



***INTERNAL AUDIT DEPARTMENT***

***ANNUAL AUDIT PLAN***

***FY 2018***

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***Internal Audit Director***

***Approved by the Audit Oversight Committee on June 13, 2017***

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## **FISCAL YEAR 2018 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 2018. The audit plan proposes audit engagements to be performed during that year. The Audit Oversight Committee reviewed and approved this Plan. Current membership of the Committee is:

- Manuel Rojas, Committee Chair
- Arnold Gordon, Committee Vice Chair
- Harrison Shannon, Committee Secretary
- Wendy Jacobs, Chairperson, Board of County Commissioners
- James Hill, Vice Chairperson, Board of County Commissioners
- Wendell Davis, County Manager

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, via the charter, 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.

## **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 2018 is 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 the last audit were primary factors used in selecting issues for audit.

The County has adopted a Managing for Results model for County operations. Under that management model, management decisions and budgets are closely tied to the Strategic Plan. Operational results are reported via "accomplishment reports" issued at various times throughout the year. Going forward, Internal Audit will pay close attention to how audits will relate to and assist the County in its efforts to adhere to the Strategic Plan and the Managing for Results Model. The above risk factors will continue to guide the selection process but with the County's strategic goals as the primary focus.

By using the above risk-based methods, we believe this audit plan is consistent with the mission of supporting an atmosphere of continuous improvement, integrity, honesty, and accountability through independent assessments of County programs, activities, and functions.

## **FISCAL YEAR 2018 PROPOSED AUDITS**

The following proposed audits are intended to be a bridge between the outgoing and incoming director. This plan is intended to leave room for the incoming director to augment as necessary to meet his or her objectives. This plan also reflects reduced staff availability for the fiscal year. One person will be out for approximately three months, leaving the proposed work to be handled by the director and one auditor. Currently, the Audit Department has three filled positions, the Internal Audit Director, and two staff auditors. The two staff auditors are licensed attorneys.

Considering staff competency and availability, the following engagements are proposed. The proposal includes four engagements to begin in fiscal year 2018

and one engagement, which is currently in progress. . A brief description of the audits and related objectives begins on page five.

### **PLANNED ENGAGEMENTS FOR FY 2018**

<b>Department/Audit Subject</b>	<b>Estimated Hours to Complete</b>
<b>Engineering/Courthouse Renovation Contract Monitoring (Continuing from FY 2017)</b>	<b>300</b>
<b>Finance/Accounts Payable Controls</b>	<b>375</b>
<b>IS&amp;T/Security Risk Assessment</b>	<b>112</b>
<b>Various/Accomplishment Reporting</b>	<b>600</b>
<b>Various/Contract Compliance and Contracting Authority</b>	<b>275</b>
<b>Total Hours</b>	<b>1662</b>

Note: The estimated hours will need to be adjusted by the incoming director based upon availability of staff and the director's objectives for training, assessment of talent, and other factors the director considers in assigning work and engagement scope and objectives.

## **SUMMARY OF PROPOSED AUDIT ENGAGEMENTS FOR FY 2018**

**Department: Finance**

**Subject: Accounts Payable Controls:**

**Audit Description:**

Accounts payable is an inherently high-risk activity. The County's accounts payable program was last reviewed in fiscal year 2009. At that time, Internal Audit conducted tests to determine if fictitious or inappropriate vendors were included in the vendor inventory and if payments were accurate and timely. Internal Audit also examined the processes to determine if invoices were valid and lacking duplications. One of the recommendations at the time was that the vendor file be purged regularly to keep it free of inactive or otherwise inappropriate vendors.

The Master Vendor File is a critical County resource. Inaccurate, incomplete, or unauthorized master vendor files could have a negative effect on processing vendor payments and may increase the risk of fraud or abuse in the County's vendor payments. In performing this engagement, Internal Audit will focus on the internal controls surrounding the accuracy and reliability of the Master Vendor File as well as payment processing. Because of the volume of payments made by the Accounts Payable function, Internal Audit believes there is continued risk in the accounts payable area and should be audited regularly or at least every five or six years.

**Type of Audit:**

- performance-internal controls

**Anticipated Benefit:**

- Enhanced internal controls

**Department: Information Systems & Technology**

**Subject: Security Risk Assessment**

**Audit Description:**

The Audit Oversight Committee is interested in the IS&T's controls over information and security and wants a continued presence in this area. With Internal Audit provided questions, IS&T has conducted a self-control assessment for three consecutive years to communicate risks and risk remediation regarding its systems and applications. The assessments have been valuable in keeping management, the Audit committee, and the BOCC abreast of how IS&T manages information and technology threats. This will be the fourth annual high-level risk assessment of the IS&T function.

**Type of Audit:**

- Internal controls

**Anticipated Benefit:**

- Enhanced internal controls

**Department: Various**

**Subject: Performance Measurement/Accomplishment Reporting**

**Description of Audit:**

Durham County Government has adopted a Managing for Results model to guide its operations. That model relies heavily upon data to guide its practices and to measure accomplishments. Accomplishments are communicated via "accomplishment reports" and are distributed to various stakeholders including the public as appropriate. Internal Audit's role is to assess report information for accuracy, reasonableness, and usefulness in relation to informing stakeholders about how well programs are performing and meeting established goals. In summary, the objective of the audits will be to determine if performance/accomplishment reports provide information that is relevant (logically related to pertinent performance expectations) and reliable (verifiable and free from biases). Along with review of the accomplishment reports, Internal Audit will conduct benchmarking exercises related to performance evaluation and reporting metrics.

**Type of Engagement:**

- Management Analysis

**Anticipated Benefit:**

- Reporting accuracy



**Department: Various**

**Subject: Contract Compliance and Contracting Authority**

**Description of Audit:**

Contract monitoring continues to be of interest to County leaders. This subject is important because much of the work of the County is done through contracts. We loosely estimate there to be about 700 active contracts and roughly \$11 million encumbered at this time. These numbers fluctuate over the year and can be more or less at any specific time during the fiscal year.

In fiscal year 2015, Internal Audit followed up on a contract administration internal audit conducted in fiscal year 2009. Although a follow-up was conducted and recommendations implemented, concerns and questions continue to arise over contract management procedures.

Internal Audit is proposing to review contracting processes including (1) appropriate authorizations, (2) processes to determine if contract deliverables are met, and (3) end of contract processes to determine if future contracts are warranted for that vendor.

**Type of Engagement:**

- Agreed upon procedures

**Anticipated Benefit:**

- Improved Compliance

Engagement in progress

**Department: Engineering**

**Subject: Quality of Contract Monitoring for Courthouse Renovation**

**Description of Audit:**

Construction projects are inherently high risk for several reasons. They are generally costly and hazardous, to mention a few reasons. During the construction phase and after construction projects are completed, operational problems sometimes exist and many project disputes end up in courts for resolution. The County is not immune from such risks and has had legal disputes in the past resulting from construction projects.

The Engineering Department has made a change from past construction projects by engaging a Construction Manager at Risk for the \$47M Courthouse Renovation project (\$38 M is the construction cost). The Construction Manager at Risk (CMAR) is an arrangement whereby a Construction Manager contracts to deliver the project within a Guaranteed Maximum Price (GMP) based on the construction documents and specifications at the time of the GMP plus any reasonably inferred items or tasks. The CMAR provides professional services and acts as a consultant to the owner in the design development and construction phases. In addition to acting in the owner's interest, the CMAR manages and controls construction costs to not exceed the GMP because contractually any costs exceeding the GMP that are not change orders are the financial liability of the CMAR.

Because of issues with contract administration in the past, Internal Audit undertook an engagement to review the quality of the Engineering Department's administration of the renovation contract. Internal Audit sought to identify and understand the systems in place to assure construction conforms to contract terms and municipal, state, and federal statutes and codes.