

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FISCAL YEAR 2018 ANNUAL REPORT
March 20, 2019**

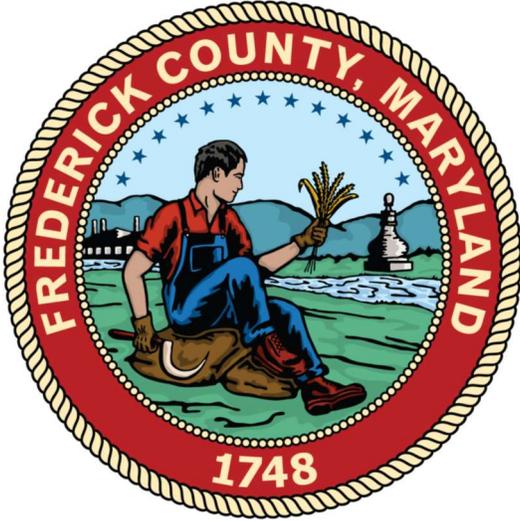


TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	AUTHORITY AND RESPONSIBILITY.....	2
III.	SUMMARY OF AUDIT RESULTS.....	3
IV.	SUMMARY OF NON-AUDIT RESULTS.....	7
V.	IIAA MEMBERS AND AUDIT STAFF.....	9
VI.	ANNUAL WORK REPORT LOG	10

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 2018 (FY18). 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 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, lack of controls 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 FY18 the IIAA made a total of 116 audit and attest recommendations across the County, FCC, and FCPS. By June 30, 2018, the IIAA had also conducted two (2) special projects and also worked on 4 other projects (follow-up reports) for the FCG, FCC, and FCPS entities.

Since being awarded contracts in 2014, 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. 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. 99-05 (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,
- Assist 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,
- 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 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 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,
- 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 six (6) reports in FY18 with a total of 117 recommendations which management agreed to implement most all of the recommendations made.

Report #17-04, Frederick County Government Capital Improvements Plan: This audit was conducted by our outside contractor, CLA and was issued on September 26, 2017. The IIAA and CLA established the following five (5) objectives for the audit:

- Obtain an understanding of the controls in place in the contracting process between a division or department and the Procurement and Contracting Department.
- Assess the controls in place in the contract selection process and adherence to Federal and State compliance policies, procedures and regulations.
- Assess the controls and prequalification requirements for project and construction contracts.
- Review and evaluate the effectiveness of the contract and project planning process.
- Review and evaluate the effectiveness of managing and monitoring projects and change orders.

The audit procedures resulted in seven (7) observations with recommendations.

Report #17-06, Frederick County Government Personally Identifiable Information Audit. This audit was conducted by our outside contractor, SC&H and was issued on December 20, 2017.

The IIAA and SC&H established the following seven (7) objectives for the audit:

- Obtain and review current policies and procedures regarding external PII and document an understanding of the current methodology. Specific points of interest would include:

- Detailed understanding of the use of external PII in business functions.
- Procedures for compliance with laws and regulations.
- Guidance of external PII management and communication procedures.
- Departmental documentation of all current external PII inventory.
- Internal data classification standards.
- Follow the external PII “life cycle” from obtaining the information through dissemination and disposal and identify the risks and controls at each stage.
- Test the effectiveness of the controls presently in place through statistical and general sampling where warranted.
- Perform a review of physical access, including:
 - Observing the workspace and identifying potential risk such as visible monitors and documentation containing PII.
 - Observing access to records and the placement of keys.
 - Noting the presence and security of destruction methods, such as secure shred bins.
- Review electronic access to information to determine whether PII is sufficiently secured by:
 - Obtaining and reviewing current user access rights for appropriateness.
 - Reviewing evidence of secured access to sensitive applications and secured drives.
- Perform an analysis of document access logs to identify indicators of inappropriate external PII access.
- Based upon the understanding of the division’s/department’s business processes, identify control enhancement and opportunities to reduce the use and maintenance of external PII.

The audit procedures resulted in fourteen (14) overall recommendations and twenty-two (22) departmental specific recommendations.

Report #17-07, Frederick Community College Personally Identifiable Information Audit. This audit was conducted by our outside contractor, SC&H and was issued on November 15, 2017.

The IIAA and SC&H established the following seven (7) objectives for the audit:

- Obtain and review current policies and procedures regarding external PII and document an understanding of the current methodology. Specific points of interest would include:
 - Detailed understanding of the use of external PII in business functions.
 - Procedures for compliance with laws and regulations, particularly surrounding the Family Educational Rights and Privacy Act (FERPA).
 - Guidance of external PII management and communication procedures.
 - Departmental documentation of all current external PII inventory.
 - Internal data classification standards.
- Follow the external PII “life cycle” from obtaining the information through dissemination and disposal and identify the risks and controls at each stage.
- Test the effectiveness of the controls presently in place through statistical and general sampling where warranted applicable.
- Perform a review of physical access, including:
 - Observing the workspace and identifying potential risk such as visible monitors and documentation containing PII.
 - Observing access to records and the placement of keys.
 - Noting the presence and security of destruction methods, such as secure shred bins.

- Review electronic access to information to determine whether PII is sufficiently secured by:
 - Obtaining and reviewing current user access rights for appropriateness.
 - Reviewing evidence of secured access to sensitive applications and secured drives.
- Perform an analysis of document access logs to identify indicators of inappropriate external PII access.
- Based upon the understanding of the division's/department's business processes, identify control enhancement and opportunities to reduce the use and maintenance of external PII.

The audit procedures resulted in ten (10) overall recommendations and twelve (12) departmental specific recommendations.

Report #17-08, Frederick County Public Schools Personally Identifiable Information. This audit was conducted by our outside contractor, SC&H and was issued on February 21, 2018. The IIAA and SC&H established the following seven (7) objectives for the audit:

- Obtain and review current policies and procedures regarding external PII and document an understanding of the current methodology. Specific points of interest would include:
 - Detailed understanding of the use of external PII in business functions.
 - Procedures for compliance with laws and regulations, particularly surrounding the Family Educational Rights and Privacy Act (FERPA), Health Insurance Portability and Accountability Act (HIPPA), Code of Maryland Regulations (COMAR), and Maryland State Department of Education (MSDE).
 - Guidance of external PII management and communication procedures.
 - Departmental documentation of all current external PII inventory.
 - Internal data classification standards.
- Follow the external PII "life cycle" from obtaining the information through dissemination and disposal and identify the risks and controls at each stage.
- Test the effectiveness of the controls presently in place through statistical and general sampling where warranted applicable.
- Perform a review of physical access, including:
 - Observing the workspace and identifying potential risk such as visible monitors and documentation containing PII.
 - Observing access to records and the placement of keys.
 - Noting the presence and security of destruction methods, such as secure shred bins.
- Review electronic access to information to determine whether PII is sufficiently secured by:
 - Obtaining and reviewing current user access rights for appropriateness.
 - Reviewing evidence of secured access to sensitive applications and secured drives.
- Perform an analysis of document access logs to identify indicators of inappropriate external PII access.
- Based upon the understanding of the division's/department's business processes, identify control enhancement and opportunities to reduce the use and maintenance of external PII.

The audit procedures resulted in eighteen (18) overall recommendations and twenty-three (23) departmental specific recommendations.

Report #17-09, Frederick County Government Hotel Rental Tax Audit for the period July 1, 2014 through June 30, 2016. This audit was conducted by our outside contractor CLA and was issued on October 30, 2017. The IIAA and CLA established the following six (6) objectives for the audit:

- Selected nine (9) out of the twenty-seven (27) hotels that remitted hotel rental tax revenues during the audit period and conducted onsite visits of those hotels. For each hotel that was tested, we:
 - Selected twelve (12) out of the 24 months of the audit period and reviewed the supporting documentation used by the hotel to complete the hotel room rental tax report to ensure completeness and accuracy of the report. We also recalculated the hotel rental tax due to the County for accuracy.
 - Selected two (2) guests per month for the 12 months tested and reviewed their hotel bill to ensure the tax was properly calculated and collected from the guest.
- Verified that the monthly tax collections reported by the individual hotels agreed with the amounts utilized by the County to calculate payments due to the Tourism Council.
- Obtained the County's calculation of payments due to the Tourism Council for the 24 months of the audit period and:
 - Verified the administrative fees charged by the County were in accordance with the Memorandum of Understanding (MOU) between the County and Tourism Council;
 - Recalculated the administrative fees charged by the County for accuracy; and
 - Verified the debt service amounts charged by the County agreed to the amortization schedules of the bonds issued by the County for the Tourism Council's Visitor's Center.
- Verified that the payments made by the County to the Tourism Council were accurate and agreed with the amounts recorded in the Tourism Council's financial ledgers. We traced payments received by the Tourism Council for 12 out of 24 months to the Tourism Council's bank account.
- Verified that the Tourism Council properly recorded the debt payments and set aside the required minimum for the Visitor's Center each fiscal year in their general ledger.
- Gained an understanding of the Tourism Council's Tourism Reinvestment in Promotion and Product Development (TRIPP) Program and selected 20 out of 40 grants awarded during the audit period for testing to ensure program participants were eligible for the grant and funds were dispersed appropriately to those participants.

The audit procedures resulted in four (4) findings and four (4) recommendations.

Report #17-10, Frederick County Government Division of Utilities and Solid Waste Management Water and Sewer Billings System Audit. This audit report was conducted by our outside contractor, SC&H and was issued on December 20, 2017. The IIAA and SC&H established the following eight (8) objectives to be performed for the audit:

- Verify that meter reading information exported from Badger agrees to information imported into NUMIS for the same bill cycle.
- Validate the end-user access rights for both the Badger and MUNIS systems to determine if rights appear appropriate and are properly segregated.

- Assess DUSWM compliance with third-party vendor software implementation requirements and associated contract terms.
- Verify that manual adjustments to customer billings were appropriately supported and justified.
- Verify that manual meter reading entries were accurately entered into Badger.
- Verify that customer accounts which are eligible to be disconnected based on late due payments are being appropriately identified, considering any potential regulatory requirements, and disconnected in a timely manner
- Perform an analysis to identify whether customers have been noted as “do not disconnect” for an extended period of time, quantifying the potential for missed fees.
- Evaluate new accounts set up with the billing system to verify that all new properties and property transfers are accurately documented for billing purposes.

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 FY18, the Division conducted two (2) special projects and four (4) follow-up reviews.

FY18 Special Project: ICE Program

At the request of the County Council and as agreed by the Interagency Internal Audit Authority (IIAA), the IAD performed a non-attest special project reviewing and analyzing the cost associated with the Intergovernmental Service Agreement (IGSA) with the U.S. Department of Homeland Security U.S. Immigration and Customs Enforcement Office of Detention and Removal (ICE) inmate housing agreement. This review was conducted by the IAD to evaluate the agreement, with IGSA and ICE with the Frederick County Sheriff’s Department (FCSO) to determine costs associated with the program and the analysis and allocation of such costs of multiple fiscal years. 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).

The objectives of the special project were as follows:

- To review the current Inter-Governmental Service Agreement (IGSA) between ICE and the FCSO; and
- To determine if the current per diem rate provided by ICE is reasonable in accordance with the agreement and current actual costs incurred by the FCSO.

¹ The Internal Audit Division also conducts Hotline investigations of complaints that are submitted by County employees to the Fraud Hotline. We received 12 hotline complaints in FY18 that were determined to be non-sufficient and closed or was investigated internally, resolved between the entity or division and were closed out.

FY18 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. 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 review were shared with the TOC, ECC, DP&C and FCSO on a monthly basis along with recommendation on correcting errors. Many issues were noted with the rotation and the IIAA suggested a full audit by one of the internal audit contractors which was then conducted during this same time and reported upon in FY19. The IAD will continue to review monthly rotations until recommendations from the audit report are resolved.

FY18 Follow up to DFRS Overtime Special Project

At the request of the Department of Fire and Rescue Services of Frederick County (DFRS), the IAD performed a 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 and analyzed the difference between a 3 shift and 4 shift system. The IAD provided DFRS with the calculations and spreadsheets as a result of this follow up. The recommendations made in the FY17 report remain standing.

FY18 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.

FY18 Follow up to Ambulance Billing Special Project

The IAD performed a follow up to the FY16 special project on ambulance billing. Within this follow up the IAD reviewed updated DFRS compliance officer reports and billing information to billing and collection information calculated on behalf of volunteer companies. The IAD found that errors were still occurring and suggested a full audit by one of the external contractors. The audit was conducted during FY18 and concluded in FY19. Recommendations from that audit will be reported in the FY19 annual report.

FY18 Follow up to FCC Student and Corporate Accounts Receivable Audit

The IAD performed a follow up to the FY16 audit by CLA on FCC student and corporate accounts receivables. During this follow up the IAD noted that all 7 recommendations were resolved by FCC and the audit was closed.

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.

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
Q. Eric Wu, CPA (Public Representative)	CliftonLarsonAllen External Contractor
Steve McKay, Frederick County Council (Council Representative)	
Tom Lynch (FCC Board of Trustees Representative)	
Lois Jarman (BOE Representative)	
Bud Otis (Former County Council Representative)	
David Bufter (Former FCC Representative)	
Colleen Cusimano (Former BOE Representative)	

VII. Annual Work Report Log Summary

Project # Assigned	Report/ Follow Up Release Date	Title	Recommendations Made	Recommendations Implemented	Engagement Type	Completed By	Follow Up Due Date
17-04	9/26/17	FCG: Capital Improvements Plan	7 observations with recommendations	Agreed to all	Performance Audit	CLA	In Process
17-06	12/20/17	FCG: Personally Identifiable Information	14 general recommendations and 22 dept. specific recommendations	In Process	Performance Audit	SC&H	In Process
17-07	11/15/17	FCC: Personally Identifiable Information	10 general recommendations and 12 dept. specific recommendations	In Process	Performance Audit	SC&H	In Process
17-08	2/21/18	FCPS: Personally Identifiable Information	18 general recommendations and 23 dept. specific recommendations	In Process	Performance Audit	SC&H	In Process
17-09	10/30/17	FCG: Hotel Rental Tax Audit (Period 7/1/14-6/30/16)	4 findings and 4 recommendations	In Process	Performance Audit	CLA	In Process

Project # Assigned	Report/ Follow Up Release Date	Title	Recommendations Made	Recommendations Implemented	Engagement Type	Completed By	Follow Up Due Date
17-10	12/20/17	FCG: DUSWM Water & Sewer Billings	7 recommendations	6 implemented	Performance Audit	SC&H	CLOSED
Special Projects							
FCG: SP-18A	6/11/18	FCG: ICE Program	N/A	N/A	Special Project	Internal Audit	N/A
FCG: SP	Monthly	FCG: Towing Contract Monthly Reviews	N/A	N/A	Special Project	Internal Audit	N/A
Follow Ups							
		FCG: DFRS Overtime Special Project	N/A (updated analysis)	N/A	Follow Up	Internal Audit	N/A
	8/1/18	FCG: Permitting Special Project	9	9	Follow Up	Internal Audit	CLOSED

Project # Assigned	Report/ Follow Up Release Date	Title	Recommendations Made	Recommendations Implemented	Engagement Type	Completed By	Follow Up Due Date
	10/1/17	FCG: Ambulance Billing Special Project	6	N/A	Follow Up	Internal Audit	CLOSED
	9/12/17	FCC: Student and Corporate Accounts Receivable Audit	7	7	Follow Up	Internal Audit	CLOSED