



City of Bowling Green

Internal Auditor's Office FY2012/2013 Annual Audit Plan

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Internal Auditor's Office
City Wide Risk Assessment and Audit Plan
For FY2012/2013

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Introduction

Enclosed is the FY2012/2013 Audit Plan for the Internal Auditor's Office. Professional internal audit standards, as well as the Internal Auditor's Office Charter, require the preparation and presentation of this type of plan to the Audit Committee. This plan is updated annually. The Audit Plan is intended to be flexible and will be amended if additional projects of high priority are identified during the course of the fiscal year.

Principles for the Risk Assessment and Audit Plan Development

In order to provide practical guidance and authoritative framework for the development of the risk assessment model and resulting audit plan, the following principles are utilized:

- Consideration is given to unique situations and circumstances which would supersede scheduled audits with higher risk scores.
- The approach to developing an audit plan recognizes that audit resources of personnel and dollars are limited, which prohibits 100% audit coverage each year. This limiting factor is inherent in the concept of utilizing a risk assessment model to help prioritize audits.
- The audit plan takes into consideration work performed by other auditors. These audits may be mandated by grant provisions, State and Federal agencies, or special audits.
- The risk assessment criteria used for ranking the audit plan places an emphasis on perceived or actual knowledge of the City of Bowling Green's system of internal controls.
- The audit plan has been developed with awareness that there are inherent risks and limitations associated with any method or system of prioritizing audits. The risk factors and scoring process will be periodically evaluated and modified, if necessary, in order to improve the audit plan.

Audit Prioritization and Selection

The *objective* of a risk assessment is to identify and prioritize audits posing the greatest potential risk and liability to the City. This process provides a tool to assign priority for the purpose of reducing the risk and liability exposure through observations, testing, analysis and recommendations. In developing the risk assessment model and audit plan, I defined risk as the potential for loss to a division due to error, fraud, inefficiency, failure to comply with statutory requirements, or actions which may have a negative effect on the City.

A systematic risk assessment approach was performed. This approach separates risk into individual *risk factors*, which were assessed individually, then combined into an overall score reflecting a Division's risk potential. For each of the individual risk factors, I evaluated the associated risk and ranked them in one of several risk levels. This process attempts to account

for a relative measure of importance between each of the risk factors and the resulting impact on the overall risk score for each division by weighting each individual risk factor. A “weighting” factor was derived by performing a comparison of each specific risk factor with all the other risk factors on a “more important than” basis. The result of this analysis is summarized on Attachment #1.

The following risk factors and applicable weights were chosen for the FY12/13 risk assessment:

- Changes in Procedures/Personnel 5%
- Budgeted Expenditures 13%
- Liquidity and Negotiability of Assets 15%
- Management 4%
- External Influences 3%
- Nature of Transactions 8%
- Quality of Internal Controls 25%
- Composition of Personnel 3%
- Time Since Last Audit 10%
- Revenue Materiality 14%

Based on the selected risk factors, interviews were performed with key management which focused on the control environment, risk assessment, control activities, information and communication and monitoring for each division. The following individuals were interviewed to discuss their specific departmental risks and operations:

City Manager Department

Kevin DeFebbo- City Manager

Katie Schaller- Assistant City Manager/City Clerk

Human Resources Department

Mike Grubbs- Director

Public Works Department

Jeff Lashlee- Director

Bobby Phelps- Operations Manager

Barry Harris- Fleet Manager

Legal Department

Gene Harmon- City Attorney

Neighborhood & Community Services

Brent Childers- Pending Director

Fire Department

Greg Johnson- Fire Chief

Finance Department

Jeff Meisel- Chief Financial Officer

Information Technology Department

Lynn Hartley- Chief Information Officer

Parks and Recreation Department

Ernie Gouvas- Director

Police Department

Doug Hawkins- Police Chief

The FY12/13 Audit Plan

The recommended Audit Plan for FY2012/2013 includes:

Bid and Procurement Process Audit- carryover from FY11/12
Parks Maintenance Operations Audit- carryover from FY11/12
BGF D Payroll Follow-Up Audit
License Division Audit

The FY2012/2013 Audit Plan includes time to verify B GPD's narcotics burn, conduct unannounced cash counts as well as respond to special requests and advisory needs of management. In addition, the City approved the creation of a Fraud and Abuse Hotline system to be implemented by Internal Audit. The development of this system as well as employee training and advertisement of this new service will also be a major project in the new fiscal year.

I continue to be concerned about the audit coverage that I have been able to provide as a one person audit shop, but will continue to search for ways to add greater value to the City based on the resources available. Additional staff or resources for co-sourcing of audits would greatly improve my ability to respond to the needs of the organization.

ATTACHMENT #1

Data Entry Cells

Criteria Legend:

A	Changes in Procedures/Personnel	F	Nature of Transactions
B	Budgeted Expenditures	G	Quality of Internal Controls
C	Liquidity and Negotiability of Assets	H	Composition of Personnel
D	Management	I	Time Since Last Audit
E	External Influences	J	Revenue Materiality

	Criteria										Gross Score	Weighted Score	Risk
	A	B	C	D	E	F	G	H	I	J			
	Maximum Points per Criteria												
	27	9	18	18	16	18	18	18	7	9			
Department	Weights										Gross Score	Weighted Score	Risk
	5%	13%	15%	4%	3%	8%	25%	3%	10%	14%			
Legislative													
Mayor and Commissioners	13	3	2	6	11	2	5	1	7	1	51	4.19	LOW
City Manager													
City Manager	5	3	2	4	6	2	8	1	7	1	39	4.31	LOW
City Clerk	5	3	2	8	5	8	5	1	7	3	47	4.45	LOW
Purchasing	5	1	4	14	12	18	13	1	7	3	78	7.74	HIGH
Public Information	5	3	6	4	4	5	5	2	7	1	42	4.37	LOW
Internal Auditor	2	3	2	6	9	10	5	1	7	1	46	4.22	LOW
Finance													
Treasury	5	3	10	8	7	14	11	1	7	9	75	8.53	HIGH
Chief Financial Officer	2	3	2	6	9	13	8	1	7	9	60	6.33	MEDIUM
License	5	3	10	12	10	14	11	2	7	9	83	8.81	HIGH
Accounting/Accounts Payable	5	5	2	14	10	8	11	2	7	5	69	6.91	MEDIUM
Payroll	5	1	2	10	10	11	11	1	7	5	63	6.44	MEDIUM
Human Resources													
Human Resources Management	5	5	2	6	12	8	8	1	7	3	57	5.59	MEDIUM
Benefits and Insurance	5	7	2	8	10	11	11	1	7	3	65	6.86	MEDIUM
Safety and Training	5	7	6	8	10	8	11	1	7	3	66	7.22	MEDIUM
Law													
	10	3	6	4	12	13	13	1	7	3	72	7.75	HIGH
Information Technology													
	2	7	10	10	7	13	16	3	7	5	80	9.65	HIGH
Police													
Administration	2	7	4	12	7	2	16	1	3	3	57	7.21	MEDIUM
Records	5	3	10	10	5	5	5	1	3	3	50	5.09	MEDIUM
Criminal Investigations	5	7	6	6	9	11	8	3	3	1	59	5.98	MEDIUM
Traffic and Patrol	8	9	10	6	16	14	8	9	3	1	84	7.62	HIGH
Communications	5	7	6	8	14	13	5	4	3	5	70	6.21	MEDIUM
Evidence	5	3	18	10	8	8	5	1	3	3	64	6.62	MEDIUM
Other (Cadets and Crossing Guards)	10	1	2	8	2	5	2	9	3	1	43	2.92	LOW
Fire													
Administration	10	7	4	8	7	5	13	1	1	1	57	6.46	MEDIUM
Suppression	5	9	6	4	16	8	2	9	1	1	61	4.61	LOW
Prevention	5	3	6	8	7	5	8	1	1	1	45	4.74	LOW
Training	5	3	6	8	2	2	8	1	1	1	37	4.35	LOW
Maintenance/Repair Services	5	3	10	10	2	5	16	1	1	1	54	7.27	MEDIUM

Public Works														
Facilities Management	5	7	6	8	2	5	8	1	7	1	50	5.71	MEDIUM	
Administration	7	7	2	6	7	11	8	3	7	5	63	6.38	MEDIUM	
Fleet Management	17	7	10	16	2	8	16	1	1	3	81	9.15	HIGH	
Operations	5	7	10	14	4	8	10	5	7	1	71	7.47	MEDIUM	
Parks and Recreation														
Administration	5	3	6	6	2	8	5	2	7	9	53	5.75	MEDIUM	
Maintenance	5	7	10	16	2	8	14	8	7	1	78	8.58	HIGH	
Athletics	14	5	10	12	7	5	8	10	7	9	87	8.2	HIGH	
Aquatics	14	5	12	10	7	5	8	10	5	9	85	8.22	HIGH	
Recreation/Fitness	14	5	10	12	7	5	11	10	7	9	90	8.95	HIGH	
Golf Courses	10	7	18	10	9	8	13	12	5	9	101	10.79	HIGH	
Cemetery	5	3	10	10	5	5	11	2	7	9	67	7.86	HIGH	
Community Centers	5	5	10	8	4	5	5	10	7	9	68	6.75	MEDIUM	
Beautification	5	5	6	8	2	2	5	2	7	1	43	4.49	LOW	
Neighborhood & Community Services														
Administration	10	3	2	6	2	8	1	1	7	1	41	3.25	LOW	
Inspection	5	5	6	8	7	2	4	1	7	3	48	4.64	LOW	
Housing Assistance	5	7	2	8	14	11	1	2	3	9	62	4.95	LOW	
Neighborhood Action/City Central	5	3	2	6	4	8	1	1	7	1	38	3.06	LOW	
Code Enforcement	5	5	6	8	4	8	4	1	3	3	47	4.63	LOW	

ATTACHMENT #2

Available Audit Hours for FY12/13

Available Resources (Audit Hours)

Number of Staff	1	
Annual Hours Available		<u>2,080</u>

Less: Non-Audit Hours

Paid Leave

Holidays	80	
Vacation	96	
Personal Days	32	
Employee Appreciation Day	8	
Sick	64	
Total Paid Leave Hours		<u>280</u>

Professional Development

City Provided / Misc. Training	20	
ACFE Annual Conference	24	
ALGA Annual Conference	16	
IDEA Bi-Annual Conference	16	
Total Professional Development Hours		<u>76</u>

Administration

General Administrative Functions & Tasks	150	
Employee Training/Hotline Establishment	160	
Staff & Senior Management Meetings		
Staff (1*47)	47	
Quarterly Audit Committee Meetings	20	
Annual Risk Assessment and Audit Plan	80	
Monthly Senior Mgt. (11*4)	44	
Senior Mgt.		
Retreat	8	
Strategic Goal		
Planning	8	
Total Administration Hours		<u>517</u>

Total Indirect Audit Hours 873

Total Direct Audit Hours Available	<u>1,207</u>
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FY12/13 Audit Plan

Advisory Services and Special Requests	160
Bid and Procurement Process Audit	320
Parks Maintenance Operations Audit	320
License Division Audit	320

BGFD Payroll Audit Follow-up	80
Unannounced Cash Counts	40
Verification of Narcotics Disposal	40

Total Budgeted Direct Audit Hours	1,280
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Resource Over/Short (73)