

PULASKI COUNTY, ARKANSAS

PROCEDURES MANUAL—INTERNAL AUDIT ADMINISTRATIVE SERVICES



COUNT PULASKI

Pursuant to Executive Order 01-548

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PREFACE

DESCRIPTION

Internal Auditing is an independent, objective assurance and consulting activity designed to add value to and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness or risk management, control, and governance processes. It is established to examine and evaluate the adequacy and effectiveness of internal control systems and the overall quality of performance. Internal Auditing furnishes management with analyses, appraisals, recommendations, and information concerning the activities reviewed. It is a managerial control that functions by measuring and evaluating the effectiveness of established controls. Internal audits can encompass financial, performance, compliance, and operational activities.

Internal auditing reviews the control processes designed by management to assure:

- ⇒ the reliability and integrity of information;
- ⇒ compliance with policies, plan, procedures, laws and regulations;
- ⇒ safeguarding of assets;
- ⇒ economical and efficient use of resources;
- ⇒ accomplishment of established goals and objectives for operations or programs.

RESPONSIBILITY

The responsibility of internal auditing activity is clearly established by management policy. The related authority provides the internal auditor full access to all of the organization's records, properties, and personnel used for the activity under review. The internal auditor works with county departments to ensure that they are prepared for annual external audits, and, at the request of the departments, to perform specific internal audit projects or reviews to assist the department heads in ensuring that their programs are complying with applicable requirements and procedures. That is, sometimes a department head may request internal audit to review a situation independent of preparation for the external audit.

INDEPENDENCE

Independence is essential to the effectiveness of internal auditing. The auditor must be independent of the activities being audited. This independence is obtained primarily through organizational status and objectivity:

- ⇒ The organizational status of the internal auditing function and the support accorded to it by management is major determinants of its range and value. The head of the internal auditing function, therefore, is responsible to the Director of Administrative Services whose authority is sufficient to assure both broad ranges of audit coverage and the adequate consideration of an effective action on the audit findings and recommendations.

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- ⇒ Objectivity is an independent mental attitude that requires internal auditors to perform engagements in such manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.
- ⇒ Objectivity is essential to the audit function. Therefore, an internal auditor should not develop and install procedures, prepare records, or engage in any other activity that could be construed to compromise the independence of the internal auditor. The internal auditor's objectivity need not be adversely affected however, by determining and recommending standards of control to be applied in the development of the systems and procedures being reviewed standards of control for systems or reviews procedures before they are implemented.

CHAPTER 1 - INTRODUCTION

1.1 STATEMENT OF PURPOSE

This manual specifies controls and procedures to be used by Pulaski County Internal Auditing. Pulaski County Internal Auditing develops and administers internal auditing procedures for all accounting processes within Pulaski County Departments and grant programs managed by Pulaski County. Internal controls and procedures will conform to the Institute of Internal Auditor (IIA) Standards for the Professional Practice of Internal Auditing (June 2000), Government Auditing Standards (GAS 1994 Revision as amended), Pulaski County Grant Administrative Procedures Manual and Ordinances/Resolutions adopted by Pulaski County Quorum Court.

Certain laws, regulations, and contracts require auditors to follow generally accepted government auditing standards. These standards are broad statements of auditors' responsibilities.

1.2 MISSION

Pulaski County Internal Auditing provides a structure that supports programs and functions of Pulaski County. This structure provides accountability for current and future programs.

To provide a structure, Internal Auditors will follow these steps:

1. Research the department
2. Review the prior internal and external audits
3. Interview the department director or representative
4. Prepare audit plan
5. Conduct Audit
6. Draft Audit Report
7. Exit Conference
8. Final Audit Report

1.3 OBJECTIVES AND SCOPE

The primary objective of internal auditing is maintain the fiscal integrity of Pulaski County and to conduct audits that will ensure compliance with policies, procedures, laws, and regulations.

The scope of internal auditing is to examine and evaluate the departments' system of internal control utilized in carrying out assigned responsibilities.

CHAPTER 2 – COLLECTION OF DEPARTMENTAL INFORMATION

2.1 SCHEDULE AND REQUEST FOR AUDIT

Internal Auditing will schedule audits for Pulaski County and grant funded departments. Audit schedules will be determined by requirements of existing contractual agreements, requirement of grantors, and funding agencies. Pulaski County Judge/CEO Pulaski County Quorum Court and Department Heads may also request audits. The audits requested can be of a general nature for Internal Audit to review all areas, or the request may be specific in nature. Whatever the area of request, it will ultimately be the decision of the Internal Auditor assigned what parameters will be reviewed and to what extent as required by the *GAGAS (generally accepted government auditing standards)*.

2.2 COLLECTION OF INFORMATION

Once a schedule has been established or a request is received to perform an audit, information must be collected that will supply the internal auditor with knowledge of the specific or unique environment in which the department being audited operates. To insure this knowledge the following information will be collected for the department being audited:

1. Department Number;
2. Department Title;
3. Department Head, Director, Administrator;
4. Purpose of Department, or, if grant, Specific Grant Purpose;
5. The statutory authority and responsibilities of the Department;
6. The current budget;
7. Identity of staff and level of authority;
8. Determination of any item in the previous audits that require follow-up on the status of any findings;
9. Review of previous audits to determine if any material weakness for the department were disclosed in any of the reports.

2.3 ESTABLISHING AUDIT FILE

A file will be established for each department audited and maintained in Internal Audit. The contents of the file will be as follows:

1. Preliminary information obtained in the collection of information.
2. Copy of Grant Proposal or Contract (if grant department).
3. Working Papers obtained during audit.
4. Report submitted to department.
5. Follow-up information in response to report.

All information for subsequent audits will be maintained in the same folder and designated by dates of the audit with a separator sheet placed in the file between each specific audit.

CHAPTER 3- DETERMINATION OF AUDIT TYPE

3.1 PURPOSE

This Chapter gives an overview of the types of audits the County Auditor's Office may perform. Financial and performance audits overview is described within the general accepted governmental auditing standards. Audits may be conducted on programs, activities, functions, funds, etc. The audit begins with an objective or mission. If the audit is being requested by a Department Head, an objective or mission may be stated within their request. If the audit being performed is required by a contract or grant award, the objective or mission may be stated within the contract documentation.

3.2 TYPES OF AUDITS

The types of audits that may be performed by the County Auditor's Office are financial, performance, operational, and compliance. The audits will independently determine whether:

- ◇ activities and programs being implemented have been properly authorized;
- ◇ activities and programs are being conducted in a manner contemplated to accomplish the objectives intended by the Quorum Court, CEO, and/or grantor when applicable;
- ◇ activities or programs are performed in an efficient and effective manner;
- ◇ tasks and functions are performed in compliance with applicable laws, policies, procedures, and guidelines set by grantor;
- ◇ revenues are being properly collected, deposited, and accounted for;
- ◇ resources, including funds, property, and personnel, are adequately safeguarded, controlled, and used in a faithful, effective, and efficient manner;
- ◇ during the course of audit work, there are no indications of fraud, abuse, or illegal acts;
- ◇ management has established adequate operating and administrative procedures and practices, systems, or accounting internal control systems and administrative controls.

3.2.1 Financial Audits¹

Financial Audits include financial statements and financial related audits.

- a. Financial statement audits provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (*GAAP*).

¹ The Government Auditing Standards, 1994 Revision Chapter 2.4 - 2.5

CHAPTER 3. DETERMINATION OF AUDIT TYPE

- b. Financial related audits include determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the department has adhered to specific financial compliance requirements or (3) the department's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

Financial related audits may, for example, include audits of the following items:

- a. Segments of Financial statements; financial information—statement of revenue and expenses, statement of cash receipts and disbursements, statement of fixed assets; budget requests; and variances between estimated and actual financial performance.
- b. Internal controls over compliance with laws and regulations, such as those governing the (1) bidding, (2) accounting, and (3) reporting requirements on grants and contracts (including proposals, amounts billed, amounts due on termination claims, and so forth).
- c. Internal controls over financial reporting and/or safeguarding assets, including controls using computer-based systems.
- d. Compliance with laws and regulations and allegations of fraud.

3.2.2 Performance Audits²

A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function. The audit is performed in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

Performance audits include economy and efficiency and program audits.

- a. Economy and efficiency audits include determining (1) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (3) whether the department has complied with laws and regulations on matters of economy and efficiency.
- b. Program audits include determining (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved (2) the effectiveness of organizations, programs, activities, or functions, and (3) whether the entity has complied with significant laws and regulations applicable to the program.

² The Government Auditing Standards, 1994 Revision Chapter 2.6 - 2.9

CHAPTER 3. DETERMINATION OF AUDIT TYPE

Economy and efficiency audits may, for example, consider whether the entity

- a. is following sound procurement practices;
- b. is acquiring the appropriate type, quality, and amount of resources at an appropriate cost;
- c. is properly protecting and maintaining resources;
- d. is avoiding duplication of effort by employees and work that serves little or no purpose;
- e. is avoiding idleness and overstaffing;
- f. is using efficient operating procedures;
- g. is using the optimum amount of resources (staff, equipment, and facilities) in producing or delivering the appropriate quantity and quality of goods or services in a timely manner;
- h. is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the entity's resources;
- i. has an adequate management control system for measuring, reporting, and monitoring a program's economy and efficiency; and
- j. has reported measures of economy and efficiency that are valid and reliable.

Program audits may, for example

- a. assess whether the objectives of a new, or ongoing program are proper, suitable, or relevant;
- b. determine the extent to which a program achieves a desired level of program results;
- c. assess the effectiveness of the program and/or of individual program components;
- d. identify factors inhibiting satisfactory performance;
- e. determine whether the program complements, duplicates, overlaps or conflicts with other related programs;
- f. identify ways of making programs work better;
- g. assess compliance with laws and regulations applicable to the program;
- h. assess the adequacy of the management control system for measuring, reporting, and monitoring a program's effectiveness; and
- i. determine whether management has reported measures of program effectiveness that are valid and reliable.

CHAPTER 3. DETERMINATION OF AUDIT TYPE

3.2.3 Operational Audits

An operational audit is a review of any part of a department's operating procedures and methods for the purpose of evaluating efficiency and effectiveness. At the completion of an operational audit, recommendations will be provided to management for improving operations.

For example, criteria could consider whether the department:

- a. is following County procurement policies;
- b. is avoiding duplication of effort by employees and work that serves little or no purpose;
- c. is avoiding idleness and overstaffing;
- d. is using efficient operating procedures;
- e. is using the optimum amount of resources (staff, equipment, and facilities) in producing or delivering the appropriate quantity and quality of goods or services in a timely manner;
- f. is complying with requirements of laws and regulations that could significantly affect the acquisition, projection, and use of the department's resources;
- g. has an adequate management control system for measuring, reporting, and monitoring a program's economy and efficiency;

3.2.4 Compliance Audits

The purpose of a compliance audit is to determine whether the auditee is following specific procedures or rules set down by some higher authority. A compliance audit could include determining whether personnel are following the procedures prescribed or acting in accordance with another's command, request, rule, or wish to carry out a plan, a scheme, or an operation without deviation.

CHAPTER 4 - PLANNING AUDIT

4.1 PURPOSE

Planning for an audit requires that the auditor set parameters directly related to the objective, scope, and methodology. The objective is what the audit is to accomplish. Audit objectives can be thought of as questions about the program that auditors seek to answer. The scope is the boundary of the audit. It addresses such things as the period and number of locations to be covered. The methodology comprises the work in data gathering and in analytical methods used to achieve the objectives.

4.2 MATERIALITY

Materiality will be a predominant factor in determining procedures, parameters, and the evaluation of results from the procedures. Materiality considerations will be based upon quantitative and qualitative perceptions as determined by the auditor. Perceptions are based upon judgments and are influenced by outside factors. It will be the desire of Pulaski County Internal Auditing to use perceptions which, in the auditor's best judgment, would be expected by the public. In auditing Pulaski County Government, three areas will be factors of the audit:

1. Public accountability of the auditee
2. Legal and regulatory requirements, and
3. The visibility and sensitivity of government programs, activities, and functions.

4.3 FOLLOW-UP

A follow-up audit of significant findings and recommendations from a previous audit will be considered a planning parameter. The follow-up will consist of determining whether timely and appropriate corrective action was taken by auditee on the previous findings and recommendations.

If the follow-up reveals that corrective action was not taken, the auditor may work with the department to develop a plan of action, and begin the implementation phase of the plan. The follow-up audit report will disclose the status of uncorrected significant findings and recommendations from prior audits that affect the audit objectives. The failure to begin corrective action will result in an additional finding. The auditor will continue to review the material nature of the program even without the corrective actions being taken.

CHAPTER 5 - NOTIFICATION TO DEPARTMENT

5.1 ASSIGNED

The auditee will be notified in writing five (5) working days prior to the start of the audit. The notification letter will include the following:

1. The contact person listed for the department.
2. The scope of service of the department.
3. The mission or objective of the auditing department.
4. The type of audit to be performed.
5. Whether a follow up of a previous audit will be performed.

Before the audit, the auditee may:

1. Request a copy of preliminary information gathered.
2. Request for delay (reasons must be explained in detail).
3. Supply revised scope of service, if contrary to notification letter.

All correspondence with the auditee will be documented within the auditee's file. Any requests made by the auditees must be received in writing prior to the day of the audit. Any unscheduled delay may result in an audit finding for the auditee.

5.2 REQUESTED

The auditee will, in writing, forward the request to the Administrative Services Director. The request letter will address the following:

1. State the nature of the review or audit, such as whether it is general in nature (review all areas) or specific in nature.
2. Provide the names and titles of department contacts.
3. The time period the review/audit will cover. (Beginning date—Ending date)
4. Identify funding sources. County funded program? Grant funded? (Federal, state, municipality, etc.)

5.3 GRANTS ADMINISTRATION

The Grants Manager will receive a copy of notification letters to a grant auditee. The notification will allow the Manager to inform the appropriate grant administrator of the scheduled audit activity.

CHAPTER 6 – REPORTING

6.1 PURPOSE

The Pulaski County Internal Auditing will prepare a written report upon the conclusion of the audit. Written reports will (1) communicate the results of the audit to officials at all levels of government, (2) make the results less susceptible to misunderstanding, (3) make the results available for public inspections, (4) facilitate follow up to determine whether appropriate corrective action has been taken.³

6.2 REPORT CONTENTS

The report will contain the audit objectives, scope and methodology. The report will contain why the audit was performed, what the report is to accomplish, the depth and coverage of work conducted, and explains the evidence gathering and analysis techniques used.

6.3 DISTRIBUTION

6.3.1 Drafts

The draft audit reports will be distributed to the auditee and Pulaski County Administrative Services Director. Upon distribution of the draft report, the Auditor will schedule an exit interview with the auditee to discuss findings (if any), and to develop plans for any corrective actions (if needed).

6.3.2 Final

After the exit interview, final audit reports will be distributed to the auditee, Pulaski County Administrative Services Director, Pulaski County Comptroller, Pulaski County Grants Manager (grant audits only), and others as required.

6.4 DEPARTMENT RESPONSIBILITY

If, any audit report contains audit issues (recommendations, suggestions, and/or findings), the department will be given fifteen (15) days after receipt to respond with an explanation of what actions will be taken. Corrective action plan (CAP).

³ The Government Auditing Standards, 1994 Revision, Chapter 7