



Annual Citywide Risk Assessment and Audit Plan

Fiscal Year
2014 - 2015

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Introduction

Government Auditing 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. The Internal Auditor has completed a FY 2014 – 2015 Citywide Risk Assessment as a means to help identify, measure, and prioritize the City's potential audits based on the level of risk to the City. Each potential audit's score was considered when selecting audits for the Internal Auditor's work plan.

Additional factors such as the Auditor of Public Accounts Report, Independent Auditor's Financial Statements Report, City initiatives, management concerns, and available audit hours were also considered when developing the Internal Auditor's work plan.

Citywide Risk Assessment

Risk assessment is a process of systematically ranking the relative impact of a variety of risk factors. A risk factor is an observable or measurable indicator of conditions or events that could adversely affect an entity.

The first step in creating the City's risk assessment model was to define the audit universe. The audit universe is a listing of all the significant Auditable Units or "Activity Groups". A list of City Departments, Agencies and their primary Activity Groups was developed from the 2014 – 2015 Recommended Budget and from interviews with City management.

There were eighty three (83) separate Activity Groups identified during this process. **See Attachment 1 for Risk Assessment Model containing list of ranked Activity Groups.** Some highlights of the development of the Activity Groups and Risk Assessment Model are as follows:

- Fuel Card Usage and Credit Card Usage were listed as separate Activity Groups from Purchasing/Procurement due to the specific nature and risk of the activity.
- Payroll was evaluated (ranked) considering the outsourcing of the activity.
- An Administration/Governance Activity Group was created for each major department and would include a review of policies and procedures implemented to inform, direct, manage/monitor activities of the department. Additionally, a review of small departmental expenditures would be included as well.
- Capital Projects were segregated by type (Infrastructure/Safety, Economic Development/Neighborhood Development, Facilities and Recreation, Fleet and Equipment) instead of by Department, to align with the City's administration of these Activity Groups.

The next step was to identify and rank the major risk associated with each of the City’s Activity Groups. To achieve this, a Departmental Risk Assessment Questionnaire (**See Attachment 2 for questionnaire**) was developed, which measured the following impact and probability risk factors:

Impact Factors	% Weight
Mission critical to meet goals.	25%
Failure to meet goals lead to public displeasure.	12.5%
Public interface.	12.5%
Revenue measure.	25%
Expenditure measure.	25%

Probability Factors	% Weight
Complexity – Number of FTE.	10%
Complexity – Activity supports other departments.	15%
Cash or cash convertible.	30%
Internal Controls.	25%
Regulatory Compliance.	20%

A risk score of low (1), medium (3) and high (5) was assigned to each risk factor for every Activity Group. The scores assigned to the risk factors were derived from discussions with management while completing the Departmental Risk Assessment Questionnaire.

The final step in completing the risk assessment was to calculate the Total Impact Factors and Total Probability Factors by summing the (individual risk factors) x (the risk factor percentages). Then the Total Risk Scored is calculated by summing the Total Impact Factors and Total Probability Factors.

Interpreting Risk Assessment Results

The weighted scores for the ten risk factors were tabulated for each significant Departmental Activity Group identified in Attachment 1 - Risk Assessment Model. The list of Activity Groups on the Risk Assessment Model was then sorted from high to low risk as determined by the Total Risk Score.

A high risk score does not mean that an Activity Group is being managed ineffectively but merely indicates that the services or functions provided are by nature a high risk activity because of such factors as having a large amount of revenues and expenditures, high degree of public interest or interface, high degree of complexity, or having cash or cash convertible assets involved in the activity.

The overall results identify the activities with the highest risk factors that may warrant and benefit from additional management action or audit services.

Audit Schedule

The Fiscal Year 2014 – 2015 Audit Schedule was highly impacted by the Auditor of Public Accounts Report, and the Independent Auditor’s Financial Statements Report. From discussions with Senior Management, it was determined that the Internal Auditor’s role could help the City address some recommendations highlighted in the reports. As such, three of the scheduled audits were selected in response to the above mentioned reports. Details are as follows:

<u>Schedule</u>	<u>Hours</u>
Parking Management – ABM contract (1)	320
Devou Park Master Plan (1)	240
EMS Income (1)	240
Self-Funded Liability Insurance	240
Verification of Narcotics Disposal	40
Unannounced Cash Counts	40
Total Budgeted Audit Hours	1120
Total Available Audit Hours (2)	1107
Resource Over - (Short)	(13)
<u>Potential Additional/Replacement Audits</u>	
Golf Course	320
Fuel Card Usage	240

- (1) Selection based upon the Auditor of Public Accounts Report and the Independent Auditor’s FY 2013 Financial Statement Report.
- (2) See Attachment 3 for calculation of Total Available Audit Hours.