



RISK ASSESSMENT REPORT

Internal Audit Department

May 2019

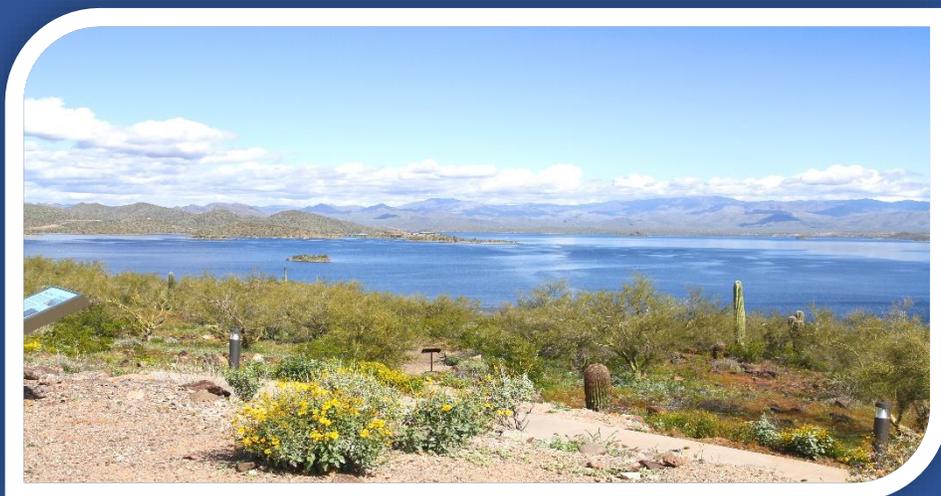
Internal Audit Analyzes County Risks to Prioritize Audit Work

Internal Audit defines risk as the possibility of an event occurring that will have an impact on the achievement of an organization's objectives.

County management is responsible for managing risks by implementing strong business processes and internal controls. Internal Audit aids in the assessment of risks by analyzing the operating environment and identifying 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 effectively.

This report describes the County's risk environment and demonstrates 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

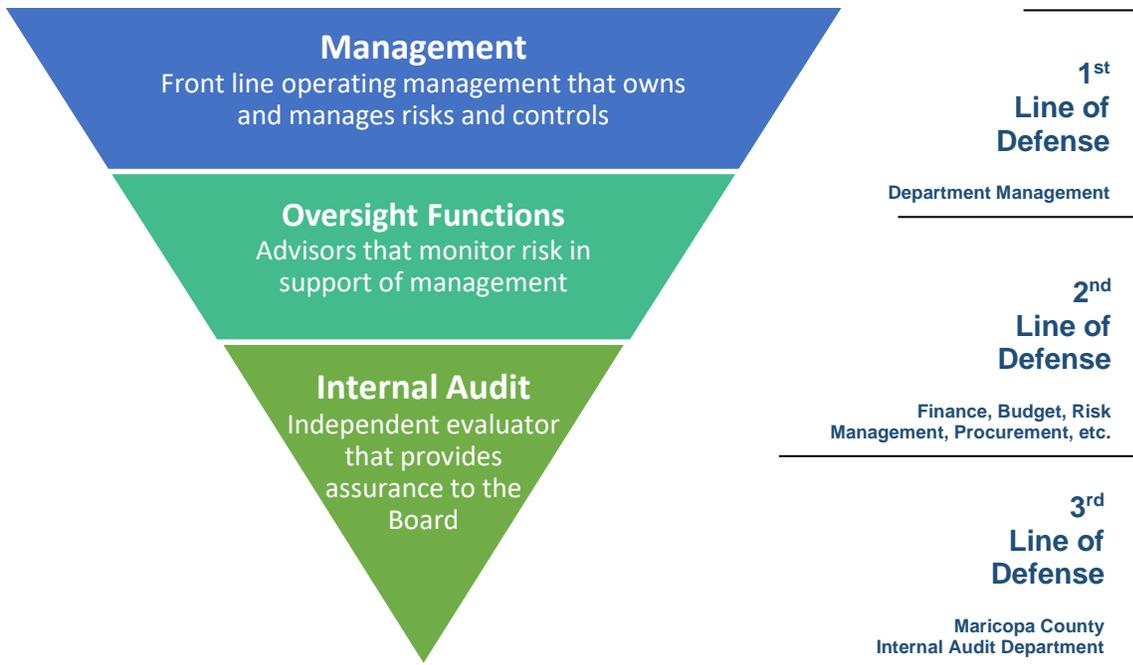
The Board of Supervisors establishes a five-year strategic plan to provide a road map for the future and entrusts execution of that plan to County leaders and managers. Management regularly assesses risks that can threaten accomplishment of the strategic plan and takes measures to ensure those risks 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.



Three Lines of Defense

To assist County leadership in its risk response, the County has three lines of defense that collaborate to assess and respond to risk.

Controlling Risk is an Enterprise-wide Responsibility



Source: *Institute of Internal Auditors January 2013 Position Paper*

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 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 reviews 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 explained 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
- address current issues through regular updates



Training and New Employee Orientation

- reinforces 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

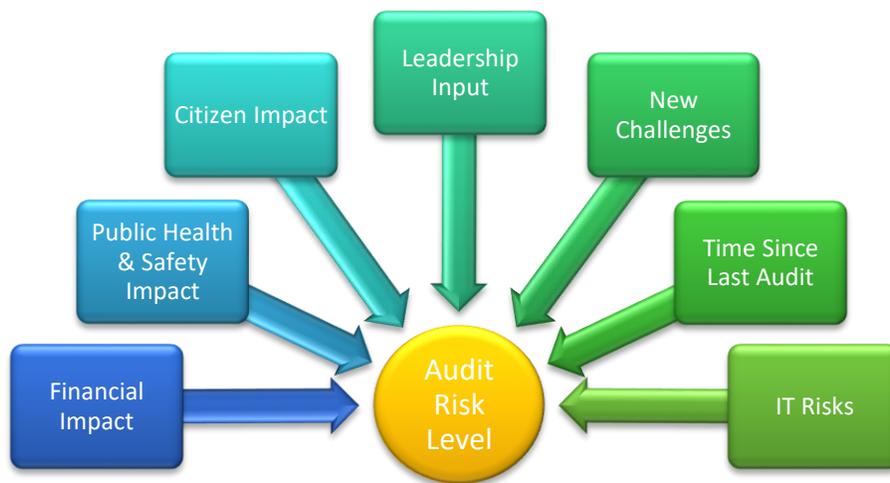
HOW RISKS INFLUENCE THE AUDIT PLAN

Internal Audit uses a risk-based approach to develop its annual audit plan, as required by professional audit standards. The risk assessment 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?

The risk assessment is a collaborative process involving 55 agencies and 83 countywide activities that encompass as many as 500 potential auditable areas. Internal Audit assigns an overall risk level (high, medium, or low) to each agency and countywide activity based on several factors, including financial and citizen impacts, and leadership input.

Factors that Influence Risk Level



**In addition to auditor judgment,
Internal Audit considers seven factors to determine overall risk level.**

Input provided by County leaders through discussion, an annual survey, and a board-approved IT risk assessment conducted during FY 2019 revealed the following areas of concern:

Citizen Impact Areas

Public Health & Safety
Infrastructure and Service Capacity
Growth & Economic Development

Government Operations Areas

Legal and Compliance
Recruitment, Retention, and Succession Planning
Service Quality & Efficiency

Information Technology

Business Continuity & Disaster Recovery
Business Operations Support

Data Privacy Protection
IT Risk Identification & Management

Overall Risk Rating

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

- Weighing risk levels with the length of time that has elapsed since the most recent audit of each area. Risk increases with longer audit intervals because processes, people, and risks change over time and internal controls may no longer be effective.
- Considering requirements for some areas to be audited or reviewed on a mandated or defined schedule.
- 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.

After the draft audit plan has been prepared and reviewed, Internal Audit seeks formal approval for the audit plan from the Board prior to the start of the new fiscal year. The FY 2020 Board-approved audit plan is on page six.

HOW AUDIT RESOURCES INFLUENCE THE AUDIT PLAN

A well-staffed internal audit function that regularly audits high-risk areas reduces risk, and can deter costly activities such as fraud, waste, and non-compliance. 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 allocated additional funds for auditing the Sheriff's Office, an agency 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, including:

2 Managers

4 Supervisors

8 Senior Auditors

4 Internal Auditors

- **External Specialists**

Funding for subject matter experts (e.g., law enforcement, information technology and security, engineering, healthcare, construction, investments, actuarial services)

Maricopa County Fiscal Year 2020 Audit Plan

Agency Audits

Correctional Health Services – Clinic Services
Library District – Information Technology
Planning and Development – Information Technology
Planning and Development – Permitting Services
Public Fiduciary – Guardianship Services
Public Health – Information Technology
Real Estate Department – Asset Management
Recorder and Elections – Elections Readiness
Sheriff's Office – Detention

Countywide Audits

Budget Special Requests
Contracts – Construction and Other Contracts
Legal Arizona Workers Act Compliance
Purchase Order Governance and Controls
Revenues – Fines, Forfeits, and Charges for Services
Single Audit Reporting Compliance – Grant Subrecipients
Special Requests

Continuous Monitoring

Capital Improvement Projects
Cellular Device Management
P-Cards
Other Areas as Determined

Accounting Reviews

9 Justice Courts
Juvenile Probation Department

Non-Audit Reports

Audit Recommendations Status Report
Citizens' Financial Condition Report
Countywide Risk Assessment
Internal Audit Department Performance Report