

# County of Orange

## Audit Oversight Committee Bylaws

### ARTICLE 1 ESTABLISHMENT

The Audit Oversight Committee (AOC) was originally established in 1995 by Board of Supervisors' Resolution No. 95-271 to provide oversight over the County's internal audit functions. This resolution was superseded by Resolution No. 2016-014, which affirmed and amended the duties and responsibilities of the AOC in light of the creation of the position of Performance Audit Director and the transfer of the internal audit responsibilities to the Auditor-Controller's office. In 2018, the Board of Supervisors adopted Resolution 18-068, establishing an Internal Audit Department independent from the Auditor-Controller and reporting directly to the Board of Supervisors.

### ARTICLE 2 PURPOSE

The purpose of the AOC is to serve as an advisory committee to the Board of Supervisors on issues related to the County's internal audit function and the County's external audit coverage including the financial statements (e.g. CAFR, Single Audit Report and Management Letter) and federal and state audits. The AOC assists the Board of Supervisors in fulfilling their oversight responsibilities with respect to financial, operational, and compliance audit activities including, but not limited to: (i) external audit; (ii) internal audit; (iii) performance audit; and (iv) mandated audits. The AOC is responsible for ensuring the independence of the internal audit function, reviewing and recommending approval of the Internal Audit Department's and the County Executive Office's Annual Audit Plans, reviewing audit reports, and ensuring that corrective action is taken on audit findings.

### ARTICLE 3 MEMBERSHIP

- 3.1 The membership of the AOC shall consist of the following: the Chairperson and Vice-Chairperson of the Board of Supervisors, the County Executive Officer (CEO), and five public members from the private sector appointed by the Board of Supervisors. All public members shall serve a term of four (4) years, except that members selected to fill a vacancy for reasons other than the regular expiration of a term shall serve only for the remainder of that term. The public members may be reappointed or removed by the Board of Supervisors.
  - 3.1.1 Public members whose term has expired shall continue to discharge their duties as a holdover appointee until their successor has been appointed by the Board of Supervisors or they have resigned from the AOC, whichever is earlier.
- 3.2 Each member of the Board of Supervisors may nominate one public member for appointment by the Board of Supervisors. Public members shall possess sufficient knowledge and experience in finance, business, and accounting to discharge the AOC's duties with an emphasis on prior audit experience (*i.e.*, financial and internal controls).
- 3.3 In the event that a public member chooses to resign from the AOC, such member should notify the Chair of the AOC, in writing. The Chair of the AOC will then immediately notify the Board of Supervisors and the AOC of any such resignations. Upon notification, the CEO will then solicit nominations from the appropriate Board of Supervisors office that is responsible for nominating a public member for appointment by the Board of Supervisors to fill the vacancy.
- 3.4 The Director of Internal Audit, Auditor-Controller, and Treasurer-Tax Collector or their authorized designees, shall attend all AOC meetings. The Director of Internal Audit, Auditor-Controller, and Treasurer-Tax Collector shall not be voting members of the AOC.

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### **ARTICLE 4 CHAIR AND VICE CHAIR - POWERS AND DUTIES**

- 4.1 The Chair and Vice-Chair shall be elected for a one year term extending from January 1<sup>st</sup> to December 31<sup>st</sup>, which may be extended for one additional year by a majority vote of the AOC members.
- 4.2 The Chair's duties include presiding over all AOC meetings, establishing subcommittees, responding to members' requests for information, signing communications on behalf of the AOC and representing the AOC before the Board of Supervisors and other governmental and quasi-governmental bodies, subject to the approval of the other AOC members.
- 4.3 The Chair and Vice-Chair may review drafts of the Comprehensive Annual Financial Report upon request to the extent that the exemption for the production of such record can be preserved. The Chair and Vice-Chair shall maintain the confidentiality of such draft records and shall not retain copies of such drafts upon the completion of their review.
- 4.4 In the absence or inability of the Chair to preside over the meetings, the Vice-Chair will perform such duties. If neither the Chair nor Vice-Chair is able to preside, the AOC shall select one of the members to act as Chair for the meeting, and who shall have all the powers and duties of the Chair during the meeting.
- 4.5 The Chair and Vice-Chair may only be selected from the public members of the AOC. The Chair cannot serve as Vice-Chair in the year immediately following his service as Chair.

### **ARTICLE 5 MEETINGS**

- 5.1 The AOC shall meet at least quarterly, with authority to convene additional meetings as circumstances require. All meetings shall be subject to the Ralph M. Brown Act.
- 5.2 An agenda shall be prepared for each meeting by IAD staff and approved for distribution by the AOC Chair. The agenda shall contain a brief general description of each item of business to be transacted or discussed at the meeting of the AOC or as required by the Brown Act. The agenda shall include any item of business that is carried forward from a prior regular meeting at the request of the AOC. The agenda shall be posted within the time and in the manner required by the Brown Act. Additional items may be added to the agenda after it is posted only in accordance with the Brown Act.
- 5.3 The AOC Chair is required to call a meeting if requested to do so by the Board of Supervisors or two public members.
- 5.4 The quorum for a meeting shall be a majority of the voting members, and decisions made by a majority vote of the voting members present shall be regarded as acts of the AOC.
- 5.5 All AOC members will have an equal voice in the decision-making process. Due to the scope of the AOC's assignment, and the value of each member's input, consistent attendance by all members is expected; however, the Chair and Vice-Chair of the Board of Supervisors and the County Executive Officer (CEO) may designate a substitute to

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attend an AOC meeting on their behalf by submitting the member's signed proxy to the Chair of the AOC at the start of the meeting.

- 5.6 The Chair may, as necessary, ask authorized representatives of the performance auditor, the Internal Audit Department (IAD), and Auditor-Controller to attend AOC meetings to discuss plans, findings and other matters of mutual concern.
- 5.7 IAD will keep minutes of each meeting and offer them for AOC approval as the first item on the subsequent meeting agenda.
  - 5.7.1 Minutes of each meeting shall contain a record of the persons present. The minutes should provide a record of decisions taken and a high-level summary of the discussion, providing insight on the topics and subtopics discussed.
  - 5.7.2 IAD shall distribute the draft minutes, which will be presented for approval by the AOC at its next scheduled meeting, as soon as reasonably practical following the meeting.
  - 5.7.3 If the minutes for a prior meeting are corrected or amended during an AOC meeting, such minutes will be sent to the AOC members once approved by the AOC.
- 5.8 Reports and other documents distributed in conjunction with the AOC agenda shall be distributed in accordance with the Ralph M. Brown Act in advance of the meeting to allow for their review.
- 5.9 The Chair shall preserve order and decorum. The AOC shall operate under Roberts' Rules and the Chair shall decide all questions of order (unless overridden by a majority of the committee members present) consistent with such rules.
- 5.10 The AOC's meeting schedule will normally be tentatively set out one year in advance and finalized each quarter so that County management and IAD staff can prepare the information and reports required to support the AOC's work.

#### **ARTICLE 6 OPERATIONS**

- 6.1 The AOC's Bylaws shall be submitted to the Board of Supervisors for approval. The Bylaws shall be reviewed periodically, no less than once every three years, by the AOC and reaffirmed by the Board of Supervisors. Reassessments should specifically take into account any changes that may be needed as the result of changes in law, regulation, or professional standards.
- 6.2 Members shall be briefed on the AOC's purpose, responsibilities, objectives, and on the business of the County upon joining the AOC by the Director of IAD. A process of continuing education (e.g., briefings and information on emerging issues and risks) shall be provided at the AOC meetings as approved by the AOC subject to available budget appropriations. Public members shall receive ethics training as required by AB 1234, Government Code sections 53234, *et seq.*, which shall be provided by the County.
- 6.3 The AOC shall be provided with the resources necessary to carry out its role, responsibilities, and duties. To the extent it deems necessary to meet its responsibilities, and in keeping with its Bylaws, the AOC has the authority to retain independent advice

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and assistance pursuant to County purchasing policy and procedures subject to available budget appropriations.

- 6.4 The AOC may request funds needed for its operation during the County's normal budget process. Such appropriation will be included within the IAD's budget to be administered by IAD staff.
- 6.5 The IAD shall provide staffing and support for the AOC. This includes:
- a. the timely preparation of all notices and draft agendas of meetings;
  - b. coordination of presentations and distribution of reports and/or related documents that are prepared for the AOC's information or consideration;
  - c. the timely preparation and distribution of minutes of meetings; and
  - d. the performance of other incidental duties as may be assigned.

### ARTICLE 7 RESPONSIBILITIES AND DUTIES

- 7.1 *Representation Letter.* The County Executive Officer will annually provide the AOC with a copy of the signed representation letter issued to the external auditor. Furthermore, the CEO and all County agencies/departments under the authority of the CEO, will cooperate with internal/external auditors and will comply with all laws, regulations, policies, and standards of ethical conduct during the audits, and will request that County elected Department Heads similarly comply.
- 7.2 *Financial Statements and Reporting.* The AOC shall provide oversight of the County's independent external auditor and shall:
- a. review the quality of the County's financial reporting activities;
  - b. review all findings, recommendations, and management's responses related to all external audit reports and consult with external auditors regarding audit adjustments, weaknesses in internal controls, fraud, and compliance matters related to laws, regulations, contracts and grant agreements that would have a material impact on the basic financial statements, included in the Comprehensive Annual Financial Report (CAFR), Single Audit and other audit reports prepared by the County's independent external auditors;
  - c. provide oversight for the periodic review and selection of the County's independent external auditor to perform the audit of the County's basic financial statements included in the CAFR, including all component units and the Single Audit;
  - d. review any additional work beyond the original scope of work conducted by the independent external auditors on behalf of the County;
  - e. review the independent external auditor's scope and plan and any significant changes to the scope during the audit process;
  - f. review the draft of the County's CAFR and provide questions and/or comments to the Auditor-Controller for consideration (Chair and Vice-Chair only);
  - g. discuss, as needed, with County Counsel, the independent external auditor, and the Director of Internal Audit, legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements and compliance with federal, state, and local laws and regulations, grant agreements and contracts;
  - h. review with the independent external auditor the latter's judgments about the quality, not just the acceptability, of the County's accounting principles as applied in its financial reporting;

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- i. review all matters required to be discussed by auditing standards generally accepted in the United States of America (GAAS) and Government Auditing Standards issued by the Comptroller General of the United States (GAS), including those specific matters covered in AU-C Section 260, *The Auditor's Communication With Those Charged With Governance*;
- j. review with management and the independent external auditor the effect of any regulatory and accounting initiatives, such as related organizations financing structures, derivatives, or securities lending; and
- k. review all alternative treatments of financial information brought to the AOC's attention by the independent external auditor within accounting principles generally accepted in the United States of America (GAAP) that have been discussed with County management and the ramifications of each alternative and the treatment preferred by the County.

7.3 *Oversight of the Audit Function of the Auditor-Controller (AC).* The AOC shall:

- a. review regularly and annually discuss the adequacy of resources of the audit function;
- b. review and approve the risk assessment and audit plan prepared by the AC and any subsequent revisions;
- c. compare the approved audit plan with actual work completed
- d. review significant findings during the year and management's responses thereto;
- e. discuss with the AC any significant difficulties encountered in the course of AC audits, including any restrictions on the scope of their work or access to required information;
- f. review and discuss, as necessary, critical impact findings and recommendations contained in audit reports and management action plans to address recommendations; and
- g. ensure AC establishes and audits agencies/department's compliance with a comprehensive framework of internal controls.

7.4 *Oversight of the Internal Audit Department.* The AOC shall:

- a. review the County's IAD charter and recommend revisions with all revisions submitted to the Board of Supervisors for its review and approval;
- b. review regularly and annually discuss the adequacy of resources of the internal audit function;
- c. review and approve the risk assessment and internal audit plan prepared by the Director of Internal Audit and any subsequent revisions;
- d. compare the approved internal audit plan with actual work completed
- e. review significant findings during the year and management's responses thereto;
- f. discuss with the Director of Internal Audit any significant difficulties encountered in the course of IAD audits, including any restrictions on the scope of their work or access to required information;
- g. review and discuss, as necessary, critical impact findings and recommendations contained in audit reports and management action plans to address recommendations; and
- h. ensure IAD establishes and audits agencies/department's compliance with a comprehensive framework of internal controls.

7.5 *Oversight of Performance Audit.* The AOC shall:

- a. provide input regarding the County's performance auditing function, including oversight over the auditing activities of the performance auditor;

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- b. review performance audit reports and determine whether they adequately address whether the audited functions are effective, efficient, economical, equitable, compliant with Federal and State laws, ethical, and are based on reliable data;
  - c. review and discuss, as necessary, findings and recommendations contained in performance audit reports and management action plans to address recommendations; and
  - d. review and make recommendations regarding the annual work plan prepared by the County Executive Office.
- 7.6 *Follow-up Audits.* The AOC shall:
- a. ensure that there are effective arrangements in place to monitor and follow-up on management action plans responding to recommendations from internal audits or other sources; and
  - b. review and receive reports from the IAD and performance auditor on whether management's action plans have been implemented and whether the actions taken have been effective. The IAD reports shall identify any areas where it believes management has accepted a level of risk that is unacceptable to the County.
- 7.7 *Peer Review/Quality Control.*
- a. The AOC shall ensure that an external quality control review (Peer Review) of the IAD be conducted as required by an organization not affiliated with the IAD in accordance with the GAGAS and/or the Institute of Internal Auditors Standards at the discretion of the Director of Internal Audit.
  - b. The AOC shall ensure that an external quality control review (Peer Review) of performance audit be conducted as required by an organization not affiliated with IAD in accordance with the guidelines contained in the Peer Review Guide published by the Association of Local Government Auditors (ALGA).
- 7.8 *Comprehensive Framework of Internal Control.* The AOC will review with the AC, IAD and CEO the adequacy of the County's internal control structure. The AOC should consider a number of factors:
- a. the adequacy of the County's internal controls including computerized information systems;
  - b. determine adherence to the principle established in the COSO guidelines including cybersecurity
  - c. significant risks or exposures identified by County management and the steps management has taken or proposes to take to minimize such risks;
  - d. findings and recommendations of the independent external and internal auditors;
  - e. audit adjustments;
  - f. code of conduct;
  - g. Fraud Hotline complaints; and
  - h. pending accounting and regulatory changes.
- 7.9 *Oversight of Fraud Hotline.* The AOC shall ensure that the IAD has established procedures for the receipt, retention, investigation and treatment of Fraud Hotline complaints, which have been referred to the Auditor-Controller.
- 7.10 *Coordination and Scheduling of Audits.* The AOC shall review and provide recommendations regarding the coordination and scheduling of external, internal and performance audits to avoid disruption of departmental work flows and duplication of effort.

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- 7.11 *Resolution of Audits.* The AOC shall be made aware of incidents in which management does not concur with an audit's findings or recommendations. The AOC may, at its discretion, request applicable management and auditors to appear at an AOC meeting to discuss the differing opinions.

**ARTICLE 8 INDEMNIFICATION OF AOC MEMBERS**

The County of Orange will indemnify and defend AOC members, with counsel of the County's sole and exclusive choosing, for their participation, decisions, or actions taken on behalf of the AOC. Each AOC member should also familiarize him/herself with County of Orange Conflict of Interest Code and Gift Ban Ordinance requirements and file the appropriate annual certifications.