



DEPARTMENT OF INTERNAL AUDIT

ANNUAL AUDIT PLAN

FY 2009

TABLE OF CONTENTS

Authorization	2
Audit Department Mission	2
Organization and Function of the Audit Department	3
The Audit Process	3
Sources of Data for Audit Plan	4
Fiscal Year 2009 Focus	5
Summary of Audit Engagements for FY 2009	6
Risk Assessment	14

AUTHORIZATION

The Department of Internal Audit is established by the Durham County Audit Department Charter. The Charter establishes an Audit Director that reports administratively to the County Manager and functionally to the Audit Oversight Committee (Audit Committee). By authorization the Audit Director conducts and supervises independent audits and investigations relating to County programs and operations, and recommends policies that promote effectiveness, efficiency, and economy. The Audit Committee provides planning input and approves the annual audit plan and any necessary amendments to the plan.

The Audit Department has the authority to conduct financial, compliance, operational, performance, and information systems audits for all departments, offices, activities, and programs under the County's control. Additionally, the Audit Department has the authority to perform special reviews and investigate allegations of misuse of County funds and resources. Consistent with the Charter, the Audit Department performs a review and audit role and does not engage in program operations or policy making.

To properly carry out its responsibilities, Audit Department personnel are authorized full, free, and unrestricted access to County functions, activities, operations, records, data files, computer programs, property, and personnel. In addition, authority is granted to Audit Department staff to request reasonable assistance from appropriate County personnel in acquiring requested records, documents and files, as well as inspection and entry privileges to all assets owned, leased, or borrowed by the County.

AUDIT DEPARTMENT STAFFING

Currently the audit department has two approved auditor positions. The director, a certified internal auditor was hired and began work in July 2007. A second member of the department began work in June 2008. If future workload dictates, it is anticipated that up to two additional auditors will be added to the roster, increasing the staffing level to four auditors, including the director.

AUDIT DEPARTMENT MISSION

The Internal Audit mission is to determine that County departments, programs, activities, and operations are conducted in an economical, efficient, and effective manner. The Audit Department also determines if established goals and objectives are being achieved and if proper controls are in place to reasonable ensure that fraud, waste, and abuse is limited and that management reports are accurate and timely and that County assets are safeguarded. As previously stated, the Audit Department is designed to function as an independent reviewer of County programs and operations to provide reasonable assurance to management that programs and operations are effective, efficient, and economical.

THE AUDIT PROCESS

In accordance with the charter authorizing the Internal Audit Department, the department will conduct its audit engagements in accordance with Generally Accepted Government Auditing Standards (GAGAS) as promulgated by the Comptroller General of the United States. GAGAS standards generally called "Yellow Book Standards" are accepted universally as the auditing standards for government operations and include Institute of Internal Auditors and American Institute of Certified Public Accountant standards as

applicable. The standards are intended to ensure the integrity and competency of the audit process and the quality of the audit report.

The audit process is initiated when the Audit Director informs the auditee department head of the intention to begin an audit engagement. The director will strive to maintain an open channel of communication with management and the auditee department to keep concerned parties informed of progress during each phase of the audit engagement. The steps in a typical audit engagement are:

- **Engagement Letter** - Notify auditee of the audit director's intention to perform an audit.
- **Survey** - Obtain an overall understanding of the entity, program, or operation to clarify audit objectives and refine the work plan as required.
- **Field Work** - Gather and analyze information to identify any appropriate audit findings.
- **Exit Conference** - Inform auditee and/or Durham County management of audit results.
- **Report Processing** – Communicate conclusions and recommendations to the auditee, management, and the Audit Oversight Committee.

SOURCES OF DATA FOR AUDIT PLAN

In the first quarter of fiscal year 2008, the audit Director identified areas within the county eligible for audit and assigned a risk factor to each area. This effort, called a risk assessment, focused on identifying all the programs, systems, and functions in the County to determine the level of risk, and rank them accordingly. This risk assessment, conducted qualitatively, is the basis for assigning priority to audit resources.

In conducting the risk assessment, the audit director:

- (1) Met with and held discussions with key department heads,
- (2) Reviewed budget documents,
- (3) Considered current and prior news articles,
- (4) Researched common local government concerns recorded in the archives of national audit associations such as the Association of Local Government Auditors and Auditnet,
- (5) Reviewed risk and governance criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and
- (6) Researched and reviewed GAO guidance on risk assessment and analysis.

Using these sources, 80 areas have been identified as the auditable universe in Durham County operations. Over time, as new technologies, systems, and programs come on-line, additional items will be added to the list. The risks associated with each of the areas will be assessed annually.

The risk assessment is designed to determine how best to use limited audit resources. Its purpose is to assure that areas with the most potential adverse risk are included in the Annual Audit Plan. It should be noted that the audit plan can and should be amended when issues arise with higher priority based upon the immediacy of the risk.

FISCAL YEAR 2009 FOCUS:

As a result of the risk assessment, I have selected the highest ranking risk areas for audit services in fiscal year 2009. As with 2008, it is important to assure management that those departments that handle cash is doing it in a manner that meets best practices, and that financial reporting is accurate and reliable. In addition to cash handling, management of grants to charitable organizations, Mental Health Department contract management, and purchase card management and administration have surfaced as areas needing review. We also have anticipated that we will be asked by the external auditors to provide services in preparation of the 2009 financial audit.

Based upon these areas of interest, eight audits are planned for fiscal year 2009 including one audit that is currently underway. The exhibit below shows the audits proposed for fiscal year 2009.

PLANNED ENGAGEMENTS FOR FY 2009

Department Audit	Estimated Staff Days to Complete	Page
Emergency Medical Services Cash Handling Controls (in progress)	31	7
Durham County Grants Administrative Practices	65	8
Social Services Revenue Collections and Cash Handling Controls	41	9
Purchase Cards Management and Administration	36	10
Mental Health Department Contract Management	45	11
Public Health Cash Handling Controls	31	12
Sheriff's Department Cash Handling Controls Follow-up	14	13
SAS requirements for Financial Audit	20	No summary
Total staff days	283¹	

¹ Staff day total does not include vacations, holidays, training, and other administrative tasks.

SUMMARY OF AUDIT ENGAGEMENTS

FOR FY 2009

Department: Emergency Medical Services

Subject: Cash handling controls

Description of Audit:

Cash handling surfaced as the issue or concern referred to most often by department heads in the FY 2007 assessment and as a result, dominated the annual plan. Cash, which includes coin, currency, checks, money orders, and credit card transactions is considered an inherently high risk function and according to best practices, should be monitored closely and reviewed regularly. The risk associated with cash handling must be mitigated by strong internal and management controls. The lack of strong internal controls can create an atmosphere in which errors, abuse, and acts of malfeasance can occur resulting in increased cost, decreased efficiency, public embarrassment, and lack of faith in government.

The Department of Emergency Medical Services estimates that it will receive approximately \$4.7M for service charges and rental income in fiscal year 2007 -2008. Although the department has not recently experienced any known problems or abuse, there was abuse in the past, according to the director. Also, there is no record of an independent review or audit of cash handling practices and procedures for the department. Because of past cash handling irregularities and the lack of a recent audit, EMS cash handling practices are a high risk candidate for an audit.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls
- cost savings/avoidance

Department: Finance/Budget
Subject: County Grant Administration
Description of Audit:

The County provides grants to local charitable organizations. These grants are provided annually based upon a grantee application and County management's assessment of need. In fiscal year 2008 the County made 32 grants totaling \$988,562 and has budgeted approximately \$927,170 for 33 grants in FY 2009. The budget office manages the program and has established several prerequisites for grant approval. For example, the grantee must show proof of charitable organization status, and demonstrate that the organization is a viable financial entity.

The County does not have a certification process, nor does it require grantees to show evidence that funds are being spent as intended. Additionally, the County has not audited any grantee records to determine that grant funds are used appropriately although financial audit reports are required in some if not all instances. Several managers have expressed a desire for more information about how grant money is spent, especially since at least one grantee expressed doubts that funds are used for the purpose it was requested.

Unauthorized use or abuse of these grant funds would cause considerable embarrassment to County managers and outrage by County taxpayers. Because a considerable amount of funds are at stake and the program administration has not been audited in the past, I believe grant fund management and administration should be audited to (1) determine if grant money is being spent for the purpose for which it was requested, (2) identify ways to assure that future grantees spend funds appropriately, and (3) develop a method to systematically track and monitor grantee expenditures.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls
- cost savings/avoidance

Department: Department of Social Services

Subject: Revenue Collections and Cash Handling Controls

Description of Audit:

The Department of Social Services estimated that it would receive revenues of approximately \$235.9K in fiscal years 2007-2008 for service charges according to the 2008 Operating Budget. These are revenue collected from various sources such as child support fees, AFDC overpayments, and miscellaneous collections.

A large portion of those revenues are for reimbursable salaries associated with counseling services at various institutions such as Duke Hospital. The reimbursable revenue results from contracts with agencies where DSS provides personnel to conduct services for which the agency reimburses a portion of the salary. According to discussions with DSS and Finance Department representatives, much of the reimbursable salary revenue is not collected because contracted agencies do not always honor their agreements.

At issue is how these contracts are handled regarding establishing accounts receivables and reporting uncollected amounts. According to preliminary information, these receivables are not booked, creating questions about the accuracy of reporting.

Because (1) cash is being handled, (2) accurate information is a key to reliable financial reporting, and (3) there is no record of recent audits, I believe DSS revenue collections and cash handling is a good audit candidate.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls
- cost savings/avoidance
- enhanced reporting accuracy and reliability

Department: Department of Finance

Subject: Purchase Cards Management and Administration

Description of Audit:

The purchase card program provides the County with a tool for conducting small purchase operations up to \$1,000, the amount designated by the County as the upper limit. The County has 160 purchase/travel cards distributed throughout various departments. From January through May 13, 2008, card purchases amounted to approximately \$211,000. In April alone, card purchases amounted to approximately \$54,000.

Used properly, purchase cards are effective in saving time and money. They can provide streamlined, best practice processes that create cost savings associated with reducing paper based transactions. Purchase cards are designed to facilitate rapid purchases of low dollar goods and services and to reduce paperwork and handling costs associated with such small purchases. However, when not properly used they lead to circumvention of procurement policy and act as short term loans to cardholders.

The purchase card program has not been audited since 1999. That audit reported eight areas that needed improvement. Since 1999 the County has implemented SAP and other changes including expansion of departments that use cards, thus increasing the number of cards dispersed among county employees. Because of the expansion of the program and the time between the last audit, procurement cards are an excellent candidate for an audit to determine if the program is managed properly and is achieving its objectives of procurement efficiency and effectiveness.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls
- cost savings/avoidance

Department: Durham Center - Mental Health

Subject: Contract Management

Description of Audit:

The Durham Center (Mental Health) manages about 160 contracts valued at approximately \$10M to provide services for its clients. Contracts require clearly defined deliverables, monitoring tools, and performance expectations. Monitoring is required to assure contractor payments are timely and properly made and that goods and services are provided as stipulated in the contract.

The volume and value of Durham Center contracts require organized processes to manage them. According to best practices, monitoring should be on-going and should closely follow the contract terms that allow for correction of errors, omissions, and disagreements arising from various interpretation and compliance with contract terms.

From time-to-time contracts are subject to legal processes due to disagreements regarding contractor compliance. Because one contract is currently undergoing legal processes due to non-performance and because the program has not been audited in recent years, I propose reviewing the department's contract management process to assure that contract management mechanisms are in place to assure that contract results meet contract expectations.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls
- cost savings/avoidance

Department: Department of Public Health

Subject: Cash handling controls

Description of Audit:

The Department of Public Health estimates that it will receive approximately \$2.247M in service charges in fiscal year 2007 -2008. Although a large sum of that revenue is in the form of grants, several hundred thousand dollars will be collected from clients for services such as dental care and inspections.

Although the department has not experienced any known problems or abuse, there is no record of past independent reviews of cash handling procedures for the department. Best practices dictate that the procedures for cash handling be reviewed at least annually to decrease the inherent risks of cash handling such as loss, theft, and misappropriation. Because cash handling is an inherently high risk and because a recent audit has not been conducted, cash handling practices and procedures continue to be a solid candidate for an audit.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls
- cost savings/avoidance

Department: Office of the Sheriff

Subject: Cash handling controls follow-up

Description of Audit:

An audit of the Office of the Sheriff's cash handling practices and procedures was completed in December 2007. The audit report contained five recommendations to strengthen cash handling operations in the Office of the Sheriff. Those recommendations included identifying methods to account for the service inventory, further segregation of cash handling duties, increased supervision of cashier operations, and two recommendations related to developing and using its automated systems to facilitate better control over accounting processes.

It is customary to follow-up on recommendations, especially those required to strengthen controls when there has been serious misappropriations in the past. Because of the seriousness of the cash handling miscues in the Office, and the time that has passed since the December audit report, we will follow-up on our report recommendations in the October to December 2008 timeframe.

Type of audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls

Risk Assessment

	Universe Segment	Risk Category	Last Audited	Budgeted Hours Per Audit
	<u>Finance</u>			
1	Payroll	High		260
2	Property Control and Fixed Assets	Low		180
3	Accounts Payable Process	High		225
4	Debt Management	Medium		250
5	Budgeting Process and Control Monitoring	Medium		300
6	General Accounting/Reporting & Financial Analysis	Medium		200
7	Purchasing Process	Medium		200
8	Solicitation and Award Process	Medium		195
9	Purchasing Card	High	2004	195
10	Contract Administration (Countywide contracts)	Medium		300
11	Grants Monitoring/Management	High		300
12	External Audit Follow-up	Low		180
13	911 taxes	Low		180
14	Cash Receipts/Petty Cash/Policy Review	High		230
	Subtotal			3195
	<u>Information Technology</u>			
15	Remote Access	High		180
16	Password Policies	High		200
17	Computer Room Access	High		200
18	Licenses and Warranties	Medium		180
19	Incident Reporting and Response	Medium		200
20	Back-up and Recovery Plans	High		250
21	Change Management	High		300
22	Firewall	High		250
23	Equipment Inventory/Control	Medium		180
24	Problem Reporting/PC Support	Medium		180
25	Email Servers and Applications	Medium		250
	IT - Other			
26	Telephone Service	Low		180
27	Cell Phone Service (Policy)	Medium		200
	Subtotal			2750

<u>Human Resources</u>				
28	Employee medical benefits	Medium		230
29	Recruitment practices	Medium		180
30	Promotion policies	Medium		180
31	Employee termination processing	Medium		180
	Subtotal			770
<u>Health Department</u>				
32	Revenue Handling	High		230
33	Record keeping and retention	Low		180
34	HIPAA Follow-up	High	2004	300
35	Credentialing and Nurse CE Training Requirements	High		200
36	Skilled Employee Hiring and Retention	High		200
	Subtotal			1110
<u>General Services</u>				
37	Revenue Handling	Medium	Feb-08	230
38	County-wide Contract Monitoring	Medium		300
39	Facilities Maintenance	Medium		260
40	Animal Control (Revenue Handling	High		230
	Subtotal			1020
<u>Emergency Medical Services</u>				
41	Service response	Medium		225
42	Equipment maintenance	Medium		180
43	Employee Hiring and Retention	High		220
44	Revenue Handling	High		180
	Subtotal			805
<u>Mental Health</u>				
45	Revenue Handling	High		230
46	Record keeping and retention	Medium		180
47	Contract Management	High		210
	Subtotal			620

<u>Sheriff</u>				
48	Revenue Handling	High	Dec-07	230
49	Equipment Control/Security	High		250
50	Certifications and Training	High		180
51	Fleet Equipment Service and Repair	Medium	2004	180
52	Communication Systems Purchases	Medium		180
53	Prisoner property security and control	Medium		200
	Subtotal			1220
<u>DSS</u>				
54	Service provisions	High		300
55	Revenue Handling	High		230
56	Skilled Employee Hiring and Retention	Medium		180
	Subtotal			710
<u>Fire Marshall/Emergency Management</u>				
57	Building Inspections (county)	Medium		180
58	Contingency Planning	High		200
59	Contingency Readiness	High		200
60	Revenue Handling	High		180
	Subtotal			760
<u>Tax Department</u>				
61	Revenue Handling and Processing	Medium		180
62	Real Estate Assessments	High		180
63	Billing Processes & Procedures	High		180
64	Collection Processes (Including delinquencies)	High		180
	Subtotal			720
<u>County - Wide Public</u>				
65	Board of Elections	High		200
66	Public Information	Low		180
67	Economic Development	Low		180
68	Register of Deeds-	Medium		250
	Cash Handling	High	Apr-08	180
	Subtotal			990
<u>Engineering</u>				
69	Sewer Utility Fund	Medium		250
70	Planning	Medium		200
	Subtotal			450

<u>Budgeting</u>			
71	Capital Projects	Medium	180
72	Data Reliability	Medium	230
73	Subtotal		410
<u>Other Departments</u>			
74	Youth Home-Services	Medium	180
75	Library		
	Library operations	<u>Medium</u>	200
	Revenue Handling	High	230
	Subtotal		610
<u>Other Control & Evaluation</u>			
76	Performance Measures	Not Rated	300
77	Special Projects Planning and Execution	Not Rated	200
78	External Audit Coordination and Assistance	Not Rated	300
79	External Audit Follow-up	Not Rated	300
	Subtotal		1100
<u>Internal Audit Administration</u>			
80	Administration, Meetings, Training	Not Rated	200
	Subtotal		200
COUNTY TOTAL			17840
Staff hours equivalent to 9.15 years based based upon 1950 unadjusted hours per staff year.			
Audit Resources Available			
Annual unadjusted (2 staff)			3900