

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



ITEM: 3.27
(ID # 19619)

MEETING DATE:
Tuesday, September 13, 2022

FROM : EXECUTIVE OFFICE:

SUBJECT: EXECUTIVE OFFICE: Response to the following 2021-2022 Civil Grand Jury Report re: Internal Audits.

RECOMMENDED MOTION: That the Board of Supervisors:

1. Approve, with or without modification, the attached response to the 2021-2022 Civil Grand Jury Report re: Internal Audits; and
2. Direct the Clerk of the Board to forward the approved response to the Presiding Judge and the County Clerk-Recorder.

ACTION:Policy

Jeff Van Wagenen, County Executive Officer 9/9/2022

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Spiegel, seconded by Supervisor Jeffries and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes: Jeffries, Spiegel, Washington, Perez and Hewitt
Nays: None
Absent: None
Date: September 13, 2022
xc: E.O., Grand Jury, Presiding Judge, Recorder

Kecia R. Harper
Clerk of the Board
By:
Deputy

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ N/A	\$ N/A	\$ N/A	\$ N/A
NET COUNTY COST	\$ N/A	\$ N/A	\$ N/A	\$ N/A
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year:	22/23

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary

Section 933(c) of the Penal Code requires that the Board of Supervisors comment on the Civil Grand Jury's recommendations pertaining to the matters under the control of the Board and that the response be provided to the Presiding Judge of the Superior Court, with a copy placed on file with the clerk of the public agency and the office of the county clerk.

Section 933.05 of the Penal Code requires that as to each grand jury finding, the responding person or entity shall indicate one of the following:

- (1) The respondent agrees with the finding.
- (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.

As to each grand jury recommendation, the responding party or entity shall report one of the following actions:

- (1) The recommendation has been implemented, with a summary regarding the implemented action.
- (2) The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
- (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.
- (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.

Attached is the proposed response from the Board of Supervisors and the Executive Office.

In summary, the intent is to implement 12 of the 13 recommendations of the Civil Grand Jury, with one of the recommendations requiring further analysis. It is important to note,

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

however, that while the recommendations are well taken and are aligned with our goal of continuous process improvement, the proposed response disagrees in part or in whole with all of the findings as written. Further, the Penal Code does not require a response to the facts alleged by the Civil Grand Jury and, as a result, they are not specifically addressed.

ATTACHMENTS:

- A. Civil Grand Jury Report re: Internal Audits
- B. Auditor-Controller's Response to the Civil Grand Jury Report re: Internal Audits
- C. Board of Supervisors and Executive Office Response to the Civil Grand Jury Report re: Internal Audits
- D. Peer Review Quality Assessment of the Internal Audit Department of the Auditor-Controller Office of Riverside County


Tina Grande 9/9/2022


Michelle Chan, County Counsel 9/9/2022

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

SUPERIOR COURT OF THE STATE OF CALIFORNIA,
COUNTY OF RIVERSIDE

In the Matter of the 2021-2022 Grand Jury
Report:

ORDER UPON REVIEW OF
GRAND JURY REPORT

County Leadership Failures Result in
Unnecessary Financial Risks: Internal Audits
Marginalized

Pursuant to California Penal Code §933, *et seq.*, the Presiding Judge or designee
has reviewed the Report of the Grand Jury. The report is:

Approved for filing.
 Rejected for filing.

Dated this 26th of May, 2022


John M. Monterosso
Presiding Judge



County Leadership Failures Result in Unnecessary Financial Risks: Internal Audits Marginalized



SUMMARY

Riverside County's Board of Supervisors (Board) sets priorities for the county and oversees county departments. It has authority to approve departmental budgets, adopt countywide policies, ordinances, and procedures department leaders must follow as long as those policies, ordinances, and procedures do not conflict with federal or state laws. Except for departments led by elected officials, the Board appoints a County Executive Officers to supervise the day-to-day operations of the County's various departments.

One of those departments is the Auditor-Controller's Office (ACO). By California law, the ACO has the legal obligation to (1) review departmental and countywide internal controls and (2) review accounts of all offices, departments, and institutions under the control of the Board whose funds are kept in the County treasury. The ACO performs these reviews through the use of the Internal Audit Unit.

Realizing the importance of internal audits to the County, the 2021-2022 Riverside County Civil Grand Jury (Grand Jury) initiated an investigation into the County's internal audit processes and value to the County. After an extensive number of interviews and document reviews, the Grand Jury found the following:

1. California Government Code §25250 requires counties to audit their departments every two-years. The ACO's use of Follow-Up and "Change of Department Head" audits to fulfill this legal requirement violates California law.
2. Professional Standard 1100 requires the Internal Audit Unit be independent. With the Internal Audit Unit included within the ACO's "Audits and Specialized Accounting Division," the Internal Audit Unit is not completely independent. Hence, the ACO does not comply with Standard 1100.
3. The County's internal audits are marginalized and, in many cases, just ignored.
4. The County's Internal Audit Unit members do not have the combined knowledge, skill, and experience to perform their responsibilities as required by Standard 1210.
5. The County consistently fails to rectify known limitations in its Internal Audit Unit.
6. The County's Internal Audit Unit members lack professional certifications and experience in critical areas, which in turns exposes the County to potential financial and operational risks.
7. The County's lack of an audit oversight committee has resulted in some high-risk areas missed by internal audits for several years.

8. The County's internal audit reports do not provide the Board and Executive Office with (a) summary information about the seriousness of its findings, (b) likelihood of negative impacts to the County, or (c) how quickly corrections need to be made.
9. The County's follow-up internal audit reports do not provide the Board and Executive Office with summary information on the status of departments implementing required corrective actions.
10. The County lacks summary reports and a monitoring mechanism that provides the Board and Executive Office with the following types of reports:
 - Bi-Annual Systemic Internal Audit Findings Reports
 - Annual Risk Assessment and Management Plan
 - Quarterly Internal Audit Status Reports
 - Contract Monitoring Reports
 - Countywide Risk Management Dashboard
11. An internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility, including access to confidential records. The County's internal audit charter has not been updated in 39 years. The County's internal charter is outdated and does not comply with Standard 1010.
12. Dysfunctional working relationships among County and department leaders significantly hinders the effectiveness of internal audits.

The Board, Executive Office, and ACO have known about the issues surrounding internal audits for many years. Now, they have the opportunity to demonstrate their leadership abilities by rectifying issues. The question is, "Will they?" The Grand Jury submits 13 recommendations for their consideration.

BACKGROUND

As required by California law, Riverside County has a Board of Supervisors (Board) consisting of five members.¹ The Board sets priorities for the county, oversees most county departments and programs, and annually approves department budgets. The Board appoints County Executive Officers (Executive Office) to supervise the day-to-day operations of the County's nearly 50 departments and 23,000 employees.

The Board and Executive Office have limited oversight authority over the five departments managed by elected officials. Those elected officials are (1) Assessor-Clerk-Recorder, (2) Auditor-Controller, (3) District Attorney, (4) Sheriff/Coroner, and (5) Treasurer/Tax Collector. Although the Board and Executive Office do not have day-to-day oversight authority over departments managed by elected officials, the Board does have the authority to approve their annual budgets and adopt countywide policies, ordinances, and procedures those departments must follow, as long as those policies, ordinances, and procedures do not conflict with federal or state laws.

Riverside County’s policies include monitoring financial transactions and seeking ways to eliminate unnecessary expenditures.² One of the principal ways the County monitors financial transactions resides in the Auditor-Controller’s Office (ACO). The ACO “is responsible for budget control, issuing warrants (checks) for payments, recording receipts of revenues, payroll, accounting for assets and liabilities such as fixed assets, accounts receivable/payable, long-term debt, and preparation of the county’s financial statements.”³

The ACO also has the authority to “review departmental and countywide internal controls, over the accounting forms and the method of keeping the accounts of all offices, departments and institutions under the control of the board of supervisors and of all districts whose funds are kept in the county treasury.”⁴ The ACO performs these reviews through internal audits.

An internal audit is an “independent appraisal” of a department’s financial and operational work to achieve its goals by following applicable laws, policies, ordinances, and procedures.⁵ For example, an internal audit of the Human Resources Department (HR) could assess whether (1) the department followed financial procedures as required and (2) if the department followed the County’s “Fraud, Waste, and Abuse Guidelines.”⁶

Failure to conduct regular internal audits will increase the County’s exposure to financial risks and increase the length of time before operational problems are identified and rectified.

Realizing the importance of internal audits to the County, the 2021-2022 Riverside County Civil Grand Jury (Grand Jury) became familiar with the County’s internal audit reports. In August 2021, the Grand Jury initiated an investigation into internal audit processes, effectiveness, and compliance with applicable laws, policies, ordinances, and procedures.

METHODOLGY

The Grand Jury conducted an extensive series of interviews, document reviews, accessed websites, and communicated with other Southern California counties.

Interviews Conducted

Assistant Auditor-Controller, Riverside County	County Executive Officer, Riverside County
Auditor-Controller, Riverside County	12 Department Directors, Riverside County
5 Board of Supervisors, Riverside County	Principal Accountant, Riverside County
Chief Administrative Officer, Riverside County	4 Internal Auditors, Riverside County
Chief Internal Auditor, Riverside County	Principal Management Analyst, Riverside County
Chief of Audits, San Diego County	Principal Policy Analyst, Riverside County
Chief Information Officer, Riverside County	5 Risk Management Steering Committee, Riverside County
Chief Operating Officer, Riverside County	

Documents, Emails, and Websites Reviewed

Sources of information used in the report, but not specifically cited in the “Reference” section, came from email exchanges between the Grand Jury and internal audit leaders in Orange, San Bernardino, San Diego, and Ventura counties.

INVESTIGATION

General Topics

The Grand Jury’s investigation focused in three general topics: (1) purpose of internal audits, (2) expertise of internal auditors, and (3) effectiveness of internal audits.

GENERAL TOPIC 1 PURPOSE OF INTERNAL AUDITS

Fact 1.1

Internal Audits

According to California law, the Board shall examine and audit “the financial accounts and records of all officers having responsibility for the care, management, collection, or disbursement of money belonging to the county or money received or disbursed by them under authority of law.”⁷ The Board delegates the responsibility to conduct these required audits to the ACO.

Fact 1.2

Professional Standards

According to California law, county internal audits must follow the “general and specified standards prescribed by the Institute of Internal Auditors (IIA) or the Government Auditing Standards issued by the Comptroller General of the United States.”⁸ The IIA adopted the “International Standards for the Professional Practice of Internal Auditing” (Standards) and Riverside County adopted the Standards.

Fact 1.3

Internal Audit Charter

Standard 1000 states, “The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive’s functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.”⁹

Professional standards require internal audit charters be reviewed and updated from time to time. Riverside County's internal audit charter has not been reviewed and updated since 1983 (i.e., 39 years ago). As a result, the County's internal audit charter is outdated.

For example, Standard 1010 requires an internal charter include the "mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing must be recognized in the internal audit charter."¹⁰ The County's internal charter does not include these concepts. The ACO has been aware of this situation since at least 2019¹¹ and has failed to resolve this issue.

Fact 1.4

Coverage-Based and Risk-Based Internal Audits

California Government Code §25250 requires counties to audit their departments every two-years. To fulfill this legal requirement, the ACO's focus is to develop an internal audit plan that "covers" all departments so that all departments are audited once every two-years. This approach to developing an internal audit plan is a "coverage-based" internal audit plan.¹²

Standard 2010 requires "risk-based" internal audits.¹³ The purpose of risk-based internal audits is to identify, assess, and prepare for potential financial losses, dangers, hazards, and other potentials that may harm or interfere with the County's financial stability and operations. Some Riverside County officials indicated, through the interview process, that they would prefer risk-based internal audits because they can quickly respond to changing risk factors.

It is difficult to develop coverage-based internal audits, as required by California law, and at the same time, develop risk-based internal audits, as required by a professional standard.

To resolve this dilemma, some other California counties have developed multi-year internal audit plans that require all departments to have an internal audit every two fiscal years, which incorporate high-risk areas of misuse of funds, theft of assets, operational inefficiencies, cybersecurity breaches in their county's internal audits.¹⁴ In 2021, Infotech Global Audit and Security, Inc., (Infotech) conducted a "Peer Review" of the County's Internal Audit Unit. Infotech made that exact recommendation to the ACO.

Fact 1.5

Oversight Audit Committee

Unlike Orange County,¹⁵ San Diego County,¹⁶ and San Bernardino County,¹⁷ Riverside County does not have an audit oversight committee.

In the aftermath of Orange County's bankruptcy in 1994, the Orange County Board of Supervisors established an Audit Oversight Committee (AOC). Orange County's AOC is

responsible for ensuring the independence of the internal audit function, reviews and recommends Annual Audit Plans, reviews audit reports, and ensures that corrective actions are based on audit findings.

Riverside County's lack of an oversight committee has resulted in some high-risk areas missed by internal audits for several years (e.g., Public Guardian and Information Technology).

GENERAL TOPIC 2 EXPERTISE OF INTERNAL AUDITORS

Fact 2.1

Internal Audit Independence

The ACO has five divisions. One of those divisions is called the "Audits and Specialized Accounting Division." This division has two units: (1) "Audits" unit and (2) "Specialized Accounting" unit. These two units are responsible for performing different functions. Their functions are as follows:

"Internal Audits: Conducts independent, objective financial and operational audits of departments, offices, boards and institutions under the Board of Supervisors control, and of any district whose funds are kept in the County treasury. Provides consulting services to assist management in bringing a systematic and disciplined approach to risk management and control."¹⁸

"Specialized Accounting: Prepares, reviews and certifies reports for countywide cost and revenue reimbursements which includes oversight over State mandated cost reimbursement (SB90) program, the cost allocation plan and the Schedule of Expenditures of Federal Awards subject to the Single Audit. Reviews methodology of rates and charges submitted to the Board of Supervisors for approval for cost recovery."¹⁹

According to Standard 1100, internal audit activities must be completely independent. The Internal Audit Unit is **not** independent when part of its division is involved with County finances and records. For example, the Internal Audit Unit should independently review the methodology a department uses to set service rates and charges. The Specialized Accounting Unit is involved in exactly the same activity.

In 2022, Infotech recommended separating the Internal Audit Unit from the Specialized Accounting Unit.²⁰ The ACO rejected the recommendation.

**Fact 2.2
Budgets**

Riverside County is the fourth most populous county in California and the 10th most populous county in the United States. Its population increased by 14.47% in the past 10 years.²¹

To serve its increasing community needs, the County’s overall budget increased by \$2,207,637,226 (47.2%). The ACO’s overall budget increased by \$1,055,452 (11.9%).^{22, 23} The ACO’s financial support for internal audits has decreased as Table 1 demonstrates.

**Table 1
ACO’s Decreasing Financial Support for Internal Audits**

	Fiscal Year 2012-2013	Fiscal Year 2021-2022	Differences
Dollars ACO Allocated to Support Internal Audits	\$1,606,894	\$1,475,029	(\$131,865)
Percent of ACO's Overall Budget to Support Internal Audits	18.12%	14.87%	3.25%

Source: Riverside County Adopted Budgets

(See Appendix 2 for specific budget figures by fiscal years).

**Fact 2.3
Financial Compensation**

Internal auditor positions are classified as “professional” positions. The minimum education requirement is a Bachelor's degree, from an accredited college or university, with a specialization in accounting or possession of a valid certificate as a Certified Internal Auditor, Certified Fraud Examiner, Certified Information Systems Auditor, or licensed as a Certified Public Accountant.

Riverside County’s starting salary is lower than in other counties. For example, the starting salary for an “Internal Auditor I” is about \$2,000 less than San Bernardino County and at least \$13,000 less than Orange, San Diego, and Ventura counties. Table 2 displays the starting salary for each internal audit position by title and by county.

Table 2
Starting Internal Auditor Pay by County

Internal Audit Positions	Orange County	Riverside County	San Bernardino County	San Diego County	Ventura County
Chief Accountant/Internal Auditor	NA	\$91,876.30	\$103,064.00	NA	NA
Supervising Internal Auditor IV	\$71,697.00	\$66,319.00	\$68,910.00	\$89,856.00	NA
Senior Internal Auditor / Auditor III	\$72,322.00	\$60,201.00	\$56,992.00	\$75,649.00	\$72,943.78
Internal Auditor II	\$64,417.56	\$49,234.00	\$52,728.00	\$72,321.00	\$66,338.54
Internal Auditor I	\$62,712.00	\$46,717.00	\$48,464.00	\$63,190.00	\$59,704.69

Source: Each County's Internal Audit Department

Fact 2.4
Internal Auditor Positions

During the 2007-2008 fiscal year, Riverside County had 22 internal audit authorized positions and all 22 positions were filled. The County's number of internal auditors dramatically decreased by 59% from the 2007-2008 fiscal year to 2021-2022 fiscal year (Table 3).

Table 3
Number of Authorized Riverside County Internal Auditors:
Fiscal Years 2007-2008 to 2021-2022

Fiscal Years	Positions Authorized	Positions Filled	Fiscal Years	Positions Authorized	Positions Filled
2007-08	22	22	2015-16	13	11
2008-09	22	22	2016-17	13	11
2009-10	14	14	2017-18	13	9
2010-11	11	11	2018-19	9	7
2011-12	7	7	2019-20	14	9
2012-13	13	13	2020-21	14	9
2013-14	12	10	2021-22	11	9
2014-15	10	9			

Source: Riverside County's Adopted Budgets

Fact 2.5
Internal Audit Positions in Nearby Counties

Table 4 illustrates the number of internal auditors in Riverside County compared to other Southern California counties.

Table 4
Number of Internal Auditors by County
(March 2022)

Counties	Number of Internal Auditors (April 2022)
Orange	13
Riverside	9
San Bernardino	15
San Diego	13
Ventura	8

Source: Each County's Internal Audit Department

The ACO's approach is to fill internal audit positions with individuals who have no or very limited internal audit experience, whereas other counties frequently fill their internal audit positions with individuals with years of experience as internal auditors. Table 6 illustrates this point.

Fact 2.6
Internal Auditor Unit Staff

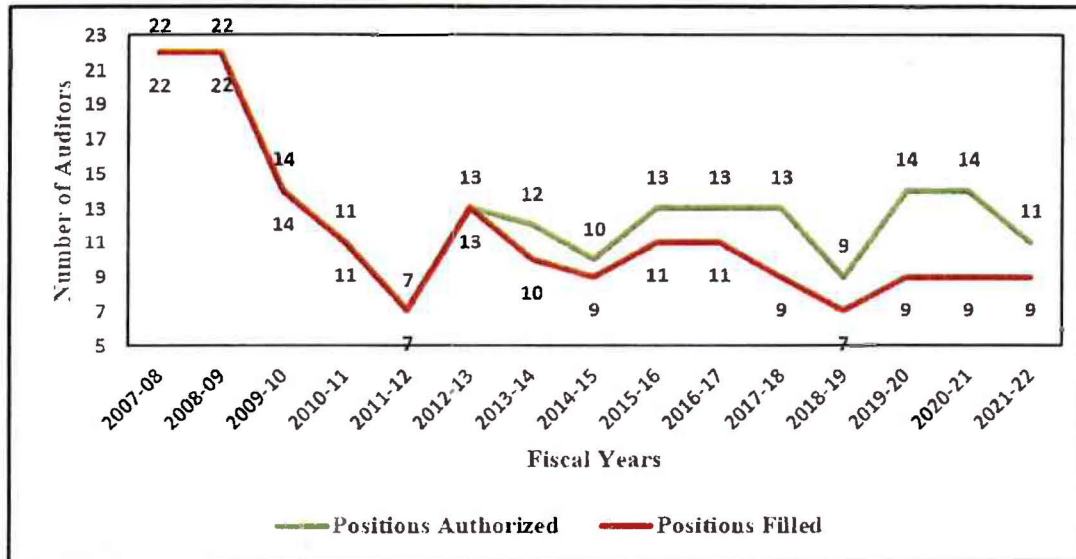
Understaffing the Internal Audit Unit is not a new issue. It has been brought to the Board and ACO's attention in a long series of Civil Grand Jury reports (1990, 1992, 1993, 1996, 1997, 2001, 2004, 2012).^{24, 25} The County's current ACO has been aware of the understaffing problem since at least 2012.²⁶

In response to a 2012 Grand Jury report, the ACO acknowledged the understaffing problem and responded that it was caused by the previous ACO, employee attrition, lengthy recruiting process, and the higher pay auditors can earn in the private sector.²⁷ Those same reasons are mentioned as to why the current Internal Audit Unit is understaffed.

Fact 2.7
Internal Auditor Positions Filled

Prior to the 2012-13 fiscal year, the ACO filled the number of internal audit positions authorized by the Board. As Chart 1 illustrates, the ACO failed to fill all the Board authorized internal audit positions every year since the 2012-13 fiscal year.^{28, 29} Other nearby counties have filled their number of authorized internal audit positions.

Chart 1
Comparison of Authorized Internal Audit Positions with Filled Positions



Source: Riverside County's Adopted Budgets

Fact 2.8
Retention of Internal Auditors

Based on information obtained from Orange, San Bernardino, San Diego, and Ventura counties, Riverside County loses internal auditors at a faster rate than other counties, and the primary reason for leaving their positions is low salary (see Table 5).

Table 5
Three-Year Turnover Rate by Counties

	Orange County	Riverside County	San Bernardino County	San Diego County	Ventura County
3-Year Turnover Rate	3%	30%	3%	8%	21%
Left for More Money	0%	75%	0%	67%	20%

Source: Each County's Internal Audit Department

In a three-year period, Riverside County lost 30% of its internal auditors. Of the Riverside County auditors who left, 75% said they left because of low salary.

Fact 2.9
Years of Experience

Table 6 compares the median years of experience as internal auditors in each nearby county. Riverside County's median years of internal auditor experience is significantly lower than other counties.

Table 6
County Comparisons Median Internal Auditor Years of Service

Locations	Median Years of Experience as an Internal Auditor	Median Years of Experience as an Internal Auditor within Current County
Orange County	9.5	6.0
Riverside County	2.0	2.0
San Diego County	12.0	7.0
Ventura County	6.0	5.0

* San Bernardino County did not provide the information.

Fact 2.10
Professional Certifications

The Institute of Internal Auditors offers four core global designations: Certified Internal Auditor,[®] Certification in Risk Management Assurance,[®] Qualification in Internal Audit Leadership,[®] and Internal Audit Practitioner.[®]

Table 7 compares the number of internal auditor certifications in each nearby county. Riverside County has few experienced, professionally certified internal auditors.

Table 7
Number of Internal Audit Certifications by County

	Orange County	Riverside County	San Bernardino County	San Diego County	Ventura County
Number of Professional Certifications	19	2	8	19	11
Number of Internal Auditors	13	9	15	13	8

Source: Each County's Internal Audit Department

It is important to note that a single individual may have more than one professional certification. For example, Riverside County has one person with two certifications: Certified Internal Auditor and Certification in Risk Management Assurance.

Fact 2.11

Internal Audit Unit Competencies

Standard 1210 indicates that, “Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.”³⁰

Based on interviews, Internal Auditor Unit members perform their duties to the best of their abilities. However, the lack of internal auditors, lack of years of experience as auditors, and so few professional certifications result in an overall unit lacking the knowledge, skills, and other competencies needed to perform its responsibilities as required by Standard 1210.

**GENERAL TOPIC 3
EFFECTIVENESS OF INTERNAL AUDITS**

Fact 3.1

Non-Compliance Audits

Based on County internal audits dated 2020 and 2021, the ACO conducted 59 internal audits. Of the 59 internal audits, 14 (23.7%) were identified as follow-up audits, five (8.5%) were identified as “Change of Department Head” audits.

“Follow-Up” and “Change of Department Head” audits are not considered new audits. This means 32.2% of the internal audits conducted during 2020 and 2021 did not fulfill Government Code §25250 and Riverside County Resolution 83-338³¹ that requires new department internal audits every two years.

Recently, the Grand Jury was informed that the ACO no longer uses follow-up audits and “Change of Department Head” audits in the same manner as before.

Fact 3.2

Information Technology

When a county has at least one internal auditor with a “Certification in Information Technology,” it is able to identify and prevent more security and financial risks than counties without that expertise. Orange County, San Diego County, and Ventura County have internal auditors with information technology expertise. Riverside County does not have an internal auditor with a “Certification in Information Technology.”

Fact 3.3

Information Technology Department Internal Audits

The ACO performed the following internal audits of the Riverside County Information Technology Department (RCIT) since 2016:³²

- 2016 – Countywide Contract Amendments and Competitive Bidding
- 2017 – Follow-Up Audit (on 2016 audit findings)
- 2018 – “Change of Department Head” Audit
- 2020 – Procurement Card Audit
- 2021 – “Change of Department Head” Audit

The ACO’s 2016 and 2020 internal audits had not include cybersecurity, validation of Internal Service Fund rates, ransomware, or any other RCIT operation or procedure.

Fact 3.4

Fraud Identification

A major threat to institutional integrity is fraud.³³ Individuals with a Certified Fraud Examiner (CFE) certification possess a unique set of diverse skills in preventing, detecting and investigating fraud. CFE auditors catch fraudulent activities within a governmental agency more frequently than other certified auditors. Riverside County does not have an internal auditor with a CFE certification.

Fact 3.5

High-Risk Divisions

The County has over 50 departments and agencies to audit every two-years. There are some divisions within County departments that have not been audited for extended periods of time.

For example, the Riverside University Health System’s Behavioral Health Department provides a variety of services to the community,³⁴ including the Public Guardian Division. The Public Guardian Division provides a variety of services for individuals the Court deems unable to handle their own finances safely. Public Guardian employees are assigned to assist clients by collecting their Social Security income, then using those funds to pay the client’s bills such as rent, utilities, medical expenses, and clothing.³⁵

The Public Guardian Division has not received a new audit since 2014. In the 2014 audit, the ACO wrote, “We will follow-up in one year to determine if actions were taken to correct the findings noted.”³⁶ The follow-up audit did not occur until 2017.

Fact 3.6

Follow-Up Internal Audits

Some internal audits require a follow-up audit. Follow-up audits are extensions of the original audits. The purpose of follow-up audits is to “monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.”³⁷

The Grand Jury examined 15 follow-up internal audits dating from December 2018 to April 2022. There was an average of two-years between the original audits and their corresponding follow-up audits. Although there are times when lengthy periods are required to complete corrective actions identified in an internal audit, the vast majority of follow-up audits need to occur within months rather than years.

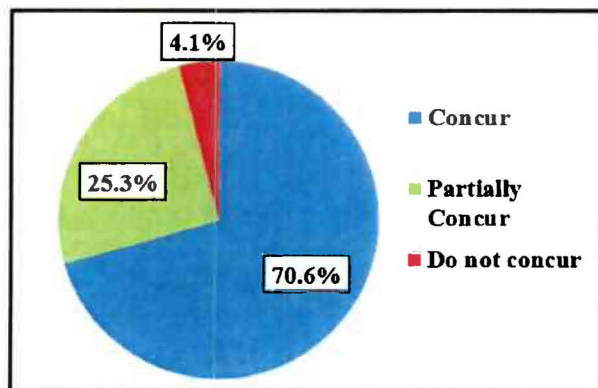
Fact 3.7

Responses to Internal Audit Findings

Internal audit reports list findings and recommendations. Recommendations are areas where corrective action(s) need to be made. Departments have the right to respond to each finding with a “Concur,” “Partially Concur,” or “Do Not Concur.”

The Grand Jury randomly selected and then examined 35 internal audit reports dated from December 2018 to April 2022. Combined, there were a total of 146 ACO findings and recommendations. Chart 2 illustrates the “Concur,” “Partially Concur,” or “Do Not Concur” percentages among the 146 findings.

Chart 2
Percent ACO-Department Agreements on Internal Audit Findings



Fact 3.8

Corrective Actions

Of the 35 randomly selected internal audit reports dated from December 2018 to April 2022, 15 internal audits were follow-up audits. Table 8 illustrates that, even when departments agree that corrective actions are necessary, departments do not feel an urgency to complete those corrective actions. Less than half the time corrective actions are completed by the time a follow-up audit occurs, and follow-up audits may not occur for two-years.

**Table 8
Number and Percent of Completed Corrective Actions by Departments**

15 Follow-Up Audits: ACO-Department Agreed on Recommendations		
Number of ACO-Department Agreed Recommendations	Number of Completed Corrective Actions by Department	Percent of Completed Agreed on Corrective Actions by Department
45	22	48.9%

Fact 3.9

Value of Internal Audits

Based on interviews and document reviews, internal audit reports cover a narrow area within a department (e.g., use of procurement cards). Even when departments agree with the ACO, internal audits are marginalized, and, in many cases, just ignored.

When there are disputes on the accuracy of internal audit findings, there is no policy or procedure to resolve the issue(s) between the ACO and departments other than writing about their disagreements in final internal audit reports.

Fact 3.10

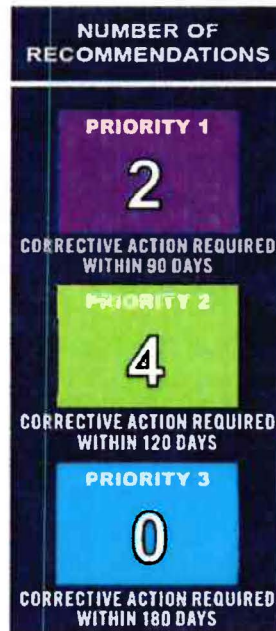
Classifying Internal Control Findings

Unlike some counties, Riverside County’s internal audits do not classify the severity of control findings within its internal audit reports. Currently, there is no way for the reader to know how critical an issue is or how fast it needs to be rectified.

Orange County uses the following classification system, which identifies the severity of a control finding as well as how quickly the control finding needs to be addressed on the front page of the report:³⁸

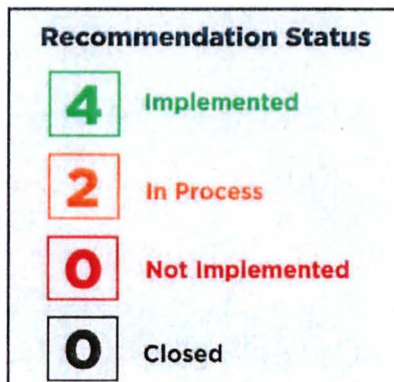
Critical Control Weakness	Significant Control Weakness	Control Finding
<p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p>	<p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>

Los Angeles County internal audit reports indicate the number of recommendations and how quickly they need to be addressed on the first page.³⁹ Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken. (See Appendix 3 for detailed definitions for each priority level.)



Fact 3.11
Status of Follow-Up Audits

Unlike Orange County, Riverside County’s follow-up internal audits do not provide an easy way for readers to see what type of progress a department is making toward implementing recommended improvements. Orange County’s follow-up internal audit have the following type of status image on them.⁴⁰



Fact 3.12
ACO Accountability

Professional Standard 1320 requires the ACO to “communicate the results of the quality assurance and improvement program [a.k.a. Peer Reviews] to senior management and the board.”⁴¹ The ACO provides the Board and CEO with separate department audits. Those reports frequently appear on the Board’s meeting agendas.

Professional Standard 1312 states, “External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.”⁴² The ACO did arrange for Peer Reviews in 2011, 2014, 2019, and 2022.

To demonstrate conformance with Standard 1320, “the results of external and periodic internal assessments are communicated upon completion of such assessments, and the results of ongoing monitoring are communicated at least annually.”⁴³

In 2019, Santa Cruz County conducted a Peer Review of Riverside County’s Internal Audit Unit. One of the findings in that Peer Review states, “results of the previous external quality review were not communicated to senior management and the Board of Supervisors.”⁴⁴

Infotech Global Audit and Security, Inc. conducted a Peer Review of the ACO’s Internal Audit Unit at the end of 2021 and released its report to the ACO on March 9, 2022. Standard 1320 requires the ACO to provide the results of that Peer Review to the Board upon completion. The ACO indicated that it would provide the Board with a copy of the report in June or July 2022. This delay does not comply with Standard 1320.

Riverside County does not produce the following monitoring reports and accountability displays.

- Systemic Internal Audit Findings (Reports that identify similar problems across multiple departments.)
- Annual Risk Assessment and Management Plan⁴⁵ (Internal audit plan based on a countywide risk assessment.)
- Quarterly Internal Audit Status Reports⁴⁶ (Reports comparing internal audit plans to audits completed, summary of recommendations, and status of completing recommendations.)
- Contract Monitoring Reports⁴⁷ (Reports monitoring vendors' satisfactorily completing contractual agreements.)
- Countywide Risk Management Dashboard⁴⁸ (Dashboard summarizing countrywide risks and the county's ability to reduce and/or eliminate risks.)

Fact 3.13

Working Relationships

Based on interviews and document reviews, there are dysfunctional working relationships among the ACO and many other County leaders.

Many County and department leaders perceive the ACO department as hypocritical. On one hand, the ACO stresses that it saves the County money by how it operates. On the other hand, County and department leaders are aware of the reports contributing large, unnecessary expenditures to the ACO.^{49, 50} The following expenditures are attributed to the ACO:

- General Liability Claims - \$4,435,000.00⁵¹
- Worker's Compensation Claims - \$73,023.00⁵²
- Professional Development - \$89,000⁵³

It is important to note that County leaders are expected to continually learn and keep up with their respective fields of expertise. However, it is also expected that those professional learning experiences will come at reasonable costs. Paying approximately \$89,000 to attend professional development opportunities at Harvard University, UC Berkeley and the University of Southern California is considered excessive and unnecessary when similar professional development opportunities were available locally for far less money.

The appearance of the ACO's hypocrisy results in mistrust of the ACO. This is demonstrated by six specific County departments that have openly questioned the integrity and value of internal audits. These departments question the competence of those conducting internal audits and, at times, provide minimal cooperation with internal auditors because they mistrust how the information will be used.

FINDINGS

Finding 1

California Government Code §25250 requires counties to audit their departments every two-years. The ACO's use of "Follow-Up" and "Change of Department Head" audits to fulfill this legal requirement violates California law.

Supported by Facts 1.1 and 3.1

Finding 2

Professional Standard 1100 requires the Internal Audit Unit be independent. With the Internal Audit Unit included within the ACO's "Audits and Specialized Accounting Division," the Internal Audit Unit is not completely independent. Hence, the ACO is not complying with Standard 1100.

Supported by Fact 2.1

Finding 3

The County's internal audits are marginalized and, in many cases, just ignored.

Supported by Facts 3.5, 3.6, 3.7, 3.8, and 3.9

Finding 4

The County's Internal Audit Unit members do not have the combined knowledge, skill, and experience to perform their responsibilities as required by Standard 1210.

Supported by Facts 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, 2.10, and 3.2

Finding 5

The County consistently fails to rectify known limitations in its Internal Audit Unit.

Supported by Facts 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, and 2.10

Finding 6

The County's Internal Audit Unit members lack professional certifications and experience in critical areas, which in turns exposes the County to potential financial and operational risks.

Supported by Facts 2.9, 2.10, 3.3, and 3.4

Finding 7

The County's lack of an audit oversight committee has resulted in some high-risk areas missed by internal audits for several years.

Supported by Facts 1.4, 1.5, 2.9, 2.10, 3.3, 3.4, and 3.10

Finding 8

The County's internal audit reports do not provide the Board and Executive Office with (a) summary information about the seriousness of its findings, (b) likelihood of negative impacts to the County, or (c) how quickly corrections need to be made.

Supported by Fact 3.10

Finding 9

The County's follow-up internal audit reports do not provide the Board and Executive Office with summary information on the status of departments implementing required corrective actions.

Supported by Fact 3.11

Finding 10

The County lacks summary reports and a monitoring mechanism that provides the Board and Executive Office with the following types of reports:

- Bi-Annual Systemic Internal Audit Findings Reports
- Annual Risk Assessment and Management Plan
- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Supported by Facts 1.2, 1.5, 3.8, 3.9, 3.11, 3.12, and 3.13

Finding 11

An internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility, including access to confidential records. The County's internal audit charter has not been updated in 39 years. The County's internal charter is outdated and does not comply with Standard 1010.

Supported by Fact 1.3

Finding 12

Dysfunctional working relationships among County and department leaders significantly hinders the effectiveness of internal audits.

Supported by Facts 3.8, 3.9, 3.11, 3.12, and 3.13

DISCUSSION

Governmental agencies that strive for excellence engage in two general activities: (1) actively seek ways to assess their current effectiveness to provide services to their constituents and (2) aggressively take steps to improve. Their attitude is to continuously improve and not settle for the status quo.

Riverside County has the opportunity to transform its current use of internal audits from primarily ignored to highly effective tools to monitor compliance with financial laws, policies, and procedures. One of the many lessons learned from the 1994 Orange County, California bankruptcy was that internal audits play a critical role in preventing serious financial problems and help to improve county procedures.

The Board, Executive Office, and ACO have known about the issues surrounding internal audits for many years and have not yet taken the steps necessary to resolve them. Unlike Orange

County in the 1990s, Riverside County's Board, Executive Office, and ACO have the opportunity to be proactive in establishing the importance of internal audits and resolve outstanding issues surrounding the County's internal audits.

Riverside County has changed dramatically in the past decade. However, the County appears to be content with the status quo. The Grand Jury is not aware of anyone who advocates for improvements within the ACO. Other department leaders do advocate for their departments to receive additional funds, additional personnel, and/or resources.

In conclusion, the Board, Executive Office, and ACO have the opportunity to demonstrate their leadership abilities by transforming the current ineffectual internal audit system into a highly effective one. The question is, "Will they?"

RECOMMENDATIONS

Recommendation 1

By January 1, 2024, the Board adopt a policy establishing an Audit Oversight Committee with membership drawn from the Board, Executive Office, ACO, Risk Management Steering Committee, private sector, and all five supervisor districts.

Based on Finding 7

Financial Impact – Minimal

Recommendation 2

By January 1, 2024, the Board adopt a policy that requires internal audit plans to audit all departments every two-years with an emphasis on high-risk financial and operational topics.

Based on Findings 1, 5, and 7

Financial Impact – Minimal

Recommendation 3

By January 1, 2024, the Board adopt a policy that requires the ACO to conduct any internal or external audit at the discretion of the Board and/or Executive Office regardless if the topic appears on an approved annual audit plan or not.

Based on Finding 7, 8, 9, 10, and 11

Financial Impact – Minimal

Recommendation 4

By January 1, 2024, the Board adopt a policy that requires the ACO to have at least one internal auditor with a Certified Fraud Examiner and at least one internal auditor with expertise in Information Technology.

Based on Findings 4 and 6

Financial Impact – Moderate to Significant Depending on Implementation

Recommendation 5

By January 1, 2024, the Board adopt a policy that establishes procedures to resolve disputed internal audit findings between the ACO and department/agency directors.

Based on Findings 3, 5, 11, and 12

Financial Impact – Minimal

Recommendation 6

By January 1, 2024, the Board adopt a policy that requires the ACO to (a) indicate severity of risks identified in internal audit reports, (b) the amount of time departments have to reduce or eliminate those risks, and (c) when follow-up internal audits will occur.

Based on Findings 3, 5, 8, and 9

Financial Impact – Minimal

Recommendation 7

By January 1, 2024, the Board adopt a policy that requires the ACO to include the status of departments implementing required corrective actions in its follow-up audit reports.

Based on Finding 9

Financial Impact – Minimal to Moderate

Recommendation 8

By January 1, 2024, the Board adopt a policy that requires the ACO to provide them with the following types of reports:

- Bi-Annual Systemic Internal Audit Findings Reports
- Annual Risk Assessment and Management Plan
- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Based on Findings 1, 3, 5, 7, 8, 9, 10, and 11

Financial Impact – Minimal to Moderate

Recommendation 9

By January 1, 2024, the Board adopt a policy that requires internal audit findings be included in all department leaders' annual performance reviews.

Based on Findings 3, 5, 9, and 11

Financial Impact – Minimal

Recommendation 10

By January 1, 2024, the Board adopt a policy that establishes a Countywide Risk Management Dashboard.

Based on Findings 3, 4, 6, 7, 8, 9, 10, and 11

Financial Impact – Moderate to Significant Depending on Implementation

Recommendation 11

By January 1, 2024, the County evaluate the financial compensation it provides internal auditors working within the ACO and take the necessary actions to achieve the following:

- Competitive financial compensation packages for each internal audit job classification level.
- Enhanced compensation for internal auditors with a “Certified Internal Audit” certification.
- Enhanced compensation for internal auditors with additional professional certifications in Information Technology and fraud detection.
- Update Job Descriptions to include Enhanced compensation for Professional Certifications

Based on Findings 4, 5, and 6

Financial Impact – Moderate to Significant Depending on Implementation

Recommendation 12

By July 1, 2023, the ACO divide the Audits and Specialized Accounting Division into two divisions: (1) “Audits” Division and (2) “Specialized Accounting” Division.

Based on Finding 2

Financial Impact – Minimal

Recommendation 13

By January 1, 2024, the Board adopt a policy that requires the ACO to review and update the internal audit charter to be in full compliance with the Standards.

Based on Findings 2 and 12

Financial Impact – Minimal

LEGALLY REQUIRED RESPONSES

According to California Penal Code §933 (c), the following responses are required within 90 days:

Riverside County: Board of Supervisors

Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, and 13

Riverside County: County Executive Officer

Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13

Riverside County Auditor Controller

Recommendations 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, and 13

REFERENCES

Important Note: Some organizations eventually reuse their Internet links which results in a reader's inability to access the information identified in a reference.

1. California Legislative Information, Government Title 3, Division 2, Part 2, Article 1, Section 25000 (a). Effective 1947. Last Accessed January 31, 2022, from https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=2.&title=3.&part=2.&chapter=1.&article=1.
2. Riverside County, Board of Supervisors Policy B-2, 2018 and modified 2019. Accessed March 10, 2022, from <https://www.rivcocob.org/wp-content/uploads/2020/01/B-2-3.25-of-11.05.19.pdf>
3. California State Association of Counties, "County Structure & Powers." Published 2014. Last Accessed March 3, 2022, from <https://www.counties.org/county-office/auditor-controller#:~:text=The%20accounting%20auditing%20authority%20and%20responsibilities%20of%20the%20Auditor-Controller,the%20accounting%20policies%20and%20procedures%20for%20county%20government>
4. California Legislative Information, Government Title 3, Division 2, Part 3 Chapter 3.5, Section 26881. Effective 2003. Accessed on March 10, 2022, from https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?sectionNum=26881.&lawCode=GOV
5. The Institute of Internal Auditors, "The Definition of Internal Auditing." Published 2022. Last Accessed January 31, 2022, from <https://www.theiia.org/en/standards/what-are-the-standards/mandatory-guidance/definition-of-internal-audit/? t id=aGJTS axd5VrEgJ-nzogNg%3d%3d& t uuid=Afse%2bnsGTxOISHJyCAwpnw& t q=Definition+internal+audit& t tags=language%3aen%2csiteid%3aa334384a-0d61-4879-994b-21b32118ee5d%2candquerymatch& t hit.id=EPiServer Website IIA Models Pages StandardPage/ b20851e9-f5e6-4da8-8d07-50fb2a9e8041 en& t hit.pos=1>
6. County of Riverside Auditor-Controller's Office, Internal Audit Division, "Riverside County Human Resources Department Follow-Up Audit." Published August 4, 2020. Accessed March 3, 2022, from <https://www.auditorcontroller.org/Portals/0/Internal%20Audit%20Report%202020-303%20Riverside%20County%20Human%20Resources%20Department%20Follow-Up.pdf>
7. California Legislative Information, Government Title 3, Division 2, Part 2, Chapter 3, Section 25250. Effective 1981. Last Accessed March 28, 2022, from https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV§ionNum=25250.
8. California Government Code §1236. Effective January 1, 2007. Accessed March 2, 2022, from https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV§ionNum=1236

9. International Standards for the Professional Practice of Internal Auditing, Standard 1000, "Purpose, Authority, and Responsibility," page 3. Published 2016. Accessed March 3, 2022, from <https://www.theiia.org/globalassets/documents/standards/standards-2017/ippf-standards-2017-english.pdf>
10. International Standards for the Professional Practice of Internal Auditing, Standard 1010, "Recognizing Mandatory Guidance in the Internal Audit Charter," page 3. Published 2016. Accessed March 3, 2022, from <https://www.theiia.org/globalassets/documents/standards/standards-2017/ippf-standards-2017-english.pdf>
11. County of Riverside Auditor-Controller's Office, Quality Assurance Improvement Plan, "Report on Self-Assessment in Conformance with The Institute of Internal Auditors Definition of Internal Audit, its Code of Ethics, and its International Professional Practices Framework," Consent Calendar Item 4a, page 5. Published August 26, 2019. Accessed March 8, 2022, from http://riversidecountyca.igm2.com/Citizens/Detail_Meeting.aspx?ID=251
12. Riverside County Board of Supervisors. Auditor-Controller, "FY 2021/22 Audit Plan." Approved November 16, 2021. Accessed March 30, 2022, from http://rivcocob.org/proceeds/2021/p2021_11_16_files/02.06001.pdf
13. International Standards for the Professional Practice of Internal Auditing, Standard 2010.A1, "Planning" page 10. Published 2016. Accessed March 3, 2022, from <https://www.theiia.org/globalassets/documents/standards/standards-2017/ippf-standards-2017-english.pdf>
14. Infotech Global Audit and Security, Inc., "Peer Review Quality Assessment of the Internal Audit Department of the Auditor-Controller Office of Riverside County, California." Released to the Grand Jury by the ACO. Report Dated March 9, 2022. Accessed March 15, 2022.
15. Orange County Board of Supervisors, "County of Orange Audit Oversight Committee Bylaws," page 1. Established 1995. Revised 2020. Accessed April 4, 2022, from <https://ia.ocgov.com/sites/ocia/files/2020-12/AOC%20Bylaws%20Approved%20by%20BOS%20on%207.14.20.pdf>
16. San Diego County, "County of San Diego County Audit Committee Charter." Dated August 3, 2021. Provided by San Diego County Chief Auditor on December 15, 2021.
17. San Bernardino County, "Independence of the Auditor Function within the Office of the ATC." Dated 2019. Accessed April 4, 2022, from https://www.sbcounty.gov/ATC/Content/Downloads/Independence_of_the_Auditor_200107.pdf
18. Riverside County, Auditor-Controller, "Internal Audits." Date 2022. Accessed January 11, 2022, from <https://www.auditorcontroller.org/Divisions/AuditsandSpecializedAccounting.aspx>
19. Riverside County, Auditor-Controller, "Specialized Accounting," Date 2022. Accessed January 11, 2022, from <https://www.auditorcontroller.org/Divisions/AuditsandSpecializedAccounting.aspx>

20. Infotech Global Audit and Security, Inc., "Peer Review Quality Assessment of the Internal Audit Department of the Auditor-Controller Office of Riverside County, California," pages 16-17. Released to the Grand Jury by the ACO. Report Dated March 9, 2022. Accessed March 15, 2022.
21. World Population Review, Population of Counties in California (2021). Published 2021. Last retrieved on January 24, 2022, from <https://worldpopulationreview.com/us-counties/states/ca>.
22. Riverside County, "Budget Archive." Various Annual Budgets by Fiscal Years. Accessed March 28, 2022, from <https://rivco.org/about-county/budget-and-financial-information/budget-archive>
23. Riverside County, "Financial Information: Recommended and Adopted Budget Fiscal Year 2021-2022." Accessed March 28, 2022, from <https://rivco.org/about-county/budget-and-financial-information>
24. Riverside County Civil Grand Jury, "Riverside County Auditor-Controller - Internal Audit Unit" report, 2003-2004, page 1. Accessed March 10, 2022, from <https://rivcoca.com/sites/default/files/Past%20Reports%20%26%20Responses/2003-2004/04auditcontr.pdf>
25. Riverside County Civil Grand Jury, "2011-2012 Grand Jury Report: Riverside County Auditor-Controller Internal Audit Division," page 3. Accessed March 22, 2022, from https://rivcoca.com/sites/default/files/Past%20Reports%20%26%20Responses/2011-2012/12auditorcontroller_internalaudit.pdf
26. Riverside County Civil Grand Jury, "2011-2012 Grand Jury Report - Riverside County Auditor-Controller Internal Audit Division" report, 2011-2012, page 3. Accessed March 10, 2022, from https://rivcoca.com/sites/default/files/Past%20Reports%20%26%20Responses/2011-2012/12auditorcontroller_internalaudit.pdf
27. Riverside County Civil Grand Jury, "Response" to "2011-2012 Grand Jury Report - Riverside County Auditor-Controller Internal Audit Division" report, 2011-2012, page 2. Accessed March 10, 2022, from <https://rivcoca.com/sites/default/files/Past%20Reports%20%26%20Responses/2011-2012/Response%20from%20Riverside%20County%20Auditor-Controller%20to%20Riverside%20County%20Auditor-Controller%20Internal%20Audit%20Division%20Rpt.pdf>
28. Riverside County, "Budget Archive." Various Annual Budgets by Fiscal Years. Accessed March 28, 2022, from <https://rivco.org/about-county/budget-and-financial-information/budget-archive>
29. Riverside County, "Financial Information: Recommended and Adopted Budget Fiscal Year 2021-2022." Accessed March 28, 2022, from <https://rivco.org/about-county/budget-and-financial-information>
30. International Standards for the Professional Practice of Internal Auditing, Standard 1210, "Proficiency," page 6. Published 2016. Accessed March 3, 2022, from <https://www.theiia.org/globalassets/documents/standards/standards-2017/ippf-standards-2017-english.pdf>

31. California Legislative Information, Government Title 3, Division 2, Part 2, Chapter 3, Section 25250. Effective 1981. Last Accessed March 28, 2022, from https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=GOV§ionNum=25250.
32. Riverside County Auditor-Controller, Internal Audit Reports, "Information Technology." Published Dates, 2016, 2017, 2018, 2020, & 2021. Accessed April 6, 2022, from <https://www.auditorcontroller.org/Divisions/AuditsandSpecializedAccounting/InternalAuditReports.aspx>
33. AuditBoard, "2022 Focus on the Future: Internal Audit Resilience and Readiness in the New Age of Risk," page 4. Published 2022. Accessed April 4, 2022, from <file:///G:/New%20as%20of%2004-04-22/AB-EB-2022-Focus-on-the-Future.pdf>
34. Riverside University Health System, Behavioral Health, "Home Page." Copyright 2020. Accessed April 6, 2022, from <https://www.ruhealth.org/>
35. Riverside University Health System, Behavioral Health, "Public Guardian Program." Copyright 2013. Accessed April 6, 2022, from <https://www.rcdmh.org/Administration/PG>
36. Riverside County Auditor-Controller, Internal Audit Reports, "Internal Audit Report 2014-002: Countywide Revolving Funds - Mental Health Public Guardian." Dated September 23, 2014. Accessed April 6, 2022, from <https://www.auditorcontroller.org/Portals/0/Documents/publications/FinancialPub/asa-reports/asa-reports/Internal%20Audit%20Report%202014-002%20Countywide%20Revolving%20Funds-Mental%20Health%20Public%20Guardian.pdf>
37. International Standards for the Professional Practice of Internal Auditing, "Monitoring Progress," Standard 2500.A1, page 20. Published 2016. Accessed April 6, 2022, from <https://www.theiia.org/globalassets/documents/standards/standards-2017/ippf-standards-2017-english.pdf>
38. County of Orange, Internal Audit Department, "Internal Control Audit: OC Public Works/OC Road Special Revenue Funds," page 5. Date August 9, 2021. Accessed May 3, 2022, from <https://ia.ocgov.com/sites/ocia/files/2021-08/OCPW%20Special%20Revenue%20ICA%20%282019%29%20Final%20Report.pdf>
39. County of Los Angeles, Los Angeles County Auditor-Controller, "Internal Services Department – Accounting for Cell Phones and Other Wireless Devices Review," Date March 25, 2022. Accessed April 13, 2022, from http://file.lacounty.gov/SDSInter/auditor/audit_reports/1121324_2022-03-25InternalServicesDepartment_AccountingforCellPhonesandOtherWirelessDevicesReview.pdf
40. County of Orange, Auditor-Controller, Internal Audit Department, "First Follow-Up Internal Control Audit: Sheriff-Coroner, Concealed Carry Weapons Licensing and Records Units Cash Receipts." Dated May 20, 2021. Accessed April 13, 2022, from <https://ia.ocgov.com/sites/ocia/files/2021-05/2039-K%20OCSD%20ICA%20Cash%20Receipts%20Follow-Up%20Final%20Report%20-%20PUBLIC%20INFORMATION.pdf>

41. International Standards for the Professional Practice of Internal Auditing, "Monitoring Progress," Standard 1320, page 9. Published 2016. Accessed April 6, 2022, from <https://www.theiia.org/globalassets/documents/standards/standards-2017/ippf-standards-2017-english.pdf>
42. International Standards for the Professional Practice of Internal Auditing, "Monitoring Progress," Standard 1320, page 8. Published 2016. Accessed April 6, 2022, from <https://www.theiia.org/globalassets/documents/standards/standards-2017/ippf-standards-2017-english.pdf>
43. International Standards for the Professional Practice of Internal Auditing, "Monitoring Progress," Standard 1320, page 9. Published 2016. Accessed April 6, 2022, from <https://www.theiia.org/globalassets/documents/standards/standards-2017/ippf-standards-2017-english.pdf>
44. County of Riverside, Auditor-Controller, "Quality Assurance Improvement Plan." Review Conducted by Santa Cruz County, page 5. Dated August 26, 2019. http://riversidecountyca.iqm2.com/Citizens/Detail_LegiFile.aspx?ID=10840&highlightTerms=Quality%20Assurance%20Improvement%20Plan
45. County of Orange, Office of the Auditor-Controller, "Annual Risk Assessment and Management Plan for Fiscal Year 2021-2022," Dated May 21, 2021. Accessed April 13, 2022, from <https://ia.ocgov.com/sites/ocia/files/2021-07/Annual%20Risk%20Assessment%20%26%20Audit%20Plan%20for%20FY%202021-22.pdf>
46. Citizens Property Insurance Corporation, Office of Internal Auditor, "Dashboard." Dated March 17, 2017. Accessed April 12, 2022, from <https://www.citizensfla.com/documents/20702/4195927/20170328+02B+OIA+Dashboard+to+AC+-+March+2017.pdf/1cc22827-fdea-4a30-adc6-4e5c6b216677>
47. Los Angeles County, Auditor-Controller, "Contract Monitoring Reports." Updated 2022. Accessed April 4, 2022, from <https://auditor.lacounty.gov/latest-contract-monitoring-reports/>
48. CalPers, "Enterprise Risk Management Dashboard." Date 2020. Accessed April 2, 2022, from https://www.calpers.ca.gov/docs/board-agendas/201811/risk/item7a-01_a.pdf
49. The Press-Enterprise, "Did one email cost Riverside County \$435,000 (and maybe more)?" by Jeff Horseman. Published February 15, 2019. Accessed April 4, 2022, from <https://www.pe.com/2019/02/15/did-one-email-cost-riverside-county-435000-and-maybe-more/>
50. The Press-Enterprise, "Riverside County supervisors to auditor: Get your own lawyer to fight lawsuit," by Jeff Horseman. Published March 5, 2019. Accessed April 4, 2022, from <https://www.pe.com/2019/03/05/riverside-county-supervisors-to-auditor-get-your-own-lawyer-to-fight-lawsuit/>
51. County of Riverside, Auditor-Controller, "Legal Settlement Cost Follow-up Report, All Districts," "Risk Management Annual Report 2019-2020" section, Appendix GL-2, page 27. Dated June 8, 2021. Accessed April 12, 2022, from <https://www.auditorcontroller.org/Portals/0/Legal%20Settlement%20Cost%20Follow-up%20Report%201.pdf>

52. County of Riverside, Auditor-Controller, "Legal Settlement Cost Follow-up Report, All Districts." "Risk Management Annual Report 2019-2020" section, Appendix GL-2, page 33. Dated June 8, 2021. Accessed April 12, 2022, from <https://www.auditorcontroller.org/Portals/0/Legal%20Settlement%20Cost%20Follow-up%20Report%201.pdf>
53. Press Enterprise, "Riverside County workers reported nearly 800 complaints to anonymous fraud hotline," by Jeff Horseman. Published February 3, 2020. Accessed April 12, 2022, from <https://www.pe.com/2020/02/03/riverside-countys-fraud-hotline-got-nearly-800-complaints-here-are-some-highlights/>

Appendix 1

List of County Agencies and Departments Audited by ACO

Agricultural Commissioner's Office	Flood Control and Water Conservation District
Animal Services	Human Resources
Assessor – County Clerk – Recorder	Information Technology
Children and Families Commission	In-Home Support Services Public Authority
Clerk of the Board	Office on Aging
Community Action	Parks
Community Services	Probation
Cooperative Extension	Public Defender
County Counsel	Public Social Services
Department of Child Support Services	Purchasing/Fleet Services
Department of Public Social Services	Registrar of Voters
District Attorney	Riverside University Health System - Behavioral Health
Economic Development Agency	Riverside University Health System - Medical Center
Emergency Management Department	Riverside University Health System - Public Health
Environment Health	Sheriff-Coroner
Executive Office	Treasurer-Tax Collector
Edward Dean Museum	Transportation Land Management Agency
Facilities Management	Veteran's Services
Fire Protection	Waste Management

Appendix 2

Specific Riverside County and ACO Approved Budgets: Fiscal Years 2012-2013 to 2021-2022

From the County's 2012-2013 adopted budget to the 2021-2022 adopted budget, the County's budget increased by \$2,207,637,226 (47.2%). During that same period, the ACO's allocation increased by \$1,055,452 (11.9%), while the Internal Audit Unit decreased by **\$131,865 (-8.2%)**.

Fiscal Years	Approved County Budget (Total)	Approved ACO Budget (Total)	ACO's Budget Allocated to Internal Audits
2021-22	\$6,883,337,226	\$9,921,211	\$1,475,029
2020-21	\$6,796,564,463	\$9,628,030	\$1,475,029
2019-20	\$6,098,100,000	\$9,807,621	\$1,611,865
2018-19	\$5,572,900,000	\$9,730,717	\$1,611,865
2017-18	\$5,500,000,000	\$9,518,554	\$1,678,865
2016-17	\$5,439,800,000	\$9,204,902	\$1,795,578
2015-16	\$5,342,200,000	\$9,581,412	\$1,664,568
2014-15	\$4,765,200,000	\$9,231,627	\$1,340,000
2013-14	\$4,701,200,000	\$8,645,771	\$1,459,550
2012-13	\$4,675,700,000	\$8,865,759	\$1,606,894

Appendix 3 Los Angeles County Internal Audit Priority Ranking Definitions

Priority 1 Issues

Priority 1 issues are control weaknesses or compliance lapses that are significant enough to warrant immediate corrective action. Priority 1 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category may be situations that create actual or potential hindrances to the department's ability to provide quality services to the community, and/or present significant financial, reputational, business, compliance, or safety exposures. Priority 1 recommendations require management's immediate attention and corrective action within 90 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 2 Issues

Priority 2 issues are control weaknesses or compliance lapses that are of a serious nature and warrant prompt corrective action. Priority 2 recommendations may result from weaknesses in the design or absence of an essential procedure or control, or when personnel fail to adhere to the procedure or control. These may be reoccurring or one-time lapses. Issues in this category, if not corrected, typically present increasing exposure to financial losses and missed business objectives. Priority 2 recommendations require management's prompt attention and corrective action within 120 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Priority 3 Issues

Priority 3 issues are the more common and routine control weaknesses or compliance lapses that warrant timely corrective action. Priority 3 recommendations may result from weaknesses in the design or absence of a procedure or control, or when personnel fail to adhere to the procedure or control. The issues, while less serious than a higher-level category, are nevertheless important to the integrity of the department's operations and must be corrected or more serious exposures could result. Departments must implement Priority 3 recommendations within 180 days of report issuance, or less if so directed by the Auditor-Controller or the Audit Committee.

Source:

County of Los Angeles, Los Angeles County Auditor-Controller, "The Office of County Counsel: Information Technology and Security Review: First and Final Follow-Up Review," page Appendix II. Date November 15, 2019. Accessed April 13, 2022, from http://file.lacounty.gov/SDSInter/auditor/audit_reports/1064558_2019-11-15TheOfficeofCountyCounsel-InformationTechnologyandSecurityReviewReportK18DS-FirstandFinalFollow-UpReview.pdf



**COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER**

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

AO | **AUDITOR
CONTROLLER**
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Riverside County Auditor-Controller

Tanya S. Harris, DPA, CPA
Assistant Auditor-Controller

Riverside County Superior Court Grand Jury
Riverside, California 92502

TRANSMITTAL LETTER

Dear Juror:

The grand jury's report dated May 27, 2022 ought to function as a prime example of broken government, or as *Johann Wolfgang von Goethe* said, *'There is nothing more frightful than ignorance in action.'*

As an eighteen-year-old in the US Army, I swore an oath that "I do solemnly swear that I will support and defend the Constitution of the United States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same." I've always taken that oath seriously. I am very proud of the service my staff and I have provided to the county's taxpayer. Our audits clearly demonstrate that we've been tough fiscal watchdogs. Further, we rallied through the Covid-19 epidemic, where the entire office was stricken with the killer disease, and still delivered the quality of service expected by the taxpayer – a huge success story. Three weeks from hospital intensive care I continued to work for my constituents until I was too ill to communicate any further.

At each project under my leadership, I made certain to add value to the people's work. For example, one audit sought out registered sexual offenders in the hospital health care system to protect children and other patients. By being proactive, this audit not only protected our patients but also protected the county from massive lawsuits. Several names could not be ruled out and those names were provided to HR for action. In another audit, we found that of 54 IT firewalls, 49 were non-operational. If not for my audit, a foreign, hostile government would have had a field day here stealing PII (personally identifiable information). My audit helped the county dodge that bullet. Still, in another audit we found fiscal hemorrhaging in the county's legal settlement program, where Riverside County paid out nearly

\$100 million in a five-year period –far more than the next four-largest California counties combined! Here, I came under intense personal attack and my family threatened for doing my job. Where was the grand jury during these tough high-risk audits? Instead of missing in action (MIA) in these audits of great public concern, the grand jury had a duty to stand up for the taxpayer. Yet all we heard from them was crickets. As Caesar told his son in one of the Germanic Battles: “You not only missed the battle, you missed the war.” He might as well have been referring to this grand jury.

Moreover, I make no apology for my training and education. Stop asking who paid for my UC Berkeley and Master’s degrees– I DID! An elected official has a MORAL DUTY to be well-trained and prepared when representing the taxpayers. REPEAT: An elected official has a MORAL DUTY to be well-trained and prepared when representing the taxpayers. The Executive Office and the Board recognizes this training imperative in the auditor’s office and therefore it approved highly-specialized training in Washington DC and at Harvard graduate school to MAKE SURE the taxpayer got EVERYTHING DUE to them and to ensure the upmost of fiscal integrity of the taxpayer’s nearly \$40 Billion in assets and cash-flows. Cost of advanced training is small change compared to what is at stake. Kudos to them for supporting a well-trained office.

To use the grand jury’s own words - hypocrite is the grand jury for trying to assist my political opponent with this defamatory, naïve and ignorant report. Collectively, this grand jury cannot produce one (1) professionally accredited accountant yet feels empowered to dictate to a duly elected and licensed professional with twenty-years’ experience what to do. Armchair-General dictates, such as yours, rarely work because of the nuances of the battle. The ACO continues to work through these challenges and deserves some credit.

This grand jury is in the same category as my political opponent who has no professional accountancy accreditation, much less qualified to opine on multi-billion-dollar fiscal operations. More know-nothing politicians masquerading as accountant auditors trying to dupe the citizens of Riverside County. If this is the grand jury’s standard, then why not simply hire one of the many guys looking for work at the Home Depot parking lot?

Instead, to defend the County’s taxpayer, the question the grand jury should be asking is why a candidate, such as my opponent this Nov 8, 2022, who admittedly has no formal finance, accounting, or audit training, or professionally accredited is allowed to run for an office that provides oversight and manages the finances of one of the largest counties in the United States of America. If the grand jury cannot answer this question, then all its other questions are meaningless and irrelevant.

You talk about risk!? Consider a county auditor without formal training and professional accreditation BY DEFINITION exponentially heightens the risk of County mission failure. This is precisely what occurred in the unprecedented bankruptcy of Orange County in 1995. Either professional accreditation and experience matter or they don't. Make up your mind.

There was a day in America that the Court honored the US Constitution. Specifically, the 14th amendment that addresses DUE PROCESS. Instead of dictating to an honorable public servant and duly elected county auditor like high-priests of the Gestapo, how about letting him know what you perceive to be problematic before your character assassination? You have embarrassed the court and yourselves by using the court as cover for your petty politics.

THE DAY WILL COME WHEN I AM GONE AND YOUR DISHONOR WILL REMAIN.

A handwritten signature in black ink that reads "Paul Angulo" with a long horizontal flourish extending to the right.

Paul Angulo, CPA, M.A.
Riverside County Auditor & Controller
Citizen, Soldier, American Patriot
US ARMY 1971-74 In the Service of My Country

2021/22 Grand Jury Report

Riverside County Auditor Controller's Office, Internal Audit

Dated May 27, 2022

GRAND JURY FINDINGS:

Grand Jury Finding #1:

Noncompliance with Government Code 25250. **Completely Disagree**

Response to Grand Jury Finding #1:

The Grand Jury's interpretation of the law and their misguided "facts" is nothing but a disservice to the taxpayer. The ACO is in FULL COMPLIANCE with Government Code 25250. Additionally, we are in compliance with Government Code 1236 that requires we conduct our audit work using the prescribed standards issued by the Institute of Internal Auditors (IIA) or Comptroller General of the United States.

March 2022 Peer Review:

David S. Marshall, MBA, CISA, CFE, CFS (Full qualifications attached) report says:

- *"The Auditor-Controller's Office performs biennial audits of all departments within the County jurisdiction of the Board of Supervisors per California Government Code 25250. The Auditor-Controller is responsible for ensuring that mandatory audits are performed by internal staff or contracted certified public accountants. The ACO Internal Audit department complies with State of California Government Code 1236: IA "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."*

Grand Jury Finding #2:

Lack of independence. **Completely Disagree**

Response to Grand Jury Finding #2:

The Grand Jury's lack of understanding basic concepts does not account for the independent oversight reviews of each unit. Internal Audits and Specialized Accounting are conceptually managed independently.

David S. Marshall, MBA, CISA, CFE, CFS report says:

- *"The independence of Internal Audits is not impaired because the individual that prepares, reviews and certifies the cost and revenue reimbursement reports does not audit them."*

Grand Jury Finding #3:

Internal Audits are marginalized and, in many cases, just ignored. **Completely Disagree**

Response to Grand Jury Finding #3:

The Grand Jury is finding the ACO leadership at fault because of the lack of follow-up to the audit recommendations. The ACO completes their responsibility of conducting and reporting the audits. The ACO has zero responsibility to manage the oversight of the corrective actions.

David S. Marshall, MBA, CISA, CFE, CFS report says:

- *"Internal audits are adequately planned and managed in accordance with standards and best practices."*
- *"Results are validated with auditees during fieldwork and at exit meetings. Formal, written reports are issued and of sufficient quality. The findings in the reports require a written response from management with corrective action."*
- *"Internal Audits and results are formally reported including risks and management's treatment of risks. Follow-up audits are conducted to monitor risks and internal controls."*

Grand Jury Finding #4:

County's Internal Audit members do not have the combined knowledge, skill, and experience to perform their responsibilities as required by Standard 1210. **Completely Disagree**

Response to Grand Jury Finding #4:

The ACO takes exception to this disturbing allegation by the Grand Jury, who themselves are not licensed or credentialed practitioners. The ACO focuses on outcomes. To automatically

2021/22 Grand Jury Report
 Riverside County Auditor-Controller's Office, Internal Audit
 May 27, 2022

assume that there is a decrease in productivity and a lack of knowledge, skills and experience with the decreased number of staff, is absolutely ridiculous and shows how little understanding of the operation the Grand Jury has. Therefore, the Table below can offer some assistance in explaining the outcomes from the concept of "Building Capacity" which the ACO has been forced to rely on.

County	FY 20-21 Audits by type							
	Mandated	Change In Dept Head	Quarterly Treasury	Follow Up	Other	Total Audits	No of Auditors	Audit Projects Complete / Audits
Orange County	-	-	5	-	5	10	13	0.77
Riverside County	17	5	3	5	4	34	9	3.78
San Bernardino County	6	11	-	6	-	23	15	1.53
San Diego County	8	20	-	-	1	29	13	2.23
Ventura County	4	-	4	3	-	11	8	1.38

County	FY 21-22 Audits by type							
	Mandated	Change In Dept Head	Quarterly Treasury	Follow Up	Other	Total Audits	No of Auditors	Audit Projects Complete / Audits
Orange County	-	-	3	-	3	6	13	0.46
Riverside County	22	1	3	14	4	44	9	4.89
San Bernardino County	7	16	-	7	-	30	15	2.00
San Diego County	2	4	-	-	-	6	13	0.46
Ventura County	2	-	4	2	-	8	8	1.00

David S. Marshall, MBA, CISA, CFE, CFS report says:

- *"The Assistant Auditor Controller, Chief Auditor, and Principal Internal Auditor continuously improve the Audit organization by hiring competent staff, conducting detailed risk and workpaper inspections, and mentoring the staff."*

Grand Jury Finding #5:

The County consistently fails to rectify known limitations in its Internal Audit Unit.
Completely Disagree

Response to Grand Jury Finding #5:

The ACOs inability to fill the vacant positions is due to low pay and poor benefit packages. This is well documented on exit interviews. Two of the most recent internal auditors left for other opportunities that paid 25-30% higher for literally the same title. The ACO leadership has reported this multiple times to Human Resources. CPAs and advanced auditors with 4

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

years accounting degrees are high level, well-educated employees and should be treated no differently than attorneys or engineers with professional training.

David S. Marshall, MBA, CISA, CFE, CFS report says:

- *"The internal audits are adequately planned, scoped and assigned based on California mandates and the effective allocation of audit resources. Audit engagements are documented in an audit plan and audit procedures are updated to reflect audit risks."*

Grand Jury Finding #6:

The County's Internal Audit Unit members lack professional certifications and experience in critical areas, which in turn exposes the County to potential financial and operational risks.
Completely Disagree

Response to Grand Jury Finding #6:

It would take an unlicensed, uncredentialed Grand Jury to make this egregious allegation. Our combined strength in experience equals to 110 years' experience - with an average of 10 years of experience per member of the Internal Audit Unit. Building capacity through training has allowed us to produce the outcomes that the taxpayer deserve.

David S. Marshall, MBA, CISA, CFE, CFS report says:

- *"IA staff is capable, qualified, and performs high-quality work. Auditors maintain CPE."*
- *"ACO audit staff appear competent as judged by our interviews and inspections of workpapers and Continuing Professional Education. Auditor interviews indicated motivation and dedication to support the mission of the county. We observed auditor camaraderie and information-sharing through weekly staff meetings, counseling, and informal conversations among the team members."*

Note: Marshall is a Certified Fraud Examiner and would have said if the county is at risk or breaking the law by not having a Certified Fraud examiner.

Grand Jury Finding #7:

The County's lack of an audit oversight committee has resulted in some high-risk areas missed by internal audits for several years. **Completely Disagree**

Response to Grand Jury Finding #7:

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

Anyone who has studied political theory 101 would recognize this suggestion straight out of a Communist manifesto. The people of California decided decades ago that they prefer to have a professionally licensed accountant (CPA) to lead county auditor functions, NOT a Politburo. Therefore, under this Auditor Controller's leadership this suggestion is DOA (Dead on Arrival).

It is not the responsibility of the ACO, to pull together another do-nothing governmental committee. The ACO focuses on reliable, data driven internal audits based on risk, not something that isn't mandated by law or regulations.

Grand Jury Finding #8:

The County's internal audit reports do not provide the Board and Executive Office with (a) summary information about the seriousness of its findings, (b) likelihood of negative impacts to the County, or (c) how quickly corrections need to be made. **Completely Disagree**

Response to Grand Jury Finding #8:

ACO internal audits are completed according to the Auditing Standards of the *Institute of Internal Auditors* (IIA). The ACO will not issue subjective A-F grades to departments, as requested by the Grand Jury. Giving departments a letter grade certainly will not improve relationships with the ACO who wishes to stay factual based. The Grand Jury is not authorized to insist that the ACO go out of their Scope of Practice. The ACO is governed by Standards and Laws. Risk is addressed in each report and the management of that risk is up to the County Department leadership.

Grand Jury Finding #9:

The County's follow-up internal audit reports do not provide the Board and Executive Office with summary information on the status of departments implementing required corrective actions. **Completely Disagree**

Response to Grand Jury Finding #9:

Not the ACOs job. The ACO is to conduct the audits and follow-up audits that give the current state of the department.

Grand Jury Finding #10:

The County lacks summary reports and monitoring mechanism that provides the Board and Executive Office with the following types of reports: **Completely Disagree**

- Bi-Annual Systematic Internal Audit Findings Reports
- Annual Risk Assessments and Management Plan

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Response to Grand Jury Finding #10:

Open your wallet, as this will take many staff to develop and manage. The ACO has had a dashboard in the past and it was not utilized because there was no cost benefit. These reports are a waste of taxpayer money. As Auditor Controller, the people have hired me for my experience and professional knowledge and I will only take action when it is law or standard related, and a cost benefit for the people of Riverside County.

Grand Jury Finding #11:

An internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility, including access to confidential records. The County's internal audit charter has not been updated in 39 years. The County's internal charter is outdated and does not comply with Standard 1010. **Completely Disagree**

Response to Grand Jury Finding #11:

The ACO operational guidelines is the Redbook for Accounting as promulgated by the *Institute of Internal Auditors*. A Charter is obsolete when you are governed by professional standards.

David S. Marshall, MBA, CISA, CFE, CFS report says:

- *"IA maintains a charter that defines IA duties. The charter is aligned with IIA guidance."*
- *"Internal Audit's effectiveness in carrying out its mission as defined in their Charter, and in the expectations of those charged with governance. We identified the department's audit practices that are operating effectively".*

Grand Jury Finding #12:

Dysfunctional working relationships among County and department leaders significantly hinders the effectiveness of internal audits. **Completely Disagree**

Response to Grand Jury Finding #12:

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

This is a subjective assessment best left to psychology professionals. The ACO does not expect to be liked when finding areas that need improvement. The departments have months to work with the ACO but many choose not to because it is hard to argue against facts. How would the Grand Jury's suggestion of an A-F subjective grade make this working relationship any better? Some departments prefer to blur the lines and make an appeal to the Board. The ACO's responsibilities have been fulfilled. We have used standards to base our results on and will not change our method or alter our outcome. The taxpayer wants transparency of waste and abuse; and while unpopular, the ACO is determined to continue to deliver it, despite personal attacks on the auditor controller and his family.

GRAND JURY RECOMMENDATIONS:

Grand Jury Recommendation #1:

By January 1, 2024, the Board adopt a policy establishing an Audit Oversight Committee with membership drawn from the Board, Executive Office, ACO, Risk Management Steering Committee, private sector, and all five supervisor districts.

Based on Finding 7
Financial Impact - Minimal

Response to Grand Jury #1:

Anyone who has studied political theory 101 would recognize this suggestion as straight out of a Communist manifesto. The people of California decided decades ago that they prefer to have a professionally licensed accountant (CPA) to lead county auditor functions, NOT a Politburo. Therefore, under this Auditor Controller's leadership, this suggestion is DOA (Dead on Arrival). It is not the responsibility of the ACO, to pull together another do-nothing governmental committee. The ACO is continuously working on identifying risks through the Waste and Abuse Hotline, lawsuits, governmental training, and bi-annual ACO California County Auditor seminars and conferences. The Grand Jury's dictator approach to beat the county auditor into submission will not work. The Grand Jury is delusional that the department leaders will proactively identify risks that may expose them. The truth is the truth and I will not sugar coat the facts to mislead the taxpayer.

Grand Jury Recommendation #2:

By January 1, 2024, the Board adopt a policy that requires internal audit plans to audit all departments every two-years with an emphasis on high-risk financial and operational topics.

Based on Findings 1, 5, and 7
Financial Impact - Minimal

Response to Grand Jury Recommendation #2:

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

The ACO finds this ironic, because in the recently conducted Peer Review Riverside County's Internal Audit Division was recognized as "leading practice" in Audit Planning. The Grand Jury had access to this report and chose to ignore it.

This is already being done as noted in the "leading practice" summary defined by **David S. Marshall, MBA, CISA, CFE, CFS** who writes:

- *"Given that California Code 25250 requires each County department to be audited every two years, ACO audit planning is sufficient to meet this endeavor. Risks are assessed by the auditors during the audit planning meetings and by soliciting input from department personnel during audit entrance meetings. Audits are added to the schedule when there is a change in department head and other significant events."*

One can only assume that the Grand Jury's lack of knowledge or ulterior motive clouded their ability to make a unbiased or fact based recommendation.

Grand Jury Recommendation #3:

By January 1, 2024, the Board adopt a policy that requires the ACO to conduct any internal or external audit at the discretion of the Board and/or Executive Office regardless of the topic appears on an approved annual audit plan or not.

Based on Finding 7, 8, 9, 10, and I 1
Financial Impact - Minimal

Response to Grand Jury Recommendation #3:

This is already being done as noted in the "leading practice" summary defined by **David Marshall MBA, CISA, CFE and CFS** who writes:

- *"Audits are added to the schedule when there is a change in department head and other significant events." I guess it takes a trained eye to see that it is already occurring and should not be listed as a recommendation.*

One can only assume that the Grand Jury's lack of knowledge or ulterior motive clouded their ability to make unbiased or fact-based recommendations.

Grand Jury Recommendation #4:

January 1, 2024, the Board adopt a policy that requires the ACO to have at least one internal auditor with a Certified Fraud Examiner and at least one internal auditor with expertise in Information Technology.

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

Based on Findings 4 and 6
Financial Impact - Moderate to Significant Depending on Implementation

Response to Grand Jury Recommendation #4:

The Grand Jury wants the ACO to pull a Rabbit out of the Hat. The ACO cannot keep CPAs now because of low pay and poor benefit packages. The Peer Reviewer David Marshall is a Certified Fraud Examiner and an expert in Internal Audit Informatic Technology (CISA). Nowhere in his March 2022 report does it make such a ridiculous recommendation. The ACO does not wish to contribute to BIG Government. Instead, the ACOs decisive move to build capacity has made the Peer Reviewer list "Audit Planning" and "Auditor Workpapers and Quality Self-Inspection" as "leading practice."

Grand Jury Recommendation #5:

By January 1, 2024, the Board adopt a policy that establishes procedures to resolve disputed internal audit findings between the ACO and department/agency directors.
Based on Findings 3, 5, 11, and 12
Financial Impact - Minimal

Response to Grand Jury Recommendation #5:

Departments auditees give internal audits the numbers that are used to generate the audit summary. One may not like the facts in the audit report becoming transparent to the people, but they are still the facts. The ACO's entire working world is based on numbers. There is no way to sugar coat these numbers. If that makes departments not like the ACO; well many don't like IRS either.

Grand Jury Recommendation #6:

By January 1, 2024, the Board adopt a policy that requires the ACO to (a) indicate severity of risks identified in internal audit reports, (b) the amount of time departments have to reduce or eliminate those risks, and (c) when follow-up internal audits will occur.
Based on Findings 3, 5, 8, and 9
Financial Impact - Minimal

Response to Grand Jury Recommendation #6:

Click here to enter text.
The ACO will continue to follow the law and standards. The Grand Jury's dictator approach to this and all of the recommendations is not what the people hired me for. The AC is

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

independently elected to make technical, experienced decisions. The ACO will not be beat into submission by an unqualified and uncredentialed Grand Jury. Risk is addressed in all reports and follow-up on corrective actions is not the ACOs responsibilities - except in completing a follow-up audits.

Grand Jury Recommendation #7:

By January 1, 2024, the Board adopt a policy that requires the ACO to include the status of departments implementing required corrective actions in its follow-up audit reports.

Based on Finding 9

Financial Impact - Minimal to Moderate

Response to Grand Jury Recommendation #7:

A follow-up audit is a current state of the department. That is what is required by law and that is what is submitted.

Grand Jury Recommendation #8:

By January 1, 2024, the Board adopt a policy that requires the ACO to provide them with the following types of reports:

- Bi-Annual Systemic Internal Audit Findings Reports
- Annual Risk Assessment and Management Plan
- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Based on Findings 1, 3, 5, 7, 8, 9, 10, and 11

Financial Impact - Minimal to Moderate

Response to Grand Jury Recommendation #8:

The ACO will not waste the taxpayer's money formulating and managing more paperwork that require more staff. The information that is needed is in the reports that are already submitted. The Board has reviewed and approved the Audit Plan. The Audit Plan is based off of identified risk; the Audit Plan defines the audit completion goals, and the Audit findings are listed in each report. The ACO will not spend precious dollars on the development and management of these reports when the information can be extracted from the Audit Plan that is reviewed and submitted to the Board for approval and the final audit summary. At any time the Board can add to the Plan based on risk and urgency. A Dashboard is mere numbers, that are extracted from the audit reports. The Board has the Audit Plan and the Board and the Departments have the Audit Reports. The ACO is not adverse to developing and managing new processes, however there has to be value in it; otherwise it is a waste of taxpayer money and a senseless exercise.

Grand Jury Recommendation #9:

By January 1, 2024, the Board adopt a policy that requires internal audit findings be included in all department leaders' annual performance reviews.

Based on Findings 3, 5, 9, and 11
Financial Impact - Minimal

Response to Grand Jury Recommendation #9

The ACO has nothing to do with the department leaders annual performance reviews.

Grand Jury Recommendation #10:

By January 1, 2024, the Board adopt a policy that establishes a Countywide Risk Management Dashboard.

Based on Findings 3, 4, 6, 7, 8, 9, 10, and 11
Financial Impact - Moderate to Significant Depending on Implementation

Response to Grand Jury Recommendation #10

See #8 Response.

Grand Jury Recommendation #11:

By January 1, 2024, the County evaluate the financial compensation it provides internal auditors working within the ACO and take the necessary actions to achieve the following:

- Competitive financial compensation packages for each internal audit job classification level.
- Enhanced compensation for internal auditors with a "Certified Internal Audit" certification.
- Enhanced compensation for internal auditors with additional professional certifications in Information Technology and fraud detection.
- Update Job Descriptions to include Enhanced compensation for Professional Certifications

Based on Findings 4, 5, and 6
Financial Impact - Moderate to Significant Depending on Implementation

Response to Grand Jury Recommendation #11:

Not within the Scope of the ACO. The ACO has already defined the issues to Human Resources on many occasions, they are the ones who can make it happen. Compensation discussions have been in the works with HR and the EO. Recently division chiefs were reclassified and received bumps in pay. Discussion continue.

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

Grand Jury Recommendation #12:

By July 1, 2023, the ACO divide the Audits and Specialized Accounting Division into two divisions: (1) "Audits" Division and (2) "Specialized Accounting" Division.

Based on Finding 2
Financial Impact - Minimal

Response to Grand Jury Recommendation #12:

Splitting the two Divisions would require another set of supervisors, mid-level managers and Chief. Yet another cost to the taxpayer. The highly trained Peer Reviewer says:

- *"The independence of Internal Audits is not impaired because the individual that prepares, reviews and certifies the cost and revenue reimbursement reports does not audit them."*

The ACO thinks that the Grand Jury have forgotten who we serve – the taxpayer. Why would the ACO add another layer and another cost to the Department when it is meeting the law and regulations? Just because the Grand Jury dictates it? The ACO does not serve the Grand Jury, the ACO serves the people – 2.5 million residents -- and will not fix what is not broken.

Grand Jury Recommendation #13:

By January 1, 2024, the Board adopt a policy that requires the ACO to review and update the internal audit charter to be in full compliance with the Standards.

Based on Findings 2 and 12
Financial Impact - Minimal

Response to Grand Jury Recommendation #13:

I chose to believe the highly trained, highly technical, and very experienced Peer Reviewer - **David S. Marshall, MBA, CISA, CFE, CFS** who says in his report dated March 2022:

- *"IA maintains a charter that defines IA duties. The charter is aligned with IIA guidance."*
- *"Internal Audit's effectiveness in carrying out its mission as defined in their Charter, and in the expectations of those charged with governance. We identified the department's audit practices that are operating effectively".*

Summary

2021/22 Grand Jury Report
Riverside County Auditor-Controller's Office, Internal Audit
May 27, 2022

One would think that the Grand Jury, after making an assessment that labels their findings as minimal, moderate and significant risk would have something more to offer the public other than to develop "policies." Policies also require labor to manage and will come at a huge cost in salary and pensions in the end. The ACO prefers to stay focused and not run amok at one-sided biased "recommendations."

Grand jury recommendations are very valuable in one respect: They demonstrate to the taxpayer just what this Grand Jury was trying to accomplish with:

- The early release of the report- less than 1 week before the election.
- The volatile, unprofessional use of language - "hypocritical"
- The lack of substantive recommendations backed by law versus their personal elementary suggestions.
- Demanding that the auditor controller issue letter grades A-F to each department audited.

The true intent of this report was:

- To degrade the staff who out-perform other regional counties.
- A Political hit on the current Auditor Controller because he does not agree with the grand jury's recommendations.
- Character assassination.

The ACO will take the recommendations of a Certified Auditor firm who conducts professional, qualified assessments, and who has reported as of March 22 that the ACO is in **FULL compliance** with the law and professional standards.

The Grand Jury owes the auditor controller, ACO staff, and the taxpayers an apology for such a misleading, defamatory, and waste of money report.

The ACO leaves you with the Certified Auditor's opinion:

"Our overall conclusion is that the ACO Internal Audit department and its audits are conducted in a manner that is consistent with IIA standards and internal auditing best practices. The department operates in a structured and progressive environment, where the auditing standards are understood, there is compliance with the Code of Ethics, and the audits are well-documented to reflect the work performed. The Internal Audit staff are professional, competent, independent, and objective."

"The ACO Internal Audit operation "Generally Conforms" to internal auditing professional standards as prescribed by the Institute of Internal Auditors' "Internal Professional Practices Framework", and employs many best practices for auditing. 'Generally Conforms' is **the highest ranking**" possible.

Click here to enter text.**ASSESSOR'S QUALIFICATIONS**

David S. Marshall, MBA, CISA, CFE, CFS Infotech Global/ Corporate Compliance Seminars dmarshall@infotech-global.com/ 708-205-2366 David S. Marshall is the Founder and Chief Executive Officer of Infotech Global (www.infotech-global.com), a consulting firm specializing in internal auditing, computer security, regulatory compliance, risk management, and fraud prevention and detection. He is also the co-founder of Corporate Compliance Seminars (www.compliance-seminars.com), a NASBA-sponsored training organization that delivers Continuing Professional Education (CPE) to Boards of Directors, Audit Committees, Auditors, Compliance, Accounting and IT professionals. Marshall has managed and performed hundreds of audits, security assessments, fraud investigations and Sarbanes-Oxley Act compliance activities over his 30+ year career. He has researched and developed CPE seminars and trained thousands of professionals. He is the developer of the "Internal Auditing" series of seminars, "Understanding SSAE SOC Audits", "SOX and COSO Compliance for the External Auditor", "Frauditing", "Best Practices for Audit Committees", "The Art of Audit Report Writing", "Continuous Auditing", "World Class ERM", "Managing Audit Quality", and many others. Marshall is an authority on designing and implementing internal controls. Prior to Infotech and Corporate Compliance, he headed up the IT Audit Consulting practice of a worldwide Aerospace and Defense corporation, and was a Senior Manager in the Management Consulting and Auditing practice of a "Big 4" accounting firm. Dave Marshall is an expert in internal control, IT, and assessing compliance with the Sarbanes-Oxley Act. Since its ratification in 2002, he has helped numerous companies with all aspects of their Sarbanes-Oxley compliance projects, from project management to the detailed testing of controls. Marshall helps companies implement the COSO's latest release of the Internal Control Integrated Framework ("COSO ICIF 2.0"), including Enterprise Risk Management (ERM) programs, SSAE SOC audits, SOC Readiness Assessments, and internal control "design, implementation, operation and assessment". Marshall is an accomplished Business and IT Auditor with global experience in many industries: financial, healthcare, pharmaceutical, IT, manufacturing, retail, distribution, insurance, aerospace & defense, service, education and government. He has helped companies of all sizes...from start-ups to multi-nationals, "improve their business by improving their internal controls". His unique perspective as a business owner, consultant, financial and manufacturing system designer, enterprise software implementer, auditor, and trainer allow him to make practical, cost-effective recommendations for improving profitability and internal control. He has a Master's Degree in Business Administration (MBA), is a Certified Information Systems Auditor (CISA), a Certified Fraud Examiner (CFE), and a Certified Fraud Specialist (CFS). Mr. Marshall is the former six-year President and Chairman of the Board of Directors of the Greater Chicago Chapter of the Association of Certified Fraud Examiners (ACFE). He is currently a Board Member of the ACFE Worldwide Advisory Council. He was the Vice Chairman of the International Institute for Outsource Management (IIOM) and was a contributor to the Outsource Management Body of Knowledge (OMBOK). He was a member of the Advisory Board of a university's College of Business Administration. He was a Board Director of the Chicago Chapter of the Information Systems Audit and Control Association (ISACA) and was the Technology Committee Chairperson of the Institute of Internal Auditors (IIA) International Conference. He held a security clearance with the U.S. Department of Defense and worked on classified government projects. Dave Marshall is technically proficient, outgoing, and active in professional associations, charitable organizations and community affairs. He professes to his clients that "you cannot improve what you do not measure" and "internal controls should balance risk, not outweigh it". Internal controls can help organizations achieve their objectives, and Dave is committed to implementing them in a reasonable, cost-effective manner.

**RESPONSE TO
2021-2022 CIVIL GRAND JURY'S REPORT RE: INTERNAL AUDITS**

Following is the response of the Riverside County Board of Supervisors (BOS) and Executive Office (EO) to the findings and recommendations included in the above referenced Civil Grand Jury Report pursuant to California Penal Code §§ 933 and 933.05.

FINDINGS

Grand Jury Finding #1:

California Government Code Section 25250 requires counties to audit their departments every two-years. The ACO's use of "Follow-Up" and "Change of Department Head" audits to fulfill this legal requirement violates California law.
Supported by Facts 1.1 and 3.1

Response to Grand Jury Finding #1:

The respondents disagree wholly with the finding.

The BOS and EO disagree that the Auditor-Controller's Office (ACO) current practice violates California law. The *Peer Review Quality Assessment of Internal Audit Department of the Auditor-Controller Office of Riverside County, California March 9, 2022* (Peer Review Report) stated that the ACO's audit planning was sufficient to meet California Code 25250 (pg. 11). The BOS and CEO agree that the law should be referenced in a Board Policy.

Grand Jury Finding #2:

Professional Standard 1100 requires the Internal Audit Unit be independent. With the Internal Audit Unit included within the ACO's "Audits and Specialized Accounting Division," the Internal Audit Unit is not completely independent. Hence, the ACO is not complying with Standard 1100.
Supported by Facts 1.1 and 3.1

Response to Grand Jury Finding #2:

The respondents disagree partially with the finding.

BOS and EO disagree that the Internal Audit Unit is not completely independent. The Peer Review Report states that "Auditor independence and objectivity are not compromised because the specialized accounting function does not audit the reports that they prepare" (pg. 9). However, it is agreed that the two units should be segregated if feasible.

Grand Jury Finding #3:

The County's internal audits are marginalized and, in many cases, just ignored.
Supported by Facts 3.5, 3.6, 3.7, 3.8, and 3.9

Response to Grand Jury Finding #3:

The respondents disagree partially with the finding.

Response to 2021-2022 Grand Jury Report
Riverside County Board of Supervisors and Executive Office

Per Board Policy No. A-33, departments under the direction of BOS and EO are expected to work cooperatively with, and respond to, the ACO when audited, both during and post audit. The audit process is well documented and followed per the Peer Review Report. However, the report did recommend that the ACO should have more frequent communication with the members of the BOS and EO. These meetings have already commenced with EO. Additionally, EO has created a system in which the results of the audits are more widely shared and there is a greater level of follow-up with departments to make sure the recommendations are implemented. As an aside, and as noted in the Peer Review Report, audited departments may disagree with the audit findings, but that doesn't equate to a marginalization of the audit findings.

Grand Jury Finding #4:

The County's Internal Audit Unit members do not have the combined knowledge, skills and experience to perform their responsibilities as required by Standard 1210.
Supported by Facts 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, and 2.10

Response to Grand Jury Finding #4:

The respondents disagree wholly with the finding.

The Peer Review Report states that the Internal Audit staff are "capable, qualified, and perform high-quality work," and that the staff do maintain their continuing professional education. BOS and EO agree that members of the Internal Audit Unit should have both the necessary and appropriate training to perform their responsibilities and we are working with the ACO and Human Resources (HR) to create a program to incentivize continued education and training.

Grand Jury Finding #5:

The County consistently fails to rectify known limitations in its internal Audit Unit
Supported by Facts 2.2, 2.3, 2.4, 2.5, 2.6, 2.7, 2.8, 2.9, and 2.10

Response to Grand Jury Finding #5:

The respondents disagree wholly with the finding.

The BOS and EO are respectful not to infringe on the authority or powers of the ACO, as an elected officer of the County. It is the responsibility of each department head to assess their staffing needs and make necessary budget requests. All budget and staffing requests are given appropriate consideration. The BOS and EO support departments working with the HR to identify the proper job descriptions and requirements for each classification for their respective departments. The EO has not made a recommendation of denial, nor has the BOS denied, a budget increase request by the ACO.

Grand Jury Finding #6:

The County's Internal Audit Unit members lack professional certifications and experience in critical areas, which in turn exposes the County to potential financial and operational risks.
Supported by Facts 2.9, 2.10, 3.3, and 3.4

Response to Grand Jury Finding #6:

The respondents disagree wholly with the finding.

The Peer Review Report states that the Internal Audit staff are “capable, qualified, and perform high-quality work,” and that the staff do maintain their continuing professional education. The BOS and EO do agree that members of the Internal Audit Unit should have both the necessary and appropriate training to perform their responsibilities and we are working with the ACO and HR to create a program to incentivize continued education.

Grand Jury Finding #7:

The County’s lack of an audit oversight committee has resulted in some high-risk areas missed by internal audits for several years.

Supported by Facts 1.4, 1.5, 2.9, 2.10, 3.3, 3.4, and 3.10

Response to Grand Jury Finding #7:

The respondents disagree wholly with the finding.

The Peer Review Report states, “The internal audits are adequately planned, scoped and assigned based on California mandates and effective allocation of audit resources.” It goes on to state: “Audit engagements are documented in an audit plan and audit procedures are updated to reflect audit risks.” In general conformance with standards and best practices, audits are adequately planned and managed. These practices “provide coverage for the assessment of governance, risk and control” (pg. 10).

Grand Jury Finding #8:

The County’s internal audit reports do not provide the Board and Executive Office with (a) summary information about the seriousness of the findings, (b) likelihood of negative impacts to the County, or (c) how quickly corrections need to be made.

Supported by Fact 3.10

Response to Grand Jury Finding #8:

The respondents disagree partially with this finding.

Internal Audit reports identify risks, the seriousness of findings and the likelihood of negative impacts. However, the BOS and EO agree that audit reports should include classifications for the severity of control findings.

Grand Jury Finding #9:

The County’s follow-up internal audit reports do not provide the Board and Executive Office with summary information on the status of departments implementing required correction actions.

Supported by Fact 3.11

Response to Grand Jury Finding #9:

The respondents disagree wholly with this finding.

Follow-up audits require departments to indicate whether a previous finding has been fully, partially, or not implemented. It also includes a description of the corrective action taken or pending and the estimated date of completion. A department's response is included in the follow-up report provided to the BOS. Board Policy No. A-33 provides that the department heads provide an adequate written response to recommendations made by the ACO in formally issued audit reports.

Grand Jury Finding #10:

The County lacks summary reports and a monitoring mechanism that provides the Board and Executive Office with the following types of reports:

- Bi-Annual Systemic Internal Audit Findings Reports
- Annual Risk Assessment and Management Plan
- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Supported by Facts 1.2, 1.5, 3.8, 3.9, 3.11, 3.12, and 3.13

Response to Grand Jury Finding #10:

The respondents disagree partially with the finding.

The County has reports and systems in place that generally satisfy the Grand Jury's outline of recommended reports. However, the Peer Review Report stated that the monitoring process "could be improved with more frequent follow-ups to supplement the biennial audit schedule, and the implementation of audit software for continuous monitoring of transactions and internal controls." (Page 10)

Grand Jury Finding #11:

An internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility, including access to confidential records. The County's internal audit charter has not been updated in 39 years. The County's internal charter is outdated and does not comply with Standard 1010.

Supported by Fact 1.3

Response to Grand Jury Finding #11:

The respondents disagree partially with the finding.

The County's Internal Audit Charter established the delegation of authority and declared policy for internal audits which is still aligned with the relevant laws and professional accounting standards for the performance of internal audit functions. However, as with all policies,

Response to 2021-2022 Grand Jury Report
Riverside County Board of Supervisors and Executive Office

procedures and practices, the Internal Audit Charter should be reviewed on a regular basis and refreshed as necessary.

Grand Jury Finding #12:

Dysfunctional working relationships among County and department leaders significantly hinder the effectiveness of internal audits.

Supported by Facts 3.8, 3.9, 3.11, 3.12 and 3.13

Response to Grand Jury Finding #12:

The respondents disagree partially with the finding.

Departments under the direction of the BOS and EO are required to work cooperatively with the ACO when audited, both during and post audit. There are instances where a department may disagree in whole or in part with the scope of the audit and/or the findings of the audit, and those disagreements are communicated in the department's response. However, establishing and maintaining positive working relationships requires intentional effort. As noted in the Peer Review Report, the ACO should endeavor to have more frequent and constructive communication with the BOS, EO, and department heads.

RECOMMENDATIONS

Grand Jury Recommendation #1:

By January 1, 2024, the Board adopt a policy establishing an Audit Oversight Committee with membership drawn from the Board, Executive Office, ACO, Risk Management Steering Committee, private sector, and all five supervisor districts.

Based on Finding 7

Financial Impact – Minimal

Response to Grand Jury #1:

The recommendation has not yet been implemented, but will be implemented in the future (with qualifications).

The BOS and EO will review the structure of these types of committees in other jurisdictions as proposed by the Grand Jury and identify an appropriate Audit Oversight Committee composition and structure for the County of Riverside.

Implementation Date: January 1, 2024

Grand Jury Recommendation #2:

By January 1, 2024, the Board adopt a policy that requires internal audit plans to audit all departments every two-years with an emphasis on high-risk financial and operational topics.

Based on Findings 1, 5 and 7

Financial Impact – Minimal

Response to Grand Jury Recommendation #2:

The recommendation has not yet been implemented, but will be implemented in the future.

California law and the Internal Audit Charter requires an audit of each department every two years, which is the practice of the ACO, as confirmed in the Peer Review Report. Both the Civil Grand Jury Report and the Peer Report emphasized attention be placed on high-risk financial operations. The BOS and EO will have this recommendation included into appropriate policy, procedure and practice as recommended by the ACO and Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #3:

By January 1, 2024, the Board adopt a policy that requires the ACO to conduct any internal or external audit at the discretion of the Board and/or Executive Office regardless if the topic appears on an annual approved audit plan or not.

Based on Finding 7, 8, 9, 10, and 11
Financial Impact Minimal

Response to Grand Jury Recommendation #3:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #4:

By January 1, 2024, The Board adopt a policy that requires the ACO to have at least one internal auditor with a Certified Fraud Examiner and at least one internal auditor with expertise in Information Technology.

Based on Finding 4 and 6
Financial Impact – Moderate to Significant Depending on Implementation

Response to Grand Jury Recommendation #4:

The recommendation has not yet been implemented, but will be implemented in the future.

The EO will work with ACO and HR to create, fund and fill a position.

Implementation Date: January 1, 2024

Grand Jury Recommendation #5:

By January 1, 2024, the Board adopt a policy that establishes procedures to resolve disputed internal audit findings between the ACO and department/agency directors.

Based on Findings 3, 5, 11, and 12

Financial Impact – Minimal

Response to Grand Jury Recommendation #5:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #6:

By January 1, 2024, the Board adopt a policy that requires the ACO to (a) indicate severity of the risks identified in internal audit reports, (b) the amount of time departments have to reduce or eliminate those risks, and (c) when follow-up internal audits will occur.

Based on Findings 3, 5, 8, and 9

Financial Impact – Minimal

Response to Grand Jury Recommendation #6:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #7:

By January 1, 2024, the Board adopt a policy that requires the ACO to include the status of departments implementing required corrective actions in its follow-up reports.

Based on Finding 9

Financial Impact – Minimal to Moderate

Response to Grand Jury Recommendation #7:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 202

Grand Jury Recommendation #8:

By January 1, 2024, the Board adopt a policy that requires the ACO to provide them with the following types of reports:

- Bi-annual Systemic Internal Audit Findings Reports
- Annual Risk Assessment and Management Plan
- Quarterly Internal Audit Status Reports
- Contract Monitoring Reports
- Countywide Risk Management Dashboard

Based on Findings 1, 3, 5, 7, 8, 9, 10, and 11

Response to Grand Jury Recommendation #8:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #9:

By January 1, 2024, the Board adopt a policy that requires internal audit findings be included in all department leaders' annual performance reviews.

Based on Findings 3, 5, 9, and 11

Financial Impact – Minimal to Moderate

Response to Grand Jury Recommendation #9:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #10:

By January 1, 2024, the Board adopt a policy that establishes a Countywide Risk Management Dashboard.

Based on Findings 3, 4, 6, 7, 8, 9, 10, and 11

Financial Impact – Minimal

Response to Grand Jury Recommendation #10:

The recommendation has not yet been implemented, but will be implemented in the future.

Response to 2021-2022 Grand Jury Report
Riverside County Board of Supervisors and Executive Office

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Grand Jury Recommendation #11:

By January 1, 2024, the County evaluate the financial compensation it provides internal auditors working within the ACO and take the necessary steps to achieve the following:

- Competitive financial compensation packages for each internal audit job classification level.
- Enhanced compensation for internal auditors with a "Certified Internal Audit" certification.
- Enhanced compensation for internal auditors with additional professional certifications in Information Technology and fraud detection.
- Update Job Descriptions to include Enhanced compensation for Professional Certifications.

Based on Findings 4, 5, and 6

Financial Impact – Moderate to Significant Depending on Implementation

Response to Grand Jury Recommendation #11:

The recommendation has not yet been implemented, but will be implemented in the future.

The EO will work with ACO and HR to review and adjust, as necessary, compensation for internal auditors.

Implementation Date: January 1, 2024

Grand Jury Recommendation #12:

By July 1, 2023, the AO divide the Audits and Specialized Accounting Division into two divisions: (1) "Audits" Division and (2) "Specialized Accounting" Division.

Based on Finding 2

Financial Impact – Minimal

Response to Grand Jury Recommendation #12:

The recommendation requires further analysis.

The EO will work with the ACO to determine if the separation of the units into separate divisions is feasible.

Implementation Date: January 1, 2024

Grand Jury Recommendation #13:

By January 1, 2024, the Board adopt a policy that requires the ACO to review and update the internal audit charter to be in full compliance with the Standards.

Response to 2021-2022 Grand Jury Report
Riverside County Board of Supervisors and Executive Office

Based on Findings 2 and 12
Financial Impact – Minimal

Response to Grand Jury Recommendation #13:

The recommendation has not yet been implemented, but will be implemented in the future.

The BOS and EO agree to have this recommendation included into the appropriate policy, procedure and practice as recommended by the ACO and an Audit Oversight Committee.

Implementation Date: January 1, 2024

Peer Review Quality Assessment

*of the Internal Audit Department of the Auditor-Controller Office
of Riverside County, California*

March 9, 2022

Presented to



From



WWW.INFOTECH-GLOBAL.COM/ WWW.COMPLIANCE-SEMINARS.COM

March 9, 2022

Ms. Tanya Harris, Assistant Auditor-Controller
Mr. Rene Casillas, Chief Internal Auditor
Riverside County Auditor-Controller Office
4080 Lemon Street
Riverside, CA 92502

Dear Ms. Harris and Mr. Casillas:

Thank you for providing Infotech Global Audit and Security, Inc. with the opportunity to conduct an independent Internal Audit Peer Review. Our confidential report is detailed below. This report is not to be disclosed to parties outside of the Audit and Specialized Accounting Division of the Auditor-Controller Office without the express written consent of Infotech Global.

Please contact us with any questions or comments.

David S. Marshall, Infotech Global

CONTENTS OF REPORT

Executive Summary	4
Assessor's Opinion	5
Responsibilities of ACO Internal Audit	6
Objectives, Scope and Methodology.....	7
Scorecard.....	9
Successful ACO Internal Audit Practices.....	11
Partial Conformance to Auditing Standards and Opportunities for Improvement.....	13
Appendix – Assessor's Qualifications.....	22

EXECUTIVE SUMMARY

Infotech Global Audit and Security, Inc. (“Infotech”) was engaged to conduct a Peer Review of the quality of the Internal Audit operation of the Audit and Specialized Accounting Division of Riverside County’s Auditor-Controller Office (“ACO”). This quality assessment is recommended by the Institute of Internal Auditors (“IIA”). The IIA is a worldwide professional association that governs internal audit practices by issuing standards, guidelines, and education. The IIA recommends that Internal Audit departments obtain a quality assessment at least every five years.

The IIA suggests that this review be conducted by one of two methods: Either a “Full External Assessment” or a “Self-Assessment with Independent Validation”. Although ACO Internal Audit conducts ongoing self-assessments for each audit, ACO Executive Management opted for the more rigorous, more independent “Full External Assessment”. Infotech conducted the assessment during the period of November 2021 through January 2022.

Infotech followed the Quality Assessment and Improvement Program (“QAIP”) guidelines prescribed by the IIA. We supplemented these guidelines with additional “best practice” audit procedures gleaned from our extensive, 30+ year history of managing and performing a wide variety of internal and external audits, including financial, operational, IT, regulatory, cybersecurity, and fraud audits.

Infotech provides audit and consulting services. Our other business entity, Corporate Compliance Seminars, provides continuing professional training (“CPE”) related to internal controls, risk management, and auditing. Corporate Compliance Seminars is registered as a sponsor of the National Association of State Boards of Accountancy (“NASBA”). Corporate Compliance Seminars is authorized to issue CPE credit hours to qualified attendees of our classes.

This report identifies areas that the ACO Internal Audit operation performs well, along with opportunities for its improvement.

We performed the following Assessment procedures:

- We interviewed ACO Internal Audit management team and staff,
- We interviewed the Board of Supervisors, several Agency Directors, and the CPA audit firm Partner,
- We observed the operation of the Internal Audit department, and
- We inspected Internal Audit documentation including audit plans, workpapers, and reports

At the time of the Peer Review, the Internal Audit Division of the Auditor-Controller Office consisted of ten personnel: one Auditor-Controller, one Assistant Auditor Controller, one Chief Auditor, and seven Audit staff. An additional Senior Auditor was hired after our fieldwork.

ASSESSOR'S OPINION

The objective of Riverside County's ACO Internal Audit operation is to provide fiscal oversight of county departments through competent, independent audits. **The department fully achieves this objective.** Internal Audit supports the Board of Supervisors and county management to meet their mission and oversight responsibilities by performing scheduled, capable assessments of the effectiveness of internal controls, including assessing management's processes to maintain reliable financial information, efficient operations, safeguarding of assets, and compliance with applicable laws, regulations, policies, and procedures.

We conclude that the ACO Internal Audit operation "Generally Conforms" to internal auditing professional standards as prescribed by the Institute of Internal Auditors' "Internal Professional Practices Framework", and employs many best practices for auditing. **"Generally Conforms" is the highest ranking** on a three-point scale:

- **"Generally Conforms"**: We noted that most of the areas of ACO Internal Audit are in general conformance with the IIA Standards, Code of Ethics, and auditing best practices, such as the maintenance of a mission, charter, policies, audit procedures, audit workpapers, reports, and staff competencies.
- **"Partially Conforms"**: We noted several areas in ACO audit practices that deviate from the Standards, Code of Ethics, and best auditing practices. These deficiencies did not preclude the Internal Audit Division from performing its responsibilities in an acceptable manner.
- **"Does Not Conform"**: We did not note any deficiencies in auditing practices that we determined to deviate from the Standards, Code of Ethics, and auditing best practices, that were significant enough to seriously impair or preclude the Internal Audit operation from performing adequately in all or in significant areas of its responsibilities.

Our overall conclusion is that the ACO Internal Audit department and its audits are conducted in a manner that is consistent with IIA standards and internal auditing best practices. The department operates in a structured and progressive environment, where the auditing standards are understood, there is compliance with the Code of Ethics, and the audits are well-documented to reflect the work performed. The Internal Audit staff are professional, competent, independent, and objective.

Our comments and recommendations are intended to build on the foundation that is established at the ACO Internal Audit department.

Responsibilities of the ACO Internal Audit Department

The responsibilities of the Auditor-Controller are generally defined in the California Government Code 25250: “At least biennially, the Board of Supervisors shall examine and audit, or cause to be audited, the financial accounts and records of all officers having responsibility for the care, management, collection, or disbursement of money belonging to the county or money received or disbursed by them under authority of law.” Riverside County’s Board of Supervisors delegates this responsibility to the Internal Auditors and the county’s CPA firm Brown Armstrong. Besides auditing, the Auditor-Controller Office is responsible for budget control, issuing warrants for payments, recording receipts of revenues, payroll processing, accounting for assets and liabilities, accounts receivable and payable, reviewing long-term debt, and the preparation of the County’s financial statements. The key divisions include General Accounting, Payroll, Audits and Specialized Accounting, and Property Tax and Administration.

The Auditor-Controller’s Office performs biennial audits of all departments within the County jurisdiction of the Board of Supervisors per California Government Code 25250. The Auditor-Controller is responsible for ensuring that mandatory audits are performed by internal staff or contracted certified public accountants. Examples of mandatory audits include Special Districts, Treasury, Fire, Probation, Social Services, Tax Collector, and Sheriff, and other county departments.

The ACO Internal Audit department complies with State of California Government Code 1236: “All city, county, city and county, and district employees that conduct audits or that conduct audit activities of those respective agencies shall 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.”

Objectives, Scope and Methodology

Objective of Peer Review

The objective of our Peer Review was to independently evaluate the quality of Riverside County ACO Internal Audit department's conformance with IIA internal auditing standards, the code of ethics, and best auditing practices.

We evaluated Internal Audit's effectiveness in carrying out its mission as defined in their Charter, and in the expectations of those charged with governance. We identified the department's audit practices that are operating effectively along with opportunities for improvement to enhance its efficiency and effectiveness while adding value its stakeholders.

Scope

The scope of the review was limited to the Internal Audit department of the Auditor-Controller Office. We did not assess the other functions within the ACO such as accounting, payroll, or property tax administration services to the Riverside County government, cities, K-14 schools, and special districts. We did not assess the operation of the Board of Supervisors, county departments, the external audit function as performed by Brown Armstrong, CPAs.

Our preliminary planning for the Peer Review began in November 2021. Onsite fieldwork was conducted in December. We concluded with the issuance of this report. We would be pleased to assist the county and its auditors with the implementation of our recommendations.

Methodology

The assessment was conducted by David S. Marshall, MBA, CFE, CISA, CFS, and Chief Executive Officer of Infotech Global Audit & Security, Inc. Mr. Marshall is a lifelong member of the IIA, has served on various IIA committees, and has over 30 years of experience conducting and assessing external audits, internal audits, risk programs, IT control reviews, fraud investigations, security reviews, System and Organization Control audits, and regulatory compliance assessments. Mr. Marshall's professional qualifications are listed in "Assessor's Qualifications".

We evaluated ACO Internal Audit policies, procedures, and audits against the generally-accepted framework issued by the Institute of Internal Auditors, the International Professional Practices Framework ("IPPF"). The IPPF is an accepted standard for internal auditing that is adopted by thousands of auditors throughout the world,

including ACO Internal Audit. We also applied our collective experience in auditing, research, and teaching, to compare the internal audit operations of the Audit-Controller Office with best practices.

We requested a comprehensive list of documentation from the Internal Auditors. The documentation, which included matters pertaining to Audit governance, management, risk assessment, performance, communication, workpapers and reporting, was presented to us in a timely manner. Internal Audit maintains this documentation in a centralized, secure, internal SharePoint site, which is considered to be a best practice. We performed a detailed inspection of the documentation to assess the quality of the work.

We interviewed the elected Auditor-Controller, the Assistant Auditor-Controller, the entire Internal Audit team, Board of Supervisors, several department heads, and the CPA firm Partner. We gained an understanding of the Internal Audit departmental processes, reporting relationships, perceptions, and staff competencies.





Our comments and recommendations are listed below in our “Scorecard”, followed by “Successful Audit Practices”, and “Opportunities for Improvement”.

Internal Audit Peer Review Quality Assessment Scorecard

The following “Scorecard” is our overall assessment of the quality of Riverside County’s Internal Audit department. We developed this format with guidance from the Institute of Internal Auditors’ IPPF and their Quality Assessment and Improvement Program (“QAIP”). We used the ratings of General Conformance (“GC”), Partial Conformance (“PC”), and Does Not Conform (“DNC”).

As previously stated, our overall evaluation of ACO Internal Audit is **“General Conformance”**. We identified several areas of “Partial Conformance”, and no areas of “Does not Conform”.

Assessor’s Overall Evaluation	GC	PC	DNC
			

Attribute Standards (IIA 1000 - 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility of IA			
Assessor Comment	IA maintains a charter that defines IA duties. The charter is aligned with IIA guidance.			
1100	Independence and Objectivity			
Assessor Comment	Consider segregating “Internal Audit” and “Specialized Accounting” if feasible. However, Auditor independence and objectivity are not compromised because the specialized accounting function does not audit the reports that they prepare.			
1200	Proficiency and Due Professional Care			
Assessor Comment	IA staff is capable, qualified, and performs high-quality work. Auditors maintain CPE.			
1300	Quality Assurance and Improvement Program			
Assessor Comment	An independent Peer Review of Riverside County IA was conducted in 2008 and 2014. A “Self-Assessment with Independent Validation” was performed by Santa Cruz County in 2019. In addition, the Assistant Auditor Controller, Chief Auditor, and Principal Internal Auditor continuously improve the Audit organization by hiring competent staff, conducting detailed risk and workpaper inspections, and mentoring the staff. ACO engaged Infotech to perform an independent Peer Review QAIP in November 2021.			

Performance Standards (IIA 2000 - 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	●		
Assessor Comments	Internal audits are adequately planned and managed in accordance with standards and best practices.			
2100	Nature of Work	●		
Assessor Comments	Internal audits are recognized as an important component of Riverside County's mission, and provide coverage for the assessment of governance, risk and control.			
2200	Engagement Planning	●		
Assessor Comments	The internal audits are adequately planned, scoped and assigned based on California mandates and the effective allocation of audit resources. Audit engagements are documented in an audit plan and audit procedures are updated to reflect audit risks.			
2300	Performing the Engagement		●	
Assessor Comments	<p>ACO's internal audits are adequately performed and documented based on IIA and Division standards. Audit procedures are updated as needed to reflect changes and risk of operations.</p> <p>Certain scope limitations were placed upon certain audits by county departments, and a few audits took longer than expected. Audit performance could be enhanced with disclosure of scope limitations to the Board of Supervisors, and audit software, analytics, and metrics.</p>			
2400	Communicating Results	●		
Assessor Comments	Audit results are validated with auditees during fieldwork and at exit meetings. Formal, written reports are issued and of sufficient quality. The findings in the reports require a written response from management with corrective action.			
2500	Monitoring Progress		●	
Assessor Comments	<p>The audit plan and individual audits are monitored by IA management. Follow-up audits are conducted to monitor the remediation of audit findings.</p> <p>The process could be improved with more frequent follow-ups to supplement the biennial audit schedule, and the implementation of audit software for continuous monitoring of transactions and internal controls.</p>			
2600	Communicating the Acceptance of Risks	●		
Assessor Comments	Internal Audits and results are formally reported including risks and management's treatment of risks. Follow-up audits are conducted to monitor risks and internal controls.			

Code of Ethics		GC	PC	DNC
	Code of Ethics	●		
Assessor Comments	Internal Audit maintains practices that are consistent with the Code of Ethics.			

Successful Audit Practices

Successful audit practices are areas where ACO Internal Audit is operating in a particularly effective or efficient manner. The identification of these items is intended to provide an overview of where the department is considered leading in its practice.

Audit Planning

Given that California Code 25250 requires each County department to be audited every two years, ACO audit planning is sufficient to meet this endeavor. Risks are assessed by the auditors during the audit planning meetings and by soliciting input from department personnel during audit entrance meetings. Audits are added to the schedule when there is a change in department head and other significant events.

Auditor Workpapers and Quality Self-Inspection

Auditor workpapers provide evidence of work performed and support the reported conclusions. ACO Internal Audit maintains detailed workpaper documentation for its audits. The audit workpapers are thorough, and consistently and accurately reflect the work performed. Documentation complies with IIA standards and best practices for auditing throughout the “audit lifecycle” of planning, assessing risk, maintaining audit procedures for each audit, performing the fieldwork based on the procedures, and the formal reporting of the results of the audit including management comments. The Principal Auditor performs detailed inspections of auditor workpapers to assess their completeness and quality.

The workpapers are consistently named, numbered, and follow a chronological order:

- Audit Planning and Preliminary Surveys
- Process Overview Narratives

- Risk Assessments
- Audit Program and supporting documentation
- Findings, Draft and Final Reports
- Management Response
- Post Audit documents including Audit Workpaper Reviews and Follow-Ups

Staff Competency

ACO audit staff appear competent as judged by our interviews and inspections of workpapers and Continuing Professional Education. Auditor interviews indicated motivation and dedication to support the mission of the county. We observed auditor camaraderie and information-sharing through weekly staff meetings, counseling, and informal conversations among the team members.

AREAS OF PARTIAL CONFORMANCE AND OPPORTUNITIES FOR IMPROVEMENT

These observations represent improvements in partial conformance with IIA Standards, and opportunities to enhance the efficiency and/ or effectiveness of ACO Internal Audit operations. These items do not indicate non-conformance with IIA Standards or the Code of Ethics. We offer these suggestions to better align the audit operations with criteria defined in the IIA Standards and the Code of Ethics. We also present these opportunities for improvement based on our collective experience of over 30 years of external auditing, internal auditing and consulting to hundreds of organizations.

We encourage the Internal Audit department to evaluate these opportunities for improvement. An implementation plan is encouraged but optional.

1. More Interaction with the Board of Supervisors and Department Heads

The status of audits and findings are on the Board of Supervisors' agenda at each meeting. However, over the past year, there has been less involvement by the Auditor-Controller in meeting with the Board of Supervisors. This was due to the Auditor-Controller's health and other matters.

To supplement the Auditor-Controller meetings, we recommend that the Assistant Auditor-Controller and the Chief Auditor meet with the Board of Supervisors and each Department Head and present information to encourage engagement and transparency. Potential items for presentations include:

- Internal audit value, methodology, selection and testing of transactions and controls,
- IAD structure and staffing,
- Audit documentation,
- A tracking system that summarizes the audits, their status, and communication of results;
- Significant changes and risks, including Board and Department Head solicitation of risks,
- Annual "State of Internal Controls Address" that includes a "Summary of Aggregated Deficiencies" (refer to item # 8)

Internal Audit Comments:

We concur with the recommendation. Assistant Auditor-Controller and Chief Internal Auditor plan to meet with County officials to discuss the value we can bring through internal audits, perspectives on risk at department and county level, communicate high materiality audit results, and other of the items recommended.

Estimated Implementation Date: April 2022

2. Consider agile, “Risk-Based” audits vs. “Coverage-Based” audits.

Per California mandate 25250, each county department must be audited every two years. This is known as “coverage-based auditing”, where all entities of an organization are audited within a given period.

Newer approaches to auditing are **risk-based** rather than **coverage-based**, where auditors conduct a risk assessment of the “audit universe” (i.e., the total of auditable entities), and conduct audits based on the assessment of risk. Auditors often employ a multi-year rotational approach (ex. auditing the high-risk entities every year, and rotating the medium and low risk entities over a three-year period), or an “agile” audit approach (where audit plans are more fluid throughout each year), or a combination of both. An example of a lower-risk audit that might be placed on a rotational cycle is the Department of Veterans Services audit. That department has only 20 employees and analyzes their budget in MS-Excel prior to entry in Peoplesoft Financials.

Since changing the California mandate would be difficult, we recommend that ACO Internal Audit maintain its current biennial audit schedule, but consider limiting the scope of certain audits to the highest risks with the audited departments. By employing “limited scope” audits, more of them could be performed within a given year. Having more than one auditor assigned per audit should be considered, along with an agile approach to target the functions and transactions whose controls are most likely to break down (ex. misuse of funds, theft of assets, operational inefficiencies, cybersecurity breaches, etc.). Active participation from the Board of Supervisors and department heads would be needed to help achieve the effectiveness of this approach. (Refer to item #3).

Internal Audit Comments:

We concur with the recommendation. We are working on performing a countywide risk assessment and will incorporate the results of the assessment to the annual audit plan. The results of the county wide risk assessment will direct how we focus our audit hours for each audit project and will focus less audit hours on departments considered to be lower risk. Our limitations to fully implement the recommendation is due to the Government

Code 25250 which requires for an audit of every county department be completed biennially (as interpreted by the Auditor-Controller).

Estimated Implementation Date: Start the process in March 2022

3. Consider improving the Enterprise Risk Management (“ERM”) process

The Internal Auditors conduct risk assessments are part of their planning process for each audit. We were informed that Riverside County also has a “Fraud, Waste, and Abuse Committee” to further identify risks and problems. Since the scope of our Peer Review was limited to assessing the quality of the Internal Audit Division, we cannot comment on the effectiveness of the Board of Supervisors nor department heads’ risk assessment process.

We do however, recommend that the county expand and improve its “ERM Program”. Our high-level guidance is to organize a cross-functional, diverse “Risk Committee” comprised of the Board, department heads, selected staff, **CPA audit firm Brown Armstrong**, and Internal Audit management. A charter and objectives should be defined, a meeting schedule should be established, and a risk model should be adopted. Risks and problems should be identified and ranked by impact, likelihood of occurrence, and other factors. Management’s responses to the identified risks should be documented. Internal controls should be defined for each risk, and assessed for effectiveness. The risks should be continuously assessed, perhaps on a quarterly basis, to accommodate new and changed risks.

Internal Audit Comments:

Concur with the recommendation. To establish this type of risk management process it will take time and buy in from the Board of Supervisors, Executive Office, and County Department Heads. We will start with a county-wide risk assessment and evolve into and full “ERM Program.”

Estimated Implementation Date: Start the process in March 2022

4. Consider more frequent monitoring and follow-up of audit findings.

Audit findings are formally reported and noted in audit workpapers. Follow-up audits are conducted within the two-year timeframe as mandated by the State.

Internal Audit should consider more frequent follow-up for audit findings. The follow-up of audit findings should be based on their risk and estimated completion date. Issues identified by auditors have a tendency to increase in severity the longer they remain unremediated, and the two-year cycle may not be adequate.

Internal Audit Comments:

Concur with the recommendation. We are working to rank the audit findings by materiality as this will help us follow up on certain recommendations with more frequency. Further, we are looking to purchase an audit management system with a function that allows department process owners to provide updates on the implementation of audit recommendations. The implementation of such a function can help us streamline the follow up audit process and allocate resources more efficiently and frequently.

Estimated Implementation Date: Start in February 2022 with risk ranking the audit findings. Audit Management System is estimated to be purchased and functional by July of 2022.

5. Consider risk-rating each audit finding.

Internal Audit should consider classifying its audit findings by risk (ex. high, medium, low). Audit findings should be reported in risk-ranked order. Although risk ratings are optional as described in the IIA guidance, ratings would allow the reader of the audit reports to gauge the effectiveness of audit objectives.

However, risk-ratings should be avoided if they might be negatively perceived.

Internal Audit Comments:

Concur with the recommendation. We are working to rank the audit findings by materiality as this will help us follow up on certain recommendations with more frequency. Full implementation of the ranking of audit findings by order in the audit report will be evaluated with the Auditor-Controller for implementation.

Estimated Implementation Date: Start in April of 2022.

6. Consider enhancing “independence” by segregating the “Internal Audit” from “Specialized Accounting” functions in the ACO.

The mission of Internal Audit of the Auditor-Controller Office is two-fold: to provide Internal Audits, and to provide Specialized Accounting:

“Internal Audits: Conduct independent, objective financial and operational audits of departments, offices, boards and institutions under the Board of Supervisors control, and of any district whose funds are kept in the County treasury. Provide consulting services to assist management in bringing a systematic and disciplined approach to risk management and control.”

“Specialized Accounting: Prepare, review and certify reports for countywide cost and revenue reimbursements which includes oversight over State mandated cost reimbursement (SB90) program, the cost allocation plan and the Schedule of Expenditures of Federal Awards subject to the Single Audit. Review methodology of rates and charges submitted to the Board of Supervisors for approval for cost recovery.”

Auditors should be independent of the “design, implementation, and operation” of processes and internal controls. Ideally, the Specialized Accounting function should be independent and segregated from Internal Audit.

However, the independence of Internal Audits is not impaired because the individual that “prepares, reviews and certifies” the cost and revenue reimbursement reports does not audit them.

Internal Audit Comments:

As noted, the current responsibilities and tasks performed under the Specialized Accounting Unit is not audited by the Internal Audit Unit. Furthermore, most of the work performed under Specialized Accounting is audited by State Agencies thus at this time the department will maintain the structure.

Estimated Implementation Date: Not Applicable

7. Document “Audit Scope Exclusions” for the Board of Supervisors

We were informed that certain functions were excluded from the scope of certain internal audits. Although internal auditor guidance recommends that “nothing should be off-limits to internal audits”, there may be certain justifications for audit scope limitations, such as:

- if the area to be audited is governed by federal, state or local law or ordinance in which audits or audit areas are prohibited;
- if the area to be audited has specific contract language prohibiting or limiting its scope;
- if the area to be audited is highly sensitive or secret in nature, where public disclosure in an audit report would present a significant risk;

- if the area to be audited has evidence that may be tainted by auditor inspection, or where the chain of custody of evidence may not be preserved;
- if the area to be audited is being or could be contested or litigated.

Any internal audit scope limitations and exclusions should be documented and reported to the Board of Supervisors.

Internal Audit Comments:

Concur with the recommendation. The Board Resolution used as the audit charter does provide the internal audit function with unlimited access to information related to our audit scopes. We are also working with County Counsel to provide further clarity on the “unlimited access” for the internal audit function.

Estimated Implementation Date: Immediately

8. Consider documenting an annual “Summary of Aggregated Deficiencies” report at year-end.

Internal Audit should consider documenting a central list of control deficiencies from each audit. At year-end, all audit deficiencies should be analyzed together (“in aggregate”) to determine if patterns exist and if internal control deficiency relate to others. Numerous control deficiencies that relate to a common system, operation, transaction, function, regulation, etc. may have a pervasive effect on an organization’s Control environment. A Summary of Aggregated Deficiencies (“SAD” report) should be presented to the Board of Supervisors on an annual basis at year-end during the “State of Internal Controls” Address. Repeated, common findings should be analyzed to determine and correct their root causes.

Internal Audit Comments:

Concur with the recommendation. This will be a beneficial report for the Board of Supervisors and County Department Heads. As we work to rank the findings, we will look for ways to present this annually to the Board of Supervisors.

Estimated Implementation Date: September 2022

9. **Assess the “mix” of internal control deficiencies.**

Internal Audit should categorize the internal of controls and deficiencies for each audit. By analyzing the “Control Mix”, auditors can provide value by encouraging audit clients to automate manual controls, and convert or supplement detective controls with preventative controls. Manual, detective controls tend to be less effective than automated, preventative controls.

Internal Audit Comments:

Concur with the recommendation. We will analyze each of our findings to determine if any of the internal controls under the audit can be automated. This will be based on the information we gather through observations and walk-throughs of business process we are auditing.

Estimated Implementation Date: February 2022

10. **Consider obtaining “Letters of Representation” from department heads.**

Internal Audit should consider obtaining “Letters of Representation” from department heads at the audit entrance meetings. Signed Letters may improve the requirement for transparency, accountability, and disclosure of issues to auditors.

However, if Internal Audit believes that “Rep Letters” may harm their relationships with auditees, then this consideration should be tabled for future consideration or selectively distributed.

Internal Audit Comments:

We will discuss this recommendation and consider it as a viable option to implement it as a way to enhance the requirement for transparency, accountability, and disclosures of issues to the auditors.

Estimated Implementation Date: To be considered (if necessary) after discussion with Auditor-Controller

11. **Consider implementing Control Self-Assessment (“CSA”) surveys to department heads.**

Internal Audit should consider distributing CSA questionnaires to department heads on an annual basis. The

CSAs should be tailored to the transactions, risks, and controls. Department heads should transparently complete the questionnaires and send them to Internal Audit. This would facilitate accountability for reporting management's internal control effectiveness, and would help auditors determine areas of focus.

However, if Internal Audit believes that "CSAs" may harm their relationships with auditees, then this consideration should be tabled for future consideration or selectively distributed.

Internal Audit Comments:

Concur with the recommendation. As we move forward with the countywide risk assessment, we will implement this control self-assessment questionnaires and use them to update the risk profile of each department.

Estimated Implementation Date: Start in March 2022

12. Implement Audit software tools.

ACO Internal Audit should evaluate and implement software tools to improve their effectiveness and efficiency, such as an Audit Management system, risk assessment models, electronic workpaper system, data analysis systems, statistical sampling software, data visualization systems, fraud detection systems, Internet search tools, IT security analysis software, and others.

Internal Audit Comments:

Concur with the recommendation. We are working with the Purchasing Department to evaluate various audit management software products and purchase one with the tools necessary to improve effectiveness and efficiency. We are looking for a packaged type of audit management software that can have or integrate with the type of tools mentioned in the recommendation.

Estimated Implementation Date: Start in in February with implementation target Fiscal Year 2022/2023.

13. Considering implementing Continuous Auditing

Internal Audit should consider implementing "Continuous Auditing" capabilities to monitor selected processes, transactions, and controls on an ongoing basis throughout the year. Assistance would be required from department heads and IT to determine the transactions to be established for continuous monitoring and how this could

be achieved.

Internal Audit Comments:

Concur with the recommendation. We are in the preliminary stages of the implementing a “continuous auditing” capability over some selected processes. The capability will be limited to split POs, but as we move forward with the purchase of software tools, the capability will be enhanced to include different areas.

Estimated Implementation Date: Start in February 2022. All Auditors have been enrolled in a Continuous Auditing Training Course scheduled for February 24, 2022

14. Meet with the CPA firm external auditors.

ACO Internal Audit should meet with Brown Armstrong at least twice per year: at the beginning of the fiscal year to discuss risks, audit objectives, and audit plans, and at the end of the fiscal year to discuss financial audit adjustments and internal control improvements.

Internal Audit Comments:

Concur with the recommendation. We will seek to meet with the external auditors as recommended.

Estimated Implementation Date: Start July/August 2022

15. Consider maintaining additional Internal Audit metrics.

Internal Audit maintains metrics that include the audits per year and their status. The Division should consider additional metrics such as:

- Number of IAD auditors per county employee
- Number of audit issues reported by type, risk, and audit
- Audit cycle time (number of hours per audit and variance)
- Audit report issuance from start of audit (in days)
- Audit report issuance from initial draft report (in days)

- Delinquent findings (i.e., findings that were not implemented by the reported due date, and reason)
- Annual audit budget-to-actual variance
- Cost per audit
- Identification of cost savings in audit recommendation
- Internal control “mix” analysis (i.e., categorizing the controls tested on each Internal Audit: Preventative, Detective, Automated, and Manual)
- Methods of Control Testing and Frequency (i.e., analyzing how many controls were tested by Inquiry, Observation, Inspection, Re-Performance/ Re-Calculation methods)
- Audit staff utilization (direct vs. indirect Auditor hours)

Internal Audit Division management can determine whether the metrics are to be internal or communicated to the Board of Supervisors.

Internal Audit Comments:

Concur with the recommendation. We will maintain metrics as recommended.

Estimated Implementation Date: Start February of 2022

16. Consider increasing the scope of Internal Audits with high-risk operations.

Additional, cross-departmental internal audit should be considered:

- IT Audits and Cybersecurity, to identify points of vulnerability including data “exfiltration” (leakage; unauthorized disclosure) and weaknesses in IT general controls and application controls
- Physical Security, to identify weaknesses in the safety and security of county personnel and the general public
- Vendor Management, to identify potential issues in services and systems provided by

vendors, suppliers, and contractors

- Fraud and Forensics, to identify the potential for fraud and anti-fraud controls
- Business Continuity, to identify areas where county services may be disrupted

Internal Audit Comments:

Concur with the recommendation. Riverside County Information Technology Department has a robust cybersecurity program under the Information Security Office. However, we are planning to meet with the county's information security officer to discuss areas we can audit that are not covered under their security program. On the other audit areas mentioned, we will consider them and move to include them in our scope as applicable.

Estimated Implementation Date: Start in February of 2022

17. Consider networking with other county Audit organizations.

ACO Internal Audit should consider networking with peers at county audit organizations, such as:

- Inspecting county audit web sites to inspect audit schedules and reports,
- Establishing a set of common metrics for benchmarking,
- Meeting virtually or in-person to share audit issues, solutions, tools, and best practices

Internal Audit Comments:

Concur with the recommendation. We do this through the California Counties Audit Managers Committee but because of Covid restrictions, the committee has not met as we did in the past. However, we can seek for other ways to improve the communication and networking with county peers.

Estimated Implementation Date: Start March of 2022

APPENDIX - ASSESSOR'S QUALIFICATIONS

David S. Marshall, MBA, CISA, CFE, CFS
Infotech Global/ Corporate Compliance Seminars
dmarshall@infotech-global.com/ 708-205-2366

David S. Marshall is the Founder and Chief Executive Officer of **Infotech Global** (www.infotech-global.com), a consulting firm specializing in internal auditing, computer security, regulatory compliance, risk management, and fraud prevention and detection. He is also the co-founder of **Corporate Compliance Seminars** (www.compliance-seminars.com), a NASBA-sponsored training organization that delivers Continuing Professional Education (CPE) to Boards of Directors, Audit Committees, Auditors, Compliance, Accounting and IT professionals.

Marshall has managed and performed hundreds of audits, security assessments, fraud investigations and Sarbanes-Oxley Act compliance activities over his 30+ year career. He has researched and developed CPE seminars and trained thousands of professionals. He is the developer of the "Internal Auditing" series of seminars, "Understanding SSAE SOC Audits", "SOX and COSO Compliance for the External Auditor", "Frauditing", "Best Practices for Audit Committees", "The Art of Audit Report Writing", "Continuous Auditing", "World Class ERM", "Managing Audit Quality", and many others.

Marshall is an authority on designing and implementing internal controls. Prior to Infotech and Corporate Compliance, he headed up the IT Audit Consulting practice of a worldwide Aerospace and Defense corporation, and was a Senior Manager in the Management Consulting and Auditing practice of a "Big 4" accounting firm.

Dave Marshall is an expert in internal control, IT, and assessing compliance with the Sarbanes-Oxley Act. Since its ratification in 2002, he has helped numerous companies with all aspects of their Sarbanes-Oxley compliance projects, from project management to the detailed testing of controls. Marshall helps companies implement the COSO's latest release of the Internal Control Integrated Framework ("COSO ICIF 2.0"), including Enterprise Risk Management (ERM) programs, SSAE SOC audits, SOC Readiness Assessments, and internal control "design, implementation, operation and assessment". Marshall is an accomplished Business and IT Auditor with global experience in many industries: financial, healthcare, pharmaceutical, IT, manufacturing, retail, distribution, insurance, aerospace & defense, service, education and government. He has helped companies of all sizes...from start-ups to multi-nationals, "improve their business by improving their internal controls".

His unique perspective as a business owner, consultant, financial and manufacturing system designer, enterprise software implementer, auditor, and trainer allow him to make practical, cost-effective recommendations for improving profitability and internal control. He has a Master's Degree in Business Administration (MBA), is a Certified Information Systems Auditor (CISA), a Certified Fraud Examiner (CFE), and a Certified Fraud Specialist (CFS).

Mr. Marshall is the former six-year President and Chairman of the Board of Directors of the Greater Chicago Chapter of the Association of Certified Fraud Examiners (ACFE). He is currently a Board Member of the ACFE Worldwide Advisory Council. He was the Vice Chairman of the International Institute for Outsource Management (IIOM) and was a contributor to the Outsource Management Body of Knowledge (OMBOK). He was a member of the Advisory Board of a university's College of Business Administration. He was a Board Director of the Chicago Chapter of the Information Systems Audit and Control Association (ISACA) and was the Technology Committee Chairperson of the Institute of Internal Auditors (IIA) International Conference. He held a security clearance with the U.S. Department of Defense and worked on classified government projects.

Dave Marshall is technically proficient, outgoing, and active in professional associations, charitable organizations and community affairs. He professes to his clients that "you cannot improve what you do not measure" and "internal controls should balance risk, not outweigh it". Internal controls can help organizations achieve their objectives, and Dave is committed to implementing them in a reasonable, cost-effective manner.