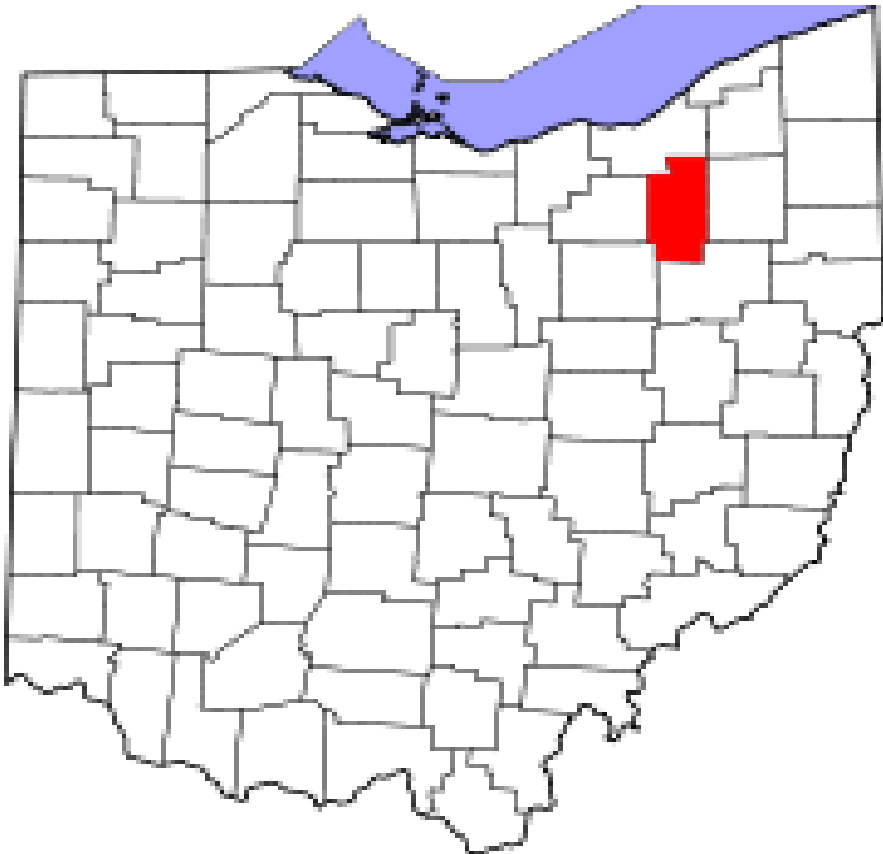


Summit County Internal Audit Department (IAD)

Fiscal Year 2011 Annual Report



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Director

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Mission

Internal Audit's mission is to recognize and address the risks and vulnerabilities that can impact Summit County in order to assist, coordinate and facilitate positive change and promote sound practices for all Countywide operations while ensuring that the resources entrusted to County offices, courts, boards and commissions, and agencies are used efficiently, effectively, and appropriately.

Services

The Internal Audit Department (IAD) provides auditing services, investigations, information and research, best practices, training, and advisory services to the various offices, courts, boards, and agencies that make up Summit County government. In addition, the Audit Committee has approved marketing the Internal Audit Department's services to other local governments and non-profits, both inside and outside of Summit County.

Organizational Independence

The Summit County Internal Audit Department reports directly to the Summit County Audit Committee. In 2007 and 2010, IAD underwent a Peer Review of its operations performed by the Association of Local Government Auditors. The reviewers conveyed to IAD that the composition of the Audit Committee, which includes two resident members who must have knowledge and/or expertise in auditing and financial practices, permits independence standards' compliance.

Audit Standards and Ethics

IAD adheres to the standards promulgated by the U.S. Government Accountability Office (GAO) and The Institute of Internal Auditor's code of ethics. IAD expects each member of the department to demonstrate high standards of conduct and ethics as well as appropriate judgment and discretion.

Policy Statement

The Internal Audit Department is an independent appraisal activity that examines and evaluates County activities as a service to management and as directed by the Summit County Audit Committee. The primary objective of the IAD is to assist management and the Audit Committee in the effective discharge of their responsibilities by assessing the adequacy and effectiveness of controls and reviewing the quality of performance in achieving the County's objectives and goals. To this end, IAD will furnish management and the Audit Committee with analysis, recommendations, counsel, and information concerning the activities reviewed. In carrying out their responsibilities, members of the IAD will have full, free, and unrestricted access to all County activities, records, property, and personnel.

Internal audit is a staff function (advisory in nature) and does not have the authority to change operating practices, procedures, or personnel. It is to observe operations as they are, report their findings and make recommendations to management and the Summit County Audit Committee.

The IAD can review and test operations and make recommendations to ensure that the County's resources are safeguarded and used in ways that are consistent with internal policies as well as public laws and regulations. IAD has no authority to implement its recommendations or create policies and procedures or internal controls to correct its findings. Management alone has the authority to make the changes to its

operations to address performance, compliance, efficiency, and accountability to Summit County constituents. It is management's responsibility to establish internal controls and develop policies and procedures and to implement and enforce them.

The IAD has the direct responsibility to apprise management and the Audit Committee of any significant developments that they believe warrant their consideration or action. Internal audit will meet with its Audit Committee at least quarterly. The Chair of the Audit Committee or the Director of Internal Audit may initiate additional meetings.

Internal audit provides services to all governmental entities of Summit County. The IAD is assigned the following principal responsibilities:

- Determine the adequacy and effectiveness of the County's systems of internal accounting and operating controls.
- Review the reliability and integrity of financial and operational information.
- Review established systems to ensure compliance with the policies, plans, procedures, laws and regulations that could have an impact on operations.
- Review the means of safeguarding assets and verify their existence when appropriate.
- Appraise the economy and efficiency of employment of resources, identify opportunities to improve operating performance, and recommend solutions to problems where appropriate.
- Review operations and programs to determine whether results are consistent with established objective and goals and whether the operations or programs are being carried out as planned.
- Provide staff guidance to operating units on matters relating to audit and internal controls.
- Coordinate audit work with the county's external public accounting firm and/or the Ohio Auditor of State.
- Interact with all County governmental units coming under external audit for various Federal and State programs, including initial phase (questionnaire response), entrance and closing conferences, and negotiation stage if applicable.
- Obtain and review all external audit reports.
- Work with County entities during any external audit rebuttal process.

Audit reports, when appropriate, will provide a general evaluation of the system of internal controls together with detailed findings, comments and recommendations for improvement.

The audit findings are reviewed at the conclusion of each audit with the appropriate management and/or elected official. Management is expected to indicate their acknowledgement as to factual content of the report, although not necessarily agreeing with the evaluation, conclusions or recommendations. A management action plan (MAP) is required by the Audit Committee to address IAD's findings and recommendations and is included in the final report. The MAP must provide a timeline for implementation of the corrective actions by management.

It is the responsibility of Summit County management to follow up and ensure that progress is made toward correcting unsatisfactory conditions. It is IAD's responsibility to determine that corrective action is taken

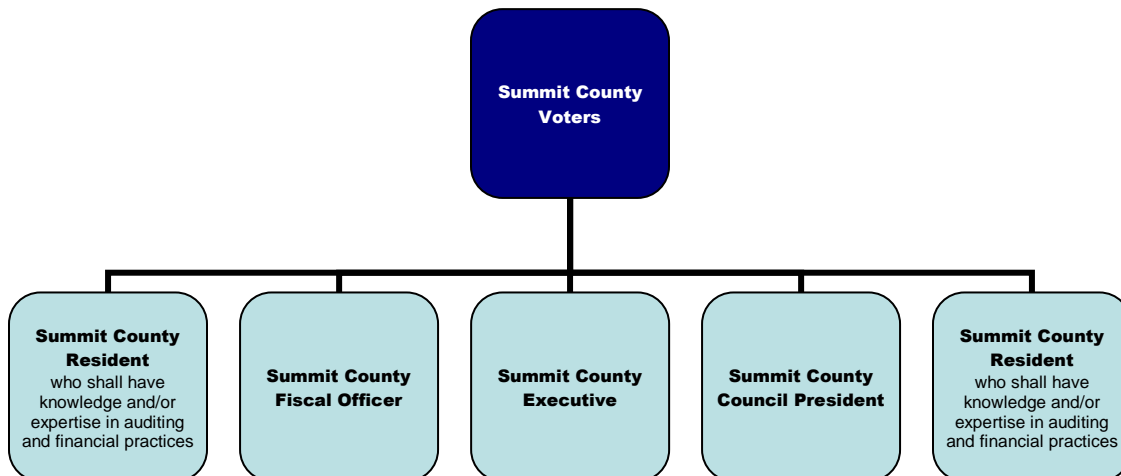
toward correcting unsatisfactory conditions and that it is having the desired results or that senior management has assumed the risk of not taking corrective action.

Summit County Charter: Article X

In 2000, Summit County underwent a special audit by the State Auditor’s office based on allegations of fraud by employees of the County. The newly elected Executive, James B. McCarthy, sponsored legislation to create an Audit Committee and Internal Audit Department to oversee the operations and performance of the County. The voters, by a resounding majority, approved it. Article X of the Summit County Charter creates the Summit County Audit Committee and Summit County Internal Audit Department (<http://www.co.summit.oh.us/InternalAudit/PDFs/IAD%20Charter%20Article%20X.pdf>).

The Summit County Charter mandates that all entities receiving county funding are subject to audit by the IAD, providing the taxpayers of Summit County with efficient, effective, and accountable operations and services.

Audit Committee Organizational Chart



Annual Work Program

IAD prepares an annual work program for review and approval by the Summit County Audit Committee. All additions, deletions, or deferrals to the annual work program are also reviewed and approved by the Audit Committee.

Staff Certifications and Professional Training

IAD is committed to providing its staff with opportunities to obtain certifications pertinent to their positions. Currently, the staff holds the following certifications.

Certified Internal Auditor (CIA)	5
Certified Fraud Examiner (CFE)	2
Certified Government Audit Professional (CGAP)	2

Certified Information Systems Auditor (CISA)	1
Certified Management Accountant (CMA)	1
Certified Internal Control Auditor (CICA)	4

In addition, annual training of 40 hours for each staff member is a requirement to fully develop their expertise and allow the auditors to remain apprised of any changes to auditing standards and methods and to fulfill the CPE requirements of any certification obtained by them.

IAD Peer Review

Internal audit departments are required by government audit standards to undergo peer reviews every three years. IAD has undergone two (2) peer reviews since its inception by the Association of Local Government Auditors. Those peer reviews were conducted in 2007 and 2010. Full compliance opinions were issued and both can be found on the IAD website.

<http://www.co.summit.oh.us/InternalAudit/internalauditAboutUs.htm>

Receiving a full compliance opinion permits the IAD to cite compliance with Generally Accepted Government Auditing Standards (GAGAS) in all of their audit reports.

Services Provided by IAD

Some of the services provided by IAD include, but are not limited to the following:

- Conduct audits
- External audit oversight
- Assistance in providing recommendations for improvement
- Audit rebuttal process
- Fraud investigations
- Transition auditing
- Grant testing
- Non-audit services
- Review of system implementations
- Services to other local government and non-profits inside and outside of Summit County
- Training

Audit Committee Directive 2004-01

In 2004, IAD requested its Audit Committee direct all County governmental units that come under external audit by State and Federal agencies to notify IAD of any and all audits, entrance and closing conferences by any outside agencies, and provide copies of all external audit reports to develop a Countywide audit repository. IAD forwarded the Audit Committee's Directive 2004-01 to all Summit County officeholders, courts, agencies, boards, and commissions on December 14, 2004.

Various County departments and agencies have found that working with IAD to address potential risk areas that may be tested before an audit by the State or Federal auditors to be of value. Upon receipt of audit reports imposing findings/penalties, IAD provides its audit expertise and works with the involved County entities during the repudiation process. Audit oversight allows various requests for best practice recommendations and testing prior to an audit by departments directly involved to help reduce possible audit penalties.

Assistance Provided on External Audits in 2011

Summit County Child Support Enforcement Agency - AUDIT REBUTAL PROCESS

IAD worked with the Summit County Child Support Enforcement Agency, Executive Office of Finance and Budget, Fiscal Office, Clerk of Courts, and Domestic Relations Court to prepare a rebuttal to the Ohio Department of Job and Family Services (ODJFS) 2006 audit of the respective agencies. IAD was able to present documentation to refute the approximately \$690,000 in audit findings and continues to be involved in the ongoing negotiations with ODJFS.

American Recovery and Reinvestment Act of 2009 (ARRA)

The stimulus funds coming from the federal government require close monitoring as stringent penalties are mandated for the misappropriation of these federal funds. IAD has reviewed the mandates for the funds received by various County departments and will continue to monitor the spending and accounting of ARRA monies throughout the fund cycles.

Specialized Services

Soap Box Derby

The All-American Soap Box Derby approached the County, asking for IAD's assistance with an in-depth audit of the All-American Soap Box Derby, the first since 2005. The County provided IAD's services as an in-kind donation in the amount of \$67,000 to the Derby to assist the financially strapped Akron icon. IAD services were outsourced to CBIZ MHM, LLC and its work turned over to the company to certify the financial statements.

IAD Coordinates Financial and A-133 Single Audits

Section 10.01 of Article X of the Summit County Charter states that the Audit Committee shall oversee internal as well as external audits. In its capacity as the operational arm of the Audit Committee, IAD works closely with the County's external auditor, hired by the Ohio Auditor of State to perform the financial audit and A-133 single audit of the County.

IAD Reduces Costs for Ohio AOS External Audits

The Ohio Auditor of State (AOS) is required by the Ohio Revised Code to perform the annual financial and A-133 single audits of Ohio counties. AOS may choose to hire independent audit firms to conduct county audits. Summit County is designated as one of these audits. Rea & Associates, Inc. was awarded the contract by the AOS to conduct these audits of Summit County.

Rea's quote for services reflected an allocation of audit fieldwork hours to IAD, thus reducing the hours spent on the audit by the firm and lowering the cost to the county by \$21,600 in 2011 and \$32,400 in 2012. IAD will assist with audit testing, upon direction from Rea, to keep Summit County's audit costs minimized.

In addition to the actual audit work, IAD will meet on a regular basis with Rea auditors if a problem arises during the audit. IAD will assist in mitigating any audit issues, providing Rea with data or

documentation as requested. Rea also provides status updates to IAD as representatives of the Audit Committee during the audit.

Audit Committee Authorizes IAD Services to Other Local Governments and Non-Profits

IAD continues to pursue its efforts in providing internal audit services to other government agencies, boards, the Ohio Auditor of State, etc. both inside and outside of the county, to help reduce costs to the county. IAD currently has a contract with a Franklin County agency to provide audit services in the amount of \$35,000 in 2012.

IAD's National Compliance Officers

Certified National Peer Reviewers

Lisa Skapura, IAD Director, and Mira Pozna, IAD Deputy Director, are certified as National Peer Reviewers of the Government Accountability Office (GAO) standards by the Association of Local Government Auditors (ALGA). They have performed several peer reviews on behalf of the organization.

Completing the peer review training and performing peer reviews of other audit departments allows IAD staff to become experts in the standards that govern the audit profession, thereby adding credence to the work of the department in Summit County.

ALGA Coordinator

In 2008, ALGA named Lisa Skapura, IAD Director, as the Red Book Coordinator for the United States and Canada. The "Red Book" is the Institute of Internal Auditors International Professional Practices Framework audit standards. Ms. Skapura has performed several Red Book peer reviews on behalf of ALGA and coordinates the scheduling of all Red Book reviews.

IAD Website

www.co.summit.oh.us/InternalAudit/Index.htm

The Audit Committee approved the creation of an internal audit website where the general audit reports and management action plans, approved by the Committee are posted. IAD launched the site on April 2, 2007. Upon approval of its Audit Committee, IAD has published all general audit reports to the website for review by the public for historical, transparency, and accountability purposes.

IAD Performance

Audits

2011 Audits & Audit Committee Approval Date

- Executive Office – Department of Law, Insurance and Risk Management (9/26/11),
- Fiscal Office – Purchasing Department (9/26/11),

- Executive Office – Department of Finance and Budget (6/21/11),
- Fiscal Office – Cash Cut-off Transition Audit (6/21/11),
- Executive Office – Department of Community and Economic Development (3/22/11).

Annual Audits

At IAD's discretion, annual audits of County credit cards and vehicle usage logs will be completed.

The County's Procurement Card program is mandated by Codified Ordinance 198 Procurement Card. Audits of the Procurement Card program are mandated by the Executive's Department of Finance and Budget Policies and Procedures. During its audit closing conference, Rea and Associates specifically mentioned these cards as an area of high risk that should be reviewed regularly.

The vehicle usage logs track the use of the County's fleet by personnel and are mandated by Codified Ordinance 169.25 Operation of a Vehicle for County of Summit Business.

2011 Annual Audits & Audit Committee Approval Date

- Vehicle Usage Log (12/19/11),
- Procurement Card Program (12/19/11).

Follow-up Audits

As audit best practice stipulates, IAD recommended the performance of follow-up audits to the Audit Committee, approximately six to nine months after an audit is completed to monitor the progress of management's action plans. IAD continues to schedule follow-up audits until the auditee has fully implemented its corrective action plan.

Management is responsible for taking timely corrective action to implement the audit recommendations made by internal and external auditors. They are responsible for communicating to IAD, on a timely basis, progress made to resolve audit issues, and management shall provide IAD with sufficient documentation to prove fully implemented audit recommendations.

2011 Follow-up Audits & Audit Committee Approval Date

- Fiscal Office – Auditor Division – Department of Tax Settlement and Budget (6/21/11),
- Executive Office – Department of Administrative Services (3/22/11).

Countywide Audits

The Countywide Accounts Payable audit began in 2010. The Fiscal Office chose to purchase a new Banner module to address a majority of the issues identified by the audit conducted. IAD reviewed the Extender module and its policies and procedures with the Fiscal Accounting Department staff and made recommendations, where applicable. An audit of the extender module will be conducted when all countywide departments and agencies are utilizing the same for a period of time.

2011 Countywide Audits & Audit Committee Approval Date

- Fiscal Office – Countywide Accounts Payable (3/22/11)

Non-Audit Services and Agreed Upon Procedures

In addition to the preliminary reviews and ongoing risk assessment, the Internal Audit Department has completed numerous projects, agreed upon procedures, and audits as requested by departments, courts, agencies, and commissions, some of which are referenced below. The scope of services is based on the amount of work and the direction received from the requesting entity.

Non-Audit Services

Child Support Enforcement Agency (CSEA) and Executive Office – Department of Job and Family Services (DJFS)

Upon completion of the 2010 CAFR audit by REA & Associates, CSEA was given a Significant Deficiency on their A-133 audit. To help mitigate the risk of having the same errors in 2011, IAD deemed it necessary to review all support cases opened in 2011. In addition, IAD felt it necessary to review related processes at DJFS, in order to provide a more complete review of the process.

Summit County DD Board Trainings

As a result of the work performed for the DD Board Agreed Upon Procedure in 2010, the agency requested that IAD conduct trainings for its staff and its providers on basic accounting practices. This training provided information on the accurate and proper monitoring and reporting of client expenses and receipts for the developmentally disabled population of the County.

Agreed Upon Procedures

Executive Office – Department of Law, Insurance, and Risk Management

A review and analysis of additions and/or changes made to medical plans that pertain to The Affordable Care Act (Young Adult) for the 2010 and 2011 enrollment years was performed. Supporting documentation was obtained and reviewed in order to verify eligibility. Instances where eligibility needed to be verified were documented and recommendations were provided for the process.

Investigations

It is the policy of IAD to investigate specific allegations of employee misconduct or allegations of fraud involving County accounts or operations. IAD will conduct these investigations in accordance with Government Auditing Standards, the Association of Certified Fraud Examiners standards, and in a manner that protects the civil rights of those who may be the subject of allegations. IAD will work in conjunction with the Sheriff or Prosecutor as dictated by its policies.

The County protects employees from retaliation, who in good faith report suspected criminal activity or the disregard of regulations or policy applicable to County activities.

2012 Work Program

At the December 19, 2011 Audit Committee meeting, IAD proposed the below six (6) month work program to the Committee for its review and approval. In addition, IAD will provide non-audit services and agreed upon procedures as requested throughout the year.

- Off CAFR Federal Funds, continuous monitoring,
- CAFR Audit (REA), assist Rea & Associates with fieldwork for the financial audit,
- Highway Patrol Retirement System, Risk assessment and auditing services,
- Fair Board, assessment of operations,

- CSB, Preliminary Audit,
- CSEA, Compliance Review,
- DFB Training, Non-Audit Service,
- DD Board, Agreed Upon Procedure,
- DOD, 1st Follow-up Audit,
- DFB, 1st Follow-up Audit,
- Insurance Dept., 1st Follow-up Audit,
- Tax Settlement, 2nd Follow-up Audit,
- DAS 2nd Follow-up Audit.

Conclusion

Current Economic Condition and Recovery Opportunities

As the County continues to recover from the economic condition that has caused government to review its options to collaborate, merge and downsize services, IAD can assist in providing recommendations to test the possibilities of economies of scale and work with entities to explore efficiencies.

IAD Service Offerings to Other Local Governments and Agencies

IAD will continue to offer auditing services and special project work to outside agencies to help reduce costs for Summit County.

IAD as a Contributing Partner in the County's Recovery

IAD audits and advises County management on operational and performance matters to help improve the efficiency of government operations and assist with implementing best practices.