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## OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY



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# **2018-AP-0001 Fiscal Year 2018 Annual Risk Assessment and Audit Plan**

## **September 27, 2017**

Insight – Oversight – Foresight

# Fiscal Year 2018 Risk Assessment and Audit Plan

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The risk assessment process for Fiscal Year (FY) 2018 was conducted using a combination of several methods of research and information gathering in order to create an overview of the risks for entities within the Office of Inspector General's (OIG) jurisdiction. The risk assessment was conducted using the same methodology as an audit (planning / gaining an understanding of the global areas affecting the entity, risk assessment / analysis, and reporting) to formulate the risk assessment and develop the audit plan.

## Gain an Understanding

A combination of efforts in information gathering was used to gain an understanding of, and identify risks of, Palm Beach County government (County), the 39 municipalities, and the two special taxing districts within the OIG's jurisdiction. These efforts included:

- Review of the Risk Assessment Survey responses submitted by the municipalities, the County, and the special taxing districts.
- Review of Council and/or Commission meeting minutes and agendas posted to the websites of the County and municipalities.
- Review of national government risk assessments by global areas / activities.
- Review of the responses to our online survey that requested input on risk or concerns from Government Employees, Citizens, Contractors, and other Stakeholders.
- Review of news articles and blog posts for the County, municipalities, and special taxing districts.
- Review of historical intake of complaints for FY 2017 that were submitted to the OIG.

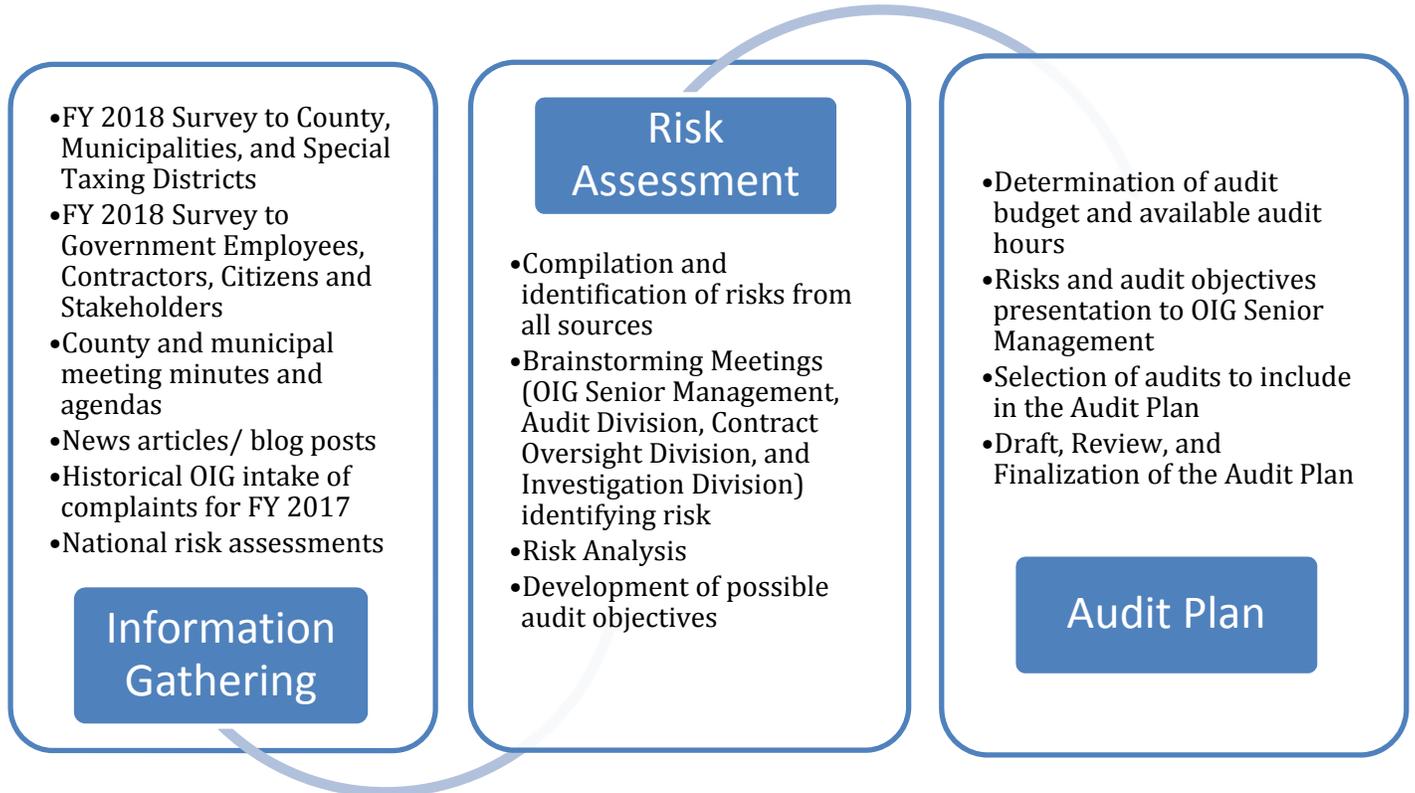
## Risk Assessment

The information gathered was then compiled and analyzed for the risk assessment. Additional risks were considered based on the results of brainstorming meetings, and the professional expertise and experience of the OIG staff. Identified risks were assessed based on their global area of significance and impact. Any known controls to mitigate each risk or lower the impact were noted, and a list of risk topics was developed.

The goal of the risk assessment process is to create an audit plan that will address risk concerns of global areas / activities for entities under the jurisdiction of the OIG with the most efficient use of the OIG's limited audit resources. Once the risk assessment process was completed, OIG Senior Management and the Inspector General met to review the Audit Plan.

## Audit Plan

The OIG Senior Management Team reviewed the list of topics and selected eight global areas to be included in the Audit Plan. The FY 2018 Audit Plan includes the eight planned global areas / activity audits, along with the carryover audits from the FY 2017 Audit Plan, and the IG / Management Requested audits.



## Multiple Entities Global Area Approach

The global area approach was chosen to enhance the flexibility and coverage of the Audit Plan. This approach highlights the areas where the OIG will focus audit efforts. With a global approach, the audit plan:

- Avoids duplication with the Internal Audit Functions of Palm Beach County and Municipalities, and Special Taxing Districts,
- Provides more flexibility for emerging risks,
- Allows for smaller more focused audits, and
- Engages more municipalities / auditable units that have not previously been audited.

In addition to Audit Engagement notices, an Implementation Status and Projected Projects report will be published periodically to demonstrate the progression of this audit plan and inform entities within the OIG jurisdiction and the public of selected auditable units.

# Fiscal Year 2018 Audit Plan

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## Carryover Audits

There are three audits included on the FY 2017 Audit Plan that were initiated but have not been completed. These three projects are considered “carryover audits” and will be fully completed in FY 2018:

### *Palm Beach County Facilities (FDO) – Contracts & Vendors*

This audit includes a review of financial management systems, contract management practices, and the controls over purchasing and payments.

**Objectives:** Are purchases and invoices being properly documented and approved to avoid possible fraud, waste and abuse? Are vendor contracts being effectively managed? Were agreed upon deliverables received? Are the parties complying with contract terms and conditions?

### *Multiple Entities – Utilities*

- *City of Lake Worth*
- *Town of Manalapan*

These audits include a review of the controls in place to ensure utility operations are managed effectively. These audits include, but are not limited to, a review of rate setting practices and the billing and collections policies.

**Objectives:** Are utilities using proper billing, collections, and rate setting practices? Are municipalities conducting utilities activities in accordance with interlocal agreements and Florida statutes?

## Planned Audits by Global Area

### *Multiple Entities - Capital Assets*

These audits would include a review of the existence, valuation, and processes for capital assets.

**Possible objectives:** Are capital asset controls adequate to safeguard government resources? Are capital assets properly reported and recorded in the financial system? Are capital asset processes working efficiently and effectively?

**Rationale:** Capital assets require continued monitoring to ensure adequate safeguarding of government resources to minimize the risk of loss. These assets are at higher risk because they are of high dollar values.

### *Multiple Entities - Grants*

These audits would include a review of grant program performance in meeting the program objectives, contract management practices, receipt and distribution of grant funds, and controls over the program, expenditures, and payments.

**Possible objectives:** Are grant programs operating as intended? Are there adequate controls for the program over receipt and distribution of funds and to ensure eligibility of expenditures? Are grants managed according to regulations and requirements?

**Rationale:** Each year grant spending amounts increase and governments rely on additional and new grant programs, both as the recipient and the provider of grant funds. The area of grants is highly complex as each grant is different with unique requirements for receipt and expenditure or distribution of the funds. Based on the complexity of the area and legal and regulatory requirements, grants have a higher risk than other business activities and funding sources.

### *Multiple Entities – Revenue / Cash Intake*

These audits would include a review of billable services and programs that earn or collect revenue for the entity, proper recording of revenue and related cash intake / receipts, and controls over the revenue activities including cash intake.

**Possible objectives:** Are received revenues recorded accurately and appropriately in compliance with financial requirements? Are cash receipts recorded accurately with timely deposits? Are there adequate controls for the receipt of revenue and/or cash intake activities?

**Rationale:** Asset misappropriation for revenue and cash is one of the leading causes of loss within entities. Revenue is at an increased risk because it may be contingent on complicated calculations or contracts, have minimal oversight for the monitoring of collections and compliance of contract terms, and have complicated financial requirements affecting the recognition of the revenue. Cash intake points have a high vulnerability to loss or theft because it is easy to convert cash into another type of asset and easily transportable.

### *Multiple Entities – Purchasing Cards*

These audits would include a review of purchasing card programs, controls, and expenditures.

**Possible objectives:** Are internal controls in place and adequate to appropriately govern purchasing card use, including controls to prevent and detect fraud, waste, and misuse? Are purchasing card expenditures in compliance with policies and do those expenditures serve a valid public purpose?

**Rationale:** Purchasing card programs have a high risk of loss, theft, waste, and abuse because expenditures are typically reviewed after the initial expenditure.

### *Multiple Entities - Infrastructure Surtax and Construction Contracts*

These audits would review the controls in place to ensure infrastructure surtax projects and related construction contracts are managed effectively. These audits would include review of contract management, policies and procedures, payment applications, and deliverables.

**Possible objectives:** Are internal controls adequate to effectively safeguard infrastructure surtax projects and construction? Are control procedures adequate to ensure that infrastructure surtax construction contracts are competitively procured, allocated to appropriate projects, and invoices are properly reviewed and approved prior to payment?

**Rationale:** As a result of the complexity in coordinating various construction activities and the newly added infrastructure surtax projects, especially for large projects, these types of projects and construction are generally at a higher risk in comparison to other business activities.

### *Multiple Entities - Contracts*

These audits would review the controls in place to ensure contracts are managed effectively. These audits would include review of contract management, policies and procedures, expenditures, and deliverables.

**Possible objectives:** Are internal controls adequate to effectively manage contracts and related activities? Are control procedures adequate to ensure that contracts are competitively procured, allocated to appropriate activities, and invoices are properly reviewed and approved prior to payment? Are purchases and invoices properly documented and approved to avoid possible fraud, waste, and abuse? Are vendor contracts effectively managed? Were agreed upon deliverables received?

**Rationale:** Contracts in all forms are embedded in virtually all types of operations and are integral in entities meeting their objectives and goals. Each contract is unique and has a different level of risk. Some contracts have high dollar values, stringent legal requirements, complicated deliverables, and different oversight needs. Based on the unique nature of each contract and because they are the basis for all business operations, contracts have a higher risk compared to other business activities.

### *Multiple Entities - Travel Reimbursements*

These audits would review the controls in place for travel reimbursement. These audits would include a review of eligible travel, policies and procedures, and travel or related expenditures.

**Possible objectives:** Are internal controls adequate for travel reimbursement programs and activities? Are control procedures adequate to ensure that reimbursements are for appropriate activities, submissions are properly reviewed, and proper approval is received for travel reimbursements? Are travel reimbursements properly documented and approved to avoid possible fraud, waste, and abuse? Are rates submitted in compliance with policies and procedures?

**Rationale:** Travel reimbursements and the management of travel reimbursement policies and procedures was a noted concern in survey responses received in the risk assessment process. Additionally, travel reimbursements are at risk for inappropriate reimbursement, fraud, and waste.

## *Multiple Entities – Accounts Payable and Expenditures*

These audits would review the controls in place for accounts payable and expenditures. These audits would include review of accounts payable management, expenditure monitoring and oversight, policies and procedures, and compliance of expenditures with contracts.

**Possible objectives:** Are internal controls adequate for accounts payable and expenditures activities? Are control procedures adequate to ensure that expenditures are in compliance with contract requirements, allocated to appropriate activities, and invoices are properly reviewed and approved prior to payment? Are purchases and invoices properly documented and approved to avoid possible fraud, waste, and abuse?

**Rationale:** Accounts payable and expenditures are part of all types of operations and are integral in entities meeting their objectives and goals. Each type of expenditure is unique and has different levels of risk. Some expenditures have high dollar values, stringent legal requirements, complicated deliverables, and different oversight needs. Based on the unique nature of each expenditure and because they are necessary for all business operations, expenditures have a higher risk in comparison to other business activities.

## **IG / Management Requests**

The Audit Division also conducts audits which are not planned, but are requested by entities or deemed necessary by the OIG. These audits may result from referrals from our Investigations Division, referrals from our Contracts Oversight Division, or other emerging risks, and are often considered priority projects. Based on the urgent nature of these requested audits, the planned audits in the above section are subject to change or cancellation.

## **Non-Audit Activities**

Activities which are not included in the Audit Plan are considered “non-audit activities”. These activities include, but are not limited to: professional development, strategic planning and risk assessment, quarterly audit follow-up, special projects, and quality control and assurance.

## **Conclusion**

The FY 2018 Audit Plan is based on the FY 2018 risk assessment which has been completed by the OIG Audit Division. The Audit Plan has three carryover audits from the FY 2017 Audit Plan, eight global area planned audits for multiple entities, as well as, audits which are self-initiated or requested. We will further consider risk during each audit engagement to identify and address areas with the highest risks.

# Fiscal Year 2018 Audit Plan at a Glance\*

Audit	Possible Objectives
<b>Carryover Audits</b>	
<b>Multiple Entities: Utilities</b> <ul style="list-style-type: none"> <li>• City of Lake Worth</li> <li>• Town of Manalapan</li> </ul>	<ul style="list-style-type: none"> <li>• Are utilities using proper billing, collections and rate setting practices?</li> <li>• Are municipalities conducting utilities activities in accordance with interlocal agreements and Florida statutes?</li> </ul>
<b>Contracts &amp; Vendors - Palm Beach County Facilities (FDO)</b>	<ul style="list-style-type: none"> <li>• Are appropriate procurement policies and procedures being followed?</li> <li>• Are invoices and purchases being properly documented and approved to avoid fraud, waste, and abuse?</li> <li>• Are vendor contracts being effectively managed?</li> <li>• Are contractors complying with contract terms and conditions?</li> </ul>
<b>Planned Audits</b>	
<b>Multiple Entities - Capital Assets</b>	<ul style="list-style-type: none"> <li>• Are controls adequate to safeguard government resources?</li> <li>• Are capital assets properly reported and recorded in the financial system?</li> <li>• Are capital asset processes working efficiently and effectively?</li> </ul>
<b>Multiple Entities - Grants</b>	<ul style="list-style-type: none"> <li>• Are grant programs operating as intended?</li> <li>• Are there adequate controls: for the program, over receipt and distribution of funds, and to ensure eligibility of expenditures?</li> <li>• Are grants managed according to regulations and requirements?</li> </ul>
<b>Multiple Entities - Revenue / Cash Intake</b>	<ul style="list-style-type: none"> <li>• Are received revenues recorded accurately and appropriately in compliance with financial requirements?</li> <li>• Are cash receipts recorded accurately with timely deposits?</li> <li>• Are there adequate controls for the receipt of revenue and/or cash intake / receipt activities?</li> </ul>
<b>Multiple Entities - Purchasing Cards</b>	<ul style="list-style-type: none"> <li>• Are internal controls in place and adequate to appropriately govern purchasing card use, including controls to prevent and detect fraud, waste, and misuse?</li> <li>• Are purchasing card expenditures in compliance with policies and do those expenditures serve a valid public purpose?</li> </ul>

<p><b>Multiple Entities – Infrastructure Surtax</b></p>	<ul style="list-style-type: none"> <li>• Are internal controls adequate to effectively safeguard infrastructure surtax projects and construction?</li> <li>• Are control procedures adequate to ensure that infrastructure surtax construction contracts are competitively procured and allocated to appropriate projects?</li> <li>• Are invoices properly reviewed and approved prior to payment?</li> </ul>
<p><b>Multiple Entities – Contracts</b></p>	<ul style="list-style-type: none"> <li>• Are internal controls adequate to effectively manage contracts and related activities?</li> <li>• Are control procedures adequate to ensure that contracts are competitively procured, allocated to appropriate activities?</li> <li>• Are invoices properly reviewed and approved prior to payment?</li> <li>• Are purchases and invoices properly documented and approved?</li> <li>• Are vendor contracts effectively managed?</li> <li>• Were agreed upon deliverables received?</li> </ul>
<p><b>Multiple Entities – Travel Reimbursements</b></p>	<ul style="list-style-type: none"> <li>• Are internal controls adequate for travel reimbursement programs and activities?</li> <li>• Are control procedures adequate to ensure that reimbursements are for appropriate activities, submissions are properly reviewed, and proper approval is received for travel reimbursements?</li> <li>• Are travel reimbursements being properly documented and approved to avoid possible fraud, waste, and abuse?</li> <li>• Are rates submitted in compliance with policies and procedures?</li> </ul>
<p><b>Multiple Entities – Accounts Payable and Expenditures</b></p>	<ul style="list-style-type: none"> <li>• Are internal controls adequate for accounts payable and expenditures activities?</li> <li>• Are control procedures adequate to ensure that expenditures are in compliance with contract requirements and allocated to appropriate activities?</li> <li>• Are invoices properly reviewed and approved prior to payment?</li> <li>• Are expenditure purchases and invoices being properly documented and approved to avoid possible fraud, waste, and abuse?</li> </ul>

*\*IG / Management Request audits, due to their nature, are not included.*