

2015 ANNUAL REPORT



April 8, 2016

Internal Audit Department

This report summarizes the activities of the Internal Audit Department for Calendar Year 2015.



Cobb County...Expect the Best!

2015 Annual Report

MESSAGE FROM THE DIRECTOR

DATE: April 8, 2016

TO: Board of Commissioners
Audit Committee
David Hankerson, County Manager

The Cobb County (County) Internal Audit Department is a monitoring function within the County's internal control structure that provides an added level of transparency and accountability to citizens and other stakeholders. We provide independent, objective assurance and consulting services designed to add value and improve the County's operations. We remain one of the five local government organizations in the Metropolitan Atlanta region that recognizes and emphasize the critical value of an internal audit function to County governance.

Enclosed please find a summary of our calendar year (CY) 2015 performance measures and accomplishments for your information. During 2015, we issued a total of 23 written reports: 6 Assurance and 17 Follow-up. A summary of quantitative and qualitative outcome measures from the assurance reports are reflected on Pages 4-5. We also provided a variety of other consulting and business advisory services which are detailed throughout the report. Highlights from this year's Audit Committee activities are reflected on Page 3.

During CY2015, we attributed significant quantifiable benefits of at least \$1.37 million resulting from cost avoidance, cost savings, and increased revenue (see Page 4). Other significant accomplishments included the final approval of our CY2015-16 Audit Plan by our Audit Committee; the successful development and completion of a one-day offsite retreat for Internal Audit staff; and the Internal Audit Director received the 2014 Silver Eagle Award for demonstrated teamwork and outstanding leadership, a by-product of the Internal Audit Department's team members.

We also experienced tremendous staff turnover during the year. We successfully on-boarded an auditor and administrative team member during the 1st quarter, resulting from employee retirements. We obtained approval for a part-time auditor position to assist during the transitional period. During the 3rd quarter, the second auditor resigned to join a neighboring jurisdiction. Notwithstanding these changes, we remained committed to providing quality internal audit services.

As required by the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, I 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. In addition, the Audit Committee continues to provide its oversight into our activities.

If you have any questions or would like to discuss any aspect of this report in more detail, please let me know. Again, we are appreciative of your support and confidence.



Latona R. Thomas, CPA
Internal Audit Director

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DEPARTMENT MISSION

The mission of the Internal Audit Department is to provide independent, objective assurance and consulting services designed to add value and improve Cobb County's (the County's) operations. We serve 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.

As the Internal Audit Department supports the Board of Commissioners, County Manager, Departments, and Elected Officials in the realization of their business goals and objectives, our contributions are in the form of testing and reporting on the efficiency and effectiveness of departmental internal control systems and processes. County management relies on these systems and processes for safeguarding the County's assets and resources.

AUDIT COMMITTEE ACTIVITIES

The Cobb County Audit Committee was created by Board of Commissioners' (BOC) Resolution on July 10, 2012. The Committee's primary purpose is to assist the BOC in fulfilling its oversight responsibilities by reviewing and evaluating the County's Internal Audit function. It also facilitates open communication between the BOC, Elected Officials, Constitutional Officers, County Management, the Internal Audit Department, and external auditors. Committee members during 2015 included:

- Tim Lee, Chairman, Board of Commissioners
- Bob Ott, District 4 Commissioner
- Angie Davis, Clerk of State Court, *(elected official committee member)*
- Brett McClung, CPA, *(citizen committee member)*
- Laurie Dyke, CPA/CFF, CFE *(citizen committee member)*

District 1 Commissioner Bob Weatherford rotated onto the committee, effective January 2016, in accordance with the amended Resolution dated December 9, 2014.

During 2015, the Committee continued its oversight responsibilities of the Internal Audit function. Other activities included, but are not limited to the following:

- Approved the CY2015-16 Audit Plan;
- Reviewed Internal Audit activities and recommended additional staff resources¹ to include a minimum of one new full-time audit position and an outsourced arrangement for a special projects audit position to be used on an as needed basis; and
- Received periodic updates on the status of the CY2015-2016 Audit Plan, including revisions based on staffing levels and recent changes.

¹ Request was submitted in the Fiscal Year 2016 budget process, but all non-emergent personnel requests were tabled by the Board of Commissioners and will be reconsidered in future budgeting processes.

Performance Measures

Following is a list of outputs designed to measure the overall performance of the internal audit function in achieving our mission, and to highlight the value and return on investment provided by our services. Specific risks eliminated or mitigated as a result of Internal Audit Department services are highlighted during the 'Assurance Services' section beginning on Page 7.

Outcome Measures (captured from reports)

Outcome Measures are an accounting of the impact of our audit results and recommended corrective actions quantified on an annual basis. During 2015, the County received significant² quantifiable benefits of at least **\$1.37 million** from Internal Audit services. Recurring cost savings and increased revenue total at least **\$863,000 annually**. Below is a summary breakdown of the significant quantifiable benefits, followed by specific outcome measures from each report.

Summary of Significant Quantifiable Benefits

Type	Amount	Report Reference
Cost avoidance	\$692,415	Report Number 2015-002
Cost savings ³	\$263,000	Report Number 2015-005 & 2015-010
Increased revenue ³	<u>\$414,425</u>	Report Number 2015-023 (based on ten months of collections)
TOTAL:	<u>\$1,369,840</u>	

Table 1– Source: Assurance and Consulting services, including follow-up reports.

Specific outcome measures from the respective referenced reports are as follows:

Quantifiable Benefits
<ul style="list-style-type: none"> • FINAL Supplemental Letter Report – CLASS Software License, Report Number 2015-002, January 6, 2015 <ul style="list-style-type: none"> ○ <u>Cost avoidance (actual)</u>: \$573,063 for the purchase of additional software licenses for currently installed modules. Amount was waived upon the first date of the live operational use⁴ of the new hosted software system. ○ <u>Cost avoidance (actual)</u>: \$119,352 annually for additional maintenance costs for the increased number of licenses. Amount was waived upon the first date of the live operational use⁴ of the new hosted software system.

² Other quantifiable benefits are reflected in the detailed section.

³ Recurring cost savings or increased revenue.

⁴ Effective date of live operational use was January 4, 2016.

Quantifiable Benefits, continued...

- **FINAL REPORT – Review of Cobb County Mobile/Wireless Telecommunication Costs, Report Number 2015-005, January 28, 2015**
 - Decreased Expenditures (actual): \$1,335 annual savings in reduced wireless phone costs.
 - Decreased Expenditures (actual): \$2,256 annual savings in wireless phone costs.
 - Decreased Expenditures (actual): \$12,768 annual savings in AirCard costs.
- **FINAL REPORT – Review of Superior Court Clerk Processing of Intangible Tax Revenue, Report Number 2015-023, October 15, 2015**
 - Increased revenue (actual): \$166,764 additional commission revenue received from the school district from March to June 2015.
 - Increased Revenue (potential): \$125,073 estimated additional commission revenue from the school district for the period July to September 2015.
 - Increased Revenue (potential): \$500,292 estimated additional commission revenue from the school district for the fiscal year period October 2015 to September 2016.

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

Qualitative Benefits

- **FINAL REPORT – Review of the Controls over Revenue Processed Through the CLASS System, Report Number 2015-001, January 6, 2015**
 - Increased Safeguard of County Assets: Recommendations, when implemented, will limit access to cash transactions and the CLASS system.
 - Reliability of Information: Recommendations, when implemented, will provide assurance of the completeness and accuracy of financial data.
 - Increased Revenue (potential): Based on an evaluation of the current fee structure and guidance and approval by the BOC. Periodic re-assessments will determine if increases are needed to keep aligned with County strategic plans.
- **FINAL REPORT – Review of Selected Activities of the Friendship Club for Calendar Years Ending December 31, 2013 and 2014, Report Number 2015-017, July 31, 2015**
 - Reliability of Information: – Recommendations, when implemented, will provide assurance of the completeness and accuracy of the Friendship Club activities.
- **FINAL REPORT – Audit of Controls over Cable Franchise Fee Revenue, Report Number 2015-019, September 10, 2015**
 - Reliability of Information: – Recommendations, when implemented, will provide assurance of the completeness and accuracy of cable franchise fee revenue.

Recommendations

We issued six reports with 44 recommendations in 2015. Since we started tracking recommendations in 2009, the auditees have agreed, or proposed acceptable alternative solutions, with 98%⁵ (363 of 371) of our recommendations. The chart shows the status of the 363 recommendations, as of December 31, 2015.

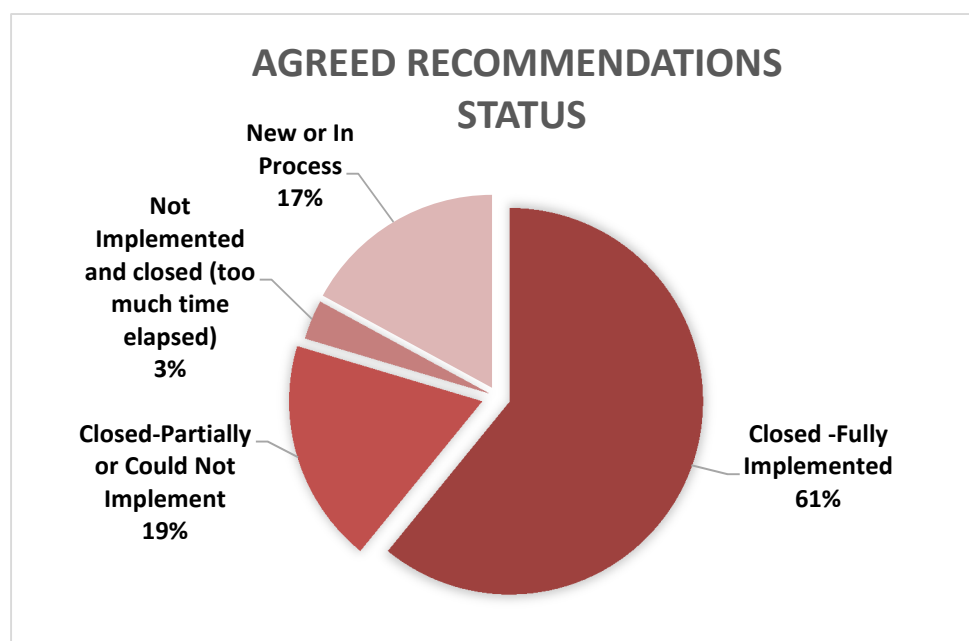


Chart 1 - Source: Internal Audit Recommendations Database

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 87.4%⁶ 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.	4.4
(2) The auditor or audit team conducted themselves in a professional and courteous manner.	4.6
(3) The auditor or audit team maintained an adequate level of communication throughout the audit.	4.2
(4) The draft report was adequately discussed and any problems resolved before the report was formally issued.	4.2
(5) The audit report clearly presented the results of the audit.	4.6
(6) Recommendations in the audit report were practical and reasonable.	4.4
(7) Overall, the audit added value to my business unit and helped to improve our operations.	4.2
Percentage of Maximum Rating	<u>4.37</u>

Table 2 – Source: Internal Audit Department, Customer Survey Database

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

⁵ Per 2014 Association of Local Government Auditors Benchmarking Survey (published November 2015), this percentage is 95% for an audit function.

⁶ Per 2014 Association of Local Government Auditors Benchmarking Survey (published November 2015), this percentage is 88% for an audit function.

Time Allocation



Sixty-eight percent⁷ 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 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.

Ten percent of our time was allocated to general administrative tasks which includes managerial and staff time used for progress discussions, annual performance appraisals, and routine daily administrative functions. Chart 2, to the right, shows the time allocation for the Department Director, Staff auditors and the Administrative Specialist direct support (excluding administrative and planning time).

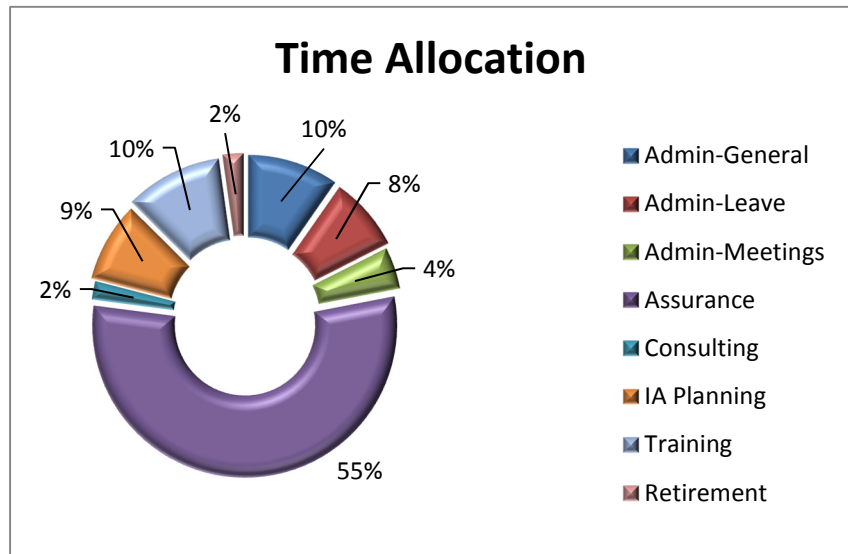


Chart 2 - Source: Internal Audit Time Reporting Worksheets

Assurance Services

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 2015.

Audit: FINAL REPORT – REVIEW OF THE CONTROLS OVER REVENUE PROCESSED THROUGH THE CLASS SYSTEM, Report Number 2015-001, January 6, 2015

Synopsis: The overall objective of this review was to determine if controls over revenue processed through the CLASS⁸ system were adequate to ensure revenue was being safeguarded, complete and accurate, and properly reported into the Advantage Financial system. We also evaluated the current fee structure of the programs offered for reasonableness.

⁷ Per 2014 Association of Local Government Auditors Benchmarking Survey (published November 2015), this percentage is 70% for an audit function with three to five auditors. [NOTE: This percentage reflects the impact of significant staff turnover in CY2015.]

⁸ CLASS is a software solution from The Active Network, LTD, designed to manage recreational activities.

FINAL REPORT – Review Of The Controls Over Revenue Processed Through The Class System, Report Number 2015-001, continued

We determined the CLASS system was adequate for registrations, reservations, scheduling, point of sale transactions and processing payments and refunds. CLASS interfaces with the County's financial system and transactions can be properly tracked. We found controls in place to address revenue management and monitoring, but we identified several opportunities where controls over revenue could be strengthened. Existing controls need to be re-evaluated for consistent application among all facilities, additional physical and system safeguards are needed, monitoring activities need to be increased, and effective contract management practices need to be established. In addition, the current fee structure needs to be periodically evaluated to ensure the results align with the County's strategic plan and cost-sharing objectives.

**Recommendations included:**

- Assess the number of people with access to safes and remove if not necessary.
- Review cash drawer processes.
- Monitor security systems.
- Ensure all employees receive cash handling training.
- Revise the revenue management manual as needed.
- Implement a process for granting and removing access to Information Services (IS) systems and periodically evaluate users continued business need to the system.
- Analyze job roles and assign user profiles in the system which match the functions needed to perform job duties. Perform a segregation of duties analysis of each user profile and resolve all conflicts found.
- Determine System Administrator job functions and ensure they are being adequately performed.
- Analyze A/R and make adjustments, as needed, and implement a process for the ongoing monitoring of outstanding balances.
- Implement policies for managing tennis professional relationships.
- Develop and implement a process for reconciling unearned revenue between CLASS and Advantage Financial.
- Consider a policy of refunding unused customer credits.
- Review the configuration and fee structure within CLASS for accuracy and completeness.
- Implement ongoing monitoring practices and perform unannounced site visits to perform reviews.
- Evaluate the current fee structure and assess against the County's strategic plan.
- Implement contract management practices.

Impact: Revenue processed through the CLASS system averaged \$3,042,202 annually for the past five fiscal years 2009 through 2013.⁹ The recommendations ensure that revenue processed through CLASS, and any future system, is adequately safeguarded, completely and accurately reported in the financial system, and continually monitored. Citizens and Cobb County leadership can be assured that revenue collected for programs and facility use are handled appropriately.

⁹ Five-year average excludes rental deposits and unearned revenue amounts.

Audit: FINAL SUPPLEMENTAL LETTER REPORT – CLASS SOFTWARE LICENSE, Report Number 2015-002, January 6, 2015

Synopsis: During our 'Review of the Controls over Revenue Processed Through the CLASS System' (Report Number 2015-001), we found that inadequate contract management controls resulted in a significant discrepancy between the number of installed copies of the software and the authorized licenses per the software license agreement.

Several meetings were held between County staff to discuss the licensing issue and possible solutions. Three options were evaluated based on a range of factors including cost, impact on existing operations, and implementation requirements. After evaluating the impact of each option, County staff recommended the option of upgrading to a hosted system. On October 14, 2014, the BOC approved entering into a Products and Services Agreement with The Active Network, Inc., to implement a hosted, web-based, software-as-a-service (SaaS) upgrade solution for the Public Services Event Registration System. The contract with the vendor also included a clause to waive all potential amounts due for additional software licenses, and associated maintenance, installed by the County in excess of the original purchase as of the go-live date¹⁰ of the hosted system.

Impact: Upgrading the existing system to a hosted system (ACTIVE Net) offered by the vendor, The Active Network, increased functionality and support an unlimited number of users, workstations, locations, and internet sessions. In addition, the total cost avoidance was \$766,329, exclusive of any discounts. See Page 4 for additional discussion.

Audit: FINAL REPORT – REVIEW OF COBB COUNTY MOBILE/WIRELESS TELECOMMUNICATION COSTS, Report Number 2015-005, January 28, 2015

Synopsis: The objective of our audit was to determine if the County has the processes and procedures in place to manage the acquisition, accountability, and security of mobile/wireless devices (cellular and smartphones, AirCards¹¹, and wireless-enabled tablets.)

We found that the County did not have adequate controls to mitigate inherent risks in the use of mobile/wireless devices. Although there were policies in place to address the use of mobile/wireless devices, there was no enterprise-wide mobile device management strategy to regulate the use of mobile/wireless devices or any Bring Your Own Device (BYOD) policy to regulate and secure the use of personal devices used by employees while conducting County business. There was also no centralized solution in place to provide an enterprise-wide method for managing mobile/wireless devices.



¹⁰ Date of first live operational use of the software.

¹¹ AirCard® is a registered trademark name for a broadband mobile/wireless device that connects devices via a cellular network to the internet. We used this generic name to represent mobile/wireless cards used as Automatic Vehicle Locator (AVL) cards, mobile/wireless-enabled tablets, mobile/wireless modems, and mobile/wireless cards used in laptops.

FINAL REPORT – Review of Cobb County Mobile/Wireless Telecommunication Costs, Report Number 2015-005, continued

We also determined that current policies and procedures did not ensure mobile/wireless devices were properly acquired, accounted for, or secured. Our review showed that:

- The County had not implemented an enterprise-wide approach to the acquisition of mobile/wireless devices. As a result, the County utilizes over 27 different phone plans and does not always use the contracted AirCard vendor.
- Documentation to support the business need for a device was not always maintained.
- Documentation was not always maintained to show that users were aware of the policies that govern the use of mobile/wireless devices.
- Unmanaged and untrustworthy¹² County-owned and personal phones were connected to the mail server and network.
- There is no Countywide approved employee reimbursement process for employees who use their personal phones for business purposes. The County has not determined whether the reimbursement process would be more efficient than owning phones.
- Department's inventory listings of mobile/wireless devices were inaccurate, incomplete, and/or did not follow the County's accountable equipment guidelines.
- Over 10% of the phones (68 of 642) and AirCards (84 of 805) showed no usage over a three-month period. Management decided that most phones were needed for backup purposes, alternate communication or emergency use; however, no written documentation was maintained to substantiate their decision. Service for 14 phones and 28 AirCards was discontinued, saving the County \$1,252 a month. In addition, plan changes to another three phones resulted in \$111 savings in monthly service charges.
- Controls need to be strengthened to ensure only authorized users have access to the County's mail service and network.

Recommendations included:

- Creation of a Mobile Device Management/Security (MDM) policy to address the management and security of all types of mobile devices including cell phones;
- Centralizing management of mobile/wireless devices in one function that controls, manages and secures the devices and takes advantage of enterprise-wide cost savings that may be available;
- Using existing software capability to eliminate unauthorized devices from access to the network and implement a security profile for all mobile/wireless devices;
- Implementing an enterprise-wide mobile device management software solution to help ensure all mobile/wireless devices are properly secured and monitored to protect the integrity of the County network; and
- Evaluating whether the reimbursement of employees for the business use of their personal phone is a more effective and/or efficient alternative than using County-owned phones.

Impact: The recommendations ensure that the County is using the devices as an effective and efficient tool used to increase the productivity of County employees, costs are minimized, and devices are accounted for and secured to protect the integrity of the County's network.

¹² Organizations should assume that all mobile devices are untrusted unless the organization has properly secured them and monitors their security continuously while in use with enterprise applications or data. *Guidelines for Managing the Security of Mobile Devices in the Enterprise, NIST Special Publication 800-124, Revision.*

Audit: FINAL REPORT – REVIEW OF SELECTED ACTIVITIES OF THE FRIENDSHIP CLUB FOR CALENDAR YEARS ENDING DECEMBER 31, 2013 and 2014, Report Number 2015-017, July 31, 2015

Synopsis: The overall objective of this review was to determine if funds of the Cobb County Employees' Friendship Club (the Club) had been properly accounted for and disbursements were properly documented and in accordance with the established by-laws. In addition, we determined if procedural or policy changes were made in accordance to established by-laws and if prior year recommendations had been implemented.

Our review determined disbursements were generally made in accordance with the mission of the Club and that the Center for Family Resources (CFR) administered the Employee Emergency Fund (EEF) in accordance with established guidelines. As recommended in the prior year, revisions to the by-laws were published to the CobbWeb¹³ and the Club enrollment form was updated with the correct minimum contribution in coordination with Human Resources.

However, the prior audit recommendation to develop written procedures for the Assistant Treasurer (AT) to follow when managing the Club's finances was not implemented. As a result, financial records were not maintained properly, account reconciliations were not performed, invoices were not paid in a timely manner, and the tax deductible portion of employee contributions was miscalculated. In addition, our current review determined that controls over bank account access needed strengthening, segregation of duties practices needed to be implemented, meeting minutes should be taken on a consistent basis to document the discussions and decisions of the Board of Trustees, and the President should seek Board approval for Employee Emergency Fund exceptions.

Recommendations: We recommended the Treasurer submit a revised expected completion date for the prior year audit recommendations to provide written procedures which include the addition of processes to ensure the account holder names are current, to protect the online login information, and periodically monitor banking transactions. We also recommended the Club Secretary designate an alternate to record minutes of meetings when the Assistant Secretary is unavailable, and the President seek full Board approval for exceptions.

Impact: The Friendship Club was formed as a cost-saving measure to provide charitable giving for the employees of Cobb County without the annual charity campaigns that were costly in terms of employee-hours required. This year's assessment of the controls over the Club's finances provides assurance to employees that their contributions are handled responsibly and make an impact in the lives of fellow employees and families in the community.

Audit: FINAL REPORT – AUDIT OF CONTROLS OVER CABLE FRANCHISE FEE REVENUE, Report Number 2015-019, September 10, 2015

Synopsis: The overall objective of this review was to determine if controls surrounding the franchise fee payments are adequate to ensure the amount is accurate, reconciled, and collected.

Our review found that payments were received and processed each quarter; however, County personnel did not have access to information needed to determine the accuracy or completeness of the funds received. Periodic audits of the franchisees should be performed to provide reasonable assurance that payments are accurate. We also determined the payment processing procedures were inefficient, there were no resources to monitor if franchisees executed finable offenses, required bonds were not verified, and contract management practices were not followed.

¹³ The CobbWeb (currently referred to as "iCobb") is an intranet site used to provide information to employees.

FINAL REPORT – Audit of Controls over Cable Franchise Fee Revenue, Report Number 2015-019 Recommendations, continued**Recommendations included:**

- Monitor the current audits through completion and establish a timeframe for future reviews.
- Deliver franchise fee revenue payments and receipts directly to the Finance Department and pursue having the payments remitted via electronic funds transfer.
- Re-classify franchise fee revenue to the Communications Department and maintain supporting documentation in OnBase.
- Evaluate the feasibility of monitoring and enforcing finable violations by cable providers.
- Verify required bonds are in effect and implement a process to verify annually.
- Establish contract management practices.
- Maintain a current needs assessment of the County's cable service requirements and periodically review results with County leadership.

Impact: Revenue received for the franchisee fees charged to the cable providers totaled \$7,875,371 for FY2014 and \$6,335,594 for FY2015, as of June 30, 2015. The recommendations provide additional assurances to citizens and County leadership that the County receives the total funds due from the cable providers.

Audit: FINAL REPORT - REVIEW OF SUPERIOR COURT CLERK PROCESSING OF INTANGIBLE TAX REVENUE, Report Number 2015-023, October 15, 2015

Synopsis: The objective of our audit was to determine if any procedural changes for collecting, reporting and distributing intangible taxes contributed to a \$1.4 million decrease in intangible tax revenue from fiscal year 2013 to 2014.

We were unable to determine the reason for the decrease in intangible tax revenue; however, a similar decrease in revenue occurred in two other counties within the metropolitan area. Neither had a definitive explanation for the decrease. In addition, we did not identify any procedural changes in the processing and distribution of the intangible tax that would attribute to the decrease. We were given reports on the number of security deeds processed and the amount of intangible tax collected but was unable to test the completeness and accuracy of the reports because the data was not readily available.



In our analysis of the collection and distribution process, we identified procedures that could be improved to ensure the accurate and timely distribution of the intangible tax. We determined that procedures needed to be implemented to ensure the correct commission rate is assessed prior to distribution of the tax; spreadsheets used to calculate the tax distribution could be improved; informative reports should accompany the distribution checks to the taxing districts; and better information is available to identify the location of property within tax districts. In one department, we also identified miscoding of revenue as intangible tax that needs to be corrected.

Each taxing district (e.g., city, state or school district) is entitled to a share of the intangible tax collected in its district based on that district's millage rate. The Superior Court Clerk (the Clerk) assesses a commission (currently 6%) for collecting the tax and submits the proceeds to the County.

From calendar years 2010 through 2014, we determined that the Clerk's office did not charge the appropriate commission rate against all the taxing districts, which caused a \$1.7 million commission fee underpayment to the County. Ninety-eight percent of the underpayment was due to an undercharge of commission to the school district. The Clerk charged the school district a 1.4% commission rate rather than the prevailing rate during this period. The error was corrected and changed to the current rate as of March 2015.

FINAL REPORT - Review of Superior Court Clerk Processing of Intangible Tax Revenue, Report Number 2015-023, continued

In addition, the spreadsheets used to calculate the tax distributions are accurate but could be more efficient and less susceptible to unexpected modification. Reports showing the tax distribution calculation should accompany the distribution checks so the taxing districts have more information to assess the validity of the distribution amount.

The Clerk should use the Parcel ID¹⁴ (a more specific location description) to identify the location of property within the tax district rather than the Land District/Land Lot (LD/LL)¹⁵ numbers. The Community Development (ComDev) Agency inappropriately used the intangible tax accounting revenue code to report \$7,461 in advertising income. This error did not affect the accuracy of the tax distribution.

Recommendations: We recommended the Clerk designate a person to monitor and ensure that the appropriate commission rate is applied in a timely manner; task an advanced EXCEL user to redesign the spreadsheets to eliminate repetitive input of data and protect cells from unexpected modification; develop a report that shows how the distributed amount of tax revenue is calculated; and determine if the Parcel ID can be used instead of the LD/LL number to locate the property tax district.

We also recommended the Office of Finance and Economic Development (Finance Department) Director ensure that the miscoded intangible tax is corrected in the accounting system and the ComDev Agency's Zoning Division Manager is notified of the correct account code to record future advertising income.

Impact: The recommendations help ensure the accurate distribution of approximately \$16 million of intangible tax revenue to the County, its cities, school district, and the State of Georgia.

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 follow-up audits conducted this year.

Audit Number	Date	Name	Recommendations		
			Open (as of 12/31/2014)	Resolved ¹⁶ (during 2015)	Remaining (as of 12/31/2015)
2015-003	1/13/2015	Second Follow-up Report: Review of Cash Handling Activities in the Community Development Agency, Development and Inspection Division	5	5	0
2015-004	1/13/2015	FINAL Follow-up Report: Reconciliation of Centrex Billing Account	1	1 ^b	0

^a The 2013 Annual Report reported three and five, respectively, in error.

^b - See the accompanying pages for additional discussion.

¹⁴ This Parcel ID is comprised of five elements including the LD/LL numbers, two fields that are not currently used and a three-digit parcel number assigned to each property within the Land Lot.

¹⁵ See Report Number 2015-023 for explanation of Land Lot and Districts.

¹⁶ Resolved refers to recommendations closed by Internal Audit during 2015 and does not indicate each was fully implemented. Some recommendations were closed during the year due to the length of time outstanding or other issues with implementation. See Pages 15-18 for further discussion.

FOLLOW-UP REPORTS COMPLETED (*CONTINUED*)

Audit Number	Date	Name	Recommendations		
			Open (as of 12/31/2014)	Resolved ¹⁶ (during 2015)	Remaining (as of 12/31/2015)
2015-006	1/28/2015	FINAL Follow-up Report: Review of Cobb County Street Light District Program	2 ^a	2 ^c	0
2015-007	1/29/2015	FINAL Follow-up Report: Review of Cobb County 800 MHz Operations	10	10 ^d	0
2015-008	1/30/2015	FINAL Follow-up Report: Review of the Controls Over the Revenue Recognition of the Breeze Card Program	8	8 ^e	0
2015-009	3/09/2015	FINAL Follow-up Report: Review of Cobb County Drug Court Laboratory Cash Handling Procedures	13	13 ^f	0
2015-010	3/09/2015	FINAL Follow-up Report: Letter Report- Survey of Landline Telecommunication Billing	2	2 ^g	0
2015-011	3/09/2015	Second Follow-up Report: Review of the Cobb County E911 Fund	6 ^a	6	0
2015-012	3/09/2015	Second Follow-up Report: Letter Report- Supplemental Analysis of Wireless Providers Billing Practices	1	1	0
2015-013	4/22/2015	Second Follow-up Report: Review of Controls Over the Processing of Benefit Payments and Invoices in the Human Resources Department	13	13 ^h	0
2015-014	4/22/2015	FINAL Follow-up Report: Audit of Third Party Administrators for Health Benefit and Workers' Compensation Plans	6	6 ⁱ	0
2015-015	4/22/2015	FINAL Follow-up Report: Review of Controls over Non-Vested Pension Refunds	14	14 ^j	0
2015-016	4/22/2015	FINAL Follow-up Report: Supplemental Letter Report -Vested Pension Payments	2	2 ^k	0
2015-018	9/09/2015	First Follow-up Report: Review of Cobb County Mobile/Wireless Telecommunication Costs	8	5	3
2015-020	9/28/2015	First Follow-Up Report: Review of the Controls over Revenue Processed through the CLASS System	19	6	13
2015-021	9/28/2015	First Follow-Up Report: Letter Report – OnBase Security Investigation	5	4	1
2015-022	10/15/2015	Second and Final Follow-up Report: Review of Cobb County Non-Profit Grant Program	7	7 ^l	0

^a The 2013 Annual Report reported three and five, respectively, in error.

^b -^lSee the accompanying pages for additional discussion.

COMMENTS ON FOLLOW-UP REPORTS

^bAudit: FINAL Follow-up Report: Reconciliation of Centrex Billing Account, Report Number 2015-004, January 13, 2015

Our objective was limited to reviewing, as of October 24, 2014, actions taken by Information Services (IS) to reconcile the Centrex billing and modify the billing invoice to facilitate the payment of expenditures. Due to other work considerations, the reconciliation of the Centrex billing had not been completed. However, IS staff developed a work plan and tools (Access database of billing) to help facilitate the reconciliation process which will include the physical verification of working numbers and circuits. The department identifiers (DIs) on the Centrex invoice had also been reviewed and modified to be more descriptive of the functions charged with the expenditures. Additional analyses of pricing, unexplained/other charges and inventories of Centrex lines for P.A.R.K.S.¹⁷ and Senior Services are ongoing. The Information Services staff is responsible for ensuring the established work plan is completed.

^cAudit: FINAL Follow-up Report: Review of Cobb County Street Light District Program, Report Number 2015-006, January 28, 2015

Our objective was to review, as of October 24, 2014, actions taken to implement the two remaining recommendations not implemented as of the date of our fifth follow-up review, presented in Audit Report 2013-013, dated November 7, 2013. The recommendation to complete energy audits was still ongoing. Except for Cobb EMC, the completion status and estimated savings remained the same. Further analysis of the Cobb EMC billing resulted in a reduction from an initial claim that the County owed over \$100,000 to approximately \$9,000¹⁸ due to the County. We will not perform any additional follow-up on status of the energy audits. Management should continue to resolve the dispute with Georgia Power and work with the other power companies to obtain accuracy in billing. Management decided not to take any further action on the recommendation to write guidelines for creating a SLD within the boundaries of cities. Current informal agreements with the cities will remain in place.

^dAudit: FINAL Follow-up Report: Review of Cobb County 800 MHz Operations, Report Number 2015-007, September 29, 2015

Our objective was limited to reviewing, as of January 16, 2015, actions to implement the ten remaining recommendations not implemented as of the date of our first follow-up report August 9, 2013. One recommendation, to ensure all non-County agencies have a current license agreement, had been fully implemented. The remaining nine recommendations were in process including documenting procedures for ensuring cities are in compliance with their license agreements and core replacement funds; confirming radio inventories with County agencies; reconciling the inventory between the 800 MHz system and Access database; modifying the change form document; performing a complete physical inventory; complying with the County's accountable equipment policy; agreeing maintenance billing reports to supporting documentation; adhering to record retention policies; and implementing a policy for performing periodic management reviews of changes to the 800 MHz system and Access database. Five of these recommendations were expected to be closed in fiscal year 2015 with the installation of a new asset management system purchased in October 2014. The other four recommendations were expected to be completed by no later than the end of fiscal year 2016. Management should continue to implement the corrective actions and assumes the risk if not completed.

¹⁷ Parks, Arts, Recreation, Keep Cobb Beautiful, Solid Waste Department

¹⁸ This amount will continue to change as new issues are identified and until the audit is completed (i.e. as of January 13, 2015, the most recent update reflected a credit to Cobb County in the amount of \$11,000).

^eAudit: FINAL Follow-up Report: Review of the Controls Over the Revenue Recognition of the Breeze Card Program, Report Number 2015-008, January 30, 2015

Our objective was limited to reviewing, as of January 20, 2015, actions to implement the eight remaining recommendations not implemented as of the date of our first follow-up report, November 7, 2013. Six of the recommendations had been fully implemented. These recommendations include the validation of monthly Breeze Card revenue; determination of reports relevant to Transit operations; discussions to establish guidelines and methodologies on dormant value distribution; initiation of an independent audit of clearinghouse functions¹⁹; additional physical security measures over the portable key; and development of a process for portable key usage and capabilities.

The remaining two recommendations had been initiated but remain partially implemented. An interim Letter of Understanding (LOU) to continue to operate under the provisions of the Breeze Card Participation Agreement was executed between the County and MARTA²⁰; however, the LOU expired on September 30, 2014. Discussions on how to resolve this matter were in process with the County Attorney's office. Interim contract management procedures had been implemented, but final procedures, to include Federal Transit Administration (FTA) requirements, was to be completed in 2015 after FTA training. We will not perform additional follow-up on the status of open items. Management should continue to implement the corrective actions and assumes the risk if not completed.

^fAudit: FINAL Follow-up Report: Review of Cobb County Drug Court Laboratory Cash Handling Procedures, Report Number 2015-009, March 9, 2015

Our objective was to review, as of October 16, 2014, actions taken to implement the 13 recommendations designed to improve controls over cash handling in the Drug Court Laboratory. As of the date of this report, we had not received any written responses to our request. It is our understanding, through a verbal discussion, that some action had been taken, but we were unable to substantiate the adequacy. Drug Court Laboratory management should continue its efforts to implement the corrective actions and assumes the risk if not completed.

^gAudit: FINAL Follow-up Report: Letter Report- Survey of Landline Telecommunication Billing, Report Number 2015-010, March 9, 2015

Our objective was limited to reviewing, as of October 24, 2014, actions taken to implement the two recommendations presented in Audit Report 2014-001, dated January 7, 2014. We determined that implementation of both recommendations was still in process. The County issued a Request for Proposal that included services for auditing landline costs but did not receive a response to the landline portion; therefore, Information Services (IS) management decided to conduct the reconciliation of the landline costs internally. Landline circuits and charges were investigated and several had been identified that warrant further investigation to determine if they were valid.

IS staff had also worked with other departments to make sure expenses were being budgeted and charged correctly. Adjustments to shared telecommunication costs will be made at the conclusion of the internal reconciliation, if necessary. IS needed to ensure that the codes used to allocate expenditures by department are accurate and utilized to reorganize the CLUB account invoices to facilitate the timely and appropriate billing of telecommunication costs.

¹⁹ A Request for Proposals (RFP) was initiated by the Atlanta Regional Commission (ARC) in January 2015 to audit the Breeze Card Clearinghouse and fare collection systems. The RFP had not been finalized as of the date of this report.

²⁰ Metropolitan Atlanta Rapid Transit Authority

^hAudit: Second Follow-up Report: Review of Controls Over the Processing of Benefit Payments and Invoices in the Human Resources Department, Report Number 2015-013, April 22, 2015

Our objective was limited to reviewing, as of March 10, 2015, actions taken to implement the 13 recommendations in our original report dated April 26, 2013. We met with Human Resources (HR) management and determined that one of the 13 recommendations had been fully implemented – correction of ‘Deduction Exception Report’. The remaining 12 recommendations were in process and according to HR, final corrective actions was going to be completed that month. Most recommendations required the final approval, documentation, and/or implementation of additional operating procedures over the processing of payments and invoices. Although several standard operating procedures had been drafted, documentation that procedures are being followed was not readily available. HR management should ensure that remaining recommendations are fully implemented and assumes the risk if not.

ⁱAudit: FINAL Follow-up Report – Audit of Third Party Administrators (TPAs) for Health Benefit and Workers’ Compensation Plans, Report Number 2015-014, April 22, 2015

Our objective was limited to reviewing, as of March 16, 2015, actions taken to implement the six recommendations in our original report dated November 21, 2013. Effective January 2014, the County’s health benefits consultant was to be delegated the responsibility of implementing four recommendations. Of these, three were partially implemented: meeting with TPAs to resolve clarification and interpretation issues regarding the respective plans; tracking rebates and credits due to the County; and monitoring TPA performance guarantees. TPA meetings were held, but no documentation was provided to support outcomes of discussions or any indication the TPAs attested to processing claims in accordance with the approved plans. In addition, we noted that the health benefit consultant services agreement required the consultant to prepare periodic financial and performance reports; however, no specific reference to tracking rebates due or monitoring performance guarantees were included. As such, Human Resources (HR) staff are expected to monitor the consultant’s activities as recommended. The fourth recommendation delegated to the consultant, requiring the coordination with TPAs to ensure benefit booklets are distributed in a timely manner, had not been implemented. The contract included a requirement to facilitate a review of benefit booklets, but it did not address ensuring they were distributed in a timely manner.

The two remaining recommendations were the responsibility of HR personnel and had not been implemented. These include developing a written record retention policy for the department and determining the final disposition of outstanding findings (i.e. overpayments) noted during the audit. Human Resources management should continue to implement the corrective actions and assumes the risk if not completed.

^jAudit: FINAL Follow-up Report: Review of Controls over Non-Vested Pension Refunds, Report Number 2015-015, April 22, 2015

Our objective was limited to reviewing, as of March 10, 2015, actions taken to implement the 14 recommendations in our original report dated September 12, 2013. We verified two of the recommendations had been fully implemented: a generic email account was established for participant responses, along with a designated custodian and backup; and additional procedures were implemented to ensure Human Resources (HR) staff does not take physical control of refund checks on behalf of former participants. Four recommendations were partially implemented. These included finalizing the standard operating procedures and/or maintaining documentation to support the implementation of refund initiation, revised distribution templates, refund tracking, and SunTrust reconciliations.

FINAL Follow-up Report: Review of Controls over Non-Vested Pension Refunds, Report Number 2015-015, continued

Six recommendations had not been implemented. A discussion with the pension attorney was needed to determine the County's options regarding interest liability beyond the designated holding period, and discrepancies identified during the testing had not been verified. Other recommendations that required action was the development of processes for monitoring outstanding checks, locating payees, and ensuring the accuracy of summary reports; an evaluation of the continued appropriateness of the Retirement Activity Report; and an updated contract addendum with SunTrust Bank.

The remaining two recommendations involved the Pension Board of Trustees' periodic review of benefit administrative processes, the applicability of existing contract provisions, and the determination of whether the Pension Board was required to comply with County purchasing policies.

The HR Director and Pension Board Chair each disagreed with one or more of these recommendations. Proposed alternative solutions and our responses were included in the original report. HR management should continue to implement the corrective actions as agreed and assumes the risk if not fully implemented.

^kAudit: FINAL Follow-up Report: Supplemental Letter Report -Vested Pension Payments, Report Number 2015-016, April 22, 2015

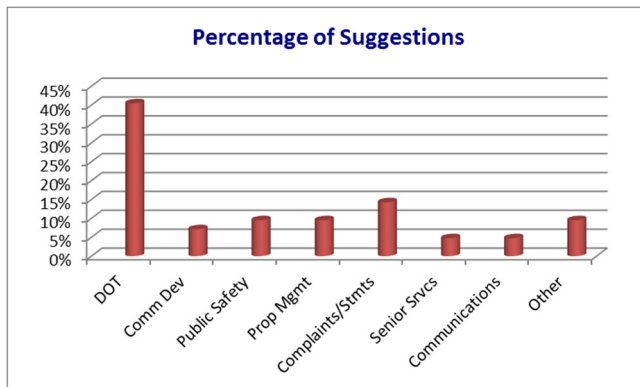
Our objective was limited to reviewing, as of March 10, 2015, actions taken to implement the two recommendations in our original report dated September 12, 2013. We verified the recommendation to develop and implement a process for notifying inactive vested participants to initiate their pension payments upon their normal retirement date had been partially implemented. We observed a report utilized by the Human Resources Coordinator, but evidence of the written procedures, to include periodic monitoring, was not readily available. The recommendation to develop and implement a process to ensure pension benefits or refunds are paid on behalf of deceased participants had not been implemented. Human Resources management should continue to implement the corrective actions as agreed and assumes the risk if not fully implemented.

^lAudit: Second and Final Follow-up Report: Review of Cobb County Non-Profit Grant Program, Report Number 2015-022, October 15, 2015

We completed our second and final follow-up to determine the status of seven remaining corrective actions in response to our original report dated September 3, 2013. The Director, Finance and Economic Development met with the County Attorney's office (Recommendation 3), and it was determined that no reimbursement would be made to Legal Aid; however, corrective actions on the remaining six recommendations are ongoing.

The Chairman responded that the Board of Commissioners (BOC) is continuing their discussion of the outstanding corrective actions. He will recommend considering a staff lead position and potentially a Citizen Task Force to assist with implementation. The Community Impact Grant process was also one action taken to address concerns expressed in the report. Consideration of all corrective actions remain ongoing. The BOC should continue its efforts to implement the corrective actions and assume the risk if not completed.

Citizen Cost-Savings/Idea Reports



The Internal Audit Department facilitates an internal database of suggestions from citizens that potentially provide cost-savings, increased efficiency, and/or improved County operations. During 2015, we received 42 suggestions, which were promptly evaluated by the appropriate department(s). A formal response was provided to each citizen who included their contact information. Although none resulted in quantifiable savings, each was deemed a valuable suggestion.

Projects in Process

The following projects were initiated and substantially completed in 2015 or are currently in process. The reports will be issued in 2016. Details will be included in the calendar year 2016 Annual Report.

Projects

- Review of the Controls over Revenue Processed Through the Cobb County Government Service Centers**
Objective: The objective of our audit was to determine if the controls over cash collection, allocation, transportation, and reporting at the Government Service Centers (GSCs) are adequate and in accordance with Cobb County Government regulations and requirements. *[See Report Number 2016-001, issued February 11, 2016]*
- Validation of Cobb County Owned Real Property/Land and Associated Deeds**
Objective: The overall objective of this review was to determine if the controls over acquisition, maintenance, and disposition of Cobb County (the County) real property are adequate to ensure completeness and accuracy. We also determined if the associated deeds are properly retained on file or readily available. *[Report pending]*
- Review of the Controls over Accountable Equipment**
Objective: The overall objective is to determine if each department's controls over accountable equipment are adequate to ensure Cobb County accountable equipment is complete and accurate, properly safeguarded, and properly reported. We will also perform a follow-up on prior audit recommendations. *[Fieldwork in process]*
- Survey - Security Controls Over the Transportation of Cash and Negotiable Instruments**
Objective: The overall objective of our survey was to determine and evaluate the methodology for the transportation of cash and negotiable instruments within Cobb County (the County) agencies and departments²¹. *[See Report Number 2016-002, issued March 28, 2016]*

²¹ Elected, Constitutional, and Judicial offices were excluded.

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.

- Actuary Verification Committee (Human Resources/Finance)
- Tuition Reimbursement Committee (Countywide)...until March 2015
- Contract Management Initiative (Countywide)
- Interview Committee – County Clerk (County Manager)
- RFP – Program Management Services (PARKS)

General Guidance and Consultation

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

- Cobb County Nonprofit Grant Program Discussions/Compilation
- Superior Court Administration
- Magistrate Court Administration

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.

- No audit alerts were issued in 2015.

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 2015, we completed **143** Regular/Vested Term/Survivor Benefit Calculations.



Countywide Community Activities

- United Way Campaign



Other Noteworthy Activities

- Completed the calendar year 2015-16 Countywide Risk Assessment, resulting in a CY2015-16 Audit Plan
- 2015 Silver Eagle Award Recipient

Future Goals

External Quality Assessment

We are in the process of compiling the required documentation in preparation for our first external quality assessment review in accordance with the Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. We anticipate the process to be completed and report presented by no later than end of FY2016.

FY2017/2018 Key Performance Objective & Measure²²

Expand audit coverage by 15% in FY2017 and 7% in FY2018 through streamlining internal procedures using automation and strategic employee training.

GOAL #1 – Increase the efficiency and effectiveness of the Internal Audit Department operations.

- Update the Countywide Risk Assessment and develop the CY2017-18 Audit Plan by December 2016.
- Research automation tools and resources specific to the internal audit function by March 2017.
- Review and implement any Audit Committee recommendations by September 2018.

GOAL #2 – Improve County transparency and increase public awareness of Internal Audit Department operations.

- Develop and facilitate 'Governance-focused' training seminars for County agencies and departments throughout FY17 and FY18.
- Co-host the 2017 Annual Association of Local Government Auditors Conference by providing local support in May 2017.
- Revise the Department's external website to be more expansive by September 2017.

²² See FY2017/2018 Biennial Budget Book for further details on the Internal Audit Department Management Plan.

Staff Development/Training

The County's Internal Audit Department 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. During 2015, staff completed the required number of CPE hours as indicated above.

Professional Affiliations

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



Staffing and Contact Information

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

Additional Acknowledgements

Since the issuance of our 2014 Annual Report, we have experienced significant changes in staffing. As such, we would like to acknowledge the efforts and contributions of these previous team members to the overall results reflected in this report.

Steven Harper, Staff Auditor

Barry Huff, Staff Auditor

²³ Megan Pickens joined the Internal Audit team on February 29, 2016.