



***INTERNAL AUDIT DEPARTMENT***

***ANNUAL AUDIT PLAN***

***FY 2017***

***Richard Edwards***  
***Internal Audit Director***

***Approved by the Audit Oversight Committee on July 1, 2016***



## COUNTY OF DURHAM INTERNAL AUDIT DIRECTOR

**Richard Edwards**  
*Internal Audit Director*  
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**Mr. Wendell Davis**  
County Manager

July 1, 2016

Wendell Davis, County Manager:

Per the September 2005 Audit Department Charter, I am submitting the approved fiscal year 2017 Annual Audit Plan. This plan was a collaborative effort of Internal Audit and the Audit Oversight Committee whose responsibility 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 audit 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 will 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 2017 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 2017. The audit plan describes audit engagements the internal audit department will perform in fiscal year 2017. 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.

Audit personnel are authorized full, free, and unrestricted access to County functions, activities, operations, records, data files, computer programs, property, and personnel needed to carry out its responsibilities properly. The Board of County Commissioners granted authority 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 three filled positions, the Internal Audit Director, and two staff auditors. The Director is a Certified Internal Auditor and a Certified Government Auditing Specialist and has more than thirty years' experience conducting performance audits. The two staff auditors have less than six months audit experience each. One of them is holds a Bachelor of Administration degree and the other is a recently licensed attorney.

## **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. GAGAS

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. Peer reviews assess audit departments' internal policies and procedures for quality control as identified by GAGAS standards. Reviews determine and provide assurance that the entity's quality control systems provide reliable information and that auditors comply with those systems. The reviewer's opinion was that Durham County's quality control systems were adequate and the department's audits were in compliance. The Association of Local Government Auditors (ALGA) reviewers, under the direction of its Peer Review Committee, conducted the review. The next peer review should be conducted in November 2017.

### **AUDIT SELECTION PROCESS**

Engagement activity selected for completion in fiscal year 2017 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.

Internal Audit used Information provided by department heads during the fiscal year 2014 countywide risk assessment exercise to prioritize risk. During that exercise, internal Audit asked department heads to describe their objectives and identify events that may impede, hinder, or prevent achievement of the objectives. Internal Audit applied the factors above to each identified risk to rate or prioritize it against other risks. The higher scored risks were selected for audit. Internal Audit also applied GAGAS standards regarding auditor competence in the selection process.

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 2017 PROPOSED AUDITS**

Internal Audit proposed seven audits in this annual audit plan. The exhibit below shows the proposed audits and the estimated hours to complete them. A brief description of the audit and related objectives are summarized beginning on page five. The audits are proposed based upon current staff.

**PLANNED ENGAGEMENTS FOR FY 2017**

<b>Department/Audit Subject</b>	<b>Estimated Hours to Complete</b>
<b>Human resources</b> (continuation) Verification of Wellness Clinic savings and projections	250
<b>All Departments</b> Succession readiness	600
<b>General services</b> Gas Card Controls	675
<b>IT</b> Access and Identity Controls	725
<b>General services (Security)</b> Security controls related to use of badges	350
<b>IT</b> Follow-up Risk Assessment	200
<b>ALL</b> Vehicle use policy compliance	400
<b>MFR</b> Management report quality reviews (seven departments)	600
Follow-up on previous audits	300
<b>Direct audit hours</b>	<b>4100</b>
<b>Indirect hours: meetings, vacations, etc.</b>	
<b>Supervision/review/report writing</b>	<b>1450</b>
<b>Training and vacation</b>	<b>300</b>
<b>TOTAL HOURS AVAILABLE</b>	<b>5850</b>

## **SUMMARY OF PROPOSED AUDIT ENGAGEMENTS FOR FY 2017**

**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:** ALL

**Subject:** Succession Planning

**Audit Description:** This engagement will essentially be a risk assessment of the County's vulnerabilities regarding continuity upon termination or leave of departmental leaders or critical positions. The results of the engagement will provide management information that will be the basis of more attention to preparing staff to step seamlessly into critical positions and continue operations at a high level without interruptions to service.

**Type of Engagement:**

- Performance risk assessment

**Anticipated Benefit:**

- Enhanced internal controls



**Department:** General Services

**Subject:** Gasoline Card Controls

**Audit Description:** The County spends approximately \$60,000 per month, or \$720,000 annually, to purchase gasoline for vehicles. Fleet Management maintains an inventory of approximately 591 Gas Cards. Because Internal Audit has not reviewed the management controls over use of the cards, and the significant amounts of gasoline purchases, internal audit believes the risk of misuse warrants a review.

**Type of Audit:**

- Internal controls

**Anticipated Benefit:**

- Enhanced internal controls

**Department:** Information Technology

**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. SAP is the County's Enterprise Resource Planning (ERP) system. It is the suite of business-management software used to collect, store, manage, and interpret data from business activities, including, purchasing, payroll, accounts payable, and some Human Resource activity.

IAM consists of three components. They are:

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

This audit will answer the question of whether controls are in place to assure that (1) only those with a need to use the system has access and (2) access is directly related to assigned tasks.

**Type of Audit:**

- Performance-internal controls

**Anticipated Benefit:**

- Stronger controls
- Information security

**Department:** Information Technology

**Subject:** Follow-up on Information Technology Risk Assessment

**Audit Description:** The Audit Oversight Committee is interested in the Information and Technology department's controls over information and security and wants a continued presence in this area. The IT department conducted a self-control assessment, primarily related to disaster and continuity planning in fiscal year 2016, which will require a follow-up in fiscal year 2017. Additionally, in 2017, Internal Audit will request IT to conduct a self-control assessment of its information security including cyberspace security and controls.

**Type of Audit:**

- Internal controls

**Anticipated Benefit:**

- Enhanced internal controls

**Department:** General Services (Security)

**Subject:** Identification Badge Controls

**Audit Description:** The County requires employees and contractors to wear identification badges while on County property as part of its security controls. Upon termination of work relationship with the county, the badges should be collected and destroyed so they cannot be used. The responsibility for obtaining cards is at the departmental level. Cards are not always retrieved from departing employees and contractors, thus increasing the risk that unauthorized persons will have unauthorized access to the premises. Internal Audit is proposing to conduct a review of the controls to assure that badges are appropriately managed.

**Type of Engagement:**

- Performance risk assessment

**Anticipated Benefit:**

- Enhanced internal controls

**Departments:** All

**Title:** Vehicle Use Policy Compliance

**Audit Description:** Several reports have been made regarding vehicle use or vehicles being used inappropriately. Each of these reports referred to County vehicles being sited at places that appeared inappropriate, such as at restaurants. We plan to conduct a survey of vehicles equipped with GPS tracking devices to determine where the vehicles traveled and ascertain information to explain why they visited locations that appear out of the ordinary.

**Type of Audit:**

- Performance

**Anticipated Benefit:**

- Enhanced compliance
- Fraud and waste prevention

**Department:** Various

**Subject:** Management Report Quality Reviews

**Description:** During the third quarter of fiscal year 2017, departmental management will begin to communicate performance outcomes established as indicators of meeting the department's goals. Internal audit will review the management reports to provide management with information for (1) providing greater accountability, and (2) encouraging improvements in performance reporting, (3) helping focus on program results and better basis for decisions. Internal audit's largest contribution will be to determine if information contained in management reports are valid and accurate.

According to management, seven departments will begin quarterly management reporting. The reports will include several (up to ten) modules of information that will need review for accuracy. Internal audit anticipates that during the first rounds of review the focus will be upon data accuracy limited to the source and appropriateness of the data accumulated and reported. Internal audit anticipates that about seventy separate reported outcomes will be included in this first round of reviews. We do not yet know what this effort will require from internal audit however, we have dedicated hours to this effort and will make adjustments as necessary.

The departments whose reports will be audited are:

1. Finance
2. Criminal Justice Resource Center
3. Library
4. Office of the Sheriff
5. Department of Social Services
6. Cooperative Extension
7. Fire Marshal

**Type of Engagement:**

- Agreed upon procedures

**Anticipated Benefit:**

- Reporting accuracy