

OC Board of Supervisors' 5th District - Patricia Bates  
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2nd District - John Moorlach  
1st District - Janet Nguven

# Internal Audit Department

O R A N G E C O U N T Y  
5<sup>th</sup> Largest County in the USA

## OC INTERNAL AUDIT DEPARTMENT 2010 BUSINESS PLAN

March 19, 2010

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Deputy Director: Eli Littner, CPA  
Senior Audit Manager: Michael Goodwin, CPA  
Senior Audit Manager: Alan Marcum, CPA  
Senior Audit Manager: Autumn McKinney, CPA



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year

2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach



*Providing Facts and Perspectives Countywide*



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# OC INTERNAL AUDIT DEPARTMENT 2010 BUSINESS PLAN

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## EXECUTIVE SUMMARY

The OC Internal Audit Department (IAD) provides a variety of audit services to its primary client, the **Board of Supervisors**. The Board members share the elected responsibility and accountability for the financial stewardship of the County. Another important recipient of our audit services is County executive management, which includes both elected and appointed department heads. The department heads working together with the CEO have the responsibility for the day-to-day fiscal and programmatic operation of County departments and agencies. In addition, our published audit reports are public information and are available on the Internet. Our audit reports are read by various federal and state regulatory agencies, the Orange County Grand Jury, the media, the investment community, and the public at large.

### Mission Statement:

The mission of the OC Internal Audit Department is to provide reliable, independent, objective evaluations of internal controls, and business and financial advisory services to the Board of Supervisors and County executive management. Our role is to assist both parties with their important business and financial decisions; as well as, to contribute to protecting and safeguarding the County's resources and assets.

### Goals:

The Internal Audit Department has two fundamental strategic goals. They are:

1. We assist the Board of Supervisors and County executive management in ensuring the County's assets and resources are safeguarded, the County's accounting and financial reporting is timely and accurate, and the County's executive management has timely, accurate and complete information and relevant analysis for its business and financial decisions.
2. We maintain integrity, objectivity, and independence to provide professional internal audits, assurance and attestation services, and corrective recommendations to our clientele. We report on the County's internal controls, accounting records, and core financial and business operations through our publicly available audit reports and reviews.

We incorporate these Business Plan goals and the County's vision and mission into our annual Audit Plan as well. Our Audit Plan is submitted, discussed, and approved each fiscal year by the **Audit Oversight Committee** (AOC). At the same time, we plan enough flexibility into our annual Audit Plan to respond timely to the Board of Supervisors' requests for audit services.

We support and assist the Board of Supervisors and County executive management in the accomplishment of their strategic business goals and objectives. Our contribution to this effort is testing and reporting on their internal control systems and processes.



### **Responsibility for Controls:**

County executive management is responsible for establishing and maintaining internal control processes because they must rely on these systems and processes in managing their complex organizations. These systems and processes are used for safeguarding the County's assets and resources for reasonable, prudent, and effective financial stewardship, and for accurate recording and reporting.

The IAD is recognized for our internal control expertise. We apply our expertise in assisting County executive management in enhancing business processes and constantly improving and strengthening the internal control environment the public expects, relies upon, and demands of its government.

### **Continuous Learning and Improvement:**

We are committed to a process of continuous learning and improvements within our department. We keep ourselves updated on relevant issues in business and industry with regard to accounting trends and any developing financial best practices. Such constant renewal keeps the IAD and its staff professionally current, refreshed, invigorated, and responsive to the County's needs for attestation, compliance assurance, accountability testing, and business improvement. We assist management in helping to implement best business practices with regard to internal controls, accounting systems, and business processes. As part of our improvement process, we distribute a customer survey with each of our audit reports to allow customer evaluation and feedback.

### **Adherence to Professional Standards:**

To meet our clients' expectations for integrity, objectivity, and independence and for us to function effectively with consistent reliability and credibility, the

IAD applies professional auditing standards to all audit engagements. This allows us to ensure audits and assessments of County operations are always informative, balanced, accurate, and objective. Where required, the IAD follows the ethical and professional standards promulgated by the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Government Accountability Office (GAO).

### **Validation of IAD's Work Quality:**

The quality of IAD operations is regularly and independently assured by rigorous Peer Reviews. A Peer Review, as required by Government Code and the audit profession, assesses an audit department's adherence to over 150 professional audit standards. The OC Internal Audit Department was given the best rating possible by its independent Peer Reviewers for all four reviews in the past six years; the last in 2007. The next Peer Review is planned for 2010. As further validation of our department's commitment to quality, we received the IIA's "Award for Excellence" in 2005.

Our Business Plan strategic goals are consistent with our annual Audit Plan because our role within Orange County is limited and well-defined. Our annual Business Plan is reviewed by the CEO's Office and our annual *Audit Plan and Risk Assessment* is submitted, discussed and approved each fiscal year by the Audit Oversight Committee (AOC) and presented to the Board of Supervisors (BOS). Our annual Audit Plan is challenging to complete, but it does include some flexibility to be responsive to the Board of Supervisors who can request audit services by majority vote. We have hours reserved for this purpose.



### **Traditional “Hard Control” Audits:**

Our Audit Plan has, as its core, the traditional internal audits of “hard-control areas” such as segregation of duties, limiting access to cash and assets, and accurate accounting entries and transactions. Examples of such traditional audits in our Audit Plan include those audit categories identified as Financial Audits and Mandates (FAM), Internal Control Audits (ICA), Information Technology Audits (IT) and Revenue Generating Lease Audits (RGL).

These reports contain opinions regarding the status of internal controls or the County’s compliance with grant, lease or other governing provisions. Our reports often include recommendations to management regarding improvements to specific accounting processes and internal controls, in order to enhance or strengthen them.

### **Business Process Efficiency and Effectiveness:**

We include steps in our audits for testing the efficiency and effectiveness of financial processes and operations relating to their internal controls. Our reports, where applicable, contain recommendations related to efficiency and effectiveness enhancements, such as eliminating redundancies and nonessential processes.

### **Audit Follow-Up Process:**

The audit recommendation follow-up process is a robust and highly successful process. We conduct up to two (2) Follow-Up Audits to ensure our audit recommendations are satisfactorily implemented. Based on our Follow-Up Audits, we can state that County management substantially implements our recommendations on a timely basis. We attribute this level of management cooperation to the supportive partnership we have created with County management.

### **Key Outcome Measures:**

For FY 2008-09, we successfully met our two key outcome measures. Our audit efforts and the diligence and responsiveness of County management contributed to the achievement of these measures. Our two key outcome measures were successful last year because:

1. Overall, IAD received an average rating of **4.7 out of 5** by the customer in our customer satisfaction surveys.
2. County management concurred with 100% of our audit recommendations.

## SECTION I – AGENCY OVERVIEW

### VISION, MISSION AND CORE SERVICES

#### VISION

Our vision is to maintain the highest levels of integrity, objectivity, and independence in all our audits and audit reports.

#### MISSION

The mission of the OC Internal Audit Department is to provide reliable, independent, objective evaluations of internal controls, and business and financial advisory services to the Board of Supervisors and County executive management. Our role is to assist both parties with their important business and financial decisions; as well as, to contribute to protecting and safeguarding the County's resources and assets.

#### CORE SERVICES

Our contribution to the County's overall vision and mission is testing and reporting on the effectiveness of internal control systems and processes. County executive management relies on these systems and processes for:

- safeguarding the County's assets and resources,
- reasonable, prudent, and effective financial stewardship,
- accurate recording and reporting, and
- achieving the County's stated goals and objectives.

Each year we develop a Audit Plan based on an annual Countywide Risk Assessment which includes periodic, personalized contact with executive management of selected County departments to identify high-risk areas in their respective department or agency. We determine part of our annual audit coverage based on the results of the risk assessments.

We provide assessments of critical business functions by conducting Internal Control Audits, Information Technology Audits and Revenue Generating Lease Audits. We complete all audits mandated by State law, as well as any audits required by the provisions of contracts and grants.

We follow up on all audit recommendations until every recommendation is satisfactorily implemented or remediated.

We now have an Information Technology (IT) audit team that conducts Information Technology Audits and provides technical assistance and consulting on County system implementations. We formerly contracted out for these specialized audit services, but now have the subject matter expertise in our department. We rely on this professional expertise to extend, complement and train our audit staff on IT issues, and to provide County departments with valuable IT insights and assistance.

## SECTION II – OPERATIONAL PLAN

### A. ENVIRONMENT

#### CLIENTS

The OC Internal Audit Department reports directly to the **Board of Supervisors**, our primary client. The Board of Supervisors share in the elected responsibility and accountability for financial stewardship of the County. As a direct report to the Board, the Director of Internal Audit submits to the Board (in public forum) a monthly summary of all audit reports issued for the prior month. This formal communication to the Board allows for more detailed discussions of audit reports and issues in the public setting. The heightened level of exposure ensures the transparency of the audit process.

Another important recipient of our audit services is County executive management. County executive management has the sole obligation and responsibility for establishing and maintaining the County's systems of internal control. ***Our work provides County executive management with professional and independent validation and feedback on how well their internal controls are working.*** We make recommendations on how to improve their internal controls.

The support role played by internal auditing within any organization is expressed well by the following authoritative definition from the Institute of Internal Auditors:

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

The environment of County government is different from that of a typical commercial organization in a number of ways. Although in size of operations the County business environment is similar to large commercial firms, the business diversity of the County is much more complex given our mandated and directed responsibilities. County executive management also has a public stewardship responsibility where all activities and reports have a concerned public audience as fund providers, recipients, and participants in this process.

An important factor as to why the IAD functions so well is our ***organizational independence*** from the business units we audit within the County. Functional independence allows us to be forthright and candid in reporting findings and making recommendations resulting from our audits. Our audit reports are filed with the Clerk of the Board and made part of the public record. Monthly Summary Reports submitted to the Board present and summarize the audit activity. Our audit reports are also available on the Internet in order to further promote the public expectation of transparency and information availability in government.

We follow ***rigid professional ethics and specific quality and performance standards*** in conducting our work. We benchmark with other California counties and the Sarbanes-Oxley Act to obtain best business practices information which may be applicable to the County. Consequently, any reader or user of our published reports is the recipient of a best practice, quality-assured product and is able to rely on our opinions and conclusions.

The readers and users of our reports include the Board of Supervisors, County executive management, the general public, the media and news organizations, the investment community, third party grantors who use our audits for compliance assurance, and external auditors who use our reports in assessing internal controls and financial statement information.

We have included in *Appendix D* further history of the uniqueness of the Orange County Internal Audit Department and how it became an independent department, as well as further detail on the importance of organizational internal controls and professional standards.

In addition, we report quarterly to the Audit Oversight Committee (AOC), which is an advisory committee of the Board of Supervisors. The AOC provides executive oversight and guidance to the internal audit function. The membership of the committee includes the Chair and Vice-Chair of the Board of Supervisors, the Auditor-Controller, the County Executive Officer, a public member appointed by the Board, and the Treasurer Tax-Collector as an ex-officio (non-voting) member. We meet, discuss, and report our progress on the Audit Plan to the AOC on a quarterly basis and more often if issues or events require it. In addition, we compile and report to the AOC quarterly regarding all the audits of the County's programs conducted by external or third-party auditors (such as state and federal auditors). We also review these external audits to ensure we do not duplicate them in our work.

## **CHALLENGES**

No business environment is without challenges and the strength of any organization is its ability to meet challenges head-on and develop appropriate strategies and solutions for dealing with them. We have designed our annual Audit Plan to include variety and flexibility. We recognize that scheduling conflicts or higher priorities arise during the year and we respond to these factors by providing proposals to the AOC for alternative projects. Once reviewed by the AOC, these projects and revised audit budgets become our "new" priorities.

Additionally, we have faced three constant challenges each and every year:

1. Dynamic Financial Environment of the County: This includes managing decreased revenues caused by State deficits or economic conditions beyond our control. Such an environment requires flexibility in the annual Audit Plan. As part of the flexibility in the Audit Plan, the IAD must also be ready to respond to unscheduled assignments from the Board of Supervisors' majority. We estimate hours required for Board of Supervisors' requested reviews based on history and reserve hours in the Audit Plan specifically for this purpose.

2. Staff Retention/Replacement/Reductions: Because the IAD is a small department, each of our staff is significant to the accomplishment of the annual Audit Plan.

For FY 2009-10, IAD's Net County Cost (NCC) was reduced by 9%. We met the 9% reduction in several ways including a 60% reduction to our services and supplies budget (\$387,201 to \$153,724) and not filling 3 vacant positions. In the First Quarter Budget Report (QBAR), 2 of the 3 vacant positions were deleted. The net impact is a 15% staffing loss (1+2 = 3 of 20 positions).

Additionally, another 5% midyear NCC reduction was imposed by the CEO. As such, we implemented a voluntary and mandatory furlough program resulting in the equivalent of a further one (1) FTE position loss and a cumulative position loss of 20% (4 of 20 positions) for FY 2009-10.

The 20% effective staffing reduction severely reduces the amount of audit services provided and increases internal control risks. We anticipate audit needs will actually be greater in the next few years due to new County IT systems/processes (discussed below in C.) and the financial conditions of the County. During these most difficult times where Countywide staffing is being reduced, the risk that controls may lapse increases. Because of budget constraints, the inherent risk of misappropriations and irregularities is elevated.

Further budget cuts are projected for FY 2010-11 and subsequent years. We understand that the budget constraints are Countywide and not limited to the IAD. We will reduce appropriately to operate within the budget allocated and will continue to perform quality audits that conform to professional auditing standards.

3. Information Technology (IT) Issues: The pace of technological advancement and the benefits to be realized by implementing these advances to improve County business operations is increasing at an accelerating speed. As such, Information Technology (IT) Audits continue to be an important part of our audit efforts.

- IT Audit Resources: In 2002, the IAD implemented an IT audit process to complement the Internal Control Review (ICR) audits. In 2008, we hired an experienced IT Auditor to perform IT audits. We also continue to perform monthly the computer-assisted audit technique (CAAT) routines.
- New County IT Systems/Processes: Countywide financial processes have changed with the implementation of the CAPS+ Financial system on July 1, 2009. Our audit coverage will require greater focus on these new processes. Additionally, there are several other key systems being implemented as well in the next few years (such as CAPS+ HR/Payroll, PTMS, PA/PG's ePages, HCA's Cerner Upgrade, etc.) that will result in increased audit needs.

## **RESOURCES**

The IAD does not have the flexibility to manage decreases to our budget without directly affecting our level of service. Reductions in budget result directly in reductions to our staff and consequently to the services we provide. This translates into a reduction in the number and scope of our audits. Additionally as a General Fund department, almost 100% of our costs are considered Net County Cost. The IAD has limited opportunities of generating revenue for ourselves or being reimbursed for our work. What we can save on our annual budget is minimal, and the only way we can truly reduce costs is to eliminate staff. We also have limited flexibility because over 94% of our costs are salary and personnel related. The balance of our budget (about 6%) is spent on necessary operating expenses.

## **B. ACTION PLAN**

### **STRATEGIC GOALS**

Internal Audit has two fundamental strategic goals. They are:

1. We assist the Board of Supervisors and County executive management in ensuring the County's assets and resources are safeguarded, the County's accounting and financial reporting is timely and accurate, and the County's executive management has timely, accurate, and complete information and relevant analysis for its business and financial decisions.
2. We maintain integrity, objectivity, and independence to provide professional internal audits, assurance and attestation services, and suggested corrective recommendations to our clientele. We report on the County's internal controls, accounting records, and core financial and business operations through our publicly available audit reports and reviews.

We incorporate these Business Plan goals into our annual Audit Plan as well. Our Audit Plan is submitted, discussed, and approved each fiscal year by the Audit Oversight Committee (AOC). At the same time, we plan enough flexibility into the Audit Plan to respond to the Board of Supervisors' requests for audit services.

### **STRATEGIES TO ACCOMPLISH GOALS**

We support and assist County management and their business goals and objectives. Our contribution is testing and reporting on the effectiveness of their internal control systems and processes as these relate to safeguarding the County's assets and resources, prudent and reasonable financial stewardship, accurate recording and reporting, and achieving the County's goals and objectives. We made the following commitments to accomplish each of our Business Plan goals and our Audit Plan coverage for fiscal year 09-10:

- Develop and conduct an annual Audit Plan based on a comprehensive annual Risk Assessment that includes periodic personalized contact with the executive management of selected county departments to identify high risk areas in their respective department or agency.
- Complete mandated audits, as well as any audits required by the provisions of contracts and grants, within required timeframes.
- Provide assessments of critical business functions by conducting Internal Control Audits, Information Technology Audits, Revenue Generating Lease Audits, and making recommendations to improve controls, processes, efficiency and effectiveness.
- Follow-up on all audit recommendations until every recommendation is satisfactorily implemented or remediated.
- Keep the Board of Supervisors, AOC, and County executive management informed of audit issues. Submit monthly audit activity summary reports to the Board of Supervisors.
- Follow a recognized internal control framework (COSO).
- Follow professional standards issued by the IIA, GAO, AICPA, and ISACA, as applicable.
- Instruct and train County executive managers on their ownership of and their responsibility for maintaining effective internal controls.
- Develop and train audit staff and help them acquire and maintain their professional certifications.
- Apply EMAP, P4P, PIP and all training as directed by the CEO or County HR.

Because our activities are focused and integrated into the annual Audit Plan, we did not separate the activities and match them to either of the two goals because all our activities support both objectives.

The following tables summarize both our Key Performance Measures (Measures and Reporting) and our Performance Measure Strategies Employed.

**KEY PERFORMANCE MEASURES (MEASURES AND REPORTING)**

<b>Performance Measure:</b>				
<b>Client Satisfaction</b>				
<p><b>What:</b> Customer satisfaction surveys measure the value of our audit services and report products.</p> <p><b>Why:</b> The customer satisfaction survey provides feedback regarding auditors' professionalism, timely communications, partnering, technical knowledge, and whether recommendations were practical and reasonable.</p>				
<b>FY 08-09 Results</b>	<b>FY 08-09 Plan</b>	<b>FY 09-10 Anticipated Results</b>	<b>FY 09-10 Plan</b>	<b>How are we doing?</b>
Overall, IAD received an average rating of 4.7 out of 5 in our customer satisfaction surveys.	Achieve an average rating of 3.0 out of 5 in our customer satisfaction surveys.	We anticipate achieving an average rating of 4.0 or more in our customer satisfaction surveys.	Achieve an average rating of 3.0 or more in our customer surveys.	We continue to receive high ratings of our services, and we use these surveys to improve our audit processes.

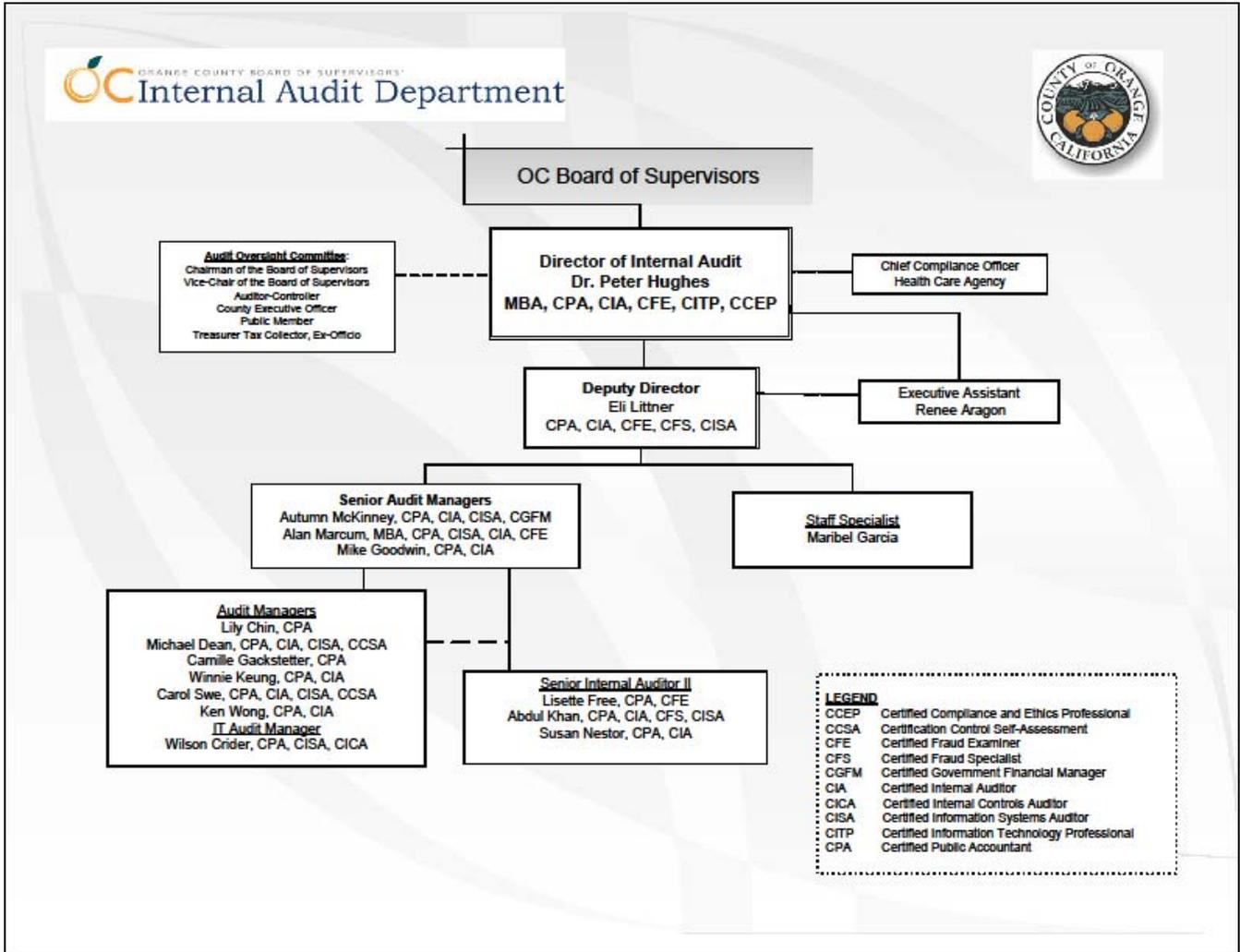
<b>Performance Measure:</b>				
<b>Usefulness of Reports</b>				
<p><b>What:</b> Management concurrence with audit recommendations measures the usefulness of our report product.</p> <p><b>Why:</b> Management concurrence with audit recommendations assures the validity and reasonableness of our report product.</p>				
<b>FY 08-09 Results</b>	<b>FY 08-09 Plan</b>	<b>FY 09-10 Anticipated Results</b>	<b>FY 09-10 Plan</b>	<b>How are we doing?</b>
Management either fully concurred or partially concurred with 100% of audit recommendations	Achieve management's full or partial concurrence of 80% or better of audit recommendations	We anticipate achieving management's full or partial concurrence of 90% or better of audit recommendations	Achieve management's full or partial concurrence of 80% or better of audit recommendations	We continue to receive management concurrence on a high percentage of audit recommendations

PERFORMANCE MEASURES STRATEGIES EMPLOYED	MEASURES & REPORTING
1. Conduct and or update the annual Risk Assessment as the basis for the annual Audit Plan.	The annual Audit Plan's emphasis and content is agreed-upon and approved by the AOC.
2. Develop an annual Audit Plan and direct audit resources to "higher risk" areas first unless otherwise directed by the Board of Supervisors (BOS) or the Audit Oversight Committee (AOC).	The annual Audit Plan's emphasis and content is agreed upon and approved by the AOC.
3. Apply audit resources in accordance with the annual Audit Plan to complete all mandated audits and grants, and to provide assessments of critical business functions.	Each quarter, IAD will submit a status report to the AOC on our progress in completing the audits on the annual Audit Plan.
4. Follow-Up Audits on all audit findings and recommendations are initiated within six to twelve months of the release date of the final original audit report.	Audit recommendations from all audits will be followed-up. We will conduct the first Follow-Up Audit beginning after 6 months, and then proceed to a second Follow-Up Audit beginning six months after the first follow-up audit report is issued. After that, any unresolved issue is brought to the attention of the AOC.
5. Keep the Board of Supervisors informed of emerging issues as these come to the attention of the IAD, including those not specifically identified through the audit process.	Each member of the Board and/or their staff will be briefed by Director of Internal Audit Dr. Hughes and his staff on audit matters monthly or at their convenience. The Director of Internal Audit will also submit monthly and quarterly reports as part of the Board agenda. Board EA's will be briefed as necessary to increase awareness of audit issues.
6. Provide information to the Board of Supervisors and County management regarding both the adequacy and integrity of key controls over their business systems	<p>a) All audit reports will be distributed to the Board Members, Grand Jury, AOC Members (includes the County Executive Officer), relevant Department Heads, and formally to the Clerk of the Board, pursuant to AOC Administrative Procedure No. 1.</p> <p>b) Each quarter, obtain a status of all third-party or external audit activity from the County departments and agencies. Compile and report the information quarterly to the AOC, including highlighting any material or significant issues, pursuant to AOC Administrative Procedure No. 2.</p>

PERFORMANCE MEASURES STRATEGIES EMPLOYED	MEASURES & REPORTING
	<p>c) All quarterly Audit Oversight Committee meetings will be fully supported by the IAD including: (A) preparation of agendas and minutes, distribution of same and exhibits and documents beforehand, (B) submission of quarterly status reports regarding completion of the Audit Plan and progress of each audit, and (C) briefings as appropriate on audit issues and findings.</p>
<p>7. As required by Government Code Section 1236, complete all audits in compliance with the Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors or by the relevant professional standards. This includes using COSO as the framework for internal control.</p>	<p>a) Each audit assignment will be internally reviewed for compliance with the professional standards and this review will be documented in the audit working papers (using a quality assurance checklist) for every audit completed.</p> <p>b) Every three years, IAD will undergo a Peer Review to obtain independent assurance of our compliance with the IIA standards. In 2001, we underwent a Peer Review that concluded we are in compliance with IIA standards. We completed three further Peer Reviews; two in 2004 and one in 2007. All four concluded the department complied with all professional standards relating to internal audit and in many areas was a model for how an internal audit department should operate. Our next Peer Review is scheduled for 2010.</p>
<p>8. Provide training opportunities and reimbursement to staff for professional development and to meet certification requirements.</p>	<p>Each auditor will complete and document at least 40 hours of continuing professional education.</p>
<p>9. Effectively implement, establish, promote and monitor the Executive Management Appraisal Program (EMAP), Performance for Pay (P4P), Performance Incentive Program (PIP) and all other training as required by the CEO or County HR.</p>	<p>Managers and Supervisors will accomplish this by meeting with staff and the Director of Internal Audit to address PIP and P4P goals and answer questions and concerns. Internal Audit feels this collaborative process will ensure that both the department's goals and objectives and individual goals are consistent.</p>

# SECTION III – APPENDICES

## APPENDIX A - Organizational Chart



## **APPENDIX B – Significant Accomplishments**

### **Achievement of Prior Year Strategic Goals**

We continue to meet our prior year strategic goals of providing assistance to the Board of Supervisors and County management and maintaining our integrity, objectivity, and independence while providing professional internal audits, assurance and attestation services, and suggested corrective recommendations to our clientele.

### **Completion of Annual Audit Plan**

All financial and mandated audits were completed within the mandated timeframe. The FY 2008-2009 Audit Plan was completed at a level of 90% or better.

### **Special Request Audits**

During FY 2008/09, the Internal Audit Department performed the following special request audits/reviews for the Board of Supervisors, Audit Oversight Committee, the County Executive Office, and certain Departments/Agencies:

- ♦ Analysis of the Savings from the Health Insurance Change as Part of the New Retirement Costs
- ♦ Report on Review of Contractual Terms Related to the “Profit and Loss Statements” of two Vendors Utilized by HCA to Provide Inmate Medical Services
- ♦ Analysis of Sheriff-Coroner Disallowed POST Costs
- ♦ Internal Audit Reporting Models for Large U.S. Counties and Cities by Population – Update #1
- ♦ Compliance Audit of Board's Audit Oversight Committee

## **APPENDIX C – Audit Accomplishments**

### **Financial Audits & Mandates**

Financial Audits and Mandates (FAM) are audits that determine whether financial statements are fairly stated in accordance with applicable professional standards. During FY 2008/09, we completed the Tax Redemption Audit for 3 year period ending 6/30/08 of the Treasurer-Tax Collector and four Grant Audits for the District Attorney. Additionally, the IAD was awarded a contract on February 2, 2010 by the Board of Supervisors, based on our proposal to conduct the Annual Treasury Investment Compliance Audit, for periods ending 2009, 2010 and 2011.

### **Internal Control Audits**

Internal Control Audits (ICAs) are the traditional audits of “hard controls” that determine whether controls are in place over critical business processes. During FY 2008/09, we completed ICAs in various departments/agencies covering contract administration and payments, interdepartmental billing process, bi-weekly payroll, and foster care program claiming process.

### **Information Technology Audits**

Information Technology (IT) audits are reviews of controls in a variety of information technology areas including general IT controls, application controls, and system developments. During FY 2008/09, we completed one IT audit (in conjunction with an ICA of OCPW Transportation Billing) and 40 IT projects covering the areas of: CAPS+ Financial implementation assistance (2 reports), PTMS implementation assistance (1 report), CAPS+ HR/Payroll (1 MOU) and Computer Assisted Audit Techniques – CAATS (36). We performed CAATS on a regular basis to analyze payroll and vendor payment data to determine: duplicate vendor payments, employee/vendor address matches, multiple direct payroll deposits, deleted vendors from the Vendor Master List, working retirees in excess of mandated thresholds, and to obtain financial information for our annual Risk Assessment.

### **Revenue Generating Lease Reviews**

Revenue Generating Lease Reviews are audits to determine if lease revenues due to the County are properly calculated, recorded and received. During FY 2008/09, we completed 10 lease revenue reviews in John Wayne Airport, OC Dana Point Harbor Department, OC Public Works, and OC Parks.

### **Follow-Up Audits**

Follow-Up Audits are necessary to ensure that audit recommendations are satisfactorily implemented. During FY 2008/09, we completed 1 FAM follow-up audit, 2 Performance Measure Validations (PMVs) follow-up audits, 17 ICA follow-up audits, and 6 Revenue Generating Lease Review follow-up audits.

### **Fraud Hotline**

The Internal Audit Department established and manages the Orange County Fraud Hotline as part of its on-going fraud detection and prevention effort. The Fraud Hotline is operational 24/7 for employees of the County as well as the general public and vendors. In FY 2008/09, we processed 96 Hotline incidents.

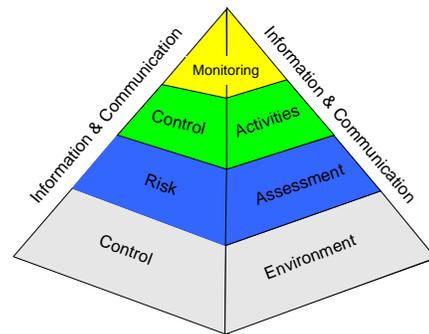
## APPENDIX D – Other Critical Demographics/Service Expectations

### Brief History of the Internal Audit Department after the Orange County Bankruptcy

The OC Internal Audit Department (IAD) was established as a separate independent department and removed from the County Auditor-Controller by Board Resolution 95-271, dated April 25, 1995. The IAD's initial duties were to perform all audits required by Government Code Section 25250 including the biennial audits of County officers. The Auditor-Controller (A-C) contracted with the IAD to perform certain mandated audits on his behalf. As of Fiscal Year 07-08, the IAD no longer performs the mandated audits for the A-C. Rather, the IAD focuses our resources on the areas identified by our annual risk assessment and issues of interest to the Board of Supervisors.

### Auditing County Internal Controls Using a Standard Framework

We perform our services incorporating the nationally recognized Committee of Sponsoring Organizations (COSO) control framework whenever required by the specifics of the mandated financial statement audits. This standardized framework provides definitions and clearly makes organization management responsible for implementing and maintaining internal controls.



### Roles and Responsibilities of Internal Control

Management is solely responsible for establishing and maintaining internal controls in their departments/agencies. This means that management is responsible for identifying the business and operational risks that could prevent them from achieving their business objectives. Management must make sure that appropriate internal controls (policies and procedures) are in place to prevent, detect, and mitigate those risks. Management is also responsible to consistently monitor their internal controls and make sure that controls are still working as originally designed and to determine whether business risks have changed and new internal controls or processes are required.

The internal control elements of the framework are depicted in the above diagram, and are described below:

**Control Environment:** The control environment sets the tone of the organization from the top down. That is one of the primary responsibilities of executive management. The control environment includes the vision of the organization, integrity, strong ethical values, hiring competent personnel, appropriate delegation of authority and responsibility, and developing staff. The control environment is the foundation for the control elements higher in the pyramid.

**Risk Assessment:** Each County department faces a variety of business and operational risks both from external and internal sources. Such risks are assessed in the risk assessment process. This process is the identification and analysis of relevant risks to the achievement of business objectives and forming a basis for determining how the risks should be addressed and managed.

**Control Activities:** Control Activities are the policies and procedures that help ensure that necessary actions are taken to address the identified risks. They include a range of activities such as requiring supervisory approvals, reconciling bank accounts, safeguarding assets, and establishing audit trails.

**Information and Communication:** Correct information must be identified, recorded, and communicated in a form and timeframe that staff can absorb to allow them to fulfill their organizational responsibilities.

**Monitoring:** Internal control systems should be monitored constantly to assess whether controls are still working as designed or whether new controls are needed because the business environment changed. Monitoring involves organization management and supervision, internal and external reviews, and evaluations.

### **Ethical Requirements**

The IAD complies with professional ethical requirements. These include the ethical standards of the County, the rules of ethics promulgated by the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the Information Systems Audit and Control Association (ISACA), and the Government Accountability Office (GAO).

### **Professional Auditing Standards**

The IAD complies with Section 1236 of the California Government Code, which states that all County employees who conduct internal audits “. . . shall utilize the general and specified standards . . . in the publication entitled Standards for the Professional Practice of Internal Auditing (typically referred to as the “Red Book”), published by the Institute of Internal Auditors, Inc.”

For audits requiring an opinion on the fairness of financial statements, the IAD complies with generally accepted auditing standards and generally accepted accounting principles promulgated by the Financial Accounting Standards Board, and governmental generally accepted accounting principles promulgated by the Governmental Accounting Standards Board.

Sometimes regulations or state authorities specify other comparable standards which are applicable for the audit. The IAD complies with their specific direction because none of the professional standards are incompatible with one another. Some examples of such audits are the District Attorney Automobile Insurance Fraud Grant and the District Attorney Workers Compensation Fraud Grant which are conducted in accordance with the Government Accountability Office’s Standards for Audits (typically referred to as the “Yellow Book”).