

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

FISCAL YEAR 2015 ANNUAL REPORT
August 10, 2016

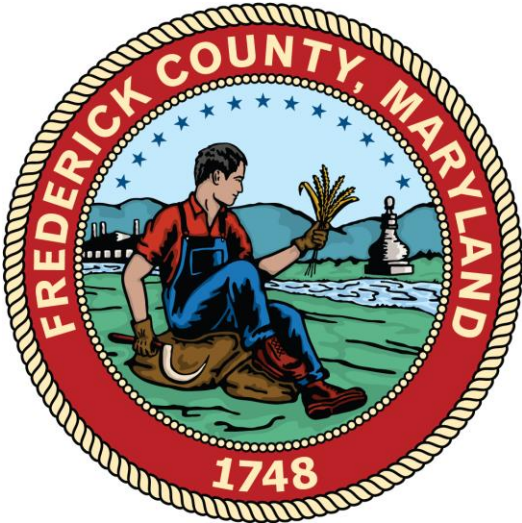


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I. Introduction

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 2015 (FY 15). The Internal Audit Division reports to the IIAA, established by County Resolution in 1978 (and as amended in 2014 and currently waiting inclusion as a Bill into the Frederick County Code), 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, attestation engagements 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, attestation engagements and special projects results in more effective and efficient use of staff time and improved internal controls. Cost savings in these cases are not always quantifiable. During FY 15 the IIAA made a total of 79 audit and attest recommendations across the County, FCC and FCPS. The IIAA has also followed up on and fully closed 1 prior audit, which included 8 recommendations. By June 30, 2015, the IIAA had also conducted 5 special projects which include a total of 45 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. From August 2014 through November 2014 there was also a break in Director employment/assignment. The Division has now been under consistent leadership since November 2014 to date.

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 Bill currently under review with the County Attorney's office, the IIAA and the County Executive's office that will become a part of the Frederick County Code. 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, attest and non-attest functions 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 audit, attestation engagement 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 and attest 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, attest or special project 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 audit, attestation engagements 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 four reports in FY 15 with a total of 80 recommendations which management agreed to implement of the recommendations made.

- ✓ Report #15-01, Frederick County Government Wireless and Network Information Technology Security Controls: This audit was conducted by our outside contractor, Cotton & Company and was issued on July 11, 2014. The IIAA and Cotton & Company established the following five objectives for the audit:
 - Review the County's policies and procedures, and interview IT management to gain an understanding of the purpose, setup, administration, and security of the County's IT Internet-facing resources, firewall security, and wireless network controls.
 - Perform a vulnerability scan of wireless Internet-facing resources from both the contractor's facility and also while connected to the same network segment as the Internet-facing resources. In addition, we reviewed results with IT management and identified false positives before providing a final vulnerability listing.
 - Review the firewall rules to ensure that the firewall is properly securing Internet-facing resources as well as internal resources, and is properly controlling communication form Internet-facing resources and public wireless networks.
 - Compare the security of Internet-facing resources, firewalls, and wireless networks to the County's security policies and procedures, and industry leading best practices.
 - Test the County's wireless network design and controls using wireless testing tolls to determine if the County's wireless network controls are protected from unauthorized access.
 - Identify improvements needed to better protect the County from unauthorized wireless access.

The audit procedures resulted in 4 major subject recommendations which were broken down into 20 individual recommendations, all of which were made to the division. The division plans on addressing all of the recommendations and follow up by the IAA is currently in process.

- ✓ Report #15-02, Frederick County Government Sherriff's Office Property & Evidence Room; Opportunities to Improve Management & Internal Controls. This audit was conducted internally by the Internal Audit Division and was issued on August 13, 2014. The Internal Audit Division established the following major objective in this performance audit:
 - To evaluate the recordkeeping and chain of custody of property and evidence seized through to point of disposal (limited to cash, firearms, and controlled dangerous substances on hand during the audit period).
 - To review internal controls to determine if they are adequate to ensure that the property room was managed efficiently and effectively.
 - To determine whether controls over seized property and evidence were in compliance with Professional Standards from the IAPE and the CALEA and with FCSO policies and procedures and/or SOPs.

The audit procedures resulted in 39 recommendations made to the division. The division plans on addressing 27 of the recommendations made, 12 of the recommendations were deemed not cost effective by the department. This report was as a confidential report due to the sensitive data and information included.

- ✓ Report #15-03, Frederick County Government Fire & Rescue Services Financial Transactions Agreed-Upon Procedures Report. This attest engagement on agreed upon procedures was conducted by our outside contractor, Cotton and Company, LLP and was issued on March 6, 2015. The Internal Audit Division and IAA provided the following agreed upon procedures for the report:

For fiscal years 2012, 2013 and 2014 perform the following:

- Through disbursement testing, determine if departments under Fire & Rescue were spending budgeted funds in large quantities which appear unnecessary and in an attempt to maintain budget levels.
- Validate that general controls over cash receipts and disbursements (including purchasing controls through the County Purchasing and Contracting Department) within Fire & Rescue appear adequate with an appropriate level of segregation of duties and controls to eliminate fraud, waste and abuse and review and approval of transactions. For large purchases, verify that County, State and Federal procurement laws were followed.
- Validate that general controls exist over cash management practices, that there is appropriate segregation of duties of cash accounts held by the department and that appropriate levels of review and approval are occurring and that account signors are appropriate.
- Test that Fire & Rescue is following policy in funding volunteer stations [through Senator Amos (State 508 Funds) guidelines].

These agreed upon procedures resulted in 5 recommendations made to FCG. FCG plans on addressing all of the recommendations and follow up by the IIAA is currently in process.

- ✓ Report #15-04, Frederick Community College Performance Audit of Payroll and Overtime Controls. This audit was conducted by our outside contractor, Cotton and Company, LLP and was issued on March 27, 2015. The IIAA and Cotton & Company established the following five objectives for the audit which cover fiscal years 2012 and 2013:

The survey and risk assessment phase of the audit held the following objectives:

- To gain an understanding of FCC's timesheet, timekeeping, and overtime policies and procedures.
- To evaluate risk and internal controls.
- To develop an audit program that identifies and addresses the specific testing objectives within the highest-risk areas.

The testing phase of the audit held the following objectives:

- To test areas identified as high-risk in the survey and risk assessment phase of the audit.
- To determine the effect of weaknesses and make recommendations to improve and the control environment.

These agreed upon procedures resulted in 15 recommendations made to FCC. FCC plans on addressing all of the recommendations and follow up by the IIAA is currently in process.

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 to one year after the audit reports are issued. In FY 15, the Division conducted 5 special projects and 5 follow-up reviews, 1 of which was completed, and found that many of our recommendations have been implemented.

- ✓ Follow-up to Report #13-06, Frederick Community College: Independent Review of External-Facing Information Technology Security Controls, Issued June 4, 2013

Frederick Community College Management implemented all 8 recommendations. Audit closed July 24, 2014

- ✓ Third Follow-up to Report #14-09 FCG Audit of Funding for Replacement/Maintenance of Fire and Rescue Apparatus, Ambulances, and Other Vehicles, Issued May 21, 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 15 that was determined to be non-sufficient and closed.

FCG has implemented 7 of the 21 recommendations to date and plans to implement the remaining 14 recommendations to improve operating controls. The follow up is currently still in process and FCG Fire and Rescue has been working on the recommendations.

- ✓ Second follow-up to Report #14-02 Audit of FCPS Purchasing Operations, Issued October 16, 2013

FCPS has implemented all 13 of the 17 recommendations made. Three of the recommendations were not deemed necessary and mitigating controls have been put into place and one of the recommendations remains open with a plan to implement that recommendation by August 2016. The follow up is still in process.

- ✓ Second follow-up to Report #15-01 FCG Independent Review of the Frederick County Government Wireless and Network Information Technology Security Controls – 2nd Follow up, Issued July 11, 2014

The County's IIT Division is working to implement all recommendations (4 major subject recommendations which were broken down into 20 individual recommendations). This follow up is still in process.

- ✓ Special Project: FCG Division of Fire & Rescue Services Warehouse & Station Inventory, Issued July 10, 2014

This analysis was conducted as a response to a request for warehouse and station inventory of gear, apparatus and radios within the Division of Fire & Rescue Services due to lack of past recordkeeping and unreliable data. This analysis was performed to gain an understanding of total inventory held at the Fire & Rescue Warehouse including turn out gear, uniforms and equipment, total turnout gear in the field by both career and volunteer professionals, total apparatus and vehicles held by both the County and individual Corporations, and total radios held by the County. The Internal Audit Division suggested 12 recommendations for the warehouse and 8 recommendations for the stations.

- ✓ Special Project: FCG Division of Fire & Rescue Services Overtime & Telestaff Review & Analysis, Issued July 1, 2014

This analysis was conducted as a response to a request to review overtime and staffing within the Division. The project also included a review of the Telestaff program along with current policies and procedures in regards to staffing held within the Division. The Internal Audit Division suggested 11 recommendations.

- ✓ Special Project: FCG Sheriff's Office Courthouse Fee Collections Special Project, Issued March 4, 2015

This was a special project performed at the request of the Sheriff's Office to review and analyze fee collections at the Frederick County Courthouse under control of the Frederick County Sheriff's Office civil process division. The Internal Audit Division suggested 10 recommendations.

- ✓ Special Project: FCG Division of Utilities and Solid Waste Management (DUSWM) Public Improvements Agreement Revisions Review, Issued March 6, 2015

At the request of DUSWM the Internal Audit Division was asked to review the Public Improvements Agreement draft revision. This special project through review resulted in observations rather than recommendations. The Internal Audit Division had 12 observations which were pointed out in the report through the review.

- ✓ Special Project: FCG Sheriff’s Office Detention Center & Work Release Overtime Analysis, Issued April 15, 2015

At the request of the Frederick County Sheriff’s Office the Internal Audit Division reviewed and analyzed overtime between the Detention Center and Work Release Program for in place Officers. The Internal Audit Division suggested 4 recommendations.

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. Frederick Community College did receive 2 control weaknesses which have been recognized by management and are being corrected.

V. 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)	Dan Mankel, CISA Director (terminated 10/15/14)
Timothy J. Wesolek (FCC Board of Trustees Representative)	
Colleen Cusimano (BOE Representative)	

VI. Annual Work Report Log Summary

Project # Assigned	Report/ Follow Up Release Date	Title	Recommendations Made	Recommendations Implemented	Engagement Type	Completed By	Close Out Date
10-03	11/13/2013	FCC: Classroom Student Center Project	N/A	Follow Up	(2nd) Follow Up	Internal Audit	11/13/2013
10-04	1/28/2014	FCG: PeopleSoft HRMS and Network Security	N/A	Follow Up	Follow Up	Internal Audit	1/28/2014
11-01	10/17/2012	FCG: User Access Authentication Assessment	N/A	Follow Up	(2nd) Follow Up	Internal Audit	10/17/2012
11-03	12/19/2012	FCC: Dining Services' Operations	N/A	Follow Up	(2nd) Follow Up	Internal Audit	12/19/2012
11-04	10/23/2014	FCPS: Construction Management Phase I	N/A	Follow Up	(2nd) Follow Up	Internal Audit	10/23/2014
12-06	3/25/2014	FCG: DUSWM Commercial Water & Sewer Capacity Fees	N/A	Follow Up	(2nd) Follow Up	Internal Audit	3/25/2014
13-01	9/19/2012	FCG: DUSWM Commercial Water & Sewer Capacity Fees	N/A	Follow Up	Follow Up	Internal Audit	3/25/2014
13-02	9/19/2012	FCG: Opportunities Exist to Expand the P-Card Program & Improve Internal Controls	14	14	Performance Audit	Internal Audit	1/13/2014
13-02	9/18/2013	FCG: Expand P-Card Program	N/A	Follow Up	Follow Up	Internal Audit	1/13/2014
13-02	10/30/2013	FCG: Expand P-Card Program	N/A	Follow Up	(2nd) Follow Up	Internal Audit	1/13/2014
13-02	1/13/2014	FCG: Expand P-Card Program	N/A	Follow Up	(3rd) Follow Up	Internal Audit	1/13/2014
13-04	11/21/2012	FCG: Hotel Rental Tax (7/1/09-6/30/12)	1	1	County Mandate; Performance/ Financial Audit	Internal Audit	11/21/2012

13-05	11/28/2012	FCPS: Purchasing Operations	Identified areas of risk & determined that further test work would be necessary.	N/A	Planning Survey & Risk Assessment	SC&H	N/A
13-06	12/10/2012	FCC: Purchasing Operations	No recommendations or management comments for FCC or their purchasing dept. & noted that further testing of FCC purchasing operations was not necessary.	N/A	Planning Survey & Risk Assessment	Cotton & Co.	N/A
13-06	3/26/2014	FCC: External-Facing IT Security Controls	N/A	Follow Up	Follow Up	Internal Audit	In Progress
13-06	7/24/2014	FCC: External-Facing IT Security Controls	N/A	Follow Up	(2nd) Follow Up	Internal Audit	7/24/2014
14-01	7/17/2013	FCC: External-Facing IT Security Controls	8	8	Performance Audit	Cotton & Co.	7/24/2014
14-02	10/16/2013	FCPS: Purchasing Operations	17	16 In Progress	Performance Audit	SC&H	In Progress
14-02	7/16/2014	FCPS: Purchasing Operations	N/A	Follow Up	Follow Up	Internal Audit	10/13/2014
14-02	10/13/2014	FCPS: Purchasing Operations	N/A	Follow Up	(2nd) Follow Up	Internal Audit	10/13/2014
14-09	5/21/2014	FCG: Funding for Replacement/Maintenance of F&R Apparatus, Ambulances, & Other Vehicles	21	In Progress	Performance Audit	SC&H	In Progress
14-09	12/2/2014	FCG: Funding for Replacement/Maintenance of F&R Apparatus, Ambulances, & Other Vehicles	N/A	Follow Up	Follow Up	Internal Audit	In Progress

14-09	7/17/2015	FCG: Funding for Replacement/Maintenance of F&R Apparatus, Ambulances, & Other Vehicles	N/A	In Progress	(2nd) Follow Up	Internal Audit	In Progress
15-01	7/28/2014	FCG: Wireless & Network IT Security Controls	20	In Progress	Performance Audit	Cotton & Co.	In Progress
15-01	1/20/2015	FCG: Independent Review of FCG Wireless & Network IT Security Controls	N/A	Follow Up	(2nd) Follow Up	Internal Audit	In Progress
15-01	12/28/2015	FCG: Independent Review of Wireless & Network IT Security Controls	N/A	In Progress	(2nd) Follow Up	Internal Audit	In Progress
15-02	8/13/2014	FCG: FCSO Property & Evidence Room	39	27	Performance Audit	Internal Audit	8/13/2014
15-03	3/6/2015	FCG: DFRS Financial Transactions	5	5	Agreed Upon Procedures	Cotton & Co.	5/2/2016
15-03	1/12/2016	FCG: DFRS Financial Transactions	N/A	Follow Up	Follow Up	Internal Audit	5/2/2016
15-03	5/2/2016	FCG: DFRS Financial Transactions	N/A	Follow Up	(2nd) Follow Up	Internal Audit	5/2/2016
15-04	3/27/2015	FCC: Payroll & Overtime Controls	15	In Progress	Performance Audit	Cotton & Co.	6/2/2016
15-04	12/29/2015	FCC: Payroll and Timesheet Controls	N/A	15	Follow Up	Internal Audit	5/25/2016
16-00	11/3/2015	FCG: Hotel Rental Tax (7/1/12-6/30/14)	8	8	County Mandate; Performance/Financial Audit	CLA	4/22/2016
16-00	4/22/2016	FCG: Hotel Rental Tax	N/A	Follow Up	Follow Up	Internal Audit	4/22/2016
	TO Issued 7/16/2015	FCG: P-Card Planning Phase	Identified areas of risk & determined that further testwork would be necessary.	N/A	Planning Survey & Risk Assessment	SC&H	Rpt. Issued 2/1/16
16-01	1/12/2016	FCG: P-Card Testing Phase	6	For Follow Up	Performance Audit	SC&H	For Follow Up
16-02	3/16/2016	FCG: Payroll and Timesheet Controls	6	For Follow Up	Agreed Upon Procedures	SC&H	For Follow Up
AUP 16-02	10/22/2015	FCG: Salaried Management Turnover	4	For Follow Up	Agreed Upon Procedures	SC&H	For Follow Up

16-03	2/18/2016	FCPS: Payroll and Timesheet Controls	2	For Follow Up	Agreed Upon Procedures	SC&H	For Follow Up
16-04	2/22/2016	FCG: LOSAP	19 exceptions; 4 recommendations	For Follow Up	Agreed Upon Procedures	CLA	For Follow Up
16-05	TO Issued 1/20/2016	FCG: Emergency Communication Department Overtime and Staffing Controls	Identified areas of risk & determined that further testwork would be necessary.	N/A	Planning Survey and Risk Assessment	SC&H	Rpt. Issued 5/18/16
16-06	2/29/2016	FCC: Student and Miscellaneous Accounts Receivable	In Progress	In Progress	Performance/Financial Audit	CLA	In Progress
16-07	TO Issued 3/16/2016	FCPS: P-Card Program	Identified areas of risk & determined that further testwork would be necessary.	N/A	Planning Survey and Risk Assessment	SC&H	Rpt. Issued 6/2/16
16-08	TO Issued 4/20/2016	FCG: Capital Improvement Projects & Contract Management	Identified areas of risk & determined that further testwork would be necessary.	In Progress	Planning Survey and Risk Assessment	CLA	In Progress
16-09		FCG: Emergency Communication Department Overtime and Staffing Controls	In Progress	In Progress	Performance Audit: Testing Phase	SC&H	In Progress
16-10		FCPS: P-Card Program	In Progress	In Progress	Performance Audit: Testing Phase	SC&H	In Progress
	3/5/2014	FCG: FCSO Law Enforcement and Detention Center Overtime Analysis	Observations Made	In Progress	Special Project	Internal Audit	3/21/2014
	3/5/2014	FCPS: School Activity Fund	3	3	Special Project	Internal Audit	11/20/2015
	5/19/2014	FCPS/FCC: Sign Language Interpreter Timesheet Review	6	6	Special Project	Internal Audit	11/20/2015

	7/1/2014	FCG: DFRS Overtime & Telestaff Review and Analysis	11	In Progress	Special Project	Internal Audit	In Progress
	7/10/2014	FCG: DFRS Warehouse & Station Inventory	12 (for warehouse) & 8 (for stations)	In Progress	Special Project	Internal Audit	In Progress
	3/4/2015	FCG: Courthouse Fee Collections	10	In Progress	Special Project	Internal Audit	In Progress
	3/6/2015	FCG: Public Improvements Agreement	12 (observations)	N/A	Special Project	Internal Audit	N/A
	4/15/2015	FCSO: Detention Center & Work Release Overtime Analysis	4	For Follow Up	Special Project	Internal Audit	In Progress
	7/8/2015	FCG: Tow List	7	In Progress	Special Project	Internal Audit	In Progress
	7/17/2015	FCG: Ambulance Billing	6	In Progress	Special Project	Internal Audit	In Progress
	9/16/2015	FCG: Permits and Inspections	Observations Made	N/A	Special Project	Internal Audit	N/A
	9/16/2015	FCG/FCPS: Mail Room Operations	N/A	N/A	Special Project	Internal Audit	N/A
		FCG: DFRS Overtime and Staffing Analysis	In Progress	In Progress	Special Project	Internal Audit	In Progress
	8/27/2014	FCG: Potential Misuse of County Resources	N/A	N/A	Hotline Complaint	Internal Audit	N/A
	8/10/2015	FCG: County Council Utilizing Email System Inappropriately	N/A	N/A	Hotline Complaint	Internal Audit	N/A
	9/16/2015	FCPS: Questionable Procurement Practices	N/A	N/A	Hotline Complaint	Internal Audit	N/A