

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FISCAL YEAR 2009 ANNUAL REPORT
SEPTEMBER 16, 2009**



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I. Introduction

We are pleased to present the Interagency Internal Audit Authority's (IIAA) first annual report on the accomplishments of the Internal Audit Division. We want to thank the entire staff and interns for their hard work and dedication which has resulted in the accomplishments summarized in this report. In addition, we want to express our appreciation to the members of the Interagency Internal Audit Authority (IIAA) who volunteer their time to provide technical guidance to the Internal Audit Division. The IIAA ensures that our reports contain constructive recommendations that improve management and accountability to the taxpayers.

Our accomplishments can be best measured by the audit results, simply put, what changed for the better. Accordingly, after each fiscal year we will report on the number of recommendations made, the number accepted by management, and identify management improvements and any cost savings or revenues collected that have been made as a result of our audits. We will also report on management actions taken to implement recommendations made in prior reports. While we are always looking to identify cost savings, sometimes cost savings cannot be easily quantified. However, our recommendations often improve internal controls and make an operation or program run more efficiently and effectively, which ultimately saves money. This is critical, especially in today's economic environment.

In FY 2009, the Internal Audit Division focused on conducting more performance audits of high and medium-risk areas and was successful in achieving more positive results from its audits. It issued 5 reports, 4 of those contained a total of 23 recommendations, almost all agreed to by management. As a result, actions were taken and planned to significantly improve the County's processes for (1) overseeing a sub-grantee's grant accounting and reporting methods (2) pursuing opportunities to recover additional costs on construction projects caused by architect/engineer design errors and/or omissions, and (3) recruiting and selecting employees. Actions were also taken by FCC to improve controls in its student registration process.

The 23 recommendations made in FY 09 represent a noticeable increase from past years. We believe this is due to the shift of audit resources to conducting performance audits of higher risk areas rather than financial audits of lower risk areas, which generally have not resulted in findings and recommendations. For comparison purposes, in FY 07 and FY 08, the Internal Audit Division made 12 and 7 recommendations, respectively.

The Internal Audit Division was also successful in providing non-audit services. The Division wrote a management letter to the County Manager on a Hotline issue that resulted in improvements to County operations. In addition, four follow-up reviews were conducted to determine whether Frederick County Government (County), Frederick Community College (FCC), and Frederick County Public Schools (FCPS) implemented recommendations from prior audit reports. In almost all cases, the recommendations have been implemented. This not only demonstrates the effectiveness of the Internal Audit Division in making appropriate recommendations, but also the willingness of management to work with the Internal Audit Division to improve their operations.

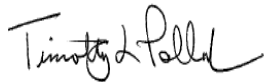
The Internal Audit Division also provided support to the County's external auditors and Finance Division. Staff reviewed five Federal programs under the Single Audit and conducted a Fleet Services inventory. In addition, the Internal Audit Division conducted an audit of the Senator William H. Amoss Fire, Rescue, and Ambulance Fund of Frederick County.

In FY 09, the Division reviewed and revised its audit procedures to improve the quality of audit work, and was successful in keeping staff indirect time to a minimum. In addition, because of staff turnover in the past several years, the Division emphasized training new staff and re-establishing its student intern program to supplement its staff. Most importantly, the Division focused on building good working relationships with County, FCPS, and FCC managers so these entities feel free to request our assistance when needed and can trust that we will conduct our audits in a fair and constructive manner.

In FY 10, the Division plans to continue to conduct performance audits of high and medium-risk areas with emphasis on capital construction, fee collections, IIT security, and tracking and reporting of American Recovery and Reinvestment Act of 2009 funds. Assignments started and planned are shown in Section VII.



Richard A. Kaplan, CAE/Director



Timothy L. Pollak, Chair, IAA

II. Authority and Responsibility

Authority: The Interagency Internal Audit Authority (IAA) is authorized by the Board of County Commissioners of Frederick County, Maryland, Resolution No. 99-05 to direct a broad comprehensive program of internal auditing within the County, the Board of Education, and FCC. In accomplishing its activities, the IAA and the Internal Audit Division are authorized to order the production of all records and materials necessary to perform audits of any commission or agency that receives County funds.

Responsibility: The IAA is responsible for:

- Providing for the establishment of an internal audit staff.
- Approving an annual budget request for the Internal Audit Division for submission to the Board of County Commissioners.
- Approving an annual strategic plan outlining major risk areas and a five-year plan to provide audit coverage of those areas.
- Approving a detailed annual work plan reflecting each audit planned and corresponding budgeted hours.
- Establishing policies for the auditing activity and providing counsel and direction regarding its technical and administrative functions.
- Authorizing the distribution of reports on the results of audit examinations, including recommendations for improvement of management controls.
- Appraising the adequacy of the action proposed or taken by management to correct deficient conditions.
- Reviewing and approving/disapproving special requests for audit services received from the Board of County Commissioners or other government officials.

The Internal Audit Division is responsible for administration of the internal audit function under the direction of the IAA which includes:

- Preparing the annual budget request, Annual Audit Work Plan, and Strategic 5-year Plan,
- Performing audits in accordance with the work plan approved by the IAA and in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States,
- Preparing audit reports including findings and recommendations for corrective action, and preparing management letters,

- Conducting non-audit services that do not impair independence, such as following-up on prior audit recommendations; investigating allegations of fraud, waste, or abuse; and providing limited technical advice.

Every three years, the Internal Audit Division has a peer review by the Association of Local Government Auditors (ALGA) to ensure compliance with *Government Auditing Standards*. The Internal Audit Division has received a rating of full-compliance on all of its peer reviews, including the most recent one conducted by ALGA in April 2008. This rating means that the Internal Audit Division's internal quality control system is suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards*. The recent peer review covered audits and attestation engagements during the period from January 1, 2005 through December 31, 2007.

III. Summary of Audit Results

The following reports contained findings and recommendations that had positive results:

- ✓ The review of County Office for Children and Families¹ (OCF) sub-grants in FY 07 and FY 08 resulted in the recovery of about \$33,700 for the State in unallowable costs. The review also resulted in OCF improving its oversight of the sub-grantee, State retroactive approval of \$43,320 in FY 07 funds spent by the sub-grantee outside of the grant period, grant accounting training by the sub-grantee's Business Manager, and an annual review by an external auditor of the appropriateness of the allocation methods that the Business Manager determines will be used each year for the grants (Report 09-01, July 16, 2008).
- ✓ The audit of FCC's Registration Process resulted in the implementation of controls to address a design flaw in the Student Administration database that allowed students to register for classes when there was more than one type of hold on their account for financial, academic, or other reason (Report 09-05, December 17, 2008).
- ✓ The audit of the County's Division of Public Works Change Order Process resulted in re-convening an Architect/Engineer (A/E) Responsibility Review Board consisting of senior managers in Public Works, contract specialists, and counsel to determine A/E liability for design deficiencies. The Board had rarely met since it had been established in 1993. This will help the County pursue any opportunities that may exist to recover additional costs from A/E consultants. The audit identified 13 of 114 change orders resulting from design errors and/or omissions that totaled approximately \$428,000 and ranged from \$10,000 to \$100,000. While the cost of these change orders may include betterment, there may be opportunities to recover some of the costs. Therefore, we recommended that the Board evaluate these opportunities. The audit also resulted in improvements in documenting and tracking change orders (Report 09-07, February 18, 2009).
- ✓ The audit of the County Human Resources Division's Process for Recruiting and Selecting Employees resulted in improvements in the supervisory review and approval of its

¹ OCF is under the County's Division of Citizens Services.

recruitment and selection process. It compared the County's process to four other Maryland counties and identified opportunities to make the County's process more effective and efficient. The Human Resources (HR) Division has already implemented some of the recommendations and plans to implement almost all other recommendations. The most significant change being made as a result of the audit is HR's plans to contract for the installation of an integrated automated recruitment and selection process, which should greatly enhance the efficiency and effectiveness of the current process (Report 09-08, April 15, 2009).

IV. Summary of Non-Audit Results

The primary non-audit services the Internal Audit Division provides are follow-up reviews of audits containing recommendations. These reviews are conducted approximately 6 months after the audit reports are issued. In FY 09, the Division conducted four follow-up reviews and found that the recommendations have been implemented.

- ✓ The County's Purchasing Department developed standard operating procedures as recommended. They also updated the Procurement Card Policies and Procedures to require documentation to show the legitimate purpose of PCard purchases and to state that the Director of Purchasing may investigate and seek reimbursement for any purchase of an item appearing on the prohibited items list (Report 09-02, September 17, 2008).
- ✓ FCPS developed a method to automate the budget load to the PeopleSoft Financial System for restricted fund budgets. FCPS also developed a Manual for Restricted Fund Administration (Report 09-03, November 19, 2008).
- ✓ The County's Sheriff's Office improved its overtime tracking and reporting (Report 09-04, December 17, 2008).
- ✓ The County's Office of Children and Families (OCF) and a sub-grantee had implemented all five recommendations to improve oversight of its grant accounting and reporting (Report 09-09, May 29, 2009).

The Internal Audit Division also conducts Hotline investigations of complaints that are submitted by County employees to the Fraud Hotline. In January 2009, the Internal Audit Division wrote a management letter to the County Manager on a Hotline issue which resulted in improvements to County operations.

V. Other Accomplishments

The Internal Audit Division had the following other accomplishments in FY 09:

- ✓ Briefed the Board of County Commissioners and Board of Education in the summer 2008 on our annual and strategic audit work plans.
- ✓ Revised our student internship announcement and promoted our intern program with area colleges and universities. As a result, the Division was successful in obtaining one intern in the fall 2008 and two interns in the summer 2009 to temporarily supplement the permanent audit staff.
- ✓ Rewrote the Audit Manual to implement the July 2007 revisions to the *Government Auditing Standards* issued by the Comptroller General of the United States and to reflect current audit practices.
- ✓ Provided staff the training required by the *Government Auditing Standards*. In addition, staff took their own initiative to obtain professional certifications. One staff member earned the Institute of Internal Auditor's designation as Certified Internal Auditor (CIA) and two staff members earned the Institute's designation as Certified Government Auditing Professional (CGAP). Among the current audit staff of six, including the Director and Audit Manager, there are two CIA's, one Certified Internal Control Auditor (CICA), two CGAPs, and one Certified Fraud Examiner (CFE).
- ✓ In February 2009, the Director issued the first annual Summary of Monitoring Results required by the *Government Auditing Standards*. The purpose of the review was to assess compliance with the *Government Auditing Standards* and the Division's quality control policies and procedures and to identify any systemic issues needing improvement, along with recommendations for corrective action. The Director found that supervisory review of staff assignments was timely and thorough, which ensured compliance with the *Government Auditing Standards* and the Division's policies and procedures. The Director did identify the need for some improvements in preparing working papers and these were discussed with the staff.
- ✓ Worked with the County's Purchasing Department and IIT Security Officer to develop a Request for Proposal for an IT consultant to audit the security of FCPS' network and PeopleSoft Human Resource Management System. The County awarded the contract to Securance Consulting, and the audit began in August 2009.

VI. List of Reports Issued and Results			
Report No./Date/Title	# Recommendations	# of Recommendations Agreed to by Auditee Management	Management Improvements and/or Cost Savings
(09-09, May 20, 2009) Follow-up to Report No. 09-01 State Grant Funds Sub-Granted to the Mental Health Association for Frederick County for the Period July 1, 2006 through March 30, 2008			See Report 09-01
(09-08, April 15, 2009) Frederick County Human Resources Division's Process for Recruiting and Selecting Employees	11	10	-Improved monitoring of recruitment actions -Implemented or plan to implement recommendations to make the recruitment and selection process more efficient. HR plans to implement Neogov, an on-line recruitment and selection process.
(09-07, February 18, 2009) Frederick County Division of Public Works Change Order Process for the Period November 1, 2006 through February 29, 2008	5	5	-Planned improvements in process for deciding whether or not to pursue cost recovery for design errors and/or omissions caused by Architect/Engineer (A/E) consultants -Improved procedures to document and track change orders
(09-06, December 18, 2008) Senator William H. Amoss Fire, Rescue, and Ambulance Fund of Frederick County, Maryland for the Year Ended June 30, 2008	None	N/A	N/A
(09-05, December 17, 2008) Frederick Community College Registration Process for the Period Summer 2007 through Spring 2008 Semesters	2	2	Established controls to address a design flaw in the Student Administration database that allowed students to register for classes when there was more than one type of hold on their account

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Report No./Date/Title	# Recommendations	# of Recommendations Agreed to by Auditee Management	Management Improvements and/or Cost Savings
(09-04, December 17, 2008) Follow-up to April 10, 2006 Review of Frederick County Sheriff's Office Overtime for the Fiscal Years 2002-2005			Improvements in the Sheriff's Office overtime tracking and reporting
(09-03, November 19, 2008) Follow-up to June 30, 2006 Report on Frederick County Public Schools Restricted Fund			A method to automate the budget load to the PeopleSoft Financial System for restricted fund budgets was developed as well as a Manual for Restricted Fund Administration
(09-02, September 17, 2008) Follow-up to July 20, 2007 Report on Frederick County Expenditures for the Period July 1, 2005 through April 30, 2007			-Standard operating procedures were developed by the Purchasing Department - Procurement Card Policies and Procedures were updated to require documentation to show the legitimate purpose of PCard purchases and to state that the Director of Purchasing may investigate and seek reimbursement for any purchase of an item appearing on the prohibited items list
(09-01, July 16, 2008) State Grant Funds Sub-granted to the Mental Health Association of Frederick County for the Period July 1, 2009 through March 31, 2008	5	5	Recovery of \$33,679 for Maryland Governor's Office for Children and improvements in County's monitoring of sub-grantee's grant accounting and reporting
TOTALS	23	22	

Note: If you would like to obtain copies of these reports, please visit our website at <http://www.co.frederick.md.us/index.aspx?nid=1191> or call Sandra Ruark at 301-600-1154.

VII. Work in Progress and Planned

FREDERICK COUNTY

✓ In Progress

- Development Review Fee Collection Process (Audit Request)

Objective: To determine whether internal controls are adequate over review fees charged, collected, and deposited.

✓ Planned

- Senator William H. Amoss Fire, Rescue, and Ambulance Fund (Financial audit required by Maryland Emergency Management Agency)
- Single Audit (Financial audit to support external auditors)
- Collection of Water/Sewer Capacity Fees (Audit Request)
- Application Account Security and Management-IIT (Audit Request)
- Tracking and Reporting ARRA Stimulus Package Funds
- Hotel Rental Tax (Mandated by County Ordinance)
- Follow-up Reviews

FCPS

✓ In Progress

- Food Services Operations

Objective: To determine whether FCPS Food Services Operations are managed effectively and efficiently.

- PeopleSoft HRMS and Network Security (Audit performed by IT consultant)

Objective: To determine that FCPS' PeopleSoft HRMS and network security have been setup and are operating in accordance with applicable policies, procedures, and standards and that they are secure from internal and external threats.

VII. Work in Progress and Planned

✓ Planned

- Capital Construction Management

FCC

✓ In Progress

- Audit of FCC's Dining Services Operations

Objective: To determine whether FCC's dining, vending and catering operations are managed effectively and efficiently.

- Audit of FCC Classroom Student Center Project

Objective: To determine that FCC's construction management is effective in ensuring that the Classroom Student Center project is on time, within budget, and is constructed in accordance with laws/regulations, contract terms, and policies and procedures.

✓ Planned

- Bookstore Operations

VIII. IIAA Members and Audit Staff

IIAA Members	Internal Audit Staff
Timothy Pollak, CPA, Chair (Public Representative)	Richard A. Kaplan, CIA, CFE, Director 301-600-1675
James H. Stanker, CPA, Vice Chair (Public Representative)	Kelly Hammond, CICA, Audit Manager 301-600-2912
Larry W. Myers (Public Representative)	Therese Ramey, Senior Auditor (Retired 6/30/09)
Jan H. Gardner, President, Board of County Commissioners (BoCC) (County Representative)	Sonja L. Erickson, CGAP, Auditor II 301-600-1609
Michael Schaden, VMD (BOE Representative)	Jason W. Myers, Auditor II 301-600-1079
Doris J. White (FCC Representative)	Eric R. Fout, CIA, Auditor II 301-600-2307
Vacant (Public Representative)	Dana Duvall, CGAP, Auditor II 301-600-2306
	Donna Smith, Administrative Coordinator (Retired 6/30/09) Sandra Ruark, Administrative Coordinator (Effective 8/17/09)
	Xiaoping He Speciale Intern Fall 2008
	Christopher Sun-Sin Epstein Intern Summer 2009
	Robin Inskeep Intern Summer 2009