



2015 Executive Summary and Risk Assessment
Adams County Colorado

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Executive Summary

Internal Audit departments operate using guidance provided by the International Professional Practices Framework (IPPF) published by the Institute of Internal Auditors. Standards of the IPPF address planning and indicate that risk-based plans should determine the priorities of the internal audit activity, consistent with the organization's goals. The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

With the issuance of RFP 2014.403, Proposal for Internal Auditor Services, our proposal dated October 21, 2014 and the Purchase of Service Agreement signed February 3, 2015, Adams County changed its internal auditor services agreement and vendor to Eide Bailly, LLP. We were hired as part of the Adams County team to provide consulting/special projects as well as risk assessments/internal audits for top management with final reporting and approvals by the Board of County Commissioners. The following report outlines our special projects and risk assessment update process to date. We also included the proposed audit plan for 2015, which may include follow up projects from your previous internal auditors based upon our risk assessment updates. Department directors and elected officials provided input as part of the risk assessment process to ensure key risks were captured for each function within the County.

The risk assessment process is not an exact science. The majority of risks are self-reported by the director and staff of the respective function. While every risk and its associated ranking are thoroughly discussed with the risk's owner, no audit procedures are performed to validate the rankings (thorough audit procedures will be developed and performed as part of the individual audits proposed as a result of this report). The audit team applies professional judgment and experience to determine the final risk rankings.

It is very important to note that risks are written as if they are occurring. Readers should not assume the noted risk actually exists or that the function is deficient in any way. The purpose of the risk assessment is to develop an audit plan, not to report problems with current operations. In contrast, the purpose of an internal audit is to evaluate and conclude on the adequacy and effectiveness of operations and internal controls through interviews, review of documentation, testing, and other detailed procedures. A countywide risk assessment does not validate data or go into the same level of detail as an internal audit and should not be viewed as such.

As a result of the risk assessment process and our interviews and updates to date, the following areas were identified for internal audit in 2015/2016, in order of risk assessed:

1. Assessor
2. Clerk & Recorder
3. Finance
4. Sheriff
5. Coroner
6. Treasurer

In addition to function-specific audits, our proposed 2015/2016 audit plan provides for time to maintain the internal audit function at Adams County, perform an on-going entity-wide risk assessment as outlined in this report, follow up on completion of management actions, and address specific additional concerns which may arise during the year. Our complete proposed audit plan, including the results of specific agreed upon procedures projects is included as Figure 4 on page 8 of this report.

Objective

The Adams County Internal Audit function was established through a resolution adopted by the Board of County Commissioners in May 2011 and updated January 6, 2015. A risk assessment is performed as part of any internal audit function, the objective of which is to determine the risks to the organization and develop an appropriate risk-based audit plan.

Scope

The scope of our risk assessment update included all departments and elected offices within Adams County. The previous risk assessment also included the Public Trustee (appointed by the Governor). The County Commissioners established the scope of internal audit to include all activities with financial risk; in other words, activities that have a direct impact on the county-approved budget. We considered additional risk factors (legal/regulatory, operational, and reputational) at the specific request of the individual department directors or elected officials.

Procedures Performed

We performed the following procedures to complete our risk assessment:

1. **Presentation of methodology to directors/officials interviewed**- Upon inception of the internal audit function in 2015, our risk assessment methodology and procedures were presented to all department directors and elected/appointed officials that we met with to promote consistency within the process across all operating entities. For the 2015 and subsequent risk assessments, we will present our methodology to any newly interviewed and/or elected officials or newly hired department directors.
2. **Solicitation of risks**- Each director/official was asked to review the goals/responsibilities of their function and risks to accomplishing these goals/responsibilities. For each risk, respondents were instructed to rank the magnitude of impact and likelihood of occurrence.

Magnitude of impact assesses the severity of the risk, assuming it were to occur, using rankings of high, medium, and low.

Likelihood of occurrence assesses the chance the risk will come to fruition, regardless of the severity of the risk, using rankings of probable, potential, and remote.

Risk rankings are further defined in Appendix A- Risk Assessment Results

3. **Evaluation of risks**- Internal Audit reviewed all completed risk assessments in conjunction with the function's goals/responsibilities, information available on the function's internet/intranet sites, and Internal Audit's experience with government operations. Additional risks or changes to risk rankings were proposed when deemed appropriate.
4. **Departmental interviews**- Internal Audit held individualized risk assessment sessions with each elected official and department director, listed below (*Figure 2, Page 5*). Internal Audit also met with top management and elected officials to obtain their input regarding updates to the 2015 risk assessment. The purpose of these meetings and contacts was to clarify responses submitted in the self-assessment, review and revise risk rankings as necessary, and discuss additional risks proposed by Internal Audit.
5. **Validation of risks**- To ensure risks and associated rankings were appropriately captured, top management was provided copies of the final risks/rankings and given the opportunity to propose additional changes.

6. Consolidation of risks- Upon completion of the risk validation process, risks from each function were consolidated into a master risk assessment covering the entire county (see Appendix A - Risk Assessment Results). We assigned risk rankings numerical weights as presented in *Figure 1: Risk Rankings*:

Figure 1: Risk Rankings

Magnitude Rankings		Likelihood Rankings	
High	3	Probable	3
Medium	2	Potential	2
Low	1	Remote	1

Financial magnitude was multiplied by the likelihood ranking to arrive at an overall raw risk score.

As discussed in the preceding scope section, some county officials and departments requested an expanded risk assessment scope to evaluate aspects of their operations with legal/regulatory, operational, and reputational risks. When all four categories of risk were considered, we multiplied the mathematical average of rankings in all four of the magnitude categories by the likelihood ranking to arrive at an overall raw risk score.

In addition to individualized risk rankings, we used initial 2014 budgeted expenditures as another factor in the risk assessment process. Risks associated with departments with larger budgets were given additional weight. Departmental budgets were summarized and given a “percent rank” in relation to other departments. This percent rank was added to the overall raw risk score as a “budgetary factor” to produce a final risk score.

Since Internal Audits were conducted at some Adams County departments during 2012 through 2014, we developed a “prior audit” factor which when applied, reduced the final risk score for the audited departments.

An additional weighting factor was integrated into the scores for the Assessor’s Office. Weighted risk scores were doubled for the Assessor’s Office, as this office refused to participate in the 2015 internal audit of the assessor’s office property valuation adjustment process. This weighting factor accounts for the greater perceived risk associated with this scope limitation.

As the Internal Audit function continues to mature, overall risk scores in future years will likely include additional factors influencing risk such as the number of agreed upon management actions not completed. Such additional factors will help ensure that all functions receive adequate audit coverage, regardless of initial risk rankings.

7. Development of audit plan- We translated the final risk scores into relative rankings and sorted the scores in descending order. It is important to note that individual risk factors do not necessarily translate one for one into proposed audits. In some cases, the noted risk may be an inherent risk for which the County has no control over. In these cases, the County should be aware that the risk exists despite the fact that the risk cannot be

addressed in an audit. In other cases, individual risks may not warrant a discrete internal audit and rather, are combined with other risks to produce a more comprehensive audit of the function. Further detail on the proposed audit plan is included in the “Proposed Audit Plan” section below.

8. Presentation of draft risk assessment and audit plan- This report, in draft format, was presented to top management for review and comment prior to formal adoption of the annual audit plan by the Board of County Commissioners in public hearing. While all comments were considered, Internal Audit, as an independent function reporting directly to the Board of County Commissioners, made the final decisions on risks, rankings, and proposed audits presented to the Board.
9. Approval of annual audit plan- As a final step in the risk assessment and audit planning process, the audits outlined in this report are presented to the Board of County Commissioners for final approval.

Individuals Contacted

Department Directors and elected/appointed offices were contacted for input into the updated risk assessment process to date. *Figure 2: Departmental Contacts* lists each function contacted, along with the function’s respective leader. Internal Audit contacted each of these individuals as part of the updated risk assessment process. Additionally, the majority of functions included key members of their staff when providing input and feedback.

Figure 2: Departmental Contact

Assessor’s Office – Patsy Melonakis
Clerk & Recorder – Stan Martin
Commissioner’s Office – Todd Leopold
Deputy County Manager – Internal Services-Ed Finger
Coroner’s Office – Monica Broncucia-Jordan
Sheriff’s Office – Michael McIntosh
Finance – Benjamin Dahlman
Treasurer’s Office – Brigitte Grimm

Proposed Audit Plan

Internal audit was set up with an annual budget affording approximately 800 annual audit hours. We have structured our special project and internal audit plan to fit within close proximity to this budget. The internal audit budget also includes audit hours to administer the audit function, update the risk assessment annually, and conduct follow up audits to determine if agreed upon management actions have been satisfactorily completed.

Based on the results of our updated risk assessment as presented in Appendix A: Risk Assessment Results, we propose the 2015 internal audit plan presented in *Figure 3: Proposed audit plan*. Our proposed audit plan was based on the risk assessment results and our knowledge of county government operations. This plan may be modified as necessary during the year to address immediate concerns or changing conditions. Specific timing of each audit engagement will be determined upon approval of the audit plan and coordination with auditees.

Figure 3: Proposed audit plan

2015 Internal Audit Proposed Schedule	Status	Hours
2015 Risk Assessment- Interviews with department directors/elected officials to update risk assessment to evaluate risks to the County and develop the 2015/2016 internal audit plan.	Complete	200
2016 – Assessor’s office Review of departmental operations and compliance with laws and regulations, specifically the process to assess mobile home parks and resulting Board of Equalization hearings and appeals process that have been denied the Office.	Denied Access	
2015/2016 - Clerk & Recorder-Review of operations, internal controls, segregation of duties and off-site cash collection sites.	TBS	100
2015/2016 - Finance-Payroll analysis/strategy to determine best practices, efficiencies and effectiveness in changing payment cycles and processes and potential vulnerabilities with current planned timing.	TBS	100
2016 – Sheriff – operational audits of the office, internal controls, segregation of duties, search and seizure funds, commissary funds based upon risks the Sheriff would like addressed.,	TBS	
2016 – Coroner – internal controls surrounding inventory collection, safeguarding, reporting and releases to appropriate persons.	TBS	
2016 - County Treasurer’s Office- Follow up review of adequacy of internal controls over financial operations, including receipt and disbursement of funds and roll out of new treasury management system.	TBS	100
2016 – Community and Economic Development-Review of grants and internal controls surrounding the compliance of those grants (policies, allocations and sub-recipient monitoring) handled by grant managers in this department.	TBS	
2015 Special Projects		
Marijuana Lot Drawing We assisted with the conduction of the Marijuana Lot Drawing held on January 27, 2015 for selection of applications for marijuana establishments as outlined in the Adams County Board of County Commissioner Resolution 2014-358 Approving Marijuana Regulation Amendments in Unincorporated Adams County	Completed	100
Stormwater Utility Fees We reviewed the internal controls surrounding the billing process and tested the billing process and calculations before bills were mailed to constituents of unincorporated Adams County related to the 2015 Stormwater Utility Fee billed in accordance with the Adams County Resolution Establishing Rates, Fees and Addressing Credit and Appeal Policies and Additional Details	Completed	100
2015 - Stormwater Utility Fee Follow Up Process-to determine if internal controls as tested were implemented and continuing to function as expected during the current live billing process.	TBS	50
Administration- Time required to manage the internal audit function, not otherwise associated with specific audits.	Ongoing	50
Total budgeted hours- 2015		800

In addition to our 2015 audit plan, potential audits tentatively planned for 2016 include the following:

1. 2016 Risk Assessment- Meet with department directors and elected officials to continue to update the risks/rankings identified in the 2015 risk assessment to develop the 2016 audit plan.
2. County Assessor's Office- Review adequacy of controls over property discovery and valuation. Note: Internal audit attempted to perform this audit in September 2015. At the time, our proposed visit/interview and audit program was rejected by the Assessor. We are proposing the same scope of work to be performed, upon agreement of the Assessor, who will have been in office for 1 year in January 2016.
3. Sheriff's Office Cash Collection Process- Review the process by which the Sheriff's Office collects cash for all major functions, such as payment of citations issued. Review to include internal controls over citation issuance and tracking processes, as well as collection of other receivables.
4. Coroner's Office Inventory in-take procedures-Review the process by which inventory is collected within the office, the accountability of the collection process, safeguarding of the inventory and eventual return of property to owners.
5. Grant audits within departments targeting the efficiency and effectiveness of managing the grant process against compliance and sub-recipient monitoring.
6. 2015 Follow Up- Review and testing of completion status of agreed-upon management actions.

Appendix A- Risk Assessment Results

The table on the following pages presents the results of our risk assessment procedures as detailed in this report. **We reemphasize that these risks represent potential areas of concern rather than actual problems.** The vast majority of these risks would likely appear for any government or organization performing similar functions. The reader should not infer that this document is a reflection on the strengths or weaknesses of a particular function or the management of that function.

The following guidance relating to ranking of risks was provided to each county function when completing the risk assessment:

Magnitude rankings

High risk: Material impact on budget or financials (defined as \$1,000,000 or greater potential impact), cash flow seriously affected; serious diminution in the County's reputation with adverse publicity; major impact on customer service/significant downtime of critical applications/significant impact on employee morale; severe regulatory/legal criticism and Board attention required.

Medium risk: Moderate impact on budget or financials (defined as between \$100,000 and \$1,000,000); cash flow impact will be absorbed under normal operating conditions; impact on reputation, at least in the short term; potential impact to customer service/potential downtime of critical applications/consequences can be absorbed under normal operating conditions; potential for regulatory/legal criticism and Director-level attention required.

Low risk: Low (less than \$100,000) or no impact on budget or financial results; no impact on reputation; no impact to customer service/can be resolved by managers and staff; No regulatory or legal criticism.

Likelihood rankings

Probable: Risk issues are occurring or have a high likelihood of occurrence.

Potential: Risk may not be currently occurring, but may be reasonably expected to occur in the future.

Remote: Risk issues are expected to occur under exceptional circumstances only.

Areas with high magnitude rankings may be insignificant if the likelihood of occurrence is remote. Similarly, areas ranked as probable to occur/currently occurring may be insignificant if the corresponding ranking on magnitude of impact is low.

Risk	Entity	Financial	Regulatory & Legal	Operational	Reputation	Likelihood of Occurrence	Raw Risk Score	Final Risk Score
Risk that real or personal property might not be discovered for taxation	Assessor	Low	High	High	High	Probable	7.50	15.84
Risk that mil levies may not be entered into the system correctly	Assessor	Low	High	High	High	Remote	2.50	5.84
Risk that property valuation could be altered inappropriately or that the valuation amounts entered could be inaccurate	Assessor	Low	High	High	High	Probable	7.50	15.84
Risk that a property may not be correctly associated with all applicable taxing districts	Assessor	Low	High	High	High	Remote	2.50	5.84
Risk that appraisal staff may not hold or maintain a valid and appropriate appraiser's license or meet the continuing education requirements for that license	Assessor	Low	High	High	High	Potential	5.00	10.84
Risk that statutory deadlines could be missed	Assessor	Low	Low	Low	Low	Remote	1.00	2.84
Risk that property could be inappropriately classified as exempt due to data entry error or fraud	Assessor	Low	High	High	High	Probable	7.50	15.84
Risk that current or previous employees could have inappropriate access, or an inappropriate level of access, to automated systems	Assessor	Low	High	High	High	Potential	5.00	10.84
Risk that agricultural or commercial landowners could fraudulently complete their valuation questionnaires with inaccurate information to reduce their land valuations	Assessor	Low	High	High	High	Potential	5.00	10.84
Risk that property tax abatement could be processed inappropriately or without proper authorization	Assessor	Low	High	High	High	Probable	7.50	15.84
Risk that information required by law to be maintained confidential could be released or compromised	Assessor	Low	High	High	High	Potential	5.00	10.84

Risk	Entity	Financial	Regulatory & Legal	Operational	Reputation	Likelihood of Occurrence	Raw Risk Score	Final Risk Score
Risk that fees collected could be misappropriated	Clerk & Recorder	Low	High	High	High	Potential	5.00	5.57
Risk that items in the title, plate, or tab inventory could be misappropriated or lost	Clerk & Recorder	Low	Low	Medium	High	Potential	3.50	4.07
Risk that cash from motor vehicle offices could be stolen by an external party	Clerk & Recorder	Low	Low	High	High	Potential	4.00	4.57
Risk that errors might occur during the election process, requiring the election to be redone	Clerk & Recorder	Medium	High	Medium	High	Potential	5.00	5.57
Risk that a theft or catastrophic incident will destroy historical public property records, which have no backup or second copy. Incidents could include water leaks above the historical records, fire and sprinkler system, tornado, etc.	Clerk & Recorder	Low	Medium	Medium	High	Potential	4.00	4.57

Risk	Entity	Financial	Regulatory & Legal	Operational	Reputation	Likelihood of Occurrence	Raw Risk Score	Final Risk Score
Risk of vendor fraud	Finance	High	Medium	Medium	High	Potential	5.00	4.26
Risk that one or more department director(s) could overspend federal or state grants and allocations, which may require the County's general fund to cover the overexpenditure	Finance	High	Medium	Medium	High	Potential	5.00	4.26
Risk that employees may commit fraud	Finance	Medium	Medium	Low	High	Potential	4.00	3.51
Risk that the County might purchase services inappropriately through a sole source procurement, or with inadequate evaluation criteria, which could impair fair competition or result in poor quality performance or excessive costs	Finance	Medium	Low	Low	High	Potential	3.50	3.14
Risk that employee income tax withholdings may not be paid timely or in correct amounts, which could subject the County to penalty and interest payments	Finance	Low	Low	Low	Low	Remote	1.00	1.26
Risk that errors may occur in the final check paid to an employee who is terminating employment, requiring the County to collect the overpayment or pay additional funds due	Finance	Low	Low	Low	Low	Potential	2.00	2.01
Risk that contracts could be executed without proper approvals and authorizations	Finance	Medium	Medium	Medium	Medium	Potential	4.00	3.51
Risk that vendor tax IDs and names may not match on W-9s and 1099s, which could subject the County to fines and require additional staff time to resolve	Finance	Low	Medium	Low	Low	Potential	2.50	2.39
Risk that assets may not be properly tracked, resulting in possible loss or theft	Finance	Low	Low	Low	Low	Remote	1.00	1.26
Risk that other departments/offices might be running duplicate finance/purchasing functions, which could impair ADCO's ability to enforce policies and controls and reduce efficiency	Finance	Medium	Low	Medium	Low	Potential	3.00	2.76
Risk that fraudulent payments might be made to "ghost" employees	Finance	Low	Low	Medium	Low	Remote	1.25	1.45
Risk that employees could split vendor payments to circumvent internal controls	Finance	Low	Low	Low	Low	Potential	2.00	2.01
Risk that inappropriate purchases could be made, which might not represent the best use of county funds	Finance	Low	Low	Low	Medium	Potential	2.50	2.39
Risk that the County is noncompliant with federal, state and other grants that would impair its qualifications to receive future allocations and grant awards	Finance	High	High	Medium	Medium	Potential	5.00	4.26
Risk that ineffective collection processes for the stormwater program could result in inaccurate budgeting and improper administration	Finance	High	Medium	High	High	Potential	5.50	6.23
Risk that properties in unincorporated Adams County would not be assessed the correct stormwater fee, risking over- or undercharging customers	Finance	Medium	Low	High	High	Probable	6.75	7.48
Risk that purchasing authorization limits for directors and the county manager may not be set appropriately, weakening the control if limits are set too high or increasing purchasing department workload if limits are set too low	Finance	Medium	Low	Medium	Low	Potential	3.00	2.76

Risk	Entity	Financial	Regulatory & Legal	Operational	Reputation	Likelihood of Occurrence	Raw Risk Score	Final Risk Score
Risk that revenues from traffic tickets, other fines and fees, and handgun permits may be misappropriated	Sheriff	Low	Medium	Low	Medium	Remote	1.50	2.44
Risk that goods and services may not be put out to competitive bid as required	Sheriff	Low	Low	Medium	Low	Remote	1.25	2.19
Risk that items purchased with County funds may be subject to waste and abuse	Sheriff	Low	Low	Low	Medium	Remote	1.25	2.19
Risk that grant provisions may not be adhered to, resulting in loss of funding	Sheriff	Low	Medium	Low	Low	Remote	1.25	2.19
Risk that County-owned assets, including weaponry and specialized police equipment, may not be appropriately secured	Sheriff	Low	Low	Low	Medium	Remote	1.25	2.19
Risk of lawsuits relating to police actions	Sheriff	Medium	Medium	Medium	High	Potential	4.50	5.44
Risk that impounded vehicles may be Ineffectively secured	Sheriff	Low	Low	Low	Low	Remote	1.00	1.94
Risk that Ghost" employees may be added to payroll "	Sheriff	Medium	Low	Low	Medium	Remote	1.50	2.44
Risk of seizure and/or commissary funds or assets could be misappropriated	Sheriff	Low	Low	Low	Medium	Remote	1.25	2.19
Risk of staffing adequacy and that personnel leave due to the nature of the work leaving the office with limited resources	Sheriff	Medium	Low	Medium	Low	Potential	3.00	3.94

Risk	Entity	Financial	Regulatory & Legal	Operational	Reputation	Likelihood of Occurrence	Raw Risk Score	Final Risk Score
Risk that personal property from deceased could be lost or misappropriated	Coroner	Low	Medium	Medium	High	Potential	4.00	4.15
Risk that evidence to support the cause of death may not be adequately maintained, resulting in potential litigation	Coroner	Low	Medium	Low	Medium	Remote	1.50	1.65
Risk of lawsuits resulting from potentially inappropriate handling or disposition of deceased persons	Coroner	Low	Low	Low	Medium	Remote	1.25	1.40
Risk of staffing adequacy and that personnel leave due to the difficult nature of the work leaving the office with more work than they are able to do	Coroner	Medium	Low	Medium	Medium	Potential	3.50	3.65

Risk	Entity	Financial	Regulatory & Legal	Operational	Reputation	Likelihood of Occurrence	Raw Risk Score	Final Risk Score
Risk that tax payment might be applied to the wrong account or that duplicate payments could be made	Treasurer	Low	Low	Medium	Medium	Remote	1.50	1.20
Risk that funds could potentially be embezzled/misappropriated during collection of property tax payments	Treasurer	Low	Low	Medium	Medium	Remote	1.50	1.20
Risk that funds could be misappropriated from cash drawers	Treasurer	Low	Low	High	High	Potential	4.00	3.08
Risk that physical security may not be adequate to protect staff from physical harm or funds from potential theft	Treasurer	Low	Low	High	High	Remote	2.00	1.58
Risk that cash might be left unsecured, subjecting funds to potential misappropriation	Treasurer	Low	Low	Low	Medium	Remote	1.25	1.01
Risk that cash transmitted from other county agencies could be misappropriated during processing	Treasurer	Low	Low	Low	Medium	Remote	1.25	1.01
Risk that controls may not be adequate to prevent funds from being misappropriated or moved erroneously from one taxpayer account to another	Treasurer	Low	Low	Medium	Medium	Remote	1.50	1.20
Risk that a false vendor could be created and payments made to that false vendor without detection	Treasurer	Low	Low	Low	Medium	Remote	1.25	1.01
Risks of changing financial institutions	Treasurer	Low	Low	Low	Low	Remote	1.00	0.83

Preliminary Assessments - Other departments		
Department	Average Raw	Average Final
County Attorney	5.03	5.39
Community and Economic Development	4.59	5.22
County Manager	4.10	4.83
Facility Operations	5.44	4.56
Human Services	3.50	4.50
Commissioner's/County Mgr. Office	3.70	4.01
Parks & Community Resources	3.06	3.87
Emergency Management	3.63	3.63
Transportation	3.75	3.48
Human Resources	3.55	2.86
Front Range Airport	3.32	2.84
Finance and Budget	2.75	2.57
Strategic and Long Term Planning	3.17	2.53
District Attorney	1.67	2.45
Information Technology	2.59	2.33
Fleet	2.38	2.29
Public Trustee	2.00	2.05