



FISCAL POLICY MANUAL

POLICY IA-1: Internal Audit Charter
APPROVED: Board of Supervisors
AUTHORITY: Auditor-Controller-Treasurer-Tax Collector (ACTTC)
ISSUE/REVISED DATE: December 14, 2007

I. PURPOSE

The mission of the County of Sonoma Internal Audit Division is to provide independent and proactive auditing and consulting services to the administration and management of the County of Sonoma.

II. POLICY

A. DEFINITION of Internal Auditing

The Internal Audit Division shall follow the definition established by the Institute of Internal Auditors (IIA), the internationally recognized authoritative body for internal audit standards:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

B. SCOPE OF ACTIVITIES

The Internal Audit Division is established within the administration of the County of Sonoma to function independently of management for the purpose of examining and evaluating the adequacy and effectiveness of management operations, controls, and reporting of financial and operational performance. To this end the Internal Audit Division will provide management and the Board of Supervisors with analyses, appraisal of financial and operational results, and recommendations concerning the activities examined. Additionally, they will execute the independent audit function charged by law or convention to the Auditor-Controller.

C. AUTHORITY

Subject to the approval of the Board of Supervisors, the Internal Audit Division is authorized to:

- Decide on the nature, extent and timing of audits;
- Enter all premises of the departments within the County of Sonoma or its component units; have access to and inspect all documents and records;
- Require any manager, officer, or department head of the County of Sonoma or its component units to supply such information and explanations as may be needed; and

- Have discussions with line managers and employees of the County of Sonoma and its component units at any reasonable time.

D. ORGANIZATIONAL REPORTING

The Internal Audit Division, under the direction of the Internal Audit Manager, is functionally responsible to the Board of Supervisors and reports administratively to the Assistant Auditor-Controller. The intent of this dual relationship is to establish auditor independence by reporting directly to the Board of Supervisors, while emphasizing executive-level teamwork among the Internal Auditors, the Auditor-Controller-Treasurer-Tax-Collector and senior management.

All audits and other engagements undertaken by the Internal Audit Division will result in an audit report or letter of findings and recommendations. The report will be directed to the person(s) who initiated the audit engagement (normally the auditee). In the event of a significant audit finding, a response from the auditee will be required within a time limit determined by the policies of the Internal Audit Division.

The Board of Supervisors will receive and accept, except for other government entities, all audit reports prepared by the Internal Audit Division. Audit reports which include findings will be accompanied by the auditee's response to those findings. Board of Supervisors acceptance of an audit report will be predicated upon a complete and timely response by the auditee to the findings by the Internal Auditors.

Financial audits are frequently accompanied by a letter to management (Management Letter) with recommendations for improvements to internal control. Management Letters directed to an elected official will not require acceptance and approval by the Board of Supervisors.

Informational copies will be provided to the Board of Supervisors of audit reports prepared for other governmental entities, such as special districts within the County of Sonoma.

E. INTERNAL AUDITOR INDEPENDENCE – Professional Standards and Policy

California Government Code Section 1236 requires that auditors conduct their activities under the general and specific standards prescribed by the Institute of Internal Auditors or the Government Auditing Standards issued by the Comptroller of the United States (now the U.S. Government Accountability Office).

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditor independence is strongly emphasized by authoritative bodies including the U.S. Government Accountability Office (GAO), the Institute of Internal Auditors, the American Institute of CPAs, and the U.S. Securities and Exchange Commission. Auditor independence is essential to receive full value and creditable information from the internal audit function.

It is the desire and intention of senior management and the Board of Supervisors that the internal audit function shall be organized and managed to optimize auditor independence. Because the Internal Audit Division is part of the Auditor-Controller-Treasurer-Tax-Collector's

Office, it is not an independent entity as described by the professional standards; however, the Internal Audit Manager and other internal audit staff shall strive to be free of all operational and management responsibilities that would impair their ability to make independent reviews of all aspects of the County's operations.

The Internal Audit Manager shall have no executive or managerial powers or duties, except those relating to the management of the Internal Audit Division. The Internal Audit Division shall have an independent status within the organization of the County of Sonoma and will not be directly involved in the day-to-day operation of the system of internal controls. The Internal Audit Division shall not be directly involved in the design and implementation of internal control systems but may be consulted on the adequacy of controls.

F. MANAGEMENT

Subject to the overall guidelines and policies of the Board of Supervisors, the Internal Audit Division shall be solely responsible for the planning, implementation and reporting of the audits. For this purpose, the Internal Audit Division shall:

- Prepare a Strategic Plan to set the long-term direction and approach to audits;
- Prepare a detailed Annual Audit Plan and an Annual Budget for submission to the Board of Supervisors for approval;
- Recruit the necessary personnel at remuneration rates adopted by the Department of Human Resources for appropriate levels of Internal Audit staff;
- Carry out all activities to conduct the audits in an effective, professional and timely manner, and;
- Report to the auditee as soon as practical upon completion of each audit.

G. REIMBURSEMENT OF COSTS

The Internal Audit Manager is to obtain fee for service reimbursement of operating costs in order to:

- Allocate costs to the department, division, agency, or governmental entity who requests or benefits from the services provided;
- Reduce the amount of unassigned overhead which will have to be reapplied through the Cost Plan, and;
- Reduce the fiscal dependency of the Internal Audit Division on the office of the Auditor-Controller-Treasurer-Tax Collector.

H. EXTERNAL RELATIONSHIPS

The annual audit by the external auditors is an integral part of the governance of the County of Sonoma. In particular, the Division shall:

- Prepare the request for proposal for an external auditor of the County of Sonoma;
- Communicate and coordinate with the external auditors to ensure that the audit programs of the Internal Auditors are complementary to the objectives of the external auditors.
- The Internal Audit Division will perform the external audits of special districts imposed on the Auditor-Controller by California Government Code Sections 26909 and 26910.

I. CONTINUING PROFESSIONAL EDUCATION

Internal auditors shall complete the minimum continuing professional education requirements as set forth by Government Auditing Standards published by the GAO. These standards require that each Auditor complete, every 2 years, 80 hours of continuing professional education, 24 of which directly relate to governmental auditing, the government environment, or the specific or unique environment in which the County operates.

J. PEER REVIEW

The Internal Audit Division shall obtain a professional peer review in compliance with the professional standards of the IIA as described in California Government Code Section 1236.

III. RESPONSIBILITIES

The Internal Audit Division is entrusted with the responsibility to assess the policies, procedures and management controls of the County of Sonoma to ensure that the activities are properly managed and to promote effective control at reasonable cost. In discharging its responsibility, the Internal Audit Division may:

- Evaluate the relevance, reliability and integrity of management operations, systems, and financial information;
- Provide evaluations of internal controls, accounting records, and financial and business operations through development and execution of comprehensive audit reporting;
- Ascertain the extent of compliance with established policies, procedures and instructions;
- Appraise utilization of resources with regard to economy, efficiency and effectiveness;
- Assess the means of safeguarding assets and verify their existence;
- Recommend improvements in procedures and systems to prevent waste, extravagance and fraud;
- Advise on appropriate systems of controls and other accounting and operational matters in a consulting capacity;
- Draw attention to any failure to take remedial action;

- Collaborate with the District Attorney, County Administrator's Office, and the Sheriff's Department to investigate and report on suspected fraud activities;
- Carry out any inspections, investigations, examinations or reviews requested by the Board of Supervisors or by senior management;
- Provide audit services as mandated by federal or state agencies and other regulators or grantors;
- Provide audit services to external entities such as special districts on behalf of the Auditor-Controller-Treasurer Tax-Collector; and
- Facilitate the annual County of Sonoma audit by working actively with the external auditors.