



DEPARTMENT OF INTERNAL AUDIT

ANNUAL AUDIT PLAN

FY 2010

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AUTHORIZATION AND MISSION

The Department of Internal Audit is established by the Durham County Audit Department Charter. The Charter establishes an Audit Director that reports to the County Manager. The department's mission is to determine that County departments, programs, activities, and operations are conducted in an economical, efficient, and effective manner. As such the 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. The charter establishes an Audit Oversight Committee to provide oversight advice to the Audit Department and management and approve the Annual Audit Plan.

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 in July 2007. A second position is vacant and may be filled in fiscal year 2010. This plan anticipates that a staff auditor will be hired in mid-year. It is anticipated that two additional auditors will be added to the roster in fiscal year 2011 if funds are available. Current plans are that one of the additional auditors will have a background in IT auditing.

AUDIT STANDARDS

The charter directs the Audit Department to 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 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 standards require independent as well as competent and able staff.

ANNUAL AUDIT PLANNING AND RISK ASSESSMENT

Annual Audit Plans communicate how the audit function plans to use its resources during a specific period to assist in identifying and strengthening control weaknesses. Risk based audit plans are a best practice for audit department planning. Risk assessment is a tool designed to identify areas and issues that may prevent or hinder accomplish of program goals and objectives. Prioritizing those risk areas is the basis for determining how to use limited audit resources for the greatest effect.

For fiscal year 2010 planning department managers participated in a Control Self-Assessment. A Control Self-Assessment is a tool whereby managers assess their operational, financial, security, and other risks and rate them based upon their knowledge and experience. Twenty-two departments were asked to participate in the assessment. The department heads along with the auditor identified 133 objectives and goals, rating 64 of them as high risk. Sixty five objectives were rated as medium and four were rated as low risks.

In addition to the control self-assessment, the audit director:

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

FISCAL YEAR 2009 FOCUS:

As a result of the risk assessment, I selected six issues for audit in fiscal year 2010. The issues were chosen because department heads and others expressed concern that these issues pose financial or legal risks to County operations. The exhibit below shows the audits proposed for fiscal year 2009.

PLANNED ENGAGEMENTS FOR FY 2010

Department Audit	Estimated Staff Hours to Complete	Page
Office of the Sheriff		
Follow-up cash handling controls	188	5
Department of Finance/IT		
Cell phone management	150	6
SAP		
Identity and Access Management	262	7
Voluntary Fire Departments		
Management and use of County provided Funds	300	8
Durham Center-Mental Health Department		
Contract Management	300	9
Recommendation Follow-up	200	
Total Hours	1400¹	

¹ Staff day total does not include vacations, holidays, training, and other administrative tasks. Direct audit hours traditionally amount to approximately 60 to 65 percent of total staff hours. This plan uses 72 percent of the 1,950 hours available for the year.

SUMMARY OF AUDIT ENGAGEMENTS FOR FY 2010

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 revenues generated from various services such as fingerprinting, further segregation of cash handling duties, increased supervision of cashier operations, and two recommendations related to developing and using automated systems to facilitate better control over accounting processes.

During the control self-assessment, Sheriff's Office representatives identified areas for which insufficient controls or non-implementation of controls creates an environment in which fraud and abuse could occur, although it is questionable if they rated the risks appropriately. For example, they rated cash handling and undercover funds as medium risks, however, recent events in the Office led me to rate those areas as high risk.

Follow-up audits are strongly recommended by auditing standards. Because of the seriousness of the cash handling miscues in the Office, recent events of mismanagement, and the time that has passed since the last audit, the follow-up becomes a priority for fiscal year 2010.

Type of audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls

Department: Finance/IT Departments
Subject: Cell Phone Management
Description of Audit:

Staff in several departments use cell phones paid for by the County. The manner in which the phones are managed can have federal tax implications for phone users. Additionally, the phone contracting methods used by the individual departments can have legal implications for the County as it relates to the validity of the contracts.

This audit is needed to determine (1) if the method of purchasing the phones creates the potential for non-compliance with tax laws and if so, how phone purchases should be constructed in order to avoid that possibility and (2) if phone purchases should be consolidated in one department with corresponding controls in order to assure that contracts are valid, enforceable, and do not create unwarranted liability.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls

Department: SAP Shared Services
Subject: Identity and Access Management
Description of Audit:

Identity and Access Management (IAM) is the combination of policies, processes, and technology that allows for efficient and secure use of an organization's information systems. While Durham county has a large number of automated systems that all require strong IAM procedures, SAP - the County's enterprise resource planning system- is the largest and arguable the most complex of these systems. SAP is the County's financial system of record and contains the data necessary to run a variety of operational areas including human resources, purchasing, inventory, accounts payable, and other operations.

IAM consist of three components. The following bullet points explain how they relate.

- **Identity management** relates to correctly identifying the users of the system
- **Access management** relates to what information or processes an individual user can access in the system, and
- **Monitoring** relates to keeping track of how individual users operate within the system.

An audit of this area is necessary to assure that programs are in place and operational that will reasonably assure the security of data and information necessary for vital county operations and financial reporting.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls
- information security

Department/Entities: Voluntary Fire Districts
Subject: Use of County Provided Funds
Description of Audit:

Durham County provides funding for five Volunteer Fire Departments. These fire departments provide ambulance and first responder assistance throughout the County. In fiscal year 2009, the County approved funds in the amount of \$1.6 M for the five volunteer fire departments. The grant funds are provided by the Community Health Trust Fund.

The EMS Director said he believes these fire departments are vital to the County's mission to provide emergency services to its citizens throughout the County and as an efficient and effective way of providing services. However, the EMS Director stated that he would like independent assurance that funds provided to the departments are handled and used appropriately. He noted that the County has not followed-up on provisions to audit the use of funds provided to the departments and believes an audit would provide an enhanced level of assurance that adequate controls are in place to assure that County funds are spent appropriately.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls

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. Best practices for contracts are that they include 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 requires 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. During the planning process for fiscal year 2009, one contract was undergoing legal processes due to non-performance. Because of the potential for legal disagreements and actions 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

FISCAL YEAR 2009 ACCOMPLISHMENTS

FISCAL YEAR 2009 ACCOMPLISHMENTS

In fiscal year 2009 five audits were completed resulting in eleven recommendations. This includes an exercise to improve financial reporting by providing more reasonable estimates of accounts receivable balances. One audit, the special investigation of Public Health Preparedness Equipment did not result in a recommendation. The completed audits and recommendation are in the exhibit below.

**Exhibit 2
STATUS OF RECOMMENDATIONS**

Department and Subject	Recommendation	Implementation Status
EMS—Collection Processes	Revise invoices to indicate that the bill is due upon receipt of the invoice statement. Reserve additional information regarding the timing of collection activity for late payment notices.	Implemented
	Obtain and reconcile "911 dispatch service" information to billing system information at least weekly to assure that customers are billed for services.	Implemented
	Determine a reasonable period for which to reconcile prior dispatches and bill customers that were not billed.	Partially Implemented
Budget/Finance--Non-Profit Grant Administration	Develop clear criteria for use of grant funds	Implemented
	Develop a method to obtain and review County grant expenditure data.	Implemented
	Develop a program to stop payment and recover funds that were spent inappropriately.	Implemented
Finance Department--EMS Accounts Receivables	Administratively write off excessive EMS Accounts receivable balances to more realistically report assets	Implemented
Finance Department--Procurement Card Management	Require card users to use the monthly log sheet to fully explain the business purpose of the purchase.	By July 1, 2009
	Provide guidance that clearly communicates the types of card expenditures that are inappropriate.	By July 1, 2009
	Make greater use of data mining techniques to identify card use trends.	By July 1, 2009
	Re-establish a control to ensure that card accounts are canceled when the employee retires or terminates employment.	By July 1, 2009
Public Health—Bioterrorism assets	No Recommendation	

Risk Assessment

2009 Results

2009 Risk Assessment

		Risk Level	Last Audit	Audit Hours
	Finance Department			
1	Payroll	Medium		150
2	Property Control and Fixed Assets	Medium		150
3	Accounts Payable Process	Medium		150
4	Debt Management	Medium		150
5	Budgeting Process and Control Monitoring	Medium		150
6	General Accounting/Reporting & Financial Analysis	Medium		150
7	Purchasing Process	Medium		150
8	Solicitation and Award Process	Medium		150
9	Purchasing Card	Medium	2009	150
10	External Audit Follow-up	Low		150
11	Capital Projects Financing	Medium		150
12	Cash Receipts/Petty Cash/Policy Review	Medium		150
	Tax Department			
13	Revenue Handling and Processing	High		150
14	Real Estate Assessments	High		150
15	Billing Processes & Procedures	High		150
16	Collection Process (Including delinquencies)	High		150
17	Data Reliability	High		150
18	Data security	High		150
19	Revenue Forecasting	High		150
20	Customer Service	Medium		150
	Youth Home			
21	Compliance With State Laws	High		150
22	Population Control	Low		150
23	Inmate Safety and Security	High		150
24	Employee Safety and Security	High		150
25	Inmate Property Security	High		150
26	Health Environment	High		150
27	Staff Training	High		150
28	Employee Hiring and Retention	High		150
	General Services			
29	Revenue Handling	Low	2008	150
30	County-wide Contract Monitoring	Medium		150

		Risk Level	Last Audit	Audit Hours
31	Facilities Maintenance/repair/upgrades	Medium		150
32	Animal Control (Revenue Handling)	Medium	2008	150
33	Customer Service	High		150
	County Attorney			
34	Risk Management Operations	High		150
35	Workers Comp. Claims Processing	Medium		150
36	General Service Provisions	High		150
37	Child Support Services	High		150
38	Tax	High		150
	Criminal Justice Center			
39	Compliance with State, Federal, and Local Laws	Medium		150
40	Data Reliability	Medium		150
41	General Service Delivery	Medium		150
42	Program Effectiveness	Medium		150
43	Employee Qualifications, Training, and Retention	Medium		150
44	Grant Management	Medium		150
45	Fiscal Responsibility	Medium		150
	SAP Shared Services			
46	Support services (environmental/operational)	High		150
47	Change Control	High		150
48	Employee Hiring and Retention	Medium		150
49	Equipment Operations and Maintenance	Medium		150
50	Requirements Specifications	Medium		150
51	Change Management	Low		150
	Veterans Affairs			
52	Claims Processing	High		150
	Social Services			
53	Service Provisions	Medium		150
54	Customer Selection/Application Processing	Medium		150
55	Revenue Handling	High		150
56	Skilled Employee Hiring and Retention	Medium		150
57	Compliance with State Laws	Medium		150
58	Contract Monitoring	Medium		150
59	Grants Administration/Reporting	Medium		150

		Risk Level	Last Audit	Audit Hours
	Human Resources			
60	Recruitment Processes	High		150
61	Benefits	Medium		150
62	Compensation/Classification	Medium		150
63	Employee Relations	High		150
	Mental Health			
64	Revenue Handling	High		150
	Finance Department			
65	Contract Management	High		150
66	Record Keeping and Retention	High		150
	Public Health			
67	Revenue Handling	High		150
68	Record keeping and retention	Medium		150
69	HIPAA Follow-up	Medium	2004	150
70	Disaster readiness and planning	Medium		150
71	Credentialing and Nurse CE Training Requirements	High		150
72	Skilled Employee Hiring and Retention	High		150
	Emergency Medical Services			
73	Service Response	Medium		150
74	Equipment Maintenance	Medium		150
75	Employee Hiring and Retention	High		150
76	Volunteer Fire Station Grants	High		150
77	Revenue Handling (billing and collection)	Medium	2008	150
78	Supplies and Pharmaceuticals	High		150
	Fire Marshall			
79	Building Inspections	Medium		150
80	Contingency Planning	Medium		150
81	Contingency Readiness	High		150
82	Equipment maintenance (readiness)	High		150
83	Equipment requirements (readiness)	High		150
84	Employee Training	High		150
85	Employee Hiring and Retention	High		150
86	Response	High		150

		Risk Level	Last Audit	Audit Hours
	Information Technology			
87	Remote Access	High		150
88	Password Policies	High		150
89	Computer Room Access	Medium		150
90	Licenses and Warranties	Medium		150
91	Incident Reporting and Response	Medium		150
92	Back-up and Recovery Plans	Medium		150
93	Change Management	Medium		150
94	Firewall	High		150
95	Equipment Inventory/Control	High		150
96	Problem Reporting/PC Support	High		150
97	Email Servers and Applications	High		150
98	Telephone Service	Medium		150
99	Cell Phones	High		150
	Library			
100	Library Operations	Medium		150
101	Cash Handling	High		150
102	Customer Service	Medium		150
	Office of the Sheriff			
103	Law Enforcement/Detention	High		150
104	Employee Recruitment and Retention	High		150
105	Vehicle Equipment/Security	Medium		150
106	Information Technology	Medium		150
107	Fleet Service and Repair	Medium		150
108	Communications Equip./Phone/Radio	Medium		150
109	Cash Handling	High		150
110	Undercover Operations Funds	High		150
	Cooperative Extension			
111	Community Education and Training	Medium		150
112	Voter education	Medium		150
113	Alternative feeds	Medium		150
114	Nutrition	Medium		150
115	Job Training	Medium		150
116	Consumer Education	Medium		150
117	Energy efficiency	Medium		150
118	Community Development	Medium		150
119	Achievement Gap initiatives	Medium		150
120	Welcome Baby Objectives	Medium		150

		Risk Level	Last Audit	Audit Hours
	Soil and Water			
121	Grant Management	High		150
122	Employee Hiring and Retention	High		150
123	Employee Training	High		150
124	Buffer Zone Compliance	High		150
	Engineering Department			
125	Sewer Utility Fund	High		150
126	Planning	High		150
127	Storm water Erosion	High		150
128	Storm water (nitrogen mitigation)	High		150
129	Storm water Impact Analysis	High		150
130	Erosion and Storm water Control Review Processes	High		150
131	Construction Inspections/Annual Device Inspections	High		150
132	Sustainability Plan Effectiveness	High		150
133	CIP Preliminary Services (surveys)	High		150
	Total hours required for audit coverage			19950

The audit hours are hypothetical; intending to demonstrate the magnitude of potential audit coverage required. For this exercise the hours represent four weeks based upon a 37.5 hour work week. Four weeks do not represent the average time to conduct an audit; each audit having to be individually planned based upon scope and objectives.