

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FISCAL YEAR 2014 ANNUAL REPORT
APRIL 15, 2015**

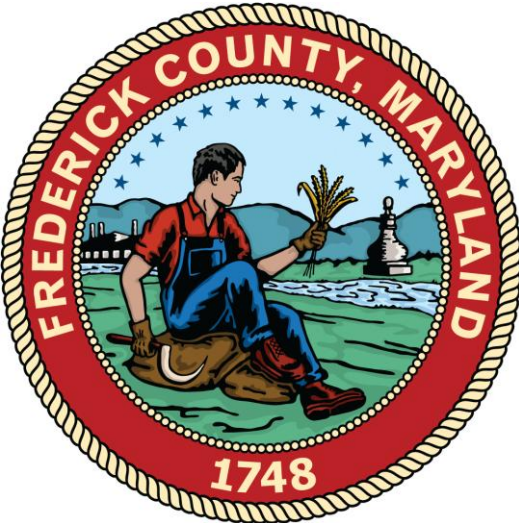


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I. Introduction

We are pleased to present the Interagency Internal Audit Authority's (IIAA) annual report on the accomplishments of the Internal Audit Division in Fiscal Year 2014 (FY 14). The Internal Audit Division reports to the IIAA, established by County Resolution in 1978 (and as amended in 2014 and currently waiting Charter Government amendment), and operates independently from the entities we audit. Our reports improve management and provide accountability to the taxpayers and serve as a vital deterrent against fraud, waste, and abuse.

The focus of our audits and special projects is to identify areas where fraud, waste, abuse and inefficiencies can and could occur within the County. The majority of our audits result in more effective and efficient use of staff time and improved internal controls. Cost savings in these cases are not always quantifiable. During FY 14 the IIAA made a total of 46 audit recommendations across the County, FCC and FCPS. The IIAA has also followed up on and fully closed 5 prior audits, which included 61 recommendations. By June 30, 2014, the IIAA had also conducted 3 special projects which include a total of 10 control recommendations.

From August 2012 through December 2014 the IIAA utilized two contractors Cotton & Company and SC&H Group. In December 2014, the County awarded contracts to both SC&H Group and CliftonLarsonAllen. These firms were hired to conduct audits and other tasks under the direction of the Director of Internal Audit and the IIAA, in addition to those audits and special projects conducted by the department itself. The division currently consists of a Director and an Administrative Coordinator. In 2012 the Director of the Division retired and an interim Director was in place through August 2013. A full time Director was placed in the Division in September 2013.

Our reports, unless confidential, are available to the public. If you would like to obtain copies of any of the reports, please visit our website at <http://www.co.frederick.md.us/index.aspx?nid=1191> or call Dawn Reed, Administrative Coordinator, at 301-600-1154.



Tricia A. Griffis, CPA
Director, Internal Audit Division



Interagency Internal Audit Authority
Steven C. Darr, Chair, IIAA

II. Authority and Responsibility

Authority: The Interagency Internal Audit Authority (IIAA) was authorized by the Board of County Commissioners of Frederick County, Maryland, Resolution No. 99-05 (amended Resolution No. 14-24) through November 30, 2014 to direct a broad comprehensive program of internal auditing within the County, Frederick County Public Schools (FCPS), and Frederick Community College (FCC). As of December 1, 2014 the IIAA became authorized by the County Council of Frederick County, Maryland under a Resolution currently under review with the County Attorney's office. 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 County Executive,
- Approving an annual strategic plan outlining major risk areas and a five-year on-going working plan to provide audit coverage of major risk areas,
- Approving a detailed annual work plan reflecting each audit planned and corresponding budgeted actual hours,
- Establishing policies for the auditing and special project activity and providing counsel and direction regarding its technical and administrative functions, and managing the work of contracted externally utilized internal auditors,
- Authorizing the distribution of reports on the results of audit examinations and special projects, 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 County Executive, the County Council 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, annual review of all County-wide audits and Strategic 5-year Plan,

- Performing audits and special projects and managing contractor audits and projects in accordance with the work plan as approved by the IIAA and in accordance with *Government Auditing Standards, where applicable*, issued by the Comptroller General of the United States,
- Preparing 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 with special projects.

The Internal Audit Division is no longer subject to peer reviews by the Association of Local Government Auditors (ALGA) due to the outsourcing of our formal audit reports.

III. Summary of Audit Results

We issued the following three reports in FY 14 with a total of 46 recommendations which management agreed to implement of the recommendations made.

- ✓ Report #14-09, Frederick County Government Funding for Replacement/Maintenance of Fire and Rescue Apparatus: This audit was conducted by our outside contractor, SC&H and was issued on May 21, 2014. SC&H established the following five objectives for the F&R vehicle audit:
 - Evaluate the County’s vehicle replacement function for operational effectiveness and alignment with common practices/industry standards.
 - Examine the County’s vehicle maintenance process and assess for consistency and compliance with rules and regulations.
 - Analyze the County’s vehicle inventory to determine anticipated vehicle replacement requirements and document unfunded liability risk components.
 - Perform data analytical procedures for the County’s vehicles and examine cost trends to determine the effect of depreciation on average vehicle maintenance and repair costs over time.
 - Research and aggregate alternative replacement funding opportunities and provide recommendations to the County.

The audit procedures resulted in 21 recommendations made to the division. The division plans on addressing all of the recommendations and follow up by the IIAA is scheduled for June 17, 2015.

- ✓ Report #14-02, Frederick County Public Schools Purchasing Operations. This audit was conducted by our outside contractor, SC&H and was issued on October 16, 2013. SC&H established the following six objectives for its review:
 - Determine whether procurements are initiated in sufficient time to meet operational needs.

- Ensure that periodic management actions eliminate unsuitable vendors.
- Verify that fair and open competition is conducted in accordance with Federal and State laws and FCPS' policies.
- Determine whether goods and services procured are monitored and evaluated and are in compliance with contract terms and conditions.
- Validate that those duties for payment of vendor invoices and generation of purchase orders for goods and services are adequately segregated.
- Ensure that payments are made appropriately and in compliance with contract terms and FCPS' policies.

The audit procedures resulted in 17 recommendations made to the division. The division plans on addressing all of the recommendations and follow up by the IIAA is scheduled for April 15, 2015.

- ✓ Report #14-01, Frederick Community College External-Facing Information Technology Security Controls. This audit was conducted by our outside contractor, Cotton and Company, LLP and was issued as a confidential report on July 17, 2013. Cotton and Company established the following seven objectives for its review:
 - Gain an understanding of the purpose, setup, administration, and security of FCC's IT Internet-facing resources, firewall security, wireless network controls, and remote access.
 - Perform a vulnerability scan of internet-facing resources.
 - Review the firewall rules to ensure they properly protect both internet-facing resources and internal resources from external-facing risks.
 - Test FCC's wireless network design and controls using wireless testing tools to determine if FCC's wireless network controls are protected from unauthorized access.
 - Determine how FCC controls remote access to the network from employees and faculty.
 - Compare the security analysis above against FCC policies and procedures, as well as industry best practices.
 - Identify improvements needed to better protect FCC from unauthorized access.

The audit procedures resulted in 8 recommendations made to FCC. FCC plans on addressing all of the recommendations and follow up by the IIAA is scheduled for October 1, 2015.

IV. Summary of Non-Audit Results

The primary non-audit services the Internal Audit Division provides are special projects and follow-up reviews of audits containing recommendations¹. Follow ups are conducted approximately six months after the audit reports are issued. In FY 14, the Division conducted 3 special projects and 5 follow-up reviews and found that many of our recommendations have been implemented.

- ✓ Follow-up to Report #13-02, Opportunities Exist to Expand the P-Card Program and Improve Internal Controls, Issued September 19, 2012

The County's Procurement and Contracting Department implemented all 14 recommendations made. Audit closed January 13, 2014.

- ✓ Second Follow-up to Report #11-04 FCPS Construction Management Phase I, Issued June 15, 2011

FCPS implemented all 10 recommendations made. Audit closed October 23, 2013.

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

FCC implemented five out of seven recommendations to improve operating controls. Audit closed November 13, 2013.

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

FCPS implemented all 18 recommendations made. Audit closed January 28, 2014.

- ✓ Follow-up to Report #12-06 FCG DUSWM Commercial Water and Sewer Capacity Fees, Issued November 16, 2011

The County's DUSWM Division implemented all 12 recommendations made. Audit closed March 25, 2014.

¹ The Internal Audit Division also conducts Hotline investigations of complaints that are submitted by County employees to the Fraud Hotline. We received two hotline complaints in FY 14 that were determined to be non-sufficient and closed.

- ✓ Special Project: FCG Law Enforcement and Detention Center Overtime Analysis, Issued March 20, 2014

This analysis was conducted as a response to a request for an overtime analysis within the Frederick County Sheriff's Office (FCSO) due to budget overages. This analysis was performed to gain an understanding of why the overtime was occurring and if a full externally contracted audit would be deemed necessary. During this analysis it was noted that the Law Enforcement division was not materially over budget and in fact was within budget, however the Detention Center and the Work Release Center were the only divisions causing overtime to be materially over budget under the FCSO department. The Internal Audit Division suggested 11 recommendations.

- ✓ Special Project: FCPS School Activity Fund, Issued March 5, 2014

Due to the number of funds open and potential ability for fraud, waste and abuse as with any cash account held by an organization, the Internal Audit Division reviewed the controls over the fund as provided by external parties of FCPS in order to re-evaluate the risk and determine if funding should be utilized to request an externally contracted internal audit over the funds. The Internal Audit Division suggested three recommendations.

- ✓ Special Project: FCPS and FCC Sign Language Interpreter Timesheet Review, Issued May 19, 2014

This was a special project performed at the request of both FCPS and FCC to assist in analyzing personnel timesheets for waste and abuse. The project and analysis resulted in 6 recommendations to both FCPS and FCC as well as an audit request for both entities to have their timesheet controls policies and procedures fully audited (FCC's audit will be completed in March 2015). This special project also assisted in the result of FCC obtaining insurance funds to re-coup lost funds in erroneous wages.

The Internal Audit Division also conducted an Annual Review of the Frederick County Government, Frederick County Public Schools, and Frederick Community College Financial Reports. Each entity received a "clean" unmodified audit opinion and no material weaknesses or significant deficiencies were noted.

The Internal Audit Division also revised the full Audit Manual for the Division as released in February 2014.

VI. IIAA Members and Audit Staff

IIAA Members	Internal Audit Staff
Steven C. Darr, CPA, Chair (Public Representative)	Tricia A. Griffis, CPA Director
Shaun M. Jones, Vice Chair (Public Representative)	Dawn Reed Administrative Coordinator
Robert C. Kimble, CPA (inactive) (Public Representative)	SC&H Group, Inc. External Contractor, ID #14294
Q. Eric Wu, CPA (Public Representative)	CliftonLarsonAllen External Contractor, ID #14296
Bud Otis, President, Frederick County Council (Council Representative)	
Doris J. White (FCC Board of Trustees Representative)	Kelly Hammond, CICA, CGAP, CRMA Acting Director (transferred 8/23/13; retired 11/1/14)
Colleen Cusimano (BOE Representative)	Dan Mankel, CISA Director (terminated 10/15/14)