



INTERNAL AUDIT DEPARTMENT

ANNUAL AUDIT PLAN

FY 2013

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Approved by the Audit Oversight Committee on June 12, 2011

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INTERNAL AUDITING

Internal auditing plays an important role in governance, accountability, and internal control processes in Durham County. 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. The Audit Director is a Certified Internal Auditor and a Certified Government Auditing Specialist. The staff auditor holds a 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 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

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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.

In November 2011, the department underwent its first peer review conducted by reviewers from the Association of Local Government Auditors (ALGA) under the direction of the Peer Review Committee. Peer reviews assess audit department's internal policies and procedures for quality control. The review was successful and the results were attached to the December 2011 Audit Oversight Committee minutes.

AUDIT PRIORITIZATION

Policy Makers, management, and department heads have an opportunity to provide input into the plan as audits are proposed based upon the management needs as well as risk assessment results. The following factors such as (1) financial impact, (2) program complexity, (3) prior issues, (4) public interest, (5) fraud susceptibility, (6) likelihood of bad public image, (7) and elapsed time since last audit was used in the prioritization process. In recognition that internal audit's role is to assist management, concerns or issues raised 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 in fiscal year 2011. 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 invaluable 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.

FISCAL YEAR 2013 PROPOSED AUDITS:

Four audits are included in the 2013 audit plan. One audit proposal, Finance Department Solicitation and Award Process, is carried over from fiscal year 2012. The exhibit below shows the audits proposed for fiscal year 2013 and the estimated hours to complete them. The reasons for proposing these specific audits are captured in a summary beginning on page 5. All the proposed audits would have a high negative impact on the public if inherent risk events were to occur.

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PLANNED ENGAGEMENTS FOR FY 2013

Department/Audit Subject	Estimated Hours to Complete	Page
Finance Department/ Solicitation and Award Process	600	5
Health Department/ Disaster readiness and planning	565	6
Tax Department/ Real Estate Assessment Processes	525	7
Youth Home Health and Safety Environment	350	8
Follow-up	300	
Total Hours	2340¹	

¹ Calculated hours represent 60% of gross hours for two staff. Remaining hours are for training, leave, meetings, etc.

SUMMARY OF PROPOSED AUDIT ENGAGEMENTS FOR FY 2013

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

Department: Health Department

Subject: Disaster Planning and Readiness

Audit Description:

Public Health Emergency Preparedness focuses on the ability of the Health Department to plan, respond, and recover from emergencies that pose a risk to the health of the public. This is accomplished through planning with other county and community partners on best practices, training, and exercising the plans at the appropriate time. The goal is to reduce the illness or injury risk to the community during acts of terrorism, natural disasters, and communicable disease outbreaks.

This goal is accomplished through community education to promote personal and family preparedness. Prevention as a basic strategy for planning can save lives, reduce disability, improve quality of life, and, in some cases, decrease costs. Helping the community better prepare in emergency or disaster situations reduce the likelihood for injury or illness, and thus reduce morbidity and mortality.

For example, the Health Department has a responsibility to support child care providers and to assist in the provision of safe and healthy child care alternatives for families during and after disasters or emergencies. The Health department should have a plan to provide for coordination and communication in the event of a disaster or emergency, coordination in the relocation of children in affected child care settings, the assessment of the ability of partner agencies to function, the assessment of providers' needs, and provision for the establishment of temporary child care.

The Departments planning and readiness processes have not been audited in recent history and appear to be a good candidate for an audit engagement.

Type of Audit:

- performance

Anticipated Benefit:

- Compliance
- Operational effectiveness

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Department: Tax Department**Subject: Real Estate Assessments****Audit Description:**

Property taxes remain an important source of County revenues, particularly for public schools and Durham County government operations. In fiscal year 2011, the value of the County's most recent general reappraisal exceeded \$27 billion. The County collected approximately \$208 million according to budget documents.

Some important elements we will consider includes whether the assessment process is competent, open, and impartial. At a minimum, County assessors' practices should comply with statutory requirements and professional standards. In addition, homeowners should have access to information about the valuation process, including their appeal rights. It is also important that each homeowner receive similar treatment regardless of their position in the community.

Our primary audit objective will be to evaluate the adequacy of local property tax valuation practices to determine if they are fair, consistent, and in compliance with statutory provisions and professional standards. We will review how County assessors value residential properties and how homeowners may challenge values they feel are too high.

The real estate evaluation or assessment process has not been audited in recent history.

Type of Audit:

- Performance
- Compliance

Anticipated Benefit:

- Enhanced compliance

Department: Youth Home

Subject: Health and Safety Environment

Audit Description:

The Youth Home's mission is to provide secure custody or detention services to juveniles awaiting disposition of their cases in the courts. Detention services are for the protection of the juveniles and the safety of the community. One of the primary objectives of the Youth home is to provide an environment that fosters good physical and emotional care of juveniles detained at the facility.

The Youth home is a secure detention facility that provides care for children ages 6 to 17 that have been detained by the courts. It is one of 12 juvenile detention facilities in the state. The facility has the capacity for 14 juveniles; providing meals, clothing, bedding, routine medical attention, structured programs and counseling. The average stay is 10 to 14 days although some have stayed up to two years. Residents are monitored 24 hours a day and have a budget of 21.12 FTEs.

We do not have information that safety and security has been an issue at the home, however, the operation has not been audited in recent history and carries a risk of a high financial impact if an adverse event took place regarding a juvenile client. For this reason we believe the Youth Home is a good candidate for a planning survey. Survey's in terms of audit, are to gather information about the program; its operations, risks, information processes, etc. The survey may not result in an audit.

Type of Audit:

- Potential Performance
- Potential Compliance

Anticipated Benefit:

- Potential Enhanced Compliance
- Potential Performance Enhancements