



City of Bowling Green

Internal Auditor's Office FY2007/2008 Annual Audit Plan

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Internal Auditor's Office
City Wide Risk Assessment and Audit Plan
For FY07/08

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Introduction

Enclosed is the audit plan for the Internal Auditor's Office. This outlines the activities where I will focus available resources. 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 will benefit the City by providing the following:

- An identifiable basis for the role of Internal Auditor and justification for obtaining budgetary funds and approval.
- Prioritizing departmental audits on an ongoing basis.
- Permitting an efficient allocation of limited resources.
- Opportunities to identify inefficiencies or uneconomical practices.
- Opportunities to identify ways to maximize revenues and/or cost savings.
- Eliminate potential for overlapping audits within departments or with External Auditors.

Risk assessment is a process used to assign a number, or score, to potential audits based upon specific risk factors related to an entity's operations, internal controls, and estimated liability to the City of Bowling Green. Examples of risk factors used to formulate the audit plan include dollar amounts of budgeted expenditures, personnel composition, nature of transactions, and management. The complete list of risk factors and the assessment process are described further in this document.

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 audit plan, I utilized the following principles:

- 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 in ranking of 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.
- The risk assessment factors used in selecting audits are designed in conjunction with the objectives of the Internal Auditor’s Charter. In general, these audits would include one or more of the following:
 - Financial Audits
 - Operational Audits
 - Compliance Audits
 - Internal Control Reviews
 - Special Projects
 - Follow-up Audits

Audit Universe

The first step leading to development of the audit plan is to establish an audit universe representing potential audits. I identified the primary audit population using the Departmental Summaries from the FY07/08 Budget as well as knowledge of the departments and conversations with management as to what Divisions are within each Department. I also recognized that other potential audit segments may be identified in the future as the risk assessment process evolves over time. Examples of these other potential audit segments are:

- Organizational units within each Division.
- A transaction cycle or items common “horizontally” across a universe, such as payroll, contract compliance issues, or grants.
- Individual financial statement accounts such as fixed assets or cash receipts/cash disbursements.
- Fraud, waste, or abuse audits.
- Performance or operational audits.
- Special audits

In the final analysis, the risk assessment factors were applied to all major divisions within the City.

Audit Prioritization and Selection

The *objective* of the process of 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 findings and recommendations. In order to obtain a priority listing of potential audit areas, I utilized the risk assessment model to rank each of the potential audit areas.

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. Risk is a synonym for all the adverse outcomes that the City wishes to avoid. Risk is a function of the probability that such consequences will occur and their possible magnitude.

Risk assessment is typically undertaken to focus attention on significant audit areas, to allocate scarce audit resources to the most important audit areas, and to help with key audit prioritizing decisions such as audit frequency, intensity and timing. I utilized a systematic risk assessment approach. This approach separates risk into individual risk factors, which were assessed individually, then combined into an overall score reflecting a Division's risk potential.

The individual *risk factors* used to evaluate the audits were originally selected from almost one hundred possibilities found in professional literature and other audit plans reviewed. Ten risk factors, explained on pages 6 through 11, were selected on the basis of relevance with respect to the nature and objectives of my audits and the political and reporting environment that the City operates.

For each of the risk factors, I evaluated the associated risk and ranked them in one of several risk levels. This process attempts to account for relative measure of importance between each of the risk factors and the resulting impact on the overall risk score for each audit by weighting each 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.

Based on the risk factors, I developed questions for each department head and division supervisor that concentrated on the control environment, risk assessment, control activities, information and communication, and monitoring for each division. I scheduled meetings with the following individuals to discuss their individual area about risk and opportunities:

Kevin DeFebbo- City Manager

Katie Schaller- Assistant City Manager/City Clerk

Mike Grubbs- Citizen's and Information Assistance Director

Josh Foster- E-Government Coordinator

Michele Tolbert- Human Resource Director

Dave Weisbrodt- Safety/Training Manager
Emmett Wood- Public Works Director
 Bobby Phelps- Operations Division Manager
 Jon Lewis- Fleet Manager
Gene Harmon- City Attorney (Legal)
Alice Burks- Housing and Community Development Director
 Lisa Ryan- Grants Manager
 Vallory Schocke- Housing Division Manager
Greg Johnson- Fire Chief
Jeff Meisel- Chief Financial Officer
 Wilma Brown- Comptroller
 Jenny Painter- Payroll Manager
 Judy Nash- Treasury Associate
 David Lyne- Occupational License Manager
Lynn Hartley- Chief Information Officer
Ernie Gouvas- Parks and Recreation Director
 Gerald Belcher- Park Maintenance Division Manager
 Frank Lamana- Fitness/Wellness Supervisor
 Anna Jones- Administrative Services Supervisor
 Bob Jeffers- Golf Manager/Professional
 Beverly Fleenor- Cemetery Administrative Manager
Doug Hawkins- Police Chief
 Kim Clayton- Administrative Services Supervisor
 Joe Manning- Deputy Police Chief
 John Stewart- Deputy Police Chief

Using a combination of the interviews with management, written policy, and knowledge of the departments, I chose the following risk factors for the risk assessment:

Guide for Completing the Risk Calculation Worksheet		
Risk Factor	Weight	Points
A. Changes in Procedure/Personnel	6%	
<u>A.1 Training/Experience</u>		
Staff is well-experienced and well-trained with all unit policies and procedures.		1
Staff experience is adequate and training is provided.		4
Staff has a mix of experience and training is only provided if problems arise.		7
Staff is inexperienced and little or no training is provided.		9
<u>A.2 Adequacy of Staffing Levels</u>		
Staffing levels are appropriate to support the volume of transactions.		1
Open positions are causing difficulty in supporting the volume of transactions.		5
Staffing levels are not adequate to support the volume of transactions.		9

<u>A.3 Segregation of Duties</u>	
Segregation of duties provides good error detection and requires collusion to defraud.	1
Responsibilities for certain functions are divided, however, individuals have full control over some transactions.	4
Individuals have full control over certain transactions but their work is subject to periodic review.	7
Individuals have full authority and responsibility for transactions with no or ineffective monitoring controls. i.e. there is no segregation of duties.	9

B. Budget Materiality	18%
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<u>B.1 Budgeted Expenditures</u>	
Less than \$100,000	1
Less than \$500,000	3
Less than \$1,000,000	5
Less than \$5,000,000	7
Greater than \$5,000,000	9

C. Information Systems	8%
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<u>C.1 Relevance: Ability to Satisfy Business Objectives</u>	
Application is satisfying all or most functional requirements with adequate response periods.	1
Application does not meet all business objectives or has some time response issues. Minor technical or functional changes are required and planned.	3
Technical and functional modifications are scheduled to make the application meet the majority of the division's objectives within required time frames.	5
Business objectives are changing such that the application will need significant modifications, which are not yet planned.	7
Application is scheduled for replacement or is currently in the process of being replaced.	9

<u>C.2 Access: Unauthorized Access and Transactions</u>	
Systems contain generally available information, manipulation of data would have no impact.	1
Systems contain confidential information; however, disclosure or manipulation of such information would only have a minimal impact on operations. Controls are strong.	5
System contains highly confidential information; disclosure or manipulation would have a significant impact on operations.	9
<u>C.3 Complexity: Relative number of transactions, files and devices</u>	
Relative low complexity	1
Average complexity	5
Applicable systems are highly complex and require experienced personnel to maintain.	9

D. Management	9%
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<u>D.1 Monitoring Activities</u>	
Department Head is fully aware of all unit activity.	1
Department Head adequately monitors unit activity.	3
Department Head monitors problem areas of the unit.	5
Department Head becomes involved only if there are major problems with unit activity.	7
There is no communication between staff and department Head of the unit.	9
<u>D.2 Management Interest / Request</u>	
No management interest.	1
Interest by management expressed through casual conversation.	3
Interest by direct management expressed as a concern.	5
Interest by multiple managers or a senior manager.	7
Request or interest by City Manager or Commission.	9

E. External Influences		5%
<u>E.1 Compliance with Regulations</u>		
Few regulations and little risk for noncompliance.		1
Either substantial regulations or penalties.		4
Substantial volume of transactions with substantial penalty.		7
Heavily regulated with serious ramifications for noncompliance.		9
<u>E.2 Public Exposure</u>		
The nature of operations have some public interest, low visibility, and little financial risk.		1
Operations with moderate public interest, medium visibility, and some financial risk.		3
Operations with strong public interest, significant financial risk, and high visibility.		5
High visibility operation, intense public interest, and material financial risk.		7

F. Nature of Transactions		15%
<u>F.1 Number of Transactions</u>		
Unit has low volume and time to recheck work.		1
Volume is moderate but time is available to correct most problems.		4
Volume is high and only serious problems are handled immediately.		7
Volume is very high. Almost all error research is put off and only material problems are looked into.		9
<u>F.2 Complexity of Transactions</u>		
Transactions are simple and routine.		1
Transactions are moderately simple and require limited judgment.		4
Transactions are fairly complex and may require personal judgment.		7
Transactions are complex and require involved thought processes.		9

G. Quality of Internal Controls		20%
<u>G.1 Internal Control System</u>		
Significant accounting and administrative controls exist with minor weaknesses.		1
Some accounting and administrative controls exist and significant weaknesses exist.		4
Few accounting and administrative controls exist and major weaknesses exist.		7
Administrative and accounting controls do not exist and critical weaknesses exist.		9

H. Composition of Personnel		12%
<u>H.1 Number of Positions</u>		
1-10 employees		1
11-24 employees		3
25-35 employees		5
36-45 employees		7
over 45 employees		9
<u>H.2 Percentage of Part-Time Employees</u>		
0-20% of total staff is part-time employees		1
21-40% of total staff is part-time employees		3
41-60% of total staff is part-time employees		5
61-80% of total staff is part-time employees		7
81-100% of total staff is part-time employees		9

I. Number of Locations		4%
<u>I.1 Number of Locations</u>		
One or two physical locations or units		1
Three to four physical locations or units		3
Five to six physical locations or units		5
Over six physical locations or units		7

J. Inherent Risk	3%
<u>J.1 Inherent Risk</u>	
Low volatility or fluctuation to the division's processes, products or external influences. The Division uses items that are difficult to market or convert to personal use.	1
The Division's processes, products or external influences change frequently, however ample time is allowed to react to the changes. The Division uses items that are marketable or converted to personal use with limited difficulty.	5
The Division uses items or has external influences change frequently and with little or no notice. High volatility. The Division uses items that are very marketable and desired.	9

The Audit Plan

The *risk assessment model* used ranked the audit universe based upon highest to lowest total risk scores, thereby producing an audit priority listing. However, consideration was given to unique situations and circumstances which would supersede scheduled audits with higher risk scores. The audit universe and their overall risk scores are illustrated on the Risk Assessment Summary Sheet on Attachment A.

However because the internal audit function is still in the development phase and all departments have not been fully reviewed, audits were scheduled using a combination of risk score and available audit resources. All auditable areas of the City of Bowling Green under the current time schedule will be audited within 9.6 years, (47 recognized divisions/ 4 audits the first year and 5 each year thereafter). Adding additional audit resources may reduce the audit schedule.

The following areas are planned for Audits in FY07/08 based on the risk assessment:

Audit of Golf Courses

Audit of Aquatics

Audit of Treasury

Audit of Housing Assistance

In addition to the audits planned directly from the risk assessment, I also have scheduled time for unannounced cash counts, verification of the Police department's narcotic disposal program, and an audit of petty cash.

Each of these audits will contain a preliminary internal audit review. The objectives of these reviews are to:

- Document the divisions processes and procedures
- Evaluate internal controls
- Perform policies and procedures reviews
- Perform a general overview of the physical environment and security of the facilities, data, records, and departmental personnel
- Identify audit issues and provide recommendations

ATTACHMENT #1

Data Entry Cells

Criteria Legend:

A	Changes in Procedures/Personnel	F	Nature of Transactions
B	Budget Materiality	G	Quality of Internal Controls
C	Systems	H	Composition of Personnel
D	Management	I	Number of Locations
E	External Influences	J	Inherent Risk

Department	Criteria										Gross Score	Weighted Score	Risk
	A	B	C	D	E	F	G	H	I	J			
	Maximum Points per Criteria												
	27	9	27	18	16	18	9	18	7	9			
	Weights												
	6%	18%	8%	9%	5%	15%	20%	12%	4%	3%			
Legislative													
Mayor and Commissioners	9	3	3	4	8	2	1	10	1	1	42	3.85	LOW
City Manager													
City Manager	6	3	7	4	6	2	1	2	1	1	33	2.93	LOW
City Clerk	9	3	15	4	5	11	4	2	1	1	55	5.65	MEDIUM
Purchasing	9	1	15	6	5	12	4	2	1	1	56	5.62	MEDIUM
Internal Auditor	9	3	19	4	4	5	1	2	1	1	49	4.42	LOW
Citizen Information and Assistance													
Director/Administration	6	3	11	2	2	5	4	2	1	1	37	3.92	LOW
Public Information	9	3	15	4	4	2	4	4	1	5	51	4.61	LOW
City Central	9	3	15	6	2	5	4	2	1	1	48	4.78	LOW
Neighborhood Action	9	3	11	4	2	2	4	6	1	1	43	4.31	LOW
Finance													
Treasury	9	3	27	8	7	14	4	4	1	9	86	8	HIGH
Chief Financial Officer	6	3	19	2	9	13	4	2	1	1	60	6.11	MEDIUM
License	13	3	27	8	10	13	4	2	1	1	82	7.76	HIGH
Accounting/Accounts Payable	9	3	19	8	9	11	4	4	1	5	73	6.89	MEDIUM
Payroll	16	3	23	12	10	8	7	2	1	5	87	7.95	HIGH

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Department	Criteria										Gross Score	Weighted Score	Risk
	A	B	C	D	E	F	G	H	I	J			
	Maximum Points per Criteria												
	27	9	27	18	16	18	9	18	7	9			
	Weights												
	6%	18%	8%	9%	5%	15%	20%	12%	4%	3%			
Human Resources													
Human Resources Management	9	5	23	6	14	8	4	4	1	1	75	7.07	MEDIUM
Benefits and Insurance	12	9	23	6	10	11	4	2	1	1	79	7.98	HIGH
Safety and Training	9	5	19	4	10	8	4	2	7	1	69	6.37	MEDIUM
Law													
Law	12	3	23	6	14	8	4	2	1	1	74	6.65	MEDIUM
Information Technology													
Information Technology	9	7	23	6	4	13	4	2	7	9	84	7.92	HIGH
Police													
Administration	9	7	19	4	7	8	4	2	1	1	62	6.34	MEDIUM
Records	9	3	15	6	5	5	4	2	1	1	51	4.93	LOW
Criminal Investigations	9	7	15	4	7	8	4	4	1	1	60	6.26	MEDIUM
Traffic and Patrol	13	9	9	4	11	8	4	10	1	5	74	7.42	MEDIUM
Communications	13	7	17	6	7	11	4	4	1	1	71	7.29	MEDIUM
Evidence	12	3	15	12	5	8	4	2	1	1	63	6.1	MEDIUM
Other (Cadets and Crossing Guards)	6	1	3	6	2	5	1	3	1	1	29	2.8	LOW
Fire													
Administration	12	9	15	12	7	8	4	2	1	1	71	7.28	MEDIUM
Suppression	10	9	7	4	11	8	4	10	5	1	69	7.12	MEDIUM
Prevention	9	3	7	8	7	5	4	2	1	1	47	4.57	LOW
Training	9	3	7	6	2	2	4	2	1	1	37	3.69	LOW
Maintenance/Repair Services	12	3	3	6	2	5	4	2	5	5	47	4.28	LOW

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Data Entry Cells

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Department	Criteria										Gross Score	Weighted Score	Risk
	A	B	C	D	E	F	G	H	I	J			
	Maximum Points per Criteria												
	27	9	27	18	16	18	9	18	7	9			
	Weights												
	6%	18%	8%	9%	5%	15%	20%	12%	4%	3%			
Public Works													
Facilities Management	12	7	15	4	2	5	4	2	7	1	59	5.74	MEDIUM
Administration	13	7	15	4	7	8	4	4	1	1	64	6.5	MEDIUM
Fleet Management	9	7	9	8	4	5	4	2	1	5	54	5.42	MEDIUM
Operations	13	7	15	8	4	5	4	6	7	5	74	6.86	MEDIUM
Parks and Recreation													
Administration	9	7	15	6	4	8	4	6	1	1	61	6.53	MEDIUM
Athletics	16	5	9	8	7	5	4	12	7	5	78	7.07	MEDIUM
Aquatics	18	5	9	12	9	8	7	16	1	9	94	9.06	HIGH
Recreation/Fitness	16	5	9	10	7	5	4	16	7	5	84	7.73	HIGH
Golf Courses	19	7	15	16	6	8	7	16	3	9	106	10.25	HIGH
Cemetery	12	5	15	8	5	2	7	6	1	1	62	6.28	MEDIUM
Community Centers	12	5	5	8	4	5	4	6	1	5	55	5.4	MEDIUM
Beautification	16	7	5	6	2	2	4	12	7	1	62	6.11	MEDIUM
Housing and Community Development													
Administration	9	7	15	4	2	8	4	2	1	1	53	5.77	MEDIUM
Inspection	13	5	15	10	7	8	4	2	1	5	70	6.56	MEDIUM
Housing Assistance	9	7	25	8	14	11	4	2	1	1	82	7.98	HIGH
Code Enforcement	9	5	15	6	5	8	4	2	1	1	56	5.74	MEDIUM

ATTACHMENT #2

Available Audit Hours for FY07/08

Available Resources (Audit Hours)

Number of Staff	1	
Annual Hours Available		2,080

Less: Non-Audit Hours

Paid Leave

Holidays	80	
Vacation	96	
Personal Days	16	
Sick (estimate 4 days)	32	
Total Paid Leave Hours	224	11%

Professional Development

ACFE Annual Conference & Auditing/Investigating Post Conference	24	
IIA Strategies for Managing the Small Au	16	
IIA Operational Auditing	24	
	40	
Total Professional Development Hours	104	5%

Administration

General Administrative Functions & Task	156	
Staff & Senior Management Meetings		
Staff (1*47)	47	
Monthly Senior Mgt (11*3)	33	
Senior Mgt Retreat (8*2)	16	
Strategic Planning (1*8)	8	
Total Administration Hours	260	13%

Total Non-Audit Hours	588	28%
Audit Follow Up, Advisory Services, and Special Requests	416	20%
Total Audit Hours Available	1,076	52%

FY07/08 Audit Plan

Audit of Golf Courses	240
Audit of Aquatics	240
Audit of Treasury	240
Audit of Housing Assistance	240

Unannounced Cash Counts	40
Verification of Narcotics Disposal	16
Audit of Petty Cash	160

Total Budgeted Audit Hours	1,176	57%
Resource Over/Short	(100)	