

St. Louis County Government
St. Louis County Auditor's Office

Audit Plan

This audit plan summarizes our risk assessment process and the primary areas in which the County Auditor's Office will conduct audits during 2018. These areas have been developed by engaging in the risk assessment process, reviewing previous external audits, and consulting with the County Council's Audit Committee.

External Risk Assessment

An external risk assessment of St. Louis County government was conducted in 2015. The firm of Brown Smith Wallace LLP ("BSW") performed and documented the risk assessment, and it was released on December 29, 2015.

BSW listed key departments and functions, and assessed risk for four areas within each: Revenue, Expenditure, Fixed Assets, and Grants. Management was asked to provide their assessment of the risk level. Then, BSW followed up with interviews of key department heads. The risk assessment was supplemented with estimates or actual amounts for significant revenues, expenditures, fixed assets or grants. BSW recommended that the audit plan address high risk areas noted in the plan.

Auditor's Office Risk Assessment

The St. Louis County Auditor's Office typically performs a similar mapping function on an annual basis. These risks include the loss of key staff in the Auditors Department and or expansion or contraction of the size and scope of the departments, new departments, and new boards or operations. The philosophy is to audit large departments in a rotation, but to adjust the audit plan each year to move higher risk departments earlier into the plan. Our audit plan includes a few additional audits so that planning work can be performed or the audit field work can be performed, if resources permit.

The criteria used to measure risk in the Auditor's risk assessment is similar to the BSW risk assessment. The criteria and focus are slightly different:

- The Auditor's Office focuses audits more at the Division level. It is common for one or more divisions in a department to have more risk than other peer divisions. In some cases, a single division has much more risk than the rest of the department. There are also several departments where one or more divisions have little or no risk.
- The Auditor's Office focuses more on expenditures than revenues and grants. Grant funding that is available is much lower than the historic "high-water" mark of several years ago. It is still important as a source of revenue for the County but, from an audit perspective, expenditures represent much more risk than grants.

- The Auditor's Office has the benefit of prior history, prior audit results, knowledge of operations, and communications with department and division heads, that are factored into the annual audit plan. The Auditor's Office can factor in the organizations controls that lessen risk.

Risk Factors

Risk factors are reviewed in detail during the audit planning effort. If the audit plan is defined for the entire year, the Auditor's Office can gather information to assess the risk for upcoming audits. We review budgets, budget to actual experience, purchasing activity, the staff directory, and certain payroll reports before developing a draft audit plan. We also discuss with department heads the timing of planned audits or their own assessment of additional risks.

Risk Factors That Increase Risk

It has been the experience of the St. Louis County Auditor's Office that these factors **increase** risk:

- Risk is typically directly correlated to expenditures.
- Risk is typically directly correlated to staffing levels.
- Risk can increase within areas that make payments on behalf of or refunds directly to the public (*e.g.*, Collector, the Recorder of Deeds or the Public Administrator).
- There is inherent risk in certain processes that require direct interaction with the public such as confinement of individuals (*e.g.*, Justice Center, Family Courts). Costs are also often higher for these operations because of 24-hour staffing.
- The elapsed time between audits can increase risk. Generally, controls may degrade if the operation has not been audited within three or four years. With the resources available it is difficult to audit all departments on a three-year or four-year cycle.

Risk Factors That Reduce Risk

It has been the experience of the St. Louis County Auditor's Office that these factors **decrease** risk:

- Risk of theft or diversion of assets is lower in departments and divisions with a higher percentage of personnel costs relative to discretionary expenditures for assets or consumables. Budgeted and actual personnel costs may be as much as 80% of a department's budget. This leaves little in discretionary spending. It is in areas of discretionary spending where there needs to be controls to prevent fraud or the diversion of assets. If personnel costs make up a high percentage of an organization's expenses, then discretionary spending is lower.

- Risk is mitigated or lowered through structure and documented procedures. For example, certain Police practices are risky. However, the Police Department lowers risk through a structured chain of command and documented procedures, orders, training, and communications.
- Risk is lowered in departments and divisions that budget into fewer accounts or in Departments with fewer active general ledger accounts. There is a loss of control when budgeted funds are transferred in or out of accounts, as budget transfers can cover shortages and facilitate fraud.

Limitations of Risk Assessments

There is a limitation to the use of this type of risk assessment if the knowledge about the risk level was completed by consensus of a team of management. Certain risks may be unknown. Certain risks can only be discovered through audit field work like transactions testing, interviews, and audit field work. Certain risks are made known to the audit team based on information provided directly to the Auditor's Office by management or employees in the department or division.

The presentation of the audit areas in the risk assessment may also give a misleading indication of the level of audit coverage provided historically. For example expenditures are reviewed in every department audit. Expenditures are also sampled and tested within the annual external audit. However, the risk assessment provided indicated that procurement was not reviewed as a separate, standalone process.

Expenditures, including purchasing card expenditures are traditionally been audited with the personnel who ordered goods, received goods, and approved the payment for the goods. The responsibility for the knowledge about the purchase, the reasoning for the purchase, and the actual asset lie within departments. As an alternative, procurement and expenditures can be audited centrally. However the implementation of this type of review can be more difficult as the documentation may be centralized but the knowledge about the expenditure is decentralized.

If a significant amount of time has elapsed since the prior audit, there are typically more "unknowns" about the true level of risk. Processes may have changed. Management may have changed. Certain controls may have been changed or discontinued. It has been the experience of the Auditor's Office that risk levels rise when a department or division has not been audited in four years.

Risk is also mitigated through an ongoing effort to have departments document control narratives. These control narratives describe their key processes and identify controls in place.

2018 Audit Planning Approach

For development of the 2018 audit plan, we used the BSW risk assessment with minor revisions. We did not change any stated risk levels (high, medium or low). We added additional areas at the bottom of the risk assessment. These additional areas include significant boards, applications and audit areas. We broke out listings of departments into their component divisions where this had not been done by BSW.

The risk assessment completed at year end included:

- Board of Election Commissioners
- Public Administrator
- County Counselor
- Administration – Director’s Office
- Administration – Fiscal Management
- Administration – CAPS
- Administration – Information Technology
- Administration – Personnel
- Administration – Procurement
- Director of Planning (includes Office of Community Development)
- Department of Public Works
- Department of Revenue – Collector of Revenue
- Department of Revenue – Revenue Information Services
- Department of Revenue – Recorder of Deeds
- Department of Revenue – Director’s Office
- Assessor
- Municipal Courts
- Judicial Administration – Circuit Clerk
- Judicial Administration – Family Courts
- Judicial Administration – Sheriff’s Office
- Judicial Administration – Law Library
- Judicial Administration – Court En Banc
- Prosecuting Attorney
- Police Department
- Department of Justice Services
- Human Services
- Department of Transportation
- Health
- Parks and Recreation Department
- Spirit Airport
- Children’s Service Fund
- Productive Living Board
- St. Louis Economic Development Partnership

Metropolitan Education and Training Center
Emergency Communications Commission

The Auditor's Office added a few boards, commissions or broke out additional areas within the departments listed above.

Additions by the Auditor's Office:

Significant Boards:

- St. Louis County Retirement Board of Trustees
- University of Missouri – Extension Council (for Monitoring Only)

Broken Out by the Auditor's Office:

- Administration – Treasury/Cash Management
- Administration – Risk Management
- Administration – Pension Benefits

Applications Added:

- MUNIS – General Ledger
- MUNIS – Accounts Payable
- MUNIS – Fixed Assets
- MUNIS – Personnel
- MUNIS – Payroll
- Staff Directory / Active Directory / User IDs
- Purchasing Card / P-Card Reporting (administered by a third party)

Subject Areas Added:

- Health – Landfill Tipping Fee
- Collector's Reconciliation
- Storage Management
- Information Security/Firewalls/Virus Prevention
- Bank Account Reconciliations
- Refunds / Repayments

Certain applications were not included but were added as standalone subject areas like Payroll, Accounts Payable, General Ledger, Pension/Benefits Administration, Risk Management.

Risk Factors

There are a few risk factors that we consider and examples of the change in level of risk.

Change in Management

- Turnover in management can be positive if the new management is more control conscious or more of an advocate of good controls.
- Turnover in management can hurt a department or division if there is a loss of key managers and knowledge of certain processes. There is turnover of key staff that impacts departments and should be expected in late 2017 and into 2018. Fiscal Management and Administration may be experiencing difficulty from key resignations or retirements happening recently.

If an audit occurs before a planned retirement, we are able to make sure that key processes are documented, to smooth the transition.

External Factors

- An external factor like the price of a commodity like fuel can increase or decrease the level of risk. For example, at Spirit Airport, lower fuel costs reduce the cost of fuel purchased for resale.

External Reviews

- A number of St. Louis County functions have been reviewed by external regulatory agencies at the State and Federal level. These included a review of the Family Court while an internal audit was underway. We review, compare and assess the findings of these other agencies.

Steps Taken to Lessen Risk

- We review changes in processes. We advocate changes that can significantly reduce risk. One of these is the planned closure of a significant number of general ledger accounts. This single change will have a ripple effect that will simplify budget processes, reduce the time required to perform budget to reviews and lower costs.

Written Documentation of Processes

- A program has been in place for about three years to document key processes as part of the external audit. Control narratives describe processes and identify key controls. Early adopters have been using their control narratives to review processes and for process improvement.

Audit Goals

It is our goal to cover the high-risk areas listed in the risk assessment but continue to perform a small number of lesser risk audits. These lesser risk areas have been scheduled because of the time since the last audit in the area and they are areas where audit planning work was completed.

If a moderate or high risk area cannot be audited, that constitutes a “shortfall.” The shortfall can be managed by monitoring the area or scheduling high risk areas in subsequent years. Given the number of departments and these risks, there will be a shortfall. The audit universe in St. Louis County government includes the following:

- St. Louis County has more than 50 departments.
- St. Louis County has 71 Boards and Commissions.
- St. Louis County collects \$2 billion in taxes annually.
- St. Louis County has 2018 projected revenue of \$763 million (2018 Budget Book)
- St. Louis County has a total market value of the Retirement Plans as of October 31, 2017 of \$696,757,911.

Shift in Audit Techniques

The effort to expand control narratives in 2017 is ongoing. We have obtained results from various Departments to update our internal control narratives available as directed in the external audit from KEB. We will continue this effort to expand control narratives in 2018.

Staffing

The St. Louis County Auditor’s office currently has one staff. We are authorized for three. With the addition of a third staff within 2017-18, we believe we can complete the plan listed here.

Carry Over Reviews

At year end the office has no carry over reviews.

Current Reviews

Currently the St. Louis County Auditor’s office is reviewing and updating department policies and procedures.

2018 New Review Considerations

The following will be new areas for us to audit in 2018:

1. **Current County Leases:** Review the number and scope of county leases, look at space utilization, and review for cost savings.
2. **Proposition P Funds:** Ensure no funds are diverted from voter-intended purposes.
3. **County Sunshine Requests:** Ensure that state law regarding sunshine requests is enforced and ensure transparency of county operations.
4. **Police Officer Overtime:** Review requests for overtime and confirm funds were spent.
5. **Non-Merit political appointees:** Per the Charter, a list of these individuals should be provided to the Council as well as all benefits and pay.
6. **County Executive Discretionary Fund:** Because of the nature of the fund being solely in the County Executive's office it should be looked at to ensure accountability, and to ensure there is no diversion of funds from their intended and proper use.
7. **Review of previous audits to see if recommendations have been adopted:** Significant funds have been expended to hire experienced auditors to review county operations, a review should be done to ensure those recommendations have been put in place.
8. **Health Department:** Review the budget, expenses, and services provided to see if the health department is providing the best service possible.
9. **Sexual Harassment Claims:** Ensure no County money has been paid out for sexual harassment claims or suits. Ensure that the County is not hiding workplace sexual harassment or inappropriate conduct of its employees by use of confidentiality agreements or similar methods. Include a review of all sexual harassment policies to be included on a website location accessible by county employees.
10. **Some additional Department audits that may be necessary:**
 - a. Spirit of St. Louis Airport Finances
 - b. St. Louis County Fuel Sales
 - c. St. Louis County Procurement Contract Scoring Practices
 - d. County Pension Fund