



# City of Bowling Green

## Internal Auditor's Office FY2015/2016 Annual Audit Plan

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07/08/15

Internal Auditor's Office  
City Wide Risk Assessment and Audit Plan  
FY2015/2016

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## **Introduction**

Enclosed is the FY2015/2016 Audit Plan for the Internal Auditor's Office. Professional internal audit standards, as well as the Internal Auditor's Office Charter, requires the preparation and presentation of this type of plan to the Audit Committee. This plan is updated annually, and 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 FY2015/2016 risk assessment:

- Changes in Procedures/Personnel 9%
- Budgeted Expenditures 13%
- Liquidity and Negotiability of Assets 15%
- Management 7%
- External Influences 4%
- Nature of Transactions 8%
- Quality of Internal Controls 20%
- Composition of Personnel 3%
- Time Since Last Audit 10%
- Revenue Materiality 13%

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

Kris Crowe- 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 FY2015/2016 Audit Plan**

The recommended Audit Plan for FY2015/2016 includes:

Sport Contract Audit (in progress)  
Purchasing Office Follow-Up Audit  
Park Maintenance Operations Follow-Up Audit  
Fleet Mechanic Efficiency Audit  
Cemetery Administration Audit

The FY2015/2016 Audit Plan includes time to conduct unannounced cash counts and administer the Employee Ethics Hotline while being responsive to special requests and advisory needs of management. 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. In my opinion, Information Technology risk is the largest overall risk to the City since it crosses all departments and programs; however, without additional funding for outsourced audits or IT specific training, I must mainly rely on the limited work performed by the external auditors during the annual CAFR audit.

## ATTACHMENT #1

Data Entry Cells

Criteria Legend:

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

Department	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			
	Weights												
	3%	12%	15%	7%	4%	8%	20%	3%	10%	12%			
<b>Legislative</b>													
Mayor and Commissioners	8	3	2	6	11	2	5	1	7	1	46	4.25	LOW
<b>City Manager</b>													
City Manager	2	3	2	4	6	8	8	1	7	1	42	4.45	LOW
City Clerk	2	3	2	8	5	11	5	1	7	3	47	4.57	LOW
Purchasing	2	1	2	8	12	11	8	1	3	1	49	4.57	LOW
Public Information	2	3	6	6	4	5	5	1	7	1	40	4.27	LOW
Internal Auditor	2	3	2	6	9	10	5	1	7	1	46	4.27	LOW
<b>Finance</b>													
Treasury	10	3	10	10	7	11	11	1	7	9	79	8.63	HIGH
Chief Financial Officer	2	3	2	6	9	13	8	1	7	9	60	6.07	MEDIUM
License	5	3	10	10	16	11	2	1	9	9	77	8.13	HIGH
Accounting/Accounts Payable	10	5	2	14	10	8	11	2	7	3	72	7.14	MEDIUM
Payroll	7	1	2	10	10	11	8	1	7	1	58	5.48	MEDIUM
<b>Human Resources</b>													
Human Resources Management	2	5	6	4	12	8	8	1	7	1	54	5.53	MEDIUM
Benefits and Insurance	2	9	2	6	10	11	11	1	7	1	60	6.31	MEDIUM
Safety and Training	2	7	6	6	10	8	11	1	7	1	59	6.43	MEDIUM
<b>Law</b>													
Law	2	3	6	4	12	13	10	1	7	3	61	6.33	MEDIUM
<b>Information Technology</b>													
Information Technology	2	7	10	10	7	13	16	1	5	1	72	8.39	HIGH
<b>Police</b>													
Administration	2	7	4	8	7	5	16	1	5	3	58	6.95	MEDIUM
Records	5	3	6	14	5	2	5	1	5	3	49	4.94	LOW
Criminal Investigations	5	7	6	6	9	13	8	3	5	1	63	6.32	MEDIUM
Traffic and Patrol	5	9	10	6	16	11	8	9	5	1	80	7.46	MEDIUM
Communications	5	7	6	8	14	13	5	4	5	1	68	6.09	MEDIUM
Evidence	5	3	16	14	8	8	5	1	5	3	68	7.04	MEDIUM
Other (Cadets and Crossing Guards)	10	1	2	8	2	2	2	7	5	1	40	3.35	LOW
<b>Fire</b>													
Administration	5	7	4	8	7	2	13	1	5	1	53	6.14	MEDIUM
Suppression	5	9	6	4	16	11	2	9	5	1	68	5.52	MEDIUM
Prevention	2	5	6	14	7	5	8	1	5	1	54	5.59	MEDIUM
Training	2	3	6	10	2	2	8	1	5	1	40	4.63	LOW

<b>Public Works</b>													
Facilities Management	13	7	6	8	2	11	11	1	7	1	67	7.48	MEDIUM
Administration	2	7	2	6	7	8	8	3	7	3	53	5.41	MEDIUM
Fleet Management	13	7	10	16	2	8	8	1	5	3	73	7.84	HIGH
Operations	5	7	10	14	4	8	8	5	7	1	69	7.14	MEDIUM
<b>Parks and Recreation</b>													
Administration	5	5	6	4	2	8	8	2	7	9	56	6.39	MEDIUM
Maintenance	5	7	10	6	2	8	11	6	3	1	59	6.73	MEDIUM
Athletics	12	5	10	8	7	5	11	10	7	9	84	8.7	HIGH
Aquatics	12	5	12	10	7	8	8	10	7	9	88	8.78	HIGH
Recreation/Fitness	12	7	10	16	7	8	11	4	7	9	91	9.56	HIGH
Golf Courses	8	7	16	8	9	5	11	8	7	9	88	9.5	HIGH
Cemetery	5	5	10	16	5	8	11	2	7	9	78	8.55	HIGH
Community Centers	5	5	10	10	4	8	5	2	7	5	61	6.41	MEDIUM
Beautification	5	5	10	8	2	8	8	2	7	1	56	6.31	MEDIUM
<b>Neighborhood &amp; Community Services</b>													
Administration	5	5	2	4	2	5	1	1	7	1	33	3.16	LOW
Inspection	5	5	8	8	7	8	4	1	7	5	58	5.86	MEDIUM
Housing Assistance	5	7	4	8	14	8	1	2	7	5	61	5.21	MEDIUM
Neighborhood Action/City Central	5	3	2	6	4	8	1	1	7	3	40	3.62	LOW
Code Enforcement	5	5	6	6	4	8	4	1	7	3	49	5.06	MEDIUM
Animal Control	14	1	6	6	7	8	1	1	7	3	54	4.91	LOW

**ATTACHMENT #2**

**Available Audit Hours for FY15/16**

<b><u>Available Resources (Audit Hours)</u></b>			
Number of Staff		1	
Annual Hours Available			2,080
<b><u>Less: Non-Audit Hours</u></b>			
<i>Paid Leave</i>			
Holidays		80	
Vacation		96	
Personal Days		32	
Employee Appreciation Day		8	
Sick		64	
<i>Estimated Holidays and Leave Time</i>			280
<i>Professional Development</i>			
City Provided / Misc. Training		20	
Southern Region IIA Conference		16	
ACFE Annual Conference		20	
ALGA Annual Conference		16	
Total Professional Development Hours			72
<i>Administration</i>			
General Administrative Functions & Tasks		200	
Employee Training/Fraud Awareness Presentations		80	
Total Administration Hours			280
Total Indirect Audit Hours			632
<b>Total Direct Audit Hours Available</b>			<b>1,448</b>
<b><u>FY12/13 Audit Plan</u></b>			
Advisory Services/Special Requests/Employee Hotline Admin.			200
Finalize Sports Contract Audit			100
Park Maintenance Operational Audit Follow-up			160
Purchasing Office Audit Follow-up			160
Fleet Mechanic Efficiency Audit			360
Cemetery Administration Audit			360
Audit Committee Meetings			30
Annual Risk Assessment and Audit Plan			80
Unannounced Cash Counts			40
<b>Total Budgeted Direct Audit Hours</b>			<b>1,490</b>
		Resource Over/Short	(42)