INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE
CALIFORNIA

FISCAL YEAR 2018-19
ANNUAL REPORT

DIRECTOR'S MESSAGE

I am pleased to present the Internal Audit Department's Fiscal Year 2018-19 Annual Report. On June 26, 2018, the Board of Supervisors adopted Resolution 18-068, establishing Internal Audit as a separate, independent department reporting directly to the Board of Supervisors. We have no other operational or management duties, and our primary mission is to provide auditing services.

Internal audit 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. We test and report on the effectiveness of the various departments' internal control systems and processes for safeguarding the County's assets and resources, maintaining accurate recording and reporting, and achieving the County's goals and objectives.

During Fiscal Year 2018-19, we established the new Internal Audit Department. We also completed 33 engagements with 40 recommendations, which included six critical control weaknesses and 11 significant control weaknesses. In addition, we followed up on the implementation status of over 140 recommendations, while providing excellent customer service, and implementing new analytics software.

As we start 2020, our goals are to continue to provide the customer-centric, high quality and cost-effective services our clients are accustomed to receiving. We are building upon our prior years' risk assessment and audit plan and looking to expand our coverage of high-risk cybersecurity areas. We will continue our customer-centric approach to auditing by developing and implementing a countywide internal control training program, as well as conducting Business Process Improvement Workshops. These workshops will assist departments in identifying areas within their business processes where they can improve accuracy, and be more effective and efficient, along with assisting departments in re-designing those processes to realize improvements.

We hope you enjoy our annual report. It has been an honor to serve the Board of Supervisors and the citizens of Orange County this past year.

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

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■ORANGE COUNTY'S 2019 BOARD OF SUPERVISORS

Chairwoman Lisa A. Bartlett Fifth District	Vice Chair Michelle Steel Second District	Supervisor Andrew Do First District	Supervisor Donald P. Wagner Third District	Supervisor Doug Chaffee Fourth District

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.

◼ OUR STAFF

Back: Jimmy Nguyen, Scott Suzuki, Aggie Alonso, Michael Dean, Zan Zaman, Scott Kim
Front: Virginia Nguyen, Stephany Pantigoso, Gabriela Cabrera, Alejandra Hernandez, Gianne Morgan, Mari Elias

IAD has 11 audit positions and one administrative position; eight of the audit staff possess professional certifications, including six who hold a Certified Public Accounting (CPA) license.

Professional Staff

Position	Name
Director of Internal Audit	**Aggie Alonso**, CPA, CIA, CRMA
Assistant Director	**Scott Suzuki**, CPA, CIA, CISA
Senior Audit Manager II	**Michael Dean**, CPA, CIA, CISA, CCSA
IT Audit Manager II	**Jimmy Nguyen**, CISA, CFE, CEH
IT Audit Manager I	**Scott Kim**, CPA, CISA
Audit Manager I	**Gianne Morgan**, CIA
Audit Manager I	**Zan Zaman**, CPA, CIA
Senior Auditor	**Virginia Nguyen**, CPA
Senior Auditor	**Stephany Pantigoso**
Senior Auditor	**Gabriela Cabrera**
Senior Auditor	**Alejandra Hernandez**

Administrative Staff

Position	Name
Administrative Services Manager I	**Mari Elias**

Certification Legend
CPA (Certified Public Accountant)
CIA (Certified Internal Auditor)
CRMA (Certification in Risk Management Assurance)
CISA (Certified Information Systems Auditor)
CCSA (Certification in Control Self-Assessment)
CFE (Certified Fraud Examiner)
CEH (Certified Ethical Hacker)

■ GOVERNANCE & ACCOUNTABILITY

BOARD OF SUPERVISORS

The Director of Internal Audit reports directly to the Board of Supervisors (Board), which is the highest governing body of the County. The Internal Audit Department has no other operational or management duties, and operates as a separate department with a primary mission of providing auditing services. This reporting structure fully complies with independence standards required by the American Institute of Certified Public Accountants (AICPA), IIA (Institute of Internal Auditors), and Government Accountability Office (GAO).

We strive to meet the Board's expectations for integrity, objectivity, and independence, and to function effectively with consistent reliability and credibility. The IAD applies professional auditing standards to all engagements. This allows us to ensure reviews and assessments of County operations are always informative, accurate, and objective.

AUDIT OVERSIGHT COMMITTEE

The Audit Oversight Committee (AOC) serves in an advisory capacity to the Board on issues related to the County's Internal Audit functions and the County's external audit coverage. AOC Membership includes the Chair and Vice Chair of the Board of Supervisors, County Executive Officer, and five private sector members appointed by the Board of Supervisors. Public committee meetings are held quarterly or as needed.

View our AOC page:

VOTING MEMBERS

Drew Atwater, AOC Chairman	Private Sector Member, First District
Robert Brown, AOC Vice-Chair	Private Sector Member, Fifth District
Mark F. Wille, CPA	Private Sector Member, Third District
Richard Murphy	Private Sector Member, Second District
Vacant	Private Sector Member, Fourth District
Supervisor Lisa A. Bartlett	Board Chairwoman
Supervisor Michelle Steel	Board Vice Chair
Frank Kim	County Executive Officer

NON-VOTING MEMBERS

Eric H. Woolery, CPA	Auditor-Controller
Shari Freidenrich, CPA	Treasurer-Tax Collector

OVERSIGHT REPORTING

We meet with the AOC quarterly and provide updates on audit plan progress, reports issued, and other internal audit matters. We also provide both the AOC and the Board quarterly status reports to inform them of the on-going progress of internal audit coverage. The reports are designed to highlight the purpose and conclusion of each audit and include the audit findings classified by risk category along with a brief discussion of the background of the audited area.

■ AUDIT SERVICES

INTERNAL CONTROL AUDITS

At the core of the County operations are internal controls. We spend a significant amount of time auditing business processes to ensure the adequacy of critical controls and that County assets are safeguarded from fraud, waste, and abuse, and to evaluate whether there are opportunities for improving the efficiency and effectiveness of processes.

INFORMATION TECHNOLOGY AUDITS

The use of information technology is prevalent throughout County operations. We perform information technology audits to ensure critical systems contain adequate controls and have the necessary security to protect County assets.

ADVISORY SERVICES

We provide advisory services for departments to assist them with their operations. Our staff have typically assisted with critical system implementations to identify internal control weaknesses before the systems are deployed into production.

View our Audit Plans on the web:
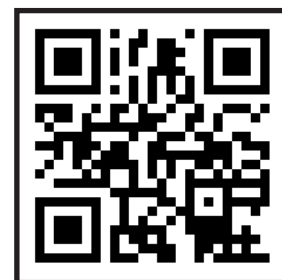
■ PROFESSIONAL STANDARDS

IAD COMPLIES WITH IIA PROFESSIONAL STANDARD 2010 – RISK-BASED AUDIT PLANNING

IIA Professional Standards require the chief audit executive to establish a risk-based audit plan to determine the priorities of the internal audit activity. IAD conducts both a comprehensive risk assessment of all the major County departments' key fiscal business processes, as well as a separate risk assessment focused on IT.

APPROVAL OF FY 2018-19 AUDIT PLAN AND RISK ASSESSMENT

The Standards require that the chief audit executive establish a risk-based approach to determine the priorities for internal audit activities. The AOC approved the Annual Risk Assessment & Audit Plan for FY 2018-19 and the Board of Supervisors approved the Audit Plan at its September 25, 2018 meeting. This comprehensive report details our plan for audits in the upcoming fiscal year and incorporates the results of our extensive risk assessment. Any revisions or changes to the Audit Plan throughout the year are made in the Quarterly Status Report and approved by the AOC.

■ FY 2018-19 ACCOMPLISHMENTS

FISCAL YEAR 2018-19 ENGAGEMENTS: Completed 33 engagements with 40 recommendations, which included six critical control weaknesses and 11 significant control weaknesses. In addition, department management concurred with 100% of our recommendations.

RECOMMENDATION FOLLOW-UP: IAD follows-up on all audit recommendations to ensure management takes corrective action to implement them. During Fiscal Year 2018-19, we completed 24 follow-up audits and noted 122 recommendations were successfully implemented.

CUSTOMER SERVICE: The overall customer rating for "value received" on our FY 2018-19 projects was 96% (4.8 out of 5). Our Customer Survey of Audit Services focuses on the usefulness of the audit, communication with the client, quality of the audit findings and recommendations, and professionalism of audit staff.

EXTERNAL AUDIT: Compiled, assessed, and provided quarterly status reports of all third-party audits performed throughout the County (such as state and federal audits) to the AOC. These quarterly reports highlight material issues and significant findings identified by external auditors, providing visibility to various financial, compliance, programmatic, and regulatory issues and risks.

AUDIT ANALYTICS SOFTWARE: Implemented audit analytics software that increased the efficiency and effectiveness of the entire internal audit process. The software allows us to better identify risks, trends, and issues impacting County departments. During this fiscal year, we started using the software as part of our preliminary work and as a fraud detection tool.

LICENSES/CERTIFICATIONS: One Senior Auditor obtained her Certified Public Accountant license.

FINDINGS BY TYPE

Control Findings - 23
Critical Control Weaknesses - 6
Significant Control Weaknesses - 11

QUOTES FROM FY 2018-19 CUSTOMER SURVEYS:

"Department appreciates the Internal Audit Department's return to a partnership role in providing technical assistance to operations."

OC Community Resources – OC Parks

"Great collaborative experience."

County Executive Office

"The auditors continually communicated with us."

Social Services Agency

"Auditors offered an objective professional review of the internal controls." "My experience with this audit was really good."

OC Community Resources

FY 2018-19 KEY PERFORMANCE INDICATORS RESULTS

As a new department, during FY 2018-19 we established key performance indicators (KPIs) to measure our performance. Our KPIs are aligned with our mission and are focused on four different areas: providing customer-centric services, executing high-quality work, facilitating cost-effective projects, and promoting professional development. Even though our KPIs have not been in effect for a complete year, we met or exceeded 11 out of 12 of them during FY 2018-19. Specifically, in FY 2018-19:

KPI	GOAL	YEAR END STATUS
PROVIDE DEPARTMENT-FOCUSED SERVICES		
Customer Service: We request that departments complete a customer service survey after every audit.	Achieve an average overall rating of 4.0 or higher.	Met. During FY 2018-19, the YTD average was 4.8.
Risk-Based Audit Coverage: Allocating resources to high risk areas and business processes helps ensure effective allocation of limited audit resources.	100% of available staffing resources are applied to high risk business processes or high priority areas as requested by the Board, CEO, or department heads.	Met. All available staffing resources were assigned to high risk areas identified in the FY 2018-19 risk assessment.
Transparency of Audit Function: Posting reports we issue demonstrates accountability for our work to the public.	100% of reports issued are posted to the department website for public viewing within five business days of release.	Met. All reports issued YTD have been posted to the department website within five business days of release.
EXECUTE HIGH-QUALITY WORK		
Recommendations Concurred with by Management: Demonstrates our commitment to partner with departments to improve operations and that our recommendations add value and have merit.	80% of audit recommendations receive a management response of concur or partially concur.	Met. All recommendations issued have been concurred with by management.
Audit Plan Approval: Preparation of a risk-based audit plan provides a road map for audit coverage and provides resource allocation information to stakeholders and those charged with oversight.	Receive approval from the Audit Oversight Committee (AOC) and Board on the Annual Risk Assessment & Audit Plan. Receive quarterly approval from the AOC for any adjustments/updates.	Met. The FY 2018-19 audit plan was approved by the Board and AOC. In addition, all four quarterly updates were approved by the AOC.
Quality Assessment Reviews: Quality assessments are required by professional audit standards and help ensure the audit function is performing its duties in an effective and efficient manner.	Cause an external quality assessment to be completed every five years and receive a generally conforms opinion.	Met. The County internal audit function received an external quality assessment in April 2017. As a new department, the next assessment will not be due until June 2023.

■ FY 2018-19 KEY PERFORMANCE INDICATORS RESULTS (CONT'D)

KPI	GOAL	YEAR END STATUS
Follow-Up Audits: Follow-up of initial audit recommendations is required by professional standards and help ensure departments address agreed upon audit recommendations in a timely manner.	90% of audit engagements are followed-up on within one-year of the initial audit report issuance date.	Met. 100% of all follow-up audits conducted during FY 2018-19 were within one-year of the initial audit report issuance date.
Reporting: Prompt issuance of draft reports to departments can demonstrate effective engagement management and provides timely recommendations to enable faster corrective action.	80% of audit engagements result in issuance of a draft report within six months of fieldwork commencement.	Met. 100% of all draft reports were issued within six months of the start of fieldwork.
FACILITATE COST-EFFECTIVE PROJECTS		
Budget: Effective management of audit operations requires ensuring engagements adhere to approved budgets.	80% of engagements are completed within 125% of the approved budget.	Met. Six of seven (86%) engagements with final reports or draft reports issued as of YTD have been issued within 125% of the original budget.
Chargeable Time: Time charged directly to audit or advisory engagements demonstrates resources being applied to the benefit of County departments and minimizing non-chargeable "overhead".	80% of staff productive work hours are charged to audit or advisory engagements.	Met. 80% of staff productive work hours were charged to audit or advisory engagements.
PROMOTE PROFESSIONAL DEVELOPMENT		
CPA License or Professional Certifications for Management: Staffing the department with licensed or certified managers helps provide assurance there is appropriate knowledge and skill in the County internal audit function.	100% of audit managers and executive management possess a CPA license or an audit-related certification, e.g., CIA, CISA, CFE.	Met. All six audit managers/assistant director and the director possess a license or audit-related professional certification.
Professional Training for Staff: Training helps ensure staff skills are current and relevant to our mission.	100% of staff complete at least 40 hours of continuing professional education or training per fiscal year.	**Not Met. 83% of staff have completed 40 hours of CPE this FY.**

FY 2019-20 RISK ASSESSMENT & AUDIT PLAN

INTERNAL CONTROL AUDITS (ICA)

During our Internal Control Audits, we review business processes and related information technology to ensure County assets are safeguarded from fraud, waste, and abuse, and evaluate opportunities for improvement. We will perform Internal Control Audits in the following areas:

Cash Receipts & Accounts Receivable – the County receives approximately $15 billion annually in receipts. We conduct these audits to ensure receivables are accurate, valid, properly approved, and recorded, and to ensure cash receipts are safeguarded, deposited, and reconciled with County records.

Revolving Funds – County departments expend about $5.8 million annually from revolving funds. We audit the internal controls over revolving funds to ensure transactions are appropriate and in compliance with County policies.
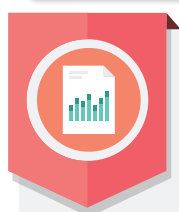
Payroll – the County processes $2.1 billion annually in payroll. We audit to ensure payroll is accurate, authorized, reviewed, and duties are properly segregated.

Purchasing & Contracts – the County purchases or contracts approximately $1.2 billion in goods and services. We conduct audits to confirm there is proper oversight of contracts, that purchasing is compliant with County policy, and that the contracts are issued through a fair and open bid process.

FEE-GENERATED REVENUE – the County receives approximately $841 million annually in revenue generated from fees. We audit the internal controls over fee-generated revenue to ensure fees are appropriate and recover all costs.

Fiduciary Funds & Special Revenue Funds – the County maintains approximately $1.8 in fiduciary and special revenue funds. We audit these funds to ensure sources and uses of funds are proper and in compliance with departmental policy, procedures, and laws.

INFORMATION TECHNOLOGY AUDITS (ITA)

The use of information technology is prevalent throughout County operations. The threat to hold hostage the County's data or use it for malicious purposes pose risks to the County that should be aggressively addressed. Auditing critical internal systems that support the County are a vital component of safeguarding billions of dollars that are processed throughout the County. With the proliferation of cyber-attacks such as social engineering, phishing emails and ransomware, the role of ITA provides management with a critical examination of IT controls in information systems and infrastructure that supports safeguarding assets, data integrity, and operating effectiveness.

2020 GOALS

BUSINESS OBJECTIVES AND KEY PERFORMANCE INDICATORS

Meet and exceed all 12 Key Performance Indicators focused on IAD's business objectives of providing customer-centric, high-quality, and cost-effective services by professionally-licensed staff.

CUSTOMER-CENTRIC SERVICES

Continue aligning audit services and products to be more customer-centric by providing more preventative services such as training and facilitated workshops. Specifically, during 2020, IAD will develop and implement a Countywide internal control training program to offer to all County departments. In addition, IAD plans to conduct Business Process Improvement Workshops to assist departments in identifying areas within their business processes where they can improve accuracy, and be more effective and efficient, along with assisting departments in re-designing those processes to realize improvements.

HIGH-QUALITY SERVICES

Expand the coverage of audits covering high-risk information technology areas to better align our limited resources with emerging cybersecurity risks. In addition, expand the use of "agile" auditing to allow us to be more nimble, efficient, and effective by focusing on the highest risk areas, establishing clearer outcomes, and increasing client engagement by delivering quick, contemporaneous results.

COST-EFFECTIVE SERVICES

Upgrade audit management software to the latest version, which is web-based and includes enhancements that will result in more efficient execution of audit planning, fieldwork, and reporting. In addition, expand the use of data analytics software to increase the value delivered through 100% coverage, highlighting every potential issue or anomaly, and helping us quickly identify the root causes of issues.

The Institute of Internal Auditors' 2019 International Conference
Anaheim, CA

2019 Annual Orange County Hiring Fair
Costa Mesa, CA

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