

County of Fresno Internal Audit Plan

Fiscal Year 2023-24

Auditor-Controller/Treasurer-Tax Collector



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Introduction

The Auditor-Controller/Treasurer-Tax Collector's (ACTTC) Financial Reporting and Audits Division (FR&A) prepares the County's Annual Comprehensive Financial Report (ACFR) and provides a variety of accounting and financial reporting services for various funds, other governmental entities, and Fresno County as a whole. FR&A is also responsible for the internal audit function of the County. FR&A currently has 3 accountants and 1 accounting and financial manager dedicated to internal audit activities.

The plan for internal auditing allocates 7,575 productive hours to auditing tasks. Productive hours are staff hours net of anticipated leave, county holidays, new employee training, general administrative tasks, and 40 hours of continuing professional education training for each staff member. FR&A is committed to meeting and, whenever possible, exceeding professional training standards for staff.

FR&A has continued its implementation of standards promulgated by the Institute of Internal Auditors (IIA). Consistent with professional requirements and audit standards, a risk-based approach is applied to departmental financial transactions and operations, along with program compliance requirements, to determine the base work plan of what will be audited or reviewed during the current year. Objective information pertaining to the various risks is evaluated and weighed. However, auditors also use professional judgment and skepticism to ensure that resources are focused in the areas deemed the highest risk to the County.

The Internal Audit Plan is designed to be dynamic and responsive to staff level changes, the focus of leadership, and other factors that may guide the audit priorities of the County. This flexibility helps us to meet emerging and critical issues evolving in the upcoming year.

Objectives and Goals

FR&A's overall objective is to provide high quality, independent, accurate, and objective information in accordance with professional standards that support the following assertions:

- County resources are safeguarded against waste, misuse, and loss.
- Appropriate and accurate data is maintained and fairly disclosed.
- Financial processes have been appropriately designed, documented, and implemented.
- The County is compliant with applicable laws and regulations including its own policies.

FR&A places high importance on assisting with the improvement of County fiscal processes. Additionally, the FR&A division is committed to its own continuous process improvement aimed at streamlining and improving audit procedures. Audit work papers and reports are compiled and organized in electronic files.

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Fiscal Year 2023-24 Internal Audit Plan Summary:

Audit Projects

Discretionary Engagements	4,300
Transition Reviews	500
Follow-up Audits	400
Completing engagements started in FY 22/23	400

Other Audit Activity

Annual Audit Plan/Countywide Risk Assessment	200
Audit Committee Quarterly Meeting Preparation and Follow-up	200
Fraud Hotline Administration/Investigations	350
Assistance Provided to the External Auditors	300
Quality Assurance and Improvement Program/Peer Review	375
Year-end Audit Procedures	300
Cash Shortage Monitoring/Investigations	<u>250</u>

Total Internal Audit Plan hours 7,575

Staff with responsibilities for other accounting and reporting services will not be assigned to audit areas in which their independence or the appearance of independence may be impaired.

The individual components of this plan are outlined in greater detail throughout the remainder of this document.

Fiscal Year 2023-24 Internal Audit Plan Detail

1. Discretionary Engagements

Each year, certain departments and/or Special Districts will be scheduled for an audit either at the discretion of the ACTTC or Audit Committee, or as a result of risk assessment processes and procedures conducted by FR&A staff. Departments with higher risk overall or departments with business processes seen as having higher inherent risk, compared to other departments and processes, will be allotted a greater percentage of the discretionary audit hours available.

Pursuant to the risk assessment process, FR&A staff have determined a variety of specific scope audit projects. Each of the projects will have specified objectives and scope in order to utilize resources in the areas of highest risk.

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The following is the Fiscal Year 2023-24 schedule for Discretionary Engagements:

Social Services Cash Receipts	350
Social Services Assets (Capital and Sensitive)	300
ISD (Facility) Cash Disbursement	350
ISD (Facility) Fee Generated Revenue	350
ISD (Facility) Assets (Capital and Sensitive)	300
Other Discretionary Engagements (TBD)	2,150
Continuous Monitoring – Payroll Certification	500
Total Discretionary Engagement hours	<u>4,300</u>

2. Transition Reviews

Government Code Section 24051 and County Management Directive Section 418 direct the Internal Audit Unit to perform a Transitional Review when one official departs, and another assumes office.

A departmental transition review is limited in scope. The purpose of the review is to account for all property under the control of the existing County officer as well as to determine the department's compliance with established internal controls, policies, and procedures. The review will include determining the status of prior audit recommendations, accounting for cash, trust and clearing funds, fixed assets, receipts, warrants, and accounts receivable.

A limited amount of audit time is budgeted for this function each year. In the event no officials are expected to change offices, this time will be applied later in the year toward discretionary engagements. Based on the current County environment, we predict that we will perform at least two transition reviews during Fiscal Year 2023-24 and have budgeted 250 hours per transition review.

The following is the Fiscal Year 2023-24 schedule for Transition Reviews:

Total Transition Review hours	<u>500</u>
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3. Follow-up Engagements

As part of the implementation of IIA Standards, the Internal Audit function will be performing follow-up engagements for those audits performed that result in any findings being issued. The purpose of these engagements will be to ensure that any recommendations or findings are implemented in a timely manner. These follow-up engagements will occur six months from the issuance of the original report.

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Thus, it is important for Audit Committee members to review findings and recommendations within the various reports closely, as these approved reports become the basis of the follow-up engagements.

The following is the Fiscal Year 2023-24 schedule for Follow-up Audits:

Total Follow-up Audit hours 400

4. Completing Engagements Started during FY 22/23

Due to staff changes, and improvements in audit process and work paper structure, content, and formatting, three engagements that were started in FY 22/23 will be completed in FY 23/24.

Total Completing Audits started in FY 22/23 hours 400

5. Audit Plan/Countywide Risk Assessment

The Internal Audit Unit performs a Countywide Risk Assessment annually on which the plan for discretionary audits is based. The risk assessment will also be utilized to determine other procedures and/or engagements as appropriate.

Discretionary Audits will be determined based on the Risk Assessment Questionnaire, with accompanying analysis of financial information of County of Fresno Departments focusing on seven (7) business cycles: Cash Receipts, Cash Disbursements, Payroll, Assets (Capital and Sensitive), Fee Generated Revenue, Revolving Funds, and Fiduciary Funds. Risk scores are determined for each department in each of the seven business cycles. Those with the highest risk scores will be considered for further audit activity.

The risk assessment is developed by sending out questionnaires to department managers, making inquiries, directly observing, and otherwise evaluating evidence pertaining to financial transaction risks in each department. Further input may be obtained through meetings with members of the Board of Supervisors, the Audit Committee, and the County Administrative Office. Departmental Work Plans, Board of Supervisors' minutes, and any other appropriate documentation will be reviewed for relevant information.

Additional factors affecting the risk assessment include the environment, the impact and volume of financial activity, history collected from departments during prior internal and external audits, the inherent risk of certain financial transactions, and prior audit coverage. All factors including auditors' judgment will be considered and weighed in making the assessment.

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To determine the appropriate risk category, the following criteria will be considered and evaluated:

Department/Agency Changes: The Department/Agency changes criteria includes significant changes in funding, functions, systems (accounting software), key positions and/or responsibilities of the department, management turnover, and staff turnover in the seven business cycle areas listed below:

1. Assets (Capital and Sensitive)
2. Cash Disbursements
3. Cash Receipts
4. Fee Generated Revenue
5. Fiduciary Funds
6. Payroll
7. Revolving Funds

Financial Activity: Financial activity concerns the volume of transactions as well as the overall impact on the County of Fresno financial statements, i.e., the percentage change in the seven business cycles listed above in comparison to the percentage changes of all other departments.

Operating Environment: Operating environment risks include major changes in policies and procedures, degree of confidentiality of information produced or handled, instances of misappropriation of County funds or assets; computer abuse or data loss, and the extent to which the department handles cash.

Last Audit: Last audit items consider the date the department was last audited and any significant findings from previous audits.

Individual accounting, reporting, and operational processes in each department are evaluated on the preceding criteria. The information gathered as a result of this evaluation is utilized to rate the level of risk associated with each of the department's processes.

The following is the Fiscal Year 2023-24 schedule for Audit Plan/Countywide Risk Assessment:

Total Countywide Risk Assessment hours	<u>200</u>
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6. Audit Committee Meetings (Quarterly)

The responsibility of the Auditor-Controller/Treasurer-Tax Collector is to serve as staff to the Audit Committee. The Audit Committee is composed of seven (7) members and meets on a quarterly basis. Some of the responsibilities of the Audit Committee are to oversee the establishment and maintenance of the County's internal control structure, review audit results of

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County programs, and oversee and monitor County compliance with pertinent laws and regulations. The FR&A Internal Audit team is responsible for preparing the agenda, materials, and distribution memo for each of the quarterly Audit Committee meetings. The internal audit team monitors the departmental response and participation that is expected for engagement reports that are presented to the committee. The audit team also attends the meetings, prepares the minutes, and completes any follow-up tasks as assigned by the committee.

Total Audit Committee Preparation and Follow-up hours 200

7. Fraud Hotline Administration

The Fraud Hotline was established in June of 2004 and provides County employees and citizens a way to report fraudulent activity and misuse of County resources by County of Fresno government employees, managers, vendors and contractors. Those who report are not required to identify themselves.

The Fraud Hotline is part of an ongoing effort to detect and prevent fraud. FR&A monitors Fraud Hotline contacts, dispersing complaints and information to various departments and other fraud investigators such as the Welfare Fraud Unit. Information and complaints received are carefully tracked and reported. FR&A follows up on actionable complaints to ensure there is an appropriate resolution to each. Fraud Hotline activity is summarized and reported to the Audit Committee quarterly. Depending on the situation, FR&A may directly investigate a complaint.

The following is the Fiscal Year 2023-24 schedule for Fraud Hotline Administration:

Total Fraud Hotline Administration hours 350

8. Assistance Provided to the External Auditors

Government Code 26920 requires that, quarterly at a minimum, the County auditor perform or cause to be performed, a review of the Treasurer's Statement of Assets in the County treasury. The ACTTC contracts this responsibility to the County's external auditor because of their independence. Under the supervision of the external auditors, FR&A staff members assist in reviewing and reconciling the Treasurer's Statement of Assets quarterly. Additionally, depending on the needs of the external auditors, FR&A staff members assist with the performance of the annual Single Audit.

The following is the Fiscal Year 2023-24 schedule of Assistance provided to the External Auditors:

Single Audit Staff Assistance	200
Treasury Cash Count Hours	<u>100</u>
Total Assistance Provided to the External Auditors	<u>300</u>

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9. Quality Assurance and Improvement Program/Peer Review/Tracking

The Internal Audit team is responsible for the Quality Assurance and Improvement Program (QAIP) monitoring. As required by the IIA standards, the division must develop and maintain a QAIP which covers all aspects of the internal audit activity. The QAIP is designed to provide reasonable assurance to the various stakeholders of the internal audit activity that internal audit staff 1) perform attest work in accordance with its charter, which is consistent with the IIA standards, definition of internal auditing, and code of ethics, 2) operates in an effective and efficient manner, and 3) is perceived by stakeholders as adding value and improving internal audit's operations.

The Internal Audit Unit shall obtain a professional peer review in compliance with the professional standards promulgated by the IIA. Per IIA standards, the peer review shall be obtained at a minimum of once every five years. The most recent peer review was completed on November 21, 2022. This peer review was conducted by Price Paige & Company Accountancy Corporation for the fiscal years ended June 30, 2017 through June 30, 2021.

The following is the Fiscal Year 2023-24 schedule of Audit Quality Assurance/ Committee/ Peer Review/ Tracking:

Audit Quality Assurance	150
Peer Review	150
Tracking	<u>75</u>
Total Assistance Provided to this category	<u>375</u>

10. Year-End Audit Procedures

As a measure of bolstering the control structure of the County, as well as improving financial reporting, FR&A staff members are tasked with performing certain year-end procedures related to cash, inventory, and capital assets countywide. Staff members perform year-end counts of various cash funds, as well as accompany numerous departments' staff on their counts of significant inventory areas and capital assets. This aids in ensuring an accurate accounting of these assets, for purposes of both asset control and proper financial reporting.

The following is the Fiscal Year 2023-24 schedule of Year-End Audit Procedures:

Total Year-End Audit Procedures hours	<u>300</u>
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11. Cash Shortages and Overages Tracking and Investigation

The County of Fresno's Cash Manual gives ACTTC authority to manage cash shortages within the County of Fresno. Reimbursement requests for cash shortages of less than \$500 for a single incident are approved by the ACTTC. If the shortage is \$500 or more, the ACTTC must submit a report of the investigation to the Board of Supervisors with a recommendation

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of whether to replenish the shortage, and the Board may determine to replenish the shortage. Departments are required to report cash shortages and overages to FR&A on a monthly basis. This reporting is tracked, and departments are contacted if they fail to report in a particular month.

The ACTTC has placed responsibility for administration and investigation of cash shortages with FR&A. FR&A processes notifications and determines which shortages to investigate. After reviewing and processing each shortage, FR&A recommends an action on the replenishment of shorted cash funds.

The following is the Fiscal Year 2023-24 schedule for Cash Shortage Investigations:

Total Cash Overage/Shortage Tracking and Investigation hours 250

Conclusion

County executive management is responsible for establishing and maintaining the internal control processes of the County. These systems safeguard the County's assets and resources and provide for effective financial oversight and recordkeeping. Management relies on these systems and processes in managing the complexities of the government. FR&A continues to support the Board of Supervisors and the County's Executive Management in testing and reporting on their internal control systems and processes and attesting to the county's reporting. FR&A will continue to contribute to protecting and safeguarding the county's resources and assets.