



City of Bowling Green

Internal Auditor's Office FY2008/2009 Annual Audit Plan

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Internal Auditor's Office

City Wide Risk Assessment and Audit Plan
For FY08/09

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Introduction

Enclosed is the FY08/09 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. The FY08/09 Audit Plan will provide a balance of audit work that will result in improving the overall operations of the City by strengthening internal controls, improving accountability and enhancing efficiency and effectiveness of City services.

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 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 FY07/08 Audit Plan. This plan is organized with the same divisions identified in the prior fiscal year since there have not been any additions or deletions of 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 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
Jennifer Portmann- Purchasing Agent

Citizen's Information and Assistance Department

Mike Grubbs- Director

Human Resources Department

Michele Tolbert- Director

Public Works Department

Emmett Wood- Director
Bobby Phelps- Operations Division Manager
Jon Lewis- Fleet Manager

Legal Department

Gene Harmon- City Attorney

Housing and Community Development Department

Alice Burks- Director

Fire Department

Greg Johnson- Fire Chief
John Weatherbee-Deputy Chief
Jerry Oliver- Deputy Chief

Finance Department

Jeff Meisel- Chief Financial Officer
Wilma Brown- Comptroller
Jenny Painter- Payroll Manager
Judy Nash- Treasury Associate

Information Technology Department

Lynn Hartley- Chief Information Officer

Parks and Recreation Department

Ernie Gouvas- Director
Anna Jones- Administrative Services Supervisor

Police Department

Doug Hawkins- Police Chief
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 and applicable weights for the risk assessment:

- Changes in Procedures/Personnel 5%
- Budget Materiality 18%
- Systems 7%
- Management 9%
- External Influences 4%
- Nature of Transactions 10%
- Quality of Internal Controls 20%
- Composition of Personnel 9%
- 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 auditable areas of the City of Bowling Green under the current time schedule will be audited within 9.8 years, (47 recognized divisions/ 3 audits for 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 FY08/09 based on the risk assessment process:

Audit of Aquatics- previously scheduled for FY07/08

Audit of Treasury- previously scheduled for FY07/08

Audit of BGPD Payroll

Audit of BGPD Contract Agreements

Audit of BGFD Payroll

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 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%	18%	7%	9%	4%	10%	20%	9%	15%	3%			
Legislative													
Mayor and Commissioners	8	1	2	8	8	2	5	10	7	1	52	4.94	LOW
City Manager													
City Manager	5	3	2	4	6	2	5	2	7	1	37	3.99	LOW
City Clerk	5	3	4	6	5	8	5	2	7	1	46	4.87	LOW
Purchasing	5	1	4	8	8	14	11	2	7	1	61	6.61	MEDIUM
Internal Auditor	5	3	6	6	4	5	5	2	7	1	44	4.67	LOW
Citizen Information and Assistance													
Director/Administration	5	3	4	2	2	5	5	2	7	1	36	4.09	LOW
Public Information	5	3	4	6	4	5	8	2	7	5	49	5.25	MEDIUM
City Central	5	3	4	6	2	5	11	4	7	1	48	5.83	MEDIUM
Neighborhood Action	5	3	10	8	2	2	11	6	7	1	55	6.31	MEDIUM
Finance													
Treasury	5	3	18	8	7	14	5	4	7	9	80	7.13	MEDIUM
Chief Financial Officer	2	3	8	2	7	13	5	6	7	1	54	5.58	MEDIUM
License	5	3	18	8	10	13	8	2	7	1	75	7.33	MEDIUM
Accounting/Accounts Payable	5	3	8	6	7	8	8	4	7	5	61	6.13	MEDIUM
Payroll	5	3	12	8	10	8	11	2	7	5	71	7.13	MEDIUM
Human Resources													
Human Resources Management	5	5	12	6	14	8	8	2	7	1	68	6.75	MEDIUM
Benefits and Insurance	5	7	12	4	10	11	11	2	7	1	70	7.67	HIGH
Safety and Training	5	7	8	6	10	8	11	2	7	1	65	7.27	MEDIUM
Law													
	5	3	10	4	14	13	11	2	7	1	70	7.17	MEDIUM
Information Technology													
	5	7	14	6	4	13	11	2	7	9	78	8.19	HIGH
Police													
Administration	5	7	8	4	7	2	8	4	7	1	53	5.95	MEDIUM
Records	5	3	10	6	5	5	5	2	7	1	49	4.99	LOW
Criminal Investigations	5	7	10	4	7	8	8	4	7	1	61	6.69	MEDIUM
Traffic and Patrol	9	9	4	12	16	8	11	10	7	5	91	9.17	HIGH
Communications	9	7	8	8	10	11	5	6	7	1	72	7.11	MEDIUM
Evidence	5	3	10	8	8	8	11	2	7	1	63	6.79	MEDIUM
Other (Cadets and Crossing Guards)	5	3	2	4	2	5	2	14	7	1	45	4.61	LOW
Fire													
Administration	2	3	4	6	7	5	13	2	7	1	50	6.1	MEDIUM
Suppression	6	9	4	12	16	8	8	10	7	1	81	8.3	HIGH
Prevention	5	3	4	6	7	5	8	2	7	1	48	5.25	MEDIUM
Training	2	3	2	6	2	2	5	2	7	1	32	3.86	LOW
Maintenance/Repair Services	5	3	2	6	2	2	8	2	7	5	42	4.73	LOW

Public Works

Facilities Management	5	7	4	4	2	5	8	2	7	1	45	5.59	MEDIUM
Administration	9	7	10	4	5	8	8	4	7	1	63	6.81	MEDIUM
Fleet Management	5	7	4	6	2	5	5	2	7	5	48	5.29	MEDIUM
Operations	5	7	4	6	4	5	5	10	7	5	58	6.09	MEDIUM

Parks and Recreation

Administration	5	7	4	4	2	8	8	8	7	1	54	6.43	MEDIUM
Athletics	12	5	4	6	7	5	8	12	7	5	71	6.98	MEDIUM
Aquatics	14	7	4	12	7	5	11	18	7	9	94	9.24	HIGH
Recreation/Fitness	12	5	4	8	7	5	8	18	7	5	79	7.7	HIGH
Golf Courses	12	7	4	8	4	8	8	14	1	9	75	7.1	MEDIUM
Cemetery	5	5	10	8	5	5	14	6	7	1	66	7.69	HIGH
Community Centers	8	5	4	6	4	5	5	4	7	5	53	5.34	MEDIUM
Beautification	12	1	4	8	2	2	8	12	7	1	57	5.82	MEDIUM

Housing and Community Development

Administration	5	5	4	4	2	8	1	2	7	1	39	4.13	LOW
Inspection	9	5	10	12	7	5	4	2	7	5	66	6.09	MEDIUM
Housing Assistance	9	7	12	6	12	11	1	4	1	1	64	5.41	MEDIUM
Code Enforcement	5	5	10	12	7	5	4	2	7	1	58	5.77	MEDIUM

ATTACHMENT #2
Available Audit Hours for FY08/09

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	24	
Sick (estimate 5 days)	40	
Total Paid Leave Hours		240

Professional Development

ACFE Annual Conference	24	
NALGA Annual Conference	16	
IIA Reporting for Impact and Results	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*2)	16	
Strategic Planning (1*8)	8	
Total Administration Hours		338

Total Non-Audit Hours	642	31%
Audit Follow Up, Advisory Services, and Special Requests	416	20%
Total Audit Hours Available	1,022	49%

FY08/09 Audit Plan

Audit of Aquatics- carryover from FY07/08	240
Audit of Treasury-carryover from FY07/08	240
Audit of BYPD Payroll	240
Audit of BYPD Contract Agreements	240
Audit of BYPD Payroll	240
Cell Phone Taxable Benefit Review	40
Unannounced Cash Counts	32
Verification of Narcotics Disposal	16

Total Budgeted Audit Hours	1,288	62%
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Resource Over/Short (266)