



INTERNAL AUDIT DEPARTMENT

ANNUAL AUDIT PLAN

FY 2016

***Richard Edwards
Internal Audit Director***

Approved by the Audit Oversight Committee on June 29, 2015



COUNTY OF DURHAM INTERNAL AUDIT DIRECTOR

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Internal Audit Director
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Mr. Wendell Davis
County Manager

June 29, 2015

Wendell Davis, County Manager:

Per the September 2005 Audit Department Charter, I am submitting the approved fiscal year 2016 Annual Audit Plan. This plan was a collaborative effort between me and the Audit Oversight Committee whose responsibility it is to approve the plan.

This plan represents a risk based approach to the selection of audit engagements and intends to maximize the effective use of audit resources. This approach is considered best practice and encouraged by reputable audit associations as well as business and government risk management specialists.

The Audit Committee and the Internal Audit Director understands that the role of internal audit is to provide information and analysis to assist management with its decision making responsibilities. As such, this plan can be amended to meet the needs of management and policy makers as required.

Sincerely,

Richard Edwards,
Internal Audit Director

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FISCAL YEAR 2016 AUDIT PLAN

In accordance with the September 2005 Audit Charter, approved by the Board of County Commissioners, the Internal Audit Director has prepared an audit plan for fiscal year 2016. The audit plan describes audit engagements the internal audit department will perform in fiscal year 2016. The Audit Oversight Committee reviewed and approved this Plan. Current membership of the Committee is:

- Michael Page, Chairman, Board of County Commissioners
- Brenda Howerton, Vice Chairman, Board of County Commissioners
- Wendell Davis, County Manager
- Harrison Shannon
- Manuel Rojas
- Arnold Gordon

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.

To properly carry out its responsibilities, audit personnel are authorized full, free, and unrestricted access to County functions, activities, operations, records, data files, computer programs, property, and personnel. Authority is granted to Audit Department personnel 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.

Currently, the audit department has one filled position, the Internal Audit Director. The Director is a Certified Internal Auditor and a Certified Government Auditing Specialist. Two other positions, a senior auditor, and staff auditor is in the recruitment process.

AUDIT STANDARDS

The Audit 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.

In November 2014, the department underwent its second Peer Review. The review was conducted by reviewers from the Association of Local Government Auditors (ALGA) under the direction of its Peer Review Committee. Peer reviews assess audit departments' internal policies and procedures for quality control as identified by GAGAS standards. The review is designed to provide assurance that quality control systems are designed to provide reliable information and that auditors comply with those systems. The reviewer's opinion regarding Durham County was that quality controls systems were in place and the department's audits were in compliance. The next peer review is scheduled for November 2017.

AUDIT SELECTION PROCESS

Engagement activity selected for completion in fiscal year 2016 are based upon risk to meeting County objectives or risks of fraud, abuse, embarrassment or public condemnation if an adverse event were to materialize. Specific 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 were primary factors used in selecting issues for audit.

Information provided by Department heads and their assignees in the fiscal year 2014 County-wide risk assessment exercise was the basis of much of the information used to prioritize risk. During that exercise, department heads were asked to describe their objectives and identify events that may impede, hinder, or prevent achievement of the objectives. The factors described above were applied to each identified risk to rate or prioritize it against other risks. The higher scored risks were selected for audit. GAGAS standards regarding auditor competence were also applied in selecting proposed audit engagements. The audits selected can be implemented with the staff competence within the internal audit function.

By using the above risk based 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 2016 PROPOSED AUDITS

Four audits are included in the 2016 audit plan. The exhibit below shows the audits proposed audits and the estimated hours to complete them. A brief description of the audit and related objectives are captured in the summaries beginning on page five.

The audits are proposed based upon current staff. Presently, the director is the only staff available, however, a recruiting effort is underway to fill senior and staff auditor positions. The HR Department has designed an analytical ability assessment tool that we believe provides a good indicator of whether the selected applicant will be able to

readily become a contributor. When we hire such a person or persons, we will reassess the audit plan and bring it back up to the committee for approval.

PLANNED ENGAGEMENTS FOR FY 2016

Department/Audit Subject	Estimated Hours to Complete
Sheriff's Office Asset Forfeiture Accounting and Reporting	450
Legal – Risk Management Third-party collections	450
Human resources Verification of Wellness Clinic savings and projections	300
IT Follow-up Risk Assessment	250
Follow-up on previous audits	150
Direct audit hours	1600
Indirect hours: training, meetings, vacations, etc.	350
TOTAL HOURS AVAILABLE	1950

SUMMARY OF PROPOSED AUDIT ENGAGEMENTS FOR FY 2016

Department: Office of the Sheriff

Subject: Asset Forfeiture Accounting and Reporting Controls

Audit Description: The Office of the Sheriff participates in Asset Forfeiture under the federal equitable sharing program, whereby the Sheriff may seize assets, turn it over to the federal government who processes the seizure, and returns some of the funds back to the Office of the Sheriff. The state of North Carolina has a similar program as the federal program but with different refunding provisions.

Revenues returned to the Office of the Sheriff are accounted for and reported in accordance with County's Finance Department directives. Certain rules apply to categorization of these funds for accounting and expenditure purposes. There has been a history of slow accounting for funds and questions regarding correct classification. Incorrect classification and reporting can effect budget requests; requesting general funds for items that can be used with these restricted funds.

This audit will review the accounting and reporting processes and controls the Office of the Sheriff have for the revenues. Additionally, the audit may review compliance with the Sheriff's policies regarding the forfeiture process. This issue has not been previously reviewed by the internal audit department.

Type of Audit:

- Performance- Internal controls

Anticipated Benefit:

- Enhanced internal controls
- Financial compliance - reporting

Department: Legal – Risk Management

Subject: Identification and collection of third-party damages

Audit Description: The Risk Management Unit is responsible for recovering the cost of damages and injuries to County employees and property caused by third parties. This area of risk management has never been audited according to recent records. The objective of this audit would be to evaluate the adequacy and determine the effectiveness of procedures for identifying and recovering damages during the 12 months ended June 30, 2015 if data is available. If data is not available for fiscal year 2015, we will review fiscal year 2014 and as much of fiscal year 2015 for which data is available.

Type of Audit:

- Performance

Anticipated Benefit:

- Potential performance enhancements
- Potential control enhancements
- Potential increased revenue

Department: Human Resources

Subject: Evaluation of Wellness Performance Measures

Audit Description: Durham County has a Wellness Clinic for utilization by County employees. The Clinic is open Monday through Friday to examine, treat, and provide wellness services. The Human Resources Department reported savings to employees of \$307,045 in fiscal year 2014 and an estimate of \$362,042 in fiscal year 2015. The department reported the savings and estimated savings based upon their reasoning that:

1. Employees take less time away from work as compared to the time they would require going to a private provider.
2. Employees benefit financially since there is no copay when they visit the Clinic.
3. The County pays less for a Clinic visit compared to costs for a private provider visit.

We propose this audit to determine if the reported savings are supported by reliable data. This audit will help management make good decisions about how this program fits into the strategic plan.

The scope of the audit may include, but may not be limited to, verifying the accuracy of data; and comparing data collection procedures to industry best practices or other clinics.

Type of Audit:

- Performance

Anticipated Benefit:

- Potential for Process improvement
- Provide assurance to management that the program is viable and is meeting its purpose

Department: Information Technology

Subject: Follow-up on Information Technology Risk Assessment

Audit Description: The 2014 Annual Audit Plan included a high level IT risk assessment. The result was that several high-level risks exist in IT. The Director was aware of the risks and described efforts for mitigating them. The assessment was shared with the Audit Oversight Committee at its March meeting. In 2016 Internal Audit will follow-up on the risk assessment because of changes in the email system as well as increased use of Cloud based storage and operations.

The County's email and other services are no longer hosted in the County data center but in Microsoft's data centers. The County now uses Microsoft's Office 365, a cloud based system. With office 365, emails go from sender to the internet and then to the receiver as opposed to from sender to the in-house server and to the receiver. Additionally, Microsoft's "One Drive" is available for use by county employees. One Drive has limitless storage space as opposed to the "H: Drive" assigned to each network user. One Drive is accessible with an internet connection or mobile app, eliminating the need to connect to a VPN to access files.

Internal audit has not conducted a risk analysis of the use of these systems. The risk assessment will inform management of specific IT risks and strategies for mitigation.

Type of Audit:

- Internal controls

Anticipated Benefit:

- Enhanced internal controls