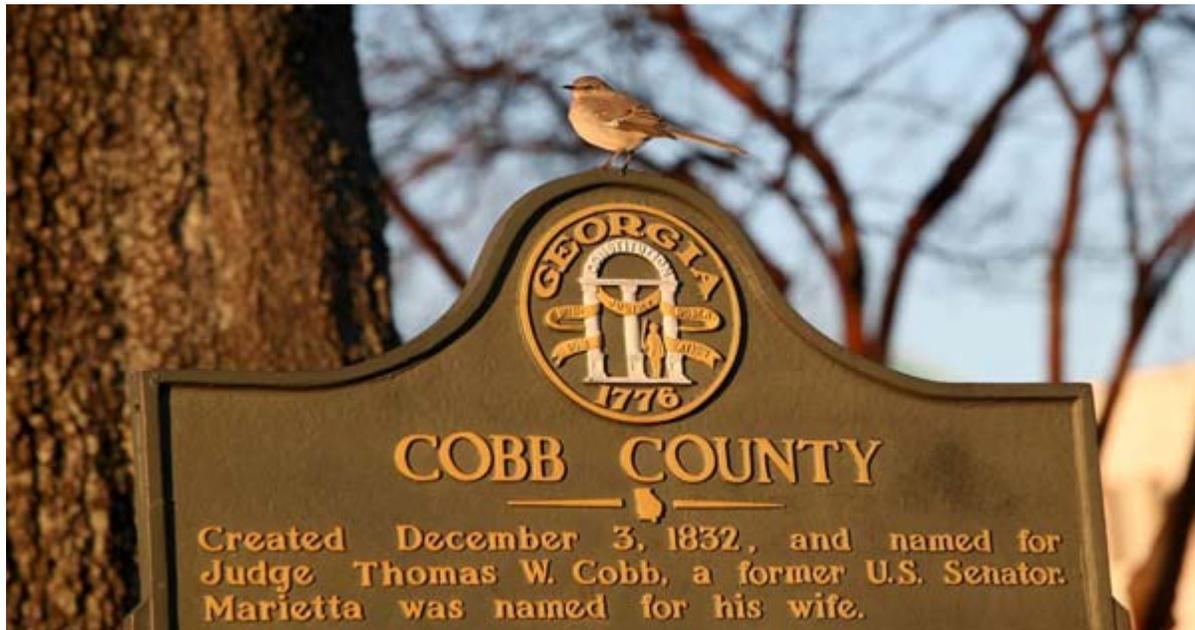


Internal Audit Division Annual Report Calendar Year 2011



Cobb County...Expect the Best!



From The Division Manager

DATE: April 30, 2012

TO: Board of Commissioners
David Hankerson, County Manager

In accordance with our Division's charter, I am pleased to present our annual report of performance measures and accomplishments for the calendar year 2011. We recognize our role in the County's internal control structure and governance and appreciate your continued support. Our continued focus remains on providing you and the citizens of Cobb County an added level of transparency; providing assurances that you can rely on in meeting your goals and objectives; monitoring the effectiveness and efficiency of the County's internal controls; as well as maintaining and adhering to a code of ethics established by the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (the Standards)*.



Despite the challenges of a small size, our resources were targeted and utilized in the most efficient manner possible. In fact, we were able to provide assistance to more than 50% of the County's agencies and departments during 2011. Full cooperation was received from all levels of personnel and management while providing our services. In addition, our established follow-up process provided additional assurances that County agencies and departments are promptly addressing our recommendations through the implementation of agreed upon corrective action plans.

As required by *the Standards*, we are able to attest that our organizational independence remains intact. Our activity continues to be free from interference in determining the scope, performing the procedures, and communicating the results of our work. We remain committed to our mission, which is to provide independent, objective assurance and consulting services designed to add value and improve the County's operations.

On behalf of the Internal Audit Division staff, it is our pleasure to serve you, County agencies and departments, and the citizens of Cobb County. If you have any questions or would like to discuss any aspect of this report in more detail, please let me know. Again, thank you for your support.

A handwritten signature in black ink, consisting of a stylized 'L' and 'T' followed by a horizontal line.

Latona R. Thomas, CPA
Internal Audit Division Manager

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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 2011.

Audit: Final Report – Countywide Departmental Accountable Equipment Audit, Report Number 2011-008, March 31, 2011

Synopsis: Improvements were needed to ensure accurate accountable equipment lists were maintained at the department level, including the development of countywide guidelines and written department procedures, perpetual inventory records, consistently tagged equipment, and properly documented transfers and dispositions.



Impact: Recommendations were made to ensure accurate accountable equipment lists are captured correctly and maintained at the department level, procedures are developed/updated, perpetual inventory records and a physical inventory are performed annually and reconciled to the departmental equipment list, and all transfers and disposition(s) properly documented.

Audit: Letter Report – Update of Petty Cash Policy Statement, Report Number 2011-013, April 25, 2011

Synopsis: We determined the Petty Cash Policy Statement and Accounts Payable Manual needed to be updated to reflect previously agreed upon recommendations from our Review of Controls over Petty Cash, dated August 21, 2008. Those recommended changes were necessary to provide employees with the needed guidance to ensure petty cash purchases and requests for reimbursement are appropriate, properly processed and approved.



Impact: Addressing control weaknesses in the petty cash process will benefit the County by reducing the risk that errors go undetected and improprieties occur in the processing of petty cash expenditures.

Audit: Letter Report – Update of Lease Review Policy, Report Number 2011-014, April 25, 2011

Synopsis: We determined that no current Lease Review Policy was available that provides guidance on lease purchase agreement procedures. In addition, the Finance Division's Policy and Procedure Manual did not contain the procedures currently being followed pertaining to lease purchase agreements.



Impact: An updated Lease Review Policy or similarly termed document will provide current procedures for entering into and using the lease purchase method for all departments and elected officials. The difference between an operating lease and capital lease purchase will be clearly defined.

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Audit: Final Report – Review of Selected Activities of the Friendship Club for the calendar year ended December 31, 2010, Report Number 2011-016, September 1, 2011



Synopsis: Funds of the Friendship Club (the Club) were properly accounted for, and disbursements included adequate documentation. Disbursements were made in accordance with established by-laws and were approved by the Club’s Board and Treasurer, except in one instance. A case manager at the Center for Family Resources (CFR) exceeded the \$1,000 per incident/per employee limit on assistance. Also, duties and responsibilities needed to be divided or segregated among different people to reduce the risk of error or fraud. Additional controls were needed to ensure proper calculation of the non-deductible portion of employee contributions to the Club.

Impact: The recommendations made in this report will help ensure guidelines for assistance are followed, funds collected for charitable purposes are accounted for adequately and employees make the proper charitable deduction on their tax returns.

Audit: Final Report - Review of Cobb County Cooperative Extension 4-H Checking Account for the years ended December 31, 2010 and 2011 Plant Sale Activities, Report Number 2011-017, October 13, 2011

Synopsis: The results of our audit revealed weaknesses in Extension’s cash receipt and deposit, disbursement, plant sale inventory, and reconciliation procedures. The cash receipt documentation process had been changed without written approval; missing information was noted on cash receipt forms; checks lacked the required number of signatures; there were missing vouchers and backup; and reconciliations were submitted late. Eleven of the 15 prior year recommendations had been fully implemented. The remaining four recommendations were partially implemented, and Extension management expects to fully implement these within the next year.



Impact: Recommendations were made to strengthen overall controls in areas of records involving cash receipts and accounting practices, and the procedures necessary for an accurate accounting/monitoring of all documents to maintain compliance with the University of Georgia Cooperative Extension County Operations County Funds Policy.

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Follow-Up Reports Completed

We perform periodic follow-up audits to evaluate the status of prior recommendations to ensure they are implemented timely by management. The auditor's role in follow-up reviews is to compile corrective actions taken by the auditee, assess whether those actions are adequate to correct the reported deficiencies, and relay those results to County management. The following is information on the twelve follow-up audits conducted this year.

Audit Number	Date	Name	Recommendations		
			Open	Resolved	Remaining
2011-001	1/20/2011	Follow-Up Report: Review of Selected Activities of the Friendship Club for the calendar years ended December 31, 2008 and 2009	5	5	0
2011-002	2/3/2011	Follow-Up Report: Review of Cobb County Water System's Cash Room Operations	32	32	0
2011-004	2/3/2011	Final Follow-Up Report: 2006 DOT Gas Can Fuel Accountability Procedures	1	1	0
2011-005	2/10/2011	First Follow-Up Report: Review of Cobb County Street Light District Program ¹	23	8	15
2011-007	2/21/2011	Final Follow-Up Report: Review of Cobb County Probate Court Cash Handling Procedures	10	8	2
2011-009	4/1/2011	Follow-Up Report: Review of FY2007 Animal Control Donation Cash-Handling Procedures	3	2	1
2011-010	4/1/2011	Final Follow-Up Report: Review of FY2007 Water System Unit Price Contract	12	10	2
2011-011	4/1/2011	First Follow-Up Report: Review of Cobb County Cooperative Extension 2008 and 2009 4-H Checking Account ²	15	5	10
2011-015	7/7/2011	Second Follow-Up Report: Review of Cobb County Street Light District Program	15	0	15
2011-018	12/29/2011	First Follow-Up Report: Letter Report – Update of Lease Review Policy	1	0	1
2011-019	12/29/2011	First Follow-Up Report: Letter Report – Update of Petty Cash Policy Statement	1	1	0
2011-020	12/30/2011	Third Follow-Up Report: Review of Cobb County Street Light District Program	15	6	9

Comments on Selected Follow-Up Reports

Final Follow-Up Report: Review of Cobb County Probate Court Cash-Handling Procedures - The remaining two recommendations will not be implemented because subsequent analysis by Court officials determined that one was too difficult to implement, and current resources are insufficient to implement the other. The Judge is responsible for the future evaluation of these recommendations if circumstances change.

¹ Multiple follow-ups performed in 2011 (see also 2011-015 and 2011-020).

² See Report Number 2011-017 on Page 2 for status of remaining recommendations.

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Follow-Up Report: Review of FY 2007 Animal Control Donation Cash-Handling Procedures - The remaining recommendation regarding adequate segregation of duties was not implemented because the current staffing level was insufficient. We are aware that an independent staff person reconciles the end-of-the-day report, but this does not completely resolve the issue. Animal Control is responsible for the future evaluation of the recommendation if circumstances change, and they assume the associated risk until such implementation.

Final Follow-Up Report: Review of FY 2007 Water System Unit Price Contract - The remaining two recommendations will not be implemented because the auditee deemed one as impractical, and the other as a long-term solution that requires coordination with the Purchasing Department. Current staffing levels and system access security concerns will have to be resolved before it can be evaluated for implementation.

Citizen Cost-Savings/Idea Reports

The Internal Audit Division facilitates an internal database of suggestions from citizens that potentially provide cost-savings, increased efficiency, and/or improved County operations. As of December 31, 2011, we received sixty (60) suggestions. Each suggestion was promptly evaluated by the appropriate department(s); however, none have resulted in any quantifiable savings. A formal response was provided when the citizen included their contact information.

Projects In Process

The following projects were initiated and substantially completed in 2011. The reports were issued in early 2012. Details will be included in the calendar year 2012 annual report.

Review of FY 2010 Cobb County 800 MHz Operations

Audit: The objective was to determine if the controls over 800 MHz operations were adequate to ensure compliance with the applicable Board of Commissioners (BOC) meeting agendas; billings and collections are accurate and in accordance with the respective user agreements; program assets (radios) are properly accounted for and secured; and expenditures are properly authorized.

Review of Cobb County E911 Fund

Audit: The objective was to determine if the E911 Fund was effectively administered to ensure adequate funding to keep the fund solvent; adequate controls over receipts and expenditures for completeness, accuracy, and recordation; and laws and regulations were being followed.

Letter Report: Supplemental Analysis of Wireless Providers Billing Practices

Audit: We determined that wireless providers bill the County for 911 recovery costs using a 'per subscriber billing rate' rather than the actual costs. Using this method could lead to overcharging the County if the rate is not adjusted when the number of subscribers increase. The objective of this review was to perform an analysis of the appropriateness of the billing methodology. This analysis is a supplement to the Review of the E911 Fund mentioned above.

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Analysis of Economic Development Incentives

Consulting: Our objective was to determine if the County adhered to the provisions of Article 5 of the Cobb County ordinance when offering incentives to targeted businesses and assess the efficiency and effectiveness of the incentives process.

Survey of Special Revenue Funds

Survey: We conducted this survey at the request of the County Manager to evaluate whether the County is following the legal requirements for setting up and administering Special Revenue Funds (SRF). The County has nine SRFs set up to account for specific revenue sources that are legally restricted to the expenditures for specific purposes.

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.

Reports Issued

Internal Audit personnel served as facilitator on the following committees/panels and studies that resulted in a report.

Consulting Report: Analysis of Unit Price Contract Agenda Presentations, Report Number 2011-003, February 3, 2011.

Synopsis: We facilitated a review of the methods (from inception to the award of projects) in which unit price contract agendas are presented to the Board of Commissioners. Our objective was to determine a best practices approach between the Transportation Agency (DOT) and the Water System, which would minimize or eliminate any confusion in the awarding of work under unit price contracts and subsequent agenda presentation. We also facilitated a discussion on the functionality of the Cobb County Project Management Information System (CCPMIS).

Impact: Our efforts should ensure a consistent use of unit price contract award terminology in the presentation of agenda items. An approved unit price contract will be referred to as a 'Work Order' instead of a 'Supplemental Agreement, while actual Supplemental Agreements³ and Change Orders⁴ will be handled as originally intended. Recommendations were made to improve the overall functionality of the CCPMIS and increase communication between the departments via quarterly meetings with the CCPMIS Administrator.

Consulting Report: Survey of Competitive Selection Methods and Cost Methodologies for Professional Services and Committee Recommendations, Report Number 2011-006, February 16, 2011.

Synopsis: We facilitated a committee to discuss the benefits, drawbacks, and use of each competitive selection method as well as the various cost methodologies used in the procurement of professional services. The committee also reviewed changes and modifications needed to maintain a consistent application of selection processes and the cost methodologies.

Impact: The committee determined that several changes and modifications were needed to maintain a consistent application of selection processes and cost methodologies. The *Policy for the Procurement of Professional Services* was revised to include the committee's recommendations and subsequently approved by the Board of Commissioners.

³ Involves a change in the scope of work (i.e. items or services not covered in the original contract).

⁴ Involves a change in quantity (i.e. items or services already included in the original contract).

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Consulting Report: Survey of Compliance with the Policy on Contract Management in Cobb County, Report Number 2011-012, April 1, 2011.

Synopsis: A countywide survey was conducted to determine each department's compliance with the established policy, to ensure contracts acquired for their operations are accounted for and effectively monitored, and also to evaluate whether guidance on contract management responsibilities was needed.

Impact: The Purchasing Department is in the process of revising the policy for presentation to the Board of Commissioners for approval of the recommended changes.

Service on Committees

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

- Actuary Verification Committee (Human Resources)
- People Admin/Performance Appraisal Committee (Human Resources)
- Tuition Reimbursement Committee (Countywide)
- Customer Service Council (Countywide)
- Suggestion Incentive Committee (Internal/Employee)
- Tripartite Committee (Circuit Defender)
- Interview Panel (3rd) for Purchasing Director (County Manager)
- Immigration Committee (Support Services Agency)
- RFP – DOT 2011 SPLOST Program Management Committee (DOT)
- RFP – Parks 2011 SPLOST Program Management Committee (Parks)

Internal Audit personnel served as facilitator on the following committee.

'Keep It In Cobb' Internal Purchasing Committee (Commissioner Birrell/Purchasing)

Synopsis: We facilitated a committee to develop an economically impactful and feasible policy that would be seamless for the County to execute and promote opportunities for businesses located in Cobb County to participate in the procurement process for professional services.

Impact: The committee recommended that the *Policy for the Procurement of Professional Services* be amended to include: qualifications to determine local vendor status; a preference determination process; instructions on the applicability of the local vendor policy; exceptions to the policy; and evaluation criteria to be used to promote local business opportunities. The Board of Commissioners adopted the amended version.

General Guidance and Consultation

Internal Audit personnel provided information or input on the following topics of management concern:

- Fire Benevolent Fund
- Office Supply Contract Analysis
- Senior Services Day Care Center Cash-Handling
- CDBG Information

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Audit Alerts/Newsletter

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 2011.

- **Petty Cash Controls** – issued to all departments to emphasize the need for ensuring staff adhere to proper petty cash procedures.

A newsletter was issued in December 2011 to the employees of the County to inform them of the nature of internal auditing and dispel some common misnomers about internal auditing.

Retirement Computations

Our review of retirement calculations is intended to be an additional quality review 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 2011, we completed the following estimates:

- Regular/Vested Term/Survivor Benefit Calculations – 142

Performance Measures

Time Allocation

Seventy-three percent⁵ of our staffing time was allocated to performing our core functions of planning and performing assurance and consulting services, including retirement calculations. Administrative meetings include bi-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 7% (Admin-General) is managerial and staff time used for staff progress discussions, annual performance appraisals, and routine daily administrative tasks. The graph below shows the time allocation for two staff auditors, the Division Manager and the Administrative Specialist (excluding administrative and planning time).

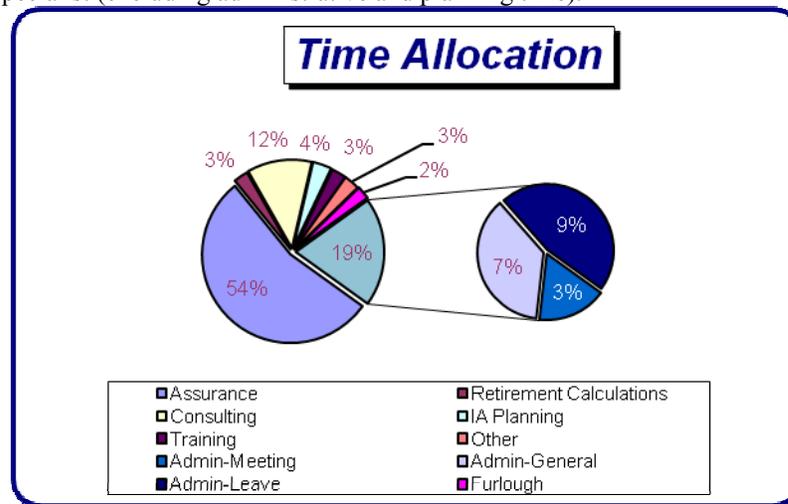


Table 1 - Source: Internal Audit Administrative Time Reporting Worksheets

⁵ Per 2010 Association of Local Government Auditors Benchmarking Survey, this percentage is 69.5% for an audit function with three to five auditors.

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The Administrative Specialist provided administrative and direct support to the Division. Additional details of time allocation for 2011 is presented below.

Administrative Specialist Time Allocation	Hours	Percent
Administrative/Planning	1,751	84%
Assurance/Consulting	170	8%
Training/Other	119	6%
Furlough	40	2%
Total Time	<u>2,080</u>	

Table 2 - Source: Internal Audit Administrative Time Reporting Worksheets

Recommendations

We issued five reports with 26 recommendations in 2011. Since we started tracking recommendations in 2009, the Auditee has agreed with 98% (178 of 181) of our recommendations. The chart below shows the status, of the 178 recommendations, as of December 31, 2011.

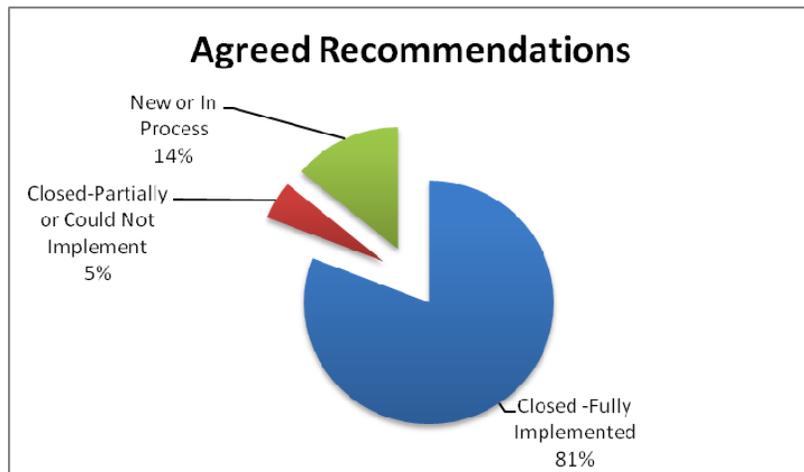


Table 2 - Source: Internal Audit Reports

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Outcome Measures (captured from reports)

Outcome Measures are an accounting of the 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
<ul style="list-style-type: none">• Increase control over \$83,208 in revenue of Cobb County Cooperative Extension⁶.• Increased revenue: \$19,164⁷• Enhance assurance of data reliability in 4,487 employee accounts⁸• Discontinued Annual Benefit Statements - saves ≈ \$15,000 annually⁹

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">• Ensured recommendations for improvement of operations are timely implemented.• Clarified contract management provisions.• Improved the competitive selection process and cost methodologies.• Minimized confusion in unit price contract agenda presentations.• Increased control over countywide accountable equipment¹⁰.

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. Due to technical issues associated with the 'FrontPage' program (used in CobbWeb) to capture departmental survey response(s), a true representative percentage cannot be reflected for 2011.

⁶ Review of Cobb County Cooperative Extension 4-H Checking Account for the year ended December 31, 2010 and 2011 Plant Sale Activities, October 13, 2011

⁷ FY2011 outcomes related to the Street Light District Audit, 2010-003, October 7, 2010

⁸ See Service on Committees Section: Actuary Verification Committee

⁹ FY2011 outcome related to recommendation for the elimination of annual benefit statements made in 2010.

¹⁰ Countywide Departmental Accountable Equipment Audit, Report Number: 2011-008, March 31, 2011

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Countywide Community Activities

- United Way ‘Absolutely Incredible Kid’s Day’
- United Way ‘Read for the Record Event’
- ‘School Supply Drive’
- ‘Support the Troops’ Events

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) 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

Internal Audit Division staff are individually or collectively members of the Institute of Internal Auditors and the Association of Local Government Auditors (ALGA).

Staffing and Contact Information¹¹

Latona Thomas, CPA, Division Manager	(770) 528-2559	latona.thomas@cobbcounty.org
Barry Huff, Staff Auditor	(770) 528-2558	barry.huff@cobbcounty.org
Kay Ogle, Administrative Specialist	(770) 528-2556	kay.ogle@cobbcounty.org

Website: <http://internal-audit.cobbcountyga.gov>

¹¹ Based on staffing as of the date of this report.