

FREDERICK COUNTY INTERAGENCY INTERNAL AUDIT AUTHORITY

**FISCAL YEAR 2010 ANNUAL REPORT
September 15, 2010**



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I. Introduction

We are pleased to present the Interagency Internal Audit Authority's (IIAA) annual report on the accomplishments of the Internal Audit Division in FY 10. The Internal Audit Division continued its focus on performance audits of high and medium-risk areas and we were successful in achieving positive results even though we were short staff throughout the year. We issued 5 reports and 2 management letters which contained a total of 20 recommendations. In addition, our IT consultant made 18 recommendations to improve IT security at FCPS. Management agreed to implement 34 of the 38 recommendations. The Internal Audit Division also conducted follow-up reviews on three reports issued in FY 09 which confirmed that our recommendations to improve operations were implemented. Accordingly, Frederick Community College (FCC), Frederick County Government (County), and Frederick County Public Schools (FCPS) have been very responsive to our recommendations.

At the beginning of the fiscal year, we issued our Audit Manual which implemented the July 2007 revision to the *Government Auditing Standards* issued by the Comptroller General of the United States. We also provided staff with a Best Practices Manual in order to share the best examples of various work products from each staff member such as flow charts, risk assessments, Audit Planning Results Memos, and Monthly Project Reports. In October 2009, we hosted a delegation from the Hangzhou China Audit Bureau and discussed our similarities and differences. The Internal Audit Division also provided support to the County's external auditors. Staff reviewed eight Federal programs under the Single Audit, which was an increase from five in FY 09 primarily due to the Federal requirement to audit all programs with American Recovery and Reinvestment Act (ARRA) funds.

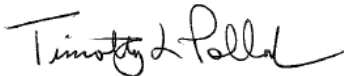
In FY 11, the Division plans to continue to conduct performance audits of high and medium-risk areas with emphasis on capital construction, purchasing/contracts, and fee collections. Several of our audits of the County were requested by Division Directors or Department Heads. Our IT consultant will complete the review of the County's Application Account Security and Management that was started in FY 10 using funds approved in our FY 10 budget. Due to budgetary constraints, the \$25,000 we use annually for an IT consultant will not be available for FY 11. Future audits of IT systems and security controls in all three entities will most likely require hiring an IT consultant, which will depend on whether funding will be available. Assignments started and planned are shown in Section VIII.

One significant change in our audit plan is that the County's Finance Division has decided to have the Single Audit conducted by their external auditors as done by FCPS and FCC. In January 2010, to offset the additional external audit costs, the County eliminated one of the two Auditor II vacancies that we had. This reduced the number of auditors on our staff, including the Director and Audit Manager, from 7 to 6. At the beginning of June 2010, we obtained two interns on a part-time basis to temporarily supplement our staff. In addition to completing our audit plan, the Division will be focusing on filling two vacancies and preparing for our next external quality control review, which will be conducted by the Association of Local Government Auditors (ALGA) in the third quarter of FY 11.

We want to thank the staff 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.



Richard A. Kaplan, CAE/Director



Timothy L. Pollak, Chair, IIAA

II. Authority and Responsibility

Authority: The Interagency Internal Audit Authority (IIAA) 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 IIAA 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 IIAA 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, and
- 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 IIAA 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 IIAA 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 management letters; and
- 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 most recent peer review covered audits and attestation engagements during the period from January 1, 2005 through December 31, 2007. The next peer review will cover audits and attestation engagement reports issued from January 1, 2008 through December 31, 2010.

III. Summary of Audit Results

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

- ✓ The audit of the County's Development Review Fee Collection Process facilitated programming improvements in Hansen by the Interagency Information Technologies (IIT) Division to eliminate the number of manual adjustments made by staff, which will increase the effectiveness and efficiency of the fee charging process. Development Review also plans to implement our recommendation to develop written standard operating procedures which would include a supervisory review process for fees charged and evidence of such review. Development Review also plans to establish procedures for accountability over its project files as recommended. (Report 10-01, November 18, 2009).
- ✓ The audit of the Senator William H. Amoss Fire, Rescue and Ambulance Fund for Frederick County resulted in a Management Letter to the County's Accounting Director recommending that fire and rescue companies submit cancelled checks and lease/loan documents to Accounting to support Amoss expenditures. The Accounting Director agreed to implement our recommendations. (Management Letter, December 16, 2009)
- ✓ The audit of FCC's \$27.7 million Classroom Student Center Project resulted in increased on-site monitoring of the contractor by FCC and its architect to prevent further project delays as the project was nearing completion and to ensure compliance with contract specifications. FCC also agreed to recover at least \$12,000 in unallowable bond costs paid to the contractor on change orders and discuss with the contractor our concerns that overhead and profit was calculated incorrectly on change orders. (Report 10-03, December 16, 2009)

FCC's Classroom Student Center Project Under Construction
The New Center Opened to Students in January 2010



Photo Provided by FCC

- ✓ The audit of FCPS' PeopleSoft HRMS application and network by our consultant, Securance Consulting, resulted in improved Information Technology operating controls. (Report 10-04, January 20, 2010, Confidential)

- ✓ The audit of FCPS Food Service Operations resulted in the issuance of new "Standard Operating Procedures-Inventory Requirements." The Food Service Officer and/or the Food Service Specialist provided on-site training to each preparation site on the new inventory requirements. Food Service Management began to conduct and document additional on-site monitoring and issued new procedures to sample and check perpetual inventory records. In addition, they developed new procedures and forms to capture and analyze information related to non-commodity food lost through spoilage or damage. (Report 10-05, March 17, 2010)

Two Students Enjoying Lunch



Photo Provided by FCPS

- ✓ Our examination of Frederick County Hotel Rental Tax for the Period July 1, 2007 through June 30, 2009 resulted in a new Tourism Council policy requiring accounting documentation to be retained long enough to meet examination requirements. (Report 10-6, June 16, 2010)

IV. List of Reports Issued and Results			
Report No./Date/Title	# Recommendations	# of Recommendations Agreed to by Auditee Management	Management Improvements and/or Cost Savings
(10-06, June 16, 2010) Frederick County Hotel Rental Tax Examination for the Period July 1, 2007 through June 30, 2009	1	1	-Tourism Council implemented a new data retention policy requiring accounting documentation to be retained long enough to meet examination requirements.
(10-05, March 17, 2010) FCPS Food Service Operations	4	4	- FCPS Food Service implemented new "Standard Operating Procedures-Inventory Requirements." The Food Service Officer and/or the Food Service Specialist provided on-site training to each preparation site. -Food Service Management began to conduct and document additional on-site monitoring and issued new procedures in March 2010 to sample and check perpetual inventory records. -New procedures and forms were developed to capture information related to non-commodity food lost through spoilage or damage. These forms are being analyzed by Food Service Management.

IV. List of Reports Issued and Results			
Report No./Date/Title	# Recommendations	# of Recommendations Agreed to by Auditee Management	Management Improvements and/or Cost Savings
(10-04, January 20, 2010 Confidential Report Issued by Securance Consulting) FCPS PeopleSoft HRMS and Network Security	18	16	-Various IT security improvements were implemented.
(10-03, December 16, 2009 and Interim Report September 16, 2009) FCC Classroom Student Center Project	10	8	-As a result of the interim report, FCC and its Architect increased on-site monitoring as the project was nearing completion and documented details of their observations. They also developed a written contingency plan. -FCC plans to pursue recovery of unallowable costs paid the contractor. -FCC plans to strengthen contract language to clearly specify overhead and profit to be paid to lower tiered subcontractors, ensure compliance with contract requirements regarding documentation needed for change orders, and develop a written error and omission policy.

IV. List of Reports Issued and Results			
Report No./Date/Title	# Recommendations	# of Recommendations Agreed to by Auditee Management	Management Improvements and/or Cost Savings
(10-02, December 16, 2009) (Management Letter, December 16, 2009) Senator William H. Amoss Fire, Rescue, and Ambulance Fund of Frederick County, Maryland for the Year Ended June 30, 2009	2	2	-The County's Accounting Department will request that fire and rescue companies submit cancelled checks and lease/loan documents to them to support Amoss expenditures.
(10-01, November 18, 2009) Frederick County Development Review Fee Collection Process	3	3	-Development Review is working with IIT to implement recommended programming changes to improve the effectiveness and efficiency of its fee charging process. -Development Review is establishing standard operating procedures for its fee charging process. -Development Review plans to prepare procedures for accountability over its project files.
TOTALS	38	34	

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.

V. Summary of Non-Audit Results

The primary non-audit services the Internal Audit Division provides are follow-up reviews of audits containing recommendations¹. These reviews are conducted approximately 6 months after the audit reports are issued. In FY 10, the Division conducted three follow-up reviews and found that our recommendations have been implemented.

- ✓ Follow-up to Report #09-05 FCC Registration Process for the Period Summer 2007 through Spring 2008 Semesters, Issued December 17, 2008: FCC implemented our two recommendations to strengthen 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. FCC's Student Accounts Associate now documents in the Student Administration database when Finance authorizes the Welcome and Registration Center (WRC) to perform an override allowing the student to register for class if certain academic and/or financial criteria have been met. In addition, management has established reports that allow its review of service indicator overrides throughout the year to ensure that policies and procedures are being followed. (Report No. 10-A, July 15, 2009)

- ✓ Follow-up to Report #09-07 Frederick County Division of Public Works Change Order Process, Issued February 18, 2009: The County's Department of Public Works (DPW), in conjunction with the Purchasing Director and other members of the Consultant Responsibility Board (CRB), updated its Architect/Engineer Responsibility Review Board Policy which is to be submitted to the Board of County Commissioners for approval. The policy now establishes dollar limits for A/E error and/or omission change orders that the CRB should review and recommend whether or not to pursue compensation from the A/E. Decisions on cost recovery for those projects exceeding the dollar threshold are now documented in CRB meeting minutes. Also, the County's Change Order Policy was revised to specify the supporting documentation needed to ensure that change order costs are supported and reasonable. (Report #10-C, April 21, 2010)

Reichs Ford Road Construction



Photo Provided by the County's Division of Public Works

¹ The Internal Audit Division also conducts Hotline investigations of complaints that are submitted by County employees to the Fraud Hotline. We did not receive any Hotline complaints in FY 10.

- ✓ Follow-up to Report #09-08 Frederick County Human Resources Division's Process for Recruiting and Selecting Employees, Issued April 15, 2009: The Human Resources Division (HR) implemented all 11 recommendations made to improve its process for recruiting and selecting employees. The most significant improvement was HR's implementation of NEOGOV in January 2010 which fully automated the recruitment and selection process as recommended. NEOGOV made the process much more efficient to the benefit of HR, hiring departments, and job applicants. The following screen shows how a hiring department can easily track each action in the process from approval of a request to fill a vacancy to the hiring of a selected applicant.



In addition to implementing NEOGOV, HR revised the Recruitment section of its Policies and Procedures Manual and discontinued the practice of allowing applicants to submit additional materials after the closing date. Also, HR now verifies that all testing, which is usually administered by the hiring departments, is conducted in a fair and consistent manner. (Report #10-D, April 21, 2010)

VI. Other Accomplishments

The Internal Audit Division had the following other accomplishments in FY 10:

- ✓ Briefed the Board of County Commissioners in October 2009 on our FY 09 accomplishments and our FY 10 work plan.
- ✓ Hosted a delegation of 17 from the Hangzhou China Audit Bureau at the request of Triway International Group of Falls Church, VA. We provided information concerning our organizational structure and management models, audit authority and scope, and ways to improve integrity and efficiency through performance audits.
- ✓ Provided staff training required by the *Government Auditing Standards* with emphasis on performance auditing, interviewing techniques, report writing, construction auditing, and fraud awareness. We also provided staff with a Best Practices Manual in order to share the best examples of various work products from each staff member such as flow charts, risk assessments, Audit Planning Results Memos, and Monthly Project Reports.
- ✓ Issued Director's second annual Summary of Monitoring Results required by the *Government Auditing Standards*. The purpose of the review was to assess compliance with the standards and the Division's quality control policies and procedures and to identify any systemic issues needing improvement, along with recommendations for corrective action.

- ✓ Reviewed the audit and resulting report of Securance Consulting on their audit of security of FCPS' network and PeopleSoft Human Resource Management System. We added an addendum to their contract in order to use them on a requested County IT Security review beginning in FY 10.

- ✓ Obtained two interns in the summer 2010 to temporarily supplement our audit staff.

VII. Status of FY 10 Work Plan

	Completed	In Process	Cancelled/ Postponed
FREDERICK COUNTY			
DPDR Development Review Fee Collection Process	√		
State Fire Funds	√		
Hotel Rental Tax	√		
Single Audit	√		
Fleet Services Inventory			Cancelled To be conducted by external auditors
DUSWM Water/Sewer Capacity Fees		√	
Application Account Security and Management-IIT (Consultant)		√	
Tracking and Reporting ARRA (Stimulus Package)			Postponed until FY 11
DPW Change Orders Follow-Up	√		
HR Recruitment and Selection Follow-Up	√		
FCPS			
FCPS Food Service Operations	√		
IT Security-PeopleSoft HR (Consultant)	√		
Capital Construction Management		√	
FCC			
FCC Dining Services		√	
Classroom Student Center Project	√		
Bookstore			Postponed due to other higher priority areas
FCC Registration Follow-Up	√		

VIII. Work in Progress and Planned

FREDERICK COUNTY

✓ In Progress

- DUSWM Water/Sewer Capacity Fees (Audit Request)
Objective: To determine whether internal controls are adequate over water/sewer capacity fees charged, collected, and deposited.

Application Account Security and Management-IIT (Consultant)

Objective: To perform a user authentication assessment as requested by IIT.

✓ Planned

- Senator William H. Amoss Fire, Rescue, and Ambulance Fund (Financial audit required by Maryland Emergency Management Agency)
- ARRA Tracking and Reporting (Stimulus Package Funds)
- P-Card (Audit Request)
- Citizen's Care and Rehabilitation Center's Point Click Care Accounts Receivable and Billing System (Audit Request)
- Service Contracts
- Environmental Health Permit Fees (Audit Request)
- Follow-up DPDR Development Review Fee Collection Process

FCPS

✓ In Progress

- Capital Construction Management
Objective: To determine whether FCPS' capital construction projects are managed effectively and efficiently.
- Follow-up PeopleSoft HRMS and Network Security

VIII. Work in Progress and Planned

✓ Planned

- Purchasing
- Follow-up Food Service Operations

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.

✓ Planned

- Purchasing
- Follow-up Classroom Student Center Project

IX. 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
Jan H. Gardner, President, Board of County Commissioners (BoCC) (County Representative)	Sonja L. Erickson ² , 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 ² , CIA, Auditor II 301-600-2307
Carrie D. Gill (Public Representative)	Dana Duvall ² , CGAP, Auditor II 301-600-2306
Vacant (Public Representative) (Larry W. Myers Resigned Effective 4/16/10)	Valerie Stakes ² 301-600-1609
	Sandra Ruark, Administrative Coordinator 301-600-1154
	Christopher Sun-Sin Epstein and Robin Inskeep (Summer 2009 Interns)
	Zarish Ahmad and Roda Uk (Summer 2010 Interns)

² No longer employed by the County.