Office of the Auditor-Controller

Contra Costa County

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Brenda Balingit, Foreperson
Contra Costa County Civil Grand Jury
2025-2026 Contra Costa County Civil Grand Jury
725 Court Street
P.O. Box 431
Martinez, CA 94553-0091

Dear Ms. Balingit;
Below is my response to the 2025-26 Contra Costa County Civil Grand Jury's Report 2602, "Contra Costa County's Internal Audit Division: Time for a Transformation" received by my office on May 4, 2026.

Findings:

F1. California Government Code Section 1236 requires that employees conducting audits for public agencies follow standards of the Institute of Internal Auditors (IIA) or the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards (GAGAS).

Response: The respondent agrees with the finding.

F2. The Internal Audit Division's (IAD) *Policies and Procedures Manual*, Section 2.1, directs that it "follow applicable professional auditing standards in conducting our audits," and defines which IIA or GAGAS standards are applicable to specific audit situations.

Response: The respondent agrees with the finding.

F3. The IAD's placement within the Auditor-Controller's organizational structure creates an organizational independence threat under GAGAS §§3.27-3.58 and IIA Standard 7.1.

Response: The respondent disagrees with the finding.

As stated in the *Applying the Global Internal Audit Standards in the Public Sector* section of the IIA Standards, "While the Global Internal Audit Standards apply to all internal audit functions, internal auditors in the public sector work in a political environment under governance, organization, and funding structures that may differ from those of the private sector." IIA Standard 7.1 contains inconsistencies between the organizational structure of a private sector IAD and a public sector IAD. The Auditor-Controller position is an elected position and is independent from the other departments receiving internal audits.

Additionally, IAD does not perform GAGAS audits as identified in the *Policies and Procedures Manual* and has not in many years. As such there is no organizational independence threat relating to GAGAS audits.

F4. The Internal Operation Committees (IOC) failure to exercise charter approval, audit plan pre-approval, and direct report receipt as required by IIA Standards 6.1, 6.2, 8.1, 9.4, 11.3 and Principle 8 leaves this organizational independence threat unmitigated constituting an independence impairment in fact and appearance under GAGAS §3.56.

Response: The respondent partially disagrees with the finding.

The respondent agrees that IIA standards were not being followed, leading to an unmitigated threat *in appearance* relating to organizational independence.

IAD does not perform GAGAS audits as identified in the *Policies and Procedures Manual* and has not in many years. As such there is no organizational independence threat, in fact or appearance, relating to GAGAS audits. Additionally, it is unclear how not following the listed IIA Standards would lead to a GAGAS impairment.

F5. IAD personnel participate in preparation of the County's Annual Comprehensive Financial Report (ACFR), a management responsibility of the Auditor-Controller.

Response: The respondent partially disagrees with the finding.

It is correct that IAD personnel participate in preparation of the County's ACFR and that ACFR preparation is a management responsibility; however, the inference is that IAD personnel are not management which is not correct. IAD personnel are non-supervisory management as identified in the Local 21 Memorandum of Understanding (MOU).

F6. The participation of IAD personnel in ACFR preparation and their subsequent auditing of those same financial reporting processes and controls represents a self-review threat as defined in GAGAS §§3.30 and 3.39.

Response: The respondent disagrees with the finding.

IAD does not perform GAGAS audits as identified in the *Policies and Procedures Manual* and has not in many years. The *Policies and Procedures Manual* is being updated to remove all references to GAGAS and GAGAS audits.

F7. The IAD has no documentation demonstrating that organizational and self-review independence threats have been formally identified, evaluated, or mitigated through safeguards, as required by GAGAS §§3.40-3.58 and IIA Standard 7.1.

Response: The respondent agrees with the finding.

F8. The IAD has no documentation that the impact of IAD staff participation in ACFR preparation (a non-audit management activity) on independence and objectivity has been formally assessed and disclosed to the oversight body, as required by GAGAS §3.59 and IIA Standards 7.1 and 8.1.

Response: The respondent agrees with the finding.

F16. The County's IAD operates under *Administrative Bulletin 212.1* (1975), which does not include all the elements of an Audit Charter required by IIA Standard 6.2.

Response: The respondent agrees with the finding.

F17. The IAD presented its 2026 annual audit plan as "risk based." However, the plan did not include a documented risk assessment as required by IIA Standards 9.3 and 9.4.

Response: The respondent agrees with the finding.

F18. IAD has no documented risk-assessment methodology as required by IIA Standard 9.3.

Response: The respondent agrees with the finding.

F19. IAD's risk assessments do not include input from the Board or senior County executives, as required by IIA Standards 8.1 and 9.4.

Response: The respondent partially disagrees with the finding.

While the respondent agrees that a formal process does not exist to proactively inquire and obtain feedback from the Board of Supervisors and senior County executives, both have provided requests and concerns over the years and the IAD has incorporated them into the annual audit plan.

F24. The IAD does not maintain an ongoing quality assurance and improvement program, as required by IIA Standard 8.3 and GAGAS Chapter 5, which require audit organizations to establish and maintain internal quality assessment processes to evaluate conformance with professional standards.

Response: The respondent agrees with the finding.

F25. The IAD has not undergone an external quality assessment review in more than 25 years. IIA Standard 8.4 requires an external assessment at least once every five years and GAGAS §5.179 requires an external peer review at least once every three years.

Response: The respondent agrees with the finding.

F26. The IAD does not distribute its reports to the IOC, as required by IIA standards 11.3 and 15.1 and GAGAS Chapter 9.

Response: The respondent agrees with the finding.

F27. The IAD does not post its completed audit reports or annual audit plan on its public webpage, inconsistent with GAGAS Chapter 9, which requires public availability of completed audit reports, and the recommendations of the Association of Local Government Auditors and the National Association of State Auditors, Comptrollers and Treasurers.

Response: The respondent agrees with the finding.

F28. The deficiencies documented in Findings F3 through F8, F16 through F21, F24, F25, F26, and F27 collectively establish that the IAD does not operate in conformance with the IIA and GAGAS standards required by California Government Code Section 1236 and directed by its own *Policies and Procedures Manual.*

Response: The respondent agrees with the finding.

Recommendations:

R1. By December 1, 2026, the Auditor-Controller should consider directing the IAD to comply with the IIA and GAGAS auditing standards as adopted in IAD's *Policies and Procedures Manual* and as required by California Government Code Section 1236.

Response: The recommendation will not be implemented in its entirety because it is not reasonable as written.

The Auditor-Controller will direct the IAD to comply with the IIA, but not GAGAS auditing standards. As the IAD does not conduct GAGAS audits as identified in the *Policies and Procedures Manual*, the Auditor-Controller has directed the IAD to not implement the portion of the recommendation to comply with GAGAS auditing standards. Additionally, IAD has already begun to update the *Policies and Procedures Manual* to remove references to GAGAS and GAGAS related audits.

California Government Code Section 1236 states that audits shall be conducted 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.

R3. By January 1, 2027, the Auditor-Controller should consider prohibiting IAD personnel from participating in the preparation of the ACFR or performing other management functions to comply with IIA Standard 7.1 and GAGAS §§3.87-3.89.

Response: The recommendation requires further analysis.

As of the date of this response, the Auditor-Controller has considered the prohibition of IAD personnel participating in the ACFR process and she is agreeable to reassigning certain assignments to other divisions starting with the FYE June 30, 2027, ACFR process. Most of the FYE June 30, 2026, ACFR process, will occur during September-December 2026. During this process, the various assignments will be analyzed to determine which are best handled by non-IAD personnel. Currently, other accounting divisions lack ACFR experience as well as lack the staffing needed to handle current assignments plus ACFR assignments so it would not be prudent to shift ACFR assignments any sooner.

Also, note that IAD's Accountant-Auditors currently assigned to work on the ACFR, as well as other divisions' Accountant-Auditors, are non-supervisory management employees, as identified in the Local 21 Memorandum of Understanding, which would not preclude them from performing management functions in the ACFR process.

As required by IIA Standard 7.1, ACFR assignments will be assessed for any independence impairment with the results and safeguards documented and provided to the Internal Operations Committee.

R4. By January 1, 2027, the Board of Supervisors should consider requiring the Auditor-Controller to develop, document, and implement a formal independence safeguards framework consistent with GAGAS §§3.40-3.58 and IIA Standards 7.1. Required safeguards shall include recusal protocols for audits involving Auditor-Controller functions, independent supervisory review of those audits, and documented segregation of duties between IAD personnel participating in ACFR preparation and those auditing associated financial reporting processes.

Response: The recommendation has not been implemented but will be partially implemented in the future.

The Auditor-Controller will ensure a formal independence safeguards framework consistent with IIA Standard 7.1 will be developed and in use by January 1, 2027. The IAD does not conduct GAGAS-related audits as identified in the *Policies and Procedures Manual*. The *Policies and Procedures Manual* is being updated to remove references to GAGAS and GAGAS related audits.

R5. By January 1, 2027, the Board of Supervisors should consider requiring the Auditor-Controller to annually disclose to the IOC, or, if established, the Audit Committee, all identified independence threats and the safeguards implemented to mitigate them, consistent with GAGAS §3.59 and IIA Standard 7.1.

Response: The recommendation has not been implemented but will be partially implemented in the future.

The Auditor-Controller will ensure all identified independence threats and the safeguards implemented to mitigate them will be communicated to the IOC by January 1, 2027. The IAD does not conduct GAGAS-related audits as identified in the *Policies and Procedures Manual*. The *Policies and Procedures Manual* is being updated to remove references to GAGAS and GAGAS related audits.

R10. By January 1, 2027, the Auditor-Controller should consider developing an Audit Charter for the IAD aligned with IIA Standard 6.2.

Response: The recommendation has not been implemented but will be implemented in the future.

The Auditor-Controller has considered and is agreeable to developing an Auditor Charter for the IAD. This will be accomplished by January 1, 2027.

R12. By January 1, 2027, the Auditor-Controller should consider requiring the IAD to adopt and implement a documented risk assessment methodology that includes defined risk factors, risk-ranking or scoring criteria, and a systematic process for identifying and prioritizing risks as required by IIA Standards 9.3 and 9.4.

Response: The recommendation has not been implemented but will be implemented in the future.

The Auditor-Controller has considered this recommendation and agrees to implement a documented risk assessment methodology in compliance with IIA Standards. This will be accomplished by April 1, 2027.

R13. By January 1, 2027, the Auditor-Controller should consider directing the IAD to revise its *Policies and Procedures Manual* and any applicable administrative bulletins to incorporate requirements for a documented, risk-based audit planning process aligned with IIA Standards 9.3 and 9.4.

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

The Auditor-Controller has already directed the IAD to revise its *Policies and Procedures Manual*. Included in the revision will be the documented, risk-based audit planning process. Updates to the Administrative Bulletin will be prepared by the Office of the Auditor-Controller and submitted to the County Administrator's Office for their concurrence. All will be completed by January 1, 2027.

R14. By January 1, 2027, the Auditor-Controller should consider requiring that the annual risk assessment process include documented input from the Board of Supervisors, its designated oversight committee, and senior county leadership, consistent with IIA Standards 8.1 and 9.4.

Response: The recommendation has not been implemented but will be implemented in the future.

The Auditor-Controller has considered and will require that the annual risk assessment process include documented input from the Board of Supervisors, its designated oversight committee, and senior county leadership. This will be accomplished by January 1, 2027.

R17. By December 1, 2026, the Auditor-Controller should consider directing the IAD to shift the Internal Audit Division's audit planning from a calendar to a fiscal year schedule beginning with the 2027-28 fiscal year.

Response: The recommendation has been implemented as the Auditor-Controller has directed the IAD to shift the Internal Audit Division's audit planning from a calendar to a fiscal year schedule beginning with the 2027-28 fiscal year.

R19. By December 1, 2026, the Auditor-Controller should consider directing the IAD to adopt and maintain an ongoing quality assurance and improvement program, as required by IIA Standard 8.3 and GAGAS Chapter 5.

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

The Auditor-Controller will direct the IAD to adopt an ongoing quality assurance and improvement program as part of becoming IIA compliant. It is anticipated that the IAD will become IIA compliant by December 1, 2027. The IAD does not conduct GAGAS-related audits as identified in the *Policies and Procedures Manual*. The *Policies and Procedures Manual* is being updated to remove references to GAGAS and GAGAS related audits.

R20. By December 1, 2026, the Auditor-Controller should consider directing the IAD to undergo an external quality assessment review as required by IIA Standard 8.4 and GAGAS §5.179.

Response: The recommendation will not be implemented because it is not reasonable as written.

The Auditor-Controller has considered this recommendation and does not believe it is reasonable to spend resources on an external quality assessment review until IIA Standards have been followed for at least a year.

R21. By December 1, 2026, the Auditor-Controller should consider directing the IAD to distribute all completed audit reports, including management responses, directly to the IOC (or, if established, the Audit Committee) consistent with the direct communication requirements of IIA Standards 11.3 and 15.1 and the report distribution requirements of GAGAS Chapter 9.

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

The Auditor-Controller has directed the IAD to periodically distribute the audit reports and management responses to the Finance Committee as part of becoming compliant with IIA Standards.

R22. By December 1, 2026, the Auditor-Controller should consider directing the IAD to post the audit charter, annual audit plan, and all completed audit reports to the County's public website, consistent with GAGAS Chapter 9, which requires that audit organizations make completed audit reports publicly available, and the transparency recommendation of the Association of Local Government Auditors and the National Association of State Auditors, Comptrollers and Treasurers.

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

The Auditor-Controller has directed the IAD to work with the Systems team to:

1. Post the audit charter online once established and subsequently approved by the Finance Committee.
2. Post the upcoming annual audit plan online when approved by the Finance Committee.
3. Annually post completed audit reports that were conducted in compliance with IIA Standards online.

I can be contacted at (925) 608-9300 if there are any questions regarding my response.

Sincerely,

Joanne M Bohren

Joanne M. Bohren, CPA
Contra Costa County
Auditor-Controller

cc: Contra Costa County Board of Supervisors