



A REPORT PRESENTED TO
ORANGE COUNTY
AUDITOR-CONTROLLER
INTERNAL AUDIT

QUALITY ASSESSMENT REPORT

Prepared October 21, 2022

Table of Contents

TOPIC	PAGE
Overall Conclusion	3
Executive Summary Conformance Summary Overall Opinion Background Objectives, Scope, and Methodology Overall Summary	4
Detailed Observations Successful Practices Conformance Gaps	11
Appendix A Conformance Rating Criteria	15
Appendix B Stakeholder Feedback	17
Appendix C List of Acronyms	19

Orange County Auditor-Controller Internal Audit

This Internal Audit Department **Generally Conforms** to the *International Standards for the Professional Practices of Internal Auditing* and the IIA Code of Ethics.

Generally Conforms is the highest level of conformance possible.

GOVERNANCE		STAFF		MANAGEMENT		PROCESS	
Standard	Rating	Standard	Rating	Standard	Rating	Standard	Rating
1000	GC	1200	GC	2000	GC	2200	GC
1100	GC			2100	PC	2300	GC
1300	PC			2450	GC	2400	GC
Code of Ethics	GC			2600	GC	2500	GC



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Executive Summary

Conformance Summary

STANDARDS AND THE IIA CODE OF ETHICS

		GC	PC	DNC
ATTRIBUTE STANDARDS				
1000 - Purpose, Authority, and Responsibility		X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100 - Independence and Objectivity		X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairments to Independence or Objectivity	X		
1200 - Proficiency and Due Professional Care		X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300 - Quality Assurance and Improvement Program (QAIP)			X	
1310	Requirements of the QAIP	X		
1311	Internal Assessments		X	
1312	External Assessments	X		
1320	Reporting on the QAIP			X
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing" Statement	X		
1322	Disclosure of Nonconformance	X		
PERFORMANCE STANDARDS				
2000 - Managing the Internal Audit Activity		X		
2010	Planning		X	
2020	Communication and Approval	X		
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		

		GC	PC	DNC
PERFORMANCE STANDARDS (CONTINUED)				
2100 - Nature of Work			X	
2110	Governance			X
2120	Risk Management			X
2130	Control	X		
2200 - Engagement Planning		X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Programs	X		
2300 - Performing the Engagement		X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400 - Communicating Results		X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results	X		
2450	Overall Opinions	X		
2500 - Monitoring Progress		X		
2600 - Communicating the Acceptance of Risks		X		
IIA CODE OF ETHICS				
	Code of Ethics	X		
OVERALL CONFORMANCE RATING		X		

Overall Opinion

OPINION AS TO CONFORMANCE WITH THE *STANDARDS* AND THE IIA CODE OF ETHICS

The Orange County Auditor-Controller Internal Audit unit (ACIA) generally conforms with the *Standards* and the IIA Code of Ethics.

A summary of conformance with individual Standards and the IIA Code of Ethics is provided in the “Conformance Summary” section of this report. Upon issuance of this report, Internal Audit may use the phrases “Conforms with the International Standards for the Professional Practice of Internal Auditing” and “Conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” within its practice materials and/or audit reports.

The Quality Assessment Manual for the Internal Audit Activity (QA Manual) suggests a scale of three ratings, “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” Detailed rating definitions and criteria associated with “Generally Conforms,” “Partially Conforms,” and “Does Not Conform” are described within Appendix A of this report and are consistent with IIA guidance stated in its QA Manual.



Overall Opinion

OPINION AS TO CONFORMANCE WITH THE *STANDARDS* AND THE IIA CODE OF ETHICS - CONTINUED

Under the Standards, an External Quality Assessment (EQA) of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or an independent assessment team from outside the organization. IIA Quality Services was selected to lead this assessment. This engagement's Assessment Team demonstrated competence in both the professional practice of internal auditing and the EQA process as required by the Standards. The EQA was conducted virtually between September 20, 2022, and October 6, 2022. Conclusions were as of October 6, 2022.

Future changes in external factors and actions taken by personnel, including actions taken to address our recommendations, may have an impact on the operation of Internal Audit in a manner that this report did not and cannot anticipate. Considerable professional judgment is involved in evaluating the observations and developing recommendations. Accordingly, it should be recognized that others could evaluate the results differently and draw different conclusions.

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Background

PROVIDED BY ACIA

Of the 58 counties in California, Orange County (County) is unique because it has two internal audit functions: ACIA which reports to the elected Auditor-Controller (A-C), and the Internal Audit Department (IAD) which reports to the Board of Supervisors (BOS). All 57 other counties have one internal audit function that reports to the elected or appointed auditor.

Prior to declaring bankruptcy on December 6, 1994, the County had one internal audit function that was part of the A-C's Office and reported to the A-C.

On April 25, 1995, the BOS established the IAD, which was independent of the A-C's Office and reported to the BOS, to perform the biennial audits of County officers required by Government Code (GOV) section 25250 (Resolution 95-271).

In February 2007, the A-C established the ACIA to perform the A-C's mandated audits and reviews and provide independent, objective assurance and management consulting services to the A-C's Office.

On August 4, 2015, the BOS consolidated internal audit responsibility under the A-C by rescinding sections 1, 2, and 9 of Resolution 95-271 (Agenda Item S39B).

On June 26, 2018, the BOS reestablished the IAD, which is independent of the A-C's Office and reports to the BOS, to perform audits of County officers required by GOV section 25250 and audits requested by the BOS (Resolution 18-068).

Objectives, Scope, and Methodology

OBJECTIVES

The primary objective of this assessment was to evaluate conformance to the *Standards*, which require an EQA of an internal audit activity at least every five years. In addition, the Assessment Team:

- Assessed conformance with the IIA Code of Ethics
- Assessed ACIA's effectiveness in providing assurance and advisory services to stakeholders and other interested parties
- Identified opportunities, offered recommendations for improvement, and provided counsel to ACIA for improving its performance and services, as well as promoting its image and credibility throughout the organization

SCOPE

The scope of this assessment included an evaluation of ACIA's efficiency and effectiveness in executing its mission, as set forth by its Internal Audit Charter, which defines the purpose, authority, responsibilities, and accountabilities of ACIA.

METHODOLOGY

To accomplish the objectives, the Assessment Team:

- Reviewed information prepared by ACIA at the Assessment Team's request
- Conducted interviews with key stakeholders of ACIA including oversight committee chairs, senior executives, the Chief Audit Executive (CAE), and staff of both Internal Audit functions.
- Reviewed a sample of audit projects and associated work papers and reports
- Reviewed survey data received from ACIA stakeholders resulting from IIA Quality Services' survey process
- Prepared diagnostic tools consistent with the methodology established for an EQA as stated in the *QA Manual*

Overall Summary

ACIA generally conforms with the *Standards* and the IIA Code of Ethics. A conformance rating of generally conforms means:

- For individual *Standards*, the internal audit activity conforms to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual *Standards* and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively or has not achieved their stated objectives.

CONFORMANCE GAPS

We identified gaps in conformance with five standards and make the following recommendations:

- *Standard* 1311 – Internal Assessments - More fully develop and implement the periodic assessment portion of the internal assessment process and report the results of internal assessments to the A-C and the Audit Oversight Committee (AOC) upon completion.
- *Standard* 1320 – Reporting on the Quality Assurance and Improvement Program - Formally communicate the overall results of the QAIP on a periodic basis (perhaps annually). Report the results of external and internal assessments upon completion of such assessments.
- *Standard* 2000 – Managing the Internal Audit Activity; *Standard* 2010 – Planning; *Standard* 2100 – Nature of Work - Assure the approved audit plan includes engagements in the areas of risk management and governance. Alternatively, amend the Internal Audit Charter to expressly exclude these areas from the charter.

Detailed Observations

Successful Practices

The Assessment Team identified the following areas where ACIA operates in a successful practice manner:

- ACIA has strong support from the A-C and the AOC.
- The auditors are viewed positively for their objectivity, professionalism, communication, and collaboration.
- Audit issues are well supported with clear and complete workpapers.
- ACIA has developed an effective and efficient audit software system that incorporates desk procedures and instructions.
- ACIA developed a formal risk assessment and an Audit Plan in reestablishing an audit function focused solely on Auditor-Controller Department responsibilities
- The auditors are well-credentialed and are supported in their professional development and certification activities.

Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
CG1	<p><i>Standard</i> 1311 – Internal Assessments</p> <p>Internal assessments must include:</p> <p>Ongoing monitoring of the performance of the internal audit activity.</p> <p>Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.</p>	<p>The ACIA reestablished periodic assessments at the end of 2021 and the beginning of 2022. This included a review of the Internal Audit Charter and the annual Conflict of Interest Declaration.</p> <p>A QAIP Work Program spreadsheet provides some future internal assessment areas. The Objective section was incomplete for the two areas assessed.</p> <p>A Planning Memo was developed that provides some key elements (purpose, background, scope, assessor, reporting results) but lacks others (objective, methodology).</p> <p>Note: The CAE completed the four detailed A schedules in preparation for this EQA. The CAE was advised that such a project constitutes a periodic assessment and ideally can be done six months to a year before the EQA.</p> <p>Recommendation: More fully develop and implement the periodic assessment portion of the internal assessment process and report the results of internal assessments to the A-C and the AOC upon completion.</p>	<p>ACIA has completed the Objective section of the QAIP Work Program for the Internal Audit Charter and annual Conflict of Interest Declaration. We will further develop and implement the periodic assessment portion of our internal assessment process and report the results of our internal assessments to the A-C and AOC starting with our FY 22-23 QAIP project.</p>
CG2	<p><i>Standard</i> 1320 – Reporting on the Quality Assurance and Improvement Program</p> <p>The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:</p> <ul style="list-style-type: none"> • The scope and frequency of both the internal and external assessments. • The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest. • Conclusions of assessors. • Corrective action plans. 	<p>Results of the QAIP have not been reported to the A-C or the AOC since the Board established the IAD in June 2018.</p> <p>The CAE coordinated approval for this EQA with the Deputy A-C with the intention of sharing the results with the A-C and the AOC.</p> <p>Recommendation: Formally communicate the overall results of the QAIP to the A-C and the AOC on a periodic basis (perhaps annually). Report the results of external (as well as the internal assessments) to the A-C and the AOC upon completion..</p>	<p>ACIA will establish the form, content, and frequency of communicating the results of the QAIP through discussions with the A-C and AOC noting that the Standards require the results of external and periodic assessments to be communicated upon completion and the results of ongoing monitoring to be communicated at least annually. We will report the results of this EQA to the A-C and AOC upon completion.</p>

Conformance Gaps

The Assessment Team identified the following conformance gaps:

#	STANDARD	OBSERVATION	MANAGEMENT RESPONSE
CG3	<p><i>Standard 2000 – Managing the Internal Audit Activity</i></p> <p>The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</p> <p>Interpretation: The internal audit activity is effectively managed when: it achieves the purpose and responsibility included in the internal audit charter...</p>	<p>ACIA's approved Internal Audit Charter states:</p> <p>"The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Auditor-Controller, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for Orange County." (emphasis added).</p> <p>However, engagements performed were limited to control-related processes for mandated engagements. No assurance work related to the adequacy and effectiveness of governance and risk management processes was performed.</p> <p>Recommendation: Assure the approved audit plan includes engagements in the areas of risk management and governance. Alternatively, amend the Internal Audit Charter to expressly exclude these areas from the charter.</p>	<p>ACIA will decide, through discussions with the A-C, whether we want to include risk management or governance engagements in our audit plan or exclude them from our charter.</p>
CG4	<p><i>Standard 2010 – Planning</i></p> <p>The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.</p>	<p>While ACIA completed a comprehensive risk assessment of the A-C's Office, no engagements from the risk assessment were included in the audit plan. Audits included in the audit plan were primarily limited to mandated engagements. No assurance work contributing to the organization's governance or risk-management processes was performed.</p> <p>Recommendation: The recommendation for CG3 will address this conformance gap.</p>	
CG5	<p><i>Standard 2100 – Nature of Work</i></p> <p>The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach...</p>	<p>Engagements performed were limited to control-related processes for mandated engagements. No assurance work contributing to the organization's governance or risk-management processes was performed.</p> <p>Recommendation: The recommendation for CG3 will address this conformance gap.</p>	



Appendix A

Conformance Rating Criteria

Conformance Rating Criteria

“Generally Conforms” (GC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity conforms to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity achieves general conformity to a majority of the individual *Standards* and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the section/category.
- For the internal audit activity overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the *Standards* or the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

“Partially Conforms” (PC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is making good faith efforts to conform to the requirements of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) or element of the IIA Code of Ethics (both Principles and Rules of Conduct) but falls short of achieving some major objectives.
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity partially achieves conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be significant opportunities for improvement in effectively applying the *Standards* or the IIA Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

“Does Not Conform” (DNC) means the Assessment Team concluded the following:

- For individual *Standards*, the internal audit activity is not aware of, is not making good faith efforts to conform to, or is failing to achieve many/all of the objectives of the *Standard* (i.e., 1000, 1010, 2000, 2010, etc.) and/or elements of the IIA Code of Ethics (both Principles and Rules of Conduct).
- For the sections (Attribute and Performance) and major categories (i.e., 1000, 1100, 2000, 2100, etc.), the internal audit activity does not achieve conformance with a majority of the individual *Standards* within the section/category and/or elements of the IIA Code of Ethics.
- For the internal audit activity overall, there will be deficiencies that will usually have a significant negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.



Appendix B

Stakeholder Feedback

Stakeholder Feedback

The Assessment Team interviewed and surveyed ACIA stakeholders and staff. Below are selected comments that represent the feedback received.

- ACIA does very good job and is effective working with staff
- Very good quality reports
- The A-C's Office offers ample opportunities for training and obtaining professional certifications
- Merge the Internal Audit Department back with the A-C's Office so there is no confusion about who performs the internal audit activity for the County.
- A larger audit team would offer more diverse engagements
- Improve communication with upper management
- Personnel have an opportunity to improve communication, presentation, and interpersonal skills
- The value of ACIA may not be sufficiently communicated to A-C staff.





Appendix C

List of Acronyms

List of Acronyms

ACRONYM	DESCRIPTION
A-C	Auditor-Controller
ACIA	Auditor-Controller Internal Audit
AOC	Audit Oversight Committee
BOS	Board of Supervisors
CAE	Chief Audit Executive
CPE	Continuing Professional Education
EQA	External Quality Assessment
IAD	Internal Audit Department
IIA	The Institute of Internal Auditors
IPPF	International Professional Practices Framework
IT	Information Technology
<i>QA Manual</i>	<i>Quality Assessment Manual for the Internal Audit Activity</i>
<i>Standards</i>	<i>International Standards for the Professional Practice of Internal Auditing</i>
TOC	Treasury Oversight Committee



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