



RISK ASSESSMENT REPORT

Internal Audit Department

July 2015

The Internal Audit Department Analyzes Risk to Prioritize Audit Work

About This Report

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

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

The Board, as the County's governing body, determines whether resources are sufficient to implement internal controls that provide assurance that the Board's strategic objectives will be met.

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 key controls that County management has implemented to address and mitigate risk.
- There are nearly 400 audit areas included in Internal Audit's Countywide schedule.



Risk Management Environment	2
Current County Risks	4
Frequency of Internal Audits	5
Audit Risk Assessment Process	6
Audit Resources	8
FY 2016 Board Approved Audit Plan	8
Audit Universe	9

RISK MANAGEMENT ENVIRONMENT

Managing business risk is critical to Maricopa County's success. Risk is the likelihood that events might not go as planned. Managing risk is challenging within the County's diverse physical, financial, and operational organization. The Board of Supervisors establishes a five-year strategic plan to provide a road map for the future. County officials are responsible for implementing the Board's strategy. However, business risks can threaten the success of the strategic plan. Risk management is the process used to prepare and protect the County from these uncertainties. County leaders regularly identify key risks and opportunities that can threaten or enhance the strategic plan, including¹:

- Suppressed property tax values due to continued slow economic recovery and legislative changes (Proposition 117).
- Increased County employee turnover, extended time periods to fill open positions, and related staffing issues.
- Increased FY 2016 pension costs.
- Increased reliance on enterprise-wide technology.
- Increased pressure on infrastructure, intensified by population growth.
- Continued cost shifts from the State.

County leadership has responded to these risks by:

- Reducing the operating budget and slowing spending on planned capital projects.
- Maintaining a structurally-balanced budget (recurring revenues meet or exceed recurring expenses) which protects against unforeseen revenue declines and promotes sustainable service expansion.
- Investing in technology to increase productivity and provide better services to County residents.
- Re-establishing cash reserves to address unforeseen economic needs.

To assist County leadership in its risk response, the County is organized into three lines of defense:

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, including the regulatory requirements County agencies must follow. Without managers' support, employees cannot be effective in controlling the risk they encounter.

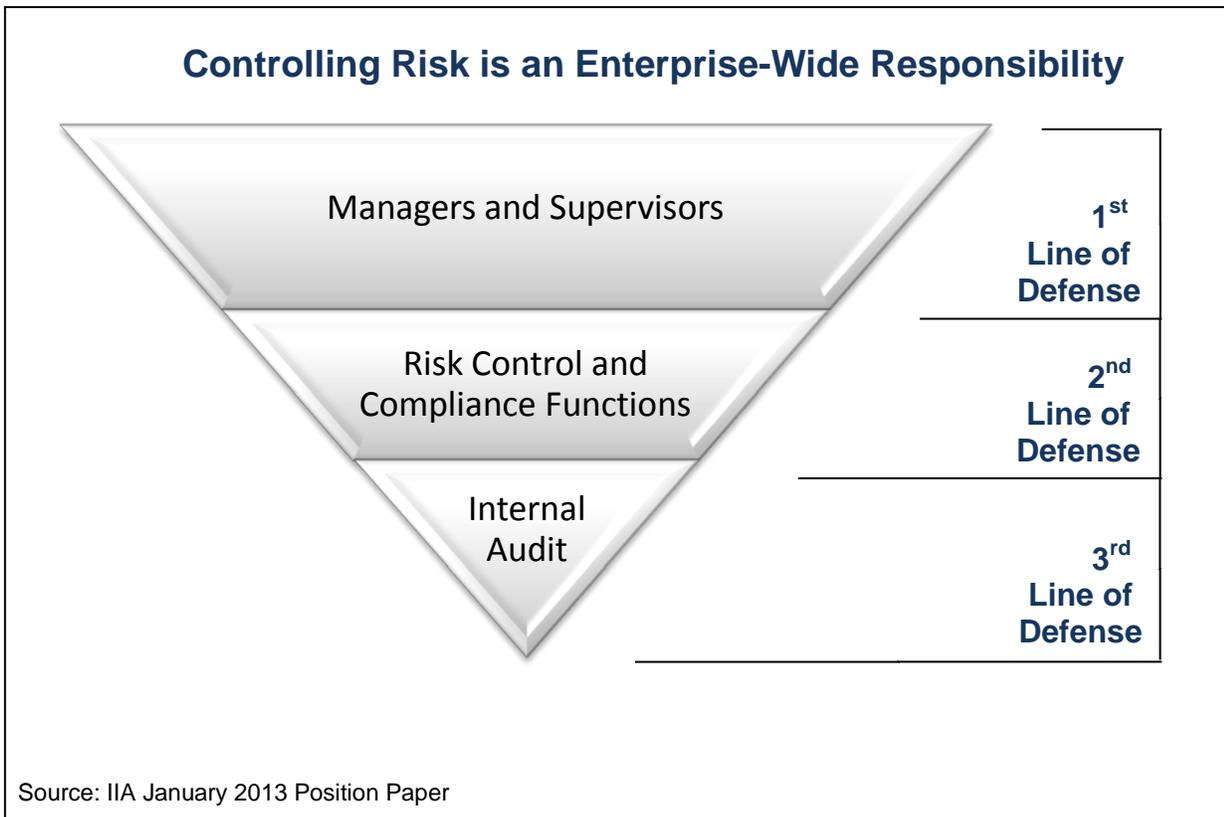
Risk control and compliance functions such as Finance, Budget, Risk Management, Procurement, Office of Enterprise Technology, and Human Resources, are the second line of defense. They are the facilitators who oversee risk and monitor Countywide risk management practices.

Internal Audit is the third line of defense, along with other County, State, and Federal auditors and regulators, such as the Arizona State Auditor General. These evaluators audit the effectiveness of the following County activities:

¹ FY 2014 CAFR – Management Discussion & Analysis; FY 2016 Tentative Budget Presentation, and 2015 Chairman's Address

- Risk Management – identifying, assessing, and prioritizing risks.
- Governance – managing the balance between business strategy and risk.
- Internal Controls – implementing processes to increase the likelihood that business objectives are met.

Internal Audit evaluates how effective these lines of defense are in achieving risk management and control objectives.



Ethics and Fraud

The lines of defense shown above are reinforced by fraud prevention efforts. Fraud is deliberate deception to secure unfair or unlawful gain at a business’s or individual’s expense. While fraud risk cannot be eliminated, it can be managed. Fraud prevention is addressed through sound policies and procedures, and employee training. Maricopa County management addresses fraud risk by encouraging strong ethical behavior using the following tools:

- **County Ethics Policy** – Outlines appropriate behavior.
- **County Ethics Handbook** – Offers guidance for compliance with the County Ethics Policy.
- **Additional County Policy** – Clarifies specific ethical behavior (e.g., “Acceptance of Gifts by County Employees is Prohibited”). Policies are developed and approved by designated policy teams and by County leadership to ensure current issues are addressed.

- **New Employee Orientation** – Presents appropriate ethical behavior for all newly-hired County employees.
- **County Hotline** – Provides an anonymous tip line for County employees; may be used to report fraud, waste, and abuse, or other employee issues.

The Board of Supervisors also addresses fraud risk by maintaining an Internal Audit Department. Internal Audit helps to deter fraud, waste, and abuse by promoting strong internal controls in the following ways:

- Analyzing the potential for fraud during the audit planning process
- Issuing formal and informal recommendations that may deter fraud
- Reporting significant fraud issues to the County Attorney’s Office
- Providing internal control videos and other information on its website

CURRENT COUNTY RISKS

County leadership identified employee turnover, technology investments, and State cost shifting burdens as key risks. Each of these risks impacts the entire County.

Proposition 117- Flattened Property Tax Revenue

According to Fitch Ratings, a national credit and bond rating agency, the County’s tax base growth will be tempered by a change to the property rate process brought on by Proposition 117. Property appreciation will be limited to the lesser of actual growth or 5%. This means that property tax revenue growth will be primarily limited to increases associated with new construction. Currently, property tax revenue is 40% of the County’s gross revenues. The Board of Supervisors voted to increase property tax rates in order to raise an additional \$21 million to compensate for this change in the FY 2016 budget.

Information Technology

Maricopa County budgeted \$164 million for FY 2016 information technology (IT) projects. The three costliest projects include the public radio system (\$58 million), infrastructure refresh (\$19 million), and the County telephone system (\$15 million). The County is also investing in the Enterprise Resource Planning System to integrate the Procurement, Finance, and Budget systems.

Technology Costs

Maricopa County allocated 56% of its \$295 million capital improvement budget to technology projects.

Source: Maricopa County FY 2016 Adopted Budget

Sound IT investment decisions should align with the organization’s business strategy, and be coordinated across all business units. The Capital Improvement Program review process provides County leadership with information to make strategic decisions about whether large IT projects will provide the value anticipated in supporting services to citizens.

Successful risk management includes adequate oversight to align IT investments to the County's business requirements. Current IT projects should be monitored to ensure that they are completed within budget (both time and money), and conform to business requirements.

State Cost Shifting Burdens

Budgeted state mandates (costs and responsibility for providing services shifted from State to County government) have increased in the FY 2016 budget by \$14 million (1% of general operations). Human Services grants from the State were reduced by approximately \$3 million in the FY 2016 budget, placing an added burden on the General Fund to continue to provide services. The County will also experience additional costs for the Arizona Department of Juvenile Corrections to house County juvenile detainees (\$7 million), Department of Revenue costs to collect and distribute sales taxes (\$4 million), and for the Presidential Preference Election (\$2 million). These items had previously been paid for by the State of Arizona. Cost shifting results in increased County costs that reduce the County's capacity to provide needed services to citizens.

Employee Turnover

The County's employee turnover rate from FY 2012 through FY 2014 exceeded 12.5% on average. In 2014, the Board of Supervisors approved updated salary and job requirements in five employment areas where turnover had been particularly high.

In addition to employee turnover risks, 21% of County employees are eligible for retirement in the next five years. Twenty-nine percent of these employees are leaders (elected officials, executives, managers, and supervisors). This risk may be heightened if funding is not available to replace retiring employees with equally qualified staff.

Without proper agency planning, the quality of services may suffer if a large number of seasoned employees leave County employment. This risk is heightened if agency business processes are not adequately documented.

Why Succession Planning?

If qualified candidates aren't on staff and ready to assume vital roles on short notice, a firm's overall productivity and its ability to pursue new opportunities may be at risk.

Source: Robert Half Management Resources

FREQUENCY OF INTERNAL AUDITS

Risk appetite can be defined as the level of risk an organization is prepared to accept before taking action to reduce it. County leaders' risk appetite influences the level of audit resources they will make available to address the County's risk. For example, in 2011, the Board of Supervisors allocated additional funds for the auditing of law enforcement activities, which are now audited annually. Additional resources can increase audit frequency, which can help lower organizational risk. If an area is not audited for a long period of time, control weaknesses may go undetected, thus increasing organizational risk. A well-staffed internal audit function, regularly auditing high-risk areas, can help lower risk, and can be a deterrent to fraud, waste, and abuse. Most County leaders stated that the current internal audit frequency (on average 6.5-7.5 years) was acceptable to them. However, they would be in favor of increasing audit frequency as the County's financial condition improves. Examples of audits, based on risk level are shown on the following page.

Audits by Risk Level



Audit Risk Assessment Process

The risk assessment process starts the annual audit cycle and involves assigning each County agency a risk level based on several factors such as budget size, financial impact, and leadership input. Internal Audit balances the resulting risk levels with its current audit resources to prepare the annual audit plan.

Annual Audit Cycle



Internal Audit starts the risk assessment process by updating its list of all auditable areas (Audit Universe – see page 9). It compiles the list by reviewing the County’s organization chart, budget book, financial data, and Comprehensive Annual Financial Report (CAFR) audited by the Arizona State Auditor General. Included in the list are areas that require audits on a regular basis (mandated audits). For example, the Arizona Supreme Court requires accounting reviews of all Justice Courts, the Clerk of the Superior Court, and Court Departments every three years. Using a list of auditable areas, Internal Audit assesses risk level (high, medium, or low) by analyzing conditions that can impair the County’s ability to achieve its key objectives. Internal Audit uses the factors below to assess risk.

Factors That Influence Risk Level



Once risk levels are assigned, Internal Audit develops a draft audit plan for the upcoming year by:

- Comparing risk levels with the length of time that has elapsed since the most recent audit of each area. Areas with longer audit intervals receive additional consideration for the audit plan because of potential risks.
- Calculating available audit resources based upon size of audit staff.
- Estimating and assigning audit resources needed for priority audit areas.
- Discussing the draft audit plan with the County’s Citizen’s Audit Advisory Committee.
- Discussing the draft audit plan with County leadership; making adjustments as needed.

After the draft audit plan has been prepared and reviewed, Internal Audit seeks formal Board approval for the audit plan prior to the start of the new fiscal year.

AUDIT RESOURCES

Acting under the Board’s authority, Internal Audit reviews controls that County management has implemented to address and mitigate risk. Internal Audit’s body of work provides observations and recommendations that assist the Board in making decisions that govern the County. Internal Audit completes its annual audit plan using internal staff and external specialists as shown below:



FY 2016 BOARD APPROVED AUDIT PLAN

Agency Audits

Medical Examiner
Parks and Recreation
Protective Services
Public Health
Sheriff’s Office:

- Crime Lab
- Inmate Funds and Programs
- Information and Technology

Countywide Audits

Expenditures
Contracts/IGAs/Grants
Information Technology:

- ERP Review
- Cybersecurity Assessment

Single Audit Monitoring
Special Requests
Travel

Accounting Reviews

Adult Probation
Arrowhead Justice Court
Country Meadows Justice Court
East Mesa Justice Court
Hassayampa Justice Court
Ironwood Justice Court
Manistee Justice Court
North Mesa Justice Court
North Valley Justice Court
West Mesa Justice Court

Non-Audit Reports

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

AUDIT UNIVERSE

FY 2014 Audits	FY 2015 Audits	FY 2016 Audits
<u>Operational Audit Areas</u>		
Adult Probation - Administration/Accounting		BOS Clerk - Meeting Management
Adult Probation - Assessment/Development		BOS Clerk - Special Districts
Adult Probation - Community Supervision		BOS Clerk - Statutory Services
Adult Probation - IT Systems		Business Strategies - Benefits and Wellness
Adult Probation - Other Activities		Business Strategies - Economic Develop
Air Quality - Compliance & Enforcement		Business Strategies - Other Activities
Air Quality - IT Systems		Business Strategies - Ryan White
Air Quality - Monitoring		Capital Improvement Program
Air Quality - One Stop Shop		Clerk of the Superior Court - Court Records
Air Quality - Other Activities		Clerk of the Superior Court - Fiduciary Svcs
Air Quality - Permitting		Clerk of the Superior Crt - Finance/Acctg
Air Quality - Trip Reduction/Vehicle Retrofit		Clerk of the Superior Court - IT Systems
Animal Care & Control - Adoptions		Clerk of the Superior Court - Other Activities
Animal Care & Control - Comm Outreach		Clerk of the Superior Court - Public Records
Animal Care & Control - Field/Facilities		Constables
Animal Care & Control - Finances		Contract Counsel
Animal Care & Control - IT Systems		Correctional Health - Clinics & Medications
Animal Care & Control - Licensing		Correctional Health - Info Technology
Animal Care & Control - Other Activities		Correctional Health - Inmate Hlth Assess
Animal Care & Control - Revenues		Correctional Health - Other Activities
Animal Care & Control - Shelter Operations		Correctional Health - Pre-Booking/Intake
Assessor - Administration/Records		Correctional Health - Procurement
Assessor - GIS/Mapping		County Attorney - Administration/Finance
Assessor - IT Systems		County Attorney - Check Enforcement
Assessor - Other Activities		County Attorney - County Counsel
Assessor - Personal Property		County Attorney - Enforcement Support
Assessor - Real Property		County Attorney - IT Systems
Board of Supervisors (BOS)		County Attorney - Other Activities
BOS Clerk - Information Services		County Attorney - Prevention/Victims
		County Attorney - Prosecution

County Attorney - RICO	Facilities Management - Development
County Call Center	Facilities Management - IT Systems
County Manager's Office	Facilities Management - Maintenance
Education Services - Consortium	Facilities Management - Operations
Education Services - Educ Support Svcs	Facilities Management - Other Activities
Education Services - Small Schools	Finance - 1099/Vendor Registration
Education Services - IT Systems	Finance - Collections
Education Services - Other Activities	Finance - Electronic Document Mgmt
Education Services - School Dist Elections	Finance - Financial Reporting
Education Services - School District Payroll	Finance - Financial Services
Elections - Ballot Preparation	Finance - Industrial Development Authority
Elections - Ballot Tabulation	Finance - IT Systems
Elections - Candidate Filing	Finance - Other Activities
Elections - IT Systems	Finance - Payment Processing
Elections - Other Activities	Finance - Real Estate
Elections - Voter Registration	Flood Control - Capital Improvement
Emergency Management - IT Systems	Flood Control - Flood Hazard Plan
Emergency Management - Other Activities	Flood Control - IT Systems
Emergency Management - Preparedness	Flood Control - Other Activities
Emergency Mgmt - Response/Recov	Flood Control - Permitting
Environmental Services - Business Services	Green Government
Environmental Services - Env Enforcement	Housing - IT Systems
Environmental Services - Env Health	Housing - Other Activities
Environmental Services - IT Systems	Housing - Public Housing
Environmental Services - Other Activities	Housing - Section 3
Environmental Services - Vector Control	Housing - Section 8
Environmental Services - Water/Waste	Human Resources - Compensation
Equipment Services - Fleet Management	Human Resources - Background Checks
Equipment Services - Fuel	Human Resources - Laws and Regulations
Equipment Services - IT Systems	Human Resources - Confidential Records
Equipment Services - Maintenance	Human Resources - Employee Development
Equipment Services - Other Activities	Human Resources - Employee Relations
Equipment Services - Parts	Human Resources - Emp Svcs & Diversity

Human Resources - FMLA/ADA	Juvenile Probation - Supervision
Human Resource - FSLA	Legal Advocate - Contracts
Human Resources - IT Systems	Legal Advocate - Other Activities
Human Resources - Merit Commission	Legal Defender - Contracts
Human Resources - Other Activities	Legal Defender - IT Systems
Human Resources - Payroll	Legal Defender - Other Activities
Human Resources - Payroll System	Library District - Branch Operations
Human Resources - Records	Library District - IT Systems
Human Resources - Recruit & Hiring System	Library District - Other Activities
Human Resources - Tuition Reimb System	Library District - Support Services
Human Services - Community Services	Management & Budget - Budget Develop
Human Services - Grants	Management & Budget - CIP Oversight
Human Services - Head Start	Management & Budget - IT Systems
Human Services - IT Systems	Management & Budget - Other Activities
Human Services - Neighbor Stabilization	MCSO - Aviation
Human Services - Other Activities	MCSO - Cash Management
Human Services - Senior Adult Living	MCSO - Communications
Human Services - Special Transport Svcs	MCSO - Contracts
Human Services - Workforce Development	MCSO - Crime Lab
Innovation and Collaboration	MCSO - Central Intake
Integrated Criminal Justice Info System	MCSO - Detention Classification
Internal Audit	MCSO - Detention Jail Centers
Justice Courts - Administration	MCSO - Detention Jail Management System
Justice Courts - Collections	MCSO - Detention Capital Improvement
Justice Courts - Finance/Accounting*	MCSO - Detention Custody Support
Justice Courts - Other Activities	MCSO - Detention Food Factory
Justice System Planning	MCSO - Detention Institutional Services
Juvenile Probation - Administration	MCSO - Detention Inmate Fund/Canteen
Juvenile Probation - Detention	MCSO - Detention Inmate Programs
Juvenile Probation - Diversion	MCSO - Data Center
Juvenile Probation - Finance/Accounting	MCSO - Enforcement - Major Crimes
Juvenile Probation - IT Systems/iCIS	MCSO - Enforcement - Special Investigations
Juvenile Probation - Other Activities	

MCSO - Enforcement – Intelligence

MCSO - Enforcement Support

MCSO - Expenditures

MCSO - Extradition

MCSO - Fleet Management

MCSO - Human Resources

MCSO - Internal Affairs

MCSO - IT Bureau

MCSO - IT Governance

MCSO – IT Projects

MCSO - Network Security

MCSO - Jail Per Diem

MCSO - Jail Utilization

MCSO - Judicial Enforcement - Pawn Shops

MCSO Judicial Enforcement - Warrants

MCSO Judicial Enforcement - Property
Collections and Auctions

MCSO - Laws and Regulations

MCSO - Other Activities

MCSO - Patrol Division

MCSO - Patrol IGAs

MCSO - Patrol IT Systems

MCSO - Payroll

MCSO - Property & Evidence

MCSO - Property & Evidence Mgmt System

MCSO - Records, Warrants, and IDs

MCSO - Records Management Systems

MCSO - Revenue & Business Services

MCSO - RICO

MCSO - SWAT and K9

MCSO - Training Division

MCSO – Training Management System

MCSO - Warehouse/Surplus

MCSO - Weapons & Ammunition

Medical Examiner - Investigations

Medical Examiner - IT Systems

Medical Examiner - Lab Services

Medical Examiner - Medical Exams

Medical Examiner - Other Activities

Non-Dept - Capital Projects

Non-Dept - Contingency

Non-Dept - Infrastructure

Non-Dept - Other Activities

Non-Dept - State Contributions/MOE

Non-Dept - Taxes

OET (Enterprise Technology) - Application
Development & Support

OET - Business Analysis

OET - Business Integration Services

OET - Data Centers

OET - Data Loss Prevention

OET - End User Security Awareness

OET - Geographic Information Services

OET - Help Desk

OET - Human Resources

OET - Incident Response

OET - Information Security Governance

OET - IT Asset Management

OET - IT Contracts

OET - IT Risk Management

OET - IT Strategic Planning

OET - Management Services (Finance)

OET - Mobile Devices

OET - Operating System Security

OET - PC/LAN Support

OET - Security Architecture

OET - Service Level Agreements	Public Fiduciary - Case Management
OET - Technology CIP Projects	Public Fiduciary - Contracts
OET - Telecommunications	Public Fiduciary - Decedent Services
OET - Virtual Desktop Infrastructure	Public Fiduciary - Financial Management
OET - Wireless/Radio	Public Fiduciary - Investigations
Office of Communications	Public Fiduciary - IT Systems
OPS (Procurement Svcs) - Contract Monitor	Public Fiduciary - Other Activities
OPS - IT Systems	Public Health - Clinical Services
OPS - Other Activities	Public Health - Community Health Services
OPS - Procurement	Public Health - Comm Support/Education
OPS - Purchasing Cards	Public Health - Disease Control
OPS - Records Management	Public Health - IT Systems
OPS - Reprographics	Public Health - Other Activities
Parks and Rec - Fees & Other Revenues	Recorder - Document Operations
Parks and Rec - IT Systems	Recorder - IT Systems
Parks and Rec - Other Activities	Recorder - Other Activities
Parks and Rec - Parks Operations	Recorder - Public Records
Parks and Rec - Planning and Development	Research & Reporting - IT Systems
Planning and Dev - Building Permits	Research & Reporting - Other Activities
Planning and Dev - Fees	Research & Reporting - Surveys
Planning and Dev - Inspections	Risk Management - Claims
Planning and Dev - IT Systems	Risk Management - Environmental
Planning and Dev - Land Use Planning	Risk Management - IT Systems
Planning and Dev - Other Activities	Risk Management - Loss Control
Protective Services	Risk Management - Other Activities
Public Advocate - Delinquency	Risk Management - Safety
Public Advocate - Dependency	Special Projects and Public Outreach Svcs
Public Advocate - IT Systems	Stadium District - Contracts
Public Advocate - Mental Health	Stadium District - Events
Public Advocate - Other Activities	Stadium District - Facilities Management
Public Defender - Indigent Representation	Stadium District - IT Systems
Public Defender - IT Systems	Stadium District - Other Activities
Public Defender - Other Activities	Stadium District - Revenues

Superior Court - Civil Justice

Superior Court - Court Fin/Cash Handling

Superior Court - Criminal Justice

Superior Court - Family Justice

Superior Court - IT Systems

Superior Court - Juvenile Justice

Superior Court - Law Library

Superior Court - Probate/Mental Health

Superior Court - Self Service Centers

Sustainability

Transportation - Engineering

Transportation - IT Systems

Transportation - Operations & Development

Transportation - Other Activities

Transportation - Project Management

Transportation - Roadway Maintenance

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

Accounts Receivable

Annual Risk Assessment*

Audit Follow-up*

Capital Improvements

Cash

Contracts*

Contracts - Construction

Contracts - Health Care Programs

Contracts - IGAs/Other*

Cost Allocation (Internal Service Funds)

Customer Satisfaction

Data Centers/Disaster Recovery

Data Privacy and Security

E-Commerce

Exit/Entrance - New Leadership

Expenditures

Financial Condition Report*

Fixed Assets

Grant Management

Internet Usage

Inventories

IT - ERP Review

IT - Cybersecurity Assessment

IT Governance

Leases

Network Security - Active Directory

Network Security - End Point

Network Security - Mobile Client

Network Security - Virus Detection

Network Security - Web Apps

Network Security - Wireless

OnBase Work Flow and Application

Payroll

Performance Measure Certification

Procurement/Purchasing

Purchasing Cards/e-Payments

Records Retention	Revenues - Vehicle License Tax
Revenues - Franchise Fees	Single Audit Monitoring*
Revenues - Grants	Software License
Revenues - Highway User Revenue Funds	Special Requests*
Revenues - Licenses/ Permits/Fines	Travel
Revenues - Property & Sales Tax/IGA	Vehicle Usage

***On approved audit plan for FY 2014, FY 2015 and FY 2016.**