

FREDERICK COUNTY INTERAGENCY INTERNAL AUDIT AUTHORITY

**FISCAL YEAR 2011 ANNUAL REPORT
November 16, 2011**



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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 11. For your convenience, we have added a section that specifically identifies amounts recovered and saved due to our recommendations in recent years (See Section II). Savings and recoveries are now over \$300,000 as of June 30, 2011. This does not include any amounts collected from water and sewer capacity fees on commercial accounts that were not re-inspected, as that report will be issued in FY 12. It should be noted, however, that the value of internal audits cannot be measured only by quantifiable recoveries and savings. For example, there have been numerous audits such as the audits of Human Resources Recruitment and Selection and FCC Dining Services where audit recommendations resulted in the more effective use of staff time. Further, many recommendations address the need to strengthen internal controls and do not result in quantifiable cost savings. However, they do serve as a vital deterrent against fraud, waste, and abuse.

In FY 11, 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 staffed throughout the year. We issued 7 reports, which included 3 audit reports, a consultant's report on IT security in Frederick County Government, and 3 follow-up reports. Two of our reports included 32 recommendations, and our IT consultant made 10 recommendations. Frederick Community College (FCC), Frederick County Government (County), and Frederick County Public Schools (FCPS) have been very responsive to our recommendations.

Specifically, our report on FCC Dining Services disclosed that its dining and catering operations are not being managed effectively and efficiently and continue to operate at a loss. FCC management agreed to all 22 recommendations and believe, as we do, that implementation of our recommendations will improve internal controls, lead to improved efficiencies and lower costs. Also, our audit of FCPS Capital Construction Management Phase I found that reviews of change orders need strengthening; the change order approval policy should be revised; and FCPS Construction Management should maintain notices to proceed and classify and track change orders. FCPS agreed to nine recommendations and partially agreed to one recommendation. FCPS agreed to recover \$22,897 from contractors for equipment, overhead, profit, and bond overcharges.


We also conducted follow-up reviews on three reports issued in FY 10 (FCC's Classroom Student Center Project, Frederick County's Development Review Fee Collection Process, and FCPS PeopleSoft HRMS and Network Security). The follow-ups confirmed that almost all of our recommendations to improve operations were implemented. The follow-up on our audit of FCC's Classroom Student Center Project confirmed that FCC recovered \$12,841 in overpayments of bond amounts made on change orders and another \$8,000 for unallowable overhead and profit costs paid to the Contractor.

In addition to our audits and follow-up reviews, the Internal Audit Division had two other major accomplishments. First, in the summer of 2008 we recommended that County, FCC, and FCPS consider using one external audit firm to reduce costs. As suggested, the three entities issued a Request for Proposal and awarded contracts to one firm in 2011, at a projected cost savings over 4 years of over \$233,000.

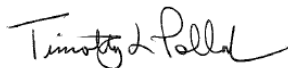
Second, in April 2011, the Internal Audit Division received a very positive report from the Association of Local Government Auditors after an extensive peer review was conducted by a team of three very experienced auditors from other local government audit offices. The report found that the internal quality control system was “suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits and attestation engagements during the period from January 1, 2008, through December 31, 2010.”

For FY 12, our approved audit plan to conduct specific performance audits of high and medium-risk areas has been greatly affected as three auditor vacancies that occurred in the last several months remain unfilled. These vacancies, which occurred primarily due to the County’s intent to outsource internal audit services, have been put on hold by the County Manager until the outsourcing process is completed. Our audit plan has been adjusted to reflect that only the Director and two auditors remain. Further adjustments will likely be needed as additional auditors leave. This will not only significantly affect our ability to complete our audit plan, but it will also affect our ability to respond to audit requests and investigate complaints from the County’s Fraud Hotline in a timely manner. As a result, there will be less progress made in addressing the 150 high and medium-risk areas in the County, FCC, and FCPS that we have identified in our annual and long range audit plans. Reducing audit coverage will increase risks to the County and its taxpayers that fraud, waste, and abuse, will go undetected.

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. Amounts Recovered and Saved As of June 30, 2011

Audit	Amount of Costs Recovered/Saved	Description of the Amounts Recovered/Saved
State Grant Funds Sub-Granted to The Mental Health Association of Frederick County: July 16, 2008	\$33,679	Disallowed grant costs. This amount was recovered for the Maryland Governor's Office for Children.
FCC Classroom Student Center: December 16, 2009	\$22,255	Unallowable bond amounts and overpayment of overhead and profit paid to the contractor.
Recommendation made in summer 2008 for County, FCPS, and FCC to use one contractor for external audit services. Contract awarded in April 2011.	\$233,500	Savings from prior contracts over 4 years due to synergies.
FCPS Capital Construction-Phase I: June 15, 2011	\$22,897	Equipment, overhead, profit and bond overcharges from FCPS Capital Construction Projects.
Total	\$312,331	

III. 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,

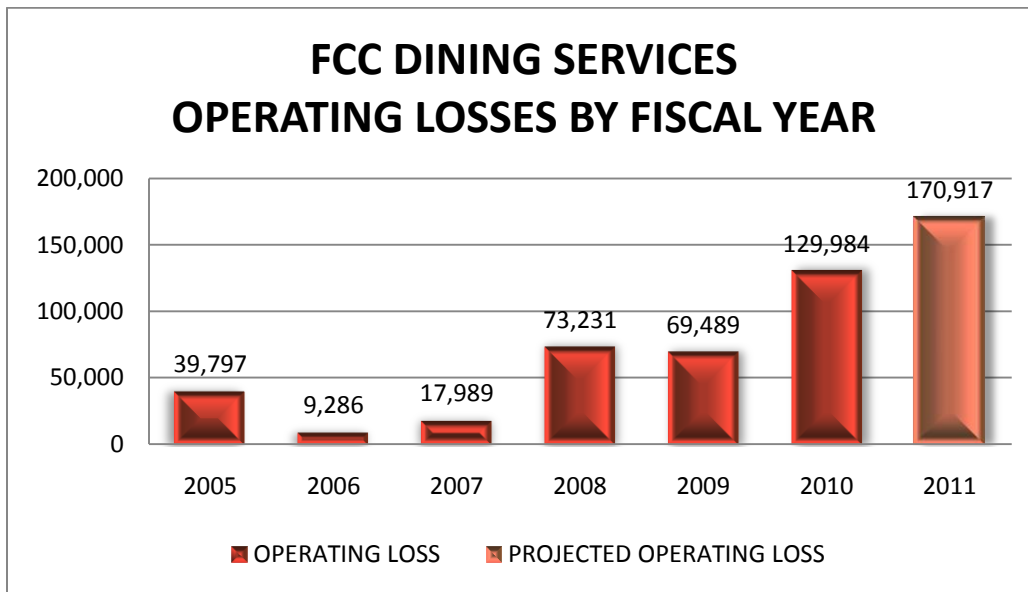
- Preparing audit reports, including findings and recommendations for corrective action, and management letters, and
- Conducting non-audit services that do not impair independence, such as following-up on prior audit recommendations; investigating allegations of fraud, waste, or abuse; and providing 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 2011. 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, 2008, through December 31, 2010.

IV. Summary of Audit Results

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

- ✓ The User Access Authentication Assessment and Review of Multi-function Printer Security conducted by our consultant, Securance Consulting, resulted in improvements to the County's Information Technology operating controls over critical technologies (Report 11-01, November 23, 2010).
- ✓ The audit of FCC Dining Services' operations resulted in efforts to reduce financial losses, improve internal controls, and operate more efficiently and effectively by (1) segregating purchasing, inventory, and cash duties, (2) establishing a perpetual inventory using the Optimum Control inventory system, (3) improving the reporting of waste and spoilage, (4) strengthening internal controls over cash receipts to provide individual accountability for cash from registers, and (5) increasing catering revenue. FCC agreed to implement all 22 recommendations (Report 11-03, April 20, 2011).



- ✓ The audit of FCPS Construction Management-Phase I resulted in efforts to strengthen the change order approval and procedure process and a potential recovery of approximately \$22,900 from contractors for equipment, overhead, profit, and bond overcharges. FCPS agreed with 9 recommendations and partially agreed with the one recommendation (Report 11-04, June 15, 2011).

FCPS Central Office



West Frederick Middle School



Photographs provided by FCPS

V. List of Reports Issued and Results			
Report No./Date/Title	# Recommendations	# of Recommendations Agreed to by Auditee Management	Management Improvements and/or Cost Savings
(11-04, June 15, 2011) Frederick County Public Schools Construction Management Phase I	10	9	FCPS will be strengthening its change order procedures and approval process. FCPS is recovering about \$22,900 for equipment, overhead, profit and bond overcharges from contractors on open capital construction projects.
(11-03, April 20, 2011) Frederick Community College Dining Services' Operations	22	22	FCC is strengthening internal controls over many aspects of its dining and catering operations to operate more efficiently and reduce operating losses.
(11-02, December 13, 2010) Senator William H. Amoss Fire, Rescue and Ambulance Fund of Frederick County, Maryland for the Year Ended June 30, 2010	0	N/A	N/A
(11-01, November 23, 2010) Frederick County User Access Authentication Assessment & Review of Multi-Function Printer Security Conducted by Securance Consulting	10	10	The County's Interagency Information Technologies Division is working on implementing recommendations made to improve information technology operating controls over the County's critical technologies.
TOTALS	42	41	

NOTE: Three follow-up reports were also issued in FY 11 (see Section VI, Pg. 8).

VI. 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 11, the Division conducted three follow-up reviews and found that most of our recommendations have been implemented.

- ✓ Follow-up to Report #10-04 Audit of FCPS Peoplesoft HRMS and Network Security Issued January 20, 2010

FCPS implemented four recommendations and three recommendations remained open because draft procedures developed needed BOE approval. (Report No. 11-A, September 15, 2010)

- ✓ Follow-up to Report #10-01 Frederick County's Development Review Fee Collection Process Issued November 18, 2009

The County's Division of Permitting and Development Review established standard operating procedures for the fee charging process, including a supervisory review process, effective January 1, 2010. They also established procedures for accountability over its project files. Recommendation #1 remained open as the Division was continuing to work with IIT to incorporate Hansen improvements as recommended in the report (Report No. 11-B, October 20, 2010).

- ✓ Follow-up to Report #10-03 FCC Classroom Student Center Project Issued December 16, 2009

FCC recovered \$20,841 in unallowable bond amounts and overpayment of overhead and profit paid to the contractor and avoided \$1,414 in unallowable bond amounts billed, but reduced prior to payment. Two recommendations remained open as FCC was finalizing a written error and omission policy (Report #11-C, January 19, 2011).

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 11.

VII. Status of FY 11 Work Plan

	Completed	In Process	Cancelled/ Postponed
FREDERICK COUNTY			
Follow-up DPDR Development Review Fee Collection Process	√		
Senator William H. Amoss Fire, Rescue and Ambulance Fund of Frederick Co, For the Year Ended June 30, 2010	√		
DUSWM Water/Sewer Capacity Fees	√ Issued November 2011		
User Access Authentication Assessment and Review of Multi-Function Printer Security (Consultant)	√		
Tracking and Reporting ARRA (Stimulus Package)			Postponed
P-Card		√	
FCPS			
IT Security-PeopleSoft HR (Consultant)	√		
Capital Construction Management (Phase I)	√		
Capital Construction Management (Phase II)	√ Issued September 2011		
FCC			
FCC Dining Services	√		
Follow-up Classroom Student Center Project	√		
Security Assessment of PeopleSoft Financials (Consultant)	√ Issued July 2011		

VIII. IIAA Members and Audit Staff

IIAA Members	Internal Audit Staff
Timothy Pollak, CPA, Chair (Public Representative)	Richard A. Kaplan, CIA, CFE, Director
James H. Stanker, CPA, Vice Chair (Public Representative)	Kelly Hammond, CICA, Senior Auditor II
Carrie D. Gill (Public Representative)	Jason W. Myers, Auditor II
Allan B. Joseph (Public Representative)	K. Diane Bowers, Auditor II
Blaine R. Young, President, Board of County Commissioners (BoCC Representative)	Genetta Miller, Auditor II
James C. Reeder (BOE Representative)	Rushanthi Leitan, Auditor II
Doris J. White (FCC Representative)	Dawn Reed, Administrative Coordinator
	Sandra Ruark, Previous Administrative Coordinator
	Larry Chen (Summer 2011 Intern)
	Irma Oke (Winter 2010 Intern)