



INTERNAL AUDIT DEPARTMENT

**ANNUAL AUDIT PLAN
FY 2012**

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Approved by the Audit Oversight Committee on July 28, 2011

FY 2012 Audit Plan

TABLE OF CONTENTS

| | |
|--|---|
| Internal Auditing | 2 |
| Authorization and Mission | 2 |
| Audit Department Staffing | 2 |
| Audit Standards | 2 |
| Audit Prioritization | 3 |
| Fiscal Year 2012 Proposed Audits | 3 |
| Summary of Audit Engagements for FY 2012 | 5 |
| Durham Center Contract Management | 5 |
| Payroll Controls | 6 |
| Fixed Asset Management | 7 |
| Acquisition and Inventory Management | 8 |
| Solicitation and Award Process | 9 |
| Follow-up | |

INTERNAL AUDITING

Internal auditing is an important part of overall governance, accountability, and internal control. A key role is to provide assurance that internal controls are in place to adequately mitigate risks and achieve program goals and objectives. The audit process is an independent, objective assurance, and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by using a systematic, disciplined approach to evaluate and recommend improvements for effective risk management, control, and governance processes.

AUTHORIZATION AND MISSION

The Department of Internal Audit was established by the Board of County Commissioners and given operational authority via the Audit Department charter. The department's mission is to assist management in its objectives to operate County departments, programs, activities, and operations 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, 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. Additionally, 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 May 2011. The Audit Director is a Certified Internal Auditor and a Certified Government Auditing Specialist. The staff auditor holds a MPA 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 commonly referred to as "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.

AUDIT PRIORITIZATION

Audits are selected and proposed based upon the needs of management, department directors, and also, information known to the audit director. Additionally, for planning year 2012, a judgmental departmental selection assessment considering factors such as financial impact, complexity and prior issues, public interest, fraud susceptibility, likelihood of bad public image, and elapsed time since last audit was used in the selection process. In recognition that internal audit's role is to assist management, requests by the County Manager or Commissioners take precedence over the above system of selecting audits.

A valuable tool for the auditor in the selection assessment process was the Self Control Assessment conducted by department heads. Department heads accessed their operational, financial, security and other risks and rated them based upon their knowledge and experience. The information provided by the department heads was of invaluable worth in forming the auditor's opinion of departmental risks.

By using the above methods which are based upon professional judgment and reason, we believe this audit plan is consistent with the mission of supporting an atmosphere of continuous improvement, integrity, honesty, accountability and mutual trust through independent appraisal of County programs, activities and functions. This approach ensures adequate audit coverage of a variety of County processes and programs in high-risk areas.

FISCAL YEAR 2012 PROPOSED AUDITS:

Five audits are included in the 2012 audit plan. One audit proposal, Payroll Controls, is carried over from 2011 and one audit that began in 2011, Mental Health Contract Administration, is currently underway and will be completed in this cycle. Three of the five audits are new proposals for 2012. The exhibit below shows the audits proposed for fiscal year 2012 and the estimated hours to complete them. The reason for proposing these specific audits are captured in a summarization beginning on page 5.

PLANNED ENGAGEMENTS FOR FY 2012

| Department/Audit Subject | Estimated Hours to Complete | Page |
|--|------------------------------------|-------------|
| Durham Center-Mental Health Department/ Contract Management | 365 | 5 |
| Finance Department/Human Resources Payroll Controls | 450 | 6 |
| Finance Department/ Fixed Asset Management | 375 | 7 |
| General Services/ Acquisition and Inventory Management | 400 | 8 |
| Finance Department/ Solicitation and Award Process | 450 | 9 |
| Follow-up | 300 | |
| Total Hours | 2340 | |

Plans are being made for a peer review in late fall of 2011. The review, which assesses audit department policies and procedures for quality control, will be conducted by reviewers from the Association of Local Government Auditors (ALGA) under the direction of the Peer Review Committee. The objective of the Peer Review Committee is to provide ALGA organizational members with an affordable and quality program satisfying peer review requirements contained in Government Auditing Standards issued by the Comptroller General of the United States or International Standards for the Professional Practice of Internal Auditing adopted by the Institute of Internal Auditors.

Peer review preparation consumes considerable audit staff time. Peer review staff hours are not allocated in the above table and attempts will be made to use hours set aside for non-direct efforts such as training and supervision to prepare for and conduct the peer review.

SUMMARY OF PROPOSED AUDIT ENGAGEMENTS FOR FY 2012

Department: Durham Center - Mental Health

Subject: Contract Management

Audit Description:

The Durham Center (Mental Health) manages about 190 contracts to provide services for its clients. Service providers are paid with state and federal funds as well as county funds. Many of the contracts include state requirements for administration as well as performance monitoring. Best practices for contracts are that they include clearly defined deliverables, monitoring tools, and performance expectations. 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. Additionally, the results of this audit will give added assurance to the County's single audit of federal grants relating to the Mental Health Department.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- stronger controls
- increased compliance

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 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. Recommendations from that audit has resulted in preparation of a set of policies and procedures to control and manage processes by which access is permitted and monitored. The objective for this segment of the SAP series is to determine if process controls are adequate to reasonably insure that payroll processing is accurate and reliable.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- Enhanced internal controls

Department: Finance

Subject: Non-Real Estate Fixed Asset Management

Audit Description:

The County's non-real property fixed assets are valued at approximately \$4.1M. Asset value is an important data set in financial reporting as it is a factor used in various ratios for evaluating the County's financial condition.

According to literature from organizations that monitor and report on local government practices, fixed asset management is often neglected. The result is that fraud, waste, and abuse can exist as well as financial reporting can be negatively affected by inaccuracies.

This operation was chosen because fixed asset management has not been audited since the current audit process went into effect approximately four years ago and there is a sizeable inventory. Additionally, if weak controls for maintenance and accounting of fixed assets were found to be the cause of fraud, waste, or abuse, the County's public image would most likely suffer.

This audit proposes to determine if controls are adequate to reach a reasonable conclusion on the value of assets, especially non-real property assets, and if assets are secure in accordance with county policies and best practices.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- Enhanced internal controls

Department: General Services

Subject: Acquisition and Inventory Management

Audit Description:

General Services is responsible for (1) the solid waste efforts of the county, (2) maintenance and repairs to all county facilities and properties, (3) project management for county capital projects, (4) mail courier services with County government, (5) signage for County roads, and (6) animal control services to the general public. Its 2010 operating expenditure budget was approximately \$6,191,720. Much of its expenditures go towards purchasing goods and equipment required to meet the obligations mentioned above. The department employs approximately 41 full-time-equivalent employees many of which provide the services mentioned above.

Currently, the department does not have procedures for managing its inventory. It also does not have appropriate segregation of duties for its purchasing and receiving functions. Because many of its staff have purchase cards, and buy items from local merchants, and because there is no formal inventory process, the opportunity exists for fraud and abuse. Acquisition and inventory management processes have not been previously audited; therefore, controls over these processes should be reviewed.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- Enhanced internal controls

Department: Finance

Subject: Solicitation and Award Process

Audit Description:

Contract solicitation and award processes are important in carrying out the business of the County. These processes should insure that each qualified vendor has an equal opportunity to provide goods and services. Such processes when conducted fairly and equitably, has been shown to increase competition which leads to increased quality and fair prices. In fiscal year 2010, the County's purchasing department handled approximately 80 solicitations including approximately 300 vendors and awarded contracts for goods and services amounting to hundreds of \$millions.

The solicitation and awards process is generally conducted publicly with winners and losers. The process is subject to embarrassing protests, delays and instances of fraud and abuse. Because the process has not been audited recently, I believe it should be audited for compliance with best practices and for controls necessary for a system that will not be subject to justifiable protests and criticism.

Type of Audit:

- performance-internal controls

Anticipated Benefit:

- Enhanced internal controls