

Internal Audit Department

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

HISTORICAL ORIGINS OF OC INTERNAL AUDIT DEPARTMENT AS A SEPARATE, INDEPENDENT FUNCTION REPORTING DIRECTLY TO THE BOARD OF SUPERVISORS

This report contains a summary of the historical events pertaining to the establishment of the OC Internal Audit Department as an independent internal audit function reporting directly to the OC Board of Supervisors.

REPORT NO: 2807-6
REPORT DATE: APRIL 16, 2009

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Deputy Director: [Eli Littner, CPA, CIA](#)
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2005 Institute of Internal Auditors' Award for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS
Internal Audit Department

RISK BASED AUDITING

Providing Facts and Perspectives Countywide

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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit

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Letter from Dr. Peter Hughes, CPA



Report No. 2807-6

April 16, 2009

MESSAGE FROM: Dr. Peter Hughes, CPA
County Internal Auditor

SUBJECT: Origins of Orange County Internal Audit
Department

The following information is in response to numerous inquiries regarding the origins of the OC Internal Audit Department as an independent internal audit function reporting directly to the OC Board of Supervisors. In essence, this report summarizes how the OC Board of Supervisors transferred the internal audit function from the elected Auditor-Controller and re-assigned it to themselves as a direct report function.

Please feel free to call me should you wish to discuss any aspect of our report.

PH/ra

Attachments

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OC Internal Auditor's Report



INTERNAL AUDITOR'S REPORT

Report No. 2807-6

April 16, 2009

SUBJECT: Historical Origins of the independent OC Internal Audit Department

PRIOR STRUCTURE

The Orange County Board of Supervisors (Board) adopted in 1982, Resolution 82-162 (see Attachment A) granting the County Auditor the duties of the County's Chief Accounting Officer i.e., Controllership duties. Included in the delegation of duties was that the Auditor was to establish all the accounting policies and practices for the County and to audit such practices. The Resolution also directed the Auditor to establish a County-wide accounting system and to audit the system as the Auditor deemed necessary. Through this resolution the Board of Supervisors combined two formerly independent functions and created the new position titled Auditor-Controller.

In 1985, the Board of Supervisors adopted resolution 85-337 (see Attachment B) which provided that the Auditor-Controller was responsible for developing and maintaining an internal control system county-wide.

INTERNAL AUDIT CHANGES

After the County's bankruptcy in 1994, both the Grand Jury and a Blue Ribbon Commission of highly regarded business experts made several recommendations regarding county governance. The Grand Jury recommended that the Board separate the internal audit function from the Auditor-Controller and instead have it report directly to the Board. The basis for their position was to ensure the independence of the internal audit functions from the direct influence of management.

In response to the Grand Jury recommendations, the Board determined that California Government Code (CGC) Sections 25250, 26881, and 26883 (see Attachments C) authorized Boards of Supervisors to determine both who shall conduct biennial audits of County officers and who shall perform internal audits. Their research concluded that California Boards of Supervisors were vested with the authority to establish a county-wide internal audit department to conduct financial, compliance, and performance audits of all County departments and moreover, to assign this function as they determined.

Audit Highlight

In 1995, the Orange County Board of Supervisors' research indicated that the California Government Code authorized County Supervisors to reassign internal audit responsibilities from the Auditor-Controller to a separate Internal Audit Department reporting directly to the County Supervisors.

OC Internal Auditor's Report



As a result, the Board separated the internal audit function from the County Auditor-Controller through the 1995 adoption of Resolution 95-271 (see Attachment D). This resolution established the Internal Audit Department (IAD) separate and independent of the County Auditor-Controller (A-C) through the powers assigned to the Board of Supervisors under CGC sections 25250, 26881, 26883 and correspondingly supersedes the part of the Board Resolution #82-162 from February 2, 1982 which assigned internal audit responsibilities to the A-C.

Three years later in 1998, the Board sought and obtained unique legislative authorization (see Attachment E - CGC 26915) to direct its Internal Audit Department to also perform two specific audits of the Treasurer (see Attachment F - CGC 26920) and Juvenile Records statutorily assigned (see Attachment G - California Welfare and Institution Code Section 275) to the Auditor-Controller. The 1998 legislation made clear it was not restricting in any way the Auditor-Controller's authority to ensure that these two audits are conducted either by the A-C or a vendor of its choice. Therefore the Auditor-Controller contracted with the Board's Internal Audit Department to conduct those audits until 2004. Additionally, this legislation was not necessary and did not affect the Board's already vested authority to reassign the internal audit function which the Board did three years earlier.

CURRENT ORANGE COUNTY INTERNAL AUDIT DEPARTMENT REPORTING MODEL

In adopting Resolution 95-271, the Board transferred internal auditing responsibilities (as previously assigned in Resolutions 82-162 and 85-337) from the Auditor-Controller to an independent Internal Audit Department reporting directly to the Board of Supervisors. The purpose of the Resolution was "Direct the CEO and the A-C to effect the transfer of internal audit responsibilities and staff from the A-C's office to the Internal Audit Unit" reporting directly to the Board of Supervisors. The justification of the resolution was to ensure the independence and effectiveness of the internal audit function and to make it directly accountable to the highest elected officials with responsibilities for County governance.

EXPLANATION FOR REASSIGNMENT

The OC Board of Supervisors wanted its own internal audit function.

Only independent internal audit functions that fully comply with the current US Government Accountability Office's Government Auditing Standards (see Attachment H) and with the Institute of Internal Auditor's (IIA) professional auditing standards (see Attachment I) should conduct audits of governmental entities. Under GAO and IIA standards, the combination of auditing and controllership responsibilities impair the independence of the audit function and as such disqualify any resulting audit report as not meeting the independence and objectivity standards in fact or appearance.



SUMMARY

The Board stated reason for the establishing an internal audit department reporting to the Board instead of the A-C was “to ensure for the integrity of the County’s Internal Audit function.”

Additionally, the IAD charter unanimously approved by the Board states that this direct reporting relationship is necessary “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 Audit Department.” Both the Board of Supervisors and the 1994-95 Grand Jury research indicated the CGC authorized all California BOS to establish and assign, or reassign county-wide internal audit functions as they may determine. However, Orange County’s interpretation of the CGC may not be shared by other California counties. Moreover, where a County has adopted a charter, the charter may contain provisions affecting the assignment of internal audit functions. As such, all Counties should individually evaluate the applicable statutes and arrive at their own conclusions.

The information presented in this report is in response to general inquiries regarding the origins of the Orange County Internal Audit Department as an independent internal audit function reporting directly to the Orange County Board of Supervisors. In essence, this report summarizes how the Orange County Board of Supervisors transferred the internal audit function from the elected Auditor-Controller and re-assigned it to themselves as a direct report function.



VALIDATION OF ORANGE COUNTY'S INTERNAL AUDIT DEPARTMENT REPORTING STRUCTURE

- ◆ The IAD reporting directly to the Board of Supervisors fully meets the explicit standards for independence as specified in the Institute of Internal Auditors (IIA) January **2009** International Standards for the Professional Practice of Internal Auditing. (see Attachment I)
- ◆ The Internal Audit Department (IAD) reporting directly to the Board of Supervisors fully meets the explicit standards stated for independence as specified in the **July 2007** US Government Accountability Office's Yellow Book, Section 3.3 (see Attachment H) and the Institute of Internal Auditors (IIA) Standards on Independence (see Attachment I).
- ◆ On March, 25, **2008**, the 2007-2008 Orange County Grand Jury in their report titled "*Bankruptcy Controls – Going, Going, ...*" concluded that the Internal Audit Department should remain independent and continue to report directly to the Board of Supervisors, and that the current organizational reporting structure provides maximum auditor independence and reinforces the Orange County Board of Supervisors' accountability for the financial security of the County. (See Grand Jury Report and Responses at our website: http://www.ocgov.com/audit/docs/07-08_GJ_Report.pdf)
- ◆ The Association of Local Government Auditors (ALGA) in **2006** sent a memo to the Orange County Board of Supervisors supporting the reporting structure of the IAD reporting to the Board and not the Auditor-Controller (See Attachment J).
- ◆ The Internal Audit Department (IAD) was asked by the Orange County Audit Oversight Committee (AOC) to research and report all top United States Counties and Cities with similar reporting models as Orange County.

The results of the report were presented in 2007 and updated in **2008**. The findings revealed that the Orange County model for internal auditing was by far the most prevalent and preferred model for the largest Counties and Cities in the US. As reporting structures continue to change, the OC IAD will continue to report those changes. (See OC Internal Audit Department Report 2807-4 on website: [http://egov.ocgov.com/vgnfiles/ocgov/Internal%20Audit/Docs/AuditReports/2008/Compliance Other Reviews/2807-4 Reporting Models for Local Govt IADs 092608.pdf](http://egov.ocgov.com/vgnfiles/ocgov/Internal%20Audit/Docs/AuditReports/2008/Compliance%20Other%20Reviews/2807-4%20Reporting%20Models%20for%20Local%20Govt%20IADs%20092608.pdf))

- ◆ Under Resolution 95-271, the Audit Oversight Committee (AOC) was established as an oversight arm of the Board to ensure the approval of the annual audit plan. The AOC consists of the Chairman and Vice-Chairman of the Board, the Auditor-Controller, the County Executive Officer, the Treasurer Tax-Collector (Ex-officio Member) and one public member (See AOC Bylaws approved by the Board in 2002 at website: http://www.ocgov.com/audit/docs/AOC_bylaws.PDF). In addition to approving the annual risk assessment and audit plan, the AOC meets quarterly and reviews the following standing reports:



- ▶ ***Quarterly Status Report*** that lists all audits, follow-ups, and control related & other assignments, along with the budget, actual hours charged, variance between budget and actual, and milestone comments; and ***Executive Summaries of Audit Assignments*** provides a findings summary for audits and follow-ups issued during the quarter;
- ▶ ***External Audit Coverage*** reports identify external audits being conducted in the County, as reported to us by the Department/Agencies, and an executive summary which identifies the total audits in progress, planned, and or completed, along with any material issues identified;
- ▶ ***IT Briefing Reports*** summarizing the work performed in the area of IT audits and OC IAD's involvement with system implementations.



ATTACHMENT A: Board Resolution 82-162 (February 2, 1982) Board grants County Auditor the Controllershship Duties and assigns to the new A-C position Internal Audit Responsibilities

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RESOLUTION OF THE BOARD OF SUPERVISORS OF
ORANGE COUNTY, CALIFORNIA
February 2, 1982

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

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

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

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

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

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

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

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

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

1.

OFFICE OF
COUNTY COUNSEL
ORANGE COUNTY
P0182-310 (8/77)



Attachment A: Board Resolution 82-162 continued

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

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

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

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

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

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OFFICE OF
COUNTY COUNSEL
ORANGE COUNTY

FOIA-210 (5/7/71)

ATTACHMENTS



Attachment A: Board Resolution 82-162 continued

1 AYES: SUPERVISORS HARRIETT M. WIEDER, RALPH B. CLARK, ROGER R.
2 STANTON, THOMAS F. RILEY AND BRUCE NESTANDE
3 NOES: SUPERVISORS NONE
4 ABSENT: SUPERVISORS NONE
5 STATE OF CALIFORNIA)
6 COUNTY OF ORANGE) ss.
7 I, JUNE ALEXANDER, Clerk of the Board of Supervisors of Orange
8 County, California, hereby certify that the above and foregoing Resolution
9 was duly and regularly adopted by the said Board at a regular meeting
10 thereof held on the 2nd day of February, 1982, and passed by
11 a unanimous vote of said Board.
12 IN WITNESS WHEREOF, I have hereunto set my hand and seal this
13 2nd day of February, 1982.
14
15 *June Alexander*
16 JUNE ALEXANDER
17 Clerk of the Board of Supervisors of
18 Orange County, California
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OFFICE OF THE COUNTY CLERK
ORANGE COUNTY
FO192.208 (6/77)

3



ATTACHMENT B: Board Resolution 85-337 (March 12, 1985) Assigns the Auditor-Controller Responsibilities for Developing Accounting Policies

RESOLUTION OF THE BOARD OF SUPERVISORS OF
ORANGE COUNTY, CALIFORNIA

March 12, 1985

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

WHEREAS, the County of Orange desires to establish public accountability for the management of County assets and funds, to minimize the possibility of fraud, waste, and errors, and to ensure reliable financial information is produced for County and public use; and

WHEREAS, effective systems of internal accounting and administrative control are necessary to provide accountability for the management of County assets and funds, and are also necessary to produce reliable financial information for the County; and

WHEREAS, periodic reviews of the systems of internal accounting control and administrative control are the responsibility of the Auditor-Controller and Department/Agency management, and are necessary to enable the Board of Supervisors and County management to evaluate performance of public responsibilities and accountability;

NOW, THEREFORE, BE IT RESOLVED that:

1. All County Departments/Agencies shall establish and maintain effective internal control systems, including accounting and administrative controls, as an integral part of their management practices.

2. All levels of management shall be involved in evaluating control systems on an on-going basis and, when detected, ensuring weaknesses are promptly corrected.

Resolution No. 85-337
Internal Control System

1.



ATTACHMENT C: California Government Code 25250 (CGC 2520) Establishes the Board of Supervisors Authority to Conduct County-wide Audits of the Financial Accounts and Records of all County Officers

CALIFORNIA CODES
GOVERNMENT CODE
SECTION 25250

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



ATTACHMENT C: California Government Code 26881 (CGC 26881) Assigns the Board of Supervisors Exclusive Authority to Establish County-wide Internal Audit Function.

CALIFORNIA CODES
GOVERNMENT CODE
SECTION 26881

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



ATTACHMENT C: California Government Code 26883 (CGC 26883) Establishes the Board of Supervisors Authority to Direct the Auditor-Controller to Audits of the Accounts and Records of Any Department

CALIFORNIA CODES
GOVERNMENT CODE
SECTION 26883

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

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



ATTACHMENT D: Board Resolution 95-271 (April 25, 1995) Transfers Internal Audit Responsibilities and Staff from the Auditor-Controller to the Board of Supervisors

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3	RESOLUTION OF THE BOARD OF SUPERVISORS
4	ORANGE COUNTY, CALIFORNIA
5	April 25, 1995
6	On motion of Supervisor Silva, duly seconded and carried, the
7	following Resolution was adopted:
8	NOW, THEREFORE, BE IT RESOLVED that this Board does hereby:
9	1. Establish an Internal Audit Unit independent from the
10	Auditor-Controller reporting directly to the Board of Supervisors to
11	perform the biennial audits of County Officers required by Government
12	Code Section 25250.
13	2. Authorize the Internal Audit Unit to perform the Auditor-
14	Controller's legally required audits, if requested by the Auditor-
15	Controller.
16	3. Establish an Audit Oversight Committee consisting of a
17	Member of the Board of Supervisors, Treasurer-Tax Collector, Auditor-
18	Controller, Chief Executive Officer (CEO), and two Department Heads
19	selected by the CEO.
20	a. Direct this Committee to act in an oversight
21	capacity to the Internal Audit Unit, including approval of
22	the annual audit plan.
23	b. Appoint Supervisor James W. Silva as the
24	representative from the Board of Supervisors on the Audit
25	Oversight Committee for 1995.
26	RESOLUTION NO. 95-271
27	Establishment of an Internal
28	Audit Unit Independent from the
	County Auditor-Controller
	Reporting Directly to the
	Board of Supervisors
	1.

OFFICE OF
COUNTY COUNSEL
ORANGE COUNTY

FO192-210 (5/77)
RLA:br



Attachment D: Board Resolution 95-271 continued

1	4. Establish the class of Director of Internal Audits, Class
2	Code 7840, Salary Schedule ML-E, and adopt the attached classification
3	specification.
4	5. Direct the Human Resources Department to begin a recruitment
5	for the position of Director of Internal Audits. Selection of the
6	Director will be through the Audit Oversight Committee with final
7	approval by the Board of Supervisors.
8	6. Authorize the Auditor-Controller to establish Agency Number
9	079 within the County General Fund as a separate budget unit for the
10	new Internal Audit Unit.
11	7. In accordance with Government Code Section 29130, approve
12	the following adjustments to the County General Fund agency/department
13	FY 1994/95 budgets:
14	Agency Code Agency Name Expenditure Object Account Recommended Increase/Decrease
15	003 Auditor-Controller 0101 Salaries (120,000)
16	079 Internal Audit Unit 0101 Salaries 120,000
17	8. Amend the County Master Position Control effective April 25,
18	1995 per the following:
19	a. <u>Delete 13 positions from the Auditor-Controller (Agency</u>
20	<u>003 as follows:</u>
21	1 Chief of Audits Position (Class Code 7838)
22	4 Accountant/Auditor Manager I positions (Class Code 7817)
23	1 Principal Accountant/Auditor position (Class Code 7816)
24	6 Accountant/Auditor II positions (Class Code 7807)
25	1 Office Technician position (Class Code 0522)
26	b. <u>Add 13 positions to the Internal Audit Unit (Agency 079) as</u>
27	<u>follows:</u>
28	1 Director of Internal Audits (Class Code 7840)
	2 Accountant/Auditor Manager I positions (Class Code 7817)
	3 Senior Accountant/Auditor II positions (Class Code 7815)
	6 Accountant/Auditor II positions (Class Code 7807)
	1 Secretary II position (Class Code 0578)
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	2.



Attachment D: Board Resolution 95-271 continued

1	9. Direct the CEO and the Auditor-Controller to effect the
2	transfer of internal audit responsibilities and staff from the
3	Auditor-Controller's Office to the Internal Audit Unit, including
4	specific actions as follows:
5	a. The CEO will assume responsibility for the Internal Audit
6	Unit pending appointment of the Director of Internal Audits.
7	b. The CEO will work with the Auditor-Controller to prepare a
8	recommended budget for the Internal Audit Unit to be
9	incorporated into the County of Orange FY 1995/96 Proposed
10	Budget.
11	c. The transfer shall provide for completion of any audits
12	required by Government Code Section 25250 and audits that
13	are legally required of the Auditor that are in progress on
14	the effective date of the transfer.
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ATTACHMENTS



Attachment D: Board Resolution 95-271 continued

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4	<u><i>Gaddi Vasquez</i></u> Chairman of the Board of Supervisors
5	SIGNED AND CERTIFIED THAT A COPY
6	OF THIS DOCUMENT HAS BEEN DELIVERED
7	TO THE CHAIRMAN OF THE BOARD
8	
9	<u><i>Kathleen E. Goodno</i></u> Kathleen E. Goodno Acting Clerk of the Board of Supervisors County of Orange, California
10	AYES: SUPERVISORS JAMES W. SILVA, GADDI H. VASQUEZ,
11	WILLIAM G. STEINER, ROGER R. STANTON
12	NOES: SUPERVISORS MARIAN BERGESON
13	ABSENT: SUPERVISORS NONE
14	STATE OF CALIFORNIA)
15	COUNTY OF ORANGE) ss.
16	I, KATHLEEN E. GOODNO, Acting Clerk of the Board of Supervisors
17	of Orange County, California, hereby certify that the above and
18	foregoing Resolution was duly and regularly adopted by the said Board
19	at a regular meeting thereof held on the 25th day of April, 1995, and
20	passed by a four-fifths vote of said Board.
21	IN WITNESS WHEREOF, I have hereunto set my hand and seal this
22	25th day of April, 1995.
23	
24	<u><i>Kathleen E. Goodno</i></u> Kathleen E. Goodno Acting Clerk of the Board of Supervisors of Orange County, California
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OFFICE OF COUNTY COUNSEL ORANGE COUNTY
F0192-210 (5/77)



ATTACHMENT E: California Government Code 26915 (1998) Unique Legislative Authorizing the OC Board of Supervisors to Direct a County Employee as Officer to Conduct any Audit the CGC Authorizes the Auditor-Controller to Conduct

CALIFORNIA CODES
GOVERNMENT CODE
SECTION 26915

26915. (a) Any requirement that an audit be performed by the county auditor may, at the election of the board of supervisors, also be performed by a county employee or officer who meets both of the following qualifications:

(1) The person possesses a valid certificate issued by the California Board of Accountancy and a permit authorizing the person to practice as a certified public accountant or as a public accountant.

(2) The employee or officer is independent in accordance with Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct.

(b) The election made by the board of supervisors pursuant to subdivision (a) may be in effect for no more than two years after the date that the vote is taken by the board, but the election may be renewed upon expiration.

(c) This section shall only be applicable in the County of Orange.

(d) Nothing in this section is intended to preclude a county auditor from performing his or her statutorily prescribed duties.



ATTACHMENT F: California Government Code 26920 Requirement of the County Auditor to perform, or cause to be performed, specific audits.

CALIFORNIA CODES
GOVERNMENT CODE
SECTION 26920-29622

26920. (a) At least once in each quarter, the county auditor shall perform, or cause to be performed a review of the treasurer's statement of assets in the county treasury. Each county shall fund and allocate the cost of the review in accordance with that county's established budgetary practice. The auditor's review shall be accomplished in accordance with the appropriate professional standards, as determined by the county auditor. The treasurer shall prepare a statement showing the amount and type of assets in the county treasury as of the date of the review. The review shall include:

- (1) Counting cash in the county treasury.
- (2) Verifying that the records of the county treasurer and auditor are reconciled pursuant to Section 26905.
- (3) A report to the board of supervisors issued in accordance with the appropriate professional standards, as determined by the county auditor.

(b) The auditor shall, at least annually, perform or cause to be performed an audit of the assets in the county treasury and express an opinion whether the treasurer's statement of assets is presented fairly and in accordance with generally accepted accounting principles. The audit report shall be addressed to the board of supervisors. The review required by subdivision (a) need not be performed for the period when an audit is conducted in accordance with this subdivision.

26922. The auditor shall file a copy of the quarterly report prepared pursuant to paragraph (3) of subdivision (a) of Section 26920 and a copy of the annual audit report prepared pursuant to subdivision (b) of Section 26920 in the office of the clerk of the board of supervisors. The auditor shall post and maintain another copy of the quarterly report and another copy of the annual audit report in his or her office for at least one quarter.



ATTACHMENT G: California Welfare and Institutions Code Section 275 Authorizes the Auditor-Controller to Conduct Biannual Audit of Juvenile Records

WAIS Document Retrieval

CALIFORNIA CODES
WELFARE AND INSTITUTIONS CODE
SECTION 270-286

275. (a) For the purpose of handling the reimbursement and other payments provided for in this chapter, the probation officer or other county officer designated by the board of supervisors of the county shall keep suitable books and accounts and shall give and keep suitable receipts and vouchers.

(b) The auditor of the county shall audit these books and accounts annually, or at least biennially if so ordered by the board of supervisors upon the recommendation of the county auditor, on a fiscal year basis ending June 30 and shall make a report thereon to the judge of the court and to the supervisors of the county prior to the 31st day of the next succeeding month of January. This subdivision shall become inoperative on July 1, 1993, and shall remain inoperative until July 1, 1994, on which date this section shall become operative.



ATTACHMENT H: US Government Accountability Office's Yellow Book, Section 3.3 (July 2007 Revision)

GAO Standards on Independence (YELLOW BOOK)

Independence:

3.02 In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.

3.03 Auditors and audit organizations must maintain independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and viewed as impartial by objective third parties with knowledge of the relevant information. Auditors should avoid situations that could lead objective third parties with knowledge of the relevant information to conclude that the auditors are not able to maintain independence and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on the work.

3.04 When evaluating whether independence impairments exist either in fact or appearance with respect to the entities for which audit organizations perform audits or attestation engagements, auditors and audit organizations must take into account the three general classes of impairments to independence--personal, external, and organizational. If one or more of these impairments affects or can be perceived to affect independence, the audit organization (or auditor) should decline to perform the work--except in those situations in which an audit organization in a government entity, because of a legislative requirement or for other reasons, cannot decline to perform the work, in which case the government audit organization must disclose the impairment(s) and modify the GAGAS compliance statement.

Personal Impairments:

3.07 Auditors participating on an audit assignment must be free from personal impairments to independence. Personal impairments of auditors result from relationships or beliefs that might cause auditors to limit the extent of the inquiry, limit disclosure, or weaken or slant audit findings in any way. Individual auditors should notify the appropriate officials within their audit organizations if they have any personal impairment to independence. Examples of personal impairments of individual auditors include, but are not limited to, the following:

- immediate family or close family member who is a director or officer of the audited entity, or, as an employee of the audited entity, is in a position to exert direct and significant influence over the entity or the program under audit;
- responsibility for managing an entity or making decisions that could affect operations of the entity or program being audited; for example, serving as a director, officer, or other senior position of the entity, activity, or program being audited, or as a member of management in any decision making, supervisory, or ongoing monitoring function for the entity, activity, or program under audit;
- concurrent or subsequent performance of an audit by the same individual who maintained the official accounting records when such services involved preparing source documents or originating data, in electronic or other form; posting



ATTACHMENT I: Institute of Internal Auditors Standards on Independence

IIA Standards on Independence

1100 Independence and Objectivity The internal audit activity must be independent, and internal auditors must be objective in performing their work.

Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

1110 Organizational Independence The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

1110.A1 The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

1111 Direct Interaction with the Board The chief audit executive must communicate and interact directly with the board.

1120 Individual Objectivity Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Interpretation:

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

1130 Impairment to Independence or Objectivity If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

Interpretation:

Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.

1130.A1 Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.



ATTACHMENT J: Association of Local Government Auditors Letter



Association of Local Government Auditors

November 27, 2006

Honorable Chairman Campbell
and Honorable Members of the Orange County Board of Supervisors

Dear Chairman Campbell and Honorable Members of the Board;

We received information suggesting that the County of Orange is considering a change to the current reporting relationship of its Internal Audit Department (IAD) from comments made publicly by Mr. Sundstrom, the Orange County Auditor-Controller. Currently, the IAD reports directly to the Board of Supervisors and the change possibly would have the IAD reporting to the Auditor-Controller.

We at the Association of Local Government Auditors (ALGA) are concerned about this potential change as it would compromise your IAD's independence. For the past 10 years, the County of Orange reporting structure has been a model of auditor independence for governmental organizations. ALGA's advocacy group recognizes and promotes auditor independence as being critical in today's complex business environment. The Government Accountability Office (GAO) also recognizes Orange County's current reporting structure to be independent for purposes of its Government Auditing Standards (known as the "Yellow Book").

ALGA is available to assist you however it can in regard to such a decision. ALGA believes that effective governance, public accountability, and transparency are paramount concerns for the public. For this reason, we encourage localities to follow the GAO's Government Auditing Standards (Standards). These Standards provide guidance related to auditor independence as well as effective governance.

According to the Standards, audit organizations have a responsibility to maintain their independence so that opinions, conclusions, judgments, and recommendations will be viewed as impartial by the public and knowledgeable third parties. In addition, ALGA recommends that the auditor report directly to the Board of Supervisors, a City Council, or be separately elected, so that the highest degree of independence is achieved.

ALGA's Model Legislation, is available on our website: www.governmentauditors.org, and provides additional guidance on enhancing the independence of local government audit functions. ALGA Board Members recently made an in-depth presentation on the topic of auditor independence for San Diego's City Council. Their presentation is archived in a video file as item #601 in the November 13, 2006, Council meeting. If you have additional questions, call ALGA at (859) 276-0686 or me directly at (757) 382-8511.

Sincerely,
Jay Poole
Jay Poole
Advocacy Committee Chair
Association of Local Government Auditors

cc: Supervisor Chris Norby
Supervisor Lou Correa
Supervisor Jim Silva
Supervisor Thomas W. Wilson
Auditor-Controller David Sundstrom
Foreperson of the Grand Jury Mike Penn
Supervisor-elect John M. W. Moorlach
Supervisor-elect Patricia Bates
Hon. Carlos Bustamante
Orange County Internal Audit Department

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