



***INTERNAL AUDIT DEPARTMENT***

***ANNUAL AUDIT PLAN***

***FY 2015***

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

***Approved by the Audit Oversight Committee on June 30, 2014***



## COUNTY OF DURHAM INTERNAL AUDIT DIRECTOR

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

June 30, 2014

Michael M. Ruffin, County Manager:

Per the September 2005 Audit Department Charter, I am submitting the approved fiscal year 2015 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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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 2015. The audit plan describes audit engagements the internal audit department will perform in fiscal year 2015. The Audit Oversight Committee reviewed and approved the 2015 Plan. Current membership of the Committee is:

- Michael Page, Chairman, Board of County Commissioners
- Brenda Howerton, Vice Chairman, Board of County Commissioners and Committee Vice Chair
- Wendell Davis, County Manager
- Harrison Shannon, Committee Chair
- Germaine Brewington, Committee Secretary
- Manuel Rojas.

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 three filled positions, the Internal Audit Director a Certified Internal Auditor and a Certified Government Auditing Specialist; a senior auditor, Masters Degree in Accounting; and a staff auditor, Master of Business Administration.

## **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 SELCECTION PROCESS**

Engagement activity selected for completion in fiscal year 2015 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 2015 PROPOSED AUDITS**

Five audits are included in the 2015 audit plan. The exhibit below shows the audits proposed for fiscal year 2015 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 2015**

<b>Department/Audit Subject</b>	<b>Estimated Hours to Complete</b>	<b>Page</b>
<b>EMS</b> Billing, Collections, and Cash Handling		5
<b>County-wide</b> Contract Management		6
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## SUMMARY OF PROPOSED AUDIT ENGAGEMENTS FOR FY 2015

**Department:** EMS

**Subject:** Billing, Collections, and Cash Handling

**Audit Description:** The EMS Department has implemented a significant organizational change in the past year. The department has taken over control of the EMS functions that were previously conducted by Volunteer Fire Departments under contract with the County's EMS Department. The new arrangement has created additional burdens for billing and collecting for EMS services. EMS services are supported by the Health Trust Fund which will expire over a period of years; however, proper billing and collection activity will serve to slow down the expiration of Trust Fund resources.

In July 2008, Internal Audit issued an audit report regarding EMS billing and collections processes. During that audit it was found that a significant number of cases with collection values of several hundred thousand dollars were not billed due to manual billing processes. Since issuing the audit report a limited follow-up was conducted; however, significant time has passed since the 2008 audit to warrant another audit of the processes. Additionally, the change in EMS management, organizational changes, additional workload, as well as additional staff required to meet the needs of the organizational change, are factors that would lead to a follow-up audit.

**Type of Audit:**

- Internal controls

**Anticipated Benefit:**

- Enhanced internal controls

**Department:** County-wide

**Subject:** Contract Management

**Audit Description:** The County is party to approximately 1,000 contract agreements at a cost of roughly \$9M for the purpose of conducting its operations. The contracts cover the gamut of operations from elderly and children’s care providers in the Social Services arena to services to maintain our buildings. These contracts, for which much of the County’s funds are disbursed, are the lifeblood of keeping the County engaged in meeting its operational goal and objectives.

Recently, Internal Audit reviewed two contracts for automobile maintenance and repair services for the County’s vehicles. During the audit it was found that contract management, especially contract monitoring processes, were inadequate to assure contractor compliance and more importantly to assure the county was “getting what it paid for.” This result was uncovered; although two years prior, most departments communicated that they had implemented contract monitoring processes. However, the County Attorney that shepherded that project left county employment months ago. It does not appear that a concerted effort continues to assure that contract administration includes monitoring the quality of contractor deliverables.

The audit will include, but may not be limited, to methodologies to determine if adequate and formal processes are in place to administer contracts. This includes processes to (1) determine the quality of goods or services, (2) communicate with contractors to levy complaints, (3) receive appeals or consider contractor feedback, and (4) remedy circumstances in which problems are not satisfactorily resolved.

**Type of Audit:**

- Performance- Internal controls

**Anticipated Benefit:**

- Enhanced internal controls
- Potential savings



**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 was making progress towards mitigating those that were not sufficiently mitigated at the time of the assessment. The assessment was shared with the Audit Oversight Committee at its March meeting.

The County has organized an “SAP Executive Level Management Team” to review and recommend improvements to IT operations and risk abatement. The Internal Auditor, a member of that team, will use that opportunity along with a more formal follow-up exercise to provide at least two status updates on the risk assessment status during the yearly cycle.

**Type of Audit:**

- Internal controls

**Anticipated Benefit:**

- Enhanced internal controls

**Department:** Finance Department

**Subject:** Non-Real Property Asset Management

**Audit Description:** The County's non-real property fixed assets are valued at approximately \$4.1M. Asset value is an important data set in financial reporting as it is a factor used in various ratios for evaluating the County's financial condition.

According to literature from organizations that monitor and report on local government practices, fixed asset management is often neglected. The result is that fraud, waste, and abuse can exist as well as financial reporting can be negatively affected by inaccuracies.

This operation was chosen because fixed asset management has not been audited since the current audit process went into effect approximately four years ago and there is a sizeable inventory. Additionally, if weak controls for maintenance and accounting of fixed assets were found to be the cause of fraud, waste, or abuse, the County's public image would most likely suffer.

This audit proposes to determine if controls are adequate to reach a reasonable conclusion on the value of assets, especially non-real property assets, and if assets are secure in accordance with County policies and best practices.

**Type of Audit:**

- Performance
- Compliance

**Anticipated Benefit:**

- Increased compliance and controls

**Department:** Engineering

**Subject:** General Construction Project Review

**Audit Description:** This audit will involve a risk assessment for Construction Contracts Monitoring to determine the level of controls the Engineering Department has over contractors to determine that the quality of work is sufficient and that materials are acceptable as determined by terms of the contract.

The scope of audit will include, but may not be not limited to, the review of design budgets and costs; the bid and award process; invoice processing and payment; change orders; construction management, architectural, and engineering services; use of major equipment/materials; the closeout process; administration of liquidated damages; and overall project cost accounting and reporting. This includes any transactions or activity performed by the County, construction management firm, and trade subcontractors.

**Type of Audit:**

- Performance

**Anticipated Benefit:**

- Potential performance enhancements
- Potential control enhancements
- Potential savings on future construction contracts