



# RISK ASSESSMENT REPORT

## Internal Audit Department

May 2018

### ***Internal Audit Analyzes County Risks to Prioritize Audit Work***

Internal Audit defines risk as the possibility that an event will occur, which will impact an organization's achievement of its objectives. While County management is responsible for managing risks by implementing strong business processes and internal controls, Internal Audit aids in the assessment of risks. Internal Audit analyzes the operating environment to identify conditions that may impair the County's ability to achieve its goals. Internal Audit performs audits to provide reasonable assurance that the controls designed to address risks are operating as intended.



This report describes the County's audit risk environment and shows how the County Auditor prioritizes audit areas and develops an annual audit plan for approval by the County Board of Supervisors (Board). The Board, as the County's governing body, determines whether resources are sufficient to implement and maintain internal controls that provide assurance the Board's strategic objectives will be met.



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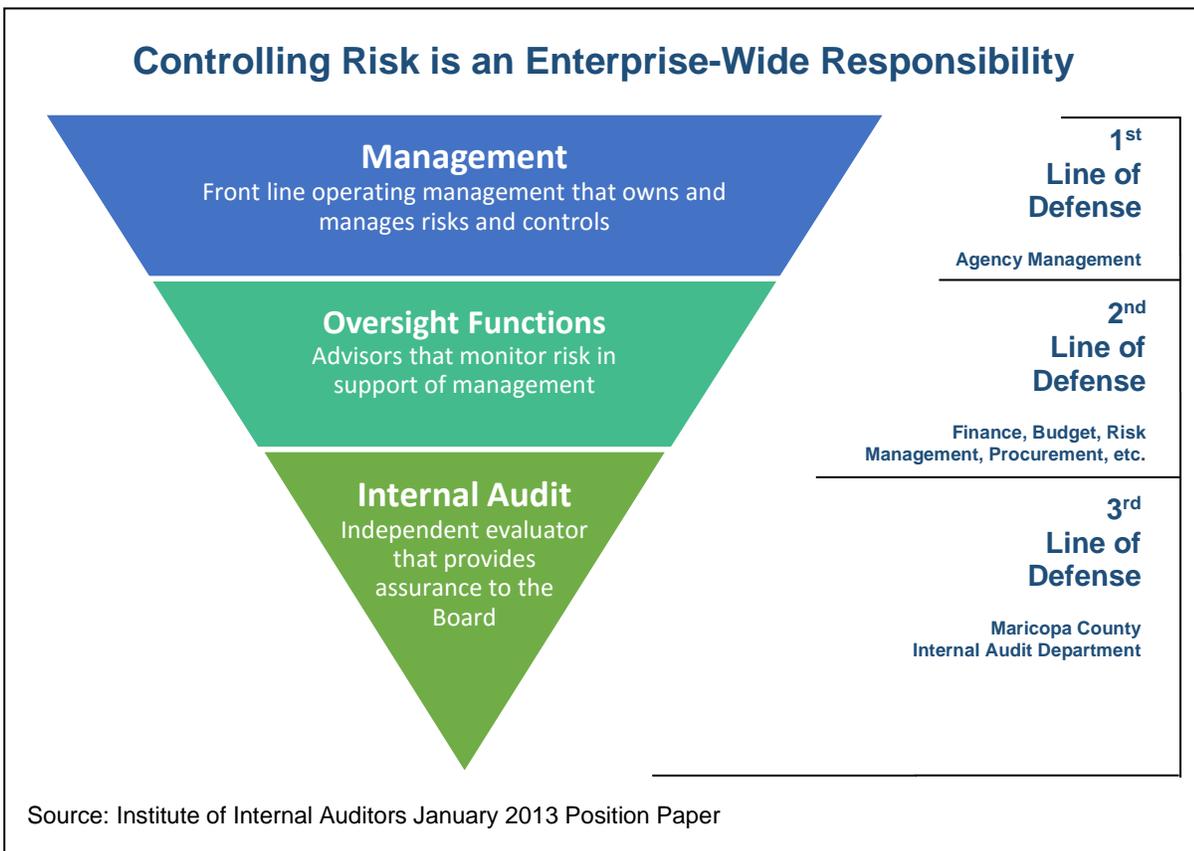
# MANAGING RISK IS EVERYONE'S RESPONSIBILITY

The Board of Supervisors establishes a five-year strategic plan to provide a road map for the future and entrusts execution of that plan to County leaders and managers. Management regularly assesses risks that can threaten the strategic plan and takes steps to ensure those risks are mitigated and managed. While this is conceptually simple, it is difficult and less precise in practice due to Maricopa County's diverse physical, financial, and operational environment that includes over 50 agencies with distinct missions and goals.



## Three Lines of Defense

The County can be viewed as having three lines of defense that collaborate and assist County leadership in assessing and responding to risk.



**Management** is the first line of defense against risk. They are the risk owners responsible for identifying, assessing, controlling, and monitoring risk on a day-to-day basis. Without management's support, employees may not be effective in controlling the risk they encounter. In a perfect world, this would be the only line of defense needed; however, in the real world, internal controls do not operate perfectly.

**Oversight functions** such as finance, budget, risk management, procurement, information technology, and human resources, are the second line of defense. They are the advisors who monitor countywide risk management practices. Several County agencies also have internal functions that serve this purpose. These activities range from quality control reporting to inspecting and reconciling County records.

**Internal Audit** is the third line of defense. Internal Audit provides reasonable assurance on the effectiveness of governance, risk management, and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives. Internal Audit “spot checks” a small number of County operations each year to ensure that management is assessing, identifying, controlling, and monitoring risks. Internal Audit also serves as a resource to managers and supervisors in identifying areas for improvement.

In addition to the three internal lines of defense discussed above, the County is subject to external reviews and audits from various regulators and independent parties. All of these parties leverage their efforts when evaluating County operations to ensure the best use of County resources.

## Ethics and Fraud

The lines of defense shown previously are reinforced by fraud prevention efforts. Fraud is an act of intentional deception to secure unfair or unlawful gain at an organization’s or individual’s expense. While fraud risk cannot be eliminated, it can be mitigated. The term fraud mitigation refers to tools or techniques used to reduce the frequency or severity of fraud.

Awareness is fundamental to fraud mitigation. Maricopa County mitigates fraud risk by encouraging strong ethical behavior and using the following tools and resources:



### County Policies

- outline appropriate and ethical behavior
- updated to ensure current issues are addressed



### Training and New Employee Orientation

- reinforce high expectations for ethical behavior



### County Hotline

- an anonymous tip line for County employees to report fraud, waste, and abuse



### Internal Audit

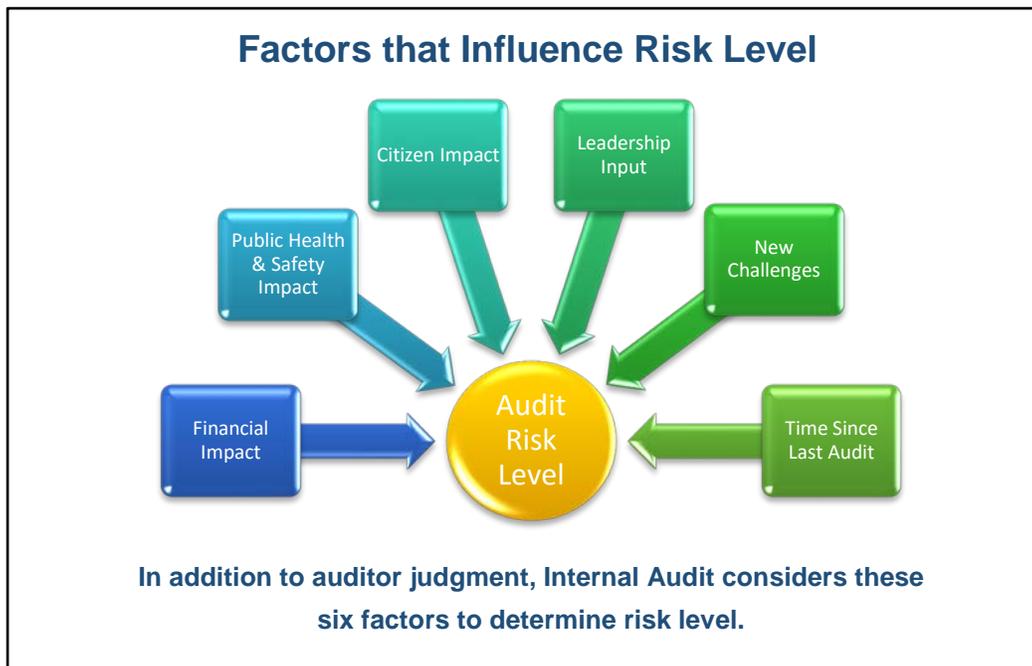
- evaluates County operations and issues recommendations that may deter fraud
- provides tools and resources to County managers, such as the [Fraud Prevention Tool](#)

## HOW RISKS INFLUENCE THE AUDIT PLAN

To comply with industry standards, Internal Audit uses a risk-based approach to develop its annual audit plan. Internal Audit attempts to quantify the possibility and consequences of risk factors. At its core, this process involves asking and answering three questions:

1. What can go wrong?
2. How likely is it to go wrong?
3. What are the consequences of it going wrong?

This is a collaborative process giving consideration to over 400 potential audit areas throughout the County. Internal Audit assigns a risk level (high, medium, or low) to each area based on several factors such as financial impact, citizen impact, and leadership input.



Input provided by County leaders revealed the following areas of concern:

**Citizen Impact Areas**

- Public Services
- Safe Communities
- Growth & Economic Development

**Government Operations Areas**

- Workforce Challenges
- Information Technology

The County’s strategic plan addresses these and other risks and leadership’s risk appetite. Risk appetite can be defined as the level of risk an organization is prepared to accept before taking action to reduce it. For example, the County may not have the latest version of a particular technology that might improve efficiency, but as long as the current technology keeps information secure and allows for the delivery of necessary services to citizens, management may choose not to take action to replace it immediately.

Once risk levels are evaluated, 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 the increased risk that control weaknesses may go undetected if an area is not audited for a long period of time.
- Considering requirements for some areas to be audited or reviewed on a mandated or defined schedule, such as every three years.
- Estimating and assigning audit resources needed to complete the work.
- Discussing the draft audit plan with the County’s Citizens’ Audit Advisory Committee.
- Discussing the draft audit plan with County leadership and making adjustments as needed.

After the draft audit plan has been prepared and reviewed, Internal Audit seeks formal Board of Supervisors approval for the audit plan prior to the start of the new fiscal year. See page 6 for the FY 2019 Board-approved audit plan.

## HOW AUDIT RESOURCES INFLUENCE THE AUDIT PLAN

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. Internal Audit’s body of work provides observations and recommendations that assist the Board in making decisions that govern the County. County leaders’ risk appetite also influences the level of audit resources. For example, in 2011, the Board of Supervisors allocated additional funds for auditing the Sheriff’s Office, an office now audited annually. While additional resources can increase audit frequency – thereby lowering organizational risk – County leaders understand that Internal Audit cannot audit all high risk areas annually and must prioritize risks based on professional judgment. Internal Audit completes its annual audit plan using internal staff and external specialists as shown below:

**Audit Resources**

- **Internal Personnel**  
20 positions (5 positions are part-time)
- **External Specialists**  
Funding for subject matter experts (law enforcement, information technology and security, engineering, healthcare, construction, investments, actuarial services, etc.)

## **FY 2019 AUDIT PLAN**

### **Agency Audits**

Air Quality – Compliance and Enforcement

Clerk of the Superior Court – Fees and System User Access Management

Education Services – Rewarding Excellence in Instruction & Leadership (REIL) Program

Emergency Management – Preparedness

Flood Control District – Intergovernmental Agreements (IGAs)

Human Resources – Employee Benefits

Human Services – Workforce Development

Sheriff's Office – Bonds, Fines, and Court Order Processing

Sheriff's Office – Data Center

Transportation – Roadway Maintenance

### **Countywide Audits**

Continuous Monitoring

Contracts/IGAs/Grants

Information Technology Risk Assessment

Legal Arizona Workers Act Compliance

Single Audit Reporting Compliance – Grant Subrecipients

Special Requests

### **Accounting Reviews**

9 Justice Courts

Adult Probation

### **Non-Audit Reports**

Annual Status Report of Audit Recommendations

Annual Audit Risk Assessment

Annual Performance Report

Citizens Financial Condition Report