



# COUNTY OF SONOMA

575 ADMINISTRATION  
DRIVE, ROOM 102A  
SANTA ROSA, CA 95403

## SUMMARY REPORT

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**Agenda Date:** 3/25/2025

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**To:** Sonoma County Board of Supervisors, Board of Directors of the Sonoma County Water Agency, Board of Directors of the Sonoma County Agricultural Preservation and Open Space District, Board of Commissioners of the Community Development Commission, County of Sonoma Public Finance Authority and County of Sonoma Public Financing Corporation

**Department or Agency Name(s):** Auditor-Controller-Treasurer-Tax Collector

**Staff Name and Phone Number:** Damian Gonshorowski, 565-3800

**Vote Requirement:** Majority

**Supervisorial District(s):** All

**Title:**

Restate Internal Audit Charter and Establish Audit Committee

**Recommended Action:**

- A) Adopt a Resolution to approve the Restatement of the Internal Audit Charter.
- B) Adopt a Resolution to Establish the Sonoma County Audit Committee and approve the Audit Committee Charter.
- C) Authorize the Chair to appoint two members of the Board of Supervisors to the Audit Committee.

**Executive Summary:**

The Internal Audit Division (Internal Audit) of the Auditor-Controller-Treasurer-Tax Collector's Office follows the Institute of Internal Auditors' Global Audit Standards (IIA Standards) in the completion of professional audits included in its annual Audit Plan. IIA Standards provide a comprehensive framework designed to ensure the effective and efficient functioning of internal audit activities worldwide. IIA Standards guide internal auditors in evaluating and improving risk management, internal controls, and governance processes within private and public sector organizations to promote consistency, quality, and ethical conduct, enabling internal audits to add value and increase accountability. IIA Standards were recently updated as of January 2025.

The Charter of the Sonoma County Internal Audit Function (Internal Audit Charter) was initially adopted by the Board of Supervisors (Board) in 2013. This item proposes several updates to the Charter, and establishes an independent Audit Committee, known as the Sonoma County Audit Committee, to align with IIA Standards and improve the Internal Audit function by strengthening its independence and actively engaging members of the Board in oversight of Internal Audit.

The item proposes that the Audit Committee be comprised of two members of the Board and one member of the public that will meet up to four times per year and provide for an annual Internal Audit update to the full Board.

**Discussion:**

**Update to the Internal Audit Charter**

Internal Audit currently operates under the Internal Audit Charter that was adopted by the Board on January 15, 2013 (Resolution 13-0022) to prioritize performance audit engagements under IIA Standards. Internal Audit continues to follow American Institute of Certified Public Accountants (AICPA) standards for financial statement audits.

Internal Audit reports functionally and administratively to the elected Auditor-Controller-Treasurer-Tax Collector (ACTTC), who, with the Assistant ACTTC assigned to Internal Audit, determines the allocation of resources to the audit function through the annual budget development process, approves the annual audit plan, directs the work of the Chief Audit Executive (i.e. Audit Manager), and approves audit reports. The current Internal Audit Charter also limits the responsibilities of the Board to the following: 1) ensuring the capacity of Internal Audit is appropriate to the needs of the County and special districts, and 2) ensuring Internal Audit has full access to documents and information and explanations from departmental employees.

In accordance with current IIA Standards, Internal Audit cannot be fully independent when functionally reporting to an ACTTC who is also directly responsible for other County operations. Internal Audit is most effective when independently positioned with direct accountability to the Board as the governing body, and when internal auditors are free from undue influence and are committed to making objective assessments. Accordingly, the Board can establish an independent Audit Committee, to have the County's Internal Audit be most effective.

The ACTTC recommends updating the Internal Audit Charter to have the Chief Audit Executive report functionally to the Board of Supervisors or an Audit Committee. The ACTTC and Assistant ACTTC will continue to administratively manage the Chief Audit Executive and Internal Audit work and be fully engaged with the internal audit function by serving as advisors and advocate.

Recommended Internal Audit Charter changes include:

- Define the Chief Audit Executive's (i.e. Audit Manager) position and role including reporting relationship to the Board or Audit Committee.
- Document the responsibility of the Audit Committee to approve changes to the Internal Audit Charter, and the annual audit plan.
- Add a requirement to confirm annually to the Board the organizational independence of the internal audit activity.
- Include a reference to the mandatory nature of the IIA Standards.
- Document the Chief Audit Executive's responsibility to establish and administer a Quality Assurance and Improvement Program.

### **Establishment of the Sonoma County Audit Committee**

As the governing body, the Board has oversight responsibilities for the County's financial reporting process, the system of internal control, monitoring compliance with laws and regulations, and internal and external audits. A properly constituted audit committee will assist the Board in fulfilling this responsibility. Audit committees help to facilitate communication between management, auditors, and the governing board and also enhance the perceived independence of the external auditor's by providing a direct link between the

auditor and the governing board. Additionally, the Government Finance Officers Association (GFOA) recommends that the governing body of all state and local governments establish an audit committee or its equivalent. The GFOA recommendation also stipulates that the audit committee should be formally established by charter, enabling legislation, or other appropriate legal means.

The ACTTC recommends that the Board establish the Sonoma County Audit Committee to assist the Board in fulfilling its oversight responsibilities. The Audit Committee will be granted authority to investigate any matter or activity involving financial accounting, financial reporting, compliance and internal controls. In that regard, the Audit Committee will have access to the County's external professionals to render advice and counsel in such matters.

Recommended Audit Committee responsibilities in the Audit Committee Charter include but are not limited to:

- Ensure the chief audit executive has unrestricted access to and communicates and interacts directly with the Board of Supervisors, including in private meetings without senior management present.
- Participate in discussions with the chief audit executive and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter annually with the chief audit executive to consider changes affecting the organization.
- Review, provide input, and approve the annual risk-based internal audit plan.
- Provide input to the internal audit function's human resources administration and budgets.
- Provide input to senior management on the appointment and removal of the chief audit executive, ensuring adequate competencies and qualifications and conformance with the Global Internal Audit Standards.
- Review and provide input to senior management on the chief audit executive's performance.
- Ensure a quality assurance and improvement program has been established and review the results annually.

The exact size and composition of an audit committee is not prescribed in government code or IIA Standards; however, Board representation is required, and best practice is for no members of management to be on the audit committee to enhance the independence and enable auditors to communicate freely about management shortcomings.

Staff therefore recommends that the Sonoma County Audit Committee be comprised of two Board members and one member of the public who is independent of the County and meets one or more criteria in the Audit Committee Charter. Staff recommends that Audit Committee members serve 4-year terms with an option to be reappointed for one additional 4-year term, with the exception of one Board member serving an initial term of 2 years to stagger the terms. No Audit Committee member shall serve more than 8 consecutive years in accordance with internal audit best practices. Staff also recommends that the ACTTC and the County Executive, or designee(s), serve in an advisory capacity to the Audit Committee.

## **Staffing**

**Agenda Date:** 3/25/2025

Internal Audit currently has four staff, made up of three Senior Internal Auditors, and one Audit Manager who also serves as the Chief Audit Executive. According to the Institute of Internal Auditors, public entities that are similar in size to Sonoma County typically employ six internal audit staff. Additionally, the 2023-24 Grand Jury report titled *Sonoma County Taxes & Spending* included the following recommendation: “By June 30, 2025, the Board of Supervisors shall fund and authorize staffing sufficient for the Auditor to conduct appropriate performance audits each fiscal year from 2026 onward.” The ACTTC will include this information when considering Internal Audit staffing and resource needs in the annual requested budget process.

**Strategic Plan:**

N/A

**Racial Equity:**

**Was this item identified as an opportunity to apply the Racial Equity Toolkit?**

No

**Prior Board Actions:**

01/15/2013: Board adopted resolution 13-0022, approving a charter formalizing the responsibilities, reporting lines, and protocols of the Sonoma County Internal Audit function.

**FISCAL SUMMARY**

| <b>Expenditures</b>                | <b>FY23-24<br/>Adopted</b> | <b>FY24-25<br/>Projected</b> | <b>FY25-26<br/>Projected</b> |
|------------------------------------|----------------------------|------------------------------|------------------------------|
| Budgeted Expenses                  |                            |                              |                              |
| Additional Appropriation Requested |                            |                              |                              |
| <b>Total Expenditures</b>          |                            |                              |                              |
| <b>Funding Sources</b>             |                            |                              |                              |
| General Fund/WA GF                 |                            |                              |                              |
| State/Federal                      |                            |                              |                              |
| Fees/Other                         |                            |                              |                              |
| Use of Fund Balance                |                            |                              |                              |
| General Fund Contingencies         |                            |                              |                              |
| <b>Total Sources</b>               |                            |                              |                              |

**Narrative Explanation of Fiscal Impacts:**

No direct fiscal impact from requested actions.

| <b>Staffing Impacts:</b>                       |  |                               |                               |
|--|--|-------------------------------|-------------------------------|
| <b>Position Title (Payroll Classification)</b> | <b>Monthly Salary Range<br/>(A-I Step)</b> | <b>Additions<br/>(Number)</b> | <b>Deletions<br/>(Number)</b> |
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**Narrative Explanation of Staffing Impacts (If Required):**

N/A

**Attachments:**

Attachment 1 - Current Audit Charter

Attachment 2 - Proposed Internal Audit Charter

Attachment 3 - Proposed Audit Committee Charter

Attachment 4 - Resolution Approving the Restatement of the Internal Audit Charter

Attachment 5 - Resolution to Establish the Sonoma County Audit Committee and Approving the Audit Committee Charter

**Related Items "On File" with the Clerk of the Board:**

N/A