



**DEPARTMENT OF INTERNAL AUDIT**

**ANNUAL AUDIT PLAN**

**FY 2011**

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## **AUTHORIZATION AND MISSION**

The Department of Internal Audit is authorized by the Durham County Audit Department Charter. 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 department does not engage in program operations or policy making. The charter establishes an Audit Oversight Committee to provide oversight of department, advise 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 filled positions, the Audit Director and a staff auditor hired in February 2010. The Audit Director is a Certified Internal Auditor. The staff auditor holds a general MBA degree.

## **AUDIT STANDARDS**

The charter directs the 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 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.

## **RISK BASED AUDIT PLANNING**

Risk based audit planning is a tool useful in determining how and where to allocate limited audit resources. It is based upon prioritization of potential risks with a focus on providing audit coverage to those areas where it is most essential to determine the risk status and when necessary, enhance control activity. Risk based audit plans are a best practice for audit department planning.

For fiscal year 2010 planning efforts, department managers participated in a Control Self-Assessment whereby managers assessed their operational, financial, security, and other risks and rated them based upon their knowledge and experience. Twenty-two departments participated in the assessment. Department heads along with the auditor identified 133 business operations and rated the risks using a high, medium, and low risk scale. Five additional operations were added in 2011 for a total of 138 as a result of

discussions with managers and department heads and 2010 audit activity. As a result of the ranking process, we identified 66 high, 57 medium, and 12 low risk areas.

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

- Reviewed budget and financial documents,
- Researched common local government concerns recorded in the archives of national audit associations such as the Association of Local Government Auditors, and
- Discussed audit needs with selected parties throughout the County.

#### **FISCAL YEAR 2011 PROPOSED AUDITS:**

Seven audits are included in the 2011 audit plan. Two carried over from 2010 and five additional audits are proposed for fiscal year 2011. The audits, heavily weighted with SAP operational controls in mind, were selected for audit for two reasons. First, they are inherently high risk areas which potentially pose financial, legal, or operational risks to the county. Second, audits of these areas will strengthen the annual financial audit. The exhibit below shows the audits proposed for fiscal year 2011.

#### **PLANNED ENGAGEMENTS FOR FY 2011**

<b>Department/ Audit Subject</b>	<b>Estimated Hours to Complete</b>	<b>Page</b>
Voluntary Fire Departments Management and Use of County Provided Funds (from fiscal year 2010)	525	5
Durham Center-Mental Health Department Contract Management	570	6
Finance Department Accounts Payable Controls	400	8
Finance Department/Human Resources Payroll Controls	375	9
Fleet Management (non-safety vehicles) Fleet Usage and Controls	375	11
Follow-up	300	
<b>Total Hours</b>	<b>2545</b>	

# **SUMMARY OF PROPOSED AUDIT ENGAGEMENTS FOR FY 2011**

**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 2010, the County approved funds in the amount of \$1.4M for Bahama, Bethesda, Parkwood, and Redwood four 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**

**Audit Description:**

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.

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

**Department: Finance**

**Subject: Accounts Payable Controls:**

**Audit Description:**

Accounts payable is an inherently high risk activity. The County' accounts payable program has not been the subject of an internal audit however, in fiscal year 2009, the external auditors conducted tests to determine if fictitious or inappropriate vendors were included in the vendor inventory. The external auditor conducted test to determine if vendor addresses were the same or similar to employee addresses. The result was that no matches were found. However, we propose to audit accounts payable processes because it has not been the subject of an internal audit and internal audit needs to better understand the controls in place to reduce the risk of payments to inappropriate vendors.

This audit is one of the ongoing series of audits of controls in the SAP system. As part of the series, we reviewed Identity and Access Management. Our objective for this segment of the SAP series is to determine if process controls are adequate to reasonably assure reasonably accurate, reliable, and appropriate payments.

**Type of Audit:**

- performance-internal controls

**Anticipated Benefit:**

- Enhanced internal controls



**Department: Finance**  
**Subject: Payroll Controls**  
**Audit Description:**

Payroll is processed via SAP, which was implemented in 2004. Using the SAP application the County processes pay for about 1850 employees every other week. The payroll amount is approximately \$19.2 M each pay period. Payroll is an inherently high risk area, involving a complex process that integrates personnel data, approved timesheets, and pay data stored on the SAP database. Since SAP payroll modules were implemented, it has not been the subject of an internal audit.

This audit is one of the ongoing series of audits of SAP controls. As part of the series, we reviewed Identity and Access Management. Our objective for this segment of the SAP series is to determine if process controls are adequate to reasonably insure that the payroll is accurate and reliable.

**Type of Audit:**

- performance-internal controls

**Anticipated Benefit:**

- Enhanced internal controls

**Department: Finance Department**  
**Subject: Vehicle Fleet Management**  
**Audit Description:**

The County owns approximately 150 vehicles excluding law enforcement and emergency vehicles. Maintenance and replacement costs on these vehicles amounted to about \$75K in fiscal year 2009. The county does not utilize utilization criteria and it has been reported that many vehicles are underused. However, vehicles even those that are underused, require replacing based upon age or usage criteria. Additionally, there are discussions regarding a fleet maintenance in a joint effort with the city.

This audit will answer two specific questions. Specific questions are (1) are fleet vehicles adequately utilized, and (2) are fleet resources properly controlled.

**Type of Audit:**

- performance-internal controls

**Anticipated Benefit:**

- Enhanced internal controls
- Potential cost savings

# Risk Assessment

## 2010 Risk Assessment

	<b>Finance and Related</b>	<b>Risk Level</b>	<b>Last Audit</b>	<b>Estimated Audit Hours</b>
1	Payroll Controls	High		375
2	Property Control and Fixed Assets	High		150
3	Accounts Payable Process	High		400
4	Budgeting Process and Control Monitoring	High		150
5	General Accounting/Reporting & Financial Analysis	High		150
6	Fixed Asset Management	High		375
7	Fleet Management	High		375
8	Debt Management	High		150
9	Purchasing Process	High		150
12	Capital Projects Financing	High		150
10	Solicitation and Award Process	High		150
11	Purchasing Card	Medium	2009	15
13	Cash Receipts/Petty Cash/Policy Review	Medium		150
14	Non-Profit Grant Administration	Medium	2008	37
15	Cell Phone Management	Low	2010	37
16	External Audit Follow-up	Low		150
<b>Tax Department</b>				
17	Real Estate Assessments	High		150
18	Billing Processes & Procedures	High		150
19	Collection Process (Including delinquencies)	High		150
20	Data Reliability	High		150
21	Data security	High		150
22	Revenue Forecasting	High		150
23	Customer Service	Medium		150
24	Revenue Handling and Processing	Medium		150
<b>Youth Home</b>				
25	Compliance With State Laws	High		150
26	Inmate Safety and Security	High		150
27	Employee Safety and Security	High		150
28	Inmate Property Security	High		150
29	Health Environment	High		150
30	Staff Training	High		150
31	Employee Hiring and Retention	High		150
32	Population Control	Low		150

<b>General Services</b>				
33	Customer Service	High		150
34	County-wide Contract Monitoring	Medium		150
35	Facilities Maintenance/repair/upgrades	Medium		150
36	Animal Control (Revenue Handling)	Medium	2008	15
37	Revenue Handling	Low	2008	15
<b>County Attorney /Legal Department</b>				
38	Risk Management Operations	High		375
39	General Service Provisions	High		150
40	Child Support Services	High		150
41	Tax	High		150
42	Workers Comp. Claims Processing	Medium		150
<b>Criminal Justice Center</b>				
43	Compliance with State, Federal, and Local Laws	Medium		150
44	Data Reliability	Medium		150
45	General Service Delivery	Medium		150
46	Program Effectiveness	Medium		150
47	Employee Qualifications, Training, and Retention	Medium		150
48	Grant Management	Medium		150
49	Fiscal Responsibility	Medium		150
<b>SAP Shared Services</b>				
50	Support services (environmental/operational)	High		150
51	Change Control	High		150
52	Access and Identity Management	High	2010	75
53	Equipment Operations and Maintenance	Medium		150
54	Requirements Specifications	Medium		150
55	Employee Hiring and Retention	Medium		150
56	Change Management	Low		150
<b>Veterans Affairs</b>				
57	Claims Processing	High		150
<b>Social Services</b>				
58	Revenue Handling	High		150
59	Customer Selection/Application Processing	Medium		150
60	Service Provisions	Medium		150
61	Skilled Employee Hiring and Retention	Medium		150
62	Compliance with State Laws	Medium		150
63	Contract Monitoring	Medium		150
64	Grants Administration/Reporting	Medium		150

	Special Investigation: Equipment Usage		2008	0
	Special Investigation: Families First Contract		2009	15
	<b>Human Resources</b>			
65	Recruitment Processes	High		150
66	Employee Relations	High		150
67	Compensation/Classification	Medium		150
66	Benefits	Medium		150
	<b>Mental Health</b>			
69	Revenue Handling	High		150
70	Contract Management	High		570
71	Record Keeping and Retention	High		150
	<b>Public Health</b>			
72	Revenue Handling	High		150
73	Credentialing and Nurse CE Training Requirements	High		150
74	Skilled Employee Hiring and Retention	High		150
75	HIPAA Follow-up	Medium	2004	150
76	Record keeping and retention	Medium		150
77	Disaster readiness and planning	Medium		150
	<b>Emergency Medical Services</b>			
78	Employee Hiring and Retention	High		150
79	Volunteer Fire Station Grants	High		525
80	Supplies and Pharmaceuticals	High		150
81	Service Response	Medium		150
82	Equipment Maintenance	Medium		150
83	Revenue Handling (billing and collection)	Medium	2008	15
84	Collections	Medium	2008	15
	<b>Fire Marshall</b>			
85	Contingency Readiness	High		150
86	Equipment maintenance (readiness)	High		150
87	Equipment requirements (readiness)	High		150
88	Employee Training	High		150
89	Employee Hiring and Retention	High		150
90	Response	High		150
91	Building Inspections	Medium		150
92	Contingency Planning	Medium		150
	<b>Information Technology</b>			
93	Computer Room Access	Medium		150
94	Licenses and Warranties	Medium		150

95	Back-up and Recovery Plans	Medium		150
96	Change Management	Medium		150
97	Telephone Service	Medium		150
98	Remote Access	Low		150
99	Password Policies	Low		150
100	Incident Reporting and Response	Low		150
101	Firewall	Low		150
102	Equipment Inventory/Control	Low		150
103	Problem Reporting/PC Support	Low		150
104	Email Servers and Applications	Low		150
<b>Library</b>				
105	Cash Handling	High		150
106	Library Operations	Medium		150
107	Customer Service	Medium		150
<b>Office of the Sheriff</b>				
108	Law Enforcement/Detention	High		150
109	Employee Recruitment and Retention	High		150
110	Cash Handling	High	2007/2010	75
111	Undercover Operations Funds	High	2010	150
112	Vehicle Equipment/Security	Medium		150
113	Information Technology	Medium		150
114	Fleet Service and Repair	Medium		150
115	Communications Equip./Phone/Radio	Medium		150
<b>Cooperative Extension</b>				
116	Community Education and Training	Medium		150
117	Voter education	Medium		150
118	Alternative feeds	Medium		150
119	Nutrition	Medium		150
120	Job Training	Medium		150
121	Consumer Education	Medium		150
122	Energy efficiency	Medium		150
123	Community Development	Medium		150
124	Achievement Gap initiatives	Medium		150
125	Welcome Baby Objectives	Medium		150
<b>Soil and Water</b>				
126	Grant Management	High		150
127	Employee Hiring and Retention	High		150
128	Employee Training	High		150
129	Buffer Zone Compliance	High		150

<b>Engineering Department</b>			
130	Sewer Utility Fund	High	150
131	Planning	High	150
132	Storm water Erosion	High	150
133	Storm water (nitrogen mitigation)	High	150
134	Storm water Impact Analysis	High	150
135	Erosion and Storm water Control Review Processes	High	150
136	Construction Inspections/Annual Device Inspections	High	150
137	Sustainability Plan Effectiveness	High	150
138	CIP Preliminary Services (surveys)	High	150

<b>Total hours required for audit coverage</b>	<b>21609</b>
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The audit hours are estimates only; intending to demonstrate the magnitude of potential audit coverage required. Each audit has to be individually planned based upon scope and objectives.