

## 079 - INTERNAL AUDIT

### Operational Summary

#### Mission:

The mission of the Internal Audit Department (IAD) is to provide reliable, independent, objective evaluations and business and financial advisory services to the Board of Supervisors and County executive management. Our role is to assist both parties with their important business and financial decisions; as well as to contribute to protecting and safeguarding the County's resources and assets.

#### At a Glance:

Total FY 2005-2006 Projected Expend + Encumb:	2,331,499
Total Recommended FY 2006-2007	2,554,401
Percent of County General Fund:	0.08%
Total Employees:	22.00

#### Strategic Goals:

- Assist the Board of Supervisors and County executive management in ensuring the County's assets and resources are safeguarded; the County's accounting and financial reporting is timely and accurate, and the County's executive management has timely information and relevant analysis for its business and financial decisions.
- Maintain integrity, objectivity and independence and provide professional internal audits, assurance and attestation services, and corrective recommendations to our clientele. We report on the County's internal controls, accounting records, and financial and business operations through our public audit reports and reviews.

#### Key Outcome Indicators:

Performance Measure	2005 Business Plan	2006 Business Plan	How are we doing?
	Results	Target	
<b>DEFALCATIONS OF COUNTY RESOURCES.</b> <b>What:</b> Defalcations are reported cash losses in County departments or agencies for varying reasons. <b>Why:</b> Defalcation of funds bring on bad publicity and weaken public confidence in County operations.	The County did not have a material defalcation or cash loss.	The County should not have a material defalcation or cash loss.	We are on track to achieve our goal and we submit quarterly reports to the Audit Oversight Committee (AOC) reflecting cash loss activity.
<b>USEFULNESS OF REPORTS AND CLIENT SATISFACTION.</b> <b>What:</b> Measures the value of our report product by the implementation of recommendations. <b>Why:</b> Provides clients with information on safeguarding the County's assets and making business decisions.	With few exceptions, management implemented IAD control recommendations. Overall IAD received positive customer feed back.	Maintain Follow-Up report status for Quarterly Audit Oversight Committee (AOC) meetings and maintain customer surveys and high-level satisfaction rating.	With few exceptions, our control recommendations were addressed by management and implemented. IAD continues to receive positive customer feedback.

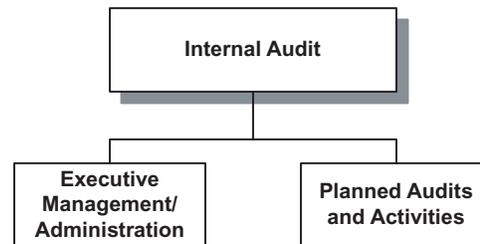
#### FY 2005-06 Key Project Accomplishments:

- Internal Audit Department (IAD) had a very successful and productive year in 2005. IAD finished over 100 audit projects while providing audit coverage to eighteen (18) out of twenty-three (23) County departments and agencies.



- IAD is the first County Audit Department in California's history to receive the very prestigious Institute of Internal Auditors' Award For Excellence. This recognition is only given to the best governmental and corporate internal audit departments in the world.
- In 2005 we added a new category of audits: Performance Measure Validations. In these audits we will validate the County departments accomplishment of key outcome indicators as stated in their Business Plans by reviewing their documentation supporting achievement.
- IAD developed a long-term, two-tier Information Technology plan to address the varied business needs of the County. The first tier addressed specific issues and areas in the County Accounting and Personnel System (CAPS), the County's financial recording and reporting backbone. The second tier addressed the distributed computing taking place in County departments and agencies.
- The Fraud Hotline was enhanced to allow employees, vendors and the public to report fraud by telephone or online on the IAD website.
- Additionally, all of the Audit Reports are now available online on our website.
- IAD assists the Board of Supervisors and County management in ensuring the County's assets and resources are safeguarded, the County's accounting and financial reporting is timely and accurate, and the County's management has timely information and relevant analysis for its business and financial decisions.
- IAD provides professional assurance, attestation, and corrective recommendations to our clientele on the County's internal controls, accounting records, and financial and business operations through our published audit reports and reviews.

## Organizational Summary



**Executive Management** - The Executive Management/Administration team provides fiscal management, procurement and human resources, system security and technical services support, leadership, management oversight and direction to Internal Audit function.

**General Audits** - This is the core function of the department and consists of sixteen professional audit staff.

**Ten Year Staffing Trend:**



**Ten Year Staffing Trend Highlights:**

- The Internal Audit Department was established as a separate department independent of the County Auditor-Controller by Board Resolution dated April 25, 1995. Arthur Andersen L.L.P. was contracted at that time by the County to manage the Internal Audit function until a permanent director could be recruited. In 1997, a director was appointed and eight additional positions were added; in 1999 one Staff Analyst position was added; in 2000, two positions were eliminated in the Information Systems Auditing function and outsourced to consultants; additionally, two Auditor II positions

were exchanged for one Senior Auditor I. In 2001, two auditor positions were added for integrated audits of specifically focused issues in the Countywide Accounting and Personnel System (CAPS).

**Budget Summary**

**Plan for Support of the County's Strategic Priorities:**

Internal Audit, through its Business Plan, is aligned with the County's strategic priorities and assists in their accomplishment. IAD supports and assists the Board of Supervisors and County Executive Management in the accomplishment of their functional business goals and objectives.

**Changes Included in the Recommended Base Budget:**

Internal Audit exceeded the CEO's recommended Net County Cost and submitted an augmentation request to restore its current level of service. This was primarily attributed to increase in retirement costs; slight increase in services and supplies; replacement of our network server and cost applied revenue that's received every other year.

**Requested Budget Augmentations and Related Performance Results:**

Unit Amount	Description	Performance Plan	BRASS Ser.
<b>Increase Net County Cost to Maintain Current Level of Service Amount: \$ 89,976</b>	Restore reductions made to meet Net County Cost limit	Funding will allow Department to continue to operate at the same level of audit coverage and service	4957
<b>Request Consultant Services for Board Directives Amount: \$ 100,000</b>	Funding to respond to Board directives for audits requiring outside consultant services	Ability to hire minimal professional services consultants to meet Board directives for audit service	5456



### Proposed Budget History:

Sources and Uses	FY 2004-2005	FY 2005-2006	FY 2005-2006	FY 2006-2007	Change from FY 2005-2006	
	Actual	Budget As of 3/31/06	Projected <sup>(1)</sup> At 6/30/06	Recommended	Projected Amount	Projected Percent
Total Positions	22	22	22	22	0	0.00
Total Revenues	81,278	37,440	38,241	37,440	(801)	-2.09
Total Requirements	2,077,967	2,481,091	2,408,502	2,554,401	145,899	6.06
Net County Cost	1,996,689	2,443,651	2,370,261	2,516,961	146,700	6.19

(1) Requirements include prior year encumbrance and expenditures. Therefore, the above totals may not match FY 2005-06 projected requirements included in "At a Glance" (Which exclude these).

Columns may not total correctly due to rounding.

Detailed budget by expense category and by activity is presented for agency: Internal Audit in the Appendix on page A86

### Highlights of Key Trends:

- The Internal Audit Department is adjusting its annual Audit Plan to assist County management in addressing the impact of budget reductions as a result of state defi-

cits. In addition, we will evaluate the effect of retirements on internal controls and issues of economy and efficiency.

### Budget Units Under Agency Control:

No.	Agency Name	Executive Management	General Audits	Total
079	Internal Audit	749,597	1,804,804	2,554,401
	Total	749,597	1,804,804	2,554,401



## 079 - Internal Audit

### Summary of Proposed Budget by Revenue and Expense Category:

Revenues/Appropriations	FY 2004-2005	FY 2005-2006	FY 2005-2006	FY 2006-2007	Change from FY 2005-2006	
	Actual	Budget As of 3/31/06	Projected <sup>(1)</sup> At 6/30/06	Recommended	Projected Amount	Projected Percent
Charges For Services	\$ 80,832	\$ 37,440	\$ 37,440	\$ 37,440	\$ 0	0.00%
Miscellaneous Revenues	446	0	801	0	(801)	-100.00
<b>Total Revenues</b>	<b>81,278</b>	<b>37,440</b>	<b>38,241</b>	<b>37,440</b>	<b>(801)</b>	<b>-2.09</b>
Salaries & Benefits	1,967,575	2,261,021	2,212,050	2,348,944	136,894	6.19
Services & Supplies	210,862	373,680	350,062	314,247	(35,815)	-10.23
Intrafund Transfers	(100,470)	(153,610)	(153,610)	(108,790)	44,820	-29.18
<b>Total Requirements</b>	<b>2,077,967</b>	<b>2,481,091</b>	<b>2,408,502</b>	<b>2,554,401</b>	<b>145,899</b>	<b>6.06</b>
<b>Net County Cost</b>	<b>\$ 1,996,689</b>	<b>\$ 2,443,651</b>	<b>\$ 2,370,261</b>	<b>\$ 2,516,961</b>	<b>\$ 146,700</b>	<b>6.19%</b>

(1) Requirements include prior year encumbrance and expenditures. Therefore, the above totals may not match FY 2005-06 projected requirements included in "At a Glance" (Which exclude these).

Columns may not total correctly due to rounding.

### Proposed Budget Summary of Executive Management:

Revenues/Appropriations	FY 2004-2005	FY 2005-2006	FY 2005-2006	FY 2006-2007	Change from FY 2005-2006	
	Actual	Budget As of 3/31/06	Projected <sup>(1)</sup> At 6/30/06	Recommended	Projected Amount	Projected Percent
Charges For Services	\$ 24,960	\$ 0	\$ 0	\$ 0	\$ 0	0.00%
Miscellaneous Revenues	237	0	0	0	0	0.00
<b>Total Revenues</b>	<b>25,197</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>
Salaries & Benefits	670,814	724,282	676,714	675,108	(1,606)	-0.24
Services & Supplies	108,161	98,363	156,626	74,489	(82,137)	-52.44
<b>Total Requirements</b>	<b>778,975</b>	<b>822,645</b>	<b>833,340</b>	<b>749,597</b>	<b>(83,743)</b>	<b>-10.05</b>
<b>Net County Cost</b>	<b>\$ 753,778</b>	<b>\$ 822,645</b>	<b>\$ 833,340</b>	<b>\$ 749,597</b>	<b>\$ (83,743)</b>	<b>-10.05%</b>

### Proposed Budget Summary of General Audits:

Revenues/Appropriations	FY 2004-2005	FY 2005-2006	FY 2005-2006	FY 2006-2007	Change from FY 2005-2006	
	Actual	Budget As of 3/31/06	Projected <sup>(1)</sup> At 6/30/06	Recommended	Projected Amount	Projected Percent
Charges For Services	\$ 55,872	\$ 37,440	\$ 37,440	\$ 37,440	\$ 0	0.00%
Miscellaneous Revenues	209	0	801	0	(801)	-100.00
<b>Total Revenues</b>	<b>56,081</b>	<b>37,440</b>	<b>38,241</b>	<b>37,440</b>	<b>(801)</b>	<b>-2.09</b>
Salaries & Benefits	1,296,760	1,536,739	1,535,336	1,673,836	138,500	9.02

## Proposed Budget Summary of General Audits:

Revenues/Appropriations	FY 2004-2005	FY 2005-2006	FY 2005-2006	FY 2006-2007	Change from FY 2005-2006	
	Actual	Budget As of 3/31/06	Projected <sup>(1)</sup> At 6/30/06	Recommended	Projected Amount	Percent
Services & Supplies	102,701	275,317	193,436	239,758	46,322	23.95
Intrafund Transfers	(100,470)	(153,610)	(153,610)	(108,790)	44,820	-29.18
<b>Total Requirements</b>	1,298,991	1,658,446	1,575,162	1,804,804	229,642	14.58
<b>Net County Cost</b>	\$ 1,242,911	\$ 1,621,006	\$ 1,536,921	\$ 1,767,364	\$ 230,443	14.99%