



RISK ASSESSMENT REPORT

Internal Audit Department

June 2013

Internal Audit Department Analyzes Risk and Prioritizes Audit Work

About This Report

Professional auditing standards require the County Auditor to assess risks challenging the County and to communicate Internal Audit's risk assessment activities, audit plans, and resource requirements to the County Board of Supervisors (Board).

As the County's governing body, the Board determines that audit resources are sufficient, that internal controls are in place and working as intended, and that there is reasonable assurance the Board's strategic objectives will be met.

This report describes how the County Auditor analyzes the County's risk environment, prioritizes audit areas, and prepares an annual audit plan for approval.

Highlights

- Risk, control, and governance largely determine an organization's ability to achieve its objectives.
- County management is responsible for managing risk by implementing internal controls and providing reasonable assurance that they are operating as intended.
- Internal Audit assesses risk by analyzing conditions that can impair the County's ability to achieve its key objectives.
- Acting under the Board's authority, Internal Audit develops an audit plan to review controls that County management has implemented to address and mitigate risks.
- There are over 300 audit areas included in Internal Audit's countywide schedule.



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RISK MANAGEMENT ENVIRONMENT

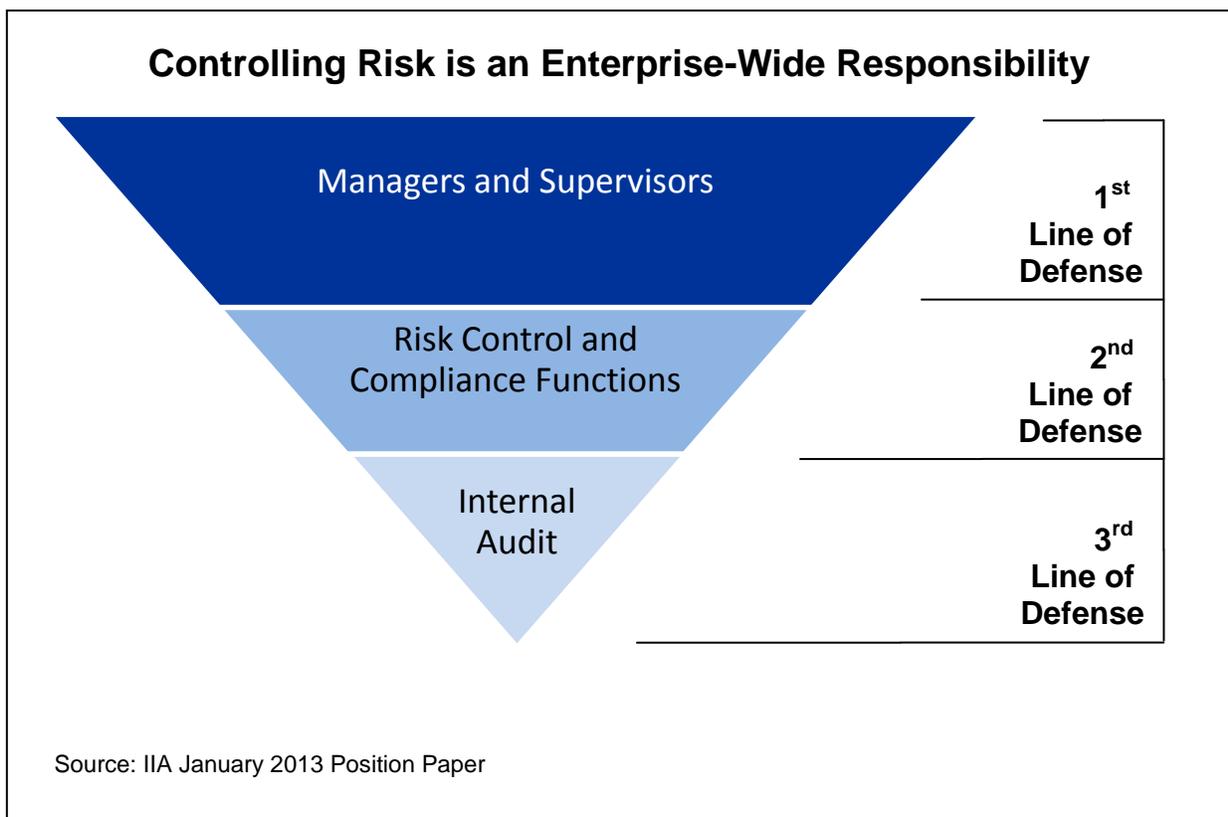
Risk, control, and governance largely determine an organization's ability to achieve its objectives. Risk is the possibility a future event will impact the achievement of objectives. Control is action taken by leadership to manage risk and increase the likelihood that objectives will be met. The cost of mitigating risks may cause organizations to accept a higher risk. Risk appetite is the level of risk an organization is willing to accept. Good governance requires successfully balancing business strategy and risk.

An effective control environment includes the following essential roles:

Managers and supervisors are the first line of defense against risk. They are the risk owners and managers. They initiate and monitor controls to mitigate risk. Without managers' support, employees cannot be effective at controlling the risk they encounter daily.

Risk control and compliance functions, such as, Finance, Budget, Risk Management, Procurement, Office of Enterprise Technology, and Human Resources, are the second line of defense. They are the facilitators, overseeing risk and monitoring the implementation of countywide risk management practices.

Internal Audit is the third line of defense, the independent evaluators that spot check the effectiveness of governance, risk management, and internal controls. Internal Audit evaluates how effective the first and second lines of defense are in achieving risk management and control objectives.



Leadership’s risk appetite determines how robust it wants each line of defense to be. Risk appetite determines the level of audit resources provided to address high-risk and other audit areas. Additional resources can increase audit frequency, which can help to mitigate organizational risk. If an area is not audited for a long period, control weaknesses may go undetected, thus putting the organization at greater risk.

Leadership should consider audit frequency as part of its risk appetite. Audits help deter risk. If leadership desires to lower its risk appetite, then leadership is indicating its desire for more audits and will allocate resources accordingly.

Internal Audit assigns risk level based on several factors such as budget size, financial impact, and leadership input (described in detail on the next page). The following table shows the County’s average audit frequency by risk level based on current audit resources:

Audit Risk Level	Average Years Between Audits	Examples
High	6.6	<ul style="list-style-type: none"> • Assessor’s Office • Countywide Network Security • Countywide Payroll • Sheriff’s Office • Treasurer’s Office
Medium	7.4	<ul style="list-style-type: none"> • Countywide Fleet • Equipment Services • Library District • Medical Examiner • Recorder’s Office
Low	8.7	<ul style="list-style-type: none"> • Countywide Software Licensing • Countywide Travel • Education Services • Legal Advocate • Parks and Recreation

RISK ASSESSMENT PROCESS

Internal Audit assesses risk by analyzing conditions that can impair the County's ability to achieve its key objectives. Our annual risk assessment process helps us develop an audit plan that most effectively uses limited audit resources.

We identify the audit universe (all auditable County areas – see page 7 for a list of agencies' key programs and activities). We compile this list by reviewing the County's organization chart, budget book, financial data, and Comprehensive Annual Financial Report (CAFR) audited by the Arizona Auditor General.

We evaluate each area's risk level (high, medium, or low) using criteria, such as:

- **Budget Size** – Listed in Annual Business Strategies.
- **Financial Impact** – Small agencies may have large monetary transactions.
- **Leadership Input** – The County Auditor gathers input from Board members and other County officials via interviews or surveys.
- **Citizen Impact** – Some activities present high-risk to citizens. Examples: background checks for Head Start workers, shortages of flu vaccine, and backlogs in construction permits.
- **Mandated Audits** – Some areas require audits on a regular basis. For example, the Arizona Supreme Court requires Minimum Accounting Standards reviews of Justice Courts and other areas every three years.
- **Visibility** – Internal Audit keeps track of news media and other indicators of citizen interest in specific County programs and activities.
- **Additional Considerations** – Each year, new challenges or risks become evident and must be considered. For example, as County smart phone usage becomes widespread, the network's exposure to unauthorized access also increases.

Using the assessed risk levels, we develop a tentative audit plan for the upcoming year by performing the following:

- Balance assigned risk levels (high, medium, low) with the length of time that has elapsed since the most recent audit of each area. A longer elapsed time reduces Internal Audit's deterrence effect and therefore increases risk in that area.
- Calculate available audit resources based upon size of audit staff.
- Estimate and assign audit resources needed for top priority audit areas.
- Discuss the tentative plan with the County's Citizen's Audit Advisory Committee.
- Discuss the tentative audit plan with County leadership and adjust as necessary.
- Seek formal Board approval for the audit plan prior to the start of the new fiscal year.

INTERNAL AUDIT'S RISK ASSESSMENT CYCLE



<u>Risk Factors</u>	<u>Plan Development</u>
Budget Size	Consider Risk
Financial Impact	Estimate Resources
Leadership Input	Consider Priorities
Citizen Impact	Audit Committee Review
Legal Requirements	Leadership Review
Publicity	Board Approval

AUDIT RESOURCES AND PLAN

Acting under the Board’s authority, Internal Audit reviews controls that County management has implemented to address and mitigate risks. Our body of work provides observations and recommendations that assist the Board in making decisions that govern Maricopa County.

Internal Audit uses the following resources to conduct its annual audit plan:

Internal Personnel	20 positions (2 positions are part-time)
External Specialists	<p>\$324,000 for subject matter experts</p> <ul style="list-style-type: none"> • \$180,000 for Sheriff’s Office audits • \$144,000 for specialized audit work in areas, such as, network security, engineering, health care, construction, actuarial services, etc.

FY 2014 AUDIT PLAN

Agency Audits

Animal Care and Control - Adoptions
 Animal Care and Control - Outreach
 Animal Care and Control - Revenues
 Correctional Health - Info Technology (IT)
 Correctional Health - Inmate Assessments
 Correctional Health - Pre-Booking/Intake
 Correctional Health - Procurement
 MCSO Detention - Intake and Classification
 MCSO Detention - Jail Per Diem
 MCSO Detention - Jail Utilization

Countywide Audits

Contracts & Intergovernment Agreements
 Network Security - Active Directory
 Single Audit Monitoring
 Special Requests

Accounting Reviews

Agua Fria Justice Court
 Arcadia Biltmore Justice Court
 Downtown Justice Court
 Encanto Justice Court
 Estrella Mountain Justice Court
 Maryvale Justice Court
 South Mountain Justice Court
 West McDowell Justice Court
 Juvenile Probation Department
 Superior Court Finance Cash Handling
 Superior Court Law Library
 Superior Court Self Service Centers

Non-Audit Reports

Annual Audit Follow-Up
 Annual Audit Risk Assessment
 Annual Financial Condition Report
 Annual Performance Report

AUDIT UNIVERSE

FY 2013 Audits	KEY	FY 2014 Audits
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Operational Audit Areas

Adult Probation - Administration/Accounting		Clerk of the Superior Court - Financial Mgmt.
Adult Probation - Assessment/Development		Clerk of the Superior Court - IT Systems
Adult Probation - Community Supervision		Clerk of the Superior Court - Other Activities
Adult Probation - IT Systems		Clerk of the Superior Court - Records
Adult Probation - Other Activities		Constables
Air Quality - Compliance		Contract Counsel
Air Quality - IT Systems		Correctional Health - Clinics & Medications
Air Quality - Monitoring		Correctional Health - Inmate Health Assess.
Air Quality - Other Activities		Correctional Health - Information Technology
Air Quality - Permitting		Correctional Health - Pre-Booking/Intake
Animal Care & Control - Adoptions		Correctional Health - Procurement
Animal Care & Control - Community Outreach		County Attorney - Administration/Finance
Animal Care & Control - Field/Facilities		County Attorney - Check Enforcement
Animal Care & Control - Finance		County Attorney - County Counsel
Animal Care & Control - IT Systems		County Attorney - Enforcement Support
Animal Care & Control - Revenues		County Attorney - IT Systems
Animal Care & Control - Shelter Operations		County Attorney - Other Activities
Assessor - Administration/Records		County Attorney - Prevention/Victims
Assessor - GIS/Mapping		County Attorney - Prosecution
Assessor - IT Systems		County Attorney - RICO
Assessor - Other Activities		County Call Center
Assessor - Personal Property		County Manager's Office
Assessor - Real Property		Education Services - Consortium
Board of Supervisors		Education Services - Educ. Support Services
Board of Supervisors Clerk		Education Services - IT Systems
Business Strategies - Benefits		Education Services - Other Activities
Business Strategies - Economic Development		Education Services - School District Elections
Business Strategies - Other Activities		Education Services - School District Payroll
Capital Improvement Program		Elections - Ballot Preparation

Elections - Ballot Tabulation	Government Relations
Elections - IT systems	Housing - IT Systems
Elections - Other Activities	Housing - Other Activities
Elections - Voter Registration	Housing - Public Housing
Emergency Management - IT Systems	Housing - Section 3
Emergency Management - Other Activities	Housing - Section 8
Emergency Management - Preparedness	Human Resources - Compensation
Environmental Services - Env. Health	Human Resources - Employee Developmt.
Environmental Services - IT Systems	Human Resources - Employee Relations
Environmental Services - Other Activities	Human Resources - Emp. Serv. & Diversity
Environmental Services - Vector Control	Human Resources - IT Systems
Environmental Services - Water/Waste	Human Resources - Other Activities
Equipment Services - Fleet Management	Human Resources - Payroll/Records
Equipment Services - Fuel	Human Resources - Protective Services
Equipment Services - IT Systems	Human Services - Community Services
Equipment Services - Other Activities	Human Services - Grants
Equipment Services - Parts	Human Services - Head Start
Facilities Management - Development	Human Services - IT Systems
Facilities Management - IT Systems	Human Services - Other Activities
Facilities Management - Maintenance	Human Services - Workforce Development
Facilities Management - Operations	Innovation and Collaboration
Facilities Management - Other Activities	Integrated Criminal Justice Info. System
Finance - Financial Reporting	Internal Audit
Finance - Financial Services	Justice Courts - Administration
Finance - IT Systems	Justice Courts - Collections
Finance - Other Activities	Justice Courts - Finance/Accounting*
Finance - Real Estate	Justice Courts - Other Activities
Financial Industrial Development Authority	Justice System Planning
Flood Control - Capital Improvement	Juvenile Probation - Administration
Flood Control - Flood Hazard Plan	Juvenile Probation - Detention
Flood Control - IT Systems	Juvenile Probation - Finance/Accounting
Flood Control - Other Activities	Juvenile Probation - IT Systems/iCIS
Flood Control - Permitting	Juvenile Probation - Other Activities

Juvenile Probation - Supervision	MCSO - IT Governance
Law Library - Superior Court	MCSO - IT Security
Legal Advocate - Contracts	MCSO - Jail Management System
Legal Advocate - Other Activities	MCSO - Jail Per Diem
Legal Defender - Contracts	MCSO - Other Activities
Legal Defender - IT Systems	MCSO - Patrol Division
Legal Defender - Other Activities	MCSO - Patrol IGAs
Library District - Branch Operations	MCSO - Patrol IT Systems
Library District - IT Systems	MCSO - Payroll
Library District - Other Activities	MCSO - Property & Evidence
Library District - Support Services	MCSO - Revenue & Business Services
Management & Budget - Budget Development	MCSO - RICO
Management & Budget - CIP Oversight	MCSO - Training Division
Management & Budget - IT Systems	MCSO - Warehouse/Surplus
Management & Budget - Other Activities	MCSO - Weapons & Ammo
MCSO - Aviation	Medical Examiner - Investigations
MCSO - Civil & Extradition	Medical Examiner - IT Systems
MCSO - Communications	Medical Examiner - Lab Services
MCSO - Contracts	Medical Examiner - Medical Exams
MCSO - Crime Lab	Medical Examiner - Other Activities
MCSO - Detention Jail Centers	Non-Dept. - Capital Projects
MCSO - Detention Capital Improvement	Non-Dept. - Contingency
MCSO - Detention Custody Support	Non-Dept. - Infrastructure
MCSO - Detention Food Factory	Non-Dept. - Other Activities
MCSO - Detention Intake & Classification	Non-Dept. - State Contributions/MOE
MCSO - Detention Jail Utilization	Non-Dept. - Taxes
MCSO - Detention Laundry	Office of Communications
MCSO - Enforcement Support	OET (Enterprise Technology) - Adv. Svcs.
MCSO - Expenditures	OET - Help Desk
MCSO - HR & Compliance	OET - Infrastructure and Communications
MCSO - Inmate Fund Canteen System	OET - Other Activities
MCSO - Internal Affairs	OET - Security
MCSO - Investigations	OPS (Procurement Services) - IT Systems

OPS - Other Activities	Public Health - Disease Control
OPS - Procurement	Public Health - IT Systems
OPS - Purchasing Cards	Public Health - Other Activities
OPS - Records Management	Recorder - Document Operations
OPS - Reprographics	Recorder - IT Systems
Parks and Rec. - Fees & Other Revenues	Recorder - Other Activities
Parks and Rec. - IT Systems	Recorder - Public Records
Parks and Rec. - Other Activities	Research & Reporting - IT Systems
Parks and Rec. - Parks Operations	Research & Reporting - Other Activities
Parks and Rec. - Planning and Development	Research & Reporting - Surveys
Planning and Dev. - Building Permits	Risk Management - Claims
Planning and Dev. - Fees	Risk Management - Environmental
Planning and Dev. - Inspections	Risk Management - IT Systems
Planning and Dev. - IT Systems	Risk Management - Loss Control
Planning and Dev. - Land Use Planning	Risk Management - Other Activities
Planning and Dev. - Other Activities	Risk Management - Safety
Public Advocate - Delinquency	Special Projects and Public Outreach Svcs.
Public Advocate - Dependency	Stadium District - Contracts
Public Advocate - IT Systems	Stadium District - Events
Public Advocate - Mental Health	Stadium District - Facilities Management
Public Advocate - Other Activities	Stadium District - IT Systems
Public Defender - Indigent Representation	Stadium District - Other Activities
Public Defender - IT Systems	Stadium District - Revenues
Public Defender - Other Activities	Superior Court - Civil Justice
Public Fiduciary - Conservatorship	Superior Court - Court Fin./Cash Handling
Public Fiduciary - Decedent Services	Superior Court - Criminal Justice
Public Fiduciary - Guardianship	Superior Court - IT Systems
Public Fiduciary - Investigations	Superior Court - Law Library
Public Fiduciary - IT Systems	Superior Court - Self Service Centers
Public Fiduciary - Other Activities	Sustainability
Public Health - Clinical Services	Transportation - Engineering
Public Health - Community Health Services	Transportation - IT Systems
Public Health - Community Supp./Education	Transportation - Operations & Development

Transportation - Other Activities
 Transportation - Project Management
 Transportation - Traffic Management
 Treasurer - Accounting
 Treasurer - Client Services
 Treasurer - Investment Services
 Treasurer - IT Systems
 Treasurer - Other Activities
 Treasurer - Tax Services
 Waste Resources - Fees
 Waste Resources - IT Systems
 Waste Resources - Other Activities
 Waste Resources - Solid Waste

Countywide Audit Areas

Accounts Payable
 Annual Risk Assessment*
 Audit Follow-Up*
 Capital Improvements
 Cash
 Contracts*
 Contracts - Construction
 Contracts - Health Care Programs
 Contracts - IGAs/Other*
 Cost Allocation (Internal Service Funds)
 Data Centers/Disaster Recovery
 Data Privacy and Security
 E-Commerce
 Exit/Entrance - New Leadership
 Expenditures
 Financial Condition Report*

Grant Management
 Internet Usage
 Inventories
 IT Governance
 Leases
 Network Security - Active Directory
 Network Security - End Point
 Network Security - Mobile Client
 Network Security - Virus Detection
 Network Security - Web Applications
 Network Security - Wireless
 OnBase Work Flow and Application
 Payroll
 Performance Measure Certification
 Procurement/Purchasing
 Purchasing Cards/e-Payments
 Records Retention
 Revenues - Franchise Fees
 Revenues - Grants
 Revenues - Highway User Revenue Funds
 Revenues - Licenses/ Permits/Fines
 Revenues - Property & Sales Tax/IGA
 Revenues - Vehicle License Tax
 Single Audit Monitoring*
 Software License
 Special Requests*
 Travel
 Vehicle Usage

* On approved audit plan for both FY 2013 and FY 2014.