American Institute of Certified Public Accountants Award to Dr. Peter Hughes
as 2010 Outstanding CPA of the Year for Local Government
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

The Internal Audit Department achieved all 14 Key Performance Indicators (KPI) and met or exceeded all 17 of the Association of Local Government Auditors “Best Practices.”

Internal Audit (IAD)
IAD

VALIDATED BY COUNTY OF SAN DIEGO
OFFICE OF AUDITS & ADVISORY SERVICES
SEPTEMBER 8, 2010
REPORT NO. 1007-1

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Sr. Audit Manager: Michael Goodwin, CPA, CIA
Sr. Audit Manager: Autumn McKinney, CPA, CIA, CISA
Sr. Audit Manager: Alan Marcum, CPA, CIA
Audit Manager: Michael Dean, CPA, CIA

RISK BASED AUDITING

American Institute of Certified Public Accountants Award to Dr. Peter Hughes
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Commitment to Professional Excellence, Quality, and Outreach
Independence . Objectivity . Integrity

Orange County Board of Supervisors
Internal Audit Department


Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes  Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE
Director
Certified Compliance & Ethics Professional (CCEP)
Certified Information Technology Professional (CITP)
Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)
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Eli Littner  CPA, CIA, CFE, CFS, CISA
Deputy Director
Certified Fraud Specialist (CFS)
Certified Information Systems Auditor (CISA)

Michael J. Goodwin  CPA, CIA
Senior Audit Manager

Alan Marcum  MBA, CPA, CIA, CFE
Senior Audit Manager

Autumn McKinney  CPA, CIA, CISA, CGFM
Senior Audit Manager
Certified Government Financial Manager (CGFM)

Hall of Finance & Records

12 Civic Center Plaza, Room 232
Santa Ana, CA 92701

Phone: (714) 834-5475  Fax: (714) 834-2880

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

OC Fraud Hotline (714) 834-3608
The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors.

Transmittal Letter

September 8, 2010

TO: Members, Board of Supervisors
FROM: Dr. Peter Hughes, CPA, Director
        Internal Audit Department
SUBJECT: OC Internal Audit Department’s
        Balanced Scorecard for Fiscal Year
        July 1, 2009 through June 30, 2010

We are pleased to report that for the fiscal year 2009/2010 we achieved all 14 of our Key Performance Indicators (KPI) as noted in our Balanced Scorecard and met or exceeded all 17 of the Association of Local Government Auditors (ALGA) Best Practice benchmarks as confirmed by the County of San Diego, Office of Audits & Advisory Services (see Page 15).

We measure our performance through these indicators in order to continuously monitor and improve our audit services to the Board of Supervisors (BOS). The Balanced Scorecard approach helps highlight our efforts in a way that is easy for the public to understand and helps us balance our long and short term goals.

Each month I submit an Audit Status Report to the BOS and the results of this report will be included in a future status report to the BOS.

As always, the Internal Audit Department is available to address areas of interest to the Audit Oversight Committee. Please feel free to call me should you wish to discuss any aspect of our report.
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**OC Internal Audit Department’s Balanced Scorecard**  
Fiscal Year July 1, 2009 through June 30, 2010

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</tr>
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We achieved all 14 of our Key Performance Indictors (KPI) and obtained a “perfect” self-evaluation on our Best Practice comparison with the Association of Local Government Auditors Survey. Our conclusions have been reviewed and confirmed by the County of San Diego’s Office of Audits & Advisory Services. (See Attachment on Page 15)

We strive to be the “CPAs of Choice” for the Board of Supervisors and County management when it comes to providing audits of the County’s internal controls, business processes, program compliance, investigations and financial reports. Towards achieving this objective we have assembled a staff of 15 auditors, all of whom are CPAs averaging over 19 years of professional experience.

To underscore the value we add to the County business operations, the American Institute of Certified Public Accountants (AICPA) selected Dr. Peter Hughes, CPA, as the 2010 Outstanding CPA in Local Government for promoting and advancing efficiencies in governmental business processes and services. The AICPA has been providing standards for auditors and accountants since 1887 and boasts over 360,000 members worldwide. This award is particularly noteworthy given there are over 3,000 counties and 15,000 cities in the United States.

We have a wide range of highly specialized accounting and auditing skills and professional certifications to ensure we possess the necessary technical expertise to conduct all financial or control audits for the County’s 22 different businesses/departments. We pride ourselves in having assembled a team of CPAs that can compete with any outside accounting firm in both costs and abilities.

Our prior professional experiences include:

Our auditors possess “Blue Chip” experience having worked for such firms as: McDonald Douglas, Pricewaterhouse Coopers (PwC), Coopers Lybrand, Arthur Andersen, CBS Network, US Defense Contract Auditing Agency (DCAA), the IRS, BDO Seidman, Sony Corporation of America, First Interstate Bank, NASA, Caltech, and the California State University System.
Our certifications include:

- Certified Public Accountant (CPA)
- Certified Internal Auditor (CIA)
- Certified Information Systems Auditor (CISA)
- Certified Information Technology Professional (CITP)
- Certified Compliance and Ethics Professional (CCEP)
- Certified Fraud Examiner (CFE)
- Certified Fraud Specialist (CFS)
- Certified Government Financial Manager (CGFM)
- Certification in Control Self-Assessment (CCSA)
- Certified in Financial Forensics (CFF)

Our educational degrees are from Cal State Long Beach, Cal State Fullerton, Cal Poly Pomona, Azusa Pacific, Pomona College, UCLA, UC Riverside, and Oregon State University and include: BAs and BSs in Accounting, Business Administration, MBAs and a Ph.D.
Balanced Scorecard

IAD Balanced Scorecard

We measure these 14 Key Performance Indicators (KPI) in order to continuously improve our strategic performance and results for the Board of Supervisors (Board) and the County. We have adopted the four perspectives of a Balanced Scorecard as our framework for performance measurement. The balanced scorecard is a way of measuring our success by balancing long-term and short-term goals and balancing how successful we are in 4 key categories:

1) Serving the Board and Audit Client (Customer Perspective)
2) Running the Business (Process Perspective)
3) Managing the Resources (Financial Perspective)
4) Developing our Employees (Innovation and Learning Perspective)

Each of these measures is an indicator of our success towards achieving our strategic vision and mission as outlined in the diagram below.
Our Key Performance Indicators (KPI) shows we achieved all 14 of our goals as follows:

**A. Serving the Board and Audit Clients (Customer Perspective)**
- 1. Customer Surveys
- 2. Materiality of Audit Coverage
- 3. Breadth of Audit Coverage
- 4. Responsiveness to Board Directives
- 5. Responsiveness to Audit Oversight Committee Direction
- 6. Transparency of Audit Function

**B. Running the Business (Process Perspective)**
- 7. Percentage of Audit Findings Concurred with by Management
- 8. Percentage of Audit Recommendations Implemented
- 9. Completion of Annual Risk Assessments & Audit Plan
- 10. Percentage of Audit Engagements Completed Each Year

**C. Managing the Resources (Financial Perspective)**
- 11. Percentage of Chargeable Audit Time
- 12. Ratio of Auditors to County Employees

**D. Developing the Employees (Innovation and Learning Perspective)**
- 13. Average years of Professional Experience
- 14. Percentage of Auditors who are CPAs and CIAs

Legend: ★ Goal Achieved

### Serve the Board and Audit Client (Customer Perspective)

One of our objectives is “to provide responsive and value-added professional audit services.” To accomplish this objective, we place emphasis on the importance of our relationship and communication with the Board of Supervisors, the Audit Oversight Committee (AOC) comprised of the Chair and Vice Chair of the Board, the County Executive Officer, the Auditor-Controller and a public member, and our county audit clients.

1. **Customer Surveys: KPI Achieved**

   **Results:**
   Last year we averaged a 4.8 our of 5 or 96% rating.

   **Goal:**
   Our goal is to achieve a rating of 3.5 out of 5 or better in each category.

   In order to get feedback on our services, we ask each department that we audit to complete a Customer Satisfaction Survey and provide feedback to help us monitor how helpful and effective we have been in identifying control and process weaknesses and in identifying areas where we, the auditors can also improve. Our Customer Satisfaction Survey focuses on how useful our audit has been; how well we communicated throughout the audit; our understanding of the client’s issues and challenges; the professionalism of our audit staff; and the quality of our findings.
The Survey Feedback received is encouragingly supportive of us, as the overall rating "of the value received" on our 2009/2010 projects was 96% (4.8 out of 5). Moreover, the IAD has been able to consistently deliver outstanding auditing services during the past three years as achieving our key performance indicators have shown.

### Customer Surveys

<table>
<thead>
<tr>
<th>Performance Indicator for the Auditors</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>They were professional and courteous.</td>
<td>4.9</td>
<td>4.9</td>
<td>5.0</td>
</tr>
<tr>
<td>They clearly communicated the audit objectives.</td>
<td>5.0</td>
<td>4.7</td>
<td>4.8</td>
</tr>
<tr>
<td>They discussed findings with me in a timely manner.</td>
<td>4.9</td>
<td>4.9</td>
<td>4.8</td>
</tr>
<tr>
<td>They provided helpful, reasonable and practical recommendations.</td>
<td>4.8</td>
<td>4.9</td>
<td>4.5</td>
</tr>
<tr>
<td>Thy listened to my concerns and explored options in a partnering way.</td>
<td>4.9</td>
<td>4.9</td>
<td>4.7</td>
</tr>
<tr>
<td>The audit report was clear and accurate.</td>
<td>5.0</td>
<td>4.9</td>
<td>4.8</td>
</tr>
<tr>
<td>They demonstrated satisfactory technical knowledge related to internal controls.</td>
<td>5.0</td>
<td>4.9</td>
<td>4.6</td>
</tr>
<tr>
<td>My experience with the auditors was positive.</td>
<td>4.9</td>
<td>5.0</td>
<td>4.8</td>
</tr>
<tr>
<td>I would recommend OC IAD’s services to my colleagues.</td>
<td>4.8</td>
<td>5.0</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Overall Average</strong></td>
<td><strong>4.9</strong></td>
<td><strong>4.8</strong></td>
<td><strong>4.8</strong></td>
</tr>
<tr>
<td></td>
<td>98%</td>
<td>96%</td>
<td>96%</td>
</tr>
</tbody>
</table>

2. **Materiality of Audit Coverage: KPI Achieved**

**Results:**

Last year we scheduled 100% of our risk based audit hours to the highest risks identified.

**Goal:**

Our goal is to direct 50% or more of our chargeable audit hours to High and Medium audits identified in our risk assessment for the IT Systems and the County Business processes and activities.

We prepare an annual risk assessment to help ensure that the audit hours will be directed to the most important areas of risk to the County. Recognizing there are many competing needs and perspectives, it is critical to the allocation of audit resources that the method is rational, reasonable, consistent, and defensible.

We conduct an annual risk assessment that follows all the best practices of the internal auditing profession. We identify several key risks based upon interviews, surveys returned by the departments and our examination of Business Plans and County records and data. We prepare a relative internal control risk assessment for each department which relates to the seven major business processes in the County. We then develop our Annual Audit Plan targeting the highest risks areas identified. This process helps ensure that our plan will focus on the most material exposures to the County. The main drivers in determining risk are business complexity, total employees, annual budget, and public perception.
3. Breadth of Audit Coverage: KPI Achieved

**Results:**
Last year we had an audit presence in 17 of 22 County departments (77%).

**Goal:**
Our goal is to have an audit presence through half (50%) of the County departments each year. Last year we conducted audits, audit follow ups, CAATs Reviews, CAPS+ Technical Assistance, audit and business advisement, Fraud Hotline investigations, training and committee meeting attendance in the following 17 County departments: Assessor, Auditor-Controller, Child Support Services, Clerk of the Board, County Executive Office, District Attorney, Health Care Agency, Human Resources Department, John Wayne Airport, OC Community Resources, OC Dana Point Harbor, OC Public Works, Public Administrator/Public Guardian, Probation, Sheriff-Coroner, Social Services Agency and Treasurer-Tax Collector. We seek to provide consistent audit presence and audit coverage in all the major departments of the County on an annual basis. We accomplish this by conducting financial, compliance, IT and internal control audits as well as overseeing investigations into Fraud Hotline complaints and in providing training on internal controls as requested.

4. Responsiveness to Board and AOC Directives: KPI Achieved

**Results:**
Last year we responded to all Board and AOC directives.

**Goal:**
Our goal is to start audit work on all Board and AOC directives within two weeks of the assignment unless otherwise agreed upon. We also have as a goal to finish our audit work and release a draft audit report for all Board and AOC directives within six months or less of the directive unless otherwise agreed upon. There could be exceptions necessitated by audit complexity, audit scope and audit staff availability.

Being the “eyes and ears” of the Board and a direct report to them, we strive to complete all directives in a timely and professional manner. We reserve about 10% of our annual budget so we can quickly initiate audits of critical areas or of emerging issues that were not anticipated during our annual audit planning efforts.

5. Assistance to the Audit Oversight Committee: KPI Achieved

**Results:**
For the past eleven years the AOC has held 100% of its mandated quarterly oversight meetings. In addition, we have supported the AOC in the preparation of all requested materials to support their review of our audit effectiveness and efficiencies.
**Goal:**
Our goal is to facilitate and support the AOC in such a manner that they comply with all Brown Act requirements and comply with the AOC Charter requirement to meet at least four (4) times a year.

The Board established the AOC to provide the Director of Internal Audit with counsel and advice and is mandated to meet at least quarterly each year. The materials submitted to the AOC include Quarterly Status Reports, Time Tables, Audit Findings Summaries, Audit Reports, and any requested materials. Our staff prepares the AOC agendas and notices and schedules all meetings.

6. **Transparency of the Audit Function: KPI Achieved**

**Results:**
Last year we submitted all audits to the Clerk of the Board for public release within one month of release to the Board and posted them to our public web site within two months of release.

**Goal:**
Our goal is to route to the public through the submittal to the Clerk of the Board all non-confidential audit reports within the month following their release to the Board. In addition, we strive to post to our public web page all public audit reports within two (2) months or less of their official release.

**Run the Business (Process Perspective)**

7. **Audit Findings Concurred with by Management: KPI Achieved**

**Results:**
Last year management concurred partially or fully with 100% of our audit findings.

**Goal:**
Our goal is to develop audit findings that are both helpful and correct. To measure this achievement, we strive to have management officially concur with the audit findings for 90% or more of our audit reports.

We are committed to providing accurate audit findings and recommendations that identify potential efficiency gains, improve operational effectiveness, and provide guidance regarding provision of more economical services to citizens.
8. **Audit Follow-Ups Conducted on Timely Basis to Ensure Correction of Identified Weakness: KPI Achieved**

**Results:**
We initiated follow-up audits within 6 to 8 months of the official audit release date, unless otherwise warranted. Last year, management implemented 94% of the recommendations during the first follow-up audit and the remainder of the recommendations during the second follow-up audit.

**Goal:**
Our goal is to report to the AOC on a timely basis whether or not management has implemented corrective action to the control weaknesses we identified or accepted the risk for them if not corrected.

Benefits only come from implementation of our recommendations. It is up to management to implement the recommendations and track the realized benefits, while the AOC and County are responsible for ensuring that agreed-upon changes and improvements occur. In follow-up audits conducted since 2003, we have followed-up on over 900 audit recommendations and noted nearly a 100% implementation record. Of particular importance is the fact that about 90% of the recommendations are implemented within 6 to 8 months of the release of our audit report, with the majority of the rest typically being implemented with the next six months.

9. **Complete and Obtain Audit Oversight Committee (AOC) Approval for the Annual Risk Assessment and Audit Plan: KPI Achieved**

**Results:**
We have completed and obtained AOC Approval for our Annual Risk Assessment and Annual Audit Plan each year since 1999.

**Goal:**
Our goal is to conduct a risk assessment and prepare an audit plan each year before the third quarter AOC meeting held in early June of each year. Professional auditing standards require internal audit departments to conduct periodic risk assessment in order to identify the vulnerabilities in their business systems and processes that most warrant inclusion in an audit plan.

We conduct an annual risk assessment of all 22 County departments using standard surveys, reviews of business plans, accounting data, questionnaires and personal interviews with the Board, department heads and key executive staff. We then sort out the highest rated risk in terms of likelihood and impact and schedule them for audit.
10. Number of Audit Engagements Completed: KPI Achieved

**Results:**
Since 1999 we have met or exceeded these goals. For fiscal year 2009-2010, we completed 81% of the number of audits planned in our initial Audit Plan and completed over 75% of the audits identified in our revised Audit Plan.

**Goal:**
Our goal is to complete 70% of the number of audits planned in our annual Audit Plan and to complete over 70% of the actual specific audits identified in our revised Audit Plan.

Our Audit Plan is subject to quarterly revisions as approved by the AOC. These revisions enable us to ensure the audits conducted are both timely and responsive to the dynamic and changing nature of the County activities. Due to emerging issues and directives undertaken at the direction of the Board of Supervisors, we revised our Annual Plan with several substitutions. All revisions and substitutions were made with the AOC’s full approval.

Manage the Resources (Financial Perspective)

11. Percentage of Chargeable Audit Time: KPI Achieved

**Results:**
Since 2006 we have averaged 76% or better. For fiscal year 2009-2010, we averaged 80%.

**Goal:**
Our goal is to achieve 70% chargeable audit hours on average for each auditor each year.

This is a challenging measure due to the fact that the department has suffered severe budget cuts, including the loss of a full-time senior administrator which has necessitated an increase in auditors performing administrative duties as needed. We use this measure to help manage our audits, but with the understanding that it is an imprecise measure that is subject to changes unrelated to supervision and management of the audit engagements.

Direct or chargeable time is the time charged by auditors for the performance of audits, investigations, follow-up audits or other engagements. Indirect time charged by auditors incorporates non-project time, including time used for vacation and sick leave, for general administration, training and other indirect activities. An auditor’s chargeable time is the time they can devote to the auditing of County business processes.
12. Ratio of Auditors to County Employees: **KPI Achieved**

**Results:**
We had a ratio of 1 auditor to every 1,360 County employees. This ratio is about 57% more efficient than 1 to 865 for the most recent ALGA survey of similarly sized governmental entities.

**Goal:**
Our goal is to manage the audit department effectively and efficiently. We receive independent feedback every three years from an external Peer Review and by comparing ourselves against comparable audit departments through a biennial survey conducted by the Association of Local Government Auditors. This year we had a very efficient auditor ratio. We firmly believe that our efficiency is in large part due to two factors:

1) The Executive Audit Team has diverse extensive and “Blue Chip” audit experience in internationally recognized companies and
2) All auditors are CPAs (See KP1 #13 and 14 below)

This measure is imprecise and is used as a general reference point for monitoring. The difference in systems, personnel, governance and professionalism of county staff and management make it difficult to truly compare oneself to another county of similar size let alone dozens of them. However, we need this measure to provide an answer to the AOC’s frequent question of “how do we compare to our peers?” We believe the answer to this question is “very well.”

---

**Develop the Employees (Innovation and Learning Perspective)**

13. Average Years of Professional Experience: **KPI Achieved**

**Results:**
We average 19 years of experience for the audit staff.

**Goal:**
Our goal is to retain Auditors with at least 8 years of professional experience.

We emphasize hiring highly-qualified CPAs/internal audit professionals, meaning the successful candidates have several years of audit and/or business experience, possess certifications and/or advanced degrees and require less supervision. This high level of experience means we are able to conduct audits of the County’s highest risk levels and thereby provide greater audit coverage for the Board of the most important issues and activities.
14. Percentage of Auditors who are CPAs and CIAs: KPI Achieved

**Results:**
100% of our auditors are CPAs, 73% are CIAs and 60% have another certification.

**Goal:**
Our goal is to have 30% CPAs on staff which is a ratio that exceeds the average for other large counties and cities responding to the ALGA survey.

No other large County or City in the USA has achieved these impressive results. In fact the Association of Local Government Auditors conducted a Benchmark and Best Practices Survey in 2008 and revealed that based upon their responses that only 27% of the auditors were CPAs and only 19% were CIAs for the average audit department for large cities and counties. Several staff members are also active in organizations of auditors, accountants, financial officers, and information technology professionals.

Professional associations include the Institute of Internal Auditors, Institute of Chartered Accountants, Society of Management Accountants, Certified General Accountants Association, Association of Certified Fraud Examiners, Information Systems Audit and Control Association, Government Financial Officers Association, Association of Local Government Auditors. The extensive variety of skill sets offered by staff members enables us to conduct most of our department’s tasks with internal resources, rather than having to hire more expensive external resources.

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent staff certified as CPA. The ALGA Survey average is 27%.</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Percent staff certified as Certified Internal Auditor (CIA). The ALGA Survey average is 19%.</td>
<td>81%</td>
<td>73%</td>
<td>73%</td>
</tr>
<tr>
<td>Percent staff certified as Certified Information Systems Auditor (CISA) or Certified Information Technology Professional (CITP) The ALGA Survey average is 10%.</td>
<td>50%</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>Percent staff certified as Certified Fraud Examiner (CFE) or Certified Fraud Specialist (CFS) The ALGA Survey average is 13%</td>
<td>19%</td>
<td>33%</td>
<td>33%</td>
</tr>
</tbody>
</table>
ALGA has identified seventeen best practices for internal audit offices. OC IAD’s self-evaluated performance is in the top rating (1), "highly successful" for 17 of the 17 practices.

The following table provides a listing of these best practices with a short explanation of each practice. It is important to note that in the 2008 ALGA Benchmarking and Best Practices Survey over 89 audit offices in the profession provided a self-evaluation of their department’s current status regarding each best practice topic area.

The status levels were:
1. Best Practice – highly successful
2. Experienced
3. Just starting
4. Not applicable

The Industry rating column reflects the percentage of audit offices that evaluated themselves at either a 1 or 2 for the applicable practice. The OCIAD status column indicates our ranking (from 1 to 4) in each of these best practice areas.

ALGA has framed the results of its most recent Survey by grouping the responses into four categories based upon the size of the Internal Audit Department. For purposes of the ALGA Survey, OC IAD is grouped into the largest sized category. We find ourselves compared to both cities and counties in this survey and find the comparison useful as a reference point or “reality check” on our practices and vision for our department.

It is important to understand that surveys of this kind have their limitations due to the differences among the participants, but ALGA has done a thoughtful job of identifying practices that are uniformly viewed as “good ideas” by everyone in internal auditing regardless of the size of the entity or the audit department. Of course, smaller departments just do not have the staff to adopt all these Best Practices whereas bigger departments do. Our comparison is therefore with the large sized internal audit departments.
<table>
<thead>
<tr>
<th>#</th>
<th>Internal Audit Leading Practices - ALGA</th>
<th>% of ALGA with a 1 or 2</th>
<th>IAD Rating #1 – Highest Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Business Planning</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Working with Audit Committee and/or Senior Management to Identify Major Audit Issues - Audit Committee and/or Senior Management reviews the audit work plan and strongly supports early involvement of the audit department.</td>
<td>70%</td>
<td>#1</td>
</tr>
<tr>
<td>2</td>
<td>Audit Department Planning Process - Audit department prepares a formal risk assessment document.</td>
<td>65%</td>
<td>#1</td>
</tr>
<tr>
<td>3</td>
<td>Planning for the Future – Annual strategic planning and/or long-term (3 to 5 year) audit work planning on-going.</td>
<td>47%</td>
<td>#1</td>
</tr>
<tr>
<td>4</td>
<td>Marketing the Audit Function - Audit department has developed a marketing product, which encourages management to see audit as an advisor/consultant and supports the audit mission.</td>
<td>39%</td>
<td>#1</td>
</tr>
<tr>
<td></td>
<td><strong>Customer Satisfaction</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Customer Satisfaction Surveys - Audit department obtains input through the use of formal customer surveys.</td>
<td>36%</td>
<td>#1</td>
</tr>
<tr>
<td>6</td>
<td>Audit Effectiveness Questionnaire - Audit department asks customers to value audit after the engagement has been completed. Part of our survey includes audit effectiveness.</td>
<td>28%</td>
<td>#1</td>
</tr>
<tr>
<td></td>
<td><strong>Measuring Results</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Audit Report Follow-up - Action dates logged and tracked, and non-compliance reported to Audit Oversight Committee and/or senior management.</td>
<td>65%</td>
<td>#1</td>
</tr>
<tr>
<td>8</td>
<td>Audit Report resolution and corrective action taken by management - Audit committee and/or senior management actively support the audit resolution process and take corrective action in a reasonable period of time.</td>
<td>76%</td>
<td>#1</td>
</tr>
<tr>
<td></td>
<td><strong>Third Party and Peer Review</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Third Parties - Use of third parties to conduct audit work when required.</td>
<td>34%</td>
<td>1 When needed</td>
</tr>
<tr>
<td>10</td>
<td>External Quality Control Reviews - Audit department schedules external peer review once every three to five years.</td>
<td>57%</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td><strong>Audit Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>High percentage of Performance/Operational Audits - Audits focus on business process (economy and efficiency and effectiveness), not just controls. We audit process and controls for effectiveness and efficiency in every audit. In addition, the BOS has a separate audit group chartered to conduct Performance Audits exclusively.</td>
<td>72%</td>
<td>#1</td>
</tr>
</tbody>
</table>
## Balanced Scorecard

<table>
<thead>
<tr>
<th>#</th>
<th>Internal Audit Leading Practices - ALGA</th>
<th>% of ALGA with a 1 or 2</th>
<th>IAD Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td><strong>Lease/Contract Auditing</strong> – Audits are performed either before or early in contract term; field audits are used to verify amounts billed and obtain contract repayments if necessary.</td>
<td>29%</td>
<td>#1</td>
</tr>
<tr>
<td>13</td>
<td><strong>Information Systems Auditing</strong> - Perform pre and post implementation reviews of new automated systems and/or actively involved in the audit of active automated system applications and the general control environment.</td>
<td>30%</td>
<td>#1</td>
</tr>
<tr>
<td>14</td>
<td><strong>Performance Measures Benchmarking and/or Best Practices</strong> - Audit department reviews and/or analyzes submissions made by operating departments regarding performance measures to verify the reliability of management presentations. We conducted extensive audits to validate the Key Performance Measures reported for all County Departments over a 3 year period. Overall, we found the reports highly accurate. Since conducting these audits, the BOS established a separate Performance Audit function.</td>
<td>32%</td>
<td>#1</td>
</tr>
</tbody>
</table>

## Business Process Activities

<table>
<thead>
<tr>
<th>#</th>
<th>Organization Teams for Re-engineering Work Process Improvements and Quality Improvement - Audit department facilitates or participates in organizational initiatives to streamline operations and/or focus on customer needs.</th>
<th>% of ALGA with a 1 or 2</th>
<th>IAD Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td></td>
<td>51%</td>
<td>#1</td>
</tr>
<tr>
<td>16</td>
<td><strong>Control Self-Assessments</strong> - Audit department educates/facilitates/equips operating departments for self-assessment of organizational risks.</td>
<td>25%</td>
<td>#1</td>
</tr>
<tr>
<td></td>
<td>OC IAD conducted over 105 CSA for 85% of the County Departments over a 5 year period ending 2007. Given the success of the CSA, we continue to provide this type of services as requested.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Use of Automated Audit Tools

<table>
<thead>
<tr>
<th>#</th>
<th>Use of Automated Audit Tools - Use computer-assisted audit techniques and tools to assist in audit analysis and testing, and/or audit planning and administration.</th>
<th>% of ALGA with a 1 or 2</th>
<th>IAD Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td></td>
<td>56%</td>
<td>#1</td>
</tr>
<tr>
<td></td>
<td>OCIAD conducts monthly CAATs audits of selected disbursements.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
INDEPENDENT VALIDATION OF
ORANGE COUNTY INTERNAL
AUDIT DEPARTMENT’S BALANCED
SCORECARD

FINAL REPORT

Report No. M11-0008  September • 2010

Chief of Audits: James L. Pelletier, CIA, CICA
Senior Audit Manager: Tom Philipp, CIA, CCSA
Supervising Senior Auditor-IA: Yuki Matsuura, CPA, CCSA
Auditor I. Angela Chen, CPA
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Independent Validation by County of San Diego (continued)

INTRODUCTION

Objective
At the request of the Director of Internal Audit, the Office of Audits & Advisory Services (OAAS) completed an independent validation of the Orange County Internal Audit Department’s (IAD) Balanced Scorecard for FY 2009-10. The objective of the validation was to determine whether the self-assessment results reported by IAD are reasonably accurate and adequately supported.

Background
IAD uses a Balanced Scorecard as its framework for performance measurement. Based on its self-assessment, IAD reported that it achieved all 14 Key Performance Indicators (KPI) and is practicing all 17 of the Association of Local Government Auditors (ALGA) Best Practice benchmarks for FY 2009-10.

Scope & Limitations
The validation covered the IAD’s Balanced Scorecard for FY 2009-10.

This validation 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 validation using the following methods:

- Reviewed IAD’s FY 2009-10 Balanced Scorecard to obtain understanding of the KPIs, ALGA Best Practice benchmarks, and reported results;
- Reviewed ALGA 2008 Benchmarking and Best Practices Survey;
- Reviewed supporting documentation provided by IAD to evaluate validity of the reported results, and
- Interviewed IAD management and staff to discuss identified issues.

RESULTS

Overall Opinion
It is our overall opinion that the FY 2009-10 Balanced Scorecard reported results are reasonably accurate and adequately supported.

REPORT DISTRIBUTION

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.