

# Internal Audit Department

O R A N G E C O U N T Y

## COMPLIANCE AUDIT OF THE BOARDS' AUDIT OVERSIGHT COMMITTEE

As of May 2009

We found the Boards' Audit Oversight Committee was in full compliance in all material regards with its governing rules.

In addition, we compared the AOC practices to selected industry "better/best practices" and "good ideas" in the spirit of encouraging and facilitating the AOC's own assessment of its governing rules on a "go-forward" basis in light of recent advances made in audit oversight and governance.

We identified recommendations for the BOS and AOC to consider as ways enhance the AOC oversight effectiveness.

Audit No: 2807-13

September 16, 2009

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**Deputy Director:** Eli Littner, CPA, CIA  
**Senior Audit Manager:** Alan Marcum, CPA, CIA  
**Audit Manager:** Kenneth Wong, CPA, CIA



**RISK BASED AUDITING**

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ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007*

*Providing Facts and Perspectives Countywide*

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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 2807-13 September 16, 2009**

**TO:** Members, Board of Supervisors  
Members, Audit Oversight Committee

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** Compliance Audit of the Boards'  
Audit Oversight Committee

As a best practice, OC Internal Audit Department reviewed the Board of Supervisors' Audit Oversight Committee for compliance with its own Bylaws and Administrative Rules and found it fully complying in all material regards with its governing rules. Our review period was calendar years 2007 and 2008. This review was initially supported by the Chair of the Board of Supervisors, Pat Bates and presented for discussion to the AOC on May 27, 2009. This report was presented for discussion on September 2, 2009 to AOC at its quarterly meeting. The AOC response is included.

We recognize there are many different AOC guidelines/checklists available to the Board and AOC to consider. We have provided our comparison only as a starting point for the County and not as the final or definitive review. Our comparison is provided to stimulate discussion among Board members as to ways they may be able to further enhance the AOC's effectiveness. We compared the AOC practices to selected industry "better/best practices" and "good ideas" in the spirit of encouraging and facilitating the AOC's own assessment of its governing rules on a "go-forward" basis in light of recent advances made in audit oversight and governance.

We selected the authoritative 2008 Research Report from the Association of Government Auditors because it presents an AOC Checklist that incorporates key characteristics for government entities identified from five (5) different authoritative entities and includes insights from the American Institute of Certified Public Accountants (AICPA), the Government Finance Officers Association (GFOA) and the international public accounting firm KPMG.

It is ours and many of my colleagues' judgment that this 39-page Research Report presents a comprehensive and well-rounded reference tool to the Board and AOC. The insights provided in the AGA's 2008 Research Report were developed under the guidance of some of the most respected names in the auditing profession and should serve the County well as it assesses its AOC governing rules in light of recent advances made in government audit oversight and governance.

# Letter from Dr. Peter Hughes, CPA



Our comparisons found that the Board and AOC had at its inception adopted both practices and policies (governing rules) that embraced the majority of the current best practices presented in the AGA's Research Report that we judged most closely aligned with the Audit Charter and related governing rules approved by the Board. It should be noted that our comparison is intended to complement not replace the County's own choice of AOC Guidelines/Checklists for its own assessment should it choose to do so.

Given the importance independence plays in the effectiveness of any Director of Internal Audit/Internal Audit Department, we have underscored in our comparison of "better/best practices," the AGA's Research Report's emphasis on the need to have the Governing Board and or the AOC ensure that the internal auditors are not deterred from acting objectively and exercising their professional judgments by pressures, actual or perceived, from management. This issue is highly relevant to any Governing Body and AOC in establishing its own duties and responsibilities in so far as any such shortcoming in this regard would be considered in the profession as material failures of the Governing Body and AOC (items 9,17, 20, 21, 22, 23 and 29 identify critical practices that support the independence of the audit function).

We identified eight recommendations for the BOS and AOC to consider for further enhancing the AOC oversight effectiveness.

Each month I submit an **Audit Status Report** to the BOS where I detail any audit activity released in reports during the prior month. Accordingly, the results of this report will be included in a future status report to the BOS.

As always, I remain available to answer any questions you may have. Please contact me directly or Eli Littner, Deputy Director at 834-5899 or Alan Marcum, Senior Audit Manager at 834-4119 if we can be of any assistance.

## Attachment

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

cc: Foreperson, Grand Jury  
Darlene J. Bloom, Clerk of the Board of Supervisors

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# OC Internal Auditor's Report



**Audit No. 2807-13**

**September 16, 2009**

TO: Members, Board of Supervisors  
Members, Audit Oversight Committee

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

SUBJECT: Compliance Audit of the Boards'  
Audit Oversight Committee

## Audit Highlight

We found the Boards' Audit Oversight Committee was in full compliance in all material regards with its key governing rules.

In addition, we compared the AOC practices to selected industry "better/best practices" and "good ideas" in the spirit of encouraging and facilitating the AOC's own re-assessment of its governing rules on a "go-forward" basis in light of recent advances made in audit oversight and governance.

We identified nine recommendations for the BOS and AOC to consider as ways that might enhance the AOC oversight effectiveness.

## Objective

The objectives of this review are threefold: The first objective was to determine whether the AOC is complying with its duties and responsibilities. The basis for our review is founded on the duties assigned to the AOC by the BOS in its original 1995 Resolution establishing the AOC as an advisory committee to the County Internal Auditor. The Board approved Bylaws and IAD/AOC Charter and the AOC's Administrative Rules. The second objective was to compare the Board of Supervisors' AOC's duties and responsibilities to the practices identified and recommended for consideration by the Association of Governmental Auditors (AGA) and the Government Finance Officers Association (GFOA) as "best practices" or "good ideas". The third objective was to review the organizational reporting relationships between the BOS, the AOC, and the County Internal Auditor for compliance with the critical "independence" requirements promulgated by the US Government Accountability Office (GAO) and the Institute of Internal Auditors (IIA).

## Comparisons to Industry "Better/Best Practices"

We compared the AOC practices to selected industry "better/best practices" and "good ideas" obtained from the international Association of Governmental Auditors (AGA) in the spirit of encouraging and facilitating the AOC's own assessment of its governing rules on a "go-forward" basis in light of recent advances made in audit oversight and governance.

We recognize there are many different AOC guidelines/checklists available to the Board and AOC to consider. We have provided our AGA comparison only as a starting point for the County and not as the final or definitive review. Our comparison is provided to stimulate discussion among Board members as to ways they may be able to further enhance the AOC's effectiveness.

It should be noted that our use of the AGA 2008 Research Report as a point of comparison is intended to complement and not replace the County's own choice of AOC Guidelines/Checklists for its own assessment should it choose to do so.

# OC Internal Auditor's Report



We selected the authoritative 2008 Research Report from the Association of Government Auditors because it presents an AOC Checklist that incorporates key government sector characteristics identified from five (5) different authoritative entities and includes insights from the American Institute of Certified Public Accountants (AICPA), the Government Finance Officers Association (GFOA) and the international public accounting firm KPMG.

It is our as well as many in the profession's judgment that the AGA's 39-page 2008 Research Report presents a comprehensive and well-rounded reference tool for any Government Governing Body and AOC. The insights provided in the AGA's Research Report were developed under the guidance of some of the most respected names in the auditing profession and should serve the County well as it assesses its AOC governing rules in light of recent advances made in audit oversight and governance.

Given the importance independence plays in the effectiveness of the County Internal Auditor and the Internal Audit Department we have underscored the position taken by the AGA's Research Report's as well as the US Government Accountability Office (GAO) (the authoritative body that sets all auditing standards for Federal, State, Counties and Cities) They both emphasize the need to have the Governing Board and or the AOC ensure that the internal auditors are not deterred from acting objectively and exercising their professional judgments by pressures, actual or perceived, from management. This issue is relevant to any AOC in establishing its own duties and responsibilities in so far as any such shortcoming in this regard would be considered in the profession as material failures of the Governing Body and AOC.

## Conclusion

The Audit Oversight Committee was found fully compliant in all material regards with all key AOC established requirements.

In addition, we found that the Board and AOC had already adopted both practices and policies (governing rules) that embraced the majority of the better/best practices presented in the AGA's 2008 Research Report that we considered most closely aligned with the audit character and related governing rules approved by the Board. It should be noted that our comparison is intended to complement not replace the County's own choice of AOC Guidelines/Checklists for its own assessment should it choose to do so.

We identified eight recommendations for the BOS and AOC to consider for further enhancing the AOC oversight effectiveness.

## Background

In 1995, the Board, based upon recommendations from both the Orange County Grand Jury and a Blue Ribbon Advisory Committee to the Board of Supervisors, separated the Internal Audit Department from the Auditor-Controller, the County's Chief Accounting Officer, and assigned the function to itself. The Internal Audit Department is now and has been for the past 14 years, a direct reporting function to the County's highest Governing Body, the Board of Supervisors, in order to ensure its independence from undue managerial influences and pressures as required by the applicable GAO governmental auditing standards.



# OC Internal Auditor's Report



At the time of the separation, the Audit Oversight Committee (AOC) was also established as an oversight arm of the Board to advise the County Internal Auditor. The AOC reviewed the checklists of this report on May 27, 2009 and approved its advancement. We are planning to present this report to the 4<sup>th</sup> Quarter AOC meeting on September 2, 2009 for their discussion.

## AGA Study

### **AGA research Report No. 17 titled “Characteristics of Effective Audit Committees in Federal, State and Local Governments,” dated November 2008:**

Following the May 27, 2009, the Chairman of the AOC recommended and forwarded the AGA 2008 Research Report via email on May 29, 2009 to all AOC members to assist in their review of the comparison provided in this Audit Report.

This study was conducted to help governmental agencies identify AOC practices that have been proven to make audit committees more effective. The key to properly utilizing this study is to recognize as the AGA itself states, “**One size does not fit all**”. Their report identifies many best practices and good ideas for government audit committees. The AGA notes, “**Not all practices and ideas are appropriate for every committee. Each government will have to select those practices that work well for them.**”

The AGA states in their research report that the objective of this research was to “identify the characteristics of effective, mature audit committees at all levels of government—local, state and federal.” Since the U.S. has 90,000 or so governmental entities, this research is not an attempt to identify all governments with such committees nor is it an audit of whether committees actually perform as they say they perform. Rather the research identifies best practices and good ideas of current audit committees, which the AGA contacted during the research. The best practices and good ideas identified in this report are representative of practices that **may be applicable** to most governments, **but in no way** should they be viewed as the only practices that will work. They should, however, be considered by all governments with an audit committee or contemplating establishing one.

**The AGA found that there are no over-arching legal or regulatory requirements for audit committees in governmental entities.** Several professional organizations recommend that their members implement audit committees, most notably the Government Finance Officers Association (GFOA). In addition the Institute of Internal Auditors (IIA) and the Association of Local Government Auditors identify audit committees as a best practice for their members. The Government Accountability Office (GAO) and the Office of Management and Budget (OMB) encourage audit committees for governmental entities, though neither requires audit committees.

It appears to be that, even though there are no over-arching legal or regulatory requirements for governmental audit committees, many governmental entities have implemented audit committees to support and strengthen their internal and external audit functions, internal controls, and financial management and financial reporting functions.



# OC Internal Auditor's Report



Further, the absence of overall requirements has enabled each government to shape and structure its audit committee to meet its individual needs.

In conclusion the AGA recommends that each government entity consider an audit committee for its government. With the broad scope of government activities and the variety of laws and regulations to which they are subject, there are no standard models for the mission, structure, operations, responsibilities, membership or activities of such committees. **It is critical that each committee be shaped and formed by the needs of the specific entity.**

## Observations and Recommendations

We identified the following eight observations and corresponding recommendations for the BOS and AOC to consider for further enhancing the AOC oversight effectiveness:

### Observation 1

The AOC and the IAD have the same charter. In addition, the duties and responsibilities are noted in four separate documents, the original Board resolution, the IAD/AOC charter, the Bylaws and the Administrative Rules. We recognize that while the combination of all these documents do justice to the better/best practices for AOC bodies, having this many references make it challenging to review, revise and cite. The profession recommends two separate charters in order to facilitate easy reference, comparison and revision.

### Recommendation 1

The BOS and the AOC consider consolidating its current governing rules into two separate charters, one for the AOC and one for IAD. As a separate exercise, the AOC should also consider either adopting a model charter template or develop a hybrid from those examples promoted by the AICPA, GFOA, AGA, or from the international public accounting firms. (Practice and Standard No. 2)

### AOC Response via Committee Chair for Recommendation No. 1

The AOC concurs that separate charters should be prepared for the AOC and the IAD. The AOC has elected to use the GFOA document, "Recommended Practice (for) Audit Committees (1997, 2002, 2006, and 2008)," as supplemented by the GFOA document, "An Elected Official's Guide (for) Audit Committees." In addition, we will supplement the GFOA documents with the AICPA's "Audit Committee Charter Matrix for Government Organizations." I distributed a draft copy of a matrix that included these documents and relevant excerpts from the audit report to the AOC members at the September meeting. The AOC agreed to meet again to decide the appropriate items to contain within the committee's charter. This document has been included as an attachment to this response. We will then prepare a charter based upon the results of our deliberations and submit it to the Board of Supervisors for approval. The timing for completion of this project is dependent on the availability of AOC members for a separate meeting. I understand that your office is coordinating the scheduling of this meeting.

The committee also agreed that IAD should have a separate charter. I suggest that your office revise your charter and submit it to the AOC for review at a subsequent meeting.



## **Observation 2**

The AOC Bylaws while specifying the membership of the AOC, are silent regarding desired qualifications, residence and attendance requirements, term limits, and recruitment process for its public member.

## **Recommendation 2**

AOC consider clarifying in their Bylaws specific qualifications, residence and attendance requirements, term limits, and recruitment process for its public member. (Practice and Standard No. 5)

## **AOC Response via Committee Chair for Recommendation Nos. 2 – 8**

The audit report also provided seven specific recommendations for AOC bylaw changes. These recommendations will be considered for inclusion within the bylaws or the charter as the committee determines appropriate during its charter review session.

## **Observation 3**

The AOC Bylaws are silent regarding their authority and budget available to contract for services (Example: legal, financial, audit), as they deem necessary to conduct their duties.

## **Recommendation 3**

AOC consider specifying in their Bylaws their authority and budget to contract services necessary to perform their AOC duties. (Practice and Standard No. 8)

## **Observation 4**

The AOC does not prepare a verbal or written summary of its activities for the year to the Board.

## **Recommendation 4**

AOC consider presenting a verbal or written summary for the year to the BOS at one of its public meetings. This report could contain highlights of the AOC meetings, actions and issue resolutions. (Practice and Standard No. 10)

## **Observation 5**

The AOC Bylaws do not require that the AOC conduct a periodic self-assessment to see how effective they judge themselves to be in performing their duties.

## **Recommendation 5**

OC consider adding to its Bylaws a periodic self-assessment to see how effective they judge themselves to be in performing their duties. To facilitate this review the AOC should consider the use of the recommended Association of Governmental Auditor's questionnaire to the AOC members to augment its current internal assessments. (Practice and Standard No. 11) See Attachment A for an updated model version adapted for OC AOC. At a minimum, this self assessment could be performed in conjunction with the Peer Review of OCIAD.

**Observation 6**

The AOC Bylaws do not state that the AOC has the responsibility to recommend to the BOS their choice of an External Auditor for the County.

**Recommendation 6**

AOC consider adding language to AOC Bylaws that state the AOC has the responsibility to recommend to the BOS their choice of an External Auditor for the County. (Practice and Standard No. 13)

**Observation 7**

The AOC Bylaws do not state that the AOC has the responsibility to annually evaluate the performance of the External Auditors and to review their quality control procedures by reviewing and discussing their Peer Review.

**Recommendation 7**

AOC consider adding language to AOC Bylaws that state the AOC has the responsibility to annually evaluate the performance of the External Auditors and to review their quality control procedures by reviewing and discussing their Peer Review. (Practice and Standard No. 14)

**Observation 8**

Currently there is no formal, standardized orientation provided to new members of the AOC on either an individual or group basis. The practice for the past 14 years is for the CEO, A/C and the County Internal Auditor to provide an orientation to each new AOC member on an individual basis and as needed. The County Internal Auditor currently provides each new Board member to the AOC an extensive orientation packet and briefing on the history of the IAD.

**Recommendation 8**

AOC consider whether the current AOC orientation practices are adequate as it relates to their duties, and direct staff to revise or augment the orientation as considered beneficial. (Practice and Standard No. 39)

The AOC responses are included as Attachment C.

# OC Audit Oversight Committee Compliance Checklist of Duties

We compared the AOC practices to selected industry “better/best practices” and “good ideas” in the spirit of encouraging and facilitating the AOC’s own re-assessment of its governing rules on a “go-forward” basis in light of recent advances made in audit oversight and governance. We recognize there are many different AOC guidelines/checklists available to the Board and AOC to consider. We have provided our comparison only as a starting point for the County and not as the final or definitive review. Our comparison is provided to stimulate discussion among Board members as to ways they may be able to further enhance the AOC’s effectiveness.

We selected the authoritative 2008 Research Report from the Association of Government Auditors because it presents an AOC Checklist that incorporates key characteristics identified from five (5) different authoritative entities and includes insights from such authorities as the American Institute of Certified Public Accountants (**AICPA**), the Government Finance Officers Association (**GFOA**) and the international public accounting firm **KPMG**. In addition, we cite GAO and IIA auditing standards regarding auditors independence to compliment and clarify observations noted in the AGA Research Report. It should be noted that our use of the AGA 2008 Research Report as a point of comparison is intended to compliment, not replace the County’s own choice of AOC Guidelines/Checklists and its own re-assessments should it choose to do so.

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<b>1. The Governing Board has formally established and authorized an Audit Committee.</b>	Yes	Board Resolution No. 95-271 (Lines 16-22)  AOC Bylaws (Lines 10-13)  IAD Charter (Lines 50-55)
<p><b>Comments:</b>  <b>BOS Resolution – Establish an Audit Oversight Committee consisting of a Member of the Board of Supervisors, Treasurer-Tax Collector, Auditor-Controller, Chief Executive Officer (CEO), and two Department Heads selected by the CEO. Direct this Committee to act in an oversight capacity to the Internal Audit Unit, including approval of the annual audit plan. (The membership composition was later amended by Board action on 12/17/02, #102B to consist of the Chair and Vice Chair of the Board of Supervisors, the Auditor-Controller, the County Executive Officer (CEO) and a Public Member.)</b></p> <p><b>AOC Bylaws – This committee has been established as an advisory committee to the Board of Supervisors.</b></p> <p><b>IAD Charter – The Audit Oversight Committee is an advisory committee to the Board of Supervisors and provides oversight of the County’s Internal Audit Department and external audit coverage. The Committee assists the Board in ensuring the independence of the internal audit function and ensuring that appropriate action is taken on audit findings. The Committee 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.</b></p>		

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>2. The mission, role and responsibilities of the Audit Oversight Committee (AOC) are clearly defined and formally approved.</b></p>	Yes	<p>Board Resolution No. 95-271 (Lines 20-22)</p> <p>AOC Bylaws (Lines 79-113)</p> <p>IAD Charter (Lines 50-55)</p>
<p><b>Comments:</b></p> <p>BOS Resolution – Direct this Committee to act in an oversight capacity to the Internal Audit Unit, including approval of the annual audit plan.</p> <p>AOC Bylaws – The scope of Committee’s authority will be based on the Board Resolution No. 95-271, dated April 25, 1995 as amended by any future Board action.</p> <p>IAD Charter – The Audit Oversight Committee is an advisory committee to the Board of Supervisors and provides oversight of the County’s <b>Internal Audit Department</b> and external audit coverage. The Committee assists the Board in ensuring the independence of the internal audit function and ensuring that appropriate action is taken on audit findings. The Committee 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.</p> <p><b>RECOMMENDATION: The BOS and the AOC consider preparing two separate charters, one for the AOC and one for IAD that contain all relevant duties and responsibilities. Consider either adopting a model charter template or develop a hybrid from those examples promoted by the AICPA, GFOA, AGA, or from the international public accounting firms.</b></p>		
<p><b>3. The AOC is comprised of at least 3 Committee Members. (GFOA)</b></p>	Yes	<p>Board Resolution No. 95-271 (Lines 16-19)</p> <p>AOC Bylaws (Lines 17-30)</p>
<p><b>Comments:</b></p> <p>BOS Resolution – Establish an Audit Oversight Committee consisting of a Member of the Board of Supervisors, Treasurer-Tax Collector, Auditor-Controller, Chief Executive Officer (CEO), and two Department Heads selected by the CEO. (The membership composition was later amended by Board action on 12/17/02, #102B)</p> <p>AOC Bylaws – The membership of the AOC was approved by Board action on 12/17/02, #102B and consists of the following: the Chairman and Vice-Chairman of the Board of Supervisors (BOS), the Auditor-Controller (A-C), the County Executive Officer (CEO), the Treasurer-Tax Collector as Ex-Officio (non-voting) Member, and one member from the private sector appointed by the BOS.</p>		
<p><b>4. AOC membership is determined by the Governing Body and may include internal and external representation as considered appropriate.</b></p>	Yes	<p>AOC Bylaws (Lines 17-20)</p>
<p><b>Comments:</b></p> <p>Of the five voting AOC members, two are from the County’s “governing board,” the BOS. One member is the elected Auditor-Controller; one member is the County Executive Officer (CEO); one is an appointed public member, and one member is the ex-officio (non-voting) Treasurer Tax-Collector. <b>Comment:</b> AOC reviewed its membership and confirmed on March 25, 2009 the effectiveness of its current membership.</p>		

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>5. The recruitment process of the AOC public appointee and desired qualifications are well defined.</b></p>	Partially addressed	AOC Bylaws (lines 17-20)
<p><b>Comments:</b> AOC Bylaws provide for the nomination of a public member by the AOC, but are silent regarding desired qualifications and recruitment.</p> <p><b>RECOMMENDATION:</b> AOC consider clarifying in their Bylaws specific qualifications, residence and attendance requirements, term limits, and recruitment process for its public member.</p>		
<p><b>6. The AOC deals exclusively with audit and audit related issues. It does not have finance or budget as areas it also oversees.</b></p>	Yes	AOC Bylaws (Lines 79-113)  IAD Charter (Lines 50-55, 62-65)
<p><b>Comments:</b> AOC Bylaws – The scope of Committee’s authority will be based on the Board Resolution No. 95-271, dated April 25, 1995 as amended by any future Board action.</p> <p>IAD Charter – The Audit Oversight Committee is an advisory committee to the Board of Supervisors and provides oversight of the County’s <b>Internal Audit Department</b> and external audit coverage. The Committee assists the Board in ensuring the independence of the internal audit function and ensuring that appropriate action is taken on audit findings. The Committee 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. Furthermore, the BOS shall be responsible for the Internal Audit Department’s annual budget, staffing size, and the salaries and classifications of the staff taking into consideration recommendations by the AOC.</p>		
<p><b>7. The AOC Committee retains a member with audit and financial expertise.</b></p>	Yes	AOC Bylaws (Lines 16-18)
<p><b>Comments:</b> The Chair and Vice Chair of the County’s Board of Supervisors, the County’s Executive Officer and the Auditor-Controller are all permanent voting members of the AOC. Each of these positions ensures the AOC will possess management, financial, audit, legislative and governmental experience.</p>		
<p><b>8. AOC can engage outside expertise.</b></p>	Yes	
<p><b>Comments:</b> The AOC may (and have) request from the BOS the approval to contract with any outside services, or consultants, as they believe warranted. The AOC does not have a budget and is dependent upon funding from the BOS. Any request for services is subject to the same approval requirements as any County department. Expenditures have been made through the CEO, A-C and IAD budget as directed by the AOC and authorized by the BOS. Specifically, the AOC has recommended to the BOS the retention of Peer Review services of outside firms for IAD.</p> <p><b>RECOMMENDATION:</b> AOC consider specifying in their Bylaws their authority to contract services necessary to perform their AOC duties.</p>		



## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<b>9. The AOC Committee reports to the highest Governing Body/Individual for the entity. (GFOA)</b>	Yes	AOC Bylaws (Lines 11-13)
<p><b>Comments:</b> The Audit Oversight Committee reports to Board of Supervisors, which has exclusive statutory authority for the establishment and assignment of the Internal Audit Department for the County.</p> <p>AOC Bylaws – This Committee has been established as an advisory committee to the Board of Supervisors, the highest governing body for the County.</p>		
<b>10. The AOC Committee’s activities are summarized in an annual report and are made publicly available.</b>	Partially Addressed	AOC Bylaws (Lines 107-111, 67-70)
<p><b>Comments:</b> The County Internal Auditor prepares comprehensive Monthly and Annual reports for the AOC and BOS that are widely distributed to County executive management, the Grand Jury and the general public and are posted on Internal Audit Department’s public web page. The County Internal Auditor’s Annual OC Internal Auditor’s Report is addressed to the BOS and is a comprehensive 25 page summary of all auditing activity (including AOC activity for the year) in the County as well as critical highlights of significant audits, results, and Performance Measures of IAD. The Annual OC Internal Auditor’s Report is presented to the Audit Oversight Committee annually. Afterward, it is presented to the BOS in a regular public member as part of the Monthly Internal Auditor’s Activities Status Report.</p> <p>AOC Bylaws – The AOC’s authority and objectives includes presenting a summary of Committee activities and significant audit results to the Board through the distribution of the quarterly meeting material distributions packages. The order of AOC meetings includes County staff keeping minutes of each meeting and offering them for Committee approval on the subsequent meeting agenda. All such information is posted on the County Internal Auditor’s Internal Audit Department web site.</p> <p><b>RECOMMENDATION:</b> AOC consider presenting a verbal or written summary for the year to the BOS at one of its public meetings and for insertion in the County Internal Auditors’ Annual Report. This report could contain highlights of the AOC meetings, actions and issue resolutions.</p>		

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>11. The AOC discusses with its members on an annual/periodic basis (self-evaluation) successes in carrying out responsibilities and the effectiveness of the charter. The AOC should address the following questions:</b></p> <p>Did they perform each activity identified in their Charter and Bylaws?</p> <ol style="list-style-type: none"> <li>a. What is the opinion of the AOC about their performance?</li> <li>b. What changes, if any, should be made?</li> <li>c. Does the Charter need revision?</li> <li>d. Is the membership appropriate?</li> </ol>	Partially Addressed	
<p><b>Comments:</b> The AOC has revisited, reviewed and/or revised their Bylaws, the IAD Charter, and Administrative Procedures on several occasions as deemed warranted. Some issues explored included the composition of the AOC members; the duties of the AOC; and management’s reply to IAD audit findings.</p> <p><b>RECOMMENDATION:</b> AOC consider adding to its Bylaws a periodic self-assessment to see how effective they judge themselves to be in performing their duties. To facilitate this review the AOC should consider the use of the recommended Association of Governmental Auditor’s questionnaire to the AOC members to augment its current internal assessments. (See Attachment A)</p>		

<p><b>12. The AOC has oversight responsibilities for the External Auditors.</b></p>	Yes	<p>AOC Bylaws (Lines 89-94)</p> <p>IAD Charter (Lines 50-51, 53-55)</p>
<p><b>Comments:</b> The AOC Bylaws states that the AOC is: “To oversee the quality of financial reporting activities which portray the County’s financial condition, results of operations, and plans and long-term commitments, primarily through oversight of the public accounting firm providing the external audit coverage of the County’s consolidated financial statements.”</p> <p>IAD Charter – The AOC is an advisory committee to the BOS and provides oversight of the County’s Internal Audit Department and external audit coverage. The Committee 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.</p>		

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>13. The AOC either evaluates and recommends or has responsibility for hiring and monitoring the External Auditor.</b></p>	Yes	<p>AOC Bylaws (Lines 89-94)</p> <p>Such activity is captured in the AOC agenda items and minutes.</p>
<p><b>Comments:</b> Not explicit in the AOC Bylaws, but a practice as evidenced by the AOC Agendas and Minutes. (AOC Agenda/Minutes dated April 7, 2008)</p> <p><b>RECOMMENDATION:</b> AOC consider adding language to AOC Bylaws that state the AOC has the responsibility to recommend to the BOS their choice of an External Auditor for the County.</p>		
<p><b>14. The AOC reviews the quality control procedures of the External Auditors by reviewing and discussing their Peer Review and annually evaluates their performance.</b></p>	Yes	<p>AOC Bylaws (Lines 89-94)</p>
<p><b>Comments:</b> Not explicit in the AOC Bylaws, but a practice as evidenced by the AOC Agendas and Minutes. (AOC Agenda/Minutes dated April 7, 2008)</p> <p><b>RECOMMENDATION:</b> AOC consider adding language to AOC Bylaws that state the AOC has the responsibility to annually evaluate the performance of the External Auditors and to review their quality control procedures by reviewing and discussing their Peer Review.</p>		
<p><b>15. The AOC meets with the External Auditors to review and discuss its Management Letter and the County's progress towards implementation of the external auditor's recommendations, progress towards completion of the financial audit, any significant issues noted by them, and receive advice for ensuring and maintaining auditable financial statements.</b></p>	Yes	<p>AOC Bylaws (Lines 89-94)</p> <p>IAD Charter (Lines 50-55)</p>
<p><b>Comments:</b></p> <p>AOC Bylaws – The AOC's authority and objectives includes overseeing the quality of financial reporting activities which portray the County's financial condition, results of operations, and plans and long-term commitments, primarily through oversight of the public accounting firm providing the external audit coverage of the County's consolidated financial statements. In addition, the Committee shall review audit results of County programs for which the Board has responsibility.</p> <p>IAD Charter – The AOC is an advisory committee to the BOS and provides oversight of the County's Internal Audit Department and external audit coverage. The Committee 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.</p> <p>Statement on Auditing Standards (SAS) No. 114 – The Auditor's Communication With Those Charged With Governance, establishes standards and provides guidance for the external auditor's communication with those charged with governance. Examples of required communication include: planned scope and timing of the audit, and significant findings.</p>		

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>16. The AOC has oversight responsibilities of the <b>Internal Audit Department</b> exercised by meeting at least quarterly. Such meetings should be open, supported by agenda and relevant material that is routed in advance.</b></p>	Yes	<p>AOC Bylaws (Lines 63-70)</p> <p>BOS Resolution No. 95-271, (Page 1, Lines 20-22)</p>
<p><b>Comments:</b></p> <p>BOS Resolution – The AOC is directed to act in an oversight capacity to the Internal Audit Unit, including approval of the annual audit plan.</p> <p>AOC Bylaws – At a minimum, the Committee will meet on a quarterly basis. All meetings will be subject to the Ralph M. Brown Act. Whenever, possible, quarterly meetings will be prescheduled at the beginning of each year to ensure attendance. County staff will keep minutes of each meeting and offer them for Committee approval as the first item on the subsequent meeting agenda. Whenever possible, such minutes will be distributed to Committee members in draft form within a reasonable time after the meeting and in advance of the subsequent meeting.</p> <p>The AOC meets quarterly with IAD. At each AOC meeting, IAD provides the following activity reports: meeting minutes, Quarterly Status Reports that list all audits and follow-up audits; Executive Summaries of Audit Findings; External Audit Coverage; IT Briefing Reports.</p> <p>The County Internal Auditor provides the BOS at a regular public Board meeting with Internal Audit Department’s Monthly Audit Activity Report, which is a monthly summary of all audit reports issued during the prior month.</p> <p>The County Internal Auditor meets regularly with BOS members on an individual basis.</p>		
<p><b>17. The Governmental entity has established an independent <b>Internal Audit Department</b> that reports to the highest level of governance to ensure its independence. (GFOA/GAO/IIA)</b></p>	Yes	<p>Board Resolution No. 95-271 (Lines 9-12)</p> <p>IAD Charter (Lines 1-2, 28-39, 43-46, 96-134)</p>

## OC Audit Oversight Committee Compliance Checklist of Duties

**Comments:**

**Board Resolution** – The Board of Supervisors, based on statutory authority vested exclusively with them, established the **Internal Audit Department** for the entire County independent from the Auditor-Controller reporting directly to the Board and correspondingly created the Audit Oversight Committee to provide advice and guidance and to approve the annual audit plan on behalf of the Board.

**IAD Charter** – The Board of Supervisors of the County of Orange established a full-time, independent internal audit department. The Board established an internal audit department to optimize auditor independence. The Internal Audit Director and other internal audit staff shall follow recognized professional auditing standards (e.g., GAO, IIA, AICPA, and SEC) and are free of County operational and management responsibilities that would conflict with the standards. The Internal Audit Director shall report directly to the Board of Supervisors and be advised by an established Audit Oversight Committee designated by the Board. The purpose and intent of this reporting relationship is to clearly establish auditor independence by reporting directly to the Board.

Three separate external and independent Peer Reviewers have confirmed that Internal Audit Department’s organizational independence is sufficient to satisfy both the US Government Accountability Office’s “Yellow Book;” the Institute of Internal Auditor’s “Red Book” and American Institute of Certified Public Accountant Standards.

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<b>18. The AOC/BOS meets privately (as laws permit) with the County Internal Auditor, External Auditor, CEO, A-C and CFO to ensure candid communication on potentially sensitive matters.</b>	Yes	As allowed by the Brown Act

**Comments:**

California law restricts elected officials' ability to meet as a governing body outside the public viewing. As such, both the AOC and BOS comply with the Brown Act as regards to the holding of private meetings under the advisement of County Counsel. However, all county officers may meet individually with AOC and BOS members (up to two in attendance at a time) to privately brief them on any issues related to their duties.

<b>19. Create an Annual Plan of Agenda Items and Activities for AOC to facilitate scheduling and attendance at meetings.</b>	Yes	AOC Bylaws (Lines 63-65)
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**Comments:**

**AOC Bylaws** – At a minimum, the Committee will meet on a quarterly basis. All meetings will be subject to the Ralph M. Brown Act. Whenever, possible, quarterly meetings will be prescheduled at the beginning of each year to ensure attendance.

An Annual Planning Calendar is prepared and updated each quarter as warranted.

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>20. The Internal Audit Department has a formal approved Charter that clearly establishes its independence from executive management. (AGA,IIA)</b></p> <p>(a) The Charter establishes the mission, role, authority, reporting relationships and responsibilities of the IAD.</p> <p>(b) The Charter specifically adopts the IIA Professional Standards and Code of Conduct.</p> <p>(c) The Charter specifies that the Internal Auditor have timely access to all records and personnel.</p> <p>(d) The Charter excludes the Internal Auditor and/or his auditing staff from taking on concurrent management responsibilities so as to ensure independence and objectivity.</p> <p>(e) The Charter grants the Internal Auditor authority to conduct all types of audits including financial, compliance, internal controls, performance and economies and efficiency audits.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>	<p>(a) IAD Charter (All Lines)</p> <p>(b) IAD Charter (Lines 19-20)</p> <p>(c) IAD Charter (Lines 138-143)</p> <p>(d) IAD Charter (Lines 36-39)</p> <p>(f) IAD Charter (Lines 75-94 and 110-134)</p>



## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>Comments:</b></p> <p>(a) See IAD charter.</p> <p>(b) The County's Internal Audit Department shall follow the standards, policies, and operational procedures established by the Institute of Internal Auditors.</p> <p>(c) Except where prohibited by law, the Director and staff of the Internal Audit Department shall have complete and unrestricted access to all of the County's financial records, files, information systems, personnel, and properties. The Internal Audit 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.</p> <p>(d) The Board established an Internal Audit Department to optimize auditor independence. The Internal Audit Director and other internal audit staff shall follow recognized professional auditing standards and be free of County operational and management responsibilities that would conflict with the standards.</p> <p>The objective, scope, and authority of the Internal Audit Department shown on Lines 75-94 and 110-134 in the IAD Charter.</p>		

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>21. The hiring, compensation and termination of the County Internal Auditor should be made by either the highest governance authority in the entity or an AOC comprised entirely of outside members (individuals who are not management that are subject to audit). This assurance is critical to support compliance with the US Government Accountability Office's (GAO) and the Institute of Internal Auditors (IIA) audit standards regarding the auditor's independence (Auditing standards from the GAO 3.10, 3.12 and IIA-1110).</b></p>	Yes	IAD Charter (Lines 43-46, 57-65)

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>Comments:</b>            The responsibility for hiring, compensation, performance, and termination is exclusively vested with the 5 publicly elected BOS as specified in IAD Charter, (Lines 57-65) “so as to shield the County Internal Auditor from undue management influence in performing his/her job.” This Board action ensures that IAD fully complies with GAO’s (Section 3.10, 3.12) independence standards thereby enabling IAD to conduct required government audits.</p> <p>The Charter states that the County Internal Auditor shall report directly to the Board of Supervisors and be advised by an established Audit Oversight Committee designated by the Board. The purpose and intent of this direct reporting relationship with the BOS is to clearly establish the County Internal Auditor’s independence from management (Lines 43-46). The fact that the County Internal Auditor reports directly to the BOS on both a functional and administrative level is a critical factor in the Internal Audit Department receiving a “fully complies” rating from 3 separate Peer Reviews as regards its Organizational and External independence as required by both the GAO and IIA Standards.</p> <p>The profession recognizes that the inclusion of management on the Audit Oversight Committee, while useful in an advisory capacity, can appear to, and could in fact, compromise the auditor should “management” (who the County Internal Audit does audit) determine or influence the selection, retention and compensation of the auditor instead of the entity’s governing body. (GAO 3.12)</p> <p>As specified in the Board approved Charter of 2002 – “To promote the independence and to relieve the Department from inappropriate management influence or pressure and to ensure the stability and effectiveness of the Internal Auditing Department, an affirmative vote of a majority of the Board shall be required to hire or to terminate the Internal Audit Director.” (Lines 57-59).</p> <p>The County Internal Auditor’s performance and salary is evaluated and determined on a formal basis annually by the BOS, per the County Internal Auditor’s Employment Contract. The public is notified of this event per the Boards’ official agenda. The evaluation is held in a Closed Meeting with the BOS.</p>		

<p><b>22. The IAD Charter specifies that part of the AOC or Governing Body responsibility is to shield the Internal Auditor from undue managerial influence in performing his/her job.</b></p>	<p>Yes</p>	<p>IAD Charter (Lines 57-65)</p>
<p><b>Comments:</b>            The IAD Charter contains very explicit direction and assurances as regards to ensuring the County Internal Auditor’s independence. Specifically the Charter states: “To promote the independence and to relieve the Department from inappropriate management influence or pressure and to ensure the stability and effectiveness of the Internal Auditing Department, an affirmative vote of a majority of the Board shall be required to hire or to terminate the Internal Audit Director.</p>		

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>23. The AOC or Governing Body reviews and approves the Internal Audit Department Annual Audit Plan.</b></p>	<p>Yes</p>	<p>BOS Resolution No. 95-271, (Page 1, Lines 20-22)</p> <p>AOC Bylaws (Lines 85-87)</p> <p>IAD Charter (Lines 150- 157)</p>

# OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>Comments:</b> The original BOS resolution creating the <b>Internal Audit Department</b> and establishing the AOC delegates to the AOC responsibility to review and approve the Annual Audit Plan. Each year this is included on the AOC agenda and all relevant comments and approval is documented in the AOC minutes. After it is approved by the AOC, it is included in a Monthly Audit Activities Status Report and presented to the Board at a regular Board meetings.</p> <p><b>BOS Resolution</b> – The Board of Supervisors directs the Audit Oversight Committee to act in an oversight capacity to the Internal Audit Unit, including approval of the annual audit plan.</p> <p><b>AOC Bylaws</b> – The scope of the Audit Oversight Committee includes overseeing the establishment and maintenance of the County’s internal control structure primarily through oversight of the activities of the <b>Internal Audit Department</b>.</p> <p><b>IAD Charter</b> – The Internal Audit Department reserves resources to accommodate Board of Supervisors requests. Individual Board members desiring specific audit projects shall place on the agenda their proposal for review and approval by Board majority. The Internal Audit Director reserves the right to determine how to best fit the Board directed review into the audit plan.</p>		

<b>24. The AOC or Governing Body reviews and approves substantial changes to the <b>Internal Audit Department</b> Annual Audit Plan.</b>	Yes	AOC Bylaws (Lines 85-87, 95-97)
<p><b>Comments:</b> All substantial changes to the Annual Audit Plan are clearly noted on the Quarterly Audit Plan Status Report and brought to the attention of the AOC for its review and approval. The AOC’s approval is documented in the AOC minutes.</p> <p>The scope for the Audit Oversight Committee’s authority includes: ... (b) to oversee the establishment and maintenance of the County’s internal control structure primarily through oversight of the activities of the Internal Audit Department... (d) to oversee and monitor County compliance with pertinent laws and regulations, applicable ethical standards, and conflicts of interest and fraud policies through review of the results of activities of the <b>Internal Audit Department</b>.</p>		

<b>25. The AOC/Governing Body affords the County Internal Auditor some flexibility to change the plan based upon his/her professional judgment.</b>	Yes	IAD Charter (Lines 148-158)
<p><b>Comments:</b> The County Internal Auditor historically reserves a percentage of his audit budget hours for special directives from the BOS, which he discloses in his Annual Audit Plan submitted to the AOC for review and approval. The IAD Charter also provides that the County Internal Auditor is to determine the priority and timing of the scheduled audits unless otherwise directed.</p> <p>The Internal Audit Department reserves resources to accommodate Board of Supervisors requests. Individual Board members desiring specific audit projects shall place on the agenda their proposal for review and approval by Board majority. The Internal Audit Director reserves the right to determine how to best fit the Board directed review into the audit plan. The <b>Internal Audit Director</b> shall be responsible for preparing an annual audit plan identifying the most productive and essential audit projects.</p>		

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
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## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>26. The AOC/Governing Body receives and reviews the Internal Audit Department Annual Risk Assessment.</b></p>	<p>Yes</p>	<p>AOC Bylaws (Lines 85-87)</p> <p>IAD Charter (Lines 155-158)</p>
<p><b>Comments:</b> The AOC does receive and review IAD’s Risk Assessment as part of their review and approval of the Annual Audit Plan.</p> <p>AOC Bylaws – The scope for the Audit Oversight Committee’s authority includes overseeing the establishment and maintenance of the County’s internal control structure primarily through oversight of the activities of the Internal Audit Department.</p> <p>IAD Charter – The Internal Audit Director shall be responsible for preparing an annual audit plan identifying the most productive and essential audit projects.</p>		
<p><b>27. The AOC/Governing Body receives and reviews a summary of audit coverage provided by the Internal Audit Department.</b></p>	<p>Yes</p>	<p>AOC Bylaws (Lines 85-87)</p> <p>IAD Charter (Lines 69-73, 115-116, 128-129, 155-158)</p>
<p><b>Comments:</b> The AOC meets quarterly with IAD. At each AOC meeting, IAD provides the following activity reports: Quarterly Status Reports that list all audits and follow-up audits; Executive Summaries of Audit Findings; External Audit Coverage; IT Briefing Reports.</p> <p>IAD provides the BOS with IAD’s Monthly Activity Report, which is a monthly summary of all audit reports issued during the month.</p> <p>The County Internal Auditor meets regularly with BOS members.</p> <p>AOC Bylaws – The scope for the Audit Oversight Committee’s authority includes overseeing the establishment and maintenance of the County’s internal control structure primarily through oversight of the activities of the Internal Audit Department.</p> <p>IAD Charter – The objective of internal auditing is to assist the Board of Supervisors 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 (Lines 69-73). The Internal Audit Department’s responsibilities include: developing and executing a comprehensive audit program for the evaluation of internal controls established over county financial and business activities (Lines 115-116); and publishing reports on the results of audit examinations including recommendations for improvements in the internal control processes (Lines 128-129). The Internal Audit Director shall be responsible for preparing an annual audit plan identifying the most productive and essential audit projects (Lines 155-158).</p>		

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>28. The AOC supports the effectiveness of the <b>Internal Audit Department</b> audits by ensuring that all audit recommendations are taken seriously and followed-up on in a timely manner. They receive, review and discuss status reports of all open audit issues. The AOC directly contacts management when warranted.</b></p>	Yes	<p>IAD Charter (Lines 51-53, 131-132, 160-164)</p> <p>AOC Administrative Procedure No. 1, (Lines 50-66)</p>
<p><b>Comments:</b></p> <p>IAD reports quarterly to the AOC on all open findings and conducts formal follow-up audits of all open items as directed by the IAD Charter and AOC Administrative Procedure.</p> <p>IAD Charter – The Audit Oversight Committee assists the Board in ensuring that appropriate action is taken on audit findings (Lines 51-53). The Internal Audit Department’s responsibilities include appraising the adequacy of actions taken by operating management to correct reported deficient conditions (Line 131-132). In accordance with the <i>Standards for the Professional Practice of Internal Auditing</i>, the Internal Audit Director shall establish a system to follow up on reported audit findings. The system established should include updated comments and recommendations as appropriate (Lines 160-164).</p> <p>AOC Administrative Procedure No. 1 – When departments/agencies have advised that recommendations have been occurred with and actions have been or will be implemented; the Internal Audit Department will verify the current conditions or implementation. The Internal Audit Department may do this directly or on a sample basis, by performing follow-up audits as provided in the Annual Audit Plan. The follow-up audits may be budgeted within the Annual Audit Plan as a category, as a specific item, as part of the scheduled audit coverage of the department/agency or within the hours set aside in the Annual Audit Plan for special request audits. The current status of recommendations will be followed up no later than the end of the second fiscal year after the audit report has been issued. The Internal Audit Department will report the results of the follow-up audits periodically, but not less than annually to the Audit Oversight Committee. When departments/agencies have advised that recommendations are under study, follow-up will be determined on a case basis; however, the recommendations will be revisited no later than six-months after the issuance of the audit report.</p>		
<p><b>29. The AOC ensures that once the <b>Internal Audit Department’s</b> Annual Audit Plan has been approved, all requests for audits come through the AOC or through directives from the Government Body (BOS) in a public meeting.</b></p>	Yes	<p>IAD Charter (Lines 148-158)</p> <p>BOS Resolution No. 95-271, (Page 1, Lines 22-25)</p>
<p><b>Comments:</b></p> <p>The AOC does approve changes quarterly to the Audit Plan and the AOC’s approval and acceptance is documented in the AOC minutes. The IAD Charter states: “The Internal Audit Department reserves resources to accommodate Board of Supervisors requests. Individual Board members desiring specific audit projects shall place on the agenda their proposal for review and approval by Board majority. The Internal Audit Director reserves the right to determine how to best fit the Board directed review into the audit plan.”</p> <p>BOS Resolution – All Audit Oversight Committee members will have an equal voice in the decision-making process. With the approval of the Chairman, a substitute may attend the meeting with the member’s proxy.</p>		

## OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>30. The Governing Body/AOC receives all <b>Internal Audit Department</b> final audit reports in a timely basis and holds discussions if deemed necessary.</b></p>	Yes	<p>AOC Administrative Procedure No. 1, (Lines 42-47)</p> <p>IAD Charter (Lines 67-72)</p>
<p><b>Comments:</b></p> <p>The BOS by direction requires IAD to submit all completed audit reports to it on a monthly basis and discusses the individual audits in their public meeting as deemed warranted.</p> <p>AOC Administrative Procedure – All official audit reports are released to all end users on the same day. To ensure the Governing Body receives them, all official audit reports are submitted to the County’s Clerk of the Board for official acceptance and distribution to the BOS.</p> <p>In addition, the County Internal Auditor (CIA) provides for each audit report for release to the public/press an Audit Report Highlight that summarizes the key aspects of the audit, Why it was Audited, What the Auditors Found, and the Background of the audited entity. The CIA also provides in the audit report itself the auditee (management) response to the audit findings and recommendations. The reply requires management to clearly state how and when they will implement corrective action to each of the CIA’s audit findings.</p> <p>IAD Charter – The objective of internal auditing is to assist the Board of Supervisors and county management in the effective discharge of their fiduciary responsibilities. To this end, the IAD furnishes them with audits, analyses, evaluations, recommendations, counsel, and information concerning the activities reviewed.</p>		
<p><b>31. The AOC reviews and discusses the status of the <b>Internal Audit Department</b> Audit Plan, related progress, challenges and audit results in an open meeting at least quarterly.</b></p>	Yes	<p>AOC Bylaws (Lines 61-65, 85-87, 95-97)</p> <p>IAD Charter (Lines 48-55, 70-72)</p>



## OC Audit Oversight Committee Compliance Checklist of Duties

**Comments:**

The County Internal Auditor presents a full accounting to the AOC and BOS quarterly.

AOC Bylaws – At a minimum, the Audit Oversight Committee will meet on a quarterly basis. All meetings will be subject to the Ralph M. Brown Act. Whenever possible, quarterly meetings will be prescheduled at the beginning of each year to ensure attendance (Lines 63-65). The scope for the Audit Oversight Committee’s authority includes: ... (b) to oversee the establishment and maintenance of the County’s internal control structure primarily through oversight of the activities of the Internal Audit Department (Lines 85-87)... (d) To oversee and monitor County compliance with pertinent laws and regulations, applicable ethical standards, and conflicts of interest and fraud policies through review of the results of activities of the Internal Audit Department (Lines 95-97).

IAD Charter – The Audit Oversight Committee is an advisory committee to the Board of Supervisors and provides oversight of the County’s Internal Audit Department and external audit coverage. The Committee assists the Board in ensuring the independence of the internal audit function and ensuring that appropriate action is taken on audit findings. The Committee 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 (Lines 50-55). To this end, internal auditing furnishes them with audits, analyses, evaluations, recommendations, counsel, and information concerning the activities reviewed (Lines 69-73).

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<b>32. The AOC/Governing Body receives and reviews auditee’s comments and corrective action plans.</b>	Yes	AOC Administrative Procedure No. 1, (Lines 26-58)

**Comments:**

By policy OC IAD incorporates and attaches in the audit report itself managements’ required replies to the audit findings and recommendations. OCIAD will issue a final report incorporating the departmental/agency reply in the report. The final report will be filed with each member of the Audit Oversight Committee, with a copy to the District Attorney if required. One copy of the audit report will be also be forwarded to the CEO, each member of Board of Supervisors, the Grand Jury and the Clerk of the Board. An appropriate number of copies will be forwarded to the audited department/agency.

<b>33. The AOC ensures required Peer Reviews of the Internal Audit Department are conducted.</b>	Yes	AOC Bylaws (Lines 99-102)
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**Comments:**

Required by AOC Bylaws. The last Peer Review was conducted for the three years ending June 30, 2007, dated August 27, 2007. The next one is due August 30, 2010. IAD received the highest rating in all 11 categories on each of its three Peer Reviews.

The scope of the Audit Oversight Committee’s authority and objectives include “ensuring that an external quality control review of the Internal Audit Department is conducted every three to five years by an organization not affiliated with the internal audit department in accordance with the United States Accountability Office’s Government Auditing Standards.”

## OC Audit Oversight Committee Compliance Checklist of Duties

<b>34. The AOC receives, reviews, and discusses the results of Peer Reviewers of the Internal Audit Department in a public meeting.</b>	Yes	AOC Bylaws (Lines 61-70)
<p><b>Comments:</b></p> <p>The AOC Bylaws require that the Peer Review be conducted under Government Auditing Standards (Chapter 3, Section 3.61), which requires that Peer Review Auditors communicated the results to those charged with governance.</p> <p>AOC Bylaws – At a minimum, the Committee will meet on a quarterly basis. All meetings will be subject to the Ralph M. Brown Act. Whenever, possible, quarterly meetings will be prescheduled at the beginning of each year to ensure attendance. County staff will keep minutes of each meeting and offer them for Committee approval as the first item on the subsequent meeting agenda. Whenever possible, such minutes will be distributed to Committee members in draft form within a reasonable time after the meeting and in advance of the subsequent meeting.</p>		

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<b>35. The AOC ensures all the Internal Audit Department Peer Reviewer’s recommendations are addressed.</b>	Yes	AOC Bylaws (Lines 99-102)  The citation provides a requirement for the Peer Review. However, there is no requirement to address any recommendations.
<p><b>Comments:</b></p> <p>It is the AOC’s practice to ensure that IAD adequately addresses all recommendations from a Peer Review just as all other audit findings are monitored. The fact that no findings were noted in the last 3 Peer Reviews does not change the IAD standard audit Finding Follow-Up process.</p>		

<b>36. The AOC monitors the entity’s internal controls, fraud prevention and investigation activities and receives summaries of Whistleblower Hotline investigations and results.</b>	Yes	AOC Bylaws (Lines 95-97, 104-105)  IAD Charter (Lines 10-15, 24-26, 145-146)
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# OC Audit Oversight Committee Compliance Checklist of Duties

**Comments:**

The BOS has assigned to the OC IAD responsibility for overseeing the County-wide Hotline for Waste, Fraud and Abuse of County resources. The OC IAD has established a 24/7 hour Hotline phone and web service for county employees and citizens and provides the AOC /BOS with semiannual Hotline Activity Reports.

AOC Bylaws – The scope of the Audit Oversight Committee’s authority and objectives includes...overseeing and monitoring County compliance with pertinent laws and regulations, applicable ethical standards, and conflicts of interest and fraud policies through review of the results of activities of the Internal Audit Department (Lines 95-97)...to immediately notify the Board in writing should the Committee determine any significant or material irregularity exists in County operations (Lines 104-105).

IAD Charter – The Internal Audit Department supports and assists the Board of Supervisors 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. 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 (Lines 10-15). Internal auditing 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 (Lines 24-26). Upon initiation of an audit involving potential or suspected fraud, the Internal Audit Director shall consult with the County’s Chief Counsel for legal advice and coordination of efforts (Lines 145-146).

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
37. The AOC oversees all audit activities occurring throughout the County through reports prepared by Internal Audit Department that summarize the status of the audits conducted of the entity in addition to the annual external audit of the financials.	Yes	AOC Administrative Procedure No. 2

**Comments:**

IAD provides the AOC with The Quarterly External Audit Coverage reports that identify external audits being conducted in the County, as reported by the Department/ Agencies, and an executive summary which identifies the total audits in progress, planned, and completed, along with any material issues identified.

## OC Audit Oversight Committee Compliance Checklist of Duties

<p><b>38. The Governing Body/AOC addresses in an open meeting the adequacy of the <b>Internal Audit Department</b> budget to accomplish their audit objectives and duties with any resulting recommendations presented to the BOS. (OC Best Practice)</b></p>	<p>Yes</p>	<p>IAD Charter (Lines 57-65)</p>
<p><b>Comments:</b>  The AOC/OC IAD Charter states that the Board of Supervisors shall be responsible for the Internal Audit Department’s annual budget, staffing size, and the salaries and classifications of the staff taking into consideration the recommendations by the Audit Oversight Committee. Both the BOS and AOC publically meet and discuss the adequacy of the OC IAD Budget in a timely manner.</p>		

<b>AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)</b>	<b>Did OC adopt practice?</b>	<b>Reference (Footnote 2, Page 20)</b>
<p><b>39. AOC members receive an “initial” and “ongoing” orientation as considered appropriate given the nature of their professional experience to their AOC duties and responsibilities as well as to the role of the Internal Audit Department.</b></p>	<p>Yes</p>	

# OC Audit Oversight Committee Compliance Checklist of Duties

AGA/GFOA/GAO/IIA Practices and Standards (Footnote 1, Page 20)	Did OC adopt practice?	Reference (Footnote 2, Page 20)
<p><b>Comments:</b>            The fact that both the Chair and Vice Chair of the BOS are permanent members of the AOC ensures that those individuals with ultimate responsibilities for County governance bring their extensive governmental experience as well as their electing constituents' perspectives to bear on the types, nature and timing of internal audits, managements accountability and compliance as well as management of business and control risks. The County Internal Auditor routes to all BOS members all AOC Quarterly Status Reports including the approved minutes.</p> <p>The County Internal Auditor provides each new member of the AOC with an orientation packet and briefing on the history of the IAD, copies of all relevant materials such as the IAD Charter, AOC Bylaws and Administrative Procedures. In addition County Counsel opinions pertaining to the BOS and IAD authority are provided and discussed, also the CIA meets regularly to brief, on an individual basis, the BOS Chair and Vice Chair as well as the A/C, the CEO and the Treasurer. In addition, each AOC member provides their own unique perspective and corporate knowledge to bear in the informal and private briefings they provide to the rotating BOS members on the AOC.</p> <p><b>RECOMMENDATION:</b>            AOC consider whether the current AOC orientation practices are adequate as it relates to their duties and the merits of directing staff to revise or augment the orientation as considered beneficial.</p>		

**Footnote 1**

The basis for the listing of Recommended Practices is derived from the Association of Government Auditor's (AGA) November 2008, 39 page report titled "Characteristics of Effective Audit Committees in Federal, State and Local Governments." Our checklist represents applicable GFOA recommended practices and AGA identified "Best Practices" for AOC of governmental entities. It also incorporates critical and relevant GAO and IAD auditing standards support the independence of the internal audit function from undue pressures and influences from management which is an essential duty and responsibility of the Governing Body and AOC of any organization. **As a guiding principle for all readers of the AGA report, AGA explicitly states, "one size does not fit all- this report identifies many best practices and good ideas for government audit committees. Not all practices and ideas are appropriate for every committee. Each government will have to select those practices that work well for them."** This checklist was developed in the spirit of AGA's objective in releasing this research report.

**Footnote 2**

Cited support for OC AOC compliance with best Government Entities Best Practices for Audit Oversight Committees is obtained from:

1. The BOS approved Resolution No. 95-271 of 1995 establishing both the AOC and IAD.
2. The BOS approved Charter for IAD, dated 12/17/02, Minute Order No. S102C.
3. The BOS approved OC AOC Bylaws, dated 12/17/02, Minute Order No. S102B.
4. AOC Administrative Procedure Number 1, dated March 1, 2000, Audit Report Distribution.
5. AOC Administrative Procedure Number 2, dated May 22, 1996, Reporting On External Audits.

# OC Audit Oversight Committee

## ATTACHMENT A – Self Assessment Questions

### OC Audit Oversight Committee Self-Assessment Questionnaire

**Ratings:** Please Rate 1 – 5

5 Strongly Agree and  
1 Strongly Disagree

PLEASE CIRCLE **RATING**

1. Are you receiving clear and concise back ground information prior to AOC meetings that helps you understand and evaluate AOC agenda items?  Yes or No  \_\_\_\_\_
2. Are you receiving information concerning AOC agenda items in a timely manner?  Yes or No  \_\_\_\_\_
3. Do the AOC agenda items address relevant and appropriate accounting, control and auditing issues?  Yes or No  \_\_\_\_\_
4. Is sufficient meeting time devoted to the agenda items?  Yes or No  \_\_\_\_\_
5. Are AOC meetings conducted in a manner that fosters open communication, meaningful participation and timely resolution of issues?  Yes or No  \_\_\_\_\_
6. Are AOC sessions candid, constructive and conducted in a manner where there can be civil disagreement and critical questioning?  Yes or No  \_\_\_\_\_
7. Are the frequencies of the AOC meetings adequate?  Yes or No  \_\_\_\_\_
8. Does the AOC challenge and question management when appropriate?  Yes or No  \_\_\_\_\_
9. Are the periodic reports pertaining to the nature and status of Hotline calls and investigations adequate?  Yes or No  \_\_\_\_\_
10. Are the Quarterly Status Reports submitted by OCIAD informative and relevant enough to ensure proper oversight of internal audit activities?  Yes or No  \_\_\_\_\_
11. Is the composition of the AOC adequate to fulfill its oversight responsibilities?  Yes or No  \_\_\_\_\_
12. Do the AOC minutes provide enough detail to adequately capture the context of the issues discussed, questions raised and conclusions reached?  Yes or No  \_\_\_\_\_
13. Do you have any comments as to ways the AOC could better fulfill its duties and responsibilities per its Bylaws, Resolution and Charter? (Please use add additional page if necessary.)  Yes or No  \_\_\_\_\_

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## OC Audit Oversight Committee ATTACHMENT B – Review Calendar Checklist

### OC Audit Oversight Committee Review Calendar Checklist

	Frequency	1 <sup>st</sup> Qtr Jul-Sep	2 <sup>nd</sup> Qtr Oct-Dec	3 <sup>rd</sup> Qtr Jan-Mar	4 <sup>th</sup> Qtr Apr-Jun
<b>A) AOC Meetings</b>					
1. Schedule meetings for fiscal year	Annually			✓	
2. Review and approve AOC minutes	Quarterly	✓	✓	✓	✓
<b>B) Oversight of Internal Audit Department</b>					
1. Approve annual audit plan and risk assessment model	Annually in 4 <sup>th</sup> Qtr				✓
2. Review and discuss IAD annual business plan, budget and staffing	Annually				
3. Discuss with County Internal Auditor county risks, scope and objective of proposed and completed audits, status of audit plan, and any special engagements or directives.	Quarterly	✓	✓	✓	✓
4. Receive and discuss Hotline activity reports.	Semi Annually	✓		✓	
5. Receive and discuss reports on status of audit findings as well as audit follow-up efforts.	Quarterly	✓	✓	✓	✓
6. Receive and discuss reports on external audit coverage (other than CAFR).	Quarterly	✓	✓	✓	✓
7. Review and approve selection of peer reviewers.	Tri-Annual (every 3 yrs)	Approved 2007			Select 2010
8. Discuss and approve revisions to the annual audit plan.	Quarterly	✓	✓	✓	✓
9. Receive and discuss the audit coverage, results and audit findings of selected internal audit reports as AOC members deem warranted.	Quarterly	✓	✓	✓	✓
<b>C) Oversight of the External Auditor</b>					
1. Evaluate RFPs and recommend selection of External Auditor.	(Every 3 to 5 Years)				Contract 2008
2. Meet with External Auditor to obtain understanding of factors considered by them in conducting annual audit of CAFR.	Annually	✓			
3. Determine and approve extent of any non-audit services provided by External Auditor.	Annually (TBD)				
4. Review with External Auditor their internal quality control/assurance procedures and results of their required Peer Review.	Annually (TBD)				
5. Review and evaluate External Auditors performance.	Annually (TBD)				

## OC Audit Oversight Committee ATTACHMENT B – Review Calendar Checklist

### OC Audit Oversight Committee Review Calendar Checklist

	Frequency	1 <sup>st</sup> Qtr Jul-Sep	2 <sup>nd</sup> Qtr Oct-Dec	3 <sup>rd</sup> Qtr Jan-Mar	4 <sup>th</sup> Qtr Apr-Jun
6. Review any management letter or other material/required communication from the External Auditors and managements response to those communications.	Annually		✓	✓	
7. Review and discuss audited Financial Statements disclosing significant transactions, accounting corrections and adjustment, control deficiencies and management risks.	Annually (TBD)				
<b>D) Oversight of Financial Statements</b>					
1. Review and discuss with Auditor-Controller, management and External Auditors draft financial statements on a one-on-one basis as considered necessary.	Annually Quarterly and as warranted				
2. Review and discuss with Auditor-Controller the audited Financial Statements (see item C-7 above).	Quarterly				

# OC Audit Oversight Committee

## ATTACHMENT C – AOC Response to Recommendations



DAVID E. SUNDSTROM, CPA  
AUDITOR-CONTROLLER

### AUDITOR-CONTROLLER COUNTY OF ORANGE

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WILLIAM A. CASTRO  
DIRECTOR  
SATELLITE ACCOUNTING OPERATIONS

PHILLIP T. DAIGNEAU  
DIRECTOR  
INFORMATION TECHNOLOGY

September 15, 2009

TO: Dr. Peter Hughes, CPA  
Director, Internal Audit Department (IAD)

SUBJECT: Response to Internal Audit No. 2807-13, Compliance Audit of the  
Board's Audit Oversight Committee as of May 2009

On September 2, 2009 the Audit Oversight Committee (AOC) considered the referenced audit report. This response is made by the direction of the AOC.

#### Recommendation 1

The BOS and the AOC consider preparing two separate charters, one for the AOC and one for the IAD that contain all relevant duties and responsibilities. Consider either adopting a model charter template or develop a hybrid from those examples promoted by the AICPA, GFOA, AGA, or from the international public accounting firms. (Practice and Standard No. 2)

#### AOC Response:

The AOC concurs that separate charters should be prepared for the AOC and the IAD. The AOC has elected to use the GFOA document, "Recommended Practice (for) Audit Committees (1997, 2002, 2006, and 2008)," as supplemented by the GFOA document, "An Elected Official's Guide (for) Audit Committees." In addition, we will supplement the GFOA documents with the AICPA's "Audit Committee Charter Matrix for Government Organizations." I distributed a draft copy of a matrix that included these documents and relevant excerpts from the audit report to the AOC members at the September meeting. The AOC agreed to meet again to decide the appropriate items to contain within the committee's charter. This document has been included as an attachment to this response. We will then prepare a charter based upon the results of our deliberations and submit it to the Board of Supervisors for approval. The timing for completion of this project is dependent on the availability of AOC members for a separate meeting. I understand that your office is coordinating the scheduling of this meeting.

The committee also agreed that the IAD should have a separate charter. I suggest that your office revise your charter and submit it to the AOC for review at a subsequent meeting.

**OC Audit Oversight Committee**  
**ATTACHMENT C – AOC Response to Recommendations**

Dr. Peter Hughes, CPA, Director, Internal Audit Department  
September 15, 2009  
Page 2

**Recommendations 2 - 8**

The audit report also provided seven specific recommendations for AOC bylaw changes. These recommendations will be considered for inclusion within the bylaws or the charter as the committee determines appropriate during its charter review session.

The committee appreciates IAD's efforts in this area. Although there have been some minor alterations to our bylaws, we have not considered them as a whole since the AOC's inception thirteen years ago.



David E. Sundstrom, CPA  
Auditor – Controller  
Audit Oversight Committee Chair

DES:lr (Response to IAD re Compliance Audit 2907-13 of Board's AOC/auditor)  
Attachment

cc: Members, Board of Supervisors  
Members, Audit Oversight Committee  
Thomas G. Mauk, County Executive Officer  
Foreperson, Grand Jury



# OC Audit Oversight Committee

## ATTACHMENT C – AOC Response to Recommendations



### County of Orange Audit Oversight Committee

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Date: August 31, 2009  
To: Audit Oversight Committee (AOC) Members  
From: David E. Sundstrom, AOC Chair  
Subject: Draft GFOA Recommended Practice Matrix

Audit committees serve a very important role in the governance of internal controls and financial reporting. In fact, the GFOA recommends that every governing body establish an audit committee. A recent Compliance Audit of the Board's Audit Oversight Committee (Draft) issued by the Internal Audit Department stated that the AOC could select a Guideline/Checklist as self assessment framework. This GFOA Recommended Practice Matrix tool has been prepared as a possible tool that could be used to assist the AOC in facilitating discussion of audit oversight committee best practices. This Matrix is based on audit committee best practices from two leading authoritative professional organizations, the GFOA and the AICPA.

Although the Matrix is based on the "GFOA Recommended Practice for Audit Committees," responses to detailed questions in the GFOA "An Elected Officials' Guide to Audit Committees" have been included when applicable to help clarify the recommended practice or to provide useful additional information. The AICPA Government Tool Box: "Audit Committee Charter Matrix for Government Organizations" best practice charter objectives were also utilized as a resource.

The GFOA Recommended Practice matrix was prepared using the following sources:

**Blue Bold Font - GFOA Recommended Practice for Audit Committees**

*[Q\_\_] Question Number in Brackets, Italic Font - GFOA "An Elected Official's Guide to Audit Committees"*

**Brown Bold Font - AICPA Governmental Tool Box: Audit Committee Charter Matrix for Government Organizations, Audit Committee Charter**

**Highlighted and Bold Font – Current practices are not readily aligned with guidelines/best practices.**

# OC Audit Oversight Committee

## ATTACHMENT C – AOC Response to Recommendations

8/25/09 Version

DRAFT  
GFOA RECOMMENDED PRACTICE MATRIX  
Audit Committees (1997, 2002, 2006, and 2008) (CAAFR)<sup>1</sup>

**Background:** Three main groups are responsible for the quality of financial reporting: the governing body<sup>2</sup>, financial management, and the independent auditors. Of these three, the governing body must be seen as “first among equals” because of its unique position as the ultimate monitor of the financial reporting process.<sup>3</sup> [Q5] An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government’s financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management’s practices, and that the independent auditors, through their own review, objectively assess the government’s financial reporting practices.<sup>4</sup> [Q6]

	GFOA Recommendation	Current Practice	Source
1	The governing body <sup>2</sup> of every state and local government should establish an audit committee or its equivalent; [Q8].	The O.C. Board of Supervisors (BOS) established an Audit Oversight Committee (AOC) in 1995.	BOS 1995 Resolution No. 95-271 establishing the AOC.
2	The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means [Q14]  [Q14] Formally established is defined as being established by charter, resolution, or other appropriate means necessary to ensure that the audit committee has all the authority it needs to accomplish its objectives (directly responsible for every aspect of the independent audit, independent auditors are mandated to report to the audit committee, and the audit committee has direct access to internal audit work plans and reports).	<u>AOC Charter:</u> The AOC does not have its own AOC Charter. It is mentioned in the Internal Audit Department’s Charter.  <u>The AOC Bylaws:</u> The AOC has Board approved Bylaws which state that the scope of Committee’s authority will be based on the Board Resolution No. 95-271, dated April 25, 1995 as amended by any future Board action. The scope of AOC responsibilities is not as prescriptive as that indicated in [Q14].	Internal Audit Department (IAD) Audit Report 2807-13 Report Recommendation 1  IAD Charter adopted December 17, 2002.  Bylaws of the Orange County Audit Oversight Committee dated December 17, 2002  IAD Audit Report 2807-13

<sup>1</sup> The GFOA recommended practices for audit committees was the primary source for this document. It was supplemented with “An Elected Officials Guide to Audit Committees” (also published by the GFOA and the AICPA’s “Audit Committee Toolkit: Government Organizations.” Bracketed numbers preceded by “Q” refer to the questions from “An Elected Officials Guide to Audit Committees.” Numbers preceded by “AICPA” refer to the Audit Committee Charter Matrix included in the “Audit Committee Toolkit.”

<sup>2</sup> For the purposes of this recommended practice, the term “governing body” should be understood to include any elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do not exercise managerial responsibilities within the scope of the audit. The term “governing body” also is intended to encompass appointed bodies such as pension boards.

<sup>3</sup> Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, “Overview and Recommendations.”

<sup>4</sup> Securities and Exchange Commission (SEC) Regulation 33-8220, “Background and Overview of the New Rule and Amendments.”



# OC Audit Oversight Committee

## ATTACHMENT C – AOC Response to Recommendations

8/25/09 Version

GFOA Recommendation	Current Practice	Source
<p>[Q14] It is also important that the audit committee have adequate funding to accomplish its various tasks. Specifically, the audit committee should have the budgetary authority to obtain the services of a financial expert, legal counsel, and other appropriate specialists as needed.<sup>5</sup></p> <p><b>AICPA 3. The audit committee's charter should be reviewed annually.</b></p>	<p><u>Audit Committee Budget:</u>  <b>The AOC does not have a budget and is dependent upon funding from the BOS to obtain needed services.</b></p>	<p>Checklist #2</p> <p>IAD Audit Report 2807-13            Checklist #8            Report Recommendation 3</p>
<p>3 [The audit committee should be] made directly responsible<sup>6</sup> for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit review, or attest services.<sup>7</sup> [Q19], [Q22], [Q23], [Q24]</p> <p>[Q22] Delineates the process for selecting external auditors to include competition, solicitation, technical evaluation and the formal contract.</p> <p>[Q23] Discusses Multi-year contracts.</p> <p>[Q24] Discusses mandatory auditor rotation.</p> <p>[Q24] Local governments have a highly specialized character of governmental accounting, auditing, and financial reporting. As a result, there may be limited accounting firms that are qualified to audit local governments. The audit committee should refrain from setting a policy of mandatory auditor rotation unless it has first satisfied itself that there are a sufficient number of qualified and interested audit firms in the area to ensure that there will always be a viable alternative to the current auditors. GFOA encourages performing a full-scale audit</p>	<p>The AOC Bylaws Rule 12.b states that the AOC is: "To oversee the quality of financial reporting activities which portray the County's financial condition, results of operations, and plans and long-term commitments, primarily through oversight of the public accounting firm providing the external audit coverage of the County's consolidated financial statements."</p> <p>The AOC either evaluates and recommends or has responsibility for hiring and monitoring the External Auditor - <b>Not explicit in the AOC Bylaws</b>, but a practice as evidenced by the AOC Agendas and Minutes.</p> <p><b>There is no specific language concerning appointment, compensation, or retention of the external auditors.</b></p> <p>[Q22] AOC formed a three person group to evaluate the proposals submitted to perform the CAFR beginning FYE 6/30/08.</p> <p>[Q23] In 2007 the AOC put the All Funds Audit and Single Audit Contract out for bid and selected Vavrinek, Trine, Day &amp; Co., LLP (VTD) as the new external audit firm. The contract with external auditors VTD is for three years. The contract will be evaluated every three</p>	<p>AOC Bylaws Rule 12.b</p> <p>AOC Agenda/Minutes dated April 7, 2008, September 5, 2007 and April 7, 2008</p> <p>Contract with VTD</p> <p>IAD Audit Report 2807-13            Checklist #12            Report Recommendation 6</p> <p>IAD Audit Report 2807-13            Checklist #13            Report Recommendation 7</p>

<sup>5</sup> Of course, the full governing body would retain ultimate control over funding.

<sup>6</sup> Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.

<sup>7</sup> Sarbanes Oxley Act, Section 301.

# OC Audit Oversight Committee

## ATTACHMENT C – AOC Response to Recommendations

8/25/09 Version

	GFOA Recommendation	Current Practice	Source
	<p><i>procurement process at the end of any given audit contract.</i></p> <p><b>AICPA 8. Oversee the appointment of the independent auditors to be engaged by the government organization for external reporting, and establish the related audit fees.</b></p> <p><b>AICPA 9. . . . consider establishing a regular schedule for periodically re-bidding the audit contract with an outside CPA firm.</b></p>	<p>to five years.</p> <p>[Q24] The process for selecting an external auditor for the All Funds Audit and the Single Audit began in August 2007. As stated above, a three person group evaluated the proposals received. The AOC voted on the external firm based on the evaluation and this recommendation went to the BOS.</p>	
4	<p><b>The audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. [Q17]</b></p> <p><i>[Q17] Independent auditors report directly to the audit committee not management and have this stated in the documentation that establishes the audit committee.</i></p>	<p>Rule 12.b of the AOC Bylaws states that the AOC oversees the quality of financial reporting activities which portray the County's financial condition, results of operations, and plans and long-term commitments primarily through oversight of the public accounting firm providing the external audit coverage of the County's consolidated financial statements.</p> <p><b>The Bylaws do not specifically state that the external auditors report directly to the AOC.</b></p> <p><b>The VTD Contract does not require the external auditor to report directly to the AOC.</b></p>	<p>AOC Bylaws Rule 12.b</p> <p>VTD Price Agreement Contract N1000010022.</p> <p>IAD Audit Report 2807-13 Checklist #12</p>
5	<p><b>The written documentation establishing the audit committee should prescribe the scope of the committee's responsibilities, as well as its structure, processes, and membership requirements. [Q14]</b></p> <p><b>AICPA 3. The audit committee's charter should be reviewed annually.</b></p>	<p>A BOS Resolution established an Audit Oversight Committee consisting of a Member of the Board of Supervisors, the Treasurer-Tax Collector, Auditor-Controller, Chief Executive Officer (CEO), and two Department Heads selected by the CEO. It also directed this Committee to act in an oversight capacity to the Internal Audit Unit, including approval of the annual audit plan. (The membership composition was later amended by Board action on 12/17/02, #102B to consist of the Chair and Vice Chair of the Board of Supervisors, the Auditor-Controller, the County Executive Officer (CEO) and a Public Member.)</p> <p>AOC Bylaws state that this committee has been established as an advisory committee to the Board of</p>	<p>BOS 1995 Resolution No. 95-271 establishing the AOC.</p> <p>AOC Bylaws Rule 1</p>



# OC Audit Oversight Committee

## ATTACHMENT C – AOC Response to Recommendations

8/25/09 Version

GFOA Recommendation	Current Practice	Source
	<p>Supervisors. Rule 1 of the AOC Bylaws states “the rules contained in these Bylaws shall govern the Orange County Audit Oversight Committee” and the Bylaws define the responsibilities, structure, processes, and membership of the AOC.</p> <p><b>The AOC does not have a separate AOC Charter.</b></p>	<p>IAD Audit Report 2807-13 Checklist #1</p>
<p>6 <b>The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;</b><sup>8</sup> [Q15]</p> <p><i>[Q15] The GFOA recommends that public-sector audit committees and governing boards review and assess the adequacy of the audit committee charter no less than once every five years.</i></p> <p><i>Such a reassessment should specifically take into account any changes that may be needed as the result of changes in law, regulation, or professional standards.</i></p> <p><b>AICPA 3. The audit committee’s charter should be reviewed annually.</b></p>	<p>A review of the AOC Bylaws occurred on March 15, 2007 and May 17, 2007 and AOC approved amendments to the Bylaws for approval by BOS; however the revision recommendations were removed from the BOS agenda for approval.</p> <p>The AOC has revisited, reviewed and/or revised their Bylaws, the IAD Charter, and Administrative Procedures on several occasions as deemed warranted. Some issues explored included the composition of the AOC members; the duties of the AOC; and management’s reply to IAD audit findings.</p> <p><b>However, the AOC does not have a separate AOC Charter.</b></p>	<p>AOC Minutes - March 15, 2007 and May 17, 2007</p> <p>IAD Audit Report 2807-13 Checklist #11 Report Recommendation 1 and 5</p>
<p>7 <b>Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.</b><sup>9</sup> <b>The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial</b></p>	<p>The membership of the AOC was approved by Board action on 12/17/02, #102B and consists of the following: the Chairman and Vice-Chairman of the Board of Supervisors (BOS), the Auditor-Controller (A-C), the County Executive Officer (CEO), the Treasurer-Tax Collector as Ex-Officio (non-voting) Member, and one member from the private sector appointed by the BOS.</p> <p>The Chair and Vice Chair of the County’s Board of Supervisors, the County’s Executive Officer and the</p>	<p>BOS 1995 Resolution No. 95-271 establishing the AOC.</p> <p>AOC Bylaws Lines 16-18 IAD Audit Report 2807-13 Checklist #7 and #3</p> <p>Orange County Board of Supervisors Rules of</p>

<sup>8</sup> Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, Recommendation 4.

<sup>9</sup> Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees, Recommendation 3. Continuity typically is a positive factor in achieving this goal, a fact that should be kept in mind when considering the appropriate length of service for audit committee members.

# OC Audit Oversight Committee

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<p>statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions;<sup>10</sup> [Q10] [Q12] [Q13]</p> <p><i>[Q10] While expertise in accounting, auditing, financial reporting, and internal control is highly desirable in an audit committee member, individuals do not have to be an expert in any or all of these disciplines to serve. They do, however, need to obtain a sufficient understanding of each to be able to perform their duties as committee members.</i></p> <p><b>AICPA 2. At least one member of the audit committee should have financial expertise.</b></p> <p><b>AICPA 6. The audit committee shall be authorized to hire professional consultants where necessary.</b></p>	<p>Auditor-Controller are all voting members of the AOC. The BOS members on the AOC are the current year's BOS Chair and Vice-Chair, who are elected by the Board Members on an annual basis.</p> <p>The AOC Bylaws do not mention that committee members should possess or obtain a sufficient understanding of governmental financial reporting and auditing.</p> <p>The AOC Bylaws state that County staff will provide technical and administrative support to the AOC when requested.</p> <p>The AOC Bylaws do not mention the use of outside financial experts.</p>	<p>Procedure, Chapter 3, Rule 8</p> <p>BOS 1995 Resolution No. 95-271 establishing the AOC.</p> <p>AOC Bylaws, approved 12/17/02, Lines 16-18</p> <p>IAD Audit Report 2807-13 Checklist #7</p>
<p><b>8 All members of the audit committee should be members of the governing body. To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee;[Q8 Footnote 17],[Q9]</b></p> <p><i>[Q8 Footnote 17] The term "governing body" is intended to encompass not only the legislative body, but also any other elected officials legally responsible for overseeing internal control and financial reporting (e.g., county auditor, city controller).</i></p> <p><b>AICPA 1: Each member of the audit committee should be appointed by the governing body.</b></p>	<p>Of the five voting AOC members, three members are from the County's "governing body." The two members of the BOS and the elected Auditor-Controller are considered members of the governing body. The other three members are: the County Executive Officer (CEO); an appointed public member, and the ex-officio (non-voting) elected Treasurer Tax-Collector.</p> <p><b>Comment:</b> AOC reviewed its membership and confirmed on March 25, 2009 the effectiveness of its current membership.</p> <p>The County project manager for the external audit is the A-C Manager of Financial Reporting, who is not a member of the AOC.</p>	<p>BOS 1995 Resolution No. 95-271 establishing the AOC.</p> <p>AOC Bylaws Lines 16-18</p> <p>Contract with VTD from BOS 5/20/08 minutes</p>

<sup>10</sup> Sarbanes-Oxley Act, Section 407.



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		<p>The BOS members on the AOC are the current year's BOS Chair and Vice-Chair. <b>The Board Chair and Vice Chair are elected by the BOS Members on an annual basis.</b></p> <p><b>Terms of the AOC Chair and Vice-Chair positions are for one year and may be extended for one additional year by a favorable majority vote by committee members.</b></p>	<p>Orange County Board of Supervisors Rules of Procedure, Chapter 3, Rule 8</p> <p>AOC Bylaws Rule 5</p> <p>IAD Audit Report 2807-13 Checklist #4</p>
9	<p>An audit committee should have sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation. As a general rule, the minimum membership of the committee should be no fewer than three;<sup>11</sup> [Q16]</p>	<p>The membership of the AOC was approved by Board action on 12/17/02, #102B and consists of the following: the Chairman and Vice-Chairman of the Board of Supervisors (BOS), the Auditor-Controller (A-C), the County Executive Officer (CEO), the Treasurer-Tax Collector as Ex-Officio (non-voting) Member, and one member from the private sector appointed by the BOS.</p>	<p>BOS 1995 Resolution No. 95-271 establishing the AOC.</p> <p>IAD Audit Report 2807-13 Checklist #3</p>
10	<p>Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism; [Q11]</p> <p>[Q11]: Terms should be staggered so that there is always at least one experienced member on the committee; because new members need training, multi-year terms can reduce costs and time requirements of new members.</p>	<p>The scope of the AOC responsibilities is stated in Rule 1 and Rule 12 of the AOC Bylaws.</p> <p>The IAD provides its own orientation to new committee members.</p> <p><b>The education of AOC members is not explicitly stated in the AOC Bylaws. Currently the AOC, CEO, and A-C do not provide a formal, standardized orientation to new AOC members.</b></p>	<p>AOC Bylaws Rule 1 and 12</p> <p>IAD Audit Report 2807-13 Observation 8 Report Recommendation 8</p>
11	<p>It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors;<sup>12</sup> [Q19], [Q25], [Q26]</p> <p>[Q19] Includes: Determining the appropriate scope of the</p>	<p>The AOC Bylaws Rule 12.b states that the AOC is: "To oversee the quality of financial reporting activities which portray the County's financial condition, results of operations, and plans and long-term commitments, primarily through oversight of the public accounting firm providing the external audit coverage of the County's</p>	<p>AOC Bylaws Rule 12.b</p>

<sup>11</sup> In certain limited instances, as noted later, the audit committee will need to meet privately to achieve its goals. If the audit committee constitutes a majority of the governing body, such private meetings may be hampered by "sunshine" laws and similar "open meetings" legislation.

<sup>12</sup> SEC Regulation 330-8220, "Background and Overview."

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<p><i>independent auditor; Determining the appropriate scope of "non-audit" services to be performed by the independent auditor; managing the audit procurement process; selecting the independent auditors; reviewing the financial statements; reviewing the independent auditor's reports; reviewing the comprehensive framework of internal control; assessing the performance of the independent auditors; and providing an independent forum for internal auditors to report findings of management fraud, abuse or control override.</i></p> <p><i>[Q25] Discusses the external auditor selection process.</i></p> <p><i>[Q26] Review of the financial statements includes review of the accounting policies used by management (does the AOC discuss which is the best financial reporting in the government's particular circumstances); accruals and estimates; audit adjustments; disagreements between the external auditor and management; consultation with other accountants; difficulties encountered in performing the audit; and fiscal situations.</i></p> <p><b>AICPA 16. Review with the independent auditors and the CAE:</b></p> <ul style="list-style-type: none"> <li>• Any related significant findings and recommendations of the independent auditors and internal auditors together with management's responses thereto</li> </ul> <p><b>AICPA 20: Review with management and the independent auditors:</b></p> <ul style="list-style-type: none"> <li>• The government organization's annual financial statements, related footnotes, and management's discussion and analysis.</li> <li>• The independent auditors' audit of the financial statements and their report thereon.</li> <li>• The independent auditors' judgments about the quality, not just the acceptability, of the government organization's accounting principles as applied in its</li> </ul>	<p>consolidated financial statements."</p> <p>The AOC either evaluates and recommends or has responsibility for hiring and monitoring the External Auditor as evidenced by the AOC Agendas and Minutes.</p> <p><b>Although AOC Bylaws mention oversight of the external audit firm, the AOC's authority to select and evaluate the External Auditor is not explicitly stated in an AOC Charter or in the AOC Bylaws.</b></p> <p>The external auditors and AOC held two SAS 114 communication meetings for the 2008 CAFR. The meetings included contract deliverables, their requirements for GAGAS, review of internal controls, and audit adjustments.</p> <p>The AOC reviews internal audit reports. The AOC reviews the Orange County Hotline semiannual activity reports prepared by the IAD.</p> <p>[Q25] The AOC follows County Procurement Policy.</p> <p>[Q26] The AOC does not review accounting policies for the financial statements. The AOC has had limited discussions of which is the best financial reporting for specific instances such as the SIV reporting and Edison Credit Watch issue. AOC meeting minutes on February 28, 2008, May 29, 2008, September 17, 2008, December 11, 2008 and March 25, 2009 show that the AOC wants to be informed of the Treasurer's investment pool, especially with the structured investment vehicles in the pool and the current economic decline.</p>	<p>AOC Minutes on September 17, 2008 and March 25, 2009</p>



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<p>financial reporting.</p> <ul style="list-style-type: none"> <li>• The independent auditors' single audit of the federal awards administered by the government organization and their reports thereon.</li> <li>• Any significant changes required in the independent auditors' audit plan.</li> <li>• Any serious difficulties or disputes with management encountered during the audit.</li> <li>• Matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, Communication With Audit Committees (AICPA, Professional Standards, vol. 1, AU sec. 380), as amended; U.S. Government Accountability Office's Government Auditing Standards; and the U.S. Office of Management and Budget's Circular A-133 related to the conduct of the audits</li> </ul> <p>AICPA 17. Review with management and the independent auditor the effect of any regulatory and accounting initiatives, such as related organizations financing structures, derivatives, or securities lending.</p> <p>AICPA 18. Review with the independent auditor that performs the financial statement audit:</p> <ul style="list-style-type: none"> <li>• All critical accounting policies and practices used by the government organization</li> <li>• All alternative treatments of financial information within generally accepted accounting principles that have been discussed with the government organization's management, the ramifications of each alternative, and the treatment preferred by the government organization.</li> </ul>		
<p>12 [Q20] Lists three specific government financial statement audit issues that need to be addressed by local governments: Use of appropriate auditing standards; selection of "opinion units;" and determining the applicability of the "Single Audit."</p>	<p>In the contract with the external auditors, VTD, the examination of the financial statements shall be of the financial type described in the Government Auditing Standards for financial statements for FY 2007-08 (also AICPA Auditing and Accounting Guide) and the January 2007 Revision of the Government Auditing Standards for FY 2008-09 and subsequent years.</p>	<p>Contract with VTD from BOS May 20, 2008 minutes</p>

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		Single Audits are included in the contract with the external auditors.	
13	<p><i>[Q19] [Q21] Specifies that the audit committee should approve non-audit work to be conducted by the independent auditors.</i></p> <p><b>AICPA 11: Consider, with management, the rationale for employing audit firms other than the principal independent auditors for services that the government organization or the independent auditor determine would not be appropriate for the principal independent auditor to perform.</b></p>	<p>The AOC is not involved in determining scope of non-audit services performed by the external auditors.</p>	
14	<p><i>[Q27] Discusses the various audit reports and follow-up responsibilities.</i></p>	<p>The AOC Bylaws Rule 12.b states that the AOC is: "To oversee the quality of financial reporting activities which portray the County's financial condition, results of operations, and plans and long-term commitments, primarily through oversight of the public accounting firm providing the external audit coverage of the County's consolidated financial statements. In addition, the Committee shall review audit results of County programs for which the Board has responsibility."</p> <p>The contract with the external auditor also includes a requirement to submit a management letter in accordance with GAAS.</p> <p>The AOC reviews the status of the IAD audits and follow up audits listed on IAD status reports.</p>	<p>AOC Bylaws Rule 12.b</p> <p>AOC Minutes on September 17, 2008 and March 25, 2009</p> <p>Contract with VTD</p> <p>AOC Agendas</p>
15	<p><i>[Q28] Discusses the responsibilities for reviewing the comprehensive framework of internal control. The audit committee should consider a number of factors: Findings of the independent auditors; Audit adjustments; Work of internal auditors; Code of conduct; Management's involvement with internal control; Special control</i></p>	<p>AOC Bylaw 12.a states the scope of the AOC is "to oversee the establishment and maintenance of the County's internal control structure primarily through oversight of the activities of the Internal Audit Department."</p>	<p>AOC Bylaws Rule 12.a</p> <p>IAD Audit Report 2807-13 Checklist #38</p>

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	<p><i>challenges; Complaints; and Pending accounting and regulatory changes.</i></p> <p><b>AICPA 12.</b> Inquire of management, the CAE, and the independent auditors about significant risks or exposures facing the government organization; assess the steps management has taken or proposes to take to minimize such risks to the government organization; and periodically review compliance with such steps.</p> <p><b>AICPA 16.</b> Review with the independent auditors and the CAE:</p> <ul style="list-style-type: none"> <li>• The adequacy of the government organization’s internal controls including computerized information system controls and security.</li> </ul>	<p>The AOC reviews internal audit reports, the audit risk assessment, Employee Fraud Hotline report, and the external auditor’s audit report and management letter.</p> <p>Although the AOC currently reviews many of the factors that should be considered in a comprehensive framework of internal control, there have been no discussions concerning responsibility for reviewing the comprehensive framework of internal control.</p>	
16	<p><i>[Q29] Discusses the responsibility for assessing the performance of independent auditors.</i></p> <p><b>AICPA 25.</b> The audit committee should evaluate the independent auditors and internal auditors.</p>	<p>The AOC does not assess the quality of the work performed by the external auditors.</p>	<p>IAD Audit Report 2807-13 Checklist #14 Report Recommendation 7</p>
17	<p><b>The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans; [Q18]</b></p> <p><b>AICPA 13.</b> Review with the independent auditor, the controller/finance director of the government organization, and the CAE, the audit scope and plan of the internal auditors and the independent auditors. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.</p> <p><b>AICPA 14.</b> Review with management and the CAE:</p> <ul style="list-style-type: none"> <li>• Significant findings on internal audits during the year and management’s responses thereto</li> <li>• Any difficulties the internal audit team encountered in</li> </ul>	<p>AOC Administrative Procedure #1 states Internal Audit Department’s “final report will be filled with each member of the AOC.”</p> <p>The original BOS resolution creating the IAD and establishing the AOC delegates to the AOC responsibility to review and approve the Annual Audit Plan. Each year this is included on the AOC agenda and all relevant comments and approval are documented in the AOC minutes. After the Annual Audit Plan is approved by the AOC, it is included in a Monthly Audit Activities Status Report and presented to the Board at a regular Board meeting.</p> <p>The external auditors conduct SAS 114 meetings with the AOC. The SAS 114 meetings do include discussions</p>	<p>AOC Administrative Procedure #1</p> <p>BOS 1995 Resolution No. 95-271 establishing the AOC.</p> <p>IAD Audit Report 2807-13 Checklist #23</p> <p>AOC Minutes on September 17, 2008 and March 25, 2009</p>



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<p>the course of their audits, including any restrictions on the scope of their work or access to required information</p> <ul style="list-style-type: none"> <li>• Any changes required in the scope of their internal audits</li> <li>• The internal audit department budget and staffing</li> <li>• The internal audit department charter</li> <li>• The internal audit department's compliance with applicable standards (for example, Government Auditing Standards, or the Institute of Internal Auditors' (IIA's) Standards for the Professional Practice of Internal Auditing)</li> </ul>	<p>of the audit adjustments and their experiences with management.</p> <p>The AOC reviews copies of internal audit reports.</p>	
<p><i>[Q31]: The audit committee should meet at least quarterly.</i> <i>[Q32]: Certain discussions should not be held in public.</i></p> <p>AICPA 4. The audit committee should meet at least four times per year, and at additional times when necessary.</p> <p>AICPA 5. Conduct executive sessions with the independent auditors, chief executive officer (CEO), chief financial officer (CFO), chief audit executive/internal auditor (CAE), general counsel, outside counsel, director of financial reporting, controller, and anyone else as desired by the committee.</p>	<p>AOC Bylaws Rule 9 states "At a minimum, the Committee will meet on a quarterly basis. All meetings will be subject to the Ralph M. Brown Act. Whenever possible, quarterly meetings will be prescheduled at the beginning of each year to ensure attendance."</p> <p>AOC Bylaws Rule 10 states "County staff will keep minutes of each meeting and offer them for Committee approval as the first item on the subsequent meeting agenda. Whenever possible, such minutes will be distributed to Committee members in draft form within a reasonable time after the meeting and in advance of the subsequent meeting."</p> <p>As allowed by Brown Act California law restricts elected officials' ability to meet as a governing body outside the public viewing. As such, the AOC complies with the Brown Act regarding the holding of private meetings under the advisement of County Counsel. However, all county officers may meet individually with AOC members (up to two in attendance at a time) to privately brief them on any issues related to their duties.</p>	<p>AOC Bylaws Rule 9</p> <p>AOC Bylaws Rule 10</p> <p>IAD Audit Report 2807-13 Checklist #18</p>
<p>18 The audit committee should present annually to the full governing body a written report of how it has discharged</p>	<p>AOC Bylaws Rule 12.f states the scope of the AOC includes "presenting a summary of Committee activities</p>	<p>AOC Bylaws Rule 12.f</p>

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<p>its duties and met its responsibilities. It is further recommended that this report be made public and be accompanied by the audit committee's charter or other establishing document. [Q33]</p> <p>[Q33] In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private, and privately among committee members, and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations.</p> <p><b>AICPA 26. The audit committee should review its effectiveness.</b></p>	<p>and significant audit results to the Board through the distribution of the quarterly meeting material distribution packages." The annual report submitted to the BOS from IAD confirms that the AOC met quarterly includes a list of IAD activity reports provided to the AOC.</p> <p><b>The AOC does not present a formal annual report to the BOS.</b></p>	<p>Annual OC Internal Auditor Report</p> <p>IAD Audit Report 2807-13 Checklist #10 Report Recommendation 4</p>
<p>19 The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters.<sup>13</sup> [Q30]</p> <p>[Q30] "...it is important that internal auditors be provided some practical means of dealing with indications of management fraud, abuse, or control override. Specifically, the audit committee should have clear procedures in place that allow internal auditors to approach the committee directly in all such matters."</p> <p><b>AICPA 23. Review the procedures for the receipt, retention, and treatment of complaints received by the government organization regarding accounting, internal accounting controls, auditing matters, or suspected fraud</b></p>	<p>The IAD oversees the County-wide Hotline for Waste, Fraud and Abuse of County Resources. The IAD established a 24/7 hour Hotline phone and web service for county employees and citizens and provides the AOC with semiannual Hotline Activity Reports.</p> <p>AOC Bylaws Rule 12.e states the AOC is "to immediately notify the Board (of Supervisors) in writing should the Committee determine any significant or material irregularity exists in County operations."</p> <p><b>The AOC does not have procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters.</b></p>	<p>AOC Bylaws Rule 12.e</p> <p>IAD Audit Report 2807-13 Checklist #36</p>

<sup>13</sup> Sarbanes Oxley Act, Section 301.

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<p>that may be submitted by any party internal or external to the organization. Review any complaints that might have been received, current status, and resolution if one has been reached.</p> <p>AICPA 24. Review procedures for the confidential, anonymous submission by the government organization's employees of concerns regarding questionable accounting or auditing matters, or suspected fraud. Review any submissions that have been received, the current status, and the resolution if one has been reached.</p>		
<p>20 The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls<sup>14</sup>; [Q30]</p>	<p>The monitoring of senior management is not explicitly stated in the AOC Bylaws.</p>	
<p>21 The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as necessary to fulfill its responsibilities<sup>15</sup>; [Q14]</p> <p>[Q14] The audit committee should have the budgetary authority to obtain the services of a financial expert (as discussed earlier), legal counsel, and other appropriate specialists, as needed.</p>	<p>The AOC may request from the BOS the approval to contract with any outside services, or consultants as they believe warranted. The AOC does not have a budget and is dependent upon funding from the BOS. Any request for services is subject to the same approval requirements as any County department. Expenditures have been made through the CEO, A-C and IAD budget as directed by the AOC and authorized by the BOS.</p> <p>Although the Board of Supervisors has provided needed funding in the past, the AOC does not have its own funding.</p>	<p>IAD Audit Report 2807-13 Checklist #8 Report Recommendation 3</p>

<sup>14</sup> Internal Control – Integrated Framework: Guidance on Monitoring Internal Control Systems (Discussion Document of the Committee of Sponsoring Organizations—COSO, 2007), page 10.

<sup>15</sup> Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.



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22	<p>In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private,<sup>16</sup> and privately among committee members,<sup>17</sup> and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations. [Q33]</p> <p>[Q33] The GFOA recommends that the audit committee's annual report contain the following assertions:</p> <ul style="list-style-type: none"> <li>• The audit committee has discussed the financial statements with both management and the independent auditors</li> <li>• The audit committee met with the independent auditors separately from management</li> <li>• The audit committee met separately from both management and the independent auditors to arrive at its final conclusions</li> <li>• The audit committee believes the government's financial reporting is adequate (or inadequate).</li> </ul>	<p>The AOC does not present a formal annual report on the County financial statements to the BOS. However, there are two members of the BOS on the AOC.</p> <p>The Brown act prohibits private meetings except for specific exceptions.</p>	
<b>AICPA Objectives Not Included in the GFOA Best Practices Document</b>			
23	<p><b>AICPA 7. Review and concur on the appointment, replacement, reassignment, or dismissal of the CAE.</b>            (Note: some or all of this objective may not apply in those circumstances in which the CAE is an elected official.)            (See the tool "Guidelines for Hiring the Chief Audit Executive" in this toolkit.</p>	<p>The Director of the IAD is appointed, replaced, reassigned, and dismissed by the BOS. Two members of the BOS are on the AOC.</p> <p>The County's Auditor-Controller is an elected official.</p>	

<sup>16</sup> It is important that the audit committee be able to meet privately with the independent auditors, as needed, to ensure a full and candid discussion. Governments are urged to amend "sunshine" laws and similar "open meetings" legislation to permit such encounters in these limited circumstances.

<sup>17</sup> It is important that audit committee members be able to meet privately among themselves, as needed, to ensure a full and candid discussion. Governments are urged to amend "sunshine" laws and similar "open meetings" legislation to permit such an encounter in these limited circumstances.

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24	AICPA 10. Review with management the policies and procedures with respect to the government organization's public officials' and management's use of expense accounts, public monies, and public property, including, for example, their use of the government organization's vehicles. Consider the results of any review of these areas by the internal auditor or the independent auditors.	<p>These policies and procedures are not specifically reviewed with management; however some of these procedures are posted on the County Intranet.</p> <p>The AOC reviews copies of internal audit reports. Types of audits may include Internal Control Audits, Financial Audits &amp; Mandates, Revenue Generating Lease Audits, IT Audits and Other Audit Activities.</p>	
25	AICPA 15. Inquire of the CEO and CFO regarding the fiscal health of the government organization as well as the financial status of the government organization in relation to its adopted budget.	<p>This is not performed by the AOC.</p> <p>The CEO is a member of the AOC. The CEO and CFO report the financial status and budget to the BOS.</p>	
26	AICPA 19. Review all significant written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.	The Management Letter from the external auditors is addressed to the BOS and distributed to the AOC. The March 25, 2009 AOC meeting included VTD's SAS 114 communications. The report to AOC included any corrected or uncorrected misstatements, audit adjustments, and experiences with management.	AOC Minutes on March 25, 2009
27	AICPA 21. Review with the general counsel and the CAE 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.	AOC Bylaws Rule 12.c states the scope of the AOC includes "to oversee and monitor County compliance with pertinent laws and regulations, applicable ethical standards, and conflicts of interest and fraud policies through review of the results of activities of the Internal Audit Department."	AOC Bylaws Rule 12.c
28	<p>AICPA 22. Periodically review the government organization's code of conduct to ensure that it is adequate and up to date.</p> <p>Review with the CAE and the government organization's general counsel the results of their review of compliance monitoring with the code of conduct.</p>	The AOC does not currently review the County's Code of Conduct.	

# OC Audit Oversight Committee

## ATTACHMENT C – AOC Response to Recommendations

8/25/09 Version

	GFOA Recommendation	Current Practice	Source
29	AICPA 25. The audit committee should evaluate the independent auditors and internal auditors. (Note independent auditor evaluation was included in GFOA recommended best practices)	<p>The AOC does not assess the quality of the work performed by the external auditors.</p> <p>AOC Bylaws Rule 12.d states the scope of the AOC includes "to ensure that an external quality control review of the Internal Audit Department be conducted every three years by an organization not affiliated with the internal audit department in accordance with the United States General Accounting Office's Government Auditing Standards."</p>	<p>IAD Audit Report 2807-13 Checklist #14 Report Recommendation 7</p> <p>AOC Bylaws Rule 12.d</p>
30	AICPA 27. Create an agenda for the ensuing year or review and approve the agenda submitted by the CAE.	There is no comprehensive agenda prepared for the upcoming year. Agendas for AOC meetings are prepared one meeting at a time.	

Approved by the GFOA's Executive Board, October 17, 2008.

**AICPA Sources:**

AICPA Government Tool Box: Audit Committee Charter

[http://www.aicpa.org/audcommctr/toolkitsgovt/Audit\\_Committee\\_Charter\\_Matrix.htm](http://www.aicpa.org/audcommctr/toolkitsgovt/Audit_Committee_Charter_Matrix.htm)