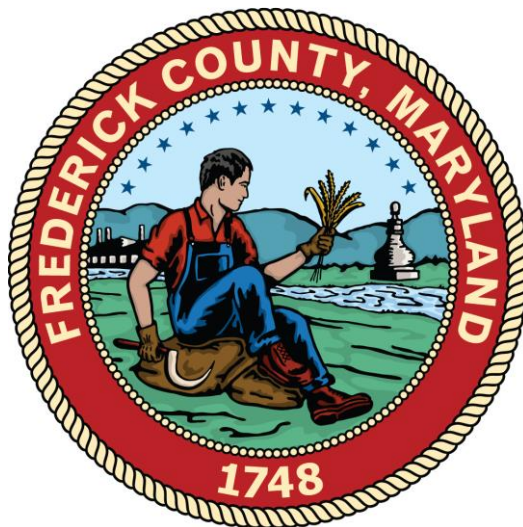


# **FREDERICK COUNTY INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FISCAL YEAR 2023 ANNUAL REPORT  
(July 1, 2022 – June 30, 2023)  
SEPTEMBER 20, 2023**



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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 2023 (FY23; period July 1, 2022 – June 30, 2023). The Internal Audit Division (IAD), consisting of a Director and a Coordinator, 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. Most of our audits, attestation engagements and special projects result in more effective and efficient use of staff time and improved internal controls. Cost savings in these cases are not always quantifiable. During fiscal year (FY) 23, the IIAA made a total of fifty-nine (59) audit attest and non-attest recommendations and/or analytic areas or findings across the County, FCC, and FCPS through the finalization of engagement reports. By June 30, 2023, the IIAA had also conducted three (3) special projects, fifteen (15) follow-up reports and one (1) financial review for the FCG, FCC, and FCPS entities.

Since being awarded contracts, first in 2014, through the County procurement and contracting department, by means of a request for proposal process, the IIAA utilizes two contractors, SC&H Group, Inc. (SC&H) and CliftonLarsonAllen, LLP (CLA). 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, special projects are conducted by the department itself. Both firms were awarded new contracts on November 12, 2019, which began on January 1, 2020, for a duration of two years with options for three possible 1-year extensions.

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 [Audit Reports | Frederick County MD - Official Website](#) or call Dawn Reed, Coordinator, at 301-600-1154.

Tricia A. Reaver, CPA  
Director, Internal Audit Division

Interagency Internal Audit Authority  
Jon Alexander, CPA, IIAA Chair

## II. Authority and Responsibilities

**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 Internal Audit Division (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.

**Responsibilities:** 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 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 as well as 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.
- 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, performing the annual risk assessment, preparing the annual audit work plan, preparing annual reports and performing review of all county-wide audits.
- Performing audits and special projects and managing contractor audit, attestation engagements and special 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.
- 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 and the use of professional contractors. The contractors are instead subject to peer review at this time.

### III. Summary of Audit Results

We issued the following three (3) reports in FY23 with a total of thirty-five (35) recommendations and/or analytic areas or findings with management agreeing to implement most of the recommendations made.

**Report #22-03**, Frederick Community College Asset Inventories, Accountability, and Surplus. This audit was conducted by our outside contractor, SC&H, and was issued on December 21, 2022. The college is accountable for the inventory and safe keeping of assets as well as proper disposal or surplus in accordance with procurement rules and regulations. This audit reviewed policies, procedures and internal controls across departments in the collection of fixed asset inventory data, general inventories data, taking annual inventories of assets and general inventory, the safe keeping of assets and inventories, and capturing information for financial purposes. This audit also reviewed internal controls in place over proper disposal and/or surplus of those assets and inventories once they are no longer needed. This audit did not include buildings, building improvements or land improvements.

This audit resulted in recommendations to incorporate efficiencies, strengthen controls, and enhance FCC policies and procedures over college fixed assets and inventories, inventory, accountability and disposal or surplus of both fixed assets and inventories.

The objectives of the audit were as follows:

- Evaluate the policies and procedures surrounding fixed assets across college departments, including additions, inventory, safe-keeping, disposal and surplus and financial record-keeping.
- Evaluate the policies and procedures surrounding inventories across college departments, including additions, inventory, safe-keeping, disposal and surplus and financial record-keeping.
- Obtaining an inventory of fixed assets across the college.
- Obtaining an inventory of general inventories across the college.
- Determine the college's identified assets held and in what departments.
- Determine the college's identified inventories held and in what departments.
- Determine methodologies used for taking fixed asset inventories and gathering data for financial reporting on college fixed assets.
- Determine methodologies used for taking inventory on general inventories and gathering data for financial reporting on college fixed assets.
- Determine steps taken by the college to keep fixed assets and inventories safe from theft or misuse (including the purchase, receipt and inventory tagging processes).
- Determine college procurement rules and regulations for disposal and surplus of fixed assets.
- Perform test-work on college fixed asset inventories and general inventories.
- Perform test-work on the disposal and surplus of college fixed assets and general inventories.

The audit procedures resulted in twenty-four (24) recommendations.

**Report #22-04**, Frederick County Government (FCG) Fuel Contractor. This audit was conducted by our outside contractor, SC&H, and was issued on February 15, 2022.

On January 26, 2017, FCG entered into a contract services agreement with a vendor to provide and deliver vehicle fuels in bulk by transport and tank wagon to various depot locations within the County. The contract term was for one year commencing February 6, 2017, with renewal options for four additional years in one year term increments. The County accepted each additional year, and the full contract term was from February 6, 2017, until February 6, 2022.

Specifications in the contract included the fuel type quantities and deliveries by fuel site within the County. There are 6 fuel sites located within the County 5 of which include both unleaded and diesel fuel tanks. Per the contract, delivery fees were specified as well as winter additive delivery service charges. Per the contract, fuel differentials remained firm through the entire contract and included all overhead costs, freight, fuel transfer fees and profit. Rack prices possibly fluctuated daily with the Baltimore, Maryland 10a.m. Oil Price Information Service (OPIS) benchmark price.

The objectives of the overall audit were to:

- Review the Contract Services Agreement with the vendor.
- Sample and test fuel and fuel delivery charges from the vendor for the calendar year 2020 and 2021 in accordance with the Contract Services Agreement dated January

26, 2017.

- If it is found that over-charging occurred, the sample selection range will change to the life of the contract and further testing will be necessary to determine the total amount of over-billing by the vendor over the life of the contract (a task order increase may occur). An objective was added through testwork to include the testing of activity in May and June of 2022.

The audit resulted in five (5) recommendations.

**Report #22-05**, Frederick County Government (FCG) Employee Retirement Plan and Benefit Calculations. This audit was conducted by our outside contractor, Clifton, Larson, Allen, and was issued on December 21, 2022.

Retirement and pension calculations were being performed internally by Frederick County Government Human Resources Division for retiring personnel. In FY 2021, the County outsourced these calculations to a 3<sup>rd</sup> party vendor, Retirement Focus. An audit of the transfer of original retirement benefit calculations and new retirement benefit calculations with the new third-party vendor would allow the County to better understand that the calculations were and are being performed accurately and in accordance with County code, laws, regulations, policies and procedures.

The objectives of the overall audit were to:

- Gain an understanding of the current Frederick County Government Human Resources Policies & Procedures Manual, focusing on Section 7 – Benefits and Services; 7.7 Pension Plans – Defined Benefit Plans as updated in July 2021.
- From the policies and procedures, determine the basic benefit calculations for employees pre and post July 1, 2011, both uniformed and non-uniformed participants.
- Test on a sample basis, accrued benefits estimate calculations as of July 1, 2021, distributed to members in April 2022 for both Uniformed and Non-Uniformed employees to ensure agreement with the County policies and procedures.
  - New employees within the past two years fully under third-party administration.
  - Employees who have been with the County since July 1, 2011.
  - Employees who have been with the County before July 1, 2011.
  - Employees who transferred from 35 hours to 40 hour work weeks.
- From the policies and procedures, understand the Deferred Retirement Option Program (DROP) – Uniformed Employees and test a sample basis of benefit calculations from participating employees.
- Test, on a sample basis, new retirees that went into pay status under the third-party administrator.

This audit resulted in recommendations to incorporate efficiencies, strengthen controls, and enhance FCG policies and procedures over pension benefits.

The audit resulted in six (6) recommendations.

## IV. Summary of Non-Audit Results

The primary non-audit services the Internal Audit Division (IAD) provides are non-attest engagements/agreements, special projects and follow-up reviews of audits containing recommendations<sup>1</sup>. 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 FY23, the Division conducted three (3) special projects, fifteen (15) follow-up reports and one (1) financial review.

Special Project: SP22B, Frederick County Public Schools Activity Funds; Initiated 1/3/22. The IAD was contacted by FCPS to assist with the annual review of school activity funds. The IAD tested July 1, 2021 through December 31, 2021 during fiscal year 2022. During the fall of 2022 in fiscal year 2023, the IAD completed the review of January 1, 2022, through June 30, 2022. The IAD tested ten (10) FCPS high schools and one (1) middle school during fiscal year 2023.

This testwork resulted in multiple observations and recommendations made to FCPS finance via FCPS Google forms and each individual school separately. The final school was completed by March 1, 2023.

Special Project: SP22D, Frederick County Government Non-County Agency Funds; Issued 3/23/23.

During annual risk assessment meetings, a risk was identified for funding provided to the City of Frederick through non-county agency funding. The IAD performed a review of basic financial information regarding the annual funding the County provides the City of Frederick, Maryland for their Department of Housing and Human Services. The IAD reviewed both fiscal years (FY) 2021 and 2022. The IAD completed the following tasks in this review:

- Review of the County's non-county agency funds general ledger for FY 2021 and FY 2022.
- Review of the annual funding request letter from the City dated March 2022 and March 2020 (one was not provided in 2021).
- Review of the City's annual Single Audit Section of the Annual Comprehensive Financial Report (ACFR) for FY 2020 and FY 2021 (FY 2022 had not yet been released).
- Review of various Federal and State grant documents regarding funding and reporting for various City Department of Housing and Human Services programs.
- Inquiry with the City's Director of Housing and Human Services.

The basic review resulted in three (3) recommendations.

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<sup>1</sup> 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 does not have a formal hotline or monitoring agency in place. Thirteen (13) hotline complaints were received in FY22 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.



Special Project: SP23A, Frederick County Government Senior Services Personnel Memorandum; Issued 10/19/22.

In August 2022 the Internal Audit Division (IAD) received concerns regarding the accounting for grants in the Senior Services Division. Through review, there were five concerns brought forward in which the IAD deemed it necessary to investigate further. The IAD performed a review of these areas of concern. The IAD performed the following tasks in this review:

- The IAD met with the Deputy Chief Administrative Officer, the Chief Financial Officer and the Director of Human Resources to discuss the matters brought forward and obtain historical knowledge on the issues.
- The IAD obtained source documents from the Finance Division which included federal and state grant funding guides, information and instructions.
- The IAD met with the Senior Services Division Director to discuss each concern brought forward and to obtain background information.
- The IAD obtained and read the e-mail communications between the Fiscal Manager of Senior Services and the Senior Services Operations Director on all areas of concern dating between November 2021 and August 2022.
- The IAD met with the Senior Services Operations Director (of whom concerns were brought against) to discuss each concern and obtain background information.
- The IAD met with the Grants Management team in the Finance Division to discuss background information and concerns.

The basic review of specified controls resulted in fourteen (14) recommendations.

Follow up to Report #SP19B, FCG DFRS Fleet Cost Comparison

The IAD performed a follow up to the FY19 non-attest special project of FCG DFRS Fleet Cost Comparison, in which ten (10) recommendations were made. The special project was performed to assist in the understanding of cost differential in County Fleet Services and outside vendors. This special report was closed on April 10, 2023.

Follow up to Report #17-04, FCG Capital Projects

On September 26, 2017, we issued audit report #17-04 that contained seven (7) recommendations to test risk and control gaps noted within Frederick County Government (FCG) in relation to capital improvement projects and contract management internal controls. The document has been approved; all recommendations were implemented. This audit was closed on November 14, 2022.

Follow up to Report #17-08, FCPS Personally Identifiable Information

The IAD worked on the completion of this follow up in FY22. The remaining open recommendation is an open full time position which is reliant on budget approval within FCPS. At the time of this report there is (1) recommendation open. Close out is expected in FY24.

Follow up to Report #19-01, FCG Incident Response and Disaster Recovery

The IAD performed a follow up to the FY19 audit, that resulted in three (3) reports being issued. On July 17, 2019, we issued a review of the Disaster Recovery Plan which resulted in four (4) observations made. On September 18, 2019, we issued an audit report that

contained nine (9) recommendations relating to the County's Incident Response Plan. On September 18, 2019, we also issued a review of procurement and contracting on Information Technology purchases which resulted in two (2) observations made. The objectives of the audit were to understand the plans that FCG has in place in relation to incident response and disaster recovery. This work would then relate the plans in place to current best practices amongst state and local governmental entities as well as general overall standards in incident response and disaster recovery internal controls surrounding the plans. Close out expected in FY24.

Follow up to Report #19-02, Frederick Community College (FCC) Procurement & Contracting

The IAD performed a follow up to the FY20 audit of FCC's Procurement and Contracting in which four (4) findings and recommendations relating to their purchasing and contracting policies, procedures and practices. The IAD is currently awaiting one final outstanding recommendation for the closing of this follow up. Close out is expected in FY24.

Follow up to Report #19-03, FCG CCRC/Montevue

The IAD performed a follow up to the FY20 audit, which nine (9) recommendations were issued as well as a separate confidential memorandum that contained three (3) additional management considerations. The performance audit was conducted to understand the Management Agreement and any other agreements in place between the County and Aurora and if both the county and Aurora have complied with the terms of those agreements and obtain a general understanding of the overall public/private relationship between the entities. The IAD is currently awaiting a few outstanding items for the closing of this follow up. Close out is expected in FY24.

Follow up to Report #20-03, FCPS Timesheet Controls

The IAD performed a follow up to the FY20 audit, which nineteen (19) recommendations were made on FCPS' timekeeping and timesheet controls. The audit focused on Payroll processes and selected FCPS departmental and school timekeeping activities. The department and time keeping activities to focus on were identified based on data analytics of overtime and supplemental pay and background information provided by FCPS. The period in scope included timesheet activity between January 1, 2019, and May 31, 2020. FCPS is working through the recommendations made during the audit and the IAD will follow up again in Fall 2023.

Follow up to Report #20-04, FCG Receipts Transactions

On March 16, 2022, the Interagency Internal Audit Authority (IIAA) issued audit report #20-04, Frederick County Government (FCG) Receipts Transactions, and a follow up report issued February 1, 2023. The audit report issued two (2) observations and (1) one recommendation that identified matters where opportunities exist to strengthen internal control and improve operations. This audit was closed on April 13, 2023.

Follow up to Report #21-01, FCG DFRS Matrix

The IAD performed a follow up to the FY21 audit, in which twelve (12) recommendations were made. The audit was performed to assist DFRS and the FCVFRA with the annual matrix calculation process. There are a few outstanding recommendations, of which most

are awaiting the finalization of updated policies and procedures. The IAD will continue following up with DFRS. Close out expected in FY24.

Follow up to Report #21-05, FCG Network Security

The IAD performed a follow up to the FY21 audit, in which twenty-one (21) recommendations were made in a confidential report. The audit focused on network security and remote access. The period in scope included the current remote access and network security environment, processes, and users. The County is working through the recommendations made during the audit. The IAD will continue following up with the County IIT Division. Close out expected in FY24.

Follow up to Report #21-06, FCPS Network Security

On September 15, 2021, the Interagency Internal Audit Authority (IIAA) issued audit report #21-06, Frederick County Public Schools (FCPS) Network Security, which contained three (3) recommendations, then a follow up on October 12, 2022. This audit was conducted to: (1) evaluate the policies and procedures surrounding remote access management (including vendor or contractor access), mobile security, data encryption at-rest and in-transit, data loss protection (DLP) strategy and management, perimeter defense (firewalls), logical network access controls, security audit capabilities (system logs and audit trails) and network monitoring; (2) To determine if remote connection and access is secure based on current control environment; and (3) to perform tests of effectiveness over internal mobile security and remote access control environment and ensure network monitoring is taking place in a timely fashion and is specific to remote access and mobile connections. This audit was closed on November 30, 2022.

Follow up to Report #21-07, FCC Network Security

The IAD performed a follow up to FY21 audit, which contained twelve (12) recommendations, of which three (3) recommendations were completed at the time of the report. The audit focused on network security and remote access. The period in scope included the current remote access and network security environment, processes, and users. FCC implemented all recommendations made during the audit. This audit was closed on June 15, 2023.

Follow up to Report #21-08, FCG Fixed Assets, Inventories, Accountability and Surplus

On January 19, 2022, the Interagency Internal Audit Authority (IIAA) issued audit report #21-08, Frederick County Government (FCG) Fixed Assets, Inventories, Accountability, and Surplus, which contained seventeen (17) recommendations to the safe-guarding and tracking of the County's assets (furniture, fixtures, equipment and sensitive assets) as well as the surplus of those assets. The audit period covered the current inventory procedures from July 1, 2019, through May 1, 2021. This audit was followed up on February 1, 2023.

Follow up to Report #21-09, FCG Hotel Rental Tax

On June 15, 2022, the Interagency Internal Audit Authority (IIAA) issued audit report #21-09, Frederick County Government (FCG) Hotel Rental Tax, where we issued a recommendation on findings in four (4) areas: Lack of Documentation; Net Room Rental Receipts; Inaccuracy of the Tax Calculation for Late Payments; and Human Trafficking. This audit was followed up on April 18, 2023.

#### Follow up to Report #22-01, FCPS Classical Charter Schools

On May 18, 2022, the Interagency Internal Audit Authority (IIAA) issued audit report #22-01, Frederick County Public Schools (FCPS) Frederick Classical Charter Schools, where we issued two (2) recommendations. The period covered July 1, 2016, through June 30, 2021, and was conducted to evaluate the accounting, financial reporting, and compliance with guidelines that were established by FCPS. This audit did not consider other areas such as instruction, curriculum, enrollment, or personnel. This audit was followed up on February 1, 2023.

#### FCG, FCPS & FCC Annual Financial Reviews

The IAD conducted an Annual Review of 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, significant deficiencies or compliance findings were noted on the financial statement reports. Additionally, no material weaknesses, significant deficiencies or compliance findings on major programs were noted on the uniform guidance reports.

Please refer to the 2023 financial review report for further information (link: <https://www.frederickcountymd.gov/DocumentCenter/View/344575/2023-Annual-Financial-Review-Final-for-Web>)

## V. IIAA Members and Audit Staff

<b>IIAA Members</b>	<b>Internal Audit Staff</b>
Jon Alexander, CPA, Chair (Public Representative)	Tricia A. Reaver, CPA Director
Nicole Prorock, CPA, Vice Chair (Public Representative)	Dawn Reed Coordinator
Emeka Enworom (Public Representative)	SC&H Group, Inc. External Contractor
Open Seat (Public Representative)	CliftonLarsonAllen External Contractor
Steve McKay, Frederick County Council Representative	
Dr. John Molesworth, Frederick Community College Board of Trustees Representative	
Sue Johnson, Frederick County Public Schools Board of Education Representative	