City of Bowling Green

Internal Auditor's Office
FY2013/2014
Annual Audit Plan

Deborah Jenkins, CFE, CICA
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Internal Auditor's Office
City Wide Risk Assessment and Audit Plan
For FY2013/2014

Contents

Introduction

Enclosed is the FY2013/2014 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 FY2013/2014 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- 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
        Brent Belcher- Director
Police Department
        Doug Hawkins- Police Chief

The FY2013/2014 Audit Plan

The recommended Audit Plan for FY2013/2014 includes:

> Parks Maintenance Operations Audit- carryover from FY2011/2012
> License Division Audit- carryover from FY2012/2013
> Fleet Division Follow-up Audit

The FY2013/2014 Audit Plan includes time to conduct unannounced cash counts, administer the newly implemented Employee Ethics Hotline, complete the Policy and Procedures Manual for the Internal Auditor's Office, and coordinate the RFP/Evaluation/Recommendation for the next 5 year external audit contract while being responsive to special requests and advisory needs of management.

This year will hopefully be a year of re-focus and prioritization in order to catch up on the pending items that have carried over from prior years due to other priorities or unplanned audits. 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	
B	Budgeted Expenditures	
C	Liquidity and Negotiability of Assets	
D	Management	
E	External Influences	

F	Nature of Transactions
G	Quality of Internal Controls
H	Composition of Personnel
I	Time Since Last Audit
J	Revenue Materiallity

	Criteria												
	A	B	C	D	E	F	G	H	I	J			
	Maximum Points per Criteria												
	27	9	18	18	16	18	18	18	7	9			
	Weights										Gross	Weighted	
Department	5%	13%	15%	4%	3%	8%	25%	3%	10%	14%	Score	Score	Risk
Legislative													
Mayor and Commissioners	13	3	2	6	11	2	5	1	7	1	51	4.19	LOW
City Manager													
City Manager	2	3	2	4	6	2	8	1	7	1	36	4.16	LOW
City Clerk	2	3	2	8	5	8	5	1	7	3	44	4.3	LOW
Purchasing	5	1	4	14	12	18	13	1	1	3	72	7.14	MEDIUM
Public Information	2	3	6	4	4	5	5	2	7	1	39	4.22	LOW
Internal Auditor	2	3	2	6	9	10	5	1	7	1	46	4.22	LOW
Finance													
Treasury	2	3	10	8	7	14	11	1	7	9	72	8.38	HIGH
Chief Financial Officer	2	3	2	6	9	13	8	1	7	9	60	6.33	MEDIUM
License	2	3	10	12	10	14	11	2	7	9	80	8.66	HIGH
Accounting/Accounts Payable	2	5	2	14	10	8	11	2	7	5	66	6.76	MEDIUM
Payroll	2	1	2	10	10	11	11	1	7	5	60	6.29	MEDIUM
Human Resources													
Human Resources Management	2	5	2	6	12	8	8	1	7	3	54	5.44	MEDIUM
Benefits and Insurance	2	7	2	8	10	11	11	1	7	3	62	6.71	MEDIUM
Safety and Training	2	7	6	8	10	8	11	1	7	3	63	7.07	MEDIUM
Law	2	3	6	4	12	13	13	1	7	3	64	7.35	MEDIUM
Information Technology	2	7	10	10	7	13	16	3	3	5	76	9.25	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	5	9	10	6	16	14	8	9	3	1	81	7.47	MEDIUM
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	2	9	6	4	16	8	2	9	1	1	58	4.46	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

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	3	3	83	9.35	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	5	9	64	5.15	MEDIUM
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 FY13/14			
Available Resources (Audit Hours)			
Number of Staff		1	
Annual Hours Available			2,080
Less: Non-Audit Hours			
Estimated Holidays and Leave Time			280
Professional Development			
City Provided / Misc. Training		20	
CGAP (Cert. Govt. Auditing Pro.) Prepatory Class		24	
ACFE Annual Conference		24	
ALGA Annual Conference		16	
Total Professional Development Hours			84
Administration			
General Administrative Functions & Tasks		240	
Employee Training/Fraud Awareness Presentations		80	
Complete Policy and Procedure Manual for IA		120	
Total Administration Hours			440
Total Indirect Audit Hours			804
Total Direct Audit Hours Available			**1,276**
FY12/13 Audit Plan			
Advisory Services/Special Requests/Employee Hotline Admin.			240
Parks Maintenance Operations Audit (carry forward)			320
License Division Audit (carry forward)			320
Fleet Operations Audit Follow-up			160
Audit Committee Meetings/RFP for new External Audit Contract			120
Annual Risk Assessment and Audit Plan			80
Unanounced Cash Counts			40
Total Budgeted Direct Audit Hours			**1,280**
Resource Over/Short			(4)