City of Bowling Green

Internal Auditor's Office
FY2010/2011
Annual Audit Plan

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Internal Auditor's Office
City Wide Risk Assessment and Audit Plan
For FY2010/2011

Contents

Introduction

Enclosed is the FY2010/2011 Audit Plan for the Internal Auditor's Office. This outlines the activities where available resources will be focused. 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.

Risk assessment is a process used to assign a number, or score, to potential City divisions based upon specific risk factors related to an entities operation, internal controls, and estimated liability to the City of Bowling Green.

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, 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 Universe

The first step leading to the development of the audit plan is to establish an audit universe representing potential audits. I identified the primary audit population by departmental divisions in the FY2007/2008 Audit Plan, however due to the multiple divisional and departmental changes the audit population has been updated in the

FY2010/2011 Audit Plan. Other potential audit segments may be identified in the future as the risk assessment process matures over time.   In the final analysis, the risk assessment factors were applied to all identified 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 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.

Based on the risk factors, questionnaires were developed for key personnel which 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:

City Manager Department
        Kevin DeFebbo- City Manager
        Katie Schaller- Assistant City Manager/City Clerk

Citizens Information and Assistance/Human Resources Department
        Mike Grubbs- Director

Public Works Department
        Emmett Wood- Director until resignation in June 2010
        Katie Schaller- Interim Director
        Jon Lewis- Fleet Manager
        Bobby Phelps- Operations Manager

Legal Department
        Gene Harmon- City Attorney

Housing and Community Development Department
        Kevin DeFebbo- Interim 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

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

- Changes in Procedures/Personnel 5%
- Budgeted Expenditures   17%
- Liquidity and Negotiability of Assets   15%
- Management   5%
- External Influences   3%
- Nature of Transactions 5%
- Quality of Internal Controls   15%
- Composition of Personnel   5%
- Time Since Last Audit   10%
- Budgeted Revenues   20%

The Audit Plan

The internal audit function is still developing and all departments have not been fully reviewed, audits were scheduled using a combination of risk score and available audit resources. All identified divisions of the City of Bowling Green under the current time schedule will have one initial audit within approximately 10-12 years. Adding additional audit resources may reduce the audit schedule.

The following areas are planned for Audits in FY2010/2011 based on the risk assessment process:
Audit of BGFD Payroll-carryover
Atmos Energy Franchise Fee Audit
Rental Property Income Audit
Code Enforcement Follow-Up Audit

In addition to the audits planned directly from the risk assessment, I also have scheduled time to develop an Internal Audit Policy and Procedure Manual and applicable standardized documentation, perform unannounced cash counts, verify the Police

Department's Narcotic Disposal Program, and conduct the cell phone taxable benefit review.

FY2011 Risk Assessment Worksheet
Internal Audit

ATTACHMENT #1

Data Entry Cells

Criteria Legend:

A	Changes in Procedures/Personnel	F	Nature of Transactions
B	Budged 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	Budgeted Revenues

	Criteria										Gross	Weighted	
	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%	17%	15%	5%	3%	5%	15%	5%	10%	20%	Score	Score	Risk
Legislative													
Mayor and Commissioners	8	3	2	2	11	2	5	10	7	1	51	3.89	LOW
City Manager													
City Manager	10	3	2	4	6	2	5	2	7	1	42	3.54	LOW
City Clerk	10	3	2	4	5	8	5	2	7	1	47	3.81	LOW
Purchasing	10	1	4	16	12	14	13	2	7	1	80	6.08	MEDIUM
Public Information	10	3	6	8	4	5	5	2	7	1	51	4.43	LOW
Internal Auditor	5	3	2	8	9	10	10	2	7	1	57	4.73	LOW
Finance													
Treasury	10	3	10	10	7	14	11	2	7	9	83	8.17	HIGH
Chief Financial Officer	5	3	2	2	9	13	8	2	7	1	52	4.28	LOW
License	10	3	10	14	10	14	11	2	7	9	90	8.46	HIGH
Accounting/Accounts Payable	10	5	2	6	10	8	11	2	7	1	62	5.3	MEDIUM
Payroll	10	1	2	8	10	11	11	2	7	1	63	4.87	LOW
Human Resources													
Human Resources Management	15	5	2	6	12	8	8	2	7	1	66	5.16	MEDIUM
Benefits and Insurance	13	7	2	6	10	11	11	2	7	9	78	7.54	HIGH
Safety and Training	10	7	6	6	10	8	11	2	7	1	68	6.24	MEDIUM
Law	16	3	6	8	12	13	11	2	7	0	78	6.07	MEDIUM
Information Technology	5	7	10	8	7	13	14	2	7	1	74	7.3	MEDIUM
Police													
Administration	5	7	4	4	7	2	16	4	1	5	55	6.25	MEDIUM
Records	8	3	14	10	5	5	5	2	1	1	54	5.06	MEDIUM
Criminal Investigations	5	7	10	6	9	11	8	4	1	1	62	5.76	MEDIUM
Traffic and Patrol	5	9	14	14	16	14	8	10	1	1	92	7.76	HIGH
Communications	9	7	6	10	14	13	5	4	1	5	74	6.16	MEDIUM
Evidence	8	3	18	10	8	8	5	2	1	1	64	5.9	MEDIUM
Other (Cadets and Crossing Guards)	5	5	2	8	2	5	2	10	1	1	41	3.21	LOW
Fire													
Administration	5	7	4	6	7	5	13	2	7	3	59	6.15	MEDIUM
Suppression	5	9	6	10	16	8	2	10	7	7	80	6.96	MEDIUM
Prevention	5	3	6	12	7	5	5	2	7	1	53	4.47	LOW
Training	5	3	6	8	2	2	5	2	7	1	41	3.97	LOW
Maintenance/Repair Services	5	3	10	10	2	5	16	2	7	1	61	6.47	MEDIUM

Public Works

Facilities Management	15	7	6	4	2	5	8	2	7	1	57	5.55 MEDIUM
Administration	17	7	2	6	7	11	8	4	7	1	70	5.7 MEDIUM
Fleet Management	13	7	10	8	2	8	10	2	7	7	74	7.9 HIGH
Operations	19	7	10	6	4	8	10	6	7	5	82	7.96 HIGH

Parks and Recreation

Administration	10	3	6	4	2	8	5	2	7	7	54	5.52 MEDIUM
Maintenance	10	7	10	8	2	8	11	8	7	1	72	7 MEDIUM
Athletics	12	5	10	6	7	5	8	10	7	1	71	6.31 MEDIUM
Aquatics	12	5	12	8	7	5	8	10	3	5	75	7.11 MEDIUM
Recreation/Fitness	14	3	10	12	7	5	11	10	7	3	82	7.22 MEDIUM
Golf Courses	12	7	18	8	9	8	13	12	3	7	97	9.81 HIGH
Cemetery	8	3	10	8	5	5	11	2	7	1	60	5.86 MEDIUM
Community Centers	10	5	10	8	4	5	5	10	7	1	65	5.77 MEDIUM
Beautification	8	5	6	8	2	2	5	2	7	1	46	4.46 LOW

Housing and Community Development

Administration	15	3	2	6	2	8	1	2	7	7	53	4.67 LOW
Inspection	10	5	6	8	7	2	4	2	7	3	54	4.96 LOW
Housing Assistance	13	7	2	6	14	11	1	2	3	7	66	5.36 MEDIUM
Neighborhood Action/City Central	15	3	2	6	4	8	1	2	7	1	49	3.53 LOW
Code Enforcement	10	3	6	8	4	8	4	2	1	1	47	3.83 LOW

ATTACHMENT #2
Available Audit Hours for FY10/11

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	
Employee Appreciation Day	8	
Sick (estimate 8 days)	64	
Total Paid Leave Hours		264

Professional Development

City Provided Training	20	
ACFE Annual Conference	20	
Remaining required hours to meet Yellow Bk.	20	
Total Professional Development Hours		60

Administration

General Administrative Functions & Tasks	150	
Annual Agency Training	60	
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		417

Audit Standardization

Creation of Internal Audit Policy and Procedure Manual	120	
Creation of Internal Audit Standardized Documents	80	
		200

Total Indirect Audit Hours	941
Total Direct Audit Hours Available	1,139

FY10/11 Audit Plan

Advisory Services and Special Requests	416
Audit of BGFD Payroll-carryover from FY08/09	320
Atmos Energy Franchise Fee Audit	240
Rental Property Income Audit	240
Code Enforcement Audit Follow-up	80
Cell Phone Taxable Benefit Review	40
Unanounced Cash Counts	32
Verification of Narcotics Disposal	16
Total Budgeted Direct Audit Hours	1,384
Resource Over/Short	(245)