



City of Minneapolis

Risk Assessment & Two Year Internal Audit Plan 2012-2013

Audit Committee Meeting Presentation

February 22, 2012

Contents

Objective of the Citywide Risk Assessment	3
Approach to the Citywide Risk Assessment	4
Interview Participants	5
2012 Audit Plan	6
2013 Audit Plan	7
2011 Internal Audit Reports with Action Plans In-progress	8
<i>Supporting Documents:</i>	
Risk Profile	10
Available Hours Calculation	11
Carry-over Projects from 2011	12
Definitions	13

Objective of the Citywide Risk Assessment

The **objective** of the City of Minneapolis risk assessment was to gain an understanding of the potential key financial, fiscal compliance and other key business risks that threaten the City's achievement of its objectives and to develop a risk-based two year audit plan.

Approach to the Citywide Risk Assessment

- The risk assessment and development of the Internal Audit plan were based on standards developed by the Institute of Internal Auditors (IIA).
- To conduct the Citywide risk assessment, Internal Audit conducted over 40 individual interviews (listed on slide 5) with City leaders and management.
- Internal Audit additionally reviewed:
 - Revenue and expense information by Department;
 - Department and board mission statements and business lines;
 - State Auditor Management and Compliance Report for the year end December 31, 2010; and
 - Various comparable cities' recent audit plans to identify emerging risk areas.

Interview Participants

CITY COUNCIL

Kevin Reich – Ward 1
Cam Gordon – Ward 2
Diane Hofstede** – Ward 3
Barbara Johnson* – Ward 4
Don Samuels – Ward 5
Robert Lilligren – Ward 6
Lisa Goodman – Ward 7
Elizabeth Glidden – Ward 8
Gary Schiff – Ward 9
Meg Tuthill – Ward 10
John Quincy – Ward 11
Sandy Colvin Roy – Ward 12
Betsy Hodges* – Ward 13

OUTSIDE AUDIT COMMITTEE MEMBERS

Darrell Ellsworth
Mark Oyaas
Stephanie Woodruff

DEPARTMENTS

Mayor
City Coordinator
Business Information Systems
Communication
Finance
HR
Inter-governmental Relations
Convention Center
Neighborhood & Community Relations
City Clerk
City Assessor
City Attorney
Civil Rights
Community Planning & Economic Dvpt.
Fire
Health & Family Support
Police
Public Works
Regulatory Services

WITHIN FINANCE

CFO
Controller
Procurement
Risk Management & Claims
Treasury
Development Finance
Management & Budget

OTHER

State Auditors
(City's external auditor)

**Audit Committee Chair

*Audit Committee Member

2012 Audit Plan

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours	Estimated Client Hours*
Discretionary Hours/Special Projects				250	
Follow-up on Outstanding Audit Issues				200	
Carry-over Projects from prior year				150	
Annual Risk Assessment				200	
External Quality Assessment Review (Peer Review)				250	
Administration Reporting and Presentations				200	
1 Finance	General Ledger Accounting	Assess the design of controls for general ledger accounting and test operating effectiveness in the areas of journal entries, account reconciliations and system access.	General ledger activity for FY 2011 and FY 2012.	350	Finance 80-120
2 Finance / City Attorney	Xcel Energy, Inc. Franchise Agreement	Determine whether controls are designed and functioning effectively to ensure franchisee performance and payments received are in accordance to the franchise agreement.	Contract effective during FY 2012. Contract oversight, performance measures and payments received from franchisee.	300	Finance 40 City Attorney 10
3 Finance	Accounts Payable Review	Determine whether appropriate controls exist within the disbursements process to ensure appropriate and timely payments are made for goods/services received.	All disbursement transactions started/completed in FY 2011 and FY 2012.	400	Finance 440-740
4 Information Technology	Application Security	Determine whether appropriate controls are in place to prevent and detect inappropriate access to software applications. Assess internal policies and procedures and application security access to determine whether access is appropriate and that users have appropriate segregation of duties.	A sample of key software applications currently in use that may have an impact on the City's financial reporting.	250	BIS (IT) 90
5 CPED / Finance	Development Loans (Loan C) Review	Ensure a process is in place to adequately grant, record and continually monitor outstanding loan balances due to the City.	Overall management of granting, recording and monitoring processes with focus on a sample of development loans (Loan C) from current listing for accuracy and collectability.	400	CPED 35 Finance 20
6 Public Works / Finance	Fleet Management	Determine whether controls are adequate to properly monitor Fleet Management, including fuel, inventory and financial charges to other departments.	Fleet Management as of January 1, 2012 and related expenses, expenditures and revenue.	450	PW 100-125 Finance 20
Grand Total 2012 Project Hours				3,400	

- Based on a request from the Audit Committee, department heads and/or management provided estimated hours for their staff to work with Internal Audit to complete these reviews .

2013 Audit Plan

Tentative and subject to review and update before 2013 begins.

Auditable Unit		Review Name	Audit Objectives	Scope	Audit Hours
Discretionary Hours/Special Projects					250
Follow-up on Outstanding Audit Issues					200
Carry-over Projects from prior year					150
Annual Risk Assessment					200
Administration Reporting and Presentations					200
1	Finance	Internal Controls over Financial Reporting	Assess management's program for effective internal controls over financial reporting through evaluation of the design of controls and sample testing of key controls for operating effectiveness.	Significant general ledger accounts and reporting processes for FY 2012 and 2013.	250
2	Finance - Payroll	Payroll / HRIS	Determine whether adequate controls over payroll processes are in place to ensure legitimate employees are paid for work performed and in accordance to regulations and contracts / agreements.	Payroll processed for FY 2012 and FY 2013.	400
3	Information Technology & Emergency Preparedness	Disaster Recovery & Business Continuity	Review of Disaster Recovery & Business Continuity documentation, including support from UNISYS. Evaluate entity readiness in the event of a disaster or business interruption.	Disaster Recovery & Business Continuity process and evaluation of readiness testing performed by management.	500
4	Regulatory Services	Inspections, Permits and Licensing Operations	Assess revenue capture, billing, collection and recording processes.	Processes in place as of January 1, 2013.	400
5	Communications	Comcast Franchise Agreement	Ensure a contract management process exists by: - Determining whether the franchise agreement is followed in accordance to the terms and conditions stated within.	Contract effective during FY 2012. Contract oversight, performance measures and payments to contractor.	500
6	Cash Handling	Outsourced Cash Collection and Handling	Determine whether outsourced parking operations contain appropriate cash handling remittance controls. Determine whether the City has appropriate monitoring processes in place to detect unusual activity.	Outsourced cash management processes with City's 3rd parties used in transporting cash as of January 1, 2013.	400
Grand Total 2013 Project Hours					3,450

2011 Internal Audit Reports with Action Plans In-progress

No.	Department	Number of Audit Reports with Action Plans In-progress
1	Public Works	3
2	Finance	2
3	Minneapolis Police Department	2
4	Human Resources	1
5	Regulatory Services	1

Supporting Documents



Risk Profile

The risk profile was developed for the City of Minneapolis to highlight the relevant risks that the organization may be exposed to from internal and external perspectives. This information was further used to identify the audit projects and develop the two year audit plan.

EXTERNAL RISKS

- Capital Availability
- Citizen Needs
- Legislation
- Public Relations
- Political/Jurisdiction
- Terrorism
- Economy
- Natural Hazard/Catastrophe
- Regulatory

INTERNAL RISKS

Strategic	Operational				Financial		
<ul style="list-style-type: none"> ▪ Business Model ▪ Business Portfolio ▪ Governance Structure ▪ Planning ▪ Policy Administration ▪ Reputation ▪ Resource Allocation ▪ Social Responsibility ▪ Tax Revenue Base 	Process				<ul style="list-style-type: none"> ▪ Collections ▪ Credit ▪ Funding ▪ Financial Reporting ▪ General Ledger ▪ Investment Management ▪ Pension Fund ▪ Treasury ▪ Utility Billing 		
	<ul style="list-style-type: none"> ▪ Accounts Payable ▪ Budgeting Process ▪ Business Interruption ▪ Capital Budgeting ▪ Cash Management ▪ Compliance 		<ul style="list-style-type: none"> ▪ Consistency Management ▪ Contract Management ▪ Crisis Management ▪ Customer Satisfaction ▪ Efficiency ▪ Environmental ▪ Grant Administration ▪ Impound Lot 			<ul style="list-style-type: none"> ▪ Health & Safety ▪ Knowledge Management ▪ Physical Security ▪ Procurement ▪ Payroll ▪ Records Retention ▪ Segregation of Duties ▪ Tax Collections ▪ Vendor Management 	
	Mgmt. Information	Human Capital	Integrity	Technology			
<ul style="list-style-type: none"> ▪ Accounting & Management Information ▪ Budgeting & Forecasting ▪ Completeness / Accuracy ▪ Data Pricing ▪ Information Relevance ▪ HIPAA Compliance ▪ Project Evaluation 		<ul style="list-style-type: none"> ▪ Accountability ▪ Change Readiness ▪ Communications ▪ Competencies/Skills ▪ Employee Benefits ▪ Hiring/Retention ▪ Leadership ▪ Outsourcing ▪ Resource Availability ▪ Succession Planning ▪ Training/Development 		<ul style="list-style-type: none"> ▪ Conflict of Interest ▪ Employee Fraud ▪ Ethical Decision-making ▪ Illegal Acts ▪ Management Fraud ▪ Privacy ▪ Third-Party Fraud ▪ Unauthorized Acts 		<ul style="list-style-type: none"> ▪ Availability ▪ Business Continuity / Disaster Recovery ▪ Change Management ▪ Data Integrity ▪ Infrastructure ▪ Reliability ▪ System Access 	

Available Hours Calculations

Internal Audit Department Staffing – Project Hours

2012 Audit Plan											
	Standard Hours	Additional Hours ¹	Total Hours	Holiday	Vacation	Sick	Training	Admin ²	Sub-Total	Available Hours	Productive Time
Director	2,080	208	2,288	88	160	40	80	915	1,283	1,005	44%
Sr. Auditor	2,080	208	2,288	88	120	80	80	229	597	1,691	74%
Total	4,160	416	4,576	176	280	120	160	1,144	1,880	2,696	59%
										Adjusted Available Hours ³	2,471
										Consultant's hours (expected)	<u>800</u>
										Total Available Hours	<u>3,271</u>
2013 Audit Plan											
	Standard Hours	Additional Hours	Total Hours	Holiday	Vacation	Sick	Training	Admin	Sub-Total	Available Hours	Productive Time
Director	2,080	208	2,288	88	160	40	80	915	1,283	1,005	44%
Sr. Auditor	2,080	208	2,288	88	120	80	80	229	597	1,691	74%
Total	4,160	416	4,576	176	280	120	160	1,144	1,880	2,696	59%
										Consultant's hours (expected)	<u>800</u>
										Total Available Hours	<u>3,496</u>

¹ Planned 10% additional hours for salaried employees.

² Approximately 40% administrative time for Director and 10% for Senior Auditor.

³ As the audit plan is based on a calendar year, the plan was adjusted to reflect the remaining 11 months of 2012.

Carry-over Projects from 2011

No.	Review Name	Current Status	Carry-over Hours
1	City of Minneapolis Computer Network Penetration	In-progress - Report drafted and sent for Management for response	15
2	Database Access	In-progress - Report drafted and sent for Management for response	15
3	School-Based Clinics Electronic Medical Record System Pre-Implementation	In-progress - In Fieldwork (system go-live rescheduled for July 2012)	40
4	UNISYS Contract Review	In-progress - In Fieldwork	70
5	Grant Management Process	In-progress - Final report to be presented to Audit Committee	10
Total Hours			150

Definitions

- **Risk-based:** Audits to be performed due to risk rating generated from the annual risk assessment.
- **Discretionary Hours/Special Projects:** Time reserved for unplanned projects, special requests and unplanned expansion of scope in scheduled audits/reviews.
- **Follow Up on Outstanding Audit Issues:** Quarterly follow up with owners of previously identified control issues to assess progress toward resolution.
- **Carry-over Projects from Prior Year:** Time needed to close open projects from prior year.
- **Annual Risk Assessment:** Meetings with key stakeholders, update and confirmation of the risk assessment, auditable unit risk profile and Internal Audit plan.
- **External Quality Assessment Review (Peer Review):** A required quality assessment as stated in the International Professional Practices Framework (IPPF) promulgated by The Institute of Internal Auditors.