

Audit Project #16-02A:

2016 Risk Assessment and Audit Schedule

Detailed Report

Office of the City Auditor and Clerk
Internal Audit

Prepared by:



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City Auditor and Clerk

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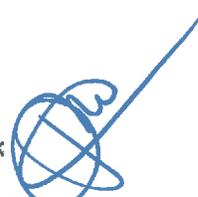


Date: September 16, 2016

To: Mayor Willie Charles Shaw
Vice Mayor Shelli Freeland Eddie
Commissioner Liz Alpert
Commissioner Suzanne Atwell
Commissioner Susan Chapman

From: Pamela M. Nadalini, MBA, CMC, City Auditor and Clerk

Subject: Audit Project #16-02: 2016 Risk Assessment and Audit Schedule



Good afternoon, Mayor, Vice Mayor and Commissioners:

Attached for your information and review is a copy of the above-mentioned detailed report.

If you have any questions, please do not hesitate to contact me at (941) 954-4169.

Thank you.

Attachment(s):

Detailed Audit Project #16-02

c: Thomas Barwin, City Manager
Robert Fournier, City Attorney
D. Edward Daugherty, CPA, Manager, Internal Audit
File



Date: September 16, 2016
To: Thomas Barwin, City Manager
From: Pamela M. Nadalini, MBA, CMC, City Auditor and Clerk 
Subject: Audit Project #16-02: 2016 Risk Assessment and Audit Schedule

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If you have any questions, please do not hesitate to contact me at (941) 954-4169.

Attachment(s):

Detailed Audit Project #16-02

- c: Robert Fournier, City Attorney
Department Directors
D. Edward Daugherty, CPA, Manager, Internal Audit
File

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RISK ASSESSMENT

Enterprise Risk Management¹ (ERM) is a process, effected by an entity's commission, management and other personnel engaged in strategy setting across the enterprise, designed to identify potential events that may affect the entity and manage risk to within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The Institute of Internal Auditors (IIA) emphasizes that organizations should fully understand that management remains responsible for risk management. Internal Auditors should provide advice, challenge or support management's decisions on risk, as opposed to making risk management decisions.

Risk assessment is based on a set of complementary operational, financial reporting and compliance objectives linked across all levels of the organization. The process is designed to identify and analyze internal and external risks affecting achievement of objectives at both the activity and the entity level. The overall goal of the enterprise risk assessment process is to provide management with the knowledge necessary to effectively manage risk.

Annual updates to the risk assessment are necessary to take into account changes in the operating environment, new personnel, new or revised information technology, changes in transaction volumes, new activities, and revised organizational structure. The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, require Internal Audit to develop a risk-based audit schedule which is updated annually.

In 2008, Internal Audit assisted management by facilitating the City's first enterprise risk assessment. During the first years of Risk Assessment, departments were intimately involved in not only identifying key business process areas, but also in documenting key risks and controls in risk matrices. As departments have exhibited a higher level of understanding of internal controls, the process has evolved slightly. In 2009, the process was enhanced to review risks and controls on a more thorough functional/ business process level. In 2010, a Risk Assessment Employee Survey was introduced and distributed to all City employees for feedback on organizational risk.

As part of the current year risk assessment process, Internal Audit required an update of the risk matrices prepared as part of the 2015 annual risk assessment. This allowed the various departments of the city to update any changes in their business processes and internal controls. Internal Audit offers assistance to any department on an as needed basis.

THE AUDIT SCHEDULE

Audits are scheduled based on the results of the annual risk assessment to allow Internal Audit to focus its limited resources on the highest priority areas. The Audit Schedule is a rolling schedule which is subject to change due to changes in risks and/or the organizational environment, or when an individual requested that a particular area be audited that Internal Audit has determined is a significant area of risk. Internal Audit considers all requests or suggestions for audits and will modify the Audit Schedule if the risk is deemed to be sufficient enough to warrant

¹ Enterprise risk management should not be confused with the City department called Risk Management.

a change to the schedule. Extra time is budgeted into the Audit Schedule to allow for flexibility in performing unexpected audits, investigations, consulting (non-audit) services, etc.

Scheduled projects and audits may be deferred to future years if other projects become a higher priority based on a current assessment of risk. Projects may also be eliminated based on a variety of circumstances, including scope limitations or a current assessment that the risk level assessed previously has declined (or internal controls have improved). If a project continues into a new fiscal year, the number of the audit is changed to the current year.

PURPOSE

The goal of Risk Assessment is to identify and prioritize areas of risk which pose a threat to the City's operations and achievement of objectives. Internal Audit employs a risk-based approach to auditing and, as such, the auditor utilized the results of the Risk Assessment to prepare and modify the Audit Schedule based on the determined areas of highest risk.

SCOPE

Internal Audit's review assessed risk exposure for all department-identified key business processes/ divisions in the City of Sarasota documented as of July 2016. A total of 96 business processes were examined, evaluated, and prioritized by risk level as part of the 2016 Risk Assessment (see [Exhibit A](#) for the complete audit universe).

To the extent possible, risk was assessed at the business process level. Some departments found it easier to identify functional areas as that is how they are structured. A business process or business method is defined as a collection of related, structured activities or tasks that produce a specific service or product (serve a particular goal) for a particular customer or customers. A business process begins with a customer's need and ends with a customer's need fulfillment.

RISK ASSESSMENT PROCESS

RISK ASSESSMENT AND EVALUATION METHODOLOGY

As previously stated, the goal of risk assessment is to determine areas in the City which are exposed to the highest levels of risk and to include those areas in the Audit Schedule. The approach utilized in the Risk Assessment enables Internal Audit to review all potential audit areas, the "audit universe", and rank each of the potential areas in priority order. As organizational needs and goals change, so do the areas of highest risk.

To prioritize potential audit areas, Internal Audit implemented the following steps:

- 1) **Identify Department Activities.** Internal Audit reviewed several sources, including prior Risk Assessments, audits, the City's website, and the City's operating and capital budgets to prepare a list of all potential audit subjects. To ensure completeness of the list, departments were asked to assist in the identification of department activities. Risk Assessment Worksheets (See [Exhibit B](#) for example) were provided to departments instructing them to review and update their respective lists of key business processes and business process owners, and to further identify any key information technology systems utilized.

- 2) **Select Criteria and Develop Definitions for Use in Scoring Department Risk.** In prior years a total of eight (8) Risk Factors were selected from hundreds of evaluation criteria suggested by auditing best practices, professional literature, and other audit divisions/ departments to help prioritize future audit work. Risk definitions were developed for each of the eight (8) Risk Factors, as was a scoring framework for use in evaluating and ranking all identified City business processes on a consistent basis. Numerical scores with corresponding definitions were established to help define varying levels of risk or maturity related to each Risk Factor.

Please refer to [Exhibit C](#) for the list of Risk Factors used in the evaluation process.

- 3) **Evaluate Activities and Apply Scoring based on Department Risk.** Using the audit universe identified in Step 1 above, audit staff evaluated each of the departmental business processes against the eight (8) Risk Factors using the scoring method described in Step 2. For each Risk Factor, business processes were assigned one of five possible numerical scores, which ranged from a low-risk score to a high-risk score.

Where appropriate, Internal Audit also applied additions and/or deductions to risk scores. Additions increased overall scores and were based upon auditor observations and additional risk factors. Deductions served to lower the overall risk score for an area and were based on successful prior audits and areas of demonstrated sufficient internal control.

- 4) **Rank the Activities.** After all business processes were assigned scores for each of the Risk Factors, audit staff calculated the total combined Risk Score for each business process. The total combined Risk Scores were sorted in order of highest value.
- 5) **Consider Management and Other Outside Input.** Internal Audit provided management the opportunity to suggest areas for audits or consulting services. Suggestions were reviewed by Internal Audit to determine: a) whether the areas were appropriate for an audit, and; b) whether the areas were of significant risk to the organization. If both criteria were met, the areas suggested were included on the Audit Schedule unless audit work would result in a duplication of efforts.
- 6) **Apply Adjustments and Re-Rank Activities.** Adjustments to total combined risk scores were applied, as necessary, based on any management or other outside input or insight. Total combined Risk Scores were re-sorted in order of highest total risk score to reflect any adjustments.
- 7) **Update Audit Schedule.** Internal Audit reviewed the final rankings of the business processes, considered available audit resources and time, and updated the Audit Schedule. To view the updated Audit Schedule, please see [Exhibit D](#).

RESULTS

The scoring system used in the evaluation process allowed the areas of highest risk to materialize, while also revealing areas where risk appears to be lowest (see tables below).

Of the 96 business processes/ areas reviewed during the Risk Assessment, the highest-rated risk areas were those most likely to be selected for inclusion in the Audit Schedule. Inclusion in the Audit Schedule does not necessarily mean that there is a current or specific concern associated with an area, but rather that the area may have a higher vulnerability to risk exposure at this time.

Lowest-rated Risk Areas	
Department	Business Process/ Functional Area
Public Works	Skate Park
Public Works	Lido Pool & Pavilion
City Attorney	Outside Counsel
City Attorney	Contracted Legal Services
Financial Administration	City Property Leasing

Highest-rated Risk Areas	
Department	Business Process/ Functional Area
Financial Administration	Procurement
Neighborhood Development Services	Housing Grants
Information Technology	Server/Network Security
Bobby Jones Golf Complex	BJGC Pro Shop
City Auditor and Clerk	Pension Plans

2017 AUDIT SCHEDULE

The annual Citywide Risk Assessment helps to ensure that audit staff focuses attention and resources on the highest priority areas by applying the systematic approach outlined in this report. All areas of the City were evaluated against the same criteria and ranked to determine which audits would be performed during the year; management and other input was also taken into consideration during this process.

Based on the results of the 2016 Risk Assessment, the Audit Schedule has been updated to reflect areas of high risk. The Audit Schedule also provides for unallocated time during which unexpected audits, consulting requests (non-audit services), investigations, or other work may be performed. It should be noted that factors including staff workload, unexpected special projects, and other unforeseen circumstances may affect the achievement of projects on the Audit Schedule where some projects may be deferred to future years and others may be added that were not originally planned. Administrative projects as well as recurring recommendation status reports are also included in the Audit Schedule.

To view the Audit Schedule, as determined by the results of the 2016 Citywide Risk Assessment, please refer to [Exhibit D](#).

EXHIBIT A: AUDIT UNIVERSE

Citywide

- Capital Improvement Program
- Contract Management
- COOP Plan
- Grant Management

City Attorney

- Contracted Legal Services
- Outside Counsel

City Auditor and Clerk

- Communications
- Central Records
- Clerk/Commission Functions
- Development Review
- Internal Audit
- Pensions

City Manager

- Overall City Administration
- Weekly Commission Follow Up Report
- Homeless Initiative
- Sustainability

Financial Administration

- Accounts Payable
- Budget Preparation
- Cash Receipts
- City Property Leasing
- FMS Administration
- General Ledger
- Grants Administration
- Investments
- Payroll
- Procurement

Human Resources

- Annual Benefits Administration
- Data Administration and Staffing
- Personnel Records Management
- Risk Management

Information Technology

- Application Support
- Contract Oversight/Management
- Data Integrity
- Governance
- Hardware Support
- Infrastructure

Information Technology (Cont)

- Legal Compliance
- Project Management
- Security
- Server Operations
- Regulatory Compliance
- Telecommunications
- Web Services

Neighborhood Development Services

- Building Inspections
- Building Permits
- Cash Handling
- Code Compliance
- Construction In Progress
- Contract Management Oversight
- Department Payments
- Housing Grant Management
- Local Business tax receipts
- Neighborhood Grants
- Public Art
- Right of Way Permits
- Zoning Reviews

Parking Operations

- Enforcement
- Parking Garage Operations
- Parking (On- & Off-Street)
- Parking Violations - Collections
- Vallet Parking Permits

Parks and Recreation

- Auditoriums
- Bobby Jones Golf Club - Maintenance
- Bobby Jones Golf Club - Operations
- Bobby Jones Golf Club - Pro Shop
- Childrens Fountain
- Landscape Maintenance
- Lido Beach Pool & Pavilion
- R.L. Taylor Community Center
- Skate Park (Contracted Out)
- Special Events

Public Works

- Equipment Maintenance
- Fuel Station
- Infrastructure Maintenance - Streets
- Solid Waste

Sarasota Police Department:

Chiefs Office
COOP - SPD
Criminal Investigation Division
Emergency Management
Fiscal Unit (SSD)
Management Information Systems (SSD)
Patrol Division
Property & Evidence (SSD)
Training Unit (SSD)
Office of Professional Standards

Utilities:

Call Center
Cash Handling
Emergency Management
Inventory and Procurement
Permitting for Public Works/Utilities
Water Distribution and Sewer

Van Wezel Performing Arts Hall:

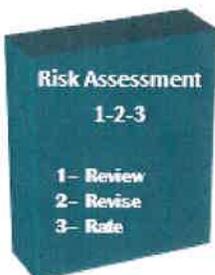
General Administration
Marketing
Revenue Activities/Financial Administration
Sponsorship Negotiation
Union Negotiation/Administration

Only "auditable" areas are included in the Audit Universe. In the event departments identified areas considered by Internal Audit to be "not auditable", the areas were removed from the evaluation process.



Fiscal Year 2016 Citywide Risk Assessment

Instructions for Fiscal Year 2016:



This year, we're asking departments to help update the audit universe by reviewing the current list of business process areas and adding to/ modifying that list. There's no need to complete risk matrices this year- Internal Audit already updates that information each time an audit is performed.

So, just complete the three steps outlined below and return via email when you're done.

If you have any questions along the way, feel free to contact Internal Audit at ext. 4239.

1- Review Existing Areas



Review the below list of all key business processes/ functional areas identified by your department as part of last year's Risk Assessment. For each area, indicate the name of the individual responsible for the process and any key information technology systems utilized by the area.

After completing Steps 1 and 2 (back of page), consider all of the business processes listed and place a check mark next to the top 3 risk areas in your department. (See Step 3 for more information)

<input checked="" type="checkbox"/> Department Business Processes	Business Process Owner	Key IT Systems
<input type="checkbox"/>		



2- Revise to Add Any New Areas

Revise your list to include any business processes/ key functional areas that may be missing from the list in Step 1. For each added area, indicate the name of the business process owner and any key information technology systems used.

<input checked="" type="checkbox"/>	Department Business Processes	Business Process Owner	Key IT Systems
<input type="checkbox"/>			

Other information/ Processes changed or modified:



3- Rate Top 3 of All Areas (Existing and New)

Be sure to rate the top risk areas in your department. If you haven't already done so, consider all of the business processes/ functional areas you've listed in Steps 1 and 2. Using the check box column to the left of the page, select the TOP 3 biggest risk areas for your department.

The areas you select should be those that, should something go wrong, may have negative financial or reputational effects, legal or regulatory consequences, or prevent the department or the City from achieving goals.

- Pension Plans
- Clerk Functions and Commission Services
- Development Review

EXHIBIT C: RISK ASSESSMENT EVALUATION CRITERIA

2016 Risk Factors used in the Risk Assessment

Risk Factors	Risk Factor Measurement	Weight Applied to Factor ²
1- Quality of Control Environment	Measure of intangible characteristics that serve as the foundation for internal control: ethical values expected of unit, degree to which employees are held accountable for actions, appropriate formalized policies and procedures, commitment to competence through training, knowledge and skills to perform jobs, responsiveness to Internal Audit recommendations, etc.	25%
2- Materiality	Measure of the unit's annual revenues and expenditures.	20%
3- Operational Changes	Measure of significance related to past and future changes impacting the unit; includes organizational structure as well as management and employee changes/ turn-over.	15%
4- Reliance on Unit to Achieve City Goals	Measure of the unit's objectives and how essential they are in supporting the City's overall strategies and objectives as established by the City Commission (where failure of the unit would result in failure to achieve goals= higher risk area).	10%
5- Complexity of Business Process	Measure of the level of complexity involved in transactions related to the unit; knowledge and skills necessary to achieve objectives of the unit; regulatory or other oversight.	10%
6- Public Exposure	Measure of potential negative reputational effects or embarrassment to the unit due to the level of visibility and/or public or media interest.	10%
7- IT Systems	Measure of level of reliable, effective automation within a unit (whether systems assist in decision-making, achieving efficiencies, and help reduce errors typically associated with manual processes).	5%
8- Time Since Last Audit (internal or external)	Measure of the time period (in years) since an audit was last performed on the unit.	5%

² Certain Risk Factors were considered to be more influential on the overall Risk Score than others. Therefore, risk factors were weighted to reflect their importance, which had an impact on the overall scoring.

EXHIBIT D: 2017 AUDIT SCHEDULE

Note –Any schedule for future projects is based upon current conditions and circumstances. Future changes will result in projects moving on and off the audit schedule.

Audit Schedule

2017

FY	Audit #	Audit Name	Department	Preliminary Audit Description	Project Type	Audit Component	Auditor	Est. Hours	Project Status
2017	17-00	2018-2020 Audit Schedule	N/A	Update three-year rolling audit schedule based on results of annual Risk Assessment	Research/Special Project	Administrative	TBD	8	Not Yet Started
2017	17-01	FY 2016 Citywide Inventory	All	Review inventory counting procedures, observe the annual inventory counts and perform re-counts of selected samples.	Audit	Operational, Financial, IT	Mark Sulloway	250	Not Yet Started
2017	17-02	2017 Citywide Risk Assessment	All	Facilitate Annual Risk Assessment process for use in updating annual Audit Schedule; evaluate and prioritize of citywide risk.	Risk Assessment	Risk Assessment	TBD	320	Not Yet Started
2017	17-03A	Remedial Action Update	2017	Review status of implementation of outstanding prior audit recommendations, citywide	Status of Open Items Report	Status Update	TBD	160	Not Yet Started
2017	17-03B	Remedial Action Update	All	Review status of implementation of outstanding prior audit recommendations, citywide	Status of Open Items Report	Status Update	TBD	160	Not Yet Started
2017	17-04	Purchasing Cards	Financial Administration	Determine whether the internal controls in place over City issued Purchasing Cards are operating effectively	Audit	Operational, Financial, IT	Hayden Gaston	600	Not Yet Started
2017	17-05	Bobby Jones Golf Course Operations	Parks and Recreation	Review internal controls in place over operations at Bobby Jones Golf Course	Audit	Operational, Financial, IT	TBD	400	Not Yet Started
2017	17-06	Pension Plans	City Auditor and Clerk	Determine whether the internal controls in place for the various City pension plans are operating effectively	Audit	Operational, Financial, Compliance	TBD	400	Not Yet Started
2017	17-07	Law Enforcement Trust Fund	Sarasota Police Department	Review compliance with terms and conditions of state regulations	Audit	Financial, Compliance	TBD	350	Not Yet Started
2017	17-08	Contract Management (non-Construction)	Neighborhood Development Services	Review internal controls in place over the Contract Management process.	Audit	Operational, Financial, Compliance	TBD	500	Not Yet Started
2017	17-09	Fuel Card (WEX) Program	Public Works	Determine whether internal controls over the City's fuel card program are operating effectively	Audit	Operational, Compliance	TBD	500	Not Yet Started

Audit Schedule

2017

FY	Audit #	Audit Name	Department	Preliminary Audit Description	Project Type	Audit Component	Auditor	Est. Hours	Project Status
2017	17-10	Housing Grant Administration	Planning/Housing and Community Development	Test Grant Administration for compliance with State and Federal standards	Audit	Operational, Compliance, IT	TBD	500	Not Yet Started
2017	17-11	SPD Property & Evidence	Sarasota Police Department	Determine whether the internal controls assist in adequately accounting for and safeguarding items in police custody.	Audit	Operational, Financial, IT	Hayden Gaston	250	Not Yet Started
2017	17-12	Follow-up to R. L. Taylor Community Center (Audit 16-04)	Parks and Recreation	Review implementation of audit recommendations (Audit 16-04)	Audit	Operational, Financial, Compliance	TBD	150	Not Yet Started
2017	17-13	Follow-up to Fuel Operations Audit (Audit 16-15)	Public Works	Review implementation of audit recommendations (Audit 16-15)	Audit	Operational, Financial, Compliance	TBD	100	Not Yet Started
2017	17-14	Follow-up to Citywide COOP Audit (Audit EX 14-01)	All	Review implementation of audit recommendations (Audit EX 14-01)	Audit	Operational, Compliance	TBD	150	Not Yet Started
2017	OS17-01	IT Security ³	Information Technology	Review of IT security (servers & network)	Special Project	Operational	TBD	300	Not Yet Started
2017	Admin 17-01	Audit Reports on SIRE	N/A	Upload all final audit reports to SIRE/eDocs for public to view via City's Website	Special Project	Administrative	TBD	24	Not Yet Started
2017	TBD 17-01	Reserved time for Investigations, Consulting Services, Unexpected Audits, Research	N/A	Conduct unplanned investigations, audits, reviews, consulting, research, etc.	Audit	Operational	TBD	600	Not Yet Started
2017	TBD 17-02	Reserved time for Internal Audit Quality Improvement Program	N/A	Perform quality reviews of audit work and develop/enhance audit processes to improve efficiency and ensure compliance with audit standards.	Research/Special Project	Administrative	TBD	200	Not Yet Started

³ Information Technology audits will be performed by a third party consultant.

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