



2015 Annual Report

Internal Audit/Inspector General Department



LeeClerk.ORG
LINDA DOGGETT : CLERK OF COURT

Tim Parks, Chief Internal Audit Officer/Inspector General



April 30, 2016

The Honorable Linda Doggett
Lee County Clerk of the Circuit Court & Comptroller

Dear Ms. Doggett,

On behalf of the Internal Audit/Inspector General Department, I am pleased to present the Department's 2015 Annual Report. *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors (IIA), **Number 2060 – Reporting to Senior Management and the Board** states:

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

This report summarizes the objectives and accomplishments of the Department relative to the mandatory reporting requirements for the year ending December 31, 2015.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Parks".

Tim Parks, CIA, CIG
Chief Internal Audit Officer/Inspector General
Internal Audit/Inspector General Department



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Purpose

Mission Statement

The mission of the IA/IG Department is three-fold:

- The Audit Services Unit provides an independent, objective and comprehensive auditing program of Lee County Government (BOCC) and the Clerk’s operations; advances accountability through the provision of assurance and consulting services; and proactively works with the BOCC and Clerk in identifying risks, evaluating controls, and making recommendations that promote economical, efficient, and effective delivery of services.
- The Public Integrity Unit promotes good government and enhanced public trust by conducting investigations to ensure compliance with the Lee County Clerk of the Circuit Court’s Fraud, Waste and Abuse Policy and Procedures. The policy is designed to facilitate the development of internal controls in order to provide for the detection, prevention, and reporting of fraud, waste and abuse directed against County government.
- The Tourist Development Tax Unit serves citizens with respect and professionalism in the performance of the collection, audit, and enforcement of the Lee County Board of County Commissioners Tourist Development Tax. The unit provides education, administers applicable tax laws fairly and consistently; conducting research, audits, and enforcement investigations to ensure compliance with the myriad number of Tourist Development Tax laws and regulations. This allows for the detection and prevention of Tourist Tax Fraud, and ensures the highest level of compliance to provide a “fair and level playing field” for the citizens of Lee County regarding all registered and unregistered Dealers. This is accomplished in a professional and efficient manner at the lowest cost consistent with effective performance for the citizens of Lee County and other constituents.

Professional Standards

The Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing* (Red Book) defines internal auditing as

an independent, objective assurance (audit) and consulting activity designed to add value 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 of risk management, control, and governance processes.



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Assurance Services (audits) is an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Consulting Services is advisory, and performed at the specific request of clients; the nature and scope of which are agreed with the client, and are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

The Association of Inspectors General's (AIG) *Principles and Standards for Offices of Inspector General* (Green Book) describes investigations and forensic audits as independent techniques to gather and assess evidence related to alleged wrongdoing, potential violations of laws, rules and regulations, policies and procedures, or other abuses that impact negatively on the ability of the organization to effectively and efficiently carry out its duties. Furthermore, the Green Book requires compliance with the aforementioned Red Book standards when performing audits.

The Commission for Florida Law Enforcement Accreditation (CFA) is an accreditation program recognized as a means of maintaining the highest standards of professionalism for independent investigations based on meeting specific requirements and prescribed standards. The CFA requires compliance with the *Florida Inspectors General Standards Manual* when conducting investigations.

Authority

By authority of the Constitution of the State of Florida, Article VIII, Section 1. (d), " ... the Clerk of the Circuit Court (Clerk) shall be ex-officio clerk of the Board of County Commissioners, auditor, recorder, and custodian of all county funds." The Constitution of the State of Florida, Article V, Section 16, also specifies that the Clerk of the Circuit Court shall have the duties quoted above.

Pursuant to the legal authority and responsibility cited above, the Clerk has established the Internal Audit/Inspector General (IA/IG) Department to fulfill the responsibilities of the office as they relate to investigations and the auditing functions other than the pre-audit of disbursements from BOCC funds. The Finance Department of the Clerk's office performs the pre-audit function. The IA/IG Department responsibilities include a post-audit review of that function as well.

The Chief Internal Audit Officer/Inspector General (CIAO/IG) of the IA/IG Department, in the discharge of his/her duties, shall be accountable to the Clerk to:

- Conduct audits of operations of the BOCC and the Clerk's office.
- Perform collection, audit and enforcement of tourist development tax levies and report results to the Clerk and respective County Departments.



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- Report significant issues related to the processes for controlling the activities of the BOCC operations and the Clerk's Office, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit) as directed by the Clerk.

The CIAO/IG and staff of the IA/IG Department are authorized to:

- Require unrestricted access to all functions, records, property, and personnel.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit/investigative objectives.
- Obtain the necessary assistance of personnel in business units of the BOCC when they perform audits/investigations, as well as other specialized services from within or outside the BOCC.

The CIAO/IG and staff of the IA/IG Department are not authorized to:

- Perform any operational duties for the County.
- Initiate or approve accounting transactions external to the Department.
- Direct the activities of any employee not employed by the IA/IG Department except to the extent such employees have been appropriately assigned to the IA/IG Department or to otherwise assist the IA/IG Department.

Independence

To provide for the independence of IA/IG activities, its personnel report to the CIAO/IG, who reports functionally and administratively to the Clerk. Since the Clerk is elected, and thus responsible to the citizens and taxpayers of Lee County, the Clerk is considered to be independent. The CIAO/IG must communicate and interact directly with the Clerk. The Clerk, as County Auditor communicates with the BOCC, but this does not restrict the CIAO/IG from communicating with the BOCC directly. The IA/IG Department has no direct responsibility to or authority over any area subject to its audit, review and investigation. Therefore, the Internal Audit/Inspector General Department is organizationally independent from those areas which it will be auditing, reviewing and investigating. The CIAO/IG has the authority and responsibility to conduct audits/investigations of all agencies funded by the Clerk, the BOCC, and departments under the County Manager and to issue reports thereon.



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Responsibility

The staff of the IA/IG Department has the authority and responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Clerk for review and approval.
- Implement the Annual Audit Plan, as approved, including any special tasks or projects requested by the Clerk, the BOCC, the County Manager, or the Port Authority Director.
- Initiate audits/investigations and assist management during the course of the year, even though the projects/items are not on the Annual Audit Plan.
- Maintain a professional audit/investigative staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Establish a quality assurance program by which the CIAO/IG assures the operations of the IA/IG Department activities.
- Perform consulting services, beyond IA/IG assurance services to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.
- Ensure the collection, audit and enforcement of levied tourist development taxes as prescribed in Florida Statute and in Lee County Ordinance 13-14.
- Keep the Clerk informed of emerging trends and successful practices in auditing and investigations.
- Maintain a fraud, waste, and abuse hotline (e.g., telephone, website) and conduct investigations as indicated by the circumstances.
- Investigate suspected instances of fraud, waste and abuse.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

Performance

Professional Standard

IIA Standard #2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.



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Summary

The year 2015 was one of transition that carried over from 2014. Formally attaining accreditation and following professional standards for audits and investigations is substantially more resource-intensive than not formally following the standards. During 2014 and 2015, the IA/IG Department went through a culture change shock that was caused in part by a new Department title, new mission, new management, new auditors, new audit software, and newly implemented standards. As a result, the number of completed audits dramatically decreased. The results are detailed in the following Performance Measures Section.

The Audit Plan for 2015 initially consisted of the following projects:

Board of County Commissioners

1. Follow-up audits
 - a. Procurement Department
 - b. Facilities Services – MARS
 - c. Public Resources
 - d. Environmental Laboratory
 - e. County Commissioner Expenditures
2. Carry-over audits from the previous audit plan
 - a. Natural Resources Department
 - b. Transportation Department
 - c. Transit Department

Lee County Clerk of Circuit Court & Comptroller

1. Follow-up of Guardianship Audit
2. Follow-up of external auditor's management letter recommendation(s)

Port Authority

1. Carryover Audits from 2014
 - a. Work Permitting Program – Compliance Audit
2. Follow-up Activities
 - a. Maximo Implementation
3. Proposed Assurance Engagements
 - a. Information Technology – Continuity of Operations Plan
 - b. ARFF Equipment Maintenance
 - c. Finance - Purchase Card Analysis
4. Proposed Consulting Engagement
 - a. ERM Framework



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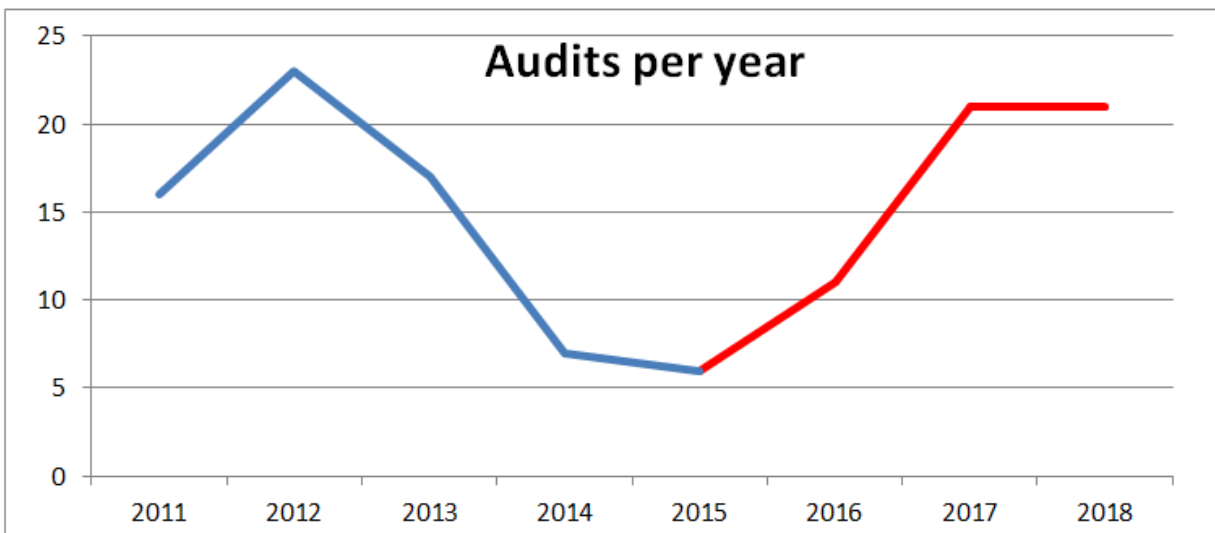
On April 14, 2016, the CIAO/IG made presentation to the Clerk for additional staff to ensure that Standard #2030, Resource Management could be met. The presentation included detail from the following Performance Measures section.

Performance Measures – 2015 and Beyond

1. Audit projects completed per year – **Actual** and **Projected**. Prior to transition to the newly chartered IA/IG Department (4/2/14), the average completion rate was about 19 audits per year.

Year	BOCC	Clerk	Port	Special	Total	*Auditors	per auditor
2011	11	1	4		16	7	2.3
2012	14	4	5		23	7	3.3
2013	13	2	2		17	7	2.4
2014	3	1	3		7	4	1.8
2015	3	1	1	1	6	4	1.5
2016	6	2	3		11	4	2.8
2017	13	5	3		21	7	3.0
2018	13	5	3		21	7	3.0

*Includes Director and Deputy Director performing audits (as available) from 2011 - 2013.



2. Audit projects completed in 2015
 - a. LCCC & BOCC Summary Report of FY 2015 for Petty Cash and Change Fund Counts
 - b. Supervisor of Elections
 - c. LCPA Purchasing Card Compliance
 - d. LCPA Work Permit Program Consulting Engagement



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- e. LCCC Follow-up Report of Guardianships
 - f. BOCC Follow-up Audit of Public Resources
 - g. BOCC Lee County Environmental Laboratory
3. Public Integrity Unit
- a. “Tips”
 - i. 38 “Tips” received
 - ii. 29 “Anonymous Tips” received
 - iii. Nine (9) Name provided “Tips”
 - b. Investigations
 - i. Two investigations within jurisdiction
4. Audit Population – Risk Assessments for 2016 Risk Plan
- a. BOCC
 - i. More than 90 identifiable units in the 2016 Risk Plan
 - ii. Of the 20 units with the highest risk factors, four were selected
 - iii. Our goal is 11-13 audits per year pending additional resources
 - b. Lee Clerk
 - i. More than 25 identifiable units in the 2016 Risk Plan
 - ii. Of the 20 units with the highest risk factors, four were selected
 - iii. Our goal is 4 audits per year
 - c. Port Authority
 - i. More than 40 identifiable units in the 2016 Risk Plan
 - ii. Of the 20 units with the highest risk factors, seven were selected with likelihood of three or four completed projects
 - iii. Our goal is 3-4 audits per year
5. Mandatory Planning and Reporting Requirements
- a. IIA
 - i. **Standard #1320 – Reporting on the Quality Assurance and Improvement Program:** *The chief audit executive¹ must communicate the results of the quality assurance and improvement program to senior management and the board.² This document is produced and reported under separate cover.*

¹ **Chief audit executive** – Chief Internal Audit Officer/Inspector General

² **Board** – “The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organization. “Board” may refer to an audit committee to which the governing body has delegated certain functions.” In this document, the Board refers to the Lee County Clerk of Circuit Court & Comptroller.



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- ii. **Standard #2010 – Planning:** *The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals. This document is produced under separate cover.*
 - iii. **Standard #2020 – Communication and Approval:** *The chief audit executive must communicate the internal audit activity’s plans and requirements, including significant interim changes, to senior management and the board for resource review and approval. The chief audit executive must also communicate the impact of resource limitations. This disclosure is included within this document.*
 - iv. **Standard #2060 – Reporting to Senior Management and the Board:** *The chief audit executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board. This disclosure is included within this document.*
- b. **CFA - Standard 1.08M:** *The Office of Inspector General investigations function submits an annual report to the Commission to report compliance efforts with accreditation standards by January 31 of each year.*
 - c. Our goal is 100 percent compliance with mandatory planning and reporting requirements.

6. Contract Auditing

- a. Clerk Contracts
 - i. 87 annual renewals
 - ii. Current total of \$1,649,064.
- b. BOCC Contracts
 - i. 340 annual renewals
 - ii. Current total approximate value of \$88 million
- c. Port Authority Contracts
 - i. 43 annual renewals
 - ii. Current total approximate value of \$41 million.
- d. Other contracts may include Statement of Work, or Professional Services Agreements, which may fluctuate, and are not always awarded on an annual basis.
- e. Five contracts were reviewed in audits during the past three years.
- f. Our Goals:
 - i. Establish a best practice for reviewing and reporting on applicable contracts within each audit.
 - ii. Consider hiring an auditor with contract audit experience, and perform comprehensive audits of identifiable high risk contracts.

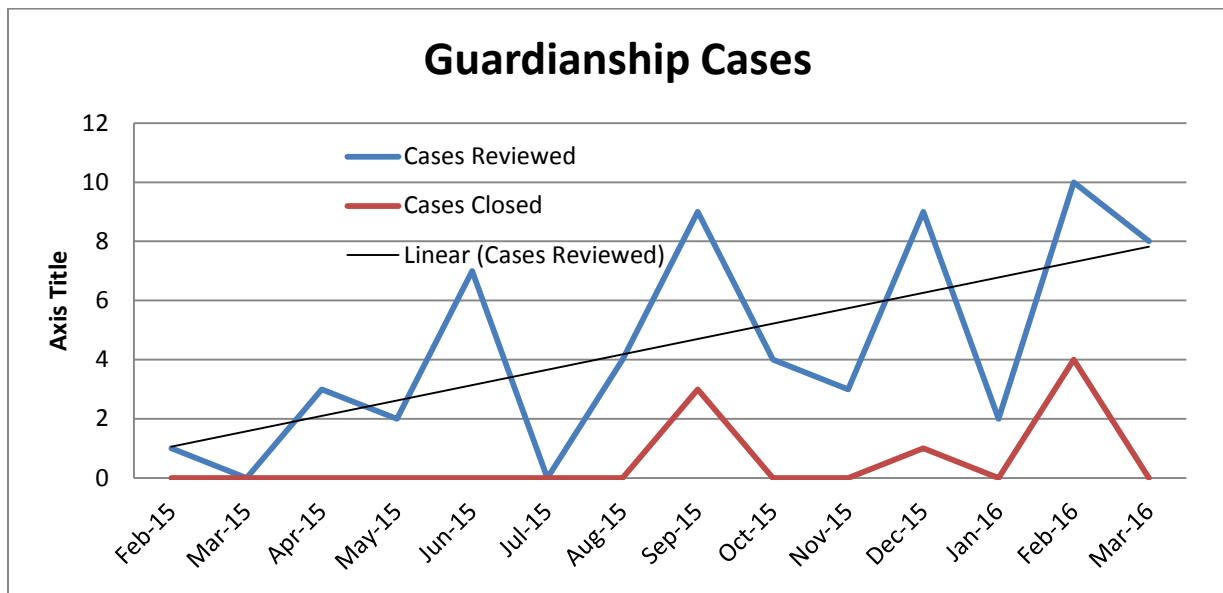


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- 7. Guardianship case tracking
 - a. 61 Guardianship cases logged
 - i. 22 progressed to Level II or III for additional review
 - b. 121 Guardianship Analyses performed at Probate/Judicial request

- 8. Guardianship Audits
 - a. Average 4.5 new Guardianship cases to review per month
 - b. Average .5 Guardianship cases to close per month
 - c. Our goal is to timely review, audit, and close all Level II and Level III Guardianship cases that are referred to the Department



- 9. Tourist Development Tax Collections Unit
 - a. 7600+ active accounts
 - b. More than \$37 million in collections
 - c. Customer contacts
 - i. Email – 2,439
 - ii. Correspondence – 10,804
 - iii. Phone contacts – 3,349



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10. Tourist Development Tax Audit Services

- a. TDT audits and assessments
 - i. 550 Desktop audit compliance analyses
 - ii. 20 Field Audits completed
 - iii. 28 Enforcement investigation cases closed
 - iv. More than \$752 thousand in assessments paid

Significant Risk Exposures and Control Issues

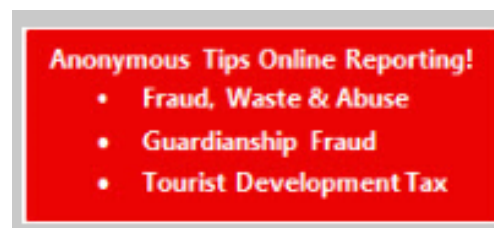
Fraud Risks

IIA Standard #2120.A2 – *The internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.*

The IA/IG Department has a long history of evaluating the potential for the occurrence of fraud. Various audits over the years have identified red flags of fraud. Two members of the Department are Certified Fraud Examiners. One is also a Certified Inspector General Investigator. Incidents of possible fraud are reported to the appropriate level of management, and cases are referred to law enforcement if applicable. There were no referred investigations in 2015.

On April 2, 2014, the Clerk implemented a Fraud, Waste and Abuse (FWA) Policy (#901). The Policy is presented and discussed by a member of the IA/IG Department at each new employee orientation.

The IA/IG Department has implemented an Anonymous Tips Online Reporting page on the LeeClerk.org website. The icon is prominently displayed on the main page, as well as the IA/IG, Guardianship, and Tourist Development Tax pages.



The IA/IG Department became accredited as an Office of Inspector General by the Commission for Florida Law Enforcement Accreditation (CFA) CFA was previously spelled out on February



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24, 2016. The accreditation was the result of significant time and effort spent during 2015 on building the necessary structure to attain the accreditation. Two external assessments were made to ensure that the Department is compliant with the standards promulgated by the CFA.

Governance Issues

IIA Standard #2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- *Promoting appropriate ethics and values within the organization;*
- *Ensuring effective organizational performance management and accountability;*
- *Communicating risk and control information to appropriate areas of the organization;*
and
- *Coordinating the activities of and communicating information among the board, external and internal auditors, and management.*

The IA/IG Department promotes and supports ethics and values within the organization. The Clerk has an employee policy manual with Policy #306, Ethics, included within. Each member of the Department joined an ethics seminar for at least two hours in 2015. Each Internal Auditor and Investigator is required to complete and sign an *Annual Independence Statement, Conflict of Interest Statement, Code of Ethics and Confidentiality Agreement*.

The Department reviews for and reports to the Clerk and senior management regarding effective organizational performance and accountability during each audit project as applicable. Risk and control is discussed at every pre-audit and exit meeting.

Other Matters

The IA/IG Department will be assessed by a peer review team from the Association of Inspectors General during the week of December 4, 2016. Upon completion of the review, we anticipate being permitted to note in all reports that the internal audit activity “*conforms with the International Standards for the Professional Practice of Internal Auditing,*” in addition to conformity with CFA and AIG investigation standards.



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Left to right – back row: Clerk of Court Linda Doggett, Internal Audit Officer Tamera Anderson, Chief Internal Audit Officer/Inspector General Timothy Parks, Deputy Inspector General Lawrence Haut, Sr. Internal Auditor/Accreditation Manager Thomas Cianflone. Front – Flora Tran, CFA Assessor