



**Hillsborough
County Florida**

**Board of County Commissioners
Internal Audit Department**

**INTERNAL AUDIT DEPARTMENT GAP ANALYSIS AND
RE-ENGINEERING PROJECT**

**Report # 16-02
November 16, 2016**



TO: Commissioner Kevin Beckner
Commissioner Victor Crist
Commissioner Ken Hagan
Commissioner Al Higginbotham
Commissioner Lesley "Les" Miller Jr.
Commissioner Sandra Murman
Commissioner Stacy White

FROM: Peggy Caskey, Internal Auditor

DATE: November 16, 2016

SUBJECT: Internal Audit Department Self-Gap Analysis and Re-engineering Project,
Report #16-02

My vision is to have a progressive audit shop that exceeds the Red Book Standards (regulations). To mature the Internal Audit Department's operations to this higher maturity level, the Internal Audit staff performed a self-gap analysis that detected the Department's strengths, weakness, challenges, and opportunities. Staff analyzed the Department's records, processes and activities. I utilized the results of the gap analysis as a bases for the re-engineering project.

I responded to the recommendations. My response follows each audit comment and recommendation.

Sincerely,

Peggy Caskey, CIA, CISA, CFE
Internal Auditor

CC: Mike Merrill, County Administrator
Chip Fletcher, County Attorney
County Internal Audit Committee

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EXECUTIVE SUMMARY

BACKGROUND INFORMATION

Since the Internal Audit Department was established in 2002, the County has not been able to achieve long-term employment with its Internal Auditors. These staff turnovers every few years caused the Department to have work stoppages and rebuilds. The Department struggled to find its identity, market its audit services portfolio, and fully mature.

In 2010, after the Department's external peer reviewer identified areas for improvement, the Board of County Commissioners hired a consultant to assist with designing the internal audit function's structure. As a result, the Internal Audit Department was reorganized, the County Internal Audit Committee was established, and the Internal Audit Department migrated towards conformance with The Institute of Internal Auditors Red Book Standards. The Board of County Commissioners adopted Resolution R13-193 establishing basic operational guidelines for the Internal Audit Department and the County Internal Audit Committee.

In 2013, the newly hired Internal Auditor implemented the consultant's structure by creating policies and procedures, implementing an audit process life cycle, and setting up AutoAudit (electronic work papers), Arbutus (data analytics) software programs, and Survey Monkey.

During 2015, the Internal Audit Department experienced 100% staff departure. This brought unanticipated challenges and some opportunities for the current Internal Auditor.

The Internal Audit Department has a well-stated purpose, authority, and responsibility that aligns with The Institute of Internal Auditors Definition of Internal Auditing, Code of Ethics, and the Red Book Standards. The Internal Audit Department is organizationally independent and the Internal Auditor has direct interaction with the Board of County Commissioners and the County Internal Audit Committee.

There is an opportunity to build on the existing foundation and mature overall operations for:

- long-term sustainability and viability of internal audit activities;
- identifying and marketing the Internal Audit Department;
- being a business partner by collaborating horizontal products and services;
- maximizing the Internal Audit Department's limited resources by fully utilizing the capabilities of available technology; and
- outsourcing services to professionals who have specialized knowledge and expertise to support the audit team in its performance of audit products and services.

Maturing and building upon the components and structure in place will aid the Internal Auditor with achieving her vision of having a well-structured and progressive audit shop that exceeds the Red Book Standards.

OBJECTIVE

By way of a self-performed gap analysis, identify the status of the Internal Audit Department's strengths, weakness, challenges, and opportunities to mature the internal audit function.

SCOPE

The gap analysis was performed during fiscal year 2016 under current conditions. The gap analysis consisted of:

- having discussions with County Commissioners, the County Administrator, the executive team, the County Internal Audit Committee, the Director of the Clerk of Circuit Court's County Audit Department, and a partner of Cherry Bekaert;
- obtaining legal counsel from the County Attorney's Office;
- reviewing the Internal Audit Department's policies and procedures manual, Charter, Resolution R13-193, Red Book Standards, Board policies, County ordinances, and Board resolutions; and
- reviewing the audit life cycle for efficiency, effectiveness, and adequacy of technology resources.

The re-engineering project consisted of maturing the following areas of the internal audit function:

- Strategic
- Administration
- Technology
- Audit life cycle

OPINION

During calendar year 2016, the Internal Audit Department matured its overall administration and audit operations.

MOVING FORWARD

The enhancements to the internal audit function's overall operations are already having a positive impact on the Department's value added products and services, however, more work is needed to reach full maturity. Maturity will come with time and stability. The Internal Auditor is committed to continuously monitoring operations and to continuous improvement. The Internal Audit Department's maturity level will be validated by an independent external Quality Assurance Review (QAR) performed in December 2016.

AUDITED BY

Peggy Caskey, CIA, CISA, CFE, Internal Auditor
Melinda Jenzarli, CIA, CISA, CFE, CPA, MBA, Lead Internal Auditor
Renee Giambra, CIA, CPA (HI), Staff Internal Auditor

AUDIT COMMENTS AND RECOMMENDATIONS

Strategic

Audit Comment 1: There is an opportunity to improve the internal audit function's products and services to address real time emerging risks.

Per Resolution R13-193, the Internal Auditor has two primary responsibilities in aligning Internal Audit's products and services with the County Administrator's operations:

1. The Internal Auditor serves in an advisory capacity to the County Administrator in the development of controls.
2. The Internal Auditor is responsible for informing the County Administrator of emerging risks and situations that may have a negative impact on County operations or programs.

Based on the above, the internal audit function should address emerging risks in real time before they become problems; and appraise existing operations. To be successful in strategic alignment, the Internal Auditor must be aware of: the County's long-range vision, what is in the County Administrator's pipeline, obstacles that could impair achievement of management's goals and objectives, and risks in implementing new processes, procedures, and technologies.

To be in a good position to support the organization's long-term vision and to audit at the speed of risk, the Internal Audit Department needs to shift towards being a business partner with management and increase collaboration efforts by providing horizontal products and services.

Recommendation 1: Migrate towards a proactive advisory role.

Management Response: Concur. Complete. The Internal Auditor has a seat at many tables. For example, senior executive staff meetings, directors meetings, retreats and one-on-one meetings with the County Administrator and the County Attorney. The Internal Auditor has regularly scheduled meetings with the County Internal Audit Committee.

Recommendation 2: Have a flexible audit plan that is quick to react to unexpected changes in the risk environment.

Management Response: Concur. Complete. The internal audit function became more flexible and quicker to respond to changes in the risk environment.

On a quarterly basis, the Internal Auditor identifies changes in the auditable environment (initiatives, organizational, financial, managerial, and processing). The Internal Auditor looks for emerging risks, and if the risks materially impact the annual Audit Plan. The risk information is reported to the County Internal Audit Committee, Board of County Commissioners, and the County Administrator.

Recommendation 3: Expect and welcome unscheduled projects to audit at the speed of emerging risks.

Management Response: Concur. Complete. The internal audit function has moved towards being a business partner and the Internal Auditor has a seat at many tables. Since offering new products and services, the Internal Audit Department receives management requests

for assistance. For example, during the past six months, Internal Audit provided non-audit services in the following areas:

- reviewed and provided feedback on the new Procurement Policy manual in draft format;
- provided technical advice for a change to the purchasing card process that is in the pipeline;
- performed a management assistance project consisting of evaluating COOP plan documentation for the Fire Rescue Department; and
- provided technical advice to the Fire Marshall when planning implementation of the new GRAiT software program.

Recommendation 4: Keep the audit plan aligned with management's needs and expectations.

Management Response: Concur. Complete. The Internal Auditor is serving in an advisory capacity to the County Administrator during the planning and design stage of the new strategic plan. When the strategic plan is implemented, the internal audit function will be prepared to: appraise economy and efficiency of operations; and appraise the reliability and integrity of information.

During 2016, the internal audit function demonstrated aligning audit products and services with management's needs and expectations in the following areas:

IT Security, Access, and PCI DSS Compliance – Based upon preliminary work performed, Internal Audit determined that, the original scope of work approved by the Board was too broad, comprehensive, complex, and costly for a single audit, therefore, the project was unbundled into two separate audits and the scope of work was adjusted to align with management's needs and expectations.

Center for Development Services - The Building Inspections Operations audit that was planned to be performed internally by the Audit Team was bundled into the Center for Development Services performance audit. The building inspection responsibilities are a micro process within the larger and more complex vertical process. Bundling these two audits eliminated the duplication of audit efforts and provided a consistent analysis of the entire vertical process life cycle. In addition, the scope of work was realigned due to changes in the risk environment.

Countywide Performance Measures - Realigning the internal audit function's products and services to the County Administrator's strategic plan as it is being rolled out.

Administration

Audit Comment 2: The gap analysis identified that the internal audit function lacked critical administrative components.

The Internal Audit Department has a responsibility to efficiently and effectively manage the administration of the internal audit function. Administration includes but is not limited to: human capital, office procedures, marketing products and services, accurate and complete recordkeeping, financial budget, performance measures, time reporting, cost allocation, and continuity of operations planning.

Positions were not appropriate to allow for the necessary mix of knowledge, skills and other competencies needed to achieve the internal audit function's goals and objectives. In addition, the hierarchy did not provide for natural career progression. Procedural written guidance on how to perform day-to-day operations was lacking. The Department's policies and procedures did not address several Board policies, Board resolutions and County ordinances that specifically directed the Internal Auditor's responsibilities. The Department did not have a clear identity and marketable products and services. Recordkeeping was inaccurate, incomplete and not systematically organized. The cost allocation was not yet well developed. Continuity of operations plans existed, but formal process documentation was lacking to fulfill the Department's specific plan requirements. The financial budget, performance measures and time reporting were well developed and practical. They only required minor tweaking.

From a holistic view, controls were established with some policy structure but formal process documentation was lacking. Some clarity on roles, responsibilities, and authorities were not well defined. The written guiding principals were informal which placed great reliance on the diligence of people, so when the Department experienced 100% staff departure in 2015, the day-to-day administration job duties were not repeatable.

Recommendation 5: Reclassify the Staff Internal Auditor position to a Senior Internal Auditor position.

Management Response: Concur. In progress. On October 14th, the Internal Auditor gained support from the County Internal Audit Committee to reclassify the vacant Staff Internal Auditor position. The Internal Auditor is working with the appropriate internal support departments to achieve the objective. Full implementation is anticipated by January 2017.

Recommendation 6: Create a new Internal Audit Department policies and procedures manual that reflects current operations, the Red Book Standards, and applicable Board policies, Board resolutions, and County ordinances.

Management Response: Concur. In progress. The new Internal Audit Department policies and procedures manual is complete.

Recommendation 7: Clearly identify and market the internal audit function's products and services.

Management Response: Concur. Much progress has been made and the marketing effort is maturing. There is no specific implementation date.

Recommendation 8: Create efficient and effective recordkeeping practices.

Management Response: Concur. In progress. The Internal Audit Department performed research and created a departmental historical record. Some historical records could not be located and efforts to locate them have been discontinued. Audit reports and other publications found were electronically converted and filed. Starting on July 1, 2016, the Department's audit related records, training records, time tracking, cost allocation supporting records, and risk library records are systematically organized and maintained in AutoAudit. The Department's historical records in AutoAudit are being maintained in the old database. The Department's administration records are in the process of being systematically reorganized. Implementation of the improved administration recordkeeping process is anticipated to be complete in January 2017.

Recommendation 9: Clarify continuity of operations plans.

Management Response: Concur. The Internal Audit Department obtained input from the Emergency Operations Department. The Department's COOP plan was revised. Roles and responsibilities were clarified and formalized. An emergency kit was created. It is anticipated that planning will be complete by February 2017.

Technology

Audit Comment 3: The gap analysis identified that the internal audit function lacked basic technical tools and was not fully and effectively utilizing the software programs available: AutoAudit for managing electronic work papers; and Arbutus for data analytics. Audit reports were not posted on the County website (which is a tool frequently used by the Organization to serve citizens and to promote transparency).

Recommendation 10: Obtain necessary technology and enhance the use of available software and technology resources.

Management Response: Concur. Complete. The Internal Audit Department added basic technical tools to enhance productivity. For example, larger computer monitors that allow auditors to work more effectively between documents and in large spreadsheets; a color printer to illustrate graphics in reports and presentations; and Adobe Pro licenses for combining and managing documents for recordkeeping. AnyConnect was installed on each auditor's laptop to allow for network connection mobility while working offsite and after a disaster should the Department's current work location be unavailable. Access to Oracle Business Intelligence was requested and received to pull data to be used during an audit. The auditors are now able to analyze full populations of data.

A new instance of the AutoAudit software program was implemented in July 2016. All of the software's modules are now being utilized and are working as designed. These modules include:

- **Risk and Annual Planning** - to track countywide risks in real time and develop the annual audit plan.
- **Workpapers** - for managing projects from planning to reporting results.
- **Issue Track** - to allow management of audited areas to electronically record Management Responses and to follow-up on action plans.
- **Time Reporting** - to track project hours, manage audit resources, and allocate the Department's costs.
- **Library/Reports** - to develop reusable templates, surveys, and manage permanent Department documents and files. This module also allows reporting from Risk and Annual Planning, Issue Track and Time Reporting.

The Risk and Annual Planning and Issue Track modules were not implemented in the AutoAudit instance previously in use. The linking feature in the Workpapers module which logically connects workpapers for organization and review was not in use. The Department was able to discontinue a survey monkey subscription by utilizing survey capabilities in AutoAudit's Risk and Annual Planning Module.

The Arbutus software for data analytics was not being used to its full potential. This program allows testing to be conducted on 100% of a data population resulting in more accurate and useful audit results. The Department plans to use this program to its full potential by

implementing the Open Database Connectivity (ODBC) to Oracle for continuous auditing and scripting repeatable audit tests.

In September 2016, the County released a soft rollout of its new websites (customer and in-house). The Internal Audit webpage was also softly rolled out. Internal Audit's webpage design is on the waiting list and will be designed after the more critical webpages are complete. When the new webpage is designed, the Department plans to post audit reports.

Audit Life Cycle

Audit Comment 4: The gap analysis identified that the internal audit function lacked consistency and continuity between the five phases: preliminary for developing the annual audit plan; planning for scoping and creating audit programs for individual engagements; fieldwork for conducting audits tests identified during planning; reporting audit results; and action plans and follow-ups for corrective action taken on action plans.

Recommendation 11: Improve overall efficiency and effectiveness by streamlining the steps in the audit life cycle.

Management Response: Concur. Complete. The entire audit life cycle was reviewed and re-engineered. New processes were documented in flowcharts and checklists which were included in the new Internal Audit Department policies and procedure manual. Templates were created for the audit life cycle in AutoAudit to improve efficiencies and to maintain consistency in the audit process. To address the continuity between the five phases, the audit life cycle is now one cycle that is managed in the electronic workpaper software AutoAudit. The risk assessment surveys were distributed electronically via AutoAudit in July 2016. The Department created a new risk library in the AutoAudit Risk and Annual Planning module. The library will take a few years to fully mature.

In July 2016, a new follow-up process went live in AutoAudit's Issue Track module. The Department coordinated with the Clerk of the Circuit Court's County Audit Department to eliminate duplication of efforts and better serve audit clients. This process was previously managed manually in several Excel spreadsheets. It is now fully integrated into the AutoAudit software. The actual population of open action plans was substantiated and the records were cleaned up.