

Internal Audit Department

O R A N G E C O U N T Y
6th Largest County in the USA

Internal Quality Assurance Self-Assessment OC Internal Audit Department

The Self-Assessment Questionnaire was completed on September 26, 2011 by the Internal Audit Department in fulfillment of the IIA's Internal Assessment that requires a periodic self-assessment per Standard 1311

The scores for each of the ten categories clearly revealed that the department personnel are committed to providing professional, objective and unbiased audits to the Board of Supervisors. In addition, the scores revealed that there is an outstanding level of teamwork, leadership and effective supervision on the audit projects.

This Self-Assessment Questionnaire is designed as a "Best Practice" and was completed by all the auditors, staff and management in the department using an anonymous self-administered questionnaire. It was developed by our department as a template for any internal audit department in the private and governmental sectors to use.

REPORT NO: 1154

REPORT DATE: NOVEMBER 8, 2011

Director: Dr. Peter Hughes, MBA, CPA, CIA
Deputy Director: Eli Littner, CPA, CIA
Senior Audit Manager: Alan Marcum, CPA, CIA
Contributors: All IAD Staff

RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010



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

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach



ORANGE COUNTY BOARD OF SUPERVISORS'
Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes **Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF**
 Director Certified Compliance & Ethics Professional (CCEP)
 Certified Information Technology Professional (CITP)
 Certified Internal Auditor (CIA)
 Certified Fraud Examiner (CFE)
 Certified in Financial Forensics (CFF)

E-mail: peter.hughes@iad.ocgov.com

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



Transmittal Letter



Report No. 1154 November 8, 2011

TO: Honorable Members
Board of Supervisors

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Report to the Board the Results of IAD's
Internal Quality Assurance Self-
Assessment (IQASA) as of September
26th 2011

I am pleased to report we have satisfied the Institute of Internal Auditors (IIA) Auditing Standard 1311 that requires we conduct a periodic internal assessment and report the results to the OC Board of Supervisors.

We took the format of our existing Control Self-Assessment (CSA) generic questionnaire and developed 51 very specific questions to assess the management and professionalism of an internal audit department. The (IQASA) Questionnaire was completed by each member of the department and submitted anonymously. Guidance was provided by IIA's Practice Advisory 1311-1 in this regard.

Each month I submit an **Audit Status Report** to the Board of Supervisors (BOS) where I detail any critical or significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Although the Internal Quality Assurance Self-Assessment (IQASA) is not considered an audit, this report will be included in a future status report to the BOS.

Attachments

Other recipients of this report are listed on the **Internal Quality Assurance Self-Assessment** report on page 5.



Internal Quality Assurance Self-Assessment

Completed September 26, 2011

Report No. 1154

Transmittal Letter	i
Internal Audit's Internal Quality Assurance Self-Assessment Report	
Overview and Purpose of IQASA	1
Development of the IQASA Questionnaire	2
Results	3
Summary by Category	4
Respondents Comments	5
Additional Value	5
ATTACHMENT A:	
Internal Quality Assurance Self-Assessment (IQASA) Questionnaire	6

Internal Quality Assurance Self-Assessment



Report No. 1154

November 8, 2011

TO: Honorable Members
Board of Supervisors

FROM: Dr. Peter Hughes, CPA, Director
Internal Audit Department

SUBJECT: Internal Quality Assurance Self-Assessment (IQASA)
Questionnaire

IQASA Highlight

The Internal Audit Department developed a series of 51 questions designed to specifically assess how well the department believes it is following professional auditing standards; how well it is managed and led; and the level of teamwork exhibited on its audit projects. It is also designed to be a template for any internal audit department in the public and governmental sectors to use. The questions are designed to address those factors under the control of the Internal Audit Director and his staff.

OVERVIEW AND PURPOSE OF IQASA

This report presents the results of our **Internal Quality Assurance Self-Assessment (IQASA)** achieved through a self-administered and anonymously completed department Questionnaire.

I am pleased to report we have satisfied the Institute of Internal Auditors (IIA) Auditing Standard 1311 that requires we conduct a periodic internal assessment and report the results to the Board of Supervisors. We took the format of our existing Control Self-Assessment (CSA) generic questionnaire and developed 51 questions to specifically assess the management and professionalism of the internal audit department. Guidance was provided by IIA's Practice Advisory 1311-1 in this regard.

The County's budget size makes it a Fortune 500 size business with 22 separate departments and over 17,000 employees with diverse, unique and complex processes. This makes the County equivalent to a corporate conglomerate with 22 different lines of business. It is critical the County sustain a world-class, experienced, certified and independent Internal Audit Department (IAD). This self-assessment supports IAD and the Board of Supervisors in this regard.

To ensure staff was comfortable in providing assessments that may be critical of management, supervision or processes and procedures, staff answered the 51 questions anonymously. The IQASA Questionnaire asked staff to "Self-Assess" such issues as:

- resolving internal conflicts
- promoting and supporting teamwork
- following professional standards
- providing rewards and supervision
- demonstrating leadership
- establishing achievable goals
- measuring performance
- empowering employees
- providing recognition
- inviting employee comments and suggestions, even if critical
- communicating expectations
- sharing financial and operational information
- training and developing staff



DEVELOPMENT OF THE IQASA QUESTIONNAIRE

- A draft version of the IQASA Questionnaire was circulated for comment and revisions by all staff, auditors and managers. Their comments were considered and the majority of suggested revisions were incorporated into the questionnaire.
- As part of our self-assessment process, we discussed at a staff meeting IAD policies and procedures, our Board approved Charter and IIA Professional Auditing Standards and made available all relevant supporting material, including our quality control checklists and sample audit reports.
- We encouraged the staff to have open and sincere discussions with one another regarding the questionnaire and to review any material that would help them with the self-assessment.
- We assigned a project number and set up a budget for staff to charge in completing the self-assessment.
- We compared the questionnaire results with the results of our independent Peer Reviews, Customer Surveys and our on-going monitoring and supervision of each audit for inconsistencies or possible new issues.
- The staff scored **51 statements (questions) in 10 categories of control elements** (see Attachment A). The statements are used to help both the staff and management focus on key areas of the department.

The categories presented to the group for voting and discussion was:

Values
Teamwork
Internal Communication
Management By Objectives
Planning & Risk Assessment

Resources
Skills & Knowledge
Rewards & Recognition
Control Activities
Monitoring, Learning & Managing
Change

The staff were asked to vote anonymously on whether they agree or disagree with the 51 statements. The voting was on a scale of 1 through 7, with 1 corresponding to “disagree strongly” and 7, being the highest possible score corresponding to “agree strongly.”

- After tabulating the results of their voting, comments were solicited to identify strengths, concerns, and possible actions to be taken to address any significant issues raised in the statements. The assessment reflected in the statements will be used by management on an on-going basis to stimulate further discussions with the objective of revising, enhancing or improving control, process and managerial issues identified.



RESULTS

The “**Valuable Outcome**” from the results of this IQASA Questionnaire is that staff and auditors reported that the Internal Audit Department scored 90% or better or an **A** in nine of the ten categories and a **B** for one of them. The scores for each of the ten categories clearly reveal that the department personnel are committed to providing professional, objective and unbiased audits to the Board of Supervisors. In addition, the scores below revealed that there is an outstanding level of teamwork, leadership and effective supervision on the audit projects. The score, actual statement, and questionnaire category A-J is indicated next to each of the 11 results presented below. The full questionnaire is presented on pages 6 - 11.

1. A score of **99%** indicated “***I have adequate certifications, degrees and experience to do my job.***” (G1)
2. A score of **99%** indicated “***Our department conducts self-reviews, customer surveys, obtains independent Peer Reviews, and strives to improve its operations based upon the results.***” (J1)
3. A score of **98%** indicated “***I understand the importance of accuracy, balance, context, competency and the negative consequences of errors in conducting audits.***” (E2)
4. A score of **97%** indicated “***I have the opportunity to provide my input into the development of the audit objectives, audit steps, and sampling and audit testing decisions.***” (E6)
5. A score of **97%** indicated “***Our department’s quality control checklists and other aids help ensure work is accurate, objective, complete and balanced, and complies with professional audit standards.***” (I2)
6. A score of **96%** indicated “***People in leadership positions in IAD set a good example in promoting and in following the professional auditing standards.***” (A4)
7. A score of **96%** indicated “***IAD demonstrates commitment to its mission of providing independent audits and unbiased assessments to the Board and management regarding the County’s internal controls, compliance with rules, regulations and program performance.***” (A1)
8. A score of **96%** indicated “***I have a clear understanding of the things that could go wrong (risks) in my work. Such as: failing to adequately perform audit procedures or getting the facts right and failing to be fair and thorough in doing the audit or meeting a critical deadline.***” (E1)
9. A score of **96%** indicated “***I can discuss freely with the next level of audit management any difference of opinion on any aspect of the audit.***” (C2)
10. A score of **95%** indicated “***Leadership positions in IAD take seriously the role and responsibilities of the internal audit function and its importance to the County.***” (B5)
11. A score of **94%** indicated “***My audit team, from the auditor to the Director, considers the importance of following the auditing standards in fulfilling its responsibilities to the County.***” (B4)

No internal control concerns were raised in the questionnaire or in department discussions that warranted further attention by the Internal Audit Department.

Internal Quality Assurance Self-Assessment



SUMMARY BY CATEGORY

The scores for each of the ten categories clearly reveal that the department personnel are committed to providing professional, objective and unbiased audits to the Board of Supervisors. In addition, the scores revealed that there is an outstanding level of teamwork, leadership and effective supervision on the audit projects.

CATEGORY	AVERAGE VOTE (Scale of 1 to 7)	%	GRADE
A. Values (Adherence to Auditing Standards)	6.56	94%	A
B. Teamwork	6.43	92%	A
C. Internal Communications	6.51	93%	A
D. Management by Objectives	6.69	96%	A
E. Planning & Risk Assessment	6.62	95%	A
F. Resources	6.50	93%	A
G. Skills & Knowledge	6.83	98%	A
H. Rewards & Recognition	6.17	88%	B
I. Control Activities	6.59	94%	A
J. Monitoring, Learning & Managing Change	6.69	96%	A
Evaluation of the IQASA Questionnaire's Usefulness	6.31	90%	A

- **Evaluation of the Questionnaire Usefulness**

Following the completion of the IQASA Questionnaire, staff evaluated the usefulness of the IQASA Questionnaire by anonymously voting on six quality assurance statements. The participants provided a high rating of 90% for the IQASA Questionnaire as captured in the row titled "Evaluation."

- **Skills and Knowledge**

The IAD staff and auditors rated the category titled "Skills and Knowledge" at an average score of 98%, the highest rating from the 10 categories. The rating reflects that the Department is the only large county in the Country that has a 100% of its auditors possessing the premium certification of CPA, and additionally averages 3 internationally recognized certifications per auditor. The high scores also are reflective of the fact that the Director has a MBA and Ph.D. and served as the founding Chair of the Audit Quality Assurance Committee and authored the Peer Review Manual for the international "Association of College and University Auditors." The Deputy Director served as a Quality Assurance Reviewer for the Pasadena branch of US Defense Contract Audit Agency (DCAA) and revised DCAA's audit manual. A Senior Audit Manager holds an MBA, and several auditors possess "Blue Chip" experience having worked for international public accounting firms, major Fortune 500 corporations, and/or Federal audit agencies. Professional staff also possess one or more of the following certificates: Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), Certified in Financial Forensics (CFF), Certified Fraud Specialist (CFS), Certified Government Financial Manager (CGFM), Certified Information Systems Auditor (CISA), Certified Information Technology Professional (CITP), Certification in Control Self-Assessment (CCSA), and Certified Compliance and Ethics Professional (CCEP).



RESPONDENTS COMMENTS

We encouraged staff to submit anonymous comments along with the ratings. They provided these comments:

- ✓ This department and its leadership are doing an incredible job. I am personally impressed with the vision and commitment to excellence that everyone demonstrates every day.
- ✓ The Senior Audit Managers do a great job in the day to day supervision of the audit projects.
- ✓ We have great administrative support.
- ✓ My fellow auditors do a great job.
- ✓ Everyone in the department is committed to performing professional unbiased audits and adhering to the highest level of ethics expected of our profession (CPA).

ADDITIONAL VALUE

- **External Peer Reviews**

The Institute of Internal Auditors (IIA) Professional Standard 1300 requires that the chief audit executive develop and maintain a Quality Assurance and Improvement Program (QAIP) that covers all aspects of the internal audit activity. The QAIP must include both internal and external assessments. Since the creation of the IAD, the department has had four external Peer Reviews under the leadership of the current Director, Dr. Peter Hughes. Each of the independent reviewers gave IAD their highest rating without citing a single deficiency in the past 12 years. These reviews were conducted by the international firms of Jefferson Wells, and Thompson, Cobb, Bazilio & Association, and the office of the Auditor-Controller for the County of San Diego and the office of the Auditor-Controller for the County of Riverside. All such Peer Reviews were provided to the Audit Oversight Board and the Board of Supervisors.

- **Results of Customer Evaluations**

IAD provides each of the agencies and departments audited with a standard customer evaluation form regarding the professionalism and value of the auditors and the audit (a Best Practice). We tabulate the customer survey results as a performance measure to help identify where improvements can be made. The average score for the most recent year was an outstanding 94% from over twenty customers from both elected and appointed departments.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors



ATTACHMENT A: Internal Quality Assurance Self-Assessment Questionnaire

INTERNAL QUALITY ASSURANCE SELF-ASSESSMENT OC INTERNAL AUDIT DEPARTMENT

Self-Assessment

The objective is to examine the key controls of the internal control framework to measure how effective they are in the Internal Audit Department.

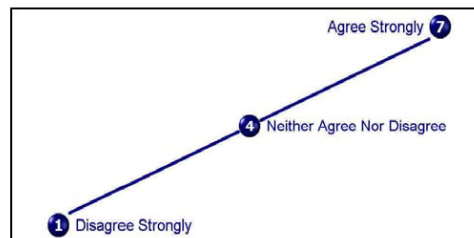
A number of statements will be made in each of the following categories and you are asked to mark on the Questionnaire in writing how strongly you agree or disagree with each of the statements. If you would like to make comments regarding any of the statements, please do so in a Word document and attach it to the Questionnaire to be placed in the inbox of Maribel Garcia.

Voting Category
A. Values
B. Teamwork
C. Internal Communication
D. Management by Objectives
E. Planning & Risk Management
F. Resources
G. Skills & Knowledge
H. Rewards & Recognition
I. Control Activities
J. Monitoring, Learning & Managing Change
Evaluation of the Questionnaire

Please DO NOT include your name or any identifying information on the Questionnaire or the Word document to preserve anonymous responses.

Rate the Categories as follows:

7 Agree Strongly, 4 Neither Agree Nor Disagree, 1 Disagree Strongly





ATTACHMENT A: Internal Quality Assurance Self-Assessment Questionnaire (continued)

Internal Quality Assurance Self-Assessment OC Internal Audit Department

A. VALUES – Total Averaged Vote: 94%

		Avg. Score	Score %
		1-7	
1	IAD demonstrates commitment to its mission of “providing independent audits and unbiased assessments to the Board and management regarding the County’s internal controls, compliance with rules, regulations and program performance.”	6.75	96%
2	IAD demonstrates commitment to providing a manageable workload, timely supervision, open communication, and consistent and fair treatment in regards to personnel.	5.94	85%
3	IAD’s expectations of auditors are to follow the professional auditing standards and requirements, disclose any conflict of interests and in particular the need to remain independent, objective and unbiased, have been clearly and regularly communicated to me.	6.67	95%
4	People in leadership positions in IAD set a good example in promoting and in following the professional auditing standards.	6.75	96%
5	IAD follows professional standards, relevant County policies, and the Department’s Conflict of Interest disclosure.	6.69	96%

B. TEAMWORK – Total Averaged Vote: 92%

1	We provide one another with support, timely advice, and all have a shared commitment to our mission and maintain good teamwork.	6.31	90%
2	My role and duties on my assigned audit projects are clearly understood by me and other members on the audit project.	6.33	90%
3	I am empowered and receive clear directions and adequate audit budget, technical advice and supervision to carry out my job duties.	6.27	90%
4	My audit team, from the auditor to the Director, considers the importance of following the auditing standards in fulfilling its responsibilities to the County.	6.60	94%
5	Leadership positions in IAD take seriously the role and responsibilities of the internal audit function and its importance to the County.	6.63	95%

C. INTERNAL COMMUNICATION – Total Averaged Vote: 93%

1	I can discuss a difference of opinion regarding audit steps, scope of work, budget, tone of report, ranking of audit findings, and audit conclusions freely with anyone involved on the audit.	6.44	92%
2	I can discuss freely with the next level of audit management any difference of opinion on any aspect of the audit.	6.73	96%
3	The audit teams, including all levels of audit management openly discusses audit objectives, difficulties in achieving audit objectives, testing methodology, conclusions, findings, and report tone and balance.	6.47	92%
4	We have a documented and effective method to resolve internal differences of professional opinions.	6.56	94%
5	I receive guidance, technical advice and reassurance on the challenges I come across during fieldwork, including working with difficult auditees.	6.33	90%

Page 2



ATTACHMENT A: Internal Quality Assurance Self-Assessment Questionnaire (continued)

Internal Quality Assurance Self-Assessment OC Internal Audit Department

D. MANAGEMENT BY OBJECTIVES – Total Averaged Vote: 96%

	Avg. Score 1-7	Score %
1 Fellow auditors are working to complete the Audit Plan and adhere to the Department's Audit Manual and professional auditing standards.	6.75	96%
2 I have sufficient involvement/voice in setting audit objectives, scope of work, sample size, preparing audit findings and drafting the audit report.	6.67	95%
3 Our team's objectives are aligned with our department's overall objectives and strategies of completing the annual audit plan and following audit standards.	6.73	96%
4 The audit "teams" I have worked on have members who are committed to and aligned with IAD's overall objectives and strategies.	6.63	95%

E. PLANNING & RISK ASSESSMENT – Total Averaged Vote: 95%

1 I have a clear understanding of the things that could go wrong (risks) in my work. Such as: failing to adequately perform audit procedures or getting the facts right and failing to be fair and thorough in doing the audit or meeting a critical deadline.	6.73	96%
2 I understand the importance of accuracy, balance, context, competency and the negative consequences of errors in conducting audits.	6.87	98%
3 Our team effectively applies risk assessment procedures to our audits.	6.13	88%
4 Our team has budgets, job duties, and deadlines against which progress can be measured and monitored.	6.55	93%
5 My audit team does meet its audit objectives.	6.67	95%
6 I have the opportunity to provide my input into the development of the audit objectives, audit steps, and sampling and audit testing decisions.	6.60	97%

F. RESOURCES – Total Averaged Vote: 93%

1 Our planning process includes estimates of the resources required to meet our Department's and my audit objectives.	6.40	91%
2 The time, audit skills, computer resources, and training our team has available will allow us to achieve our audit objectives.	6.33	90%
3 The supervision, managerial oversight, and technical guidance provided to my team are sufficient to ensure high quality output.	6.33	90%
4 Our organizational structure is effective in providing necessary independent and objective perspective, timely supervision, technical insights and support required to meet my audit objectives.	6.47	92%
5 I have access to IAD's annual audit plan, risk assessment, audit reports, and professional aids.	6.87	98%
6 The accessibility to electronically stored administration and audit files is adequate.	6.60	94%



ATTACHMENT A: Internal Quality Assurance Self-Assessment Questionnaire (continued)

Internal Quality Assurance Self-Assessment OC Internal Audit Department

G. SKILLS & KNOWLEDGE – Total Averaged Vote: 98%

	Avg. Score 1-7	Score %
1 I have adequate certifications, degrees and experience to do my job.	6.93	99%
2 I understand how my job interrelates with other people/parts of the department.	6.81	97%
3 I am able to provide the quality of work that is necessary to meet our audit and department objectives.	6.88	98%
4 The overall capability level of our team is sufficient to meet our audit and department objectives.	6.69	96%

H. REWARDS & RECOGNITION – Total Averaged Vote: 88%

1 I know the standards against which my performance will be measured.	6.31	90%
2 I receive adequate compensation for my performance.	5.63	80%
3 I get compliments, praise and acknowledgement within the department for my contribution.	6.25	89%
4 I enjoy working in this department.	6.50	93%

I. CONTROL ACTIVITIES – Total Averaged Vote: 94%

1 The Department's audit procedures are well documented and understood.	6.75	96%
2 Our Department's quality control checklists and other aids help ensure work is accurate, objective, complete, and balanced, and complies with professional audit standards.	6.81	97%
3 The audit programs developed for the audit by the team help ensure consistent quality of output, and achievement of audit objectives, and compliance with audit standards.	6.67	95%
4 The Department's audit and review procedures are adequate to ensure that the most significant risks are identified in the scope of the audits, and to ensure consistent quality and adherence to auditing standards.	6.31	90%
5 The Department's audit procedures approach, organization of workpaper files and documentation contribute to an efficient audit.	6.38	91%
6 The Department's administrative support helps ensure the quality and proper distribution of our reports.	6.63	95%

Page 4



ATTACHMENT A: Internal Quality Assurance Self-Assessment Questionnaire (continued)

Internal Quality Assurance Self-Assessment OC Internal Audit Department

J. MONITORING, LEARNING & MANAGING CHANGE – Total Averaged Vote: 96%

	Avg. Score 1-7	Score %
1 Our Department conducts self-reviews, customer surveys, obtains independent Peer Reviews, and strives to improve its operations based upon the results.	6.94	99%
2 Our Department measures the value of the services we provide as reported in The Annual Report, Balanced Scorecard, Customer Surveys, and quarterly Status Reports.	6.75	96%
3 Our Department compares our practices with comparable groups (internal and external) in order to help ensure a high quality audit and a well run department.	6.50	93%
4 Our Department periodically challenges our objectives to determine if they are still responsive to the needs of the County.	6.47	92%
5 Our Department makes effective changes based on what we learn from our benchmarking and internal reviews.	6.69	96%
6 Our Department surveys our customers after each original audit to gauge our level of professionalism and value to the County.	6.81	97%



ATTACHMENT A: Internal Quality Assurance Self-Assessment Questionnaire (continued)

Internal Quality Assurance Self-Assessment OC Internal Audit Department

Evaluation of the Questionnaire – Total Averaged Vote: 90%

Please provide feedback on today's workshop by either agreeing or disagreeing with the following statements:

	Avg. Score 1-7	Score %
1 I understand the purpose of Control Self-Assessment/Process Improvement.	6.64	95%
2 The questionnaire helped to highlight issues significant to our Department.	6.29	90%
3 I felt comfortable in expressing my opinions freely.	5.86	84%
4 I appreciate the opportunity to complete this questionnaire.	6.36	91%
5 I would recommend this questionnaire to other audit departments.	6.43	92%