



INTERNAL AUDIT DEPARTMENT

ANNUAL AUDIT PLAN

FY 2014

Richard Edwards
Internal Audit Director

Approved by the Audit Oversight Committee on June 11, 2013



COUNTY OF DURHAM INTERNAL AUDIT DIRECTOR

Richard Edwards
Internal Audit Director
rcedwards@dconc.gov

Mr. Michael M. Ruffin
County Manager

June 18, 2013

Michael M. Ruffin, County Manager:

Per the September 2005 Audit Department Charter, I am submitting the approved fiscal year 2014 Annual Audit Plan. This plan was a collaborative effort between me and the Audit oversight 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

TABLE OF CONTENTS

Introduction	2
Audit Standards	2
Audit Selection Process	3
Fiscal Year 2014 Proposed Audits	3
Planned Engagements for FY 2014	4
Summary of Audit Engagements for FY 2014	5
County-wide	
Vehicle Maintenance Contract Management	5
Department of Social Services and Health	
Gift Card Controls	6
Information Technology	
Broad Based Risk Study	7
Information Technology	
Periodic Follow-up of Risk Study	8
Information Technology	
Selected Control Audit As Result Of Risk Study	9
Cooperative Extension	
Grants Management and Reporting	10
Youth Home	
Health and Safety Environment	11

In accordance with the September 2005 Audit Charter, approved by the Board of County Commissioners, the Internal Audit Director has prepared an annual audit plan for fiscal year 2014. The audit plan describes audit engagements the internal audit department will perform in fiscal year 2014. The Audit Oversight Advisory Committee reviewed and approved the 2014 Plan. Current membership of the Committee is:

- Fred Foster Jr., Chairman, Board of County Commissioners
- Brenda Howerton, Vice Chairman, Board of County Commissioners
- Michael M. Ruffin, County Manager
- Manuel Rojas, Committee Chair
- William Pierce, Committee Vice Chair
- Harrison Shannon, Committee Secretary

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 two filled positions, the Internal Audit Director and one 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 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 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 2014.

AUDIT SELECTION PROCESS

Engagements activity selected for completion in fiscal year 2014 are based upon risk to meeting County objectives or risks of fraud, abuse, 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 areas for audit.

Department heads assisted in the planning process by providing self assessment risk analysis information. The factors above were applied in unison with department head assessments to rate the overall risk to the County for the purpose of selecting audits. GAGAS standards regarding auditor competence were also applied in selecting proposed audit engagements.

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 2014 PROPOSED AUDITS

Six audits are included in the 2014 audit plan. The exhibit below shows the audits proposed for fiscal year 2014 and the estimated hours to complete them. A brief description of the audit needs and objectives for these specific engagements are captured in the summaries beginning on page five.

PLANNED ENGAGEMENTS FOR FY 2014

Department/Audit Subject	Estimated Hours to Complete	Page
County Wide Auto Maintenance Contract Management	550	5
Social Services and Public Health Cash Handling/Gift Card Controls	450	6
Information Technology Broad Based Risk Study	112	7
Information Technology Periodic Follow-up of Risk Study	180	8
Information Technology Selected Control Audit As Result Of Risk Study	420	9
Cooperative Extension Grants Management (Project Build and Welcome Baby)	380	10
Youth Home Health and Safety Environment	475	11
Follow-up	250	
Total	2817¹	

¹ The total hours represents approximately 75.7 percent of the total hours for two persons for one year. The number of hours may be aggressive considering the administrative effort required to prepare for the upcoming Peer Review in November 2014 which includes extensive revamping of Quality Controls because of "Yellow Book" revisions. Additionally Performance Audits may take longer because of the revisions.

SUMMARY OF PROPOSED AUDIT ENGAGEMENTS FOR FY 2014

Department: County-wide

Subject: Vehicle Maintenance Contract Management

Audit Description:

The County, including the Sheriff's Office, owns 487 vehicles it maintains primarily through two repair facilities. From July through April, 2013, the County spent approximately \$177,904 to maintain these vehicles. The maintenance contracts specify that invoices "show the exact number of hours used to perform each operation and show net prices". Appropriate monitoring of these contracts requires (1) testing to determine if hours are in line with industry standards and (2) if prices for parts comply with contract terms that the price cannot be marked up above 45% of the price paid for the part.

We have not seen evidence that such monitoring is conducted on a regular basis. We propose to conduct a test of invoices to determine if we have suffered financial losses through the lack of contract monitoring.

Type of Audit:

- Performance
- Compliance

Anticipated Benefit:

- Potential savings

Department: Departments of Social Services and Health

Subject: Gift Card Controls

Audit Description:

Gift card use for Social Service operations remains a concern even after control methods were revised in 2012. The primary concern is that more gift cards are being purchased than anticipated when the control measures were designed.

Gift card use for Health Department service operations has not been a subject of audits in recent history because they do not have a high volume of use in the department. Because the department has not had any audit exposure in its cash handling areas, and because gift cards are high risk because they are easily negotiable, their use and control should be examined to ensure controls over their use and accounting procedures are sound. Additionally, other areas of cash handling will be reviewed at this time to assure controls are in place and working appropriately.

Gift cards are the most feasible method to provide emergency clothing etc., to DSS clients entering foster care or other emergency situations. They provide a readily negotiable currency for making needed purchases individualized for each client. However, because the cards are easily negotiable, they should be carefully accounted for before distribution to case workers as well as upon distribution to foster parents. And, with the purchase of cards at a higher level than anticipated, a review of card usage makes sense at this time.

Type of Audit:

- Performance-Internal controls

Anticipated Benefit:

- Enhanced internal controls

Department: Information Technology
Subject: Broad Based Risk Study IT Risk study
Audit Description:

The IT department is in the midst of organizational changes. According to risk management experts, such changes are inherent organizational risks. To ensure the IT department understands its risks, both inherent and otherwise, and operational control operations have a high level of control, the audit committee suggests that the time is right for a high level, broad-based risk assessment.

The focus of this work will be to understand what services IT provides and if it is done with Confidentiality, Integrity of Data, and Availability of Data, the cornerstone of IT operations, as objectives. The risk assessment will be geared to high level risks that would prevent the department from meeting these objectives if they are not accomplished. Where risks are not present, the assessment will provide a level of assurance from the department's perspective that controls are in place and working.

Type of Audit:

- Internal controls

Anticipated Benefit:

- Enhanced internal controls

Department: Information Technology

Subject: Broad Based Risk Study IT Risk Study Follow-up

Audit Description:

In the event, we find from the risk assessment that controls are not in place to meet the objectives of Confidentiality, Integrity of Data, and Availability of Data; we will continually monitor the status of the control weaknesses. Information regarding the status of control weaknesses or risks will be gathered monthly and reported to the manager and the Audit Oversight committee at quarterly meetings.

Type of Audit:

- Performance-Internal controls

Anticipated Benefit:

- Enhanced internal controls

Department: Information Technology

Subject: Selected Control Audit As Result Of Risk Study

Audit Description:

During the course of the high-level risk assessment, IT will have areas of high risk it believes has adequate control structures in place. We will prioritize the risks and select operations or processes to test for assurance that controls are in place and working to minimize risk and assist in meeting the objectives of Confidentiality, Integrity of Data, and Availability of Data.

Type of Audit:

- Internal controls

Anticipated Benefit:

- Enhanced internal controls

Department: Cooperative Extension
Subject: Grants Management and Reporting
Audit Description:

Cooperative Extension operates several programs for which a large portion is funded by grants. In fiscal year 2013, grants of approximately \$1.17M were awarded to the Department to administer its programs. Grants are audited by the financial auditor under the single audit concept; however, due to the number of grants that fall under this concept, testing is limited based upon materiality or significance to the whole.

Because of limited testing by the external auditor and because grant management controls have not been reviewed in the past, a review of this program is proposed for fiscal year 2014. The objective will be to determine if systems are in place to accurately account for and report expenditures in accordance with rules of the County and other governing bodies.

Type of Audit:

- Performance
- Compliance

Anticipated Benefit:

- Increased Compliance and Controls

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. Surveys 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