



# City of Bowling Green

## Internal Auditor's Office FY2011/2012 Annual Audit Plan

Deborah Jenkins, CFE, CICA  
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Internal Auditor's Office  
City Wide Risk Assessment and Audit Plan  
For FY2011/2012

**Contents**

	<u>Page</u>
I. Introduction	3
II. Principles for Risk Assessment and Audit Plan Development	3
III. Audit Prioritization and Selection	3 - 5
▪ Objective	
▪ Risk Factors	
IV. The Annual Audit Plan	5 - 7
V. Attachments	
▪ #1 Risk Assessment Summary	
▪ #2 Available Audit Hours	

## **Introduction**

Enclosed is the FY2011/2012 Audit Plan for the Internal Auditor's Office. 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.

## **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 resulting audit plan, the following principles are utilized:

- 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 Prioritization and Selection**

The *objective* of a 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 a 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.

The following risk factors and applicable weights were chosen for the FY11/12 risk assessment:

- Changes in Procedures/Personnel 5%
- Budgeted Expenditures 13%
- Liquidity and Negotiability of Assets 15%
- Management 4%
- External Influences 3%
- Nature of Transactions 8%
- Quality of Internal Controls 25%
- Composition of Personnel 3%
- Time Since Last Audit 10%
- Revenue Materiality 14%

Based on the selected risk factors, interviews were performed with key management which focused on the control environment, risk assessment, control activities, information and communication and monitoring for each division. The following individuals were interviewed to discuss their specific departmental risks and operations:

City Manager Department

Kevin DeFebbo- City Manager  
Katie Schaller- Assistant City Manager/City Clerk

Human Resources Department

Mike Grubbs- Director

Public Works Department

Jeff Lashlee- Director  
Bobby Phelps- Operations Manager

Legal Department

Gene Harmon- City Attorney

Housing and Community Development Department- new title of Neighborhood & Community Services effective 7/1/11

Kevin DeFebbo- Interim Director  
Brent Childers- Pending Director and current Housing & Grants Manager

Fire Department

Greg Johnson- Fire Chief

Finance Department

Jeff Meisel- Chief Financial Officer  
Wilma Brown- Comptroller

Information Technology Department

Lynn Hartley- Chief Information Officer

Parks and Recreation Department

Ernie Gouvas- Director

Police Department

Doug Hawkins- Police Chief

**The FY11/12 Audit Plan**

This is the fifth year of the Internal Audit Division and in those five years, this function has developed and become a vital role within the organization. The first year concentrated on development of the Internal Auditor's Office Charter, the creation of the Audit Committee in addition to acting as the City's temporary Purchasing Agent while the duties were being segregated from the Department of Finance. The first annual audit plan was presented for the FY2007/2008 budget year. A summary of the audits planned per the applicable annual audit plan are provided below:

FY2007/2008 Audit Plan

- Golf Course Operational Audit
  - Finalized 1/7/08
- Housing Assistance Audit
  - Finalized 7/17/08
- Audit of Russell Sims Aquatic Center
  - Carried over to FY08/09
- Audit of Treasury
  - Carried over to FY08/09

FY2008/2009 Audit Plan

- Russell Sims Aquatic Center Audit
  - Finalized 10/12/09
- Audit of BGPD Payroll
  - Carried over to FY09/10
- Audit of BGPD Contract Agreements
  - Carried over to FY09/10
- Audit of BGFDP Payroll
  - Carried over to FY09/10
- Audit of Treasury
  - Deleted in FY09/10 Audit Plan

FY2009/2010 Audit Plan

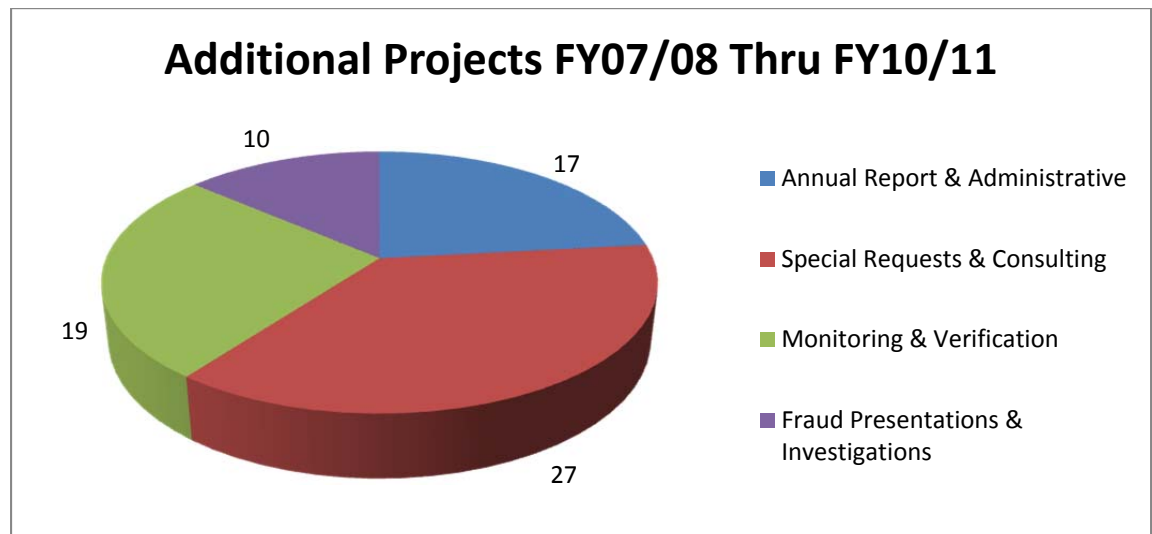
- Code Enforcement Audit
  - Finalized 10/12/09
- Audit of BGPD Payroll
  - Finalized 7/12/10
- Audit of BGPD Contract Agreements
  - Completed as part of the BGPD Payroll audit

- Follow-up on Housing Choice Voucher Program (Section 8) Audit
  - Finalized 10/12/09
- Follow-up on Russell Sims Aquatic Center Audit
  - Finalized 7/12/10
- Audit of BGFD Payroll
  - Carried over to FY10/11
- Property Lien Process
  - Deleted in FY10/11 Audit Plan

FY2010/2011 Audit Plan

- Audit of BGFD Payroll
  - Finalized 4/5/11
- Fleet Operations Audit- special request audit added to plan
  - In progress and will finalize in FY11/12
- Code Enforcement Follow-Up Audit
  - Carrying over to FY11/12
- Atmos Energy Franchise Fee Audit
  - Deleted in FY11/12 Audit Plan
- Rental Property Income Audit
  - Deleted in FY11/12 Audit Plan

In addition to the annual audit plan, the Internal Auditor’s Office provides additional services each year to management. The chart below summarizes the additional projects performed by general type in addition to the annual audit plan:



**The recommended Audit Plan for FY2011/2012 includes:**

Fleet Operations Audit –special request audit added to FY10/11 Audit Plan  
Bid and Procurement Process Audit  
Parks Maintenance Operations Audit  
Code Enforcement Follow-Up Audit- carryover from FY10/11  
BGPD Payroll Follow-Up Audit

The FY2011/2012 Audit Plan includes time to verify BGPD’s narcotics burn, conduct unannounced cash counts, respond to special requests and advisory needs of management, and review taxable benefit items. The audit plan is based on the risk assessment of the City’s 11 departments which contain 46 identified divisions.

Thus far, I have completed at least one audit in only 5 of the 11 city departments. I am concerned about the audit coverage that I have been able to provide as a one person audit shop, but will continue to search for ways to add greater value to the City based on the resources available. Additional staff or resources for co-sourcing of audits would greatly improve my ability to respond to the needs of the organization.

# ATTACHMENT #1

Data Entry Cells

Criteria Legend:

- |   |   |   |  |
|---|---|---|--|
| A | <a href="#">Changes in Procedures/Personnel</a>       | F | <a href="#">Nature of Transactions</a>       |
| B | <a href="#">Budgeted Expenditures</a>                 | G | <a href="#">Quality of Internal Controls</a> |
| C | <a href="#">Liquidity and Negotiability of Assets</a> | H | <a href="#">Composition of Personnel</a>     |
| D | <a href="#">Management</a>                            | I | <a href="#">Time Since Last Audit</a>        |
| E | <a href="#">External Influences</a>                   | J | <a href="#">Revenue Materiality</a>          |

Department	Criteria										Gross Score	Weighted Score	Risk	100%
	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%	13%	15%	4%	3%	8%	25%	3%	10%	14%				
<b>Legislative</b>														
Mayor and Commissioners	13	3	2	6	11	2	5	1	7	1	51	4.19	LOW	
<b>City Manager</b>														
City Manager	5	3	2	4	6	2	8	1	7	1	39	4.31	LOW	
City Clerk	5	3	2	8	5	8	5	1	7	3	47	4.45	LOW	
Purchasing	5	1	4	14	12	18	13	1	7	3	78	7.74	HIGH	
Public Information	5	3	6	4	4	5	5	2	7	1	42	4.37	LOW	
Internal Auditor	2	3	2	6	9	10	5	1	7	1	46	4.22	LOW	
<b>Finance</b>														
Treasury	5	3	10	8	7	14	11	1	7	9	75	8.53	HIGH	
Chief Financial Officer	2	3	2	6	9	13	8	1	7	9	60	6.33	MEDIUM	
License	5	3	10	12	10	14	11	2	7	9	83	8.81	HIGH	
Accounting/Accounts Payable	5	5	2	14	10	8	11	2	7	5	69	6.91	MEDIUM	
Payroll	5	1	2	10	10	11	11	1	7	5	63	6.44	MEDIUM	
<b>Human Resources</b>														
Human Resources Management	5	5	2	6	12	8	8	1	7	3	57	5.59	MEDIUM	
Benefits and Insurance	5	7	2	8	10	11	11	1	7	3	65	6.86	MEDIUM	
Safety and Training	5	7	6	8	10	8	11	1	7	3	66	7.22	MEDIUM	
<b>Law</b>														
	10	3	6	4	12	13	13	1	7	3	72	7.75	HIGH	
<b>Information Technology</b>														
	2	7	10	10	7	13	16	3	7	5	80	9.65	HIGH	
<b>Police</b>														
Administration	2	7	4	12	7	2	16	1	3	3	57	7.21	MEDIUM	
Records	5	3	10	10	5	5	5	1	3	3	50	5.09	MEDIUM	
Criminal Investigations	5	7	6	6	9	11	8	3	3	1	59	5.98	MEDIUM	
Traffic and Patrol	8	9	10	6	16	14	8	9	3	1	84	7.62	HIGH	
Communications	5	7	6	8	14	13	5	4	3	5	70	6.21	MEDIUM	
Evidence	5	3	18	10	8	8	5	1	3	3	64	6.62	MEDIUM	
Other (Cadets and Crossing Guards)	10	1	2	8	2	5	2	9	3	1	43	2.92	LOW	
<b>Fire</b>														
Administration	10	7	4	8	7	5	13	1	1	1	57	6.46	MEDIUM	
Suppression	5	9	6	4	16	8	2	9	1	1	61	4.61	LOW	
Prevention	5	3	6	8	7	5	8	1	1	1	45	4.74	LOW	
Training	5	3	6	8	2	2	8	1	1	1	37	4.35	LOW	
Maintenance/Repair Services	5	3	10	10	2	5	16	1	1	1	54	7.27	MEDIUM	
<b>Public Works</b>														
Facilities Management	5	7	6	8	2	5	8	1	7	1	50	5.71	MEDIUM	
Administration	7	7	2	6	7	11	8	3	7	5	63	6.38	MEDIUM	
Fleet Management	17	7	10	16	2	8	16	1	1	3	81	9.15	HIGH	
Operations	5	7	10	14	4	8	10	5	7	1	71	7.47	MEDIUM	
<b>Parks and Recreation</b>														
Administration	5	3	6	6	2	8	5	2	7	9	53	5.75	MEDIUM	
Maintenance	5	7	10	16	2	8	14	8	7	1	78	8.58	HIGH	
Athletics	14	5	10	12	7	5	8	10	7	9	87	8.2	HIGH	



Aquatics	14	5	12	10	7	5	8	10	5	9	85	8.22	HIGH
Recreation/Fitness	14	5	10	12	7	5	11	10	7	9	90	8.95	HIGH
Golf Courses	10	7	18	10	9	8	13	12	5	9	101	10.79	HIGH
Cemetery	5	3	10	10	5	5	11	2	7	9	67	7.86	HIGH
Community Centers	5	5	10	8	4	5	5	10	7	9	68	6.75	MEDIUM
Beautification	5	5	6	8	2	2	5	2	7	1	43	4.49	LOW
<b>Neighborhood &amp; Community Services</b>													
Administration	10	3	2	6	2	8	1	1	7	1	41	3.25	LOW
Inspection	5	5	6	8	7	2	4	1	7	3	48	4.64	LOW
Housing Assistance	5	7	2	8	14	11	1	2	3	9	62	4.95	LOW
Neighborhood Action/City Central	5	3	2	6	4	8	1	1	7	1	38	3.06	LOW
Code Enforcement	5	5	6	8	4	8	4	1	3	3	47	4.63	LOW

**ATTACHMENT #2**  
**Available Audit Hours for FY11/12**

**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	32	
Employee Appreciation Day	8	
Sick (estimate 8 days)	64	
Total Paid Leave Hours	280	13%

*Professional Development*

City Provided / Misc. Training	20	
ACFE Annual Conference	24	
ALGA Annual Conference	16	
IDEA Software Training	16	
Total Professional Development Hours	76	4%

*Administration*

General Administrative Functions & Tasks	150	
Annual Agency Training	60	
Staff & Senior Management Meetings		
Staff (1*47)	47	
Quarterly Audit Committee Meetings	20	
Annual Risk Assessment and Audit Plan	80	
Monthly Senior Mgt (11*4)	44	
Senior Mgt Retreat	8	
Strategic Goal Planning	8	
Total Administration Hours	417	20%

Total Indirect Audit Hours 773

**Total Direct Audit Hours Available 1,307** 37%

**FY10/11 Audit Plan**

Advisory Services and Special Requests	400	19%
Bid and Procurement Process Audit	320	15%
Parks Maintenance Operations Audit	320	15%
Fleet Operations Audit- Carryover from FY2011	160	8%
Code Enforcement Audit Follow-up	80	4%
BGPD Payroll Audit Follow-up	80	
Cell Phone Taxable Benefit Review	40	2%
Unannounced Cash Counts	32	2%
Verification of Narcotics Disposal	16	1%

**Total Budgeted Direct Audit Hours 1,448** 70%

Resource Over/Short (141)