



# City of Covington, Kentucky

Office of the Internal Auditor

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## **Risk Assessment and Audit Plan Fiscal Year 2017**

## Introduction

Government Auditing Standards and the Institute of Internal Auditors' Standards encourage the chief audit executive to establish a risk based approach to determine the priorities for Internal Audit activities. A City-wide risk assessment was performed in fiscal years 2014 and 2015; however, a risk assessment was not performed in fiscal year 2016, due to a backlog of projects and a three month vacancy in the Internal Auditor position. This decision was made by the Internal Auditor after consultation with Senior City Management. The chart below lists the status of all audit activities selected for review since fiscal year 2015 (Audit Plan Year 2014/2015).

## Audit Selection, Fiscal Years 2015 and 2016

Audit Plan Year	Audit/Review	Completed	In Progress	Not Started	Original Hours Estimated
2014/2015	Parking Management - ABM Contract <sup>1</sup>		X		320
2014/2015	Devou Park Master Plan <sup>1</sup>			X	240
2014/2015	EMS Income <sup>1</sup>	X			240
2014/2015	Self-Funded Liability Insurance			X	240
2014/2015	Verification of Narcotics Disposal (Continuous)	X			40
2014/2015	Unannounced Cash Count - Petty Cash	X			20 <sup>2</sup>
2014/2015	Unannounced Cash Count - Police Dept. Funds	X			20
2015/2016	Self-Funded Liability Insurance			X	280
2015/2016	Golf Course			X	320
2015/2016	Fuel Card Usage			X	240
2015/2016	Capital Assets			X	240
2015/2016	Verification of Narcotics Disposal (Continuous)		X		40
N/A	Police Department Records Section	X			N/A - (112.5 hours actual)

<sup>1</sup> Selection made as a result of State Auditor's Report and/or audited financial statements.

<sup>2</sup> Estimate was 40 hours for all cash counts.

The Internal Auditor reviewed all audits not initiated from the 2015 and 2016 audit plans. Two of these audits (fuel card usage and capital assets) were selected for inclusion in the fiscal year 2017 plan, based on the level of risk identified for each activity. In fiscal year 2017, for the 2018 audit plan, the Internal Auditor will complete a City-wide risk assessment, and the remaining audits from the 2015 and 2016 audit plans will be assessed concurrent with other City operations. These activities could be selected for review in future years.

## Follow-up Review Process

Auditing standards require that the chief audit executive establish and maintain a follow-up process to monitor the disposition of results communicated to management. The purpose of the follow-up process is to ensure that management actions have either been implemented or that senior management has accepted the risk of not taking action. These reviews will be part of the Internal Auditor's work plan beginning in fiscal year 2017.

As part of the follow-up review process, the Internal Auditor will assess the status of audit recommendations. A follow-up review of each audit will generally be completed in the fiscal year following the audit's release. The Internal Auditor will communicate the results of the review to department management, City Manager, Audit Committee members, Mayor, and Commissioners. The Internal Auditor will also issue a written report at the end of each follow-up review.

The follow-up reviews included in the fiscal year 2017 audit plan are Ambulance Billing and Revenue Collection (completed February 2015) and the Police Department Records Section (completed March 2016). Due to the nature of the narcotics disposal verifications and Springbrook Security Policy reviews, there is no follow-up associated with these tasks.

In the future, auditees will be notified of the follow-up process at the start of the initial audit. This timeline will vary during the first year of follow-up reviews.

## **Springbrook Security Policy Reviews**

During fiscal year 2016, the Board of Commissioners approved the Springbrook Security Policy. This policy outlines the creation of user accounts and changes to user access levels in the City's financial system. To maintain a system of internal controls, the policy also dictates the modules individual staff must access, by position title, in the course of daily business. To ensure staff compliance, the policy requires recurring reviews by the Internal Auditor. Beginning in fiscal year 2017, these reviews will be added to the audit plan.

## **Audit Schedule**

The fiscal year 2017 audit schedule was impacted by the number of outstanding audits from the fiscal year 2015 and fiscal year 2016 audit plans, addition of follow-up reviews, and the inclusion of recurring Springbrook Security Policy reviews.

The addition of the Springbrook Security Policy reviews and follow-up process will reduce the number of hours available for larger audits during fiscal year 2017. The fiscal year 2017 schedule will also include a placeholder for a potential, requested review by senior department management. The decision to include this placeholder resulted from a 2016 request by the Police Department to review their Records Section. This review was not part of the audit plan; however, through discussions with the Police Chief and City Manager, the Internal Auditor determined a review was necessary. The review took approximately four weeks to complete; however, the Police Department agreed with the recommendations and is working with the Finance Department to establish cash drawers for its personnel.

To select audits for the fiscal year 2017 audit plan, the Internal Auditor reviewed the risk assessments performed by the previous Internal Auditor. In fiscal years 2014 and 2015, the same methodology was applied, with each activity area assigned a weighted risk score based on impact factors (mission critical, public displeasure and interface, and revenues and expenditures) and probability factors (full-time equivalent employees, interdepartmental impact, cash/cash convertible, internal controls, and regulatory compliance). A risk factor is an

observable or measurable indicator of conditions or events that could adversely affect an entity. A score of 10 indicates highest risk and a score of 1, lowest risk. The outstanding fiscal year 2015 and 2016 audits, along with individual risk scores, are detailed in the chart below. Based on the assigned risk scores, and after consultation with Senior City Management, the Internal Auditor will audit fuel card usage and the City's capital assets during fiscal year 2017.

### Outstanding Audits and Risk Scores

Outstanding Audits		Risk Assessment	Notes
Audit Plan Year	Audit	Score (Out of 10) <sup>2</sup>	
2014/2015	Devou Park Master Plan <sup>1</sup>	7.25	New policies reduced the audit risk.
2014/2015	Self-Funded Liability Insurance <sup>3</sup>	7.15	
2015/2016	Self-Funded Liability Insurance	7.15	Contract changing in FY 2017. Cash/Cash convertible Regulatory compliance
2015/2016	Golf Course	7.45	
<b>2015/2016</b>	<b>Fuel Card Usage</b>	<b>7.55</b>	
<b>2015/2016</b>	<b>Capital Assets</b> <sup>1</sup>	<b>7.25</b>	
<sup>1</sup> Selection made as a result of State Auditor's Report and/or audited financial statements.			
<sup>2</sup> On the 1-10 scale, 10 indicates highest risk.			
<sup>3</sup> This was selected in both FY 2015 and FY 2016.			

The following work will be completed by the Internal Auditor during fiscal year 2017:

Project and Hours Estimations		
Audit Plan Year	Audits and Reviews	Hours Estimated
2016/2017	Fuel Card Usage	450
2016/2017	Capital Assets	450
2016/2017	EMS Income Follow-up Review	112.5
2016/2017	Police Department Follow-up Review	37.5
2016/2017	Placeholder for Requested Review	112.5
2016/2017	Springbrook Security Policy Reviews	22.5
2016/2017	Narcotics Disposal	45
	<b>Other Hours</b>	<b>Hours Estimated</b>
2016/2017	Consulting	180
2016/2017	City-wide Risk Assessment for Fiscal Year 2018 Audit Plan	120
2016/2017	General Administration	100
2016/2017	Recurring Meetings	90
2016/2017	Training	40
2016/2017	Fraud Hotline	24
2016/2017	Holiday Time	86
2016/2017	Vacation Time	75
2016/2017	Sick Time	37.5
<b>Total Hours <sup>1</sup>:</b>		<b>1,982.5</b>
<sup>1</sup> Total estimated hours are slightly over the standard 1,950 annual work hours, including holiday, vacation, and sick time.		

COMMISSIONERS' ORDER/RESOLUTION NO. OR-164-16

AN ORDER/RESOLUTION ADOPTING THE OFFICE OF THE  
INTERNAL AUDITOR'S ANNUAL RISK ASSESSMENT AND AUDIT  
PLAN FOR FISCAL YEAR 2016-2017.

\* \* \* \*

WHEREAS, Government Audit Standards and the Institute of Internal Auditor's Standards encourage the Chief Audit Executive to establish a risk-based approach to determine the priorities for internal audit activities; and

WHEREAS, the Internal Auditor has established a Risk Assessment and Audit Plan for Fiscal Year 2016-2017.

NOW, THEREFORE,  
BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE CITY  
OF COVINGTON, KENTON COUNTY, KENTUCKY:

Section 1

That the Board of Commissioners hereby adopts the Office of the Internal Auditor's Annual Risk Assessment and Audit Plan for Fiscal Year 2016-2017, which is attached hereto and incorporated by reference.

Section 2

That this order/resolution shall take effect and be in full force when passed and recorded according to law.

Sherry Carson  
MAYOR

ATTEST:

Margaret M. Ryan  
CITY CLERK

Passed: 6-14-16