



INTERNAL AUDIT DEPARTMENT

Audit No. 2591

February 2, 2026

To: Chair Doug Chaffee, Supervisor, 4th District
 Vice Chair Katrina Foley, Supervisor, 5th District
 Supervisor Janet Nguyen, 1st District
 Supervisor Vicente Sarmiento, 2nd District
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Subject: Macias, Gini & O'Connell Independent Risk Assessment and Recommendations for Fiscal Years 2025-26 and 2026-27 Audit Plans

On June 24, 2025, the Board of Supervisors (Board) directed the Internal Audit Department (IAD) to contract with a reputable Certified Public Accounting firm to conduct an independent risk assessment for use in addressing high-risk areas across the County by incorporating related audits in the Fiscal Year (FY) 2025-26 and 2026-27 Audit Plans. We contracted with Macias, Gini & O'Connell (MGO) LLP to conduct the risk assessment.

We agree with MGO's risk assessment results and recommendations, and will be requesting approval of MGO's risk assessment and recommendations for the FY 2025-26 and 2026-27 Audit Plans at the February 5, 2026 Audit Oversight Committee (AOC) meeting, and the March 24, 2026 Board meeting. The following is a summary of MGO's results.

Risk Assessment and Recommendations

MGO's risk assessment included interviews with Board members, AOC members, County executive management, and elected officials; a survey of 349 County managers; a review of County operations and finances; a review of key County documents (e.g., the County budgets and the Annual Comprehensive Financial Reports); and an assessment of other similar local government internal audit plans. MGO's risk assessment results identified Financial Risk, Human Capital Risk, Technology Risk, and Compliance Risk as the four highest risk areas, and generally agreed with all of the high-risk audits we identified in our current FY 2025-26 Audit Plan. MGO also recommended approximately 40 high-risk audits for the FY 2026-27 Audit Plan and beyond (Audit Horizon), as audit resource capacity allows.

FY 2025-26 Audit Plan

MGO indicated our FY 2025-26 Audit Plan covers many of the critical risk areas from their risk assessment, including purchasing and contracts, human resources management, data governance, artificial intelligence, and Information Technology (IT) security. As a result, the FY 2025-26 Audit Plan largely remains unchanged. MGO's recommendations include:

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- Deferring two audits (Clerk of the Board Cybersecurity and Registrar of Voter Limited Validation of Concerns Regarding Elections) to future years.
- Expanding the scope of the existing Orange County Information Technology (OCIT) Adoption and Use of Artificial Intelligence (AI) Audit to include a more comprehensive review of unmanaged assets, including shadow IT systems.
- Including a comprehensive IT Governance and Compliance Validation Audit to identify OCIT's service coverage across departments, evaluate gaps/duplication, and review the effectiveness of policy adherence, alignment, and monitoring across the County. IAD is aware of the gaps in OCIT's service coverage across County departments and will expand cybersecurity audits to review governance at these departments.

FY 2026-27 Audit Plan

MGO recommended approximately 17 audits for our FY 2026-27 Audit Plan that are specifically designed to address the high-risk areas identified in their risk assessment (see Table 1). This includes four audits we included in the FY 2025-26 Audit Plan that were classified as Time-Permitting audits, which we would conduct if resources became available. While MGO identified many other high-risk audits, as discussed further in the Additional High-Risk Audits section below, the audits MGO recommended for the FY 2026-27 Audit Plan are based on our current staffing and funding.

Table 1 - FY 2026-27 Recommended Audits

Department	Audit	Scope
Various	Cycle Audits	<p>This topic is to ensure coverage of regular audits of core business cycles including finance, accounting, human resources, and information technology on a periodic basis with internal procedures, fraud risks, and opportunities for improved effectiveness.</p> <p>Objectives will be to conduct audits of up to three regular financial cycles to determine compliance with internal procedures, fraud risks, and opportunities for improved effectiveness. Examples include:</p> <ul style="list-style-type: none"> • Revenue & Accounts Receivable • Procurement to Pay • Hire to Retire • Financial Reporting • Cash & Treasury Management • Inventory & Asset Management • Budgeting & Forecasting • Information Technology General Controls
Various	Performance Audits	Conduct performance audits to support the transition of a new executive leader or elected official focused on evaluating whether programs are operating efficiently, effectively, and in alignment with stated goals, while identifying performance gaps, outdated processes, and opportunities for improvement. By concentrating on high-impact areas performance audits equip new leaders with clear, evidence-based insights that inform early decision-making
A-C	Central Payroll (IAD Planned Audit)	To assess the accuracy and completeness of payroll records and the required compliance with employment and tax law. (Listed in the 2025-2026 Audit Plan to be done if capacity allows.)
CEO	County Budget Practices (IAD Planned Audit)	To evaluate County budget practices to ensure financial accuracy, compliance, and efficiency. (Listed in the 2025-2026 Audit Plan to be done if capacity allows.)
Countywide	Human Resources and Personnel Practices (IAD Planned Audit)	To assess whether hiring and personnel practices ensure effectiveness, compliance, fairness, and alignment with organizational goals. (Listed in the 2025-2026 Audit Plan to be done if capacity allows.)
Countywide	Fiscal Sustainability	Evaluate County policymakers and executives' processes and mechanisms, such as benchmarking against other governments, for ensuring the County's fiscal health and identifying areas for improvement.
CEO	Risk Management	To assess the adequacy of processes to reduce liability for the County and to determine whether the Office could provide additional value through a broader risk management role. Specific areas could include the opportunities to reduce exposure to natural disaster liabilities.
Sheriff	Overtime	Evaluate the use of overtime in the Sheriff's office. Potential areas of assessment include adherence to existing overtime policy, adequacy of existing overtime policy; equity is allocation of overtime; and use of overtime compared to staffing increases.
SSA	Program Eligibility	Evaluate the internal controls over ensuring eligibility for services provided by the Social Services Agency.
OCIT	Cloud and Third-Party Vendor Risks (IAD Planned Audit)	Evaluate cloud governance and security baselines as OCIT migrates towards more cloud adoption; Review resilience, continuity, and dependency risks in the supply chain and validate compensating controls for vendor-constrained systems.
Assessor	Cybersecurity (IAD Planned Audit)	To assess cybersecurity controls to ensure sensitive data is restricted, vulnerabilities and system changes are managed, and compliance with best practices. (Listed in the 2025-2026 Audit Plan to be done if capacity allows.)
HCA	Cybersecurity	To assess cybersecurity controls to ensure sensitive data is restricted, vulnerabilities and system changes are managed, and compliance with best practices.
Countywide	Data Governance and Information Management	Review maturity of OC's data governance framework and readiness for agencies outside of coverage by OCIT; Assess risks arising from data silos and decentralized security; Evaluate data protection controls and information lifecycle management practices.
A-C	ERP System Advisory	Serve on the project steering committee in an advisory capacity. Assist in identifying and tracking project related risks and considerations from the perspective of IAD.
CEO	Construction Audit	<p>Identification of capital costs or construction projects to test. Audit objectives and testing may include:</p> <ul style="list-style-type: none"> • Project risk assessment • Capital program oversight and controls • Project Management effectiveness and efficiencies • Invoice cost testing for accuracy and allowability • Compliance with Contract Terms and State and Federal Laws (e.g., Procurement, Prevailing Wages, BABA, Suspension and Debarment).

Additional High-Risk Audits (Audit Horizon)

As previously mentioned, not all high-risk audits that MGO identified could be incorporated into the FY 2026-27 Audit Plan due to our current staffing and funding. This includes 24 audits, including five separate cybersecurity audits, in the highest risk areas of their risk assessment (see Table 2). MGO recommends for us to consider these audits for future years, or sooner if capacity becomes available.

Table 2 – Additional High-Risk Audits

Department	Audit Topic	Preliminary Objective
JWA	Airport Fees	To assess the processes and controls County management has in place to regularly evaluate the adequacy of fees generated by Jon Wayne Airport to the long-term health of the Airport enterprise fund.
Various	Asset Management	Assess and test inventory management practices, particularly in areas where other audit work has not focused on a specific asset class, department, or function, etc.
OCPW	Building and Safety	Evaluate the efficiency and effectiveness of Orange County's building and safety inspections and code enforcement.
CEO	Capital Projects Oversight	Evaluate County management's monitoring of high-risk capital programs and projects and communicating concerns.
Various	Cash Handling	Evaluate the effectiveness of internal controls over cash handling. Area of focus would include but not be limited to SSA and airport parking lots. (SSA cash handling is a current time-permitting audit)
JWA, A-C, COB, SSA, Probation	Cybersecurity	To assess cybersecurity controls to ensure sensitive data is restricted, vulnerabilities and system changes are managed, and compliance with best practices.
CEO	Economic Development & Public Private Partnerships	To assess the performance of economic development initiatives potentially including recent developments and public private partnership to determine if the programs are meeting the intended purpose.
Various	Grants Management	To assess the effectiveness of grants management County-wide, including internal controls over grant managers, training for grant managers, and an assessment of the process for identifying additional grant funds for County use.
HCA	Claim Reimbursement	To assess whether internal controls ensure accuracy, compliance, and integrity in the Health Care Agency claims process.
CEO	Human Capital Strategic Planning	To assess the County's planning process for recruitment, retention, success planning, performance management, collective bargaining, and other human capital risks.
A-C	Inventory Management	To assess internal controls over inventory, especially capital inventory, identify opportunities for costs savings, and determine whether the inventory management system is adequate.
CEO	Investment Management	To assess the County's investment management for compliance with state laws, County policies, and industry best practices.
OCSD	Jail Operations	Evaluate the Sheriff's jail operations including compliance with internal policies, staffing, use of recognized best practices, and inmate and staff safety.
OCSD	OC Crime Lab	Determine whether Orange County Crime Lab is effective and efficient in providing public agencies in Orange County with services for the recognition, collection, preservation, and evaluation of physical evidence from crime scenes.
OCPW	Permitting Services	Evaluate the efficiency, effectiveness, and equity of Orange County's permitting processes and systems.
Probation	Juvenile Operations	To assess the internal controls over Juvenile Operations and the effectiveness of recruitment and retention programs for County staff.
ROV	Limited Validation of Citizen's Concerns Regarding Elections	To perform a limited validation of the accuracy of the Registrar of Voters' elections data, based on County citizen's concerns.
Countywide	Regulatory Impacts	Evaluate whether County processes and controls are in place to regularly assess the impacts of regulatory changes at the state and federal level on staffing, costs, and work culture.
SSA	Abuse Reporting	To assess the internal controls over Abuse Reporting and the effectiveness of recruitment and retention programs for County staff.
OCWR	Waste and Recycling Fees	To assess the processes and controls County management has in place to regularly evaluate the adequacy of fees generated by Waste and Recycling to the long-term health of the Waste and Recycling enterprise fund.

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In closing, we appreciate MGO's detailed risk assessment evaluation and recommendations. If you have any questions regarding the risk assessment, please contact me at (714) 834-5442 or Deputy Director Jose Olivo at (714) 834-5509.

Attachment

Independent Risk Assessment and
Recommendations for Audit Plans
for FY 2025-2026 and 2026-2027.

FOR THE

County of Orange



January 30, 2026

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INDEPENDENT RISK ASSESSMENT

INDEPENDENT RISK ASSESSMENT

INTRODUCTION

The County of Orange (County) engaged with Macias Gini & O’Connell (MGO) LLP to conduct an independent risk assessment of County operations. The purpose of conducting an independent risk assessment is to modify the County of Orange Internal Audit Department’s (IAD’s) Fiscal Year (FY) 2025-2026 Audit Plan to incorporate audits of high-risk areas identified in the independent risk assessment, and to develop IAD’s FY 2026-2027 Audit Plan.

Risk assessment is one of the five foundational components of the Committee of Sponsoring Organization’s (COSO’s) framework to establish internal controls.¹ While an organization’s management is responsible for developing and implementing an organization’s system of internal controls, the organization’s audit function supports internal controls by conducting independent assessments of risk and independent testing of internal controls. Conducting independent risk assessments and internal controls testing are key features of audit standards contained in both the Government Auditing Standards (GAS) and the International Professional Practices Framework (IPPF).² In California, local government audit organizations are required by Section 1236 of the California Government Code to conduct audits in compliance with either the GAS or the IPPF. The Internal Audit Department (IAD) for the County follows the IPPF.³

Risk Assessment Overview

MGO conducted its independent risk assessment during the period October-December 2025. The risk assessment included interviews with senior County management, elected officials, and Audit Oversight Committee members; a survey of 349 members of County management; a review of County operations and finances; a review of key County documents (e.g., the County budgets and the Annual Comprehensive Financial Reports); and an assessment of other similar local government internal audit plans.⁴

The result of the risk assessment validated numerous audits listed in the 2025-2026 Audit Plan and identified some audit topics that MGO recommends adding to the 2025-2026 Audit Plan. In addition, we recommend several audits for IAD’s 2026-2027 Audit Plan that are specifically designed to address the key risk areas that we identified during the risk assessment. MGO has also included in this report an *Audit Horizon*. An Audit Horizon is used by other government audit organizations to identify

¹ See www.coso.org for more information about the Internal Control – Integrated Framework.

² The Government Accountability Office, led by the United States Comptroller General, issues the GAS and the Institute for Internal Auditors issues the IPPF.

³ See <https://iad.oc.gov/about-us/mandates-and-standards>.

⁴ MGO used its experience with local government audit shops to identify seven local government audit organizations that represent leading practices in local government auditing. MGO focused on organizations in California and the western United States, and emphasized the inclusion of County governments. These seven are: 1) Los Angeles County; 2) the City and County of San Francisco; 3) the City of San Diego; 4) the City of Portland (OR); 5) Multnomah County (OR); 6) King County (WA), and 7) the City and County of Denver (CO).

INDEPENDENT RISK ASSESSMENT

additional high-risk areas for audit in future years or sooner, if capacity becomes available during the 2026-2027 Audit Plan period.

Risk Framework

Each of the interviews and surveys were framed to discuss eight broad categories of risks common to local governments, as shown in Table 1 below. These risk categories are common areas of general concern within local government organizations, based on the experience and analysis of the MGO risk assessment team.

The purpose of using the broad risk categories is to recognize that each department and function exists within many, if not all, of these categories. For example, the County's Human Resources (HR) Department must use a human resources information system to manage the various aspects of human resources. Whether this system is operating effectively and safely is a Technology Risk. In addition, the HR Department must comply with various local, state, and federal requirements (Compliance Risk), and employee salaries are a constant pressure on the County's finance (Financial Risk).

Table 1: Broad Risk Categories and Examples of Risks Within Each

Risk Category	Example Risk Considerations
Financial Risks	<ul style="list-style-type: none"> • Accounting • Asset management • Budgeting • Capital program and projects • Changes in state and federal funding levels • Contracting (Purchasing) • Contracting (Oversight and monitoring) • Economic development • Employee costs (salaries, benefits, and pensions) • Federal and State grant compliance • Financial reporting • Fiscal sustainability • Fleet management • Legal liabilities and claims • Payroll • Revenue
Human Capital Risks	<ul style="list-style-type: none"> • Benefits administration • Compensation • Employee safety • HR Compliance • Leadership development • Management training • Organizational culture

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Risk Category	Example Risk Considerations
	<ul style="list-style-type: none"> • Performance management • Recruitment • Retention • Retirement obligations • Staffing and workforce planning • Succession planning
Information Technology (IT) Risks	<ul style="list-style-type: none"> • Application controls • Back-up and recovery • Change management • Cybersecurity • Data privacy • IT governance • IT project management • Social media account management • System access • Technology effectiveness • Third party risk management
Resident Service Risks	<ul style="list-style-type: none"> • Connection of public need to services and investment • Customer service orientation • Effective and efficient delivery of services • Law Enforcement • Building Safety regulation • Public Communications • Service delivery models • Transparency
Emergency Management Risks	<ul style="list-style-type: none"> • Business continuity • Effective disaster response Emergency preparedness and planning • Leadership and governance • Communication and coordination • Infrastructure (facilities, technology, etc.) • Long term recovery • Proactive disaster avoidance planning
Compliance Risks	<ul style="list-style-type: none"> • Changes and additions to state laws affecting counties • Compliance with internal processes • Compliance with federal and state health care regulations • Compliance with federal and state regulations regarding social services

INDEPENDENT RISK ASSESSMENT

Risk Category	Example Risk Considerations
	<ul style="list-style-type: none"> • Compliance with accounting standards • Changes in state and federal funding requirements • Equal employment opportunity compliance • Federal and state grant compliance • Procurement compliance • Wage and labor law compliance
Strategic Risks	<ul style="list-style-type: none"> • Adequacy of risk management • Aging populations increasing demand for health and human services • Aging infrastructure and deferred maintenance • Affordability of basic necessities, including housing • Effectiveness of the strategic plan • Inadequate measurement of outcomes and results • Impacts of automation and remote work on the citizenry and tax base • Potential for increases in the
Fraud Risks	<ul style="list-style-type: none"> • Asset misuse • Ethical tone for the organization • Hotline reporting and management • Internal control effectiveness • Purchase card misuse • Procurement and contracting • Timekeeping • Violations of ethics laws or disclosure requirements • Waste and abuse

Overview of the Report

This report is divided into four sections. The first section is the risk assessment survey results, which discusses the risk assessment survey process and findings. The second section is the risk assessment interview results. The third section reviews the impact of the risk assessment on the 2025-2026 Audit Plan, including MGO's recommendations for changes to the Plan, as well as MGO's recommendations for the full 2026-2027 Audit Plan. The fourth section presents MGO's recommended Audit Horizon, containing a list of value-added audit topics to inform discussions about the FY 2026-2027 Audit Plan or future Audit Plans. Finally, we have appendices to share information about the survey questions and a reconciliation of the changes we recommend to the 2025-2026 Audit Plan.

RISK ASSESSMENT SURVEY RESULTS

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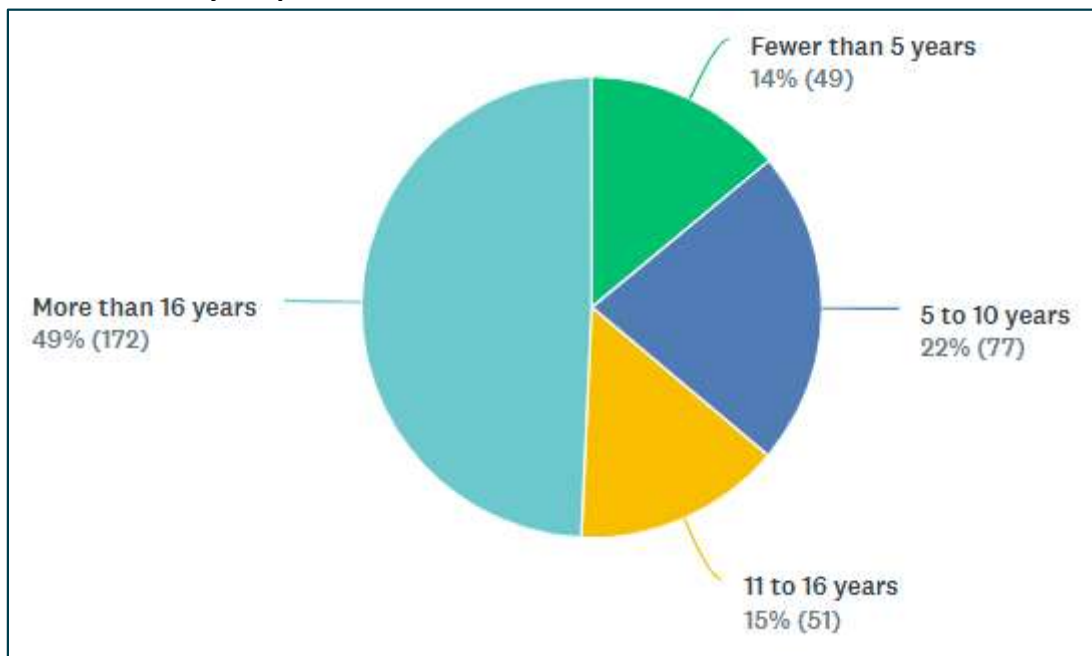
RISK ASSESSMENT SURVEY RESULTS

Risk Assessment Survey

In November 2025, MGO contacted 1,418 County staff members to participate in a risk assessment survey that complemented the risk interviews. In addition to all the individuals interviewed, MGO surveyed County management and staff who are at the “Manager” level or above in the County Human Resources system. Of the survey recipients, 349 responded to the survey for a response rate of 24.6%. The survey used a Survey Monkey platform specific to MGO, to allow for responses to be received and analyzed outside the County IT system. MGO provided survey recipients with anonymity to encourage unfiltered feedback. The questions asked within the survey are included within Appendix A.

Of the 349 participants, nearly half (49%) had been employed with the County for more than 16 years. The chart below summarizes tenure of survey participants with the County.

Chart 1: Tenure of Survey Respondents



The survey asked recipients to provide feedback in the following areas:

1. Ratings of risk areas specific to their departments, and examples of high-risk areas
2. Ratings of risk areas for the County overall
3. Suggestion of areas for auditing

RISK ASSESSMENT SURVEY RESULTS

Overview of Survey Results

Risk Ratings within Respondents' Departments

MGO combined the ratings for representatives of each of the departments to preserve anonymity. Survey respondents self-reported their departments, which combined into thirty-three (33) distinct departments. The respondents ranked financial risks as the highest risk for their departments. Other risk areas identified as high-risk were human capital risk, compliance risk, and technology risk.

The following table summarizes ranking of risk category in consideration of conditions within respondents' departments.

Table 2: Rating of Risk by Respondents' within their Department

Risk Ranking	Risk Category	Risk Level	Average Rank Across All Departments
1	Financial Risk	High	2.24
2	Human Capital Risk	High	2.27
3	Compliance Risk	High	3.36
4	Technology Risk	High	3.91
5	Strategic Risk	Medium	5.64
6	Resident Service Risk	Medium	5.82
7	Emergency Management Risk	Low	6.06
8	Fraud Risk	Low	6.70

Common reasons cited for the four risks identified as high-risk were:

- **Financial Risk**—Funding risk and budget constraints disrupt operations and staffing, and effect programs' capability to deliver critical services.
- **Human Capital Risk**—Competitiveness of compensation, workforce shortages, difficulty in recruitment and retention. Many employees are ready for retirement, creating a risk of knowledge loss. A hiring freeze is also not allowing the County to replace those employees.
- **Compliance Risk**—Compliance with federal, state, and local laws and complexity of changing regulations. Noncompliance creates the possibility of legal liability and financial penalties.
- **Technology Risk**—There has been a limitation on technology applications and the County needs modernization to decrease vulnerability to cyberattacks.

Based on the risk ranking and the feedback, MGO saw a clear gap between the Technology Risk area (ranked 4th) and Strategic Risk area (ranked 5th), which indicated that the consensus among the survey respondents was that this was the dividing line between high-risk areas and medium risk. MGO determined that the survey respondents viewed Emergency Management Risk and Fraud Risk as low risk based on the comments highlighting concern about these areas. Specifically, these two areas elicited few comments from respondents.

RISK ASSESSMENT SURVEY RESULTS

Risk Ratings for the County Overall

Survey respondents were asked which of the eight risk areas they considered to be high risk to the County overall, not just specific to their department. The following table summarizes responses with regards to risk to the County overall.

Table 3: Respondent's Rating of Risk within County Overall

Risk Ranking for County Overall	Risk Category	Considered Risk Category as "High Risk to the County Overall"	Risk Ranking for the Department
1	Financial Risk	266/349 (76.2%)	1
2	Human Capital Risk	201/349 (57.6%)	2
3	Technology Risk	159/349 (42.7%)	4
4	Compliance Risk	115/349 (33.0%)	3
5	Fraud Risk	104/349 (29.8%)	8
6	Strategic Risk	74/349 (21.2%)	5
7	Emergency Management Risk	71/349 (20.3%)	7
8	Resident Service Risk	58/349 (16.6%)	6

This table shows both similarities and differences in how the survey respondents viewed the risk areas in their department versus the risk areas for the County overall.

- Similarities** – Survey respondents viewed the Financial Risk area and the Human Capital Risk as the highest and second-highest risk areas for both their departments (on average) and for the County as a whole. There was a clear gap between the Human Capital Risk area for the County as a whole and the third-highest risk area in both the department-specific results and the overall results.
- Differences** – The biggest difference in the department-specific results and the overall results was the respondents' view that Fraud Risk was the fifth-highest risk area for the County overall but the lowest risk area on average for the departments. A more moderate difference was fact that the respondents viewed are Technology Risk area as clearly third highest for the County overall, where they saw the Technology Risk area as clearly behind Compliance Risk as the fourth-highest department specific area.

RISK ASSESSMENT SURVEY RESULTS

Survey Respondent Suggestions for Internal Audit Engagements

MGO also asked for respondents to provide suggestions for areas to audit, as an alternative way to elicit areas of concern from survey respondents. The areas that were most often mentioned are shown in the following table. MGO has included risk areas that these concerns appear best to fit.

Table 4: Summary of Respondents' Suggested Audit Areas

Potentially Auditable Area	Risk Areas
Procurement and Contracting	Financial, Compliance, Fraud
Restricted Funds	Financial
Cancelled Encumbrances	Financial
Treasurer Function	Financial, Human Capital
Health Care Agency	Financial, Human Capital
Special Events (Board)	Compliance, Fraud
Fairness in Hiring and Promotions (e.g., Nepotism)	Human Capital, Compliance, Fraud



RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

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Risk Assessment Interviews

MGO conducted 36 interviews with senior leaders in the County, including County Board members, other County elected officials, members of the County Executive's Office, department directors, and members of the Audit Oversight Committee. For each of the interviews, MGO used the broad risk categories provided above in Table 1 to review the potential risks.

MGO divided interviews into two categories, IT related and non-IT related risks. The purpose of this approach was to allow MGO's IT and cybersecurity experts to conduct in-depth technical discussions with senior members of the County's Information Technology Department (OCIT). MGO simultaneously conducted discussions with the County leaders outside OCIT to address their perspectives on the eight risk areas discussed in the survey section above.

These interviews occurred over a six-week period ranging from October to December 2025. In most cases, the interviews took place prior to the interviewee responding to the survey. MGO did not specifically ask interviewees how they responded to the survey, but in the few cases an interviewee proactively referenced their survey response.

Non-IT Risk Considerations

The following table provides common non-IT risk observations from the interviewees. Not all the responses are included here, but the areas that interviewees: 1) identified as important, and 2) recurred across interviews are shown in the table below.

Table 5: Summary of Key and Recurring Risks Identified through Interviews

Risk Area	Example Observations
Financial	<ul style="list-style-type: none"> Fiscal sustainability Long-term fiscal pressures (e.g., rising employee costs), Limited ability to raise taxes Unfunded mandates Unexpected liabilities (e.g., Airport Fire)
Regulatory Compliance	<ul style="list-style-type: none"> State and federal regulations are creating unfunded mandates Additional costs for staffing to implement the mandates and can impact the cost of services.
Human Capital	<ul style="list-style-type: none"> Effectiveness in recruiting and retention Succession planning for future retirements Next generation leadership development The need for a human capital strategic plan
Ethical Culture	<ul style="list-style-type: none"> Numerous interviewees and survey respondents identified the County's ethical culture as a risk area.

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Risk Area	Example Observations
	<ul style="list-style-type: none"> The recent experience with a Board member indicted and convicted of accepting bribes to steer County contracts was cited across interviews.
Procurement and Contracting	<ul style="list-style-type: none"> The procurement process, including efficiency and effectiveness. The cost of procurements. The effectiveness of contract management.
Strategic	<ul style="list-style-type: none"> The lack of a formal enterprise-wide risk management process. The need to ensure solid plans are in place across departments for business continuity in case of a disaster.
Technology and Cybersecurity	<ul style="list-style-type: none"> Numerous individuals across departments raised concerns about cybersecurity vulnerabilities. Concerns were raised about the antiquated nature of some financial technologies.

Information Technology Risk Considerations

MGO recognizes that information technology is a significant over-arching risk area in any modern organization and wanted to understand more detail about these risks. As a result, these interviews delved into the Technology Risk area in greater detail.

MGO identified key risks within information technology with respect to data governance, existing IT systems, and the use of artificial intelligence (AI). The following table summarizes these key IT-specific risks.

Table 6: Summary of Key IT Risks Identified through Interviews

Risks	MGO Observations
Shadow IT and Unmanaged Endpoint Exposure	The County may be unable to adequately protect its technology environment due to “shadow IT” (IT systems that are being used outside the centralized IT oversight structure) and a large number of unmanaged endpoints outside the purview of the centralized OCIT function.
Siloed Data Security and Complex Data Governance	The County’s overall data protection posture may be weakened by fragmented ownership of datasets, with security responsibilities distributed across multiple teams and agencies based on regulatory guidance.
Legacy Systems and Upgrade Constraints	The County may face heightened security and operational risks due to legacy systems that cannot be upgraded or patched because of third-party constraints or technical limitations.

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Risks	MGO Observations
Unmonitored AI Usage	The County may be exposed to data leakage and compliance risks due to the absence of monitoring for AI tool usage, including Microsoft Copilot and other web-based AI tools.
Inconsistent AI Adoption and Hidden AI Features in Software	The County agencies may face inconsistent risk management and potential exposure to AI-related threats due to differing opinions on AI usage across departments and limited awareness of AI components embedded within third-party tools.
General Cybersecurity	The County's IT leadership shared the broader concern with monitoring and mitigating cybersecurity vulnerabilities.

Summary of Overall Risk Analysis

Based on the survey responses, both department-specific and Countywide, the in-depth risk interviews, and MGO's professional assessment of the information developed, MGO developed a risk score for each of the eight categories. As shown below, we determined that four of the eight risk areas to be high risk, with the Financial Risk area as the highest risk across each of the measurement areas. Two areas, Strategic Risk and Fraud Risk, were in the lower portion of the medium risk range. The two remaining risk areas were in the low-risk range.

Table 7: Overall Risk Rating by Risk Category

Risk Category	Survey Average Ranking Dept. Specific	Survey Average Ranking County Wide	MGO Ranking of Interview Risk	MGO's Ranking of Risk	Overall Risk Score	Risk Level
Financial Risk	1	1	1	1	1	High
Human Capital Risk	2	2	4	3	2.35	High
Technology Risk	4	3	2	2	3.3	High
Compliance Risk	3	4	3	5	3.4	High
Strategic Risk	5	6	6	6	5.5	Medium
Fraud Risk	8	5	5	4	6.4	Medium
Resident Service Risk	6	8	8	7	6.95	Low
Emergency Mgmt. Risk	7	7	7	8	7.05	Low

Note: Overall scoring is as follows: (1-3.5 = High Risk; 3.5-6.5 = Medium Risk; 6.5-8 = Low Risk)

To determine the risk scoring, MGO assigned a weighting to each of the sets of feedback we received.

- We assigned the highest weighting, 50% of the overall risk score, to the survey average ranking for the respondents' department. This is because of the number of survey respondents and because asking the survey respondents about their own departments has the highest degree of reliability.

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

- We assigned the second highest weighting (25%) to the survey ranking for County overall, primarily because of the size of the survey and the fact that individuals at a managerial level with tenure at the County can reasonably be expected to have insight into risk across the County.
- We assigned the third highest weighting (15%) to the results of the individual interviews. This is because: 1) the interviewees represented only about 10% of survey respondents; 2) the ranking based on the interviewees was a qualitative effort by MGO, and; 3) the interviewees' scores were also reflected in the survey responses. However, because of the seniority of the interviewees and their diverse perspectives, their feedback was valuable and the weighting needed to reflect this.
- We added an MGO assessment, weighted at 10%, to reflect our analysis of County's current environment, our review of County documents, and our assessment of other similar local governments.

Risk Assessment Conclusions

Financial Risk is the top risk category and is a risk priority for the County. This indicates strong support for an Audit Plan to address audit topics that are central to the Financial Risk area, including long-term fiscal pressures (e.g., rising employee costs), unfunded mandates, and the ability to withstand unexpected liabilities, such as those created by the 2024 Airport Fire.

In addition, the risk assessment showed clearly that the Human Capital Risk area has high importance to the County leadership. Such human capital risks as recruiting new employees, retaining existing talent, planning for future losses through attrition and retirement, and effectively developing the next generation of County leaders are fundamental to the County's short-term and long-term success as an organization. Moreover, the Technology and Compliance Risk areas are multi-faceted, but include potential audit topics that affect numerous departments, such as cybersecurity, data governance, and need to adapt County operations to a changing and highly complicated regulatory environment.

It is worth restating the fact that each of these eight risk areas may be of greater or lesser importance within a department or function. However, all County functions will operate to some extent in the four risk areas MGO identified as the highest risk. So, almost any department would benefit from an assessment by the Internal Audit Department, if the audit objectives are focused on one or more risk areas that are high risk to the County.

The FY 2025-2026 Audit Plan issued by IAD in May 2025 correctly addressed many of these risk areas in the Audit Plan, including purchasing and contracts (Financial and Compliance Risks), human resources management (Human Capital and Compliance Risks), data governance, IT security, artificial intelligence and IT security (Technology and Compliance Risks). However, MGO also found that some of the proposed audits on the FY 2025-2026 Audit Plan can take a lower priority, either by being moved to the FY 2026-2027 Audit Plan or being moved to the Audit Horizon. The impacts of this risk assessment on the Audit Plan for 2025-2026 and for 2026-2027 are discussed in the following section.

AUDIT PLAN RECOMMENDATIONS

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

AUDIT PLAN RECOMMENDATIONS

Considerations in Developing an Internal Audit Plan

Taking risk assessment results and transforming them into an actionable audit plan is both an art and a science. While quantitative results drive the plan, there are various qualitative management considerations critical to determining which audits are appropriate for a specific audit plan in a specific year. The following are examples of considerations when developing an Audit Plan.

- **Coverage** – Audit plans should cover as many of the high-risk areas identified in the risk assessment as possible. Moreover, audit plans should endeavor to spread audit resources across many departments, so as not to overburden operations in a few departments and undermine these departments' effectiveness.
- **Available resources** – The capacity of the audit department is a critical ingredient in developing the audit plan. An audit department with a dozen employees or fewer, like IAD, may be challenged to provide audit coverage across the enterprise as large as the County. In addition, staff need to have the right skills set to address the high-risk areas identified. Highly technical audit areas, such as IT audits or construction audits, need to have specially trained team members.
- **Ripeness** – Not all high-risk audit topics are appropriate at any given time. As an example, it may be too early to audit a large-scale technology implementation while the implementation is still ongoing.
- **Prior Audits** – Related to the coverage issue above, conducting audits in a variety of areas within a 3–5-year period is important. If a department has not been audited in more than five years, that fact can serve to heighten the department's risk profile for the purpose of developing the audit plan.
- **Changes in Critical Areas** – One of the key considerations for any audit plan is ensuring consideration of areas where significant change is occurring. While change is a constant in an enterprise as large as the County, leadership changes often are a useful point to conduct as assessment of whether any course corrections in that department or function need to occur.

Based on information obtained through surveys and interviews, MGO has developed the Audit Plans in accordance with this risk-based methodology. The plan is designed to provide appropriate coverage of key risk areas, including, but not limited to, financial management, human capital, and information technology. Available IAD resources have been considered in developing the plan, and an estimated level of effort has been established for each proposed engagement. Audit engagements should be prioritized based on the assessed maturity and exposure of identified risks, as determined by the County, as well as the extent and recency of prior audit coverage.

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Capacity of the Audit Team

The IAD audit team is in a transition phase as it acclimates to the new roles that it has taken on in the past few years, including performance audits. According to IAD's 2025-2026 Audit Plan, issued in May 2025, the plan was based on eight auditors, two senior audit managers, and one assistant deputy director. There are also an internal audit director and a deputy director whose time is not included in the proposed hours of the plan.

As noted in the risk assessment section above, each of the County departments have functions that operate within the four high-risk areas (financial, technology, human capital, and compliance). To cover all these high-risk functions would require many more audits than the IAD currently has capacity to perform.

For the recommended 2025-2026 Plan, MGO used the current capacity to revise the original plan. However, as shown in the recommended 2026-2027 Audit Plan, MGO is recommending more hours than the current staff may have capacity to complete. This has important considerations for IAD leadership and the IAD oversight bodies, who will need to work closely with IAD to match the IAD's capacity with the audits to be initiated. Hiring additional staff, contracting for some of audits, or tightening the scope of engagements to help complete audits more quickly are all options to consider to address capacity.

Overview of the Audit Plan Sections

On the following pages, MGO provides our recommended 2025-2026 Audit Plan. Then, MGO provides the recommended 2026-2027 Audit Plan.

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Recommended 2025-2026 Audit Plan

The majority of the 2025-2026 Audit Plan remains unchanged from the original IAD Audit Plan issued in May 2025, since the majority of the fiscal year is now completed, the audits from the original plan generally addressed high-risk audit areas, and the staff capacity of IAD to handle a significant number of new audits is limited. Appendix B shows how the recommended Plan reconciles to the original IAD Plan. The original 2025-2026 Audit Plan was based on approximately 15,900 hours. We have retained that level of audit hour coverage in view of the current IAD staff size.

The original IAD used categories including “Internal Control Audits,” “Information Technology Audits,” “Performance Audits,” and “Advisory Engagements.” MGO used this terminology to help clarify the connection between the original Audit Plan and this recommended Audit Plan

Table 8: 2025-2026 Recommended Audit Plan

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
High Risk Audits			
Internal Control Audits			
HCA Claim Reimbursement	To assess whether internal controls ensure accuracy, compliance, and integrity in the claims process.	Financial and Compliance Risks	700
Treasurer-Tax Collector Wire Transfers	To assess the adequacy and effectiveness of internal controls, compliance with regulatory requirements, and the overall security of wire transfer processes.	Financial and Compliance Risks	300
Sheriff’s Department Purchasing & Contracts	To assess procurement and contract administration processes for compliance with the County policies to ensure contracts are properly authorized, supported, recorded, and appropriately monitored.	Financial, Compliance, and Fraud Risks	3,100
Social Services Agency Purchasing & Contracts			

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
Public Works Purchasing & Contracts Waste and Recycling Purchasing & Contracts (Carryovers from FY 2024-25)			
A-C Disbursements & Claims (Partial carryover from FY 2024-25)	To ensure disbursements and claims are processed accurately and in compliance with policy terms. County payments.	Financial and Compliance Risks	380
Board-Directed Forensic Audit of County Contracts (Contracted audits)	To conduct a forensic audit, including compliance with the Contract Policy Manual and all applicable procurement-related statutes, of contracts established between January 2019 and August 2024. This audit will include all contracts funded by ARPA, CARES Act, MHSA and all Human Services and Sole Source contracts funded by the General Fund within the CEO, HCA, OCCR and SSA.	Financial, Compliance, and Fraud Risks	150 ⁵
Information Technology Audits			
OCIT Data Governance (Partial carryover from FY 2024-25)	To assess whether the County's data management practices are effectively adhering to established data governance policies, ensuring data accuracy, consistency, security, and compliance with relevant regulations, thereby providing assurance regarding data	Technology Risks	380

⁵ For contracted audits, the hours reflect associated IAD staff time, which is primarily to oversee the contractor in its work.

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
	risk management and enabling informed business decisions based on reliable data.		
OCIT Remote Access Security (Carryover from FY 2024-25)	To assess the security measures in place for remote access systems, identifying potential vulnerabilities and risks associated with allowing users to access sensitive data and systems from outside the organization's network, thereby providing recommendations to strengthen security and mitigate those risks.	Technology Risks	650
OCIT Third-Party IT Security (Carryover from FY 2024-25)	To assess OCIT's oversight and monitoring of IT security controls for third-party vendors that directly assist with maintaining, managing, or supporting critical systems to ensure compliance with County IT security requirements.	Technology Risks	650
Sheriff's Department Cybersecurity Treasurer-Tax Collector Cybersecurity (Carryover from FY 2024-25)	To assess cybersecurity controls to ensure sensitive data is restricted, vulnerabilities and system changes are managed, and compliance with best practices.	Technology Risks	1,300
Technology Visibility and Emerging Risks (Shadow IT & AI)	An audit would help to determine the extent of unmanaged assets including shadow IT systems, applications, and services operating outside approved IT governance processes; identify risks related to data leakage, privacy, security, and compliance arising from shadow IT and unauthorized AI usage; and provide recommendations to strengthen governance, monitoring, and user awareness.	Technology, Human Capital, and Compliance Risk Areas	700

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
	Note: IAD already has an audit of OCIT Adoption and Use of Artificial Intelligence on the 2025-2026 Audit Plan. MGO recommends that this audit is broadened to include the scope and objectives shown above.		
IT Governance and Compliance Validation	Identify OCIT's service coverage across departments and evaluate gaps/duplication and review the effectiveness of policy adherence, alignment, and monitoring across the County.	Technology, Financial, and Compliance Risk Areas	700
Performance Audits			
County Treasury Performance Audit (Contracted Audit)	To evaluate the efficiency and effectiveness of County Treasury's operations and internal controls.	Financial and Compliance Risks	100
Mental Health Services Act (MHSA) Contractor Oversight and Performance Audit (Contracted Audit)	To assess whether County oversight ensures MHSA programs are meeting performance goals and delivering intended results as outlined in mission statements, policies, and/or contracts.	Financial and Compliance Risks	150
OCC Homelessness Services Contractor Oversight and Performance Audit (Contracted Audit)	To assess whether County oversight ensures Homelessness Care Services programs are meeting performance goals and delivering intended results as outlined in mission statements, policies, and/or contracts.	Financial and Compliance Risks	150
SAIC Contract Compliance and Performance Audit	To assess whether County oversight ensures programs/operations are meeting performance goals and delivering intended results as outlined in mission statements, policies, and/or contracts.	Financial and Compliance Risks	100

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
(Board Request; Contracted Audit)			
County Ethics Program (Carryover from FY 2024-25 Plan; Contracted Audit)	To evaluate the design, implementation, and effectiveness of the organization's ethics related objectives, programs, and activities.	Financial, Compliance, and Fraud Risks	100
Advisory Engagements			
ERP Governance and Risk Management Advisory	To provide advisory services to the Auditor-Controller on ERP System governance, risk management, and control processes.	Financial and Compliance Risks	250
Total New Audits and Advisory Engagements			9,860
Other Direct Audit Activities			
Follow-up audits	Implementation of past audits findings and recommendations	Risk areas vary by findings and recommendation	1500
Total Other Direct Audit Activities			1,500
Administrative Activities and Contingency Hours			
Board-Requested Audits	TBD	Should be focused on Financial, Compliance, Technology, or Human Capital Risks	800
Other Administrative Activities	Includes FY 2027-2028 risk assessment and general administration of the IAD.	N/A	2150
Contingency Reserve	Available to account for unexpected updates to audit objectives or the need for additional audit work on existing audits.	TBD	1,600

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
Total Administrative Activities and Contingency Hours			4,550
Total 2025-2026 Audit Plan Hours			15,910

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Recommended 2026-2027 Audit Plan

Within the recommended 2026-2027 Audit Plan, MGO began with the five audits from the 2025-2026 Audit Plan that were to be done only if time permitted. We saw that these audits aligned with independent risk assessment results. We also added new audits identified through the risk surveys and interviews, and audit plans from other audit organizations.

We estimated approximately 21,000 hours for the audit plan, which is about 5,000 hours higher than the IAD capacity for the 2025-2026 Plan. This reflects two important considerations:

1. The 2025-2026 Plan anticipated some audits to be contracted out and only included the hours IAD staff would use to oversee these contracted audits. MGO instead provides an estimate of what we believe to be the likely hours needed to complete any of the audits by either internal staff or contractors.
2. MGO believes that it is important to follow the risk assessment findings and identify a wide variety of high-risk audit areas to highlight the need to address capacity in a way that best matches the needs of the County. MGO takes no position on whether any particular audits should be contracted out, retained in-house, or scoped down, only that these specific audits are audits of high-risk, high-value areas that are worth conducting in the upcoming fiscal year.

We recommend twelve new audit areas to go along with the five time-permitting audits from the 2025-2026 Audit Plan. We estimate these to take approximately 11,000 hours. We also recognize that given the time when this report is being issued, some of the 2025-2026 Audit Plan topics will have begun in 2025-2026 but likely need to be completed in 2026-2027. This is normal for a local government audit organization, and we have accounted for that likelihood. We anticipated that approximately 3,200 hours in 2026-2027 would go to carryover audits. We also recognize the importance of other essential IAD activities, including conducting follow-up audits and leading consulting activities, which MGO estimates at 2,300 hours.

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Table 9: 2026-2027 Recommended Audit Plan

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
Carryover Engagements from FY 2025-2026			
Various	Objectives will vary based on which audits are to be completed in FY 2026-2027.	Various	3,200
Total Carry Over Hours			3,200
Risk Assessment & Audit Planning			
Internal Audit Risk Assessment	Conduct an internal audit risk assessment to recommend the FY26-FY27 Audit Plan	Various	500
Fraud Risk Assessment	Conduct a County-wide fraud risk assessment to evaluate exposure to fraud by identifying potential fraud schemes, assessing their likelihood and impact, and identifying key areas that warrant evaluation of internal controls and/or compliance testing.	Fraud, Financial, Compliance, and Technology Risks	700
Federal & Grant Compliance Risk Assessment	Evaluate grants and grant management functions across the County to understand the programs, programmatic use of grant funds, and monitoring and/or auditing of grant spending. The result of the engagement is intended to identify opportunities to improve monitoring use of federal funds.	Financial, Compliance, and Fraud Risks	500
Total Risk Assessment Engagements			1,700
Cycle Audits			
Cycle Audits	This topic is to ensure coverage of regular audits of core business cycles including finance, accounting, human resources, and information technology on a periodic basis.	Financial, Compliance, and Fraud Risks	1,200

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
	<p>Objectives will be to conduct audits of up to three regular financial cycles to determine compliance with internal procedures, fraud risks, and opportunities for improved effectiveness. Examples include:</p> <ul style="list-style-type: none"> • Revenue & Accounts Receivable • Procurement to Pay • Hire to Retire • Financial Reporting • Cash & Treasury Management • Inventory & Asset Management • Budgeting & Forecasting • Information Technology General Controls 		
Total Cycle Audits			1,200
Performance Audits			
Performance Audit Program	<p>Conduct performance audits to support the transition of a new executive leader or elected official focused on evaluating whether programs are operating efficiently, effectively, and in alignment with stated goals, while identifying performance gaps, outdated processes, and opportunities for improvement. By concentrating on high-impact areas performance audits equip new leaders with clear, evidence-based insights that inform early decision-making.</p>	Various	800
Total Performance Audit Engagements			800
Internal Audit Engagements			
A-C Central Payroll	<p>To assess the accuracy and completeness of payroll records and the required compliance with employment and tax law. (Listed in the 2025-2026 Audit Plan to be done if capacity allows.)</p>	Financial and Compliance Risks	400

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
County Budget Practices	To evaluate County budget practices to ensure financial accuracy, compliance, and efficiency. (Listed in the 2025-2026 Audit Plan to be done if capacity allows.)	Financial and Compliance Risks	600
Countywide Human Resources Hiring and Personnel Practices	To assess whether hiring and personnel practices ensure effectiveness, compliance, fairness, and alignment with organizational goals. (Listed in the 2025-2026 Audit Plan to be done if capacity allows.)	Financial, Compliance, and Human Capital Risks	600
Fiscal Sustainability	Evaluate County policymakers and executives' processes and mechanisms, such as benchmarking against other governments, for ensuring the County's fiscal health and identifying areas for improvement.	Financial Risk	700
Risk Management Office	To assess the adequacy of processes to reduce liability for the County and to determine whether the Office could provide additional value through a broader risk management role. Specific areas could include the opportunities to reduce exposure to natural disaster liabilities.	Financial, Compliance, Emergency Management, and Strategic Risks	500
Sheriff's Office – Overtime	Evaluate the use of overtime in the Sheriff's office. Potential areas of assessment include adherence to existing overtime policy, adequacy of existing overtime policy; equity in allocation of overtime; and use of overtime compared to staffing increases.	Financial, Compliance, and Human Capital Risks	600
SSA Program Eligibility	Evaluate the internal controls over ensuring eligibility for services provided by the Social Services Agency.	Financial and Compliance Risks	600

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
Total Internal Audit Engagements			4,000
Information Technology Internal Audit Engagements			
Cloud and Third-party Vendor Risks	Evaluate cloud governance and security baselines as OCIT migrates towards more cloud adoption; Review resilience, continuity, and dependency risks in the supply chain and validate compensating controls for vendor-constrained systems.	Technology Risks	600
Cybersecurity – Assessor	To assess cybersecurity controls to ensure sensitive data is restricted, vulnerabilities and system changes are managed, and compliance with best practices. (Listed in the 2025-2026 Audit Plan to be done if capacity allows.)	Technology, Financial, and Human Capital Risks	600
Cybersecurity – Health Care Agency	To assess cybersecurity controls to ensure sensitive data is restricted, vulnerabilities and system changes are managed, and compliance with best practices.	Technology, Financial, and Human Capital Risks	600
Data Governance and Information Management	Review maturity of OC’s data governance framework and readiness for agencies outside of coverage by OCIT; Assess risks arising from data silos and decentralized security; Evaluate data protection controls and information lifecycle management practices.	Technology, Financial, and Human Capital Risks	600
ERP System Advisory	Serve on the project steering committee in an advisory capacity. Assist in identifying and tracking project related risks and considerations from the perspective of IAD.	Technology, Financial, Human Capital, Fraud Risks	250
Total Information Technology Internal Audit Engagements			2,650
Construction & Capital Program Audits			
Construction Audit	Identification of capital costs or construction projects to test. Audit objectives and testing may include:	Financial, Compliance, Fraud Risks	1,200

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
	<ul style="list-style-type: none"> Project risk assessment Capital program oversight and controls Project Management effectiveness and efficiencies Invoice cost testing for accuracy and allowability Compliance with Contract Terms and State and Federal Laws (e.g., Procurement, Prevailing Wages, BABA, Suspension and Debarment). 		
Total Construction & Capital Program Audits			1,200
Other Direct Audit Activities			
Follow-up audits	Implementation of past audits findings and recommendations.	Risk areas vary	2,000
Consulting Services	TBD	Should be focused on Financial, Compliance, Technology, or Human Capital Risks	300
Total Other Direct Audit Activities			2,300
Administrative Activities and Contingency Hours			
Board-Requested Audits	TBD	Financial, Compliance, Technology, or Human Capital Risks	700
Other Administrative Activities	General administration of the IAD	N/A	1,500
Contingency Reserve	Available to account for unexpected updates to audit objectives or the need for additional audit work on existing audits.	TBD	1,600
Total Administrative Activities and Contingency Hours			3,800
Total FY 2026-2027 Audit Plan Hours			20,850
Internal Audit Department Capacity for FY			16,100

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Engagement Topic	Preliminary Objectives	Risk Areas	Estimated Hours
Net Capacity Gap Estimation			-4,750

ADDITIONAL AREAS OF HIGH RISK: THE AUDIT HORIZON

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

ADDITIONAL AREAS OF HIGH RISK: THE AUDIT HORIZON

MGO has identified the following twenty-two audits for the Audit Horizon, including five separate cybersecurity audits. The Audit Horizon should be seen as a bank of high-risk audits from which to draw for future years or as capacity allows.

The Horizon also helps to illuminate the value that IAD can add within the County and should generate discussion among the oversight bodies about areas where additional audit work would add value. Because there are processes and functions within virtually all departments that are worth an audit, MGO also considered departments and functions that are not subject to the audits on the FY 2025-2026 or FY 2026-2027 Audit Plans. As shown below, each of the audits on the Horizon intersect with at least one area MGO identified as high risk in the risk assessment.

MGO notes that audits within the area of public safety may cross over with the County's Office of Independent Review (OIR). IAD would need to work with OIR to determine the extent to which the preliminary objective listed below would be duplicative of OIR's work.

Table 10: Areas of High Risk & Additional Considerations for the Audit Plan

Audit Topic	Preliminary Objective	Risk Area
Airport Fees	To assess the processes and controls County management has in place to regularly evaluate the adequacy of fees generated by Jon Wayne Airport to the long-term health of the Airport enterprise fund.	Financial and Compliance Risks
Asset Management	Assess and test inventory management practices, particularly in areas where other audit work has not focused on a specific asset class, department, or function, etc.	Financial Risk
Building and Safety	Evaluate the efficiency and effectiveness of Orange County's building and safety inspections and code enforcement.	Compliance and Resident Service Risks
Capital Projects Oversight	Evaluate County management's monitoring of high-risk capital programs and projects and communicating concerns.	Financial and Compliance Risks
Cash Handling	Evaluate the effectiveness of internal controls over cash handling. Area of focus would include but not be limited to SSA and airport parking lots. (SSA cash	Financial, Compliance, and Fraud Risks

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Audit Topic	Preliminary Objective	Risk Area
	handling is a current time-permitting audit).	
Cybersecurity <ul style="list-style-type: none"> - Airport - Auditor-Controller - Clerk of the Board - Social Services Agency - Probation 	To assess cybersecurity controls to ensure sensitive data is restricted, vulnerabilities and system changes are managed, and compliance with best practices.	Technology and Compliance Risk
Economic Development & Public Private Partnerships	To assess the performance of economic development initiatives potentially including recent developments and public private partnership to determine if the programs are meeting the intended purpose.	Financial, Compliance Risks
Grants Management	To assess the effectiveness of grants management County-wide, including internal controls over grant managers, training for grant managers, and an assessment of the process for identifying additional grant funds for County use.	Financial, Human Capital, and Compliance Risks
HCA Claim Reimbursement	To assess whether internal controls ensure accuracy, compliance, and integrity in the Health Care Agency claims process.	Financial and Compliance Risks
Human Capital Strategic Planning	To assess the County's planning process for recruitment, retention, success planning, performance management, collective bargaining, and other human capital risks.	Human Capital, Financial, and Strategic Risks
Inventory Management	To assess internal controls over inventory, especially capital inventory, identify opportunities for cost savings, and determine whether the inventory management system is adequate.	Financial, Technology, and Compliance Risks
Investment Management	To assess the County's investment management for compliance with state	Financial and Compliance Risks

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Audit Topic	Preliminary Objective	Risk Area
	laws, County policies, and industry best practices.	
Jail Operations	Evaluate the Sheriff's jail operations including compliance with internal policies, staffing, use of recognized best practices, and inmate and staff safety.	Human Capital and Compliance Risks
OC Crime Lab	Determine whether Orange County Crime Lab is effective and efficient in providing public agencies in Orange County with services for the recognition, collection, preservation, and evaluation of physical evidence from crime scenes.	Compliance and Resident Service Risks
Permitting Services	Evaluate the efficiency, effectiveness, and equity of Orange 's permitting processes and systems.	Financial, Technology, and Compliance Risks
Probation – Juvenile Operations	To assess the internal controls over Juvenile Operations and the effectiveness of recruitment and retention programs for County staff.	Human Capital and Compliance Risks
Registrar of Voters Limited Validation of Citizen's Concerns Regarding Elections	To perform a limited validation of the accuracy of the Registrar of Voters' elections data, based on County citizen's concerns.	Compliance Risk
Regulatory Impacts	Evaluate whether County processes and controls are in place to regularly assess the impacts of regulatory changes at the state and federal level on staffing, costs, and work culture.	Financial, Human Capital, and Compliance Risks
Social Services Agency – Abuse Reporting	To assess the internal controls over Abuse Reporting and the effectiveness of recruitment and retention programs for County staff.	Human Capital and Compliance Risks
Waste and Recycling Fees	To assess the processes and controls County management has in place to regularly evaluate the adequacy of fees	Financial Risks

RISK ASSESSMENT INTERVIEWS & CONCLUSIONS

Audit Topic	Preliminary Objective	Risk Area
	generated by Waste and Recycling to the long-term health of the Waste and Recycling enterprise fund.	

COMPLIANCE STATEMENT

MGO conducted this consulting engagement in accordance with consulting standards promulgated by the American Institute of Certified Public Accountants. This engagement does not constitute an examination made in accordance with attestation standards, the objective of which would be to express an opinion.

APPENDIX

APPENDIX A

Survey questions

1. Which Department do you represent?
2. What is your current Job Title within your department?
3. How long have you been employed with the County?
 - a. Fewer than 5 years
 - b. 5 to 10 years
 - c. 11 to 16 years
 - d. More than 16 years
4. As it relates specifically to your department, please rank the following risk areas from most important (#1) to least important (#8). In considering "importance," please think about which of these risk areas most impede achieving your department's goals and purpose. Note: goals do not have to be formally adopted to be relevant to this question.
 - a. Financial Risk (Includes budgeting & financial sustainability)
 - b. Human Capital Risks (Includes recruitment, retention, & compensation)
 - c. Technology Risks (Includes cybersecurity & effective technology for work needs)
 - d. Resident Service Risks (Includes transparency about County operations, effectiveness, and ease in interacting and communicating with residents or other service recipients)
 - e. Emergency Management Risks (Includes business continuity & effectiveness in responding to large disaster)
 - f. Compliance Risks (Includes legal and regulatory compliance and compliance with internal processes)
 - g. Strategic Risks (Includes risk that the strategic plan is flawed or ineffective & that there is inadequate risk management across the organization)
 - h. Fraud Risks (Includes system controls to prevent fraud & effectiveness in setting an ethical tone for the County)
5. Please provide additional information on why you identified the risk areas ranked from 1 to 3 in importance for your department. [open-ended question]
6. Now please think about risks related to the County overall, not just your department. Which of the risk areas below would you consider to be high risk to the County overall? (Multiple risks may be selected.)
 - a. Financial Risk (Includes budgeting & financial sustainability)
 - b. Human Capital Risks (Includes recruitment, retention, & compensation)
 - c. Technology Risks (Includes cybersecurity & effective technology for work needs)
 - d. Resident Service Risks (Includes transparency about County operations, effectiveness, and ease in interacting and communicating with residents or other service recipients)
 - e. Emergency Management Risks (Includes business continuity & effectiveness in responding to large disaster)

APPENDIX A

- f. Compliance Risks (Includes legal and regulatory compliance and compliance with internal processes)
 - g. Strategic Risks (Includes risk that the strategic plan is flawed or ineffective & that there is inadequate risk management across the organization)
 - h. Fraud Risks (Includes system controls to prevent fraud & effectiveness in setting an ethical tone for the County)
7. Please provide an explanation as to why you identified each area in the prior question as high risk for the County overall. (If you selected "None" above, please answer "None" here.)
 8. Is there any other additional information you would like to provide us regarding risks that may impact the County and/or your department?
 9. Is there anything that you think should be subject to an audit or review by the County's Internal Audit Department?

APPENDIX B

FY 2025-2026 AUDIT PLAN RECONCILIATION

The tables below provide additional information about what audits MGO recommends retaining from the original FY 2025-2026 Audit Plan, which audits should be added, and which should be removed. We recommend adding two IT audits and removing two audits of lower risk or lower priority areas.

Retained from Current Plan or To be Added	Audit Type	Audit Topic	Risk Areas
Retained	Internal Controls	<ul style="list-style-type: none"> • Sheriff's Department Purchasing & Contracts • Social Services Agency Purchasing & Contracts • Public Works Purchasing & Contracts • Waste and Recycling Purchasing & Contracts 	Audits of contract oversight address both Financial and Compliance Risk areas
Retained	Information Technology	<ul style="list-style-type: none"> • OCIT Data Governance (completed) • OCIT Remote Access Security • OCIT Third Party IT Security • Cybersecurity - Sheriff's Office • Cybersecurity - Treasurer-Tax Collector 	Technology Risks
Retained	Performance audits	<ul style="list-style-type: none"> • Treasurer-Tax Collector • Mental Health Services Act Contracting oversight • Homelessness Services Contractor Oversight 	<ul style="list-style-type: none"> • Treasurer-Tax Collector (Financial and Compliance Risk areas) • Contractor oversight (Financial and Compliance Risk areas), • The County ethics program (Compliance, Human Capital, and Fraud Risk Areas)

APPENDIX B

Retained from Current Plan or To be Added	Audit Type	Audit Topic	Risk Areas
		<ul style="list-style-type: none"> SAIC Contract Compliance and Performance The County ethics program 	
Retained	HCA Claim Reimbursement	To assess whether internal controls ensure accuracy, compliance, and integrity in the claims process.	<ul style="list-style-type: none"> The hours designated for this audit could be used to expand the scope of the IT audits.
Retained	Treasurer-Tax Collector	To assess the adequacy and effectiveness of internal controls, regulatory compliance, and security of wire transfer processes.	<ul style="list-style-type: none"> MGO sees this audit as a smaller objective within the overall County Treasurer performance audit.
Retained	Follow-up audits	Implementation of past audits findings and recommendations	Risk areas vary by audit findings and recommendations
To be Added	Technology Visibility and Emerging Risks (Shadow IT & AI)	<p>An audit would help to determine the extent of unmanaged assets including shadow IT systems, applications, and services operating outside approved IT governance processes; identify risks related to data leakage, privacy, security, and compliance arising from shadow IT and unauthorized AI usage; and provide recommendations to strengthen governance, monitoring, and user awareness.</p> <p>IAD already has an audit of OCIT Adoption and</p>	Technology, Human Capital, and Compliance Risk Areas

APPENDIX B

Retained from Current Plan or To be Added	Audit Type	Audit Topic	Risk Areas
		Use of Artificial Intelligence on the 2025-2026 Audit Plan. MGO recommends that this audit be broadened to include the scope and objectives shown above.	
To be Added	IT Governance and Compliance Validation	Identify OCIT's service coverage across departments and evaluate gaps/duplication and review the effectiveness of policy adherence, alignment, and monitoring across the County.	Technology, Financial, and Compliance Risk Areas

Audits to Remove for FY 2025-2026

We also saw some audits on the FY 2025-2026 Audit Plan that did not match the risk assessment results or could be removed for higher-risk engagements. We recommend removing these from the Audit Plan, as shown in the following table. Because there was a process to identify these audits as areas of interest initially, we have moved these audits to the Audit Horizon.

Audit	Preliminary Objectives	MGO Observations
Registrar of Voters Limited Validation of Concerns Regarding Elections	To perform a limited validation of the accuracy of the Registrar of Voters' elections data, based on County citizen's concerns.	MGO recognizes that this topic is one that has social salience, but the Registrar of Voters processes did not surface as a risk in the independent risk assessment.
Cybersecurity – Clerk of the Board	To assess cybersecurity controls in compliance with best practices.	MGO recommends focusing on agencies with the highest risk information, including financial management departments and agencies, law enforcement, and agencies providing health care or social services.

MGO

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