



City of Bowling Green

Internal Auditor's Office FY2009/2010 Annual Audit Plan

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Internal Auditor's Office

City Wide Risk Assessment and Audit Plan
For FY2009/2010

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Introduction

Enclosed is the FY2009/2010 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 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 quality of internal controls, time since last audit, and budget materiality.

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 utilize 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 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 and this plan maintains those same identified divisions. Other potential audit segments may be identified in the future as the risk assessment process matures over time. Examples of these other potential audit segments are as follows:

- 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 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, I developed questionnaires for key personnel 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:

City Manager Department

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

Citizen's Information and Assistance/Human Resources Department

Mike Grubbs- Director

Public Works Department

Emmett Wood- Director

Legal Department

Gene Harmon- City Attorney

Housing and Community Development Department

Alice Burks- 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%
- Budget Materiality 20%
- Systems 7%
- Management 9%
- External Influences 5%
- Nature of Transactions 10%

- Quality of Internal Controls 20%
- Composition of Personnel 6%
- Time Since Last Audit 15%
- Inherent Risk 3%

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 years. Adding additional audit resources may reduce the audit schedule.

The following areas are planned for Audits in FY2009/2010 based on the risk assessment process:

Code Enforcement Audit- finalize from FY2008/2009

Audit of BGPD Payroll-carryover from FY2008/2009

Audit of BGPD Contract Agreements-carryover from FY2008/2009

Audit of BGFDP Payroll-carryover from FY2008/2009

Property Lien Process

In addition to the audits planned directly from the risk assessment, I also have scheduled time for Housing Choice Voucher Program Audit Follow-up, Russell Sims Aquatic Center Follow-up, unannounced cash counts, verification of the Police Department's Narcotic Disposal Program and the cell phone taxable benefit review.

ATTACHMENT #1

Data Entry Cells

Criteria Legend:

- A [Changes in Procedures/Personnel](#)
- B [Budget Materiality](#)
- C [Systems](#)
- D [Management](#)
- E [External Influences](#)
- F [Nature of Transactions](#)
- G [Quality of Internal Controls](#)
- H [Composition of Personnel](#)
- I [Time Since Last Audit](#)
- 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	18	18	16	18	18	18	7	9			
	Weights												
	5%	20%	7%	9%	5%	10%	20%	6%	15%	3%			
Legislative													
Mayor and Commissioners	8	3	2	8	11	2	5	10	7	1	57	5.29	MEDIUM
City Manager													
City Manager	8	3	2	4	6	2	5	2	7	1	40	4.2	LOW
City Clerk	2	3	2	8	5	8	5	2	7	1	43	4.81	LOW
Purchasing	5	1	2	8	8	14	13	2	7	1	61	6.91	MEDIUM
Internal Auditor	5	3	6	6	4	8	5	2	7	1	47	5.01	MEDIUM
Citizen Information and Assistance													
Director/Administration	5	3	2	2	2	5	5	2	7	1	34	3.97	LOW
Public Information	5	3	8	6	2	5	5	6	7	5	52	5.11	MEDIUM
City Central	5	3	10	6	2	5	11	2	1	1	46	5.19	MEDIUM
Neighborhood Action	5	3	10	6	2	2	8	6	7	1	50	5.43	MEDIUM
Finance													
Treasury	5	3	18	8	7	14	8	2	7	9	81	7.62	HIGH
Chief Financial Officer	2	3	6	2	9	13	5	2	7	1	50	5.25	MEDIUM
License	5	3	18	8	10	14	8	2	7	1	76	7.53	HIGH
Accounting/Accounts Payable	5	5	6	8	7	8	8	6	7	5	65	6.7	MEDIUM
Payroll	5	0	10	8	10	11	11	2	7	5	69	6.79	MEDIUM
Human Resources													
Human Resources Management	13	5	10	8	14	8	8	2	7	1	76	7.37	MEDIUM
Benefits and Insurance	5	7	10	8	10	11	13	2	7	1	74	8.47	HIGH
Safety and Training	5	7	6	6	10	8	13	2	7	1	65	7.71	HIGH
Law													
	13	3	10	6	14	13	11	2	7	1	80	7.89	HIGH
Information Technology													
	5	7	18	8	6	13	14	2	7	9	89	9.47	HIGH
Police													
Administration	5	7	8	4	7	2	5	4	7	1	50	5.44	MEDIUM
Records	5	3	12	10	5	5	5	2	7	1	55	5.54	MEDIUM
Criminal Investigations	5	7	12	6	9	11	8	4	7	1	70	7.5	HIGH
Traffic and Patrol	5	9	8	14	16	11	11	10	7	9	100	9.89	HIGH
Communications	5	7	12	8	12	11	5	4	7	1	72	7.23	MEDIUM
Evidence	5	3	12	10	8	8	5	2	7	1	61	5.99	MEDIUM
Other (Cadets and Crossing Guards)	5	3	2	8	2	5	2	12	7	1	47	4.51	LOW

Fire

Administration	2	7	4	6	7	5	13	2	7	1	54	6.97	MEDIUM
Suppression	2	9	8	12	16	8	8	10	7	1	81	8.42	HIGH
Prevention	2	3	4	6	7	5	5	2	7	1	42	4.57	LOW
Training	2	3	4	6	2	2	5	2	7	1	34	4.02	LOW
Maintenance/Repair Services	5	3	2	8	2	5	8	2	7	5	47	5.23	MEDIUM

Public Works

Facilities Management	5	7	2	4	2	5	8	2	7	1	43	5.55	MEDIUM
Administration	9	7	2	6	5	8	8	4	7	1	57	6.5	MEDIUM
Fleet Management	5	7	2	6	2	8	8	2	7	5	52	6.15	MEDIUM
Operations	5	7	2	6	4	8	8	6	7	5	58	6.49	MEDIUM

Parks and Recreation

Administration	5	7	2	4	2	8	5	8	7	1	49	5.61	MEDIUM
Athletics	12	5	4	6	7	5	8	12	7	5	71	6.79	MEDIUM
Aquatics	12	0	4	6	7	5	8	14	1	5	62	5.01	MEDIUM
Recreation/Fitness	12	7	4	6	7	5	8	18	7	5	79	7.55	HIGH
Golf Courses	12	7	2	8	4	8	11	14	3	9	78	7.62	HIGH
Cemetery	5	5	10	10	2	5	11	10	7	1	66	7.33	MEDIUM
Community Centers	8	5	2	6	4	5	5	10	7	5	57	5.58	MEDIUM
Beautification	9	5	2	8	2	2	8	8	7	1	52	5.77	MEDIUM

Housing and Community Development

Administration	5	7	2	4	2	8	1	2	7	1	39	4.45	LOW
Inspection	5	5	10	8	7	2	4	2	7	5	55	5.34	MEDIUM
Housing Assistance	5	7	10	6	12	11	1	4	3	1	60	5.51	MEDIUM
Code Enforcement	5	3	10	8	4	8	4	2	1	1	46	4.37	LOW

ATTACHMENT #2
Available Audit Hours for FY09/10

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 5 days)	40	
Total Paid Leave Hours	240	

Professional Development

ACFE Annual Conference	24	
NALGA Annual Conference	16	
Remaining required hours to meet Yellow Bk.	24	
Total Professional Development Hours	64	

Administration

General Administrative Functions & Tasks	150	
Staff & Senior Management Meetings		
Staff (1*47)	47	
Quarterly Audit Committee Meetings	4	
Annual Risk Assessment and Audit Plan	80	
Monthly Senior Mgt (11*3)	33	
Senior Mgt Retreat	8	
Strategic Planning	8	
Total Administration Hours	330	

Total Non-Audit Hours 634

Advisory Services and Special Requests 416

Total Audit Hours Available 1,030

FY09/10 Audit Plan

Finalize Audit of Code Enforcement-carryover from FY08/09	120
Audit of BGPD Payroll-carryover from FY08/09	240
Audit of BGF D Payroll-carryover from FY08/09	240
Audit of Property Lein Process	240
Audit of BGPD Contract Agreements	240
Section 8 Audit Follow-up	120
Aquatics Audit Follow-up	120
Cell Phone Taxable Benefit Review	40
Unannounced Cash Counts	32
Verification of Narcotics Disposal	16

Total Budgeted Audit Hours 1,408

Resource Over/Short

(378)