



Annual Risk Assessment and Audit Plan Fiscal Year 2015/2016

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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 2015 – 2016 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 City initiatives, management concerns, and available audit hours were also considered when developing the Internal Auditor’s work plan.

Risk Assessment Process

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 is 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 2015 – 2016 Recommended Budgets and from interviews with City management. (See **Attachment 1 for Risk Assessment Model containing list of ranked 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 was used to measure 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 – Full Time Equivalents	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 Score is calculated by summing the Total Impact Factors and Total Probability Factors.

Some changes from the prior year's activity groups and risk model are as follows:

- There were three (3) additional activity groups added to last year's risk assessment bringing the total to eighty six (86) activity groups. The three new activities are as follows:
 1. Police Department Special Detail, Off Duty Assignments
 2. Police Department Towing and Storage Contract
 3. Human Resources Workers Compensation
- GIS Mapping and Risk Management (Property Insurance, OSHA and Safety Training) activities were moved under the City Manager's Department to reflect organizational changes.
- A few risk factor rankings were adjusted based upon a better understanding of the City's internal controls.

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.

FY 2015/2016 Audit Schedule

<u>Schedule</u>	<u>Hours</u>
Self-Funded Liability Insurance (carryover from prior year)	280
Golf Course	320
Fuel Card Usage	240
Capital Assets	240
Verification of Narcotics Disposal	40
Total Budgeted Audit Hours	1120
Total Available Audit Hours (1)	1107
Resource Over - (Short)	(13)

(1) See Attachment 2 for calculation of Total Available Audit Hours.