

**Proposal to Conduct a Comprehensive  
Fraud Risk Reduction and Internal Control  
Modernization Assessment**

**COCHISE COUNTY, ARIZONA**

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**65<sup>TH</sup> NORTH GROUP, LLC**

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December 12, 2020

Ms. Sharon Gilman, Associate County Administrator  
Cochise County  
1415 Melody Lane  
Bisbee, AZ 85603

Ms. Gilman:

65<sup>th</sup> North Group, LLC is pleased to submit a proposal to conduct a comprehensive fraud risk reduction and internal control modernization assessment, in full compliance with COSO and Green Book standards, for Cochise County. We are a national local government consulting firm, specializing in fraud risk reduction and internal control modernization assessments, including internal control auditing on behalf of our clients.

We have conducted numerous fraud risk reduction and internal control modernization assessments across the country for city, county, and state government organizations. Our internal control work is published in numerous professional organizations (including GFOA, ICMA, and ALGA) and we are deeply invested in the success of local government operations. We utilize best practices from numerous professional organizations to provide real solutions that reduce fraud risks and modernize internal controls.

This is a comprehensive study and as such the following functions will receive a fraud risk reduction and internal control modernization assessment with a best practices GAP analysis and a prioritized and phased implementation plan:

• Expenditures and accounts payable	• Checks and check handling
• Inventory and equipment / capital assets	• Finance operations / financial reporting
• Human resources and payroll operations	• Governance
• Treasury, cash, and cash handling	• Physical controls
• Information technology	• Data analytics
• Worker's compensation fraud risks	• Vendor management and ACH payment fraud
• Financial close and financial reporting	• Debt management
• Revenue and accounts receivable	• Taxes

Our project team offers Cochise County this unique combination of qualifications:

- Certified Fraud Examiner (CFE)
- Certified Internal Control Auditor (CICA)
- Certified Information Systems Auditor (CISA)

- Certified Public Accountant (CPA)
- PhD in financial management with a dissertation specific to local government internal controls
- Over 150 years combined experience and expertise
- Master's degree in Public Administration
- ICMA – Credentialed Manager (CM)
- Prior municipal utility director experience
- Prior local government finance, procurement, and HR director experience
- Government internal control work published in ICMA Public Management magazine, GFOA Government Finance Review magazine, ALGA Quarterly Review magazine, and ProQuest
- Presenter for internal control and fraud risks at conferences for GFOA state associations
- Nationwide local government internal control and fraud risk experts.

Our work is comprehensive, timely, and we will work with your staff to remedy any control deficiencies discovered, including writing internal control-related policies. Additionally, we will provide a bank of 20 hours of investigative assistance (consulting) for any fraud-risk related matters.

We understand that each organization has its own unique culture and we take the time to understand the organization to help ensure the custom policies we recommend will be implemented effectively within the organization's culture. We look forward to the opportunity to work with Cochise County and if I can answer any questions, please feel free to contact me at [dross@65thnorth.com](mailto:dross@65thnorth.com) or (480) 386-5344.

Sincerely,



David M. Ross, PhD, CFE, CICA, ICMA-CM  
President & CEO  
65<sup>th</sup> North Group, LLC

**FIRM AND STAFF QUALIFICATIONS**

65<sup>th</sup> North Group is a nationwide local government consulting firm of highly experienced professionals with **decades of experience**. We are an Arizona-based limited liability company and our senior employees have over 150 years combined experience and expertise. Our legal name and corporate address is:

65<sup>th</sup> North Group LLC  
 3100 W. Ray Road, Suite #201  
 Chandler, AZ 85226  
 (480) 386-4344

Project team members have certifications that include certified internal control auditor (CICA), certified fraud examiner (CFE), certified public accountant (CPA), certified information systems auditor (CISA), and internal control certificates from the Institute of Internal Auditors (IIA) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our work is in full compliance with applicable COSO Integrated Internal Control Framework and Green book standards.

Our project manager for this engagement will be our firm’s President & CEO, a nationwide local government fraud risk reduction and internal control modernization expert with a PhD in financial management and a dissertation specific to government fraud risk reduction and internal control. He has direct experience managing over 800 employees and has direct experience with full-service municipal government operations, including utilities. Seven recent government fraud risk reduction and internal control modernization references are provided below (to include city, county, and state representation):

Client	Project Summary
<p><b>City of Gallup, New Mexico                      Numerous Internal Control and Operational Assessments and Audits</b></p> <p>Maryann Ustick                      City Manager                      505.863.1205  <a href="mailto:mustick@gallupnm.gov">mustick@gallupnm.gov</a></p>	<p>We conducted several studies for the City of Gallup in 2018 and 2019, including operational and efficiency assessments, staffing assessments, and numerous internal control assessments internal audit compliance. Projects included a comprehensive evaluation of operations and staffing for the County’s finance department, human resources department, fleet maintenance division, procurement department, warehousing, parks and recreation, public works, animal control operations, water utility, electric utility, and solid waste department.</p> <p>Dr. Ross managed all aspects of each of these projects.</p>

Client	Project Summary
<p><b>Cabarrus County, North Carolina</b></p> <p><b>Internal Control and Fraud Risk Assessment</b></p> <p>Susan Fearrington Finance Director 704.920.2894 <a href="mailto:SBFearrington@cabarruscounty.us">SBFearrington@cabarruscounty.us</a></p>	<p>This 2019 – 2020 fraud risk and internal controls assessment project included a comprehensive evaluation of the County’s operations and internal controls in finance, IT, human resources, tax administration, and infrastructure and asset management. Additional internal control assessments were completed for all county departments with cash handling responsibilities.</p> <p>Dr. Ross managed all aspects of this project while working on behalf of another consulting firm.</p>
<p><b>City of St. Cloud, Florida</b></p> <p><b>Procurement Department Fraud Risk Reduction and Internal Control Modernization Assessment</b></p> <p>Leslie Flores Procurement Services Director 407.957.7212 <a href="mailto:lflores@stcloud.org">lflores@stcloud.org</a></p>	<p>This 2020 study involved a review of fraud risks and internal controls within procurement operations. The assessment included an audit of inventory, fuel usage, and purchases throughout the organization. Several recommendations were made to further reduce the County’s risk of non-compliance with policy and to improve the resilience of internal controls. In addition to the assessment, we wrote policies and wrote the organization’s procurement manual.</p> <p>Dr. Ross managed all aspects of this project.</p>
<p><b>City of Douglas, Arizona</b></p> <p><b>Utility Risk and Resilience Assessment and Emergency Response Plan</b></p> <p>Alan Humphrey Public Works Director 520.727.1295 <a href="mailto:alan.humphrey@douglasaz.gov">alan.humphrey@douglasaz.gov</a></p>	<p>This 2020 study involved a comprehensive assessment of water utility risks and an associated emergency response plan, in compliance with the EPA’s America’s Water Infrastructure Act of 2018. The work included a comprehensive analysis of system controls and risks, with recommendations to improve risk resiliency.</p> <p>Dr. Ross managed all aspects of this project.</p>
<p><b>Town of Morrison, Colorado</b></p> <p><b>Fraud Risk Reduction and Internal Control Modernization Study</b></p> <p>Kara Winters Town Manager 303.697.8749 <a href="mailto:kara@morrisonco.us">kara@morrisonco.us</a></p>	<p>This 2018 project included a comprehensive evaluation of the Town’s internal controls and occupational fraud risks. We examined their control environment, risk assessment, control activities, information and communication, and monitoring activities. All departments were assessed and a comprehensive report provided, including recommendations for improvements and policies written on the town’s behalf.</p> <p>Major recommendations included inventory control, modifications to cash receipting, improvements to the physical security environment, ERP access restrictions implemented, review of management override, management audits of internal controls, mandatory vacations for key employees, vendor management changes, implementing a point-of-sale system for one of their enterprise funds, occupational fraud education for employees, check security modifications, and several segregation of duties concerns were addressed.</p> <p>Dr. Ross managed all aspects of this project.</p>

Client	Project Summary
<p><b>State of North Dakota Department of Transportation</b></p> <p><b>Internal Audit of District Inventory and Procurement Processes</b></p> <p>Jody Isaak Quality Assurance and Internal Review Director 701.328.2486 <a href="mailto:jmisaak@nd.gov">jmisaak@nd.gov</a></p>	<p>This 2020 project included a comprehensive assessment of internal controls over inventory and procurement functions across all districts throughout the State of North Dakota. We completed numerous risk assessments and made recommendations to reduce risk and strengthen the control environment.</p> <p>Dr. Ross managed all aspects of this project.</p>
<p><b>City of La Cañada Flintridge, California</b></p> <p><b>Finance Department Internal Controls and Process Review</b></p> <p>Rebekka Hosken Finance Director (818) 790-8880 <a href="mailto:rhosken@lcf.ca.gov">rhosken@lcf.ca.gov</a></p>	<p>This 2019 project included a comprehensive assessment of finance operations, payroll process, finance department staffing and organizational structure, finance-related policies including purchasing limits, business licensing processes, and technology utilization. There were over 200 areas of internal controls examined with recommendations made for implementation of additional best practice internal controls to better reduce their future risk of fraud, waste, or abuse. In addition, we created a proposed vendor approval form and recommended class specifications for a proposed new position.</p> <p>Dr. Ross was project manager on this engagement while working on behalf of another consulting firm.</p>

In the past two years, the project manager for this engagement has worked on over 28 different government projects evaluating a wide variety of departments and services. At 65<sup>th</sup> North Group, we commit all necessary capacity to ensure each project receives a timely and successful conclusion, within budget, and that meets or exceeds client expectations. Dr. Ross will personally work on every aspect of any project for Cochise County.

Testing of existing controls is important; however, implementation of new controls that are consistent with best practices is equally important. For this reason and in order to have meaningful results, buy-in from Cochise County employees who are responsible for implementing recommendations is important. We understand that each organization has its own culture and as such, we commit the necessary time to present our recommendations before finalizing the report, to obtain feedback from designated staff, and to answer all questions regarding the analysis and recommendations. Additionally, we agree to write custom internal-control policies for Cochise County for any identified control weaknesses.

Our project team offers the county this unique combination of qualifications:

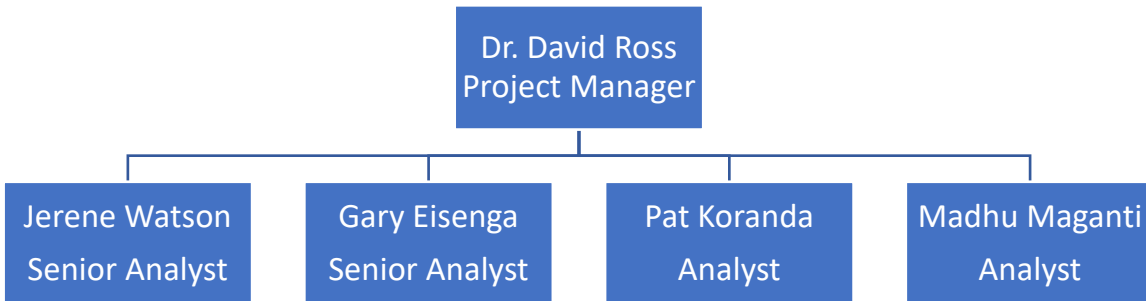
- Certified Fraud Examiner (CFE)
- Certified Internal Control Auditor (CICA)
- Certified Information Systems Auditor (CISA)
- Certified Public Accountant (CPA)
- PhD in financial management with a dissertation specific to local government internal controls
- Over 150 years combined experience and expertise
- Master’s degree in Public Administration
- ICMA – Credentialed Manager (CM)
- Prior municipal water and electric utility director experience
- Prior local government finance, procurement, and HR director experience
- Government internal control work published in ICMA Public Management magazine, GFOA Government Finance Review magazine, ALGA Quarterly Review magazine, and ProQuest
- Presenter for internal control and fraud risks at conferences for GFOA state associations
- Nationwide local government internal control and fraud risk experts.

At 65<sup>th</sup> North Group, we are committed to excellence and work to ensure excellent project results – every time. The following table provides an overview of our organization and general methodological approach:

We are experienced local government professionals	Our employees have worked in highly responsible government positions for decades. We have an in-depth understanding of professional government operations.
We develop a work plan that meets your needs	Our projects are designed to deliver highly meaningful results. Each government operating environment is unique and as such, each client has their own unique needs. We work with our clients to develop a work plan that will allow us to deliver high-quality results.
Our firm’s CEO is actively involved with the majority of work for each project	We believe that the most experienced personnel in our organization should be actively involved in all aspects of a project. By doing so, our clients receive unprecedented attention and high quality work.
We know best practices and proven methodologies	We are members of numerous professional organizations and through those associations and our own knowledge of best practices in the industry, we are able to bring forth into our recommendations best practices in local government operations. Additionally, our employees are experienced local government professionals and we understand not only the theories behind the best practices, we understand the operational and management aspects of them as well.

<p>We believe in collaboration and communication as keys to a successful implementation of recommendations</p>	<p>In order to achieve a highly successful outcome to our projects, we believe it is important to maintain regular communication with our clients. This includes providing updates as to the status of the project and it includes collaboration as appropriate to ensure successful implementation of recommendations.</p>
<p>Quality work with meaningful results is a top priority</p>	<p>Our belief is that we must deliver a high quality work product on every engagement; this is our firm's top priority.</p>

The following chart shows the organizational structure for this engagement:



**Dr. David Ross**, CEO of 65<sup>th</sup> North Group, will be project manager for this engagement. Dr. Ross brings with him over 30 years of government and consulting experience. During his career, he managed an extensive list of projects for a variety of local government functional areas including finance, human resources, public works, utility billing, internal controls, parks and recreation, development services, and many others. He has assessed local government operations, written policy manuals, conducted operational efficiency studies, and conducted risk management and operational audits for government organizations. He is highly experienced in government operations, including utility operations / utility billing. In addition, Dr. Ross instructed public administration courses for the University of Phoenix for eight years.

Dr. Ross holds a PhD in Financial Management with a dissertation specific to local government internal controls. This combination of education and experience will serve highly useful for this engagement. In addition to his doctorate in financial management, he received his BS in Public Administration from Upper Iowa University, his Executive MPA from Golden Gate University, he completed Harvard University's Senior Executives in State & Local Government Program, and he is an ICMA credentialed manager. Dr. Ross holds an American Water Works Association (AWWA) certificate in utility risk and resiliency assessments and emergency response planning, he is a certified fraud examiner (CFE), a certified internal control auditor (CICA), and he holds a

certificate in internal controls from the Institute of Internal Auditors (IIA) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Dr. Ross is a member of the International City and County Management Association (ICMA), the Institute of Internal Auditors (IIA), the Institute for Internal Controls (IIC), the Association of Certified Fraud Examiners (ACFE), and the American Water Works Association (AWWA). His local government financial management work is published in ProQuest (2016), ICMA's Public Management (PM) magazine (2019), the Government Finance Officers Association (GFOA) Government Finance Review magazine (2020), and the Association of Local Government Auditors (ALGA) Quarterly Review (2020).

**Ms. Jerene Watson** is a senior analyst with 65<sup>th</sup> North Group. She has over 28 years public sector experience, including decades as a department director, assistant city manager, or city manager. She is an expert council relationship facilitator with extensive experience with operational analysis, communications, employee development, economic development, and citizen engagement. She is a graduate of Harvard University's Senior Executives in State & Local Government program and holds a master's degree in public administration from Old Dominion University.

**Mr. Gary Eisenga** is a senior analyst with 65<sup>th</sup> North Group. He is a consummate professional with 29 years local government senior management experience. He is experienced with project management, internal controls, community engagement, staffing, interviewing, planning, developing job descriptions, budgeting, and training. Mr. Eisenga is a US. Navy veteran having received multiple medals and awards, a graduate of the FBI National Academy, and has a Bachelor of Science degree in Business Administration from Old Dominion University.

**Mr. Pat Koranda** is an analyst with 65<sup>th</sup> North Group. He is experienced in accounting, financial analysis, IT networking, project management, technology integration, efficiency assessments, and internal controls / internal auditing. Mr. Koranda is an experienced financial analyst, controller, chief financial officer, and internal auditor for private sector, non-profit, and public sector organizations. Mr. Koranda has a B.A. in Accounting and Finance Management from the University of Northern Iowa.

**Mr. Madhu Maganti** is an analyst on this project. He has over 18 years' experience in cybersecurity and IT advisory services, including IT strategy and planning, business process improvement and internal controls, and IT compliance assessments. Mr. Maganti is an experienced industry professional, having served in leadership roles in management consulting and CPA firms. He earned has a Master's Degree in Accountancy from Baruch College, Zicklin School of Business in New York. He is a member of the Institute of Internal Auditors and the American Institute of Certified Public Accountants. He has lectured at several cybersecurity conferences and authored

articles in publications across the country. He is a Certified Public Accountant (CPA) and a Certified Information Systems Auditor (CISA).

The project manager's resume is provided below:

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### **DAVID M. ROSS, PhD, CEO**

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Dave Ross is CEO of 65<sup>th</sup> North Group LLC, a nationwide local government consulting firm. He has over 30 years' experience working in state and local government as well as a local government management consultant. He started his firm in 2018 but committed all time in 2019 to working with the Matrix Consulting Group as either project manager or an analyst on numerous projects. His experience working in state and local government is in a multitude of increasingly responsible positions, including over a decade as a city and county manager in communities ranging from 1,500 to 150,000 population. He has extensive education and experience with government operational assessments.

While working as a senior public sector manager, working on behalf of the Matrix Consulting Group, or as CEO of 65<sup>th</sup> North Group, Dr. Ross worked on studies for the following organizations (population):

City of Tigard, Oregon, (53,148)	City of Bloomfield, Connecticut, (21,406)
City of Gallup, New Mexico, (21,960)	City of Schertz, Texas, (40,092)
City of La Cañada Flintridge, California, (20,413)	Cabarrus County, North Carolina, (206,872)
City of Buckeye, Arizona, (68,453)	City of Palo Alto, California (67,178)
City of Littleton, Colorado, (47,734)	City of Boulder, Colorado, (107,125)
City of St. Cloud, Florida, (51,282)	City of Mountain View, California (81,438)
City of Milpitas, California (78,106)	Lake County, Illinois (703,520)
City of Oklahoma City, Oklahoma (643,648)	City of Wellman, Iowa (1,408)
Town of Morrison, Colorado (431)	Village of Mount Horeb, WI (7,443)
Rock Island County, Illinois (146,094)	City of Douglas, AZ (15,978)
State of North Dakota (762,062)	

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**Financial Management and Internal Controls:** Conducted studies of finance department operations, procurement, information systems and technology, contract management, asset management, long-range financial planning, and internal controls/fraud risk assessments. Studies have focused on effective staffing levels, staff utilization, technology utilization, organizational structure, standard operating procedures, financial planning, preventive and detective internal controls, fraud risk, cyber security risk management, worker's compensation risk management, and segregation of duties.

- City of Gallup (NM) – Finance, Asset and Contract Management, Procurement, Internal Controls
  - City of La Cañada Flintridge (CA) – Finance, Procurement, Internal Controls
  - City of Schertz (TX) – Finance, Procurement, Asset Management, and Contract Management
  - City of Tigard (OR) – Finance, Procurement, Asset Management, and Contract Management
  - Town of Bloomfield (CT) – Finance, Procurement, Asset Management, and Contract Management
  - Cabarrus County (NC) – Finance, Procurement, Asset Management, Tax Collections, Internal Controls
  - Town of Morrison (CO) – Internal Controls
  - Village of Mount Horeb (WI) – Long-Range Financial Planning and Utility Rate Setting
  - Wellman (IA) – Long-Range Financial Planning and Utility Rate Setting
  - Rock Island County (IL) – Long-Range Financial Planning
  - City of St. Cloud (FL) – Procurement Department Fraud Risk and Internal Controls
  - City of Douglas (AZ) – Water System Risk and Resiliency Assessment and Emergency Response Plan and utility rate study
  - State of North Dakota, Department of Transportation – Fraud Risk Reduction, Internal Control Modernization, and Internal Audit of Inventory and Procurement Processes
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**DAVID M. ROSS, PhD, CEO**

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**Administrative Services:** Conducted studies of administrative support services including Human Resources, Information Technology, Business Licensing, Real Estate Management, Design & Communication, Utility Billing, Municipal Court, and GIS. Study scope of work included evaluating and revising associated business processes, performance measurement, customer service (internal and external), technology utilization, staffing evaluations, policy and procedure review, and comparison to best management practices.

- Town of Bloomfield (CT) – IT, GIS, Human Resources
- City of Tigard (OR) – IT, GIS, Design & Communication, Municipal Court
- City of La Cañada Flintridge (CA) – Business Licensing
- City of Schertz (TX) – IT, GIS, Municipal Court, Utility Billing
- Cabarrus County (NC) – Human Resources, IT
- City of Palo Alto (CA) – Business Licensing
- City of Boulder (CO) – Real Estate Management
- City of Gallup (NM) – Human Resources, IT

**Public Works, Facilities, and Development Services:** Conducted studies of public works departments including building maintenance, fleet, engineering, grounds maintenance, roads, project management, planning and zoning, development review/permitting, code enforcement, and building inspections. Studies have focused on evaluation of maintenance management, crew sizes and staff utilization, technology, organizational structure, standard operating procedures, levels of performance management, and comparison to best management practices.

- Gallup (NM) – Public Works, Engineering, Project Management
- City of Tigard (OR) – Facilities Maintenance, Fleet, Project Management
- City of Buckeye (AZ) – Facilities Maintenance
- City of Littleton (CO) – Grounds Maintenance
- Cabarrus County (NC) – Infrastructure and Asset Management
- Town of Bloomfield (CT) – Engineering, Code Enforcement, Planning & Zoning, Building Inspections, Economic Development
- City of Schertz (TX) – Engineering, Planning & Zoning, Building Inspections, Project Management, Economic Development

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**PROFESSIONAL AFFILIATIONS and PUBLICATIONS**

- International City and County Management Association (ICMA)
  - Institute of Internal Auditors (IIA)
  - Institute for Internal Controls (IIC)
  - Association of Certified Fraud Examiners (ACFE)
  - A Case Study of Municipal Government Financial Management and Effective Internal Controls, published in ProQuest, March 2016
  - Minding the Money, published in ICMA's PM Magazine, March 2019
  - Nurturing Relationships and Modernizing Internal Controls, GFOA Government Finance Review, June 2020
  - Playing Monday Morning Quarterback and the Importance of Modernizing Internal Controls, ALGA Quarterly: Spring 2020
-

**DAVID M. ROSS, PhD, CEO**

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**EDUCATION**

Dr. Ross received his bachelor's degree in Public Administration from Upper Iowa University, his Executive MPA from Golden Gate University, his PhD from Northcentral University, and he completed Harvard University's Senior Executives in State & Local Government Program. Dr. Ross is a certified fraud examiner (CFE), a certified internal control auditor, and holds a certificate in internal controls from the Institute of Internal Auditors (IIA) and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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## PROJECT APPROACH

At 65<sup>th</sup> North Group, we believe in following a unique project plan for each engagement to ensure we deliver exceptional results. Our CEO will manage every aspect of this project to ensure its timely completion. There are numerous areas of internal control that cover an organization's operations, reporting, and compliance. They cover areas of the control environment, risk assessment, control activities, information and communication, and monitoring activities. Weaknesses in any of these areas can result in increased risk for an organization with controls being assessed at the entity level, division level, operating unit level, and function level.

The control assessments will be in full compliance with COSO's Internal Control Integrated Framework and Green Book standards and will include scoping and testing of controls for key risk areas, providing best practice recommendations for control improvement (reducing the inherent risk of fraud), completion of a best practices diagnostic assessment, completing a GAP analysis with a comprehensive report that allows for staff implementation of recommendations, and assisting the County with implementation of best practice controls. Multiple risk assessments will be included, as well as fraud risk scorecards and a risk assessment heatmap. Our recommendations will be based on best practice; however, they will be custom to the organization (to help ensure effective implementation).

The following work processes provide a comprehensive outline for how we will approach our work for Cochise County:

### **Work Process 1: Initiation and Project Management**

During this first work process, we will provide the county with our initial data request list. This list will include items such as current policies and procedures, copies of ledgers and journals, copies of bank statements and bank reconciliation data, copies of financial and IT-related planning documents (including debt management and risk response planning), copies of tabletop exercise completion reports, copies of current and historical phishing campaign clickthrough rates, copies of accounts payable and accounts receivable processes, and more.

We will hold a project kick off meeting, designed to ensure everyone is on the same page with the goals and requirements of the study as well as steps and timeline for completing the assessment. At this meeting we will review with County staff the employees we request to interview (we value employee time and work to minimize any interruption to their work – so interviews generally last approximately an hour each). Certain interviews can take slightly longer to complete (i.e. certain department directors / independent elected officials); however, we will work with them to schedule a time that

works best for everyone. We will review our process for non-intrusive observation of operations as they relate to the County's control environment and we will discuss our process for data review and testing of controls.

With the kickoff meeting completed, we will update the project management plan to ensure delivery of all scheduled activities consistent with project management best practices. We believe in regular communication and updates; as such, we will provide weekly updates on the status of the project and we will make ourselves available at any time to answer questions.

**Deliverables:** Deliverables for this work process include providing an initial data request, completion of the project kick off meeting, and updating the project management plan to ensure timely completion of all components of the project plan.

### **Work Process 2: Current State Assessment**

It is important that the project team fundamentally understand Cochise County's existing preventive and detective internal control policies; existing department processes and procedures; existing job descriptions, and staffing levels. Best practices for reducing the risk of fraud, waste, and abuse are priorities for this project.

To develop this understanding, we will conduct interviews with staff, make observations, and review available data to understand and assess numerous areas of existing preventive and detective internal controls. We will evaluate all departments as necessary to assess fraud risks and internal controls over the following functions:

- Expenditures and accounts payable
- Inventory and equipment / capital assets
- Human resources and payroll operations
- Treasury, cash, and cash handling
- Checks and check handling
- Finance close and financial reporting
- Governance
- Physical controls
- Information technology
- Worker's compensation fraud risks
- Data analytics
- Contingencies and equity
- Revenue and accounts receivable
- Vendor management and ACH vendor payment fraud
- Checks and check handling

- Debt management
- Taxes

Staff interviews allow us to (1) understand existing operations; (2) collect and document operational data; (3) develop descriptions of the department structures; (4) document the allocation of all functions, programs, and services; (5) understand staffing levels and staff responsibilities; (6) understand basic job responsibilities for those employees; and (7) understand the primary tools, equipment, and technology those employees use to complete their work.

We will complete several internal control assessment reports, including:

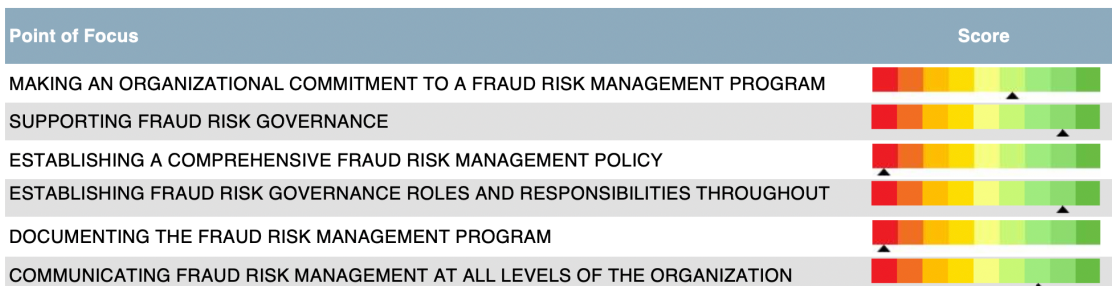
- Governance analysis
- Fraud, Waste, and Abuse Assessment
- Existing Control Activities
- Investigations and Corrective Action
- Existing Internal Control Monitoring
- Heat Map – Fraud Risk Assessment

The sample chart below provides a generalized representation of a graphic from a summary of data points. Actual data and charts for Cochise County will be more detailed.

**Sample Limited Summary of a Single Graphic from a Fraud Risk Governance Review:**

## Fraud Risk Governance Scorecard (Fraud Risk Governance)

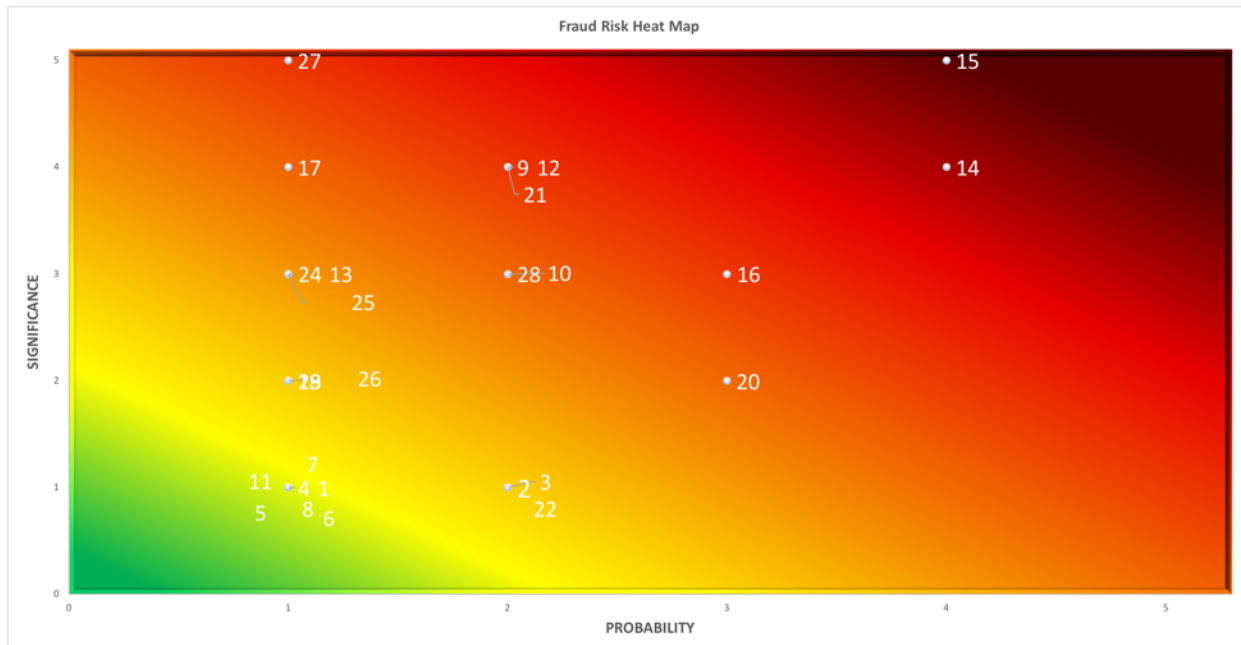
**Summary by Points of Focus**



In our fraud risk assessments, we identify potential fraud risks and schemes that could possibly occur in similar organizations, we assess the likelihood a risk / scheme could

occur in the organization we are assessing, we identify the significance that it could be to the organization should it occur (both based on financial loss and political / reputational harm to the organization), and we develop an overall fraud risk rating. We then identify the departments / staff that could be affected, we identify existing controls, we identify control effectiveness and any residual risks, and we recommend best practice controls for implementation.

**The following is a heatmap summary based on a completed fraud risk assessment matrix:**



The numbers in the heatmap represent specific fraud risks / schemes as identified within the fraud risk assessment matrix (not provided). In this example, the areas of highest overall risk are #14 (fictitious vendors) and #15 (false invoices). Additional areas of high significance should something occur are numbers 9 (theft of cash), 12 (fraudulent disbursements), 17 (payroll fraud), 21 (theft of inventory), and 27 (aiding fraud by another party). We then go into detail on best practice recommendations for improvement in the identified areas of risk.

We will assess fraud risks within the county’s worker’s compensation program and as appropriate, recommend policies to reduce identified risks. Once these initial data collection activities and interviews are complete, the project team will prepare a descriptive profile that presents our understanding of the current state of operations as they relate to the project’s objectives. This profile will be circulated to ensure the accuracy of our understanding. Once completed and reviewed, the profile will provide the basis for subsequent work processes.

**Deliverables:** The deliverable for this work process is a current state assessment report over fraud risks and internal controls.

### **Work Process 3: Fraud Risk Assessment / Testing of Controls**

During this work process we will conduct a fraud risk assessment for County operations and test existing controls over a variety of identified key risk areas, including business processes in order to evaluate their design and resilience to risk.

At the completion of the assessment, staff are left with more knowledge on how they can better protect organizational assets and what can be done to improve preventive and detective controls. Areas of high probability or high significance should be addressed by the assessment team to determine if any additional controls can further mitigate risk of occurrence or increase the likelihood of detection.

**The following are examples of internal control risk areas commonly found in local government operations:**

- ⇒ Compliance with required debt policies and laws
- ⇒ Compliance with laws and industry regulations
- ⇒ Compliance with all reporting requirements
- ⇒ Theft of cash,
- ⇒ Personal purchases with public funds,
- ⇒ Misuse of inventory,
- ⇒ Theft of inventory,
- ⇒ Proper timing of financial reporting
- ⇒ Deposit lapping,
- ⇒ Theft of checks,
- ⇒ False refunds,
- ⇒ Fictitious vendors,
- ⇒ False invoices,
- ⇒ Financial reporting fraud,
- ⇒ Payroll fraud – falsified hours,
- ⇒ Payroll fraud (including unauthorized adjustments to salary, benefits, or withholdings)
- ⇒ Expense reimbursement fraud – overstated or falsified expenses,

- ⇒ Falsified worker's compensation claims,
- ⇒ Bid rigging,
- ⇒ Illegal acceptance of gifts,
- ⇒ Bribery,
- ⇒ Kickbacks,
- ⇒ Conflicts of interest,
- ⇒ Aiding fraud by another party.

Testing of key risk areas will be over controls for the above listed risk areas, including other key risk areas as determined in consultation with County leadership.

**Deliverables:** Deliverables for this task include conducting a fraud risk assessment with and testing of existing controls to determine their effectiveness.

#### **Work Process 4: Best Practices Diagnostic Assessment / GAP Analysis**

With prior work processes and tasks completed, the project team will compare existing internal control and fraud risk reduction policies and practices with best management practices as established by professional organizations, including but not limited to the National Institute of Standards and Technology (NIST), the Governmental Accounting Standards Board (GASB), the Government Finance Officers Association (GFOA), the Association of Certified Fraud Examiners (ACFE), the Institute for Internal Controls (IIC), the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and from our own knowledge of best practices across the country.

With best practices and the current state assessment compared, we will conduct a GAP analysis and prepare a report with recommendations for improvement to reduce fraud risks and modernize internal controls.

We will complete a best practices diagnostic assessment and GAP analysis for all departments and functions in the study scope.

**Deliverables:** Deliverables for this task include a best practices diagnostic assessment and GAP analysis report.

#### **Work Process 5: Recommendations, Policy Development, and Final Report**

Upon conclusion of all prior tasks, we will prepare a detailed report that will include the following:

- An Executive Summary of all key findings and recommendations.

- A description of the assessment methodologies.
- Detailed report findings.
- Recommended policy revisions, including new policy development, for the prevention, detection, and deterrence of fraud within Cochise County operations.
- Recommendations, both tactical and strategic, to guide the county's short- and long-term internal control and fraud risk reduction decision making.
- A prioritized and phased implementation plan.
- Policy writing for any identified areas of control improvement.

With a draft report completed, we will review the findings with the appropriate County staff. This review process is designed to ensure clarity for both Cochise County and 65<sup>th</sup> North Group, with the project team making any necessary revisions to the draft report as appropriate. We utilize this opportunity to obtain staff buy-in on recommendations as well to help facilitate the county's implementation of the report's findings and recommendations.

The final report will include cost estimates (or savings) for recommendations along with a prioritized and phased implementation plan.

We will remain available to assist the county with implementing any of the recommendations from the report, as well as to write custom policies for identified control improvements.

**Deliverables:** The deliverable for this work process is the completion of a draft report, presentation of the draft report to appropriate county staff, and completion of a final report.

### **Work Process 6: Investigations Consulting**

During this work process we offer the County a bank of 20 hours of time to be used toward investigative assistance anytime during calendar year 2021. Our project manager has conducted over 400 fraud investigations in his career and will assist the County with any fraud-related investigations. If additional time is requested, it can either be billed out hourly (\$135 an hour if using the Maricopa County consulting contract) or we can pre-determine a will-not-exceed fixed fee price for any investigation.

**Deliverables:** The deliverable for this work process is offering up to 20 hours of our project manager's time to be used for investigative consulting expertise for anything related to organizational fraud and internal controls.

## SAMPLE REPORT DELIVERABLES

The following are brief samples of final report deliverables (the final report will be comprehensive as we examine hundreds of areas of internal control) that were custom for the organization being assessed – each organization has different recommendations to reduce their unique risks and based on their unique operating environment (including employee culture):

### SAMPLE REPORT ANALYSIS WITH RECOMMENDATIONS:

#### (1) Reducing the risk of payroll fraud

Falsified hours are an inherent risk for any organization, and municipal governments are no exception. Reiterating the importance of honesty and informing employees that theft of time is just that – theft, can help deter any possible misconduct should someone consider it in the future.

Not all non-exempt employees work in the same location at the start of the day and the end of the day; however, with the issues the county has been having, cameras at ingress and egress locations of county facilities provide a means for management to review camera recordings to verify an employee didn't show up late or leave early. For most managers it will be a rare occasion that they would review surveillance footage to see if an employee arrived late or came in early; however, the fact cameras exist is a deterrent for falsifying work time records. Additionally, cameras can provide a sense of security to employees, they provide a means to detect an incident after it occurred (i.e. to review footage if a member of the public is suspected of committing a crime on county property), and they can act as a deterrent for any member of the public thinking about committing a crime on county property.

An additional deterrent, should management decide to implement it (but not explicitly recommended by the project team), is to conduct random reviews of surveillance footage to verify the accuracy of time sheets. Doing this overtly once or twice a year provides an additional deterrent toward time theft. Management can watch footage on fast forward at the start of each day for a sample week and then the end of the day to verify employees' time matches what the camera shows.

When the project team sampled payroll, we discovered every person sampled had a payroll change without a completed and signed Personnel Action Form (PAF). Staff were able to provide a resolution authorizing the payroll changes and those changes were exactly what we found in the system. As a best practice, it's appropriate that no

payroll change is made without an approved PAF in hand by the person authorized to make the change.

Additionally, the county should assign someone to verify that the change in the system is what was on the PAF since the person making the change can unintentionally enter an incorrect value. The project team recommends the County's finance director review all payroll changes made by the Senior Accountant for verification of accuracy with the approved PAF.

Payroll fraud has been identified in many other local governments. An excellent way to both detect and deter it is with random payroll verifications. At random times throughout the year, the county should assign someone to pull the payroll register, sample a select number of employees, verify that the amount the employee received for that period is what is on the most recent PAF, and verify that the PAF itself is not fraudulent (signatures are not forged). If the person entering payroll ever wanted to change a pay rate, they can create a fraudulent PAF, make the change, and then if the annual auditor (or anyone else) checked, they would see the "approved" PAF and think everything is legitimate.

If the County's payroll system allows for automatic notification to others anytime a change is made, the project team recommends the Finance Director be automatically notified anytime a change is made to someone's payroll data. The reason for this recommendation is that the person entering payroll can change rates back and forth throughout the year if they believe nobody will check and if an audit happens, hopefully the check with the fraudulent amounts isn't audited. Automatic notifications allow the Finance Director to question anything unexpected.

***Recommendation #11:*** Provide surveillance cameras at common ingress and egress locations of county buildings.

***Recommendation #12:*** Require completed and approved PAFs before any change is made in the payroll system.

***Recommendation #13:*** Require independent verification of all payroll changes.

***Recommendation #14:*** Determine if automatic notification of payroll changes is possible within the County's payroll/financial software system.

## **(2) Courier Transport Services**

The County utilizes one of its employees to perform cash and check courier transport services so that individual departments do not have to transport their cash and checks to the Finance Department. The theory behind a centralized transport/courier system to bring cash from multiple locations to one central location is to allow for better protection over cash and check assets, to have someone trained in various aspects related to transporting cash perform that function (i.e. situational awareness training, robbery prevention training, training in how to diffuse volatile situations, etc.), and to allow individual department employees to remain at their remote location without having someone from every department take time away from their normal job responsibilities in order to transport cash.

Additionally, there are remote county collection locations that have only a couple of employees and if those employees had to leave their area each day to transport cash to the County Finance Department, those areas would be left understaffed or could be forced to close down during the time it takes to complete the transport.

The County has one primary courier who makes rounds to each remote cash collection location. With the exception of Health and Human Services, each time cash is picked up an employee from the department and the courier will sign a chain of custody log indicating that a locked bag was picked up (HHS employees are not always in the office at the hour the courier picks up cash and the courier has a key to the area in HHS where cash is stored). The courier does not have a key to any of the locked bags picked up, with each bag needing its own unique key to open it.

The bags are stored in a locked trunk of the courier's County vehicle until all bags are picked up and delivered to the County Finance Department. Once at the Finance Department, a Finance employee will sign the chain of custody form and accept each bag. Only the Finance Department and individual departments have keys to open an individual department's bag.

Most remote collection locations keep cash on-site overnight, some within a locked safe and others in a locked filing cabinet or locked desk drawer. There is risk to keeping cash onsite overnight, rather than ensuring transport to the Finance Department by the end of the day, as remote sites are less secure from break in at night. The only Department not delivering cash daily to the Finance Department is Parks and specifically at Rob Wallace Park, which only transports its cash twice a week on Tuesdays and Fridays.

The library uses their own employee to perform transport services and at least one other department, the Board of Elections, desires the ability to transport their cash to the Finance Department using one of their own employees before the end of each business day. There are risks and benefits associated with having one centralized person as the cash courier. Some of these are “what if” scenarios; however, they deserve attention:

Benefits:

- ⇒ Individual department employees are not trained to handle situations that might arise while transporting cash. Training one person thoroughly is easier than training dozens of people to handle the task.
- ⇒ Employees will not have to leave their workstation each day to complete their transport.
- ⇒ One person regularly performing this function is more likely to develop an ability to complete the task quickly and efficiently.

Risks:

- ⇒ If multiple departments transport their own cash, there is less cash transported at any one time. If someone intent on stealing knows cash is being transported, they are less likely to attempt to commit a robbery of one person with one cash bag than they would someone transporting several bags of cash.
- ⇒ Cash that otherwise would have remained overnight in a less secure location is transported the same day to the more secure County Finance Department office.

Overall, the benefits of having one employee (with a backup to handle courier responsibilities) outweigh the negatives associated with a centralized transport function. The concern however is that the courier handling the transports has not received training from the County on situational awareness, de-escalation techniques, or what specifically to do in the event of an attempted robbery.

Once the County’s transport personnel receive appropriate training, the County should prohibit individual departments located away from the main County office building from transporting their own cash to the Finance Department, except in situations in which the courier or a backup courier is unable to make a pickup on a particular day.

***Recommendation:*** *The Human Resources Department, in conjunction with the Sheriff’s Office, should provide County employees who transport money with training that includes de-escalation techniques, situational awareness, and what to do in the event of an attempted robbery.*

**Recommendation:** *Require individual cash collection departments located away from the County office building to use the County's courier service.*

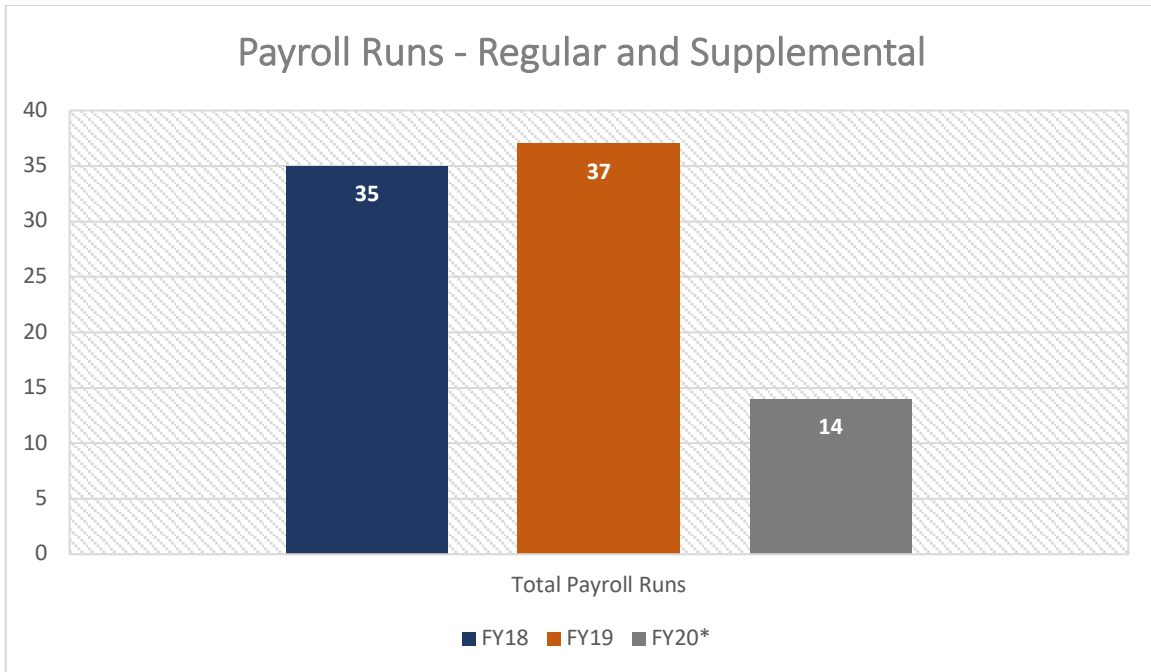
### **(3) Additional Payroll Fraud Reduction**

The County's payroll process is bifurcated between the Human Resources and Finance Departments. The primary role of payroll within Finance is to upload and enter actual employee time worked data into the payroll system so that employees can be paid. The payroll process includes the following:

- ⇒ Time is entered into Kronos.
- ⇒ A supervisor verifies and approves the time entry.
- ⇒ Payroll staff verify all data fields are completed.
- ⇒ The payroll file is uploaded from Kronos to Tyler-Munis.
- ⇒ Earnings and deductions receive a manual verification.
- ⇒ Adjusting entries are done, if needed.
- ⇒ Accruals are verified.
- ⇒ A separate employee balances payroll.
- ⇒ Payroll is processed.

Chart #2 shows the number of payroll runs in FY18, FY19, and FY20 through November 2019.

Chart #2: Payroll Runs by Fiscal Year



The data show that with 26 regular payroll runs per fiscal year, there were nine supplemental payroll runs in FY18 and 11 supplemental payroll runs in FY19. Data for FY20 is through November 2019. Finance staff estimate there is less than a 3% payroll processing error rate per year.

Finance Department employees working on payroll have the ability to upload and enter payroll time, plus they can change an employee's rate of pay.

During an audit of payroll functions, payroll staff had the ability to both enter an employee's rate of pay and enter payroll hours worked. These two functions should be segregated and the County's IT Department should ensure access restrictions are in place so that employees with payroll responsibilities in the Finance Department cannot physically change an employee's rate of pay. Changing a rate of pay should only be authorized for employees with payroll data entry responsibilities in the Human Resources Department. Conversely, employees in the Human Resources Department who can enter an employee's rate of pay should not have the ability to enter hours worked.

The County should implement a policy prohibiting an employee from entering their own payroll data, whether that be rate of pay or hours worked. A detective policy that will also serve as a deterrent can be an exception report that is automatically generated and

sent to both the Human Resource Director and Finance Director anytime a change of pay rate occurs to any employee with authorization to modify rates of pay.

Payroll fraud has been identified in many other local governments. An excellent way to detect and deter it is with random payroll verifications. At random times throughout the year, the County should assign someone to pull the payroll register, sample a select number of employees, verify that the amount the employee received for that period is what is on that employee's most recent PSR, and verify that the PSR itself is not fraudulent (signatures are not forged). If the person entering payroll ever wanted to change a pay rate, they can create a fraudulent PSR, make the change, and then if anyone audits the forms, they would see the "approved" PSR and think everything is legitimate. As a general rule, employees with the ability to enter payroll data should be selected for every payroll audit. This would also be an appropriate time to verify that these employees did not modify or enter their own rates of pay or hours worked.

Another valuable detective control to reduce the risk of payroll fraud is to require a quarterly review of the payroll register by every department head to ensure each employee listed on the register for that person's department is an active county employee.

***Recommendation:*** *Ensure computer restrictions are in place that physically prohibit an employee from being able to enter employee hours worked and change an employee's rate of pay.*

***Recommendation:*** *Implement a policy prohibiting an employee from making changes to his or her rate of pay or entering his or her own time into the payroll system.*

***Recommendation:*** *Conduct quarterly and random payroll audits to verify the amount an employee was paid was authorized on an approved PSR.*

***Recommendation:*** *Information Technology staff should provide for automatic notification to both the HR Director and Finance Director anytime a rate of pay changes for an employee with authorization to make changes to employee rates of pay.*

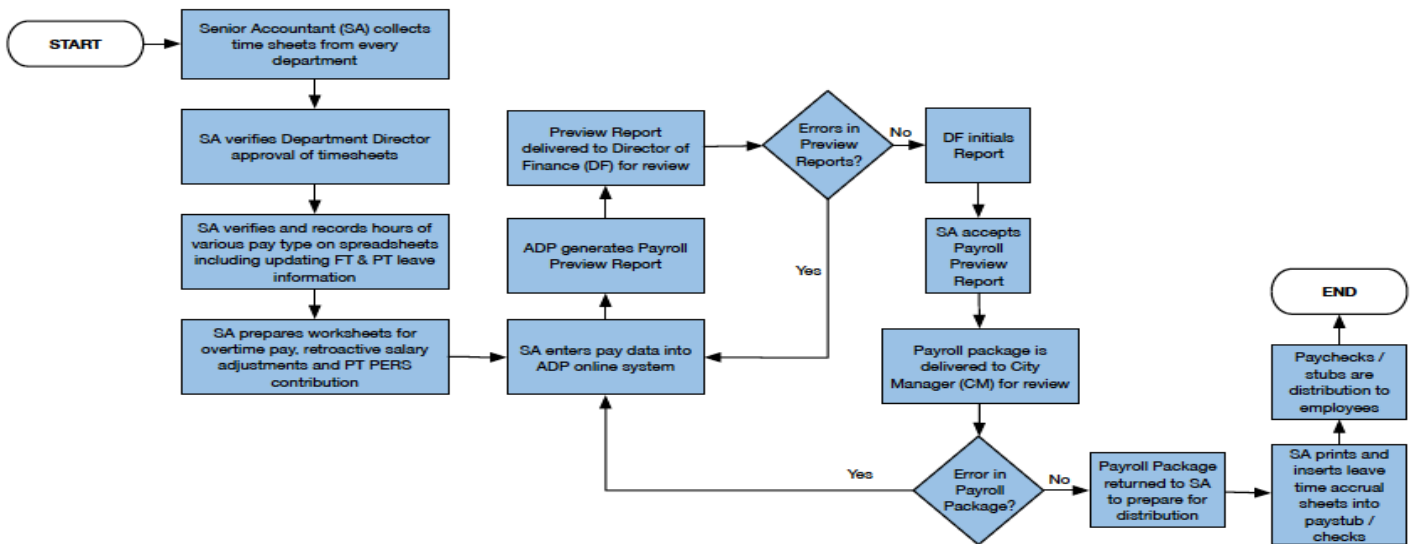
***Recommendation:*** *Quarterly, each department head should review the payroll register for their department to ensure only active employees are being paid.*

## **SAMPLE SUMMARY OF RECOMMENDATIONS**

1	The Finance Department should identify and adopt specific performance and workload measures to enlighten the public and internal stakeholders regarding accomplishments and performance.	Low	1 year
2	A quarterly report should be presented to the County Administrator to ensure financial transparency and accountability for financial services within the County.	Low	1 year
3	Implement a Centralized Contract Monitoring System	Low	1 year
4	Require all receipts from purchases on credit cards or credit accounts be submitted to the Finance Department within five (5) days of purchase or return to the County, if on travel.	High	3 months
5	Implement random expense verification compliance checks.	High	9 months

**SAMPLE RECOMMENDED PROCESS:**

**Payroll Process**



**SAMPLE BEST PRACTICES DIAGNOSTIC ASSESSMENT:**

<p>The organization has a reporting procedure for vendors suspected of receiving preferential or favored treatment.</p> <p><b>Comments:</b></p>	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	N/A <input type="checkbox"/>
<p>There is random verification of expense receipts.</p> <p><b>Comments:</b> The finance department, accounts payable division, does not currently conduct any expense verifications prior to payment. Doing so serves as both a detective control and as a deterrent to potential fraudulent activity.</p>	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	N/A <input type="checkbox"/>
<p>The organization utilizes best practices for reducing the risk of ACH vendor payment fraud.</p> <p><b>Comments:</b> The organization does not currently employ all possible means to reduce the risk of a successful ACH vendor payment fraud.</p>	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>	N/A <input type="checkbox"/>
<p>Vendor purchases are analyzed for abnormal levels when compared with historical averages and budget-to-actual results for the current fiscal year.</p> <p><b>Comments:</b></p>	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>
<p>Invoices and purchase orders are checked in the financial system to ensure there aren't any duplicate entries.</p> <p><b>Comments:</b></p>	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>

**SAMPLE PRIORITIZED AND PHASED IMPLEMENTATION PLAN:**

Priority:	Low
Timeline:	1 year
Recommendation:	A quarterly report should be presented to the County Administrator to ensure financial transparency and accountability for financial services within the County.
Steps and Resources Needed:	The Finance Director or designee should develop a spreadsheet containing all performance measures. Quarterly, the results achieved toward those measures will be compiled on the updated spreadsheet and provided to the County Administrator who should then provide the report to the Board of Supervisors.
Steps and Resources Needed:	There shouldn't be any cost associated with implementing this recommendation. There will be time involved to compile the various statistics; however, once the employee(s) responsible for completing this task are comfortable with it, the time should be minimal (less than two hours per quarter).

Priority:	Low
Timeline:	1 year
Recommendation:	Implement a centralized contract monitoring system
Steps and Resources Needed:	<p>The County will need to obtain a complete listing of all existing contracts under management. That listing should include the contract name, purpose, effective date and ending date, any provisions within the contract along with timeframes that need action, and any other data field important to ensuring all parties of the contract are in compliance with the contract's provisions. All department directors should participate in this request.</p> <p>By centralizing contract “monitoring”, it allows for additional checks and balances of the various contracts under management to help ensure contract compliance by all parties.</p>

**PROPOSED SCHEDULE AND FEE**

The following is a proposed schedule for a risk assessment:

Project Schedule	Weeks 1-2	3-4	5-6	7-8	9-10	11-12
<b>Task 1: Initiation and Project MGT</b>	<b>INITIATION AND PROJECT MANAGEMENT</b>					
Prepare initial data request						
Conduct kick-off meeting with the County						
Update workplan post-meeting						
<b>Task 2: Current State Assessment</b>	<b>CURRENT STATE ASSESSMENT</b>					
Staff interviews and data review						
Internal control audits						
<b>Task 3: Fraud Risk Assessment / Testing</b>	<b>FRAUD RISK ASSESSMENT / TESTING</b>					
Fraud Risk Assessment						
Testing						
<b>Task 4: Best Practices Assessment / Gap Analysis</b>	<b>BEST PRACTICES / GAP ANALYSIS</b>					
Best Practices Assessment / GAP Analysis						
<b>Task 5: Recommendations and Reports</b>	<b>RECOMMENDATIONS AND FINAL REPORT</b>					
Draft report						
Report presentation / feedback						
Revisions and final report						

**Proposed fee:** As a firm, we believe that expenses are a part of doing good business and as such, you will not be charged for any of our expenses. We propose to complete all tasks as outlined in this proposal for a will-not-exceed fee of \$34,725. This proposal is valid for 60 days and we will start work as soon as January, if requested.