

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FISCAL YEAR 2019 ANNUAL REPORT
July 15, 2020**

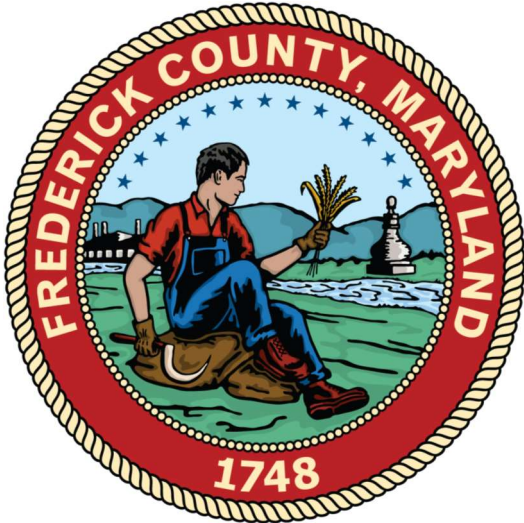


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I. Introduction

We are pleased to present the Interagency Internal Audit Authority's (IIAA) annual report on the accomplishments of the Internal Audit Division during Fiscal Year 2019 (FY19; period July 1, 2019 – June 30, 2020). The Internal Audit Division (IAD) reports to the IIAA, established by County Resolution in 1978 and codified into the Frederick County Charter on June 16, 2018 as Bill No. 18-12, and operates independently from the entities we audit. Our reports help to improve management internal controls and provide accountability to the taxpayers serving 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, lack of controls and inefficiencies can or 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 FY19, the IIAA made a total of seventy (70) audit and attest recommendations across the County, FCC, and FCPS through the finalization of audit reports. By June 30, 2019, the IIAA had also conducted four (4) special projects and also worked on seven (7) other projects (follow-up reports) for the FCG, FCC, and FCPS entities.

Since being awarded contracts in 2014 through the County procurement and contracting department by means of a request for proposal process, the IIAA utilized two contractors SC&H Group, Inc. and CliftonLarsonAllen, LLP. 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. Both of these firms were awarded new contracts November 12, 2019 for a duration of two years with options of three possible 1-year extensions. The division currently consists of a Director and a Coordinator.

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. 78-08 (amended Resolution No. 14-24) and now codified as Bill No. 18-12 to direct a broad comprehensive program of internal auditing within the County, Frederick County Public Schools (FCPS), and Frederick Community College (FCC). In accomplishing its activities, the IIAA and the IAD 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 IAD for submission to the County Executive,
- Approving an annual strategic plan outlining major risk areas and a 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,
- Assisting in review and selection of externally contracted internal audit contractors through a competitive bid process,
- 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,
- Assessing 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, FCPS, FCC or other government/entity personnel or officials.

The IAD 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 annual review of all county-wide audits,

- Performing audits and special projects and managing contractor audit, attestation engagements and projects in accordance with work plans as approved by the IIAA and in accordance with *Government Auditing Standards*, where applicable, issued by the Comptroller General of the United States,
- Managing the externally contracted internal audit contractors based on contract terms on a daily basis,
- 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; annual audit reviews; and providing limited technical advice with special projects and professional committees.

The IAD 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 five (5) reports in FY19 with a total of 70 recommendations which management agreed to implement most all of the recommendations made.

Report #18-02, Frederick County Government Department of Fleet Services Performance Audit: This audit was conducted by our outside contractor, SC&H and was issued on December 19, 2018. The IIAA and SC&H established the following seven (7) testing phase audit objectives:

- Review the fuel program to assess access and use, card restrictions/configurations, completeness/accuracy of department charges, and timely monitoring.
- Verify the Replacement/Maintenance fund is calculated accurately.
- Verify that periodic asset inventory counts are independently performed and in accordance with Fleet policies and procedures.
- Verify P-Card purchases of part orders (stock and non-stock) are properly executed, received, reconciled, and approved.
- Review physical security at each Fleet location to ensure that Fleet inventory assets are properly safeguarded.
- Ensure Fleet owned vehicles received preventive maintenance timely, in accordance with COMAR.
- Review FASTER user access to ensure that access is appropriately limited to current employees with a legitimate business need.

The audit procedures resulted in twenty-nine (29) recommendations.

Report #18-03, Frederick County Public Schools, School Activity Funds. This audit was conducted by our outside contractor, CLA and was issued on August 1, 2018. The IIAA and CLA established the following three (3) objectives for the audit and five (5) technical procedures:

Objectives:

- Gain an understanding of the internal controls as they relate to school activity funds and evaluate the associated risks of the school activity funds.
- Determine that the schools properly follow policies and procedures as outlined in the School Activity Funds Manual.
- Determine whether the procedures performed by the third party contractor are designed to detect the absence of internal controls and mitigate noncompliance with policies and procedures.

Technical procedures:

- Obtained and reviewed the School Activity Funds manual to determine if proper internal controls are in place to properly safeguard school activity funds.
- Met with personnel from the FCPS Financial Reporting Department to gain an understanding of their thoughts and perspectives regarding the risks associated with the school activity funds. With this information, we selected the following schools for testing: Centerville Elementary, G. Thomas Johnson Middle, Brunswick High, Emmitsburg Elementary, Middletown Middle, Catoctin High, Green Valley Elementary, Monocacy Middle, Frederick High, Orchard Grove Elementary, Rock Creek, Linganore High, Walkersville Elementary, Career & Technology Center.
- Met with the administrative secretary and staff/teachers at each school selected for testing to gain an understanding of how the school activity funds are managed at each school, how transactions are processed and the internal controls in place.
- Tested a sample of bank reconciliations, cash disbursements, cash receipts and transfers at each school to ensure the school was following policies and procedures as outlined in the school activity funds manual. Where applicable, we also tested gate receipts.
- Met with the third party contractor to gain an understanding of the procedures she performs for FCPS.

The audit procedures resulted in twenty-two (22) recommendations.

Report #18-04, Frederick County Government Towing Contract Services Performance Audit. This audit was conducted by our outside contractor, SC&H and was issued on May 6, 2019. The IIAA and SC&H established the following six (6) objectives for the audit:

- Verify active towing vendors were approved and are compliant with the Towing Handbook requirements.
- Verify tows are processed in accordance with approved policies and procedures.
- Identify and assess the impact of tow calls performed outside of the rotational list program (Owner's request).
- Review CAD user access to ensure access is appropriately limited to current employees with a business need.
- Verify CAD configurations are functioning as intended.

- Assess the governance and oversight over the tow program for effectiveness.

The audit procedures resulted in twelve (12) recommendations.

Report #18-05, Frederick Community College, Cash Transactions and Receipts Performance Audit. This audit was conducted by our outside contractor, CLA and was issued on November 16, 2018. The IIAA and CLA established the following two (2) objectives for the audit and four (4) technical procedures:

Objectives:

- Gain an understanding of the types of revenues at Frederick Community College and the internal controls as it relates to cash collections and evaluate the associated risks of the collection process.
- Evaluate the College's collection points for efficiencies, internal controls, documentation, monitoring and best practices for the audit period July 1, 2016 through March 31, 2018.

Technical procedures:

- Obtained and reviewed the written policies and procedures over the collection and proper recording of cash receipts.
- Met with the College personnel to gain an understanding of the:
 - Operations within the college, collection points for cash receipts and an understanding of other sources of revenue;
 - The process for collecting and safeguarding cash and recording revenue in the system;
 - Their thoughts and perspectives of the risks associated with cash transactions and areas of control deficiencies.
- Performed a walkthrough of the cash receipt and revenue recording process for each major revenue source.
- Tested a sample of cash receipts related to tuition and fees, bookstore, dining services, children's center and miscellaneous revenue. In addition, we tested a sample of tuition credits. Specifically, we ensured that:
 - Transactions were properly initiated;
 - Payments were accurately applied to outstanding student accounts (e.g., tuition and children's center);
 - Miscellaneous revenue was supported by appropriate documentation;
 - Transactions were properly recorded in the general ledger; and
 - Payments were posted to the bank account in a timely manner.

The audit procedures resulted in 0 recommendations. CLA did not identify any exceptions in testing or deficiencies in internal controls. The policies and procedures appeared to be properly designed and implemented and therefore no recommendations for improvement were noted.

Report #18-06, Frederick County Government Ambulance Billing Service Performance Audit. This audit was conducted by our outside contractor CLA and was issued on March 20, 2019. The IIAA and CLA established the following three (3) objectives for the audit and three (3) technical procedures:

Objectives:

- Gain an understanding of the internal controls as it relates to billing charges and patient billings including biller functions and reporting duties with and amongst the billing vendor.
- Determine that the monthly calculations and reconciliations are completed timely and accurately.
- Determine that the quarterly calculations and reconciliations are completed timely and accurately. Ensure all amounts collected and disbursed are allocated to the appropriate company.

Technical procedures:

- Selected eight Companies which included both career and volunteer to perform an interview and site visit. For each of the Companies visited, we:
 - Reviewed their procedures for ensuring all required information is obtained from patients and how follow up information is provided to the Ambulance Billing Department.
 - Selected 5 transports from each Company selected during the period July 1, 2016 – March 31, 2018. For each transport selected CLA tested:
 - Patient information submitted to AMB agreed to the patient information reported on the Comprehensive Report on the State system.
 - Transports were subsequently billed by AMB in a timely manner.
 - Payments were collected or follow-up procedures were performed in accordance with policy.
 - The proper Company was credited with the bill and payment.
- Selected 25 monthly reconciliations from across the all Companies during the period of July 1, 2017 – June 30, 2018. For each monthly reconciliation selected CLA tested:
 - Information reported on the reconciliation agreed to the reports provided by AMB and Med 3000, when applicable.
 - Calculations of the fees paid to AMB and Med 3000 were calculated accurately using the correct rates and collections/refunds.
 - Operating costs included on the reconciliations agreed to supporting documentation and were properly allocated to all Companies.
- Selected 25 quarterly reconciliations from across all Companies during the period of July 1, 2017 – June 30, 2018. For each quarterly reconciliation selected CLA tested:
 - Information reported on the reconciliation agreed to the reports provided by AMB and Med 3000, when applicable.
 - Calculations of the fees paid to AMB and Med 3000 were calculated accurately using the correct rates and collections/refunds.
 - Operating costs included on the reconciliations agreed to supporting documentation and was properly allocated to all Companies.
 - Checks issued to Companies were issued in a timely manner (within 45 days of the end of the quarter).

The audit procedures resulted in seven (7) recommendations.

IV. Summary of Non-Audit Results

The primary non-audit services the Internal Audit Division (IAD) 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 and depending upon management responses to implementation time frames. In FY19, the Division conducted four (4) special projects and seven (7) follow-up reviews.

FY19 Special Project: Towing Contract Monthly Reviews

At the request of the Tow Oversight Committee (TOC, the Emergency Communication Center (ECC), the Department of Procurement and Contracting (DP&C), and the Frederick County Sheriff's Office (FCSO, the IIAA approved for the IAD to review monthly tow rotation reports throughout the entire fiscal year and through most of FY20. The objective of these reviews is to determine if the County CAD system is rotating appropriately and that coding and dispatcher use of the system is working efficiently and fairly across tow contractors within the multiple areas or beats throughout the County. The results of the reviews are shared with the TOC, ECC, DP&C and FCSO on a monthly basis along with recommendations on correcting errors. Many issues continue to be noted with the rotations after the audit as reported on May 6, 2019. The IAD will continue to review monthly rotations through most of FY20 when the beats and rotations are reduced in order to test the new system and until recommendations from the audit report are resolved.

FY19 Special Project: Tax Differential; Rpt. FCG-SP18B

At the request of the County Council and as agreed by the Interagency Internal Audit Authority (IIAA), the Internal Audit Division (IAD) performed a non-attest special project reviewing and analyzing the Frederick County "County-City Tax Equity" program and calculation. This review was conducted by the IAD to evaluate the calculations prepared as a tax set off between the County and related municipalities. The procedures and work performed by the IAD constitutes a non-attest engagement and does not fall under the guidance of Government Auditing Standards (GAS).

During the special project the IAD reviewed and analyzed the following data and criteria:

- County-City Tax Equity committee report for Frederick County, dated 1981, which includes original formula calculations and determinations are presented by the committee.
- "Property Tax Set-Offs" annual report by the Maryland State Department of Legislative Services for fiscal year 2017, dated January 2018.

¹ The Internal Audit Division also conducts hotline investigations of complaints that are submitted to the fraud hotline with the County, FCPS and FCC. FCPS has implemented a third party monitoring company hotline and FCC utilized the Maryland Higher Education Ethics Commission. Eleven hotline complaints were received in FY19 across the three entities that were determined to be non-sufficient and closed or were investigated internally, resolved between the entity or division and closed or in on-going review.

- FY19 Tax Equity Calculation from the Frederick County Budget Department, along with supporting documentation verifying data.
- Frederick County presentation on Property Tax Set-Offs dated August 2011.
- Maryland State Code, Title 6 –Taxable Property; Imposition of Tax; Setting Tax Rates Subtitle 3 – Setting Property Tax Rates Section 6-305 – County tax rate in certain municipal corporations.
- COG meeting minutes: July 2005
- Tax Set-Off Committee Meeting minutes: February 2011

The objectives of the special project were as follows:

- To review the current property tax set off rebate and differential calculations for Frederick County and it’s municipalities along with corresponding laws and agreements; and
- To determine if the current calculation appears reasonable in relation to corresponding laws and agreement between the County and municipalities.

Observations:

- Overall the calculations appear accurately portrayed.
- An immaterial footing issue was found in the calculation format for administrative costs, the costs reflected were not accurate on the supplemental schedule provided by the Parks and Recreation division to the Budget department. The Budget department is aware of the issue and has subsequently corrected.
- IAD and the Budget department discussed utilizing actual figures in the future for the parks and recreation administrative cost calculation rather than budget amounts.
- A heading error needed correction, which was subsequently corrected.
- Careful consideration is needed by the Budget department when determining where base funds are derived from as this affects each areas CAP. Determination of “Net Taxable Income”, “Assessable Base” and “Population estimates” funding pockets affects the CAP percentage. During our testwork of the FY19 calculation, IAD did not note any areas of concern with incorrect funding sources.

FY19 Special Project: Frederick County Government Division of Fire and Rescue Services Sick and Overtime Analysis; Rpt. FCG-SP19A

At the request of the Division of Fire and Rescue Services of Frederick County (DFRS), the IAD performed a special project follow up of the FY17 DFRS overtime and staffing analysis. Within this follow up the IAD performed a recalculation of shifting options based on preferred shifting by DFRS and recalculated shift needs. The IAD provided the County CAO, Finance Director, Human Resources Director, Budget Director and DFRS with the calculations, spreadsheets and further recommendations as a result of this follow up. The follow up also included research and review of the sick leave variances and issues noted in the original 2014 special project and how that relates to changes in policies and procedures surrounding DFRS sick leave in 2019. The recommendations made in the FY17 report remain standing as well as new recommendations discussed in a live meeting on November 26, 2018 with the above noted professionals.

FY19 Special Project: Frederick County Government Volunteer Fire and Rescue Accreditation Process

At the request of the Volunteer Fire and Rescue Services (Vol. F&R), the IAD performed a non-attest special project of the FCG Vol. F&R Accreditation Process, reviewing the binders of each volunteer station (25 stations in total), ensuring that each volunteer fire, rescue, and ambulance company demonstrate current compliance with all applicable requirements of law, regulation and policy on an annual basis. The objectives of the special project were as follows:

- Review all records, reports, standard forms and other documentation required to verify that the volunteer company fully meets all applicable requirements of law, regulation, and policies, as outlined in the accreditation manual.
- Report findings and determination of companies' accreditation rating to the Fire and Rescue Advisory Board and the Director/Chief of Fire and Rescue Services.

FY19 Follow up to Permitting Special Project

The IAD performed a follow up to the FY16 special project on permitting and inspections. Within this follow up the IAD updated its analysis time frame of permits and inspections of average days permits are in process, from the application to issuance process and from permit issuance to permit close out. As a result of the follow up the IAD provided the updated analysis to the permits and inspection office and has closed out the special project.

FY19 Follow up to Water & Sewer Billings Rpt. FCG 17-10

The IAD performed a follow up to the FY19 FCG Water & Sewer Billings Rpt. #17-10. Within this follow up the IAD reviewed the responses to the seven (7) recommendations made to incorporate efficiencies, strengthen controls, and provide overall process enhancements for the management of the water and sewer billing process by FCG. The IAD noted that the Division of Utilities and Solid Waste Management (DUSWM) had successfully addressed and documented all seven recommendations and as a result, closed out the audit.

FY19 Follow up to FCG Hotel Rental Tax & Expenditure Rpt. FCG 17-09

The IAD performed a follow up to the FY19 audit by CLA on FCG Hotel Rental Tax & Expenditures. During this follow up the IAD reviewed the responses to the four (4) findings of recommendations to ensure that the Tourism Council was in compliance with all laws, regulations, and agreements related to the Hotel Rental Tax revenues and expenditures as well as tested the collection of and appropriate calculation of the taxes by the County. The Finance Division and The Tourism Council had successfully addressed and documented all four findings with recommendations and as a result, the IAD closed out the audit.

FY19 Follow up to FCG Capital Improvements Projects Rpt. FCG 17-04

The IAD performed a follow up to the FY19 audit of FCG Capital Improvements Projects (CIP). During this follow up the IAD reviewed the responses to the seven (7) recommendations to test risk

and control gaps noted within FCG in relation to capital improvement projects and contract management internal controls. The IAD is still waiting on support such as documentation of new policies and procedures, or reports that provide evidence that the recommendations have been implemented.

FY19 Follow up to FCG Personally Identifiable Information Rpt. FCG 17-06

The IAD performed a follow up to the FY19 FCG Personally Identifiable Information Rpt. #17-06. Within the follow up, the IAD reviewed the responses to the fourteen (14) recommendations to the overall control environment and to the twenty two (22) departmental recommendations within FCG as it related to external PII. FCG is working on implementing and updated policies and procedures and therefore this audit follow up remains open.

FY19 Follow up to FCC Personally Identifiable Information Rpt. FCC 17-07

The IAD performed a follow up to the FY19 FCC Personally Identifiable Information Rpt. #17-07. Within the follow up, the IAD reviewed the responses to the ten (10) recommendations to the overall control environment and to the twelve (12) departmental recommendations within FCC as it related to PII. From the follow up, the Internal Audit Division has reviewed and concurred with management responses and closed out this audit.

FY19 Follow up to FCPS Personally Identifiable Information Rpt. FCPS 17-08

The IAD performed a follow up to the FY19 FCPS Personally Identifiable Information Rpt. #17-08. Within the follow up, the IAD reviewed the responses to the eighteen (18) recommendations to the overall control environment and to the twenty three (23) departmental recommendations within the FCPS as it related to PII. FCPS is waiting fulfillment of positions expected early 2020, and implementing and updating policies and procedures therefore this audit follow up remains open.

The IAD 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 FCC single audit report noted one compliance finding which was immediately resolved by FCC staff. Please refer to the 2019 financial review report for further information.

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 Coordinator
Nicole Prorock, CPA (Public Representative)	SC&H Group, Inc. External Contractor
Jon Alexander, CPA (Public Representative)	CliftonLarsonAllen External Contractor
Steve McKay, Frederick County Council (Council Representative)	
Tom Lynch (FCC Board of Trustees Representative)	
Lois Jarman (BOE Representative)	

