LOB #7:

INTERNAL AUDIT / BUSINESS PROCESS AUDITS

Purpose

Business Process audits are performed to ensure that agencies/department are in compliance with county policies for tasks required of them by the central service agencies - Department of Finance (DOF) and Department of Purchasing and Supply Management (DPSM). These audits make sure that controls are at appropriate levels to minimize the County's risks for error or fraud and provide management assurance that purchasing and finance activities are properly performed.

Description

Business Process Audits are standardized compliance audits performed on all county agencies/departments on a recurring basis. Currently, Business Process audits programs include steps to ensure compliance with policies and procedures for purchasing and financial transactions. Examples of specific processes audited are procurement card purchases, purchase order processing and monthly financial reconciliations. County agencies/departments are on a 3 year cycle to have a Business Process Audit done in their area. IAO currently has 3 Business Process auditors who are dedicated to performing these audits. Additionally, one of the responsibilities of the department's Lead Auditor is to supervise the Business Process Audits. For each audit, the auditor will obtain an understanding of the department/agency processes by interviews with the auditees; select samples of transactions to verify; and communicate results and recommendations through an exit meeting and audit report. IAO plans to add steps to validate human resource processes in FY 2016. Internal Audit started performing Business Process audits in FY 2012.

Benefits

Business Process Audits provide assurance to citizens and County management for proper stewardship of public funds and accountability for accurately processing financial transactions. The standardization of the audit program allows for faster audit turnaround times while ensuring a consistent application of internal controls in the areas audited. The Business Process auditors are physically present in more agencies/departments on a more frequent basis giving IAO better coverage and enhancing our understanding of the various control environments that exist throughout the County. With this understanding, IAO can better utilize our resources to mitigate elevated risk environments. Additionally, having dedicated Business Process Auditors allows our Senior and Information Technology auditors to perform more specialized, custom audits to address high risk areas of more technically complex issues. Finally, the Business Process Audits provide a robust method to evaluate the effectiveness of internal controls over procurement card purchases which is considered one of the greatest risk areas for government spending.

Mandates

This Line of Business is not mandated.

Trends and Challenges

Trends

Credit Card Fraud: In recent years, there has been an increased level of sensitive data breach activity (i.e. Target, Home Depot, U.S. Office of Personnel Management (OPM), etc.) which has increased the County's risk for procurement card fraud. IAO has taken steps to include a more robust analysis and review of procurement card transaction populations for agencies/departments.

Challenges

Levels of Audit Coverage: IAO is currently only able to perform a Business Process audit for the approximately 54 agencies/departments in the County once every 3 years. The length of time between audits is not optimal as many changes that increase risk can occur in a 3 year period. There are also additional tasks County agencies/departments are required to perform from central service agencies that IAO would like to add to the audit program. Currently, IAO is developing audit steps to include in the audit program that will test Human Resource policies/procedures performed at the agency/departmental level. However, this would increase the length of time to complete agency/department audits which could result in an extension of the audit performance cycle beyond the current 3 years. Our challenge and goal is to maintain the minimum 3 year cycle even with the additional steps and try to shorten that cycle in the future.

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #7: Internal Audit / Business Process Audits			
FUNDING			
Expenditures:			
Compensation	$288,801	$279,683	$344,536
Operating Expenses	15,781	16,972	12,534
Total Expenditures	$304,582	$296,655	$357,070
General Fund Revenue	$0	$0	$0
Net Cost/(Savings) to General Fund	$304,582	$296,655	$357,070
POSITIONS			
Authorized Positions/Full-Time Equivalents (FTEs)			
Positions:			
Regular	4 / 3.6	4 / 3.6	4 / 3.6
Total Positions	4 / 3.6	4 / 3.6	4 / 3.6

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Audits Completed	12	17	11	15	15
Number of Procurement Cards Audited	323	760	228	500	400
Procurement Covered by Audits	$108,644,843	$448,645,697	$197,168,974	$400,000,000	TBD
Percent of Recommendations that Increased Efficiency/Effectiveness of Department Operations	75%	92%	100%	95%	95%
Percent of Recommendations that Strengthened Management Controls	75%	85%	100%	95%	95%
Percent of Recommendations Implemented	76%	93%	74%	80%	80%
Number of Procurement Cards Revoked as a Result of Audits	0	0	0	0	0

Metric Type - Output

Audits Completed – This metric measures the volume of work produced by the department during a fiscal year. The metric is based upon the count of audit reports issued for Business Process Audits. Data for this metric is retained in the department's Project Tracking Database. The trend over the last three years is partially based on the Deputy Director position being unfilled during fiscal years FY 2014 and FY 2015, which impacted the number of audits that could be properly managed during the year. In addition, there were several larger departments with greater volume and complexity in financial transactions that had Business Process audits completed in FY 2015; and some of the Business Process Auditor's time was allocated in developing new audit programs for Human Resource delegated functions which should be rolling out in FY 2016. Our estimate for FY 2016 and FY 2017 reflects an increase capacity to manage more engagements during the year with the filled Deputy Director position.

Number of Procurement Cards Audited – This metric measures the number of procurement cards audited during a fiscal year. The metric is based upon the number of procurement cards tested as part of the Business Process Audits. Data for this metric is pulled from the PaymentNet system and retained in the department's work papers. The fluctuations over the last three years is based on the sizes of the departments selected for audit and the number of procurement cards issued to the department. Our audit program steps are the same for both large and small departments. All county departments/agencies are on our rotation and each year we select a variety of departments. Our estimate for FY 2016 and FY 2017 reflects the audit rotation schedule and our expectation that departments will still have approximately the same number of cards issued.

Procurement Covered by Audit – This metric measures the dollar value of procurement tested in our Business Process Audits during each fiscal year. The metric is based upon the value of Procurement Card, FOCUS Marketplace, Purchase Order, Value Line Purchase Order, and Non Purchase Order transactions completed for the departments selected for Business Process Audits. Data for this metric is obtained from FOCUS and PaymentNet and retained in the audit reports. The fluctuations over the last three years is due to the sizes of the departments selected for audit and the procurement required by each department. Our audit program steps are the same for both large and small departments. All county departments/agencies are on our rotation and each year IAO selects a variety of departments. Our estimate for FY 2016 and FY 2017 reflects the audit rotation schedule and our expectation that departments will still have the same level of purchasing.

Metric Type – Service Quality

Percent of Recommendations that Increased Efficiency/Effectiveness of Department Operations – This metric measures the auditee's assessment that audit recommendations improved the efficiency and/or effectiveness of their department operations. The metric is based upon the percentage of auditees who responded on the Customer Satisfaction Questionnaire with Agree or Strongly Agree to the question "did recommendations provide ways to improve efficiency and/or effectiveness in department operations". Data for this metric is retained in files by the department. The upward three year trend reflects our understanding of county operations and ability to work with departments to provide internal controls recommendations that improve department operations. Our estimates for FY 2016 and FY 2017 reflect our recognition that not all auditees will always perceive recommendations as improvement to operations.

Percent of Recommendations that Strengthened Management Controls – This metric measures the auditee's assessment of whether the recommendations made by Internal Audit strengthened management controls. The metric is based upon the percentage of auditees who responded on the Customer Satisfaction Questionnaire with Agree or Strongly Agree to the question "did recommendations sufficiently address ways to strengthen management controls". Data for this metric is retained in files by the department. The upward three year trend reflects our understanding of county operations and ability to work with departments to provide internal controls.

Metric Type – Outcome

Percent of Recommendations Implemented – This metric measures audit recommendations implemented by auditees that have been verified by an Internal Audit follow up review. Data for this metric is retained department's Project Tracking Database. The FY 2015 total of 74 percent reflects our understanding that county agencies/departments have incurred challenges in fully implementing recommendations. Additionally, while Internal Audit does follow up on all recommendations made in audit reports, due to limited resources, staff may not always have time verify audit recommendation implementation as quickly as IAO would like. Our estimates for FY 2016 and FY 2017 reflect our plan to work with departments to set more realistic action plan deadlines.

Number of Procurement Cards Revoked as a Result of Audits – This metric measures the number of procurement cards that were taken away from departments/agencies because they were considered a high risk for fraudulent, inappropriate or erroneous purchases. Risk factors that precipitate the removal of a procurement card from a department/agency would be high levels of suspicious card activity or a poor internal control procedures that are not addressed in a timely manner. The fact that no cards have been revoked in the past 3 years indicates a strong control environment over procurement card purchases. IAO does not anticipate any card removals in FY 2016 and FY 2017.