

# OFFICE OF AUDITS & ADVISORY SERVICES



## EXTERNAL QUALITY ASSESSMENT OF ORANGE COUNTY INTERNAL AUDIT DEPARTMENT

*FINAL REPORT*

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## INTRODUCTION

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- Objective** At the request of the Director of Internal Audit, the Office of Audits & Advisory Services (OAAS) completed an external quality assessment (peer review) of the activity of the Orange County Internal Audit Department (IAD). The objectives of the peer review were to:
- Determine whether the IAD's quality control system for audit projects is suitably designed and operating effectively, to provide reasonable assurance of compliance with the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing* (IIA Standards); and
  - Determine whether the IAD was in material compliance with U.S. Government Accountability Office's *Government Auditing Standards* (GAO Standards) for the audits that must meet those standards.
- Background** IIA Standards require that external assessments be conducted at least once every five years by a qualified, independent reviewer or review team outside the organization as part of the Quality Assurance and Improvement Program. The GAO Standards require that audit organizations performing audits and attestation engagements in accordance with Generally Accepted Government Auditing Standards have an external peer review at least once every three years.
- Scope & Limitations** The assessment covered the IAD's activity from July 1, 2007 through June 30, 2010.
- This assessment was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.
- Methodology** OAAS performed the assessment using the following methods:
- Reviewed the IIA Standards including practice advisories (January 2009 Revision), IIA Quality Assessment Manual, 6<sup>th</sup> Edition, and GAO Standards (July 2007 Revision) to identify primary criteria for the assessment;
  - Reviewed the self-assessment with detailed documentation prepared by the IAD including:
    - IAD Charter;
    - County and IAD organizational charts;
    - IAD position classifications and responsibility matrix;
    - IAD Independence Policy;
    - IAD Ethics and Compliance Program;
    - Annual IAD Business Plans;
    - Annual IAD Audit Plans and Risk Assessments;
    - County Internal Auditor's Annual Report FYE June 30, 2009;
    - Quarterly and Monthly Audit Activity Reports;

- Audit Oversight Committee (AOC) meeting minutes;
  - Quarterly Executive Briefing on IT Activity;
  - Selected sections of the IAD Audit Manual which includes IAD's quality control policies and procedures;
  - Audit report recommendation tracking documentation;
  - Training records and CPE hours;
  - Customer satisfaction survey results; and
  - Prior peer review reports.
- Conducted an IAD staff survey, analyzed the responses, and furnished a summary of the results to IAD management;
  - Performed onsite fieldwork from August 9, 2010 through August 11, 2010 which included:
    - Interviews with the Director of Internal Audit and select IAD management and staff;
    - Interviews with select members of the Orange County Board of Supervisors (BOS), AOC, Chief Executive Office, and External Auditor; and
    - Review of IAD's audit tools, methodologies, engagement and staff management processes, monitoring procedures, and a representative sample of audit reports and supporting workpapers within the scope of this assessment.

## ASSESSMENT RESULTS

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### **Overall Opinion and Results**

Based on the information received and evaluated during this assessment, it is our overall opinion that:

- IAD's activity generally conforms to the IIA Standards and Code of Ethics. This opinion, which is the highest of the three possible ratings, means that the IAD has a charter, policies, and processes that are judged to be in conformance with the IIA Standards.
- IAD's system of quality control is adequately designed and complied with to provide the IAD with reasonable assurance of conforming with the GAO Standards.

The IAD's environment is well-structured and progressive, IIA and GAO Standards have been researched and understood, and IAD management is working to implement leading practices (see "Leading Practices" on the following page). Staff survey results indicate that the IAD is well managed internally. Based on the interviews conducted, County management finds that the IAD adds value and help improve the County's operations. Detailed information regarding the IAD's activity including audit reports is made available to the public on its website, enhancing accountability and transparency of the work performed. Individual engagements are planned using risk

assessment methodologies, audit conclusions are supported by workpapers, and findings and recommendations are communicated effectively.

While we make no specific recommendation, the paper-based workpaper system is one area in which a reasonable opportunity appears to exist to enhance current practices. IAD utilizes a paper-based audit workpaper system. While there is no perceived need among IAD staff, use of an automated audit management system including automated workpapers is one of the leading practices identified by the IIA and the Association of Local Government Auditors (ALGA). A paperless system also simplifies backup/disaster recovery, ensuring that workpapers, including cross-referencing and evidence of review, would be recovered in the event of a disaster.

### **Leading Practices**

During the course of the review, OAAS noted some successful practices that demonstrated IAD's commitment and ability to add value and improve County operations. These practices include:

- Organizational Independence (IIA Standard 1110) – Director of Internal Audit reports directly to the BOS and is organizationally independent of County operations. IAD is perceived as independent and able to carry out its responsibilities in an unbiased manner.
- Professional Proficiency and Development (IIA Standards 1210, 1230) – As of June 2010, all IAD staff were Certified Public Accountants and 87% had additional professional certification or designation such as Certified Internal Auditor. Based on the interviews, IAD staff has an excellent reputation as qualified professionals with sufficient experience.
- Quality Assurance and Improvement Program (IIA Standard 1310) – IAD performs ongoing monitoring, annual internal assessment, and comprehensive self-assessment prior to a peer review. The self-assessment is documented and organized to clearly support each attribute and performance standard. IAD also prepares a Balanced Scorecard to annually evaluate its performance against Key Performance Indicators and the ALGA's Best Practice benchmarks.
- Policies and Procedures (IIA Standard 2040) – IAD Audit Manual is comprehensive and adequately designed to guide the IAD's activity.
- Coordination (IIA Standard 2050) – The External Auditor is copied on all audit reports issued by IAD and also attends the AOC meetings. The BOS and AOC also review internal and external audit activities to minimize duplication of efforts.

- Communication (IIA Standards 2020, 2060, 2420) – IAD submits monthly Internal Audit Activity Report to the BOS and provides quarterly reports to the AOC. IAD also seeks management’s input to its risk assessment process through meetings and use of questionnaires. Based on the interviews, County management was pleased with their involvement in the IAD’s risk assessment and audit planning processes, and effectiveness of the communications they receive of the IAD’s performance and engagement results.
- Risk Management and Controls over Information Systems (IIA Standards 2120.A1, 2130.A1) – IAD provides assistance on major system implementation by reviewing the adequacy of internal controls designed by management. County management interviewed was complementary of this implementation assistance as value adding activity.

## REPORT DISTRIBUTION

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This report is intended solely for the information of the Orange County Internal Audit Department. Further distribution of this report is at the discretion of the Director of Internal Audit.

## COMMENDATION

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The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by the Director of Internal Audit and Internal Audit Department management and staff throughout this assessment. We would also like to thank the members of the Board of Supervisors, Audit Oversight Committee, County Executive Office, and External Auditor who participated in the interview process. The feedback from the interviews provided valuable information regarding the Internal Audit activity and its relationship with management.

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### Office of Audits & Advisory Services

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