board of supervisors and, if the report discloses fraud or gross negligence a copy thereof shall be filed with the district attorney.

The governing body of any district may agree with the board of supervisors to reimburse the county for its actual cost of any audit of its accounts and records had under this section.

(Amended by Stats. 1991, Ch. 1090, Sec. 16.)



## INTERNAL AUDIT DEPARTMENT

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August 7, 2020

To: Audit Oversight Committee Members

From: Aggie Alonso, CPA, CIA, CRMA  
Internal Audit Department Director

Subject: Report on Internal Audit Department's Independence

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The International Standards for the Professional Practice of Internal Auditing (Standards) of the Institute of Internal Auditors requires that the chief audit executive confirm to the Board, at least annually, the organizational independence of the internal audit activity (Standard 1110).

To that end, this memo serves to confirm that for the period of July 1, 2019 through June 30, 2020, the Internal Audit Department's internal audit activity has been free from interference in determining the scope of internal auditing, performing work, and communicating results. For example, during this period, the Board of Supervisors and Audit Oversight Committee approved the Annual Risk Assessment & Audit Plan for FY 2020-21, appropriately received communications from the chief audit executive regarding the internal audit activity's performance relative to its plan and other matters, and made appropriate inquiries of management and the chief audit executive to determine whether there were inappropriate scope or resource limitations.

This report on independence will also be presented to the Board of Supervisors at its September 29, 2020 meeting.



## **A Brief History of Orange County**

Orange County Historical Society: [https://www.orangecountyhistory.org/wp/?page\\_id=38](https://www.orangecountyhistory.org/wp/?page_id=38)

The first people to live in Orange County came here thousands of years ago. They lived by hunting and fishing, and gathering plants and seeds. Later, Shoshonean-speaking people arrived, the ancestors of the tribes we know today as the Juaneño and the Gabrielino.

Though Spain had claimed California for more than 200 years, it was not until 1769 that the first efforts were made to colonize the area. Catholic missionaries and Spanish soldiers were sent north to establish a chain of missions and forts. Don Gaspar de Portolá led the first overland expedition through Orange County in 1769, and two years later Father Junípero Serra founded Mission San Gabriel in what is now Los Angeles County. Mission San Juan Capistrano was founded on November 1, 1776. These two missions laid claim to much of what is now Orange County, grazing cattle, horses, and sheep here until the 1830s.

Under Spanish rule, all lands were considered property of the King. But a few retired soldiers were granted grazing permits. One of the first was Manuel Nieto, who in 1784 was allowed to occupy all the land between the Santa Ana and San Gabriel Rivers. Part of his lands would later be granted to his heirs as five separate ranchos.

Around 1800, Juan Pablo Grijalva began running cattle south and east of the Santa Ana River. In 1810 his son-in-law, José Antonio Yorba, and his grandson, Juan Pablo Peralta, received a formal concession to the land that became known as the Rancho Santiago de Santa Ana.

Mexico broke away from Spain in 1821, taking California with them. In 1834, the Mexican government began the secularization of the California missions, restricting the padres to their religious duties, and placing civil administrators in charge of the operation of the missions.

The Mexican government also authorized land grants of up to 44,000 acres to Mexican citizens who would occupy and improve the land. By 1846, almost all of Orange County was part of one rancho or another.

Cattle ranching became the backbone of the local economy. Trading vessels from the United States and other countries sailed up and down the California coast, collecting cattle hides and tallow in return for manufactured goods.

At the end of the Mexican War in 1848, California was ceded to the United States by Mexico. When California became a state in 1850, what is now Orange County became a part of Los Angeles County.

The Gold Rush of 1849 brought tens of thousands of new settlers to California. This gave the rancheros a new market for their cattle, which were sold as beef to feed hard-working miners. The local economy soared. But a series of droughts, floods, and diseases – along with the cost of defending the ownership of their lands in the American courts – eventually drove many of the rancheros to ruin.

Some of the old ranchos were sold to American owners with names like Stearns, Bixby and Irvine.

With cotton production disrupted by the Civil War, sheep ranching began replacing cattle. Other ranchos were broken up and sold off in pieces to settlers and developers.

Anaheim was the first American town founded in Orange County. In 1857, a group of German immigrants living in San Francisco bought a portion of the Rancho San Juan Cajon de Santa Ana to start a new community, built on wine making. The area was subdivided, an irrigation ditch dug, and the vineyards planted before the first colonists moved to Anaheim in 1859.

In 1868, vast areas on either side of the Santa Ana River were placed on the market, and the towns of Santa Ana, Tustin, Orange, Westminster, and Garden Grove were soon founded. Farming became the backbone of the local economy. Wine and raisin grapes, wheat, barley, and corn were all successful. In the 1870s, new irrigation systems were built, which allowed more trees crops to be planted, including walnuts, apricots, and oranges.

In 1870, the first commercial vessel entered Newport Bay, which soon became a regular shipping point along the coast. The Southern Pacific built the first local railroad in 1875, extending its tracks south from Los Angeles to Anaheim. The line was extended to Santa Ana two years later.

The Southern Pacific held a monopoly in Southern California until 1885, when the Santa Fe pushed its tracks over the Cajon Pass. Competition brought a burst of advertising and a sharp drop in ticket prices, setting off a great real estate boom throughout the region. Existing communities expanded, and new towns and subdivisions sprang up by the dozens as tourists and settlers poured into Southern California. But in less than two years, the boom had collapsed, and with it, many of the new towns. Carlton, San Juan-by-the-Sea, St. James, and other “paper towns” faded away. Others, like Fullerton, Buena Park, and El Toro survived.

The burst of economic growth and local pride in the late 1880s led to the formation of the County of Orange in 1889. As early as 1870, local residents had tried to break away from Los Angeles and form their own county, but it was not until 1889 that the California Legislature passed a bill to allow a vote on county division.

Originally, the proposed county line was drawn at the San Gabriel River, but the line was moved south to Coyote Creek to help gain support in Sacramento. This angered Anaheim and some of the other northern communities that had hoped to be near the center of the new county. They voted against the measure. But the rest of the area voted overwhelming for division. Santa Ana was selected as the county seat, and the County of Orange was officially formed on August 1, 1889.

Until the 1950s, agriculture remained the most important part of Orange County’s economy. As other crops disappeared, citrus became more and more popular. The grape industry never recovered from a devastating blight in 1886-87. Apricots had all but disappeared by 1920. Growers began planting celery, sugar beets, and lima beans in the 1890s. Cattle still grazed on the vast ranches in the southern end of



the county, while dairy farms grew up in the north. But it was citrus that came to dominate the area. By the 1930s, Orange County was producing a sixth of the nation's Valencia orange crop.

The oil industry also played a key role in the development of Orange County. The first successful wells were drilled locally in the 1890s along the northern edge of the county. Oil fields were soon developed in La Habra, Brea Canyon, and Olinda. Major strikes in Placentia (1919) and Huntington Beach (1920) started an oil boom that swept the county. While agriculture has all but disappeared, many local oil wells are still pumping.

Much of Orange County's growth in the first half of the 20th Century was fueled by new forms of transportation. Between 1904 and 1910, the Pacific Electric Railway built three branches to serve Orange County with its "big red cars." The coast line spurred development from Seal Beach to Corona del Mar. The Santa Ana line prompted the founding of Cypress and Stanton. And the La Habra line ran all the way down to the new community of Yorba Linda.

In the 1910s and '20s, new highways led the way to new communities. In 1915, California's first state highway was completed across Orange County, running from La Habra to San Juan Capistrano. Several small communities later developed along Beach and Manchester boulevards, and the completion of the Coast Highway in 1926 brought new growth to places like Laguna Beach and Dana Point.

Freeway construction began in the 1950s with the opening of the Santa Ana (I-5) Freeway, and continued almost unabated into the 1970s. Beginning in the 1990s, toll roads were added in some areas to meet the needs of growing communities.

During World War II, a number of important military bases were established in Orange County, including the El Toro Marine Corps Air Station, the Los Alamitos Naval Weapons Station, and the Santa Ana Army Air Base. At the end of the war, many veterans decided to settle in Southern California, and the region began to grow at an unprecedented rate.

By the mid-1950s, Orange County's farms were being replaced by tract housing. Existing cities began annexing territory in every direction, and new cities incorporated almost every year. Between 1953 and 1962, Buena Park, Costa Mesa, La Palma, Garden Grove, Cypress, Westminster, Fountain Valley, Los Alamitos, San Juan Capistrano, and Villa Park all voted to incorporate. In 1963, the county population topped one million.

Tourism, manufacturing, and the service industry began to dominate the local economy. The opening of Disneyland in 1955 made Orange County an international tourist destination. In the late 1950s, aerospace firms and light industry began expanding here, and the increasing population meant more and more jobs at hospitals, restaurants, and stores.

South Orange County began to grow in the 1960s, with master planned communities such as Irvine, Mission Viejo, and Laguna Niguel. Aliso Viejo, Rancho Santa Margarita, Ladera Ranch, and others followed in the 1980s and 1990s. Today, Orange County is home to more than three million residents, with 34 incorporated cities.