

Internal Audit Division Annual Report Calendar Year 2010



Cobb County...Expect the Best!



From The Division Manager

DATE: April 28, 2011

TO: Board of Commissioners
David Hankerson, County Manager

I am pleased to present the Internal Audit Division's inaugural annual report of performance measures and accomplishments for the calendar year 2010. Because of our organizational independence from County departments and elected official offices, we were able to provide an objective assessment of the use of public resources in various areas. This report highlights the results of those assessments and their impact on the County's governance.



Looking back...

As a result of a 2008 reorganization, we made significant changes to our internal processes. In 2009, we focused on the initial stages of establishing a Quality Assurance and Improvement Program (QAIP)¹. This involved the adoption of an Internal Audit charter, the development of a policy and procedures manual, and the implementation of a follow-up database and feedback survey process.

During 2010, we focused on ensuring that staff was adequately trained on each aspect of the QAIP with specific emphasis on the quality of services provided. We were also able to increase the overall awareness and clarity of the Internal Audit function within the Cobb County Government organizational structure. I believe these changes have significantly increased the range of services we are able to provide as evidenced in the accompanying details.

Looking forward...

With the current budgetary challenges and staffing levels, we are continuously looking for ways to further enhance our efficiency and productivity. We recognize the greater need for our services and thus, remain committed to assisting County management in the realization of its business goals and objectives. Key areas of focus for 2011 include a Survey of the County's Special Revenue Funds, a review of various cash and revenue-generating processes, and follow-up reviews of previous recommendations.

We appreciate your confidence and support in providing our value-added professional services.

A handwritten signature in black ink, appearing to be 'L. Thomas', with a horizontal line extending to the right.

Latona Thomas, CPA

¹ A Quality Assurance and Improvement Program covers all aspects of the internal audit activity and continuously monitors its effectiveness.

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The Year in Review

The Internal Audit Division continues to make strides in producing quality valued-added reviews that provide timely and insightful information to management. The staff also served on numerous committees as members and facilitators to provide objective insight into process discussions and decisions.

This year we also implemented several new processes to enhance our ability to do our job and provide more timely information to management. Electronic working papers were developed to make our work documentation more uniform, efficient and accessible. We upgraded our risk assessment process to ensure we strategically apply our resources where needed. In addition, we developed a new reporting medium, Audit Alerts, a one-page newsletter style publication used to promptly inform management of potential and actual conditions that may warrant their attention.

Another noteworthy accomplishment was the Division Manager served as Employee Campaign Manager for the inaugural 2009 Cobb County United Way Campaign, and together, the County collected over \$12,000. As a result, Cobb County Government was awarded the '2009 Corporate Excellence Award' by the United Way in Cobb County.

The details of our other accomplishments and performance measures for calendar year 2010 are detailed below and in the accompanying pages.

Internal Audit Mission

The mission of the Internal Audit Division is to provide independent, objective assurance and consulting services designed to add value and improve Cobb County's (the 'County') operations. It serves to help the County accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of the County's risk management, internal control, and governance processes.

Assurance Services (Audits/Reviews)

Assurance services are independent appraisals of County operations, programs and procedures that result in formal reports issued to management for response to findings identified and if applicable, proposed recommendations. The following are the assurance services reports issued in 2010.

Audit: Review of Cobb County Water System's Cash Room Operations, Report Number 2010-001A, January 20, 2010

Synopsis: Our limited review of cash room operations showed that procedures over the input of payments, balancing, validation and deposit, and physical security needed to be changed to make the monthly processing of over \$2.5 million in remittances more efficient and effective.

Impact: Recommendations in the report were implemented and improved the operation of the cash room significantly. Remittances processed in the room are more secure, and are processed and deposited more timely. Balancing, validation and depositing of remittances is more efficient and effective.



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Assurance Services, continued...

Audit: Review of Selected Activities of the Friendship Club for the Calendar Year ended December 31, 2009, Report Number 2010-001, July 20, 2010

Synopsis: Our review showed the funds of the Club were properly accounted for and controls over disbursements and financial reporting were adequate. We noted that case workers did not strictly adhere to all the guidelines when making decisions to assist employees using the Employee Emergency Fund and two disbursements were made in error. The erroneous disbursements were recovered and we recommended the guidelines be reviewed to determine if modifications are needed.



Impact: Recommendations made in this report will ensure funds collected for charitable purposes are allocated properly to enhance the lives of the citizens of Cobb County and the Metro Atlanta community.

Audit: Verification of Active and Inactive Census Data (in connection with the Finance and Human Resources Departments), August 12, 2010

Synopsis: We projected an error rate of 1.64% in the active employee data based on a 95% confidence level and sampling error of 0.88%. We were unable to provide any assurance on the inactive employee data due to the number of discrepancies or inconsistencies in data fields. As a result, Human Resources staff agreed to conduct a 100% review of the inactive employee data.



Impact: Recommendations improved the process of compiling data for analysis and increased the accuracy of the employee census data. In addition, the process was automated which further minimized the risk of error in data compilation.

Audit: Review of Cobb County Cooperative Extension 4-H Checking Account for the Years ended December 31, 2008 and 2009, Report Number 2010-002, August 19, 2010



Synopsis: We concluded the Extension office was not in compliance in two of the nine categories of the University of Georgia Cooperative Extension County Operations County Funds Policy. The results of our audit revealed weaknesses in Extension's internal controls over cash receipt and deposit procedures, and in controls over plant inventory and sales procedures.

Impact: Recommendations to implement segregation of duties, reconciliations, reviews, and verifications will provide greater assurance of the accuracy and completeness of information used to monitor and report the Extension office's financial and operational activities.

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Assurance Services, continued...

Audit: Review of Cobb County Street Light District Program, Report Number 2010-003, October 7, 2010

Synopsis: This audit showed that this program needed written guidelines, a reliable database of street light districts, a better way to track revenue and expenses, reconsideration of the street light fees and surcharges and better collection processes.



Impact: The recommendations in this report will improve the administration of the Street Light District Program and increase public confidence that the program is administered effectively to the benefit of all citizens.

Audit: Survey of Automatic Vehicle Location Systems in Cobb County, Report Number: 2010-004, December 29, 2010

Synopsis: We determined that AVLs are being utilized in several departments to increase efficiency, document service trips, monitor employee work activities, save fuel and lower emissions. Although a consolidation of the two AVL systems is feasible, more analysis is required to determine the best system to use.



Impact: The County Manager was made aware of the number, types and uses of AVL systems in the County, in addition to the capabilities, benefits, and drawbacks of each system. This information is useful when making future decisions on AVL deployment.

Consulting Services

Consulting activities are advisory in nature, designed to add value and improve the governance of County operations. Consulting may require participation on committees or panels, the facilitation of studies or reviews, and/or the performance of analyses. This process is less formal than assurance services and reports are not generally issued as a result, but may be issued in some instances. We also provide services to non-BOC elected officials as requested.

Service on Committees

Internal Audit personnel served on the following committees and provided independent, objective input to assist County management in meeting their objectives.

- Request For Proposal – Administrative Services for HUD and other Grant Programs (Economic Development)
- Request For Proposal – Audit Services (Finance)
- People Admin./Performance Appraisal Committee (Human Resources)
- Tuition Reimbursement Committee (Countywide)
- Customer Service Council (Countywide)
- Suggestion Incentive Committee (Human Resources)

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Facilitation of studies or reviews

Internal Audit personnel served as facilitator on the following committees/panels and studies.

Discussion Panel on RFP Process (Purchasing) – Verbally discussed potential areas of improvement to the RFP process. Results will be included in future policy revisions and included in our 2011 Annual Report.

Citizen Cost-Savings Idea Program (BOC) – Administered the program to solicit citizen cost-savings ideas to improve County operations. Quarterly reports are issued to the County Manager and Board of Commissioners. The six-month trial period ended March 31, 2011. Future consideration of continuation will be determined.

Policy on Contract Management (Purchasing) – Facilitated a review of the *Policy for Procurement of Professional Services* with specific emphasis on the Competitive Selection Process and Cost Methodology. The committee determined that several changes and modifications were needed to maintain a consistent application of selection processes and cost methodologies. These recommendations were compiled and presented to the County Manager for consideration. The Purchasing Department is in the process of presenting the policy revision for Board of Commissioner adoption.

Analysis of Capital Improvement Program Construction Management Services (Water) – Performed an analysis of the cost methodology used in the award of the Water System's construction management contract.

Analysis of Unit Price Contract Agenda Presentations (DOT and Water) - Facilitated a review of methods in which unit price agendas are presented to the Board of Commissioners. The objective was to determine a best practices approach between DOT and the Water System which would minimize or eliminate any confusion in the awarding of work under the unit price contracts and subsequent agenda presentation. Recommendations provided will minimize any further confusion during unit price contact agenda presentations.

Analysis of W. Frank Newton Costing Methodology (Economic Development) – Performed an analysis of the cost methodology used in the award of the contract to administer Cobb County's HUD and other grant programs.

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Facilitation of studies or reviews, continued...

Elimination of Annual Benefit Statements (Human Resources) – Participated in the discussion/analysis with the Human Resources Director to evaluate the benefit and appropriateness of eliminating the annual distribution of employee benefit statements. A decision was made to eliminate the distribution of the annual statements which will save the County approximately \$15,000 in addition to internal staff resources.

Disadvantaged Business Enterprise (DBE) Data Collection Procedures (Purchasing) – Advised on best practices regarding the completeness and accuracy of DBE data collection practices.

Payment Card Industry (PCI) Compliance (Information Services) – Participated in the initial discussions of the committee to evaluate the County’s compliance with established standards. A questionnaire was sent to departments, but no further action has taken place.

Audit Alerts

Audit Alerts are usually one-page newsletter style publications presented to County departments of a potential risk area that should be evaluated in their departments. One audit alert was issued in 2010.

- **Ten Principles of Cash Handling** – issued to all departments to emphasize the need to ensure adequate controls are in place over cash handling operations.

Retirement Computations

Our review of retirement calculations is intended to be an additional quality review of the retirement benefit calculations and not intended to be relied upon solely as an attestation of the accuracy of the calculations. The final determination of whether all factors have been considered and accurately applied to the calculation of retirement benefits is the responsibility of the Human Resources Department. During 2010, we completed the following estimates:

- Regular/Vested Term/Survivor Benefit Calculations – 119
- Immediate Retirement Incentive (IRI) Calculations – 333 (plus numerous recalculations)

These IRI calculations were conducted primarily over a two week period for employees who qualified for the program offered in 2010. This program was offered to provide future savings in personal services costs.

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Performance Measures

Time Allocation

Seventy-six percent of our staffing time was allocated to performing or core functions of planning and performing assurance and consulting services including retirement calculations. Administrative meetings includes weekly internal status meetings, bi-weekly County Manager status meetings, monthly manager meetings, and other Countywide meetings including periodic attendance at Board of Commissioners meetings. An additional 4% (Admin-General) is managerial time used for staff progress discussions, annual performance appraisals, and routine daily administrative tasks. The graph below shows the time allocation for the two staff auditors and the Division Manager. The Administrative Specialist's time is shown separately.

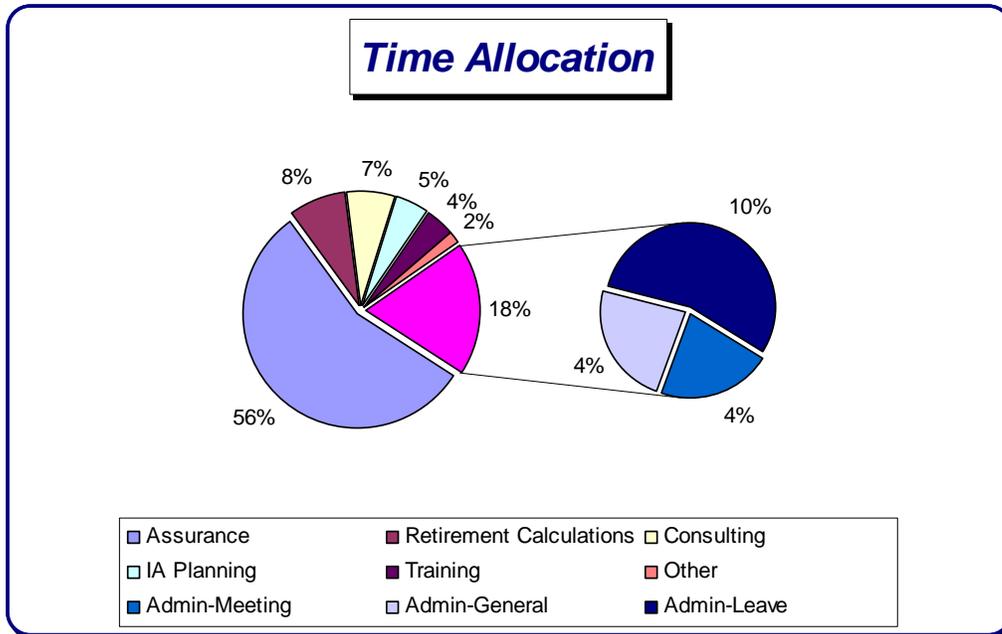


Table 1 - Source: Internal Audit Administrative Time Reporting Worksheets

During the first seven months of 2010, the Administrative Specialist provided administrative support to the Budget Division of the Finance Department. Additional details of time allocation for 2010 was not maintained, but will be tracked and presented in next year's annual report.

| Administrative Specialist Time Allocation | |
|----------------------------------------------|-------|
| Budget/ Finance | 164 |
| Internal Audit | 1,916 |
| Total Time | 2,080 |

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Recommendations

Four of our seven written products contained 63 recommendations, 100% were accepted. Although our products do not always include recommendations, these informational reports are as useful and can help to bring about substantial financial and key non-financial benefits.

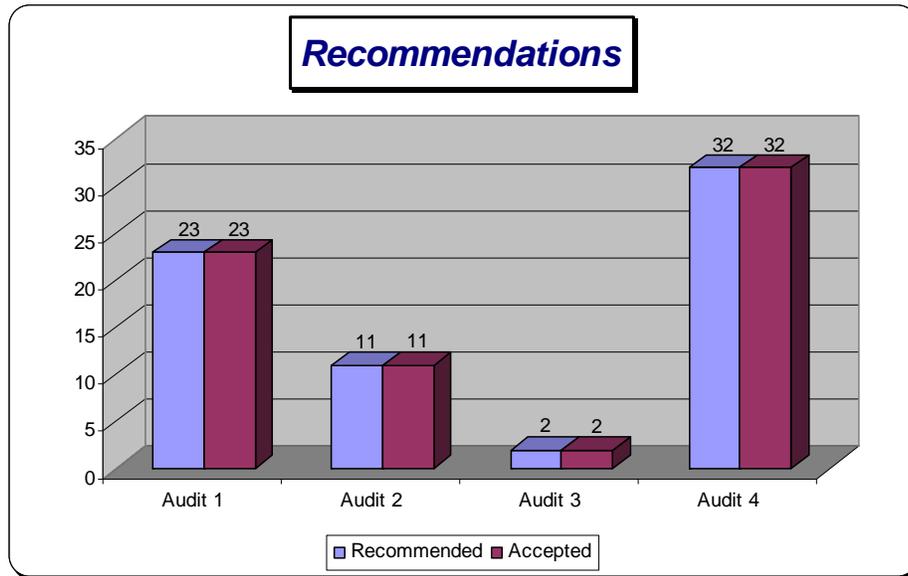


Table 2 - Source: Internal Audit Reports

Outcome Measures (captured from reports)

Outcome Measures are an accounting of the measurable impact of our audit results and recommended corrective actions quantified on a fiscal year basis consistent with the County's fiscal reporting period.

Quantifiable Benefits

- Increased Revenue: \$13,645
- Refunds to taxpayers: \$238
- Increase Protection for over \$30 million in collected remittances²
- Enhance assurance of data reliability in 4,231 employee accounts³
- Enhance assurance of data reliability in over 106,000 billing accounts and over 3,700 records in a program's administrative database⁴
- Recovered \$1,000 in inaccurate disbursements⁵
- Discontinued Annual Benefit Statements - Saves \approx \$15,000 annually⁶

² See Assurance Services Section Report #2010-001A and 2010-002

³ See Assurance Services Section Report: Verification of Active and Inactive Census Data

⁴ See Assurance Services Section Report #2010-003

⁵ See Assurance Services Section Report #2010-001

⁶ See Consulting Services Section: Elimination of Annual Benefit Statements

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Qualitative measures are harder to quantify; however, recommendations and information provided in our reports and consulting services provided the following benefits:

| Non-Financial Benefits |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Strengthen controls over financial operations • Streamlined processes • Reduced staffing time needed to perform functions • Ensured compliance with established laws and regulations • Helped establish guidelines and procedures to administer a major County program. |

For specific impact, see the previous pages.

Customer Survey Results

At the conclusion of every audit, the auditee is given an opportunity to complete a survey of our work within their department or area. Based on the compiled responses received, we achieved an overall rating of 96.9 out of 100. Below is a listing of the overall ratings for the survey questions.

| Questions | Rating |
|-----------------------------------------------------------------------------------------------|---------------|
| (1) The audit objectives were clearly communicated to me. | 4.8 |
| (2) The audit took an acceptable amount of time (from entrance to exit). | 5 |
| (3) The disruption of daily activities was minimized as much as possible during the audit. | 4.8 |
| (4) My business concerns and perspective were adequately considered during the audit. | 4.8 |
| (5) Communication of audit results and status to me during the audit was timely and adequate. | 4.8 |
| (6) The audit team was courteous, professional and had a constructive and positive approach. | 5 |
| (7) The audit team's conclusions were logical and well documented. | 4.8 |
| (8) The audit report was clearly written and logically constructed. | 4.8 |
| (9) Overall, the audit added value to my organization and helped to improve our operations. | 4.8 |
| Percentage of Maximum Rating | 96.9% |

Table 3 – Source: Internal Audit Division, Customer Survey Database

Ratings: 1 = Strongly Disagree; 2 = Disagree; 3 = Neither Agree Nor Disagree; 4 = Agree; 5 = Strongly Agree

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Countywide Community Activities

- Customer Service Week (runner-up)
- United Way Absolutely Incredible Kid’s Day (a letter writing campaign to area Cobb and Marietta elementary students)
- United Way Read for the Record Event (a nationwide reading event to area students)
- Shoebox Collection of toiletries for homeless individuals and families
- School Supply Drive and Support the Troops events
- Produced an Internal Audit Newsletter “The Auditor”

Staff Development/Training

The County’s Internal Audit Division is in compliance with the *International Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors (IIA Standards) Standard 1230 which states, “Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.”

Auditors that have a Certified Public Accountant (CPA) designation must comply with the Georgia State Board of Accountancy requirement of eighty (80) hours of continuing professional education (CPE) every two odd-numbered years to include a minimum of sixteen (16) hours in accounting and auditing subjects.

While the IIA Standards do not require a specific number of hours for non-Certified Internal Auditors other than the hours are adequate, all staff without specific designations are required to complete at least forty (40) hours of CPE every two years to include a minimum of sixteen (16) hours in government accounting and auditing subjects.

Professional Affiliations

Individually or collectively, Internal Audit Division staff are members of the Institute of Internal Auditors, Association of Local Government Auditors (ALGA), and the Association of Government Accountants (AGA) professional organizations.

Staffing and Contact Information

| | | |
|--------------------------------------|---------------|--------------------------------------------------------------------------------|
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