

BOARD OF SUPERVISORS
Yolo County, California

To: Fin. Svcs. ✓

CONSENT CALENDAR

Excerpt of Minute Order No. 15-86 Item No. 16, of the Board of Supervisors' meeting of July 28, 2015.

MOTION: Chamberlain. SECOND: Saylor. AYES: Provenza, Chamberlain, Villegas, Saylor, Rexroad.

16.

Approve an updated Internal Audit Charter. (No general fund impact)
(Newens)

Approved recommended action on Consent.



County of Yolo

www.yolocounty.org

To: Supervisor Matt Rexroad, Chair
and Members of the Board of Supervisors

Consent-General Government # 16.

Board of Supervisors Meeting

Financial Services

Meeting Date: 07/28/2015

Brief Title: Internal Audit Charter

From: Howard Newens, Chief Financial Officer, Financial Services

Staff Contact: Mary Khoshmashrab, Internal Audit Manager, Financial Services, x9210

Subject

Approve an updated Internal Audit Charter. (No general fund impact) (Newens)

Recommended Action

Approve the attached Internal Audit Charter to replace the Audit Charter and Policy Statement adopted on 2/16/1999.

Strategic Plan Goal(s)

Provide fiscally sound, dynamic and responsive services

Reason for Recommended Action/Background

On February 16, 1999, the Board of Supervisors approved an Audit Charter and Policy Statement that defined the role and responsibilities of the audit function in the County. Since then, evolution of the internal audit profession, as well as the recent structural change in the finance function in the County have necessitated a wholesale revision of this governing document.

After extensive research, staff recommends a new proposed charter for the internal audit function (Att A - Internal Audit Charter) that reflects conformance with all applicable standards issued by the Institute of Internal Auditors and the U.S. Government Accountability Office, and that matches the current organization of the finance function in the County.

The charter sets forth the purpose, scope, authority and responsibilities of the internal audit function; the document also explains the relationship between the internal auditors and the Board of Supervisors through its audit sub-committee, as well as the relationship with management and the Financial Oversight Committee.

Collaborations (including Board advisory groups and external partner agencies)

The charter was submitted for review by members of the Financial Oversight Committee and their comments were taken into account in the final draft attached.

Fiscal Information

No Fiscal Impact

Fiscal Impact of this Expenditure

Total cost of recommended action

Amount budgeted for expenditure

Additional expenditure authority needed \$0

On-going commitment (annual cost)

Source of Funds for this Expenditure

General Fund \$0

Attachments

Att. A. Internal Audit Charter

Form Review

Inbox

Financial Services (Originator)

Howard Newens

Ivan Vonk

Patrick Blacklock

Form Started By: Mary Khoshmashrab

Final Approval Date: 07/15/2015

Reviewed By

Howard Newens

Howard Newens

Ivan Vonk

Patrick Blacklock

Date

07/14/2015 03:54 PM

07/15/2015 10:22 AM

07/15/2015 10:26 AM

07/15/2015 01:35 PM

Started On: 06/25/2015 01:46 PM

Yolo County



Internal Audit Charter

July 2015

Approved By the Board of Supervisors on July 28, 2015

Article I

Definitions, Names, and Authority

- This document is referred to herein as the “Charter.”
- The County of Yolo is referred to herein as the “County”.
- The County’s Audit Sub-Committee (Committee) members are board appointed and serve a two-year term. The Committee consists of two members of Board of Supervisors that serve concurrently on the Financial Oversight Committee, the Chief Financial Officer or designee, and the County Administrator or designee. The Audit Committee’s roles and responsibilities are defined in this Charter. The Committee serves as advisories to the full Board of Supervisors.
- The County’s Management referred to herein to mean all levels of management at the County.
- The County’s Internal Audit Division performs internal and external auditing activities and reports to the Committee. This Division is herein referred to as the “Internal Audits”.
- The Internal Audit Manager of the Internal Audit Division is herein referred to as the “Chief Auditor”. The Chief Auditor is a senior position responsible for effectively managing Internal Audit’s internal audit activities in accordance with this Charter and with the Definition of Internal Auditing, the Code of Ethics, and the Standards as defined within the International Standards for the Professional Practice of Internal Auditing, and other professional standards.
- The County Administrator, Chief Financial Officer (CFO), the Chair of the Board of Supervisors, the Chair of the Committee, and the Chief Auditor are herein referred to as “Acknowledging Officers” in regards to their role in overseeing the internal audit activity.
- The International Standards for the Professional Practice of Internal Auditing herein referred to as the “ISPPIA is the authoritative standards for the practice of internal auditing. These authoritative standards are produced by the International Internal Auditing Standards Board (IIASB).”

The ISPPIA is recognized as the authoritative standards and promulgated by the *Institute of Internal Auditors (IIA)* as *internal audit standards for internal auditing*, referred to herein as the “Standards.” While this Charter is not intended to fully reiterate the Standards, it is intended to be consistent with the Standards and should be interpreted in a manner consistent with those standards. The Standards not directly incorporated into this Charter shall nonetheless be fully and appropriately applicable to the County’s Internal Audits. The County’s Internal Audit Division also considers guidance from industry practices and other relevant sources as deemed appropriate and reasonable in relation to the County’s needs, including but not limited to the Generally Accepted Government Auditing Standards (GAGAS), Generally Accepted Auditing Standards (GAAS), California Government Code, Administrative Manuals, and other applicable authorities.

Authority

Passage of Senate Bill (SB) 1452 resulted in updates to internal auditing standards for state and local agencies and establishes a process enabling the Legislature to be informed when State Auditor recommendations are being ignored or not implemented by agencies. Additionally, it creates a framework to protect internal auditors from intimidation while providing them with a process to have audit expectations reported if audit findings are suppressed by management.

Further, the passage amends Government Code (GC) section 1236 to state that all city, county, and district auditors conduct their work under the general and specified standards prescribed by the Institute

of Internal Auditors or the Government Auditing Standards issued by the Comptroller General of the United States, as appropriate.

The passage amends Government Code section 1237 to require all state and local agencies with an aggregate spending of fifty million dollars or more annually to consider establishing an ongoing audit function; and the passage adds Government Code section 8546.2 to require all state and local government entities, including any special districts, to provide updates on the progress in implementing any recommendations made by the State Auditor, at intervals prescribed by the State Auditor.

The County's Internal Audit Division has selected the Internal Auditing Standards as a primary basis for planning and conducting its audit activities. Therefore, such standards are incorporated by reference into this Charter.

Additionally, the county or its agencies will incorporate and consider, where applicable guidance from other relevant sources. Therefore, in conducting its audit activities, the County's Internal Audit Division will also consider sources including, but not limited to: Generally Accepted Government Auditing Standards (GAGAS), Generally Accepted Auditing Standards (GAAS), the California Government Code, the County's Administrative Manuals, the County's established policies and procedures, and other applicable authorities.

Article II

Section 1 - Purpose of this Charter

This Board of Supervisors approved and adopted Charter establishes the responsibilities, reporting lines, and protocols of the Internal Audit Division; it establishes the County's objective and provides for uninhibited and complete discretion to fulfill its objective, with procedural remedies to remediate obstacles and issues. This Charter also delineates the reporting lines of the Internal Audit Division, the roles and approval of the Financial Oversight Committee (FOC) and Audit Sub-Committee, and acceptance by the Chief Auditor.

Section 2 - Objective of the Independent Committee

The County established an Audit Sub-Committee (Committee) that consist of elected officials to further ensure independence around the internal audit functions. The internal audit functions are designed to include timely reporting of significant issues to appropriate oversight authorities. The Committee's members consist of the two board members that also serve on the Financial Oversight Committee. The Committee serves as an advisory to the full Board of Supervisors. The Committee will help to ensure the internal audit division is independent of management. Specific responsibilities of the Committee vary depending on the form of review, type of reporting requirements, or the matter under consideration. The Committee has authority to request a review be conducted and/or authorize investigations into any matter within its scope of responsibility. It is specifically empowered to appoint and oversee the work of the public accounting firm employed by the County to perform the annual audit, and to resolve disagreements between management and the auditing firm regarding any audit findings or recommendations.

Section 3 - Objective of the Internal Audit Division

The objective of the Internal Audit Division is to serve as the County's oversight function that objectively evaluates and recommends improvements to the County's internal control structure, prioritizing its efforts by continuously facilitating an objective risk assessment. This objective is consistent with that as defined by the Standards. The Committee and Acknowledging Officers recognize the importance of an internal/external audit function and adopt this objective for the County's Internal Audit Division.

The Internal Audit Division also performs external reviews of contracts or service programs of entities that are awarded funds overseen by the County. The Internal Audit Division performs investigative or special reviews at the request of The Committee, Management, and/or in accordance with various laws, statutes, and regulations such as the California Government Codes, and regulations, and other applicable authorities.

Additionally, the Internal Audit Division performs non-auditing consulting services, works with management in supporting the tone set at the top, evaluates and analyses data, reviews processes for efficiency, provides guidance, training and development to the county and its government components, and provides subject expert guidance to internal and external customers, etc.

Article III

Section 1 - Responsibility and Protocols

The Committee recognizes that it is ultimately responsible for establishing and monitoring the risk tolerance of County. The Chief Auditor shall from time to time advise the Committee on existing and evolving governance practices as could be best suited for the County. The Acknowledging Officers recognize that management is responsible for the County's internal control structure, and thus is also responsible for creating and maintaining an adequate system to serve as the basis for designing, monitoring, and evaluating its internal control structure. To evaluate management's internal control systems, the Internal Audit Division shall be provided with uninhibited and complete:

- discretion to fulfill its objective; and
- access to all organizational records, data, information, assets, and personnel.

The Chief Auditor shall have open and direct access to the County's Administrator, Board of Supervisors, the Chief Financial Officer, the County Management, the Committee, and the County's staff.

The Chief Auditor shall be free to document and communicate without interference or influence, specific policies and procedures best suited for managing the Internal Audit Division.

The County's Management and staff shall be obligated to respond to the Internal Audit Division's inquiries and recommendations, formal and informal, and in a timely and diligent manner. Excessive requirements for management authorizations or permissions are deemed to inhibit access. The Chief Auditor has the discretion to disclose and refrain from disclosing any reasons for requests placed upon management and staff.

The Chief Auditor shall report disagreements with management and instances in which a request for access or response is not granted or provided in a reasonable time, format, and manner to the Committee.

The Internal Audit Division shall hold data and information obtained during the course of its audit activities with due care and the appropriate level of confidentiality. The Chief Auditor shall, for good cause, have authority to grant, limit, and restrict access to work papers and records.

Section 2a – Scope and Duties of the Internal Audit Division- Audit Services

The auditors shall have authority to conduct financial and performance audits of all departments, divisions, boards, activities, agencies and programs of the entity in order to independently and objectively determine whether:

1. Activities and programs being implemented have been authorized by the appropriate governing laws or codes, state or local law, or applicable federal law or regulations.
2. Activities and programs are in compliance, properly conducted, and funds expended in accordance with the applicable laws.
3. The county's departments, divisions, or agencies are acquiring, managing, protecting, and using its resources, including public funds, personnel, property, equipment, and space, economically, efficiently, equitably, and effectively, and in a manner consistent with the objectives intended by the authorizing entity or enabling legislation.
3. The entity, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices.
4. The desired result or benefits are being achieved.
5. Financial and other reports are being provided that disclose fairly, accurately, and fully all information required by law, to ascertain the nature and scope of programs and activities, and to establish a proper basis for evaluating the programs and activities including the collection of, accounting for, and depositing of revenues and other resources.
6. Management has established adequate operating and administrative procedures and practices, fiscal and accounting systems, and an adequate system of controls or internal management controls; and
7. Indications of fraud, abuse, waste, misappropriation, or illegal acts are valid and need further investigation.

Section 2b – Scope and Duties of the Internal Audit Division- Non-Audit Services

The Internal Audit Division supports the tone at the top by offering the County's Management and staff the following non-audit services:

1. Provides non-auditing consulting, guidance and recommendations;
2. Provides training and development on fiscal policies, systems of controls, or other processes;
3. Analysis of data, reviews of program processes, and provides insight on financial forecasting and projections;
4. Reviews and makes recommendations on contracts, or other program agreements;
5. Reviews processes and procedures to improve efficiency and ensure source documents are sufficient and supportive of funds expended;
6. Assists in developing automated tracking systems and design support upon request;

7. Provides guidance and/or review of management's strategic plans to ensure alliance with the overall County's plan; and
8. Provides internal and external customer support on subject matters, etc.

Section 3 – Risk Assessment and Planning

The Chief Auditor shall facilitate and conduct a risk assessment process to assist management to logically identify key risks within the County and its components, and shall annually present and discuss the risk assessment to the County Administrator, the Chief Financial Officer, and the Committee to receive input and feedback. As part of the aforementioned process, the Chief Auditor shall receive direction and input from the Chief Financial Officer, and the Committee as to the risk factors that the Committee deems most important to the County. The Chief Auditor shall then develop an annual audit plan based on a management self-risk assessment and overall countywide risk assessment, and present the audit plan to the Committee for its review, input, and approval. Annually, the Chief Auditor shall present the results of a continuous monitoring of identified risk and the status of management's corrective actions to the Committee, with necessary adjustments proposed to the audit plan for its review, input, and approval. The Committee and Chief Auditor recognize that the audit plan shall be continuously risk-based, and not coverage-based, and optimal audit plans continuously change in response to shifting perceptions and outcomes of risk.

The Committee recognizes that the internal auditors competently achieve the objective of an internal audit function with the probability and timeliness of risk identification generally being in direct proportion to that risk's impact on the organization. As such, it is further recognized that:

- Timeliness is relevant to the Committee's risk tolerance and prioritization within the risk assessment; and
- The identification of risks is subject to change and interpretation; therefore the standard of competence does not ever require certain and complete identification of any and all risks.

Article IV

Section 1 – Objectivity and Reporting Structure

The Chief Auditor is fully accountable and reports functionally directly to the Committee. The Committee will meet with the Chief Auditor at least semi-annually in general session and privately, ideally in person but nonetheless through any other reasonable means. For administrative purposes, the Chief Auditor reports directly to the Chief Financial Officer.

The Internal Audit Division shall not assume organizational responsibilities or authority outside County, and therefore will not:

- assume organizational responsibilities
- perform management functions, procedures, reporting, tracking and accounting
- design or execute controls or processes
- render organizational decisions

Similarly, the Internal Audit Division shall not in any way utilize its resources to relieve or subsidize other persons or functions in the County that would create an impairment of independence.

The Committee and the Chief Auditor recognize that activities that are performed by the Internal Audit Division and are of an objective nature including repetitive audits, audits “required” of management, and audits that take on more of a monitoring function rather than an assessment, shall not serve as a substitute for management controls, as an adequate internal control structure should not dictate the performance of any audit.

The Chief Auditor shall disclose to the Chief Financial Officer and the Committee, any and all requested, proposed, and performed activities that are deemed as not taking the form of an objective internal audit activity, for their acceptance or rejection.

Management shall not separately and distinctly allocate the cost of the Internal Audit Division to other County cost centers. However, cost associated with a particular audit, review or other services may be charged directly to an entity based on the published rate per hour or charged by project.

Section 2 – Independence

When establishing an audit function, it is very important to be explicit in protecting auditors’ impartiality and objectivity in conducting their work so decision-makers and the public can rely on audit findings and recommendations. For example, managers of functions that may be audited should not have authority over the work of auditors. In order to be independent in fact/matter and appearance, auditors must be free from conflicts of interest and free from interference in how the work is conducted and reported. Auditors must have systems in place to identify, safeguard against, or report threats to independence. The Government Auditing Standards identify seven types of threats to independence that the Division of Audit shall endeavor to avoid:

- Self-interest threat - the threat that a financial or other interest will inappropriately influence an auditor’s judgment or behavior;
- Self-review threat - the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services performed as part of the nonaudit services when forming a judgment significant to an audit;
- Bias threat - the threat that an auditor will, as a result of political, ideological, social, or other convictions, take a position that is not objective;
- Familiarity threat - the threat that aspects of a relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective;
- Undue influence threat - the threat that external influences or pressures will impact an auditor’s ability to make independent and objective judgments;
- Management participation threat - the threat that results from an auditor’s taking on the role of management or otherwise performing management functions on behalf of the entity undergoing an audit; and
- Structural threat - the threat that an audit organization’s placement within a government entity, in combination with the structure of the government entity being audited, will impact the audit.

Section 3 - Competence

The Chief Auditor shall document and communicate specific requirements for professional credentials, including education and certifications, experience, and ongoing professional development. The Chief Financial Officer, the Committee, and the Chief Auditor recognize that the

practice of internal auditing can be competently executed by individuals of a variety of experiences and credentials. The Internal Audit Division shall be comprised of a sufficient number of individuals with internal control credentials and/or experience, and ideally of a variety of credentials and/or experiences. The Chief Auditor shall determine the minimum amount of relevant training required for the internal audit practitioners (in accordance with government code, principals, and the standards). The Chief Auditor shall have documented applicable procedures in place that deliver appropriate supervision, coaching, performance appraisals, and training to the internal audit practitioners within the Internal Audit Division.

The Chief Auditor shall continuously and annually review the general level of compliance to the key components of the adopted standards and the function's policies and procedures. Annual reviews shall be based on key attributes deemed most important by the Chief Auditor and the Committee. Such reviews shall take the form of a condensed internal self-assessment.

Additionally, the Chief Auditor shall ensure that there is a periodic assessment of comprehensive compliance to the key components of the adopted standards and the function's policies and procedures.

The results of the periodic assessment shall be presented to the Committee by the Chief Auditor and administrative report-direct for an internal assessment or the third party representative when a third party performs the assessment.

Article V

Fraud

The Committee recognizes that management is responsible for controls to reasonably prevent and detect fraud. Furthermore, the Committee recognizes that internal audit practitioners and therefore the Internal Audit Division are not responsible to identify fraud.

The Committee and the Chief Auditor recognize that internal audit practitioners should be competent to consider fraud risks that result from reviews of the line functions at the County and the government components as well as factors external to the County for the purposes of continuous audit planning and project planning and scoping. Moreover, should the auditor become aware of potential fraud during a review, the auditor would be expected to report the matter to the Committee, and the appropriate management, and further investigate the matter.

Management shall be responsible to report to the Chief Auditor and the Committee any and all suspected incidences of fraud reasonably believed to have occurred. The Chief Auditor shall perform and monitor all investigations and determine if the reported incident is substantiated. Management shall provide regular updates to the Chief Auditor for all suspected and actual incidences of fraud, whether or not investigations are conducted as a result. This will aid the Chief Auditor in maintaining awareness of all potential risks and control weaknesses within the County, particularly to help to determine and recommend improvements to internal controls to reduce future vulnerability; and contemplate new audit procedures that may be deemed necessary to be performed in future audit work to assess the risk of repeated or similar fraud.

Article VI

Reporting and Follow-Up

The Chief Auditor shall have procedures in place to ensure that reported conclusions and opinions are supported with adequate, competent, and sufficient internal audit work.

The Chief Auditor *shall not issue an opinion* on the internal control structure. The Committee recognizes that an organization's internal control structure is comprised of and affected by many internal and external activities and elements, all of which are subjected to variability in effectiveness. The Committee further recognizes that any opinion on the overall internal control structure of an organization would be inherently subject to excessive uncertainty, regardless of the adequacy, competency, and sufficiency of internal audit work.

The Internal Audit Division shall communicate results of its work and otherwise known issues to management and the Committee. The Chief Auditor shall form and report appropriate opinions based on audit evidence. Management shall provide responses to issues in a prompt and efficient manner. Written reports shall be distributed to the County Administrator, the Chief Financial Officer, the Board of Supervisors, and the Committee, if appropriate for reports containing significant issues or when there is a disagreement with management other than minor in nature. The Chief Auditor shall provide summary information to the Committee pertaining to issues resulting from internal audit procedures as well as known issues outside of internal audits scope of review. Additionally, the Chief Auditor shall provide the Committee with an annual assessment as to the effectiveness of management's attention to resolving internal control issues.

The Committee shall approve the processes pertaining to follow-up audit procedures, if appropriate. The Chief Auditor shall have procedures in place to track, monitor, and evaluate the status of internal control issues with a tracking mechanism and with consideration to the risk of each issue and the cost and benefit of various audit procedure alternatives.

Article VII

Amendments

Amendments shall be brought to the Board of Supervisors for approval as needed.