2025-2026 Contra Costa County Civil Grand Jury Report Number 2602
"Contra Costa County's Internal Audit Division: Time for a Transformation"

Board of Supervisors' Response

FINDINGS

Fl. 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: Agree 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: Agree 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: Internal audit functions are core responsibilities inherent to an auditor-controller's office.

F4. The Internal Operation Committee's (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: Disagree partially with the finding. The Internal Operation Committee (IOC) provides oversight and direction through its annual review of prior year internal audit activities, and approval of the audit plan for the next cycle.

F9. The IOC of the Board of Supervisors (Board), consisting of two supervisors, is responsible for functional oversight of the IAD.

Response: Agree with the finding.

F10. The IOC holds one meeting per year at which the IAD presents its prior year activities and upcoming audit plan.

Response: Agree with the finding.

F11. No documentation was found of additional meetings, interim audit reporting, or direct communication between the IAD and the IOC between annual plan presentations.

Response: Agree with the finding.

F12. A single annual meeting does not satisfy the ongoing communication, timely reporting, and report distribution obligations imposed by IIA Principle 8, IIA Standards 8.1 and 15.1, GAGAS §§6.06 and 9.56, each of which requires engagement throughout the year.

Response: Disagree with the finding. IIA Principle 8, IIA Standards 8.1 and 15.1, GAGAS §§6.06 and 9.56, neither individually nor collectively require a specific minimum number of audit related engagements throughout a given year. The principles, standards, and guidance do mandate board oversight, communication, and reporting which are technically met by the IAD's current approach, supplemented by other annual audit discussions such as presentations by independent, external auditors of the Single Audit at Finance Committee and Measure X Audit at the Measure X Fiscal Oversight Committee.

F13. The Board's Finance Committee, consisting of two supervisors, is responsible for functional oversight of external audit activity.

Response: Agree with the finding.

F14. Neither the IOC nor the Finance Committee requires financial or audit expertise as a condition of membership, inconsistent with the Government Finance Officers Association's (GFOA's) *Audit Committees* best practice and IIA guidance on audit committee effectiveness, both of which identify such expertise as a threshold condition for effective audit oversight.

Response: Agree with the finding.

F15. Neither the IOC nor the Finance Committee includes public members independent of County management as a condition of membership. GFOA's *Audit Committees* best practice recommends that audit committees include public members independent of management to strengthen both the substance and credibility of financial oversight.

Response: Agree with the finding.

F20. The IOC is not provided with information to determine whether proposed annual audit plans address the County's highest-risk areas, as required by IIA Principle 8, IIA Standards 8.1 and 9.4.

Response: Disagree partially with the finding. The Internal Operation Committee (IOC) provides oversight and direction through its annual review of prior year internal audit activities, and approval of the audit plan for the next cycle. The IAD reporting summarizes persistent areas lacking in adherence to the County's administrative requirements, but agree that their discussion of the County's highest-risk areas could be strengthened and more explicit.

F21. IAD implements its annual audit plan without prior Board input or approval, eliminating the Board's opportunity to influence audit priorities before audit work has begun, inconsistent with IIA Principle 8 and IIA Standards 8.1 and 9.4, which collectively require that the board review and approve the risk-based audit plan before implementation.

Response: Disagree partially with the finding. The Internal Operation Committee (IOC) provides oversight and direction through its annual review of prior year internal audit activities and approval of the audit plan for the next cycle, with subsequent, separate Board of Supervisors review and approval of the audit plan.

F22. Findings F4, Fl0, Fl1, F12, Fl 8, F19, F20, F21, and F26 collectively establish that the IOC and Board do not fulfill the audit oversight responsibilities required by IIA Principle 8 and Standards 8.1 and 15.1, and GAGAS §§3.46 and 6.06 - including charter approval, prospective audit plan approval, ongoing engagement, risk-based planning oversight, and direct receipt of audit reports.

Response: Agree with the finding.

F23. The IAD's schedule is based on a calendar year, inconsistent with the fiscal year that governs the County's overall planning, budgeting, and operational processes.

Response: Agree 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: Agree with the finding.

RECOMMENDATIONS

R2. By January 1, 2027, the Board of Supervisors should consider evaluating alternative organizational reporting structures for IAD that reduce organizational and self-review threats, including placement outside the Auditor-Controller's span of control.

Response: The recommendation requires further analysis. The IAD's core responsibilities are inherent to an auditor-controller office and will remain within the office. However, the County will identify and mitigate potential audit situations and approaches that present conflicts of interest and self-review threats.

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 requires further analysis. The Board of Supervisors will require the Auditor-Controller to develop, document, and implement a formal independence safeguards framework consistent with IIA Standards 7.1.

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 will be implemented. By January 1, 2027, the Board of Supervisors will require the Auditor-Controller to annually disclose to the Finance Committee, all identified independence threats and the safeguards implemented to mitigate them, consistent with IIA Standard 7.1.

R6. By January 1, 2027, the Board of Supervisors should consider requiring an annual review by the IOC of IAD's organizational independence, documented safeguards, and any identified independence impairments to ensure continued compliance with IIA Standard 7.1 and GAGAS §§3.40-3.58.

Response: The recommendation will be implemented. By January 1, 2027, the Board of Supervisors will require an annual review by the Finance Committee of IAD's organizational independence, documented safeguards, and any identified independence impairments to ensure continued compliance with IIA Standard 7.1.

R7. By January **1,** 2027, the Board of Supervisors should consider requiring the IAD to report to the IOC no less than quarterly on the status of audit engagements, demonstrating alignment with the approved audit plan and documented risk assessment, consistent with IIA Principle 8, Standards 8.1 and 11.3, and GAGAS Chapter 6.

Response: The recommendation will not be implemented. IIA Principle 8, IIA Standards 8.1 and 11.3 and GAGAS chapter 6, neither individually nor collectively require a specific minimum number of audit related engagements throughout a given year. The principles, standards, and guidance do mandate board oversight, communication, and reporting which will be consolidated and reorganized by the Finance Committee.

R8. By January 1, 2027, the Board of Supervisors should consider consolidating the internal and external auditor oversight as currently performed by the IOC and Finance Committee into a single Audit Committee.

Response: The recommendation will not be implemented. A new, separate Audit Committee is not necessary. Internal and external auditor oversight will be consolidated within the Finance Committee.

R9. By January 1, 2027, the Board of Supervisors should consider adopting IOC, or Audit Committee, membership that conforms to GFOA's *Audit Committees* best practice guidance by including a minimum of three members, at least one with expertise in governmental accounting principles, internal controls, and audit committee functions, and at least one public member independent of County management.

Response: The recommendation will not be implemented. The consolidated oversight of internal and external audits by the Finance Committee will include the committee members, Auditor-Controller, County Finance Director, and auditors from an independent, external auditing firm, collectively ensuring expertise in governmental accounting principles, internal controls, and audit committee functions.

R11. By April 1, 2027, the Board of Supervisors should consider reviewing and approving the IAD's Audit Charter, consistent with IIA Standard 6.2, which requires that the governing body approve the internal audit charter and conduct periodic reviews to ensure it remains current.

Response: The recommendation will be implemented.

R15. By January 1, 2027, the Board of Supervisors should consider requiring that all audit plans presented for its approval include a summary of the risk assessment methodology, key risks identified, and the rationale used to prioritize audit engagements, consistent with IIA Standards 9.3 and 9.4 and GAGAS §§8.03-8.07.

Response: The recommendation will be implemented.

R16. By January 1, 2027, the Board of Supervisors should consider requiring the IAD to document the linkage between identified risks and the audit engagements included in the annual audit plan, including justification for inclusion or exclusion of high-risk areas.

Response: The recommendation will be implemented.

R18. By December 1, 2026, the Board of Supervisors should consider directing the Auditor-Controller to submit the IAD's annual risk-based audit plan for Board approval before the fiscal year to which the plan applies begins.

Response: The recommendation will be implemented.