

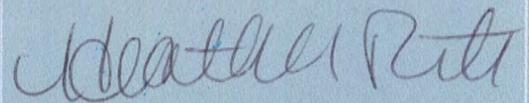
Audit Project #11-02A:

# 2010 Risk Assessment

Detailed Report

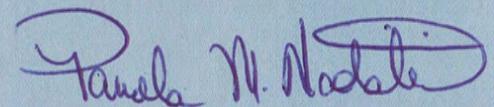
Office of the City Auditor and Clerk  
Internal Audit

Prepared by:



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Senior Internal Auditor

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Pamela M. Nadalini  
City Auditor and Clerk

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**Office of the City Auditor and Clerk**

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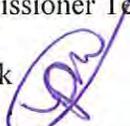
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**OFFICE OF THE CITY AUDITOR AND CLERK**  
**Internal Audit Division**

**Date:** January 21, 2011

**To:** Mayor Kelly Kirschner, Vice Mayor Fredd "Glossie" Atkins, Commissioner Richard Clapp, Commissioner Suzanne Atwell, and Commissioner Terry Turner

**From:** Pamela M. Nadalini, City Auditor and Clerk 

**Subject:** Audit Project #11-02A: 2010 Risk Assessment

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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.

Attachment(s):

Detailed Audit Project #11-02A

c: Robert Bartolotta, City Manager  
Robert Fournier, City Attorney  
Heather Riti, MPA, CIA, CGAP, Senior Internal Auditor  
File



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c: Robert Fournier, City Attorney  
Marlon Brown, Deputy City Manager  
Christopher Lyons, CPA, CGFO, CPFO, Director, Financial Administration  
Heather Riti, MPA, CIA, CGAP, Senior Internal Auditor  
File

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## BACKGROUND AND INTRODUCTION

Enterprise risk management<sup>1</sup> (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 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, increases in transaction volumes, new activities, and revised organizational structure. *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. 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, the process of updating risk matrices by key business process was left largely up to the departments, with some facilitation assistance by Internal Audit; new modifications introduced in 2010 included:

- Facilitation sessions hosted by Internal Audit were encouraged, but not required for risk/ controls identification;
- Departments were offered the opportunity, but were not required, to self-assess themselves on a number of risk evaluation criteria; and
- A Risk Assessment Employee Survey was developed and distributed to all City employees for feedback.

## 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. As Internal Audit employs a risk-based approach to auditing, the auditor utilized the results of the Risk Assessment to prepare and modify the three-year Audit Schedule based on the determined areas of highest risk.

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

# SCOPE

Internal Audit’s review assessed risk exposure for all department-identified key business processes/ divisions in the City of Sarasota documented as of October 2010. A total of 79 business processes were examined, evaluated, and prioritized by risk level as part of the 2010 Risk Assessment (see **EXHIBIT A** for a full list).

To the extent possible, risk was assessed at the business process level. Some departments found it easier to evaluate risks and controls on a functional basis 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.

In addition, the scope of the Risk Assessment process was expanded to include an employee survey (conducted October 1, 2010- October 22, 2010) which was distributed to all City of Sarasota employees. The results of the survey allowed Internal Audit to gain a better understanding of areas where there are perceived organizational strengths and weaknesses.

# RISK ASSESSMENT PROCESS

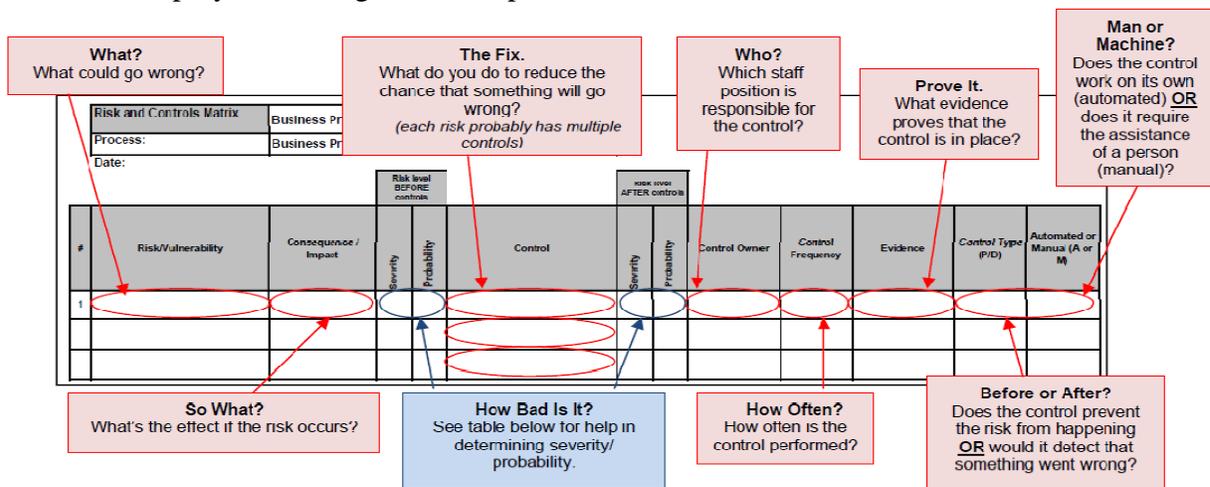
## RISK ASSESSMENT AND EVALUATION METHODOLOGY

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.** Departments were provided risk matrix worksheets and instructions (see an example worksheet below) to assist them in recording key risks, controls, and risk probability and severity levels within each of their critical business processes. Department Directors were asked to attest that all key risks/ controls had been documented.

Internal Audit assisted some departments in identifying these areas through a facilitation session with employees, managers, and department directors.



- 2) **Select Criteria and Develop Definitions for Use in Scoring Department Risk.** Internal Audit selected criteria for use in evaluating and ranking business processes on a consistent basis. Seven main Risk Categories comprised of 29 total Risk Factors were selected from over hundreds of evaluation criteria suggested by auditing best practices, professional literature, and other audit divisions/ departments reviewed. For each of the 29 Risk Factors, audit staff evaluated the 79 business processes and assigned one of five possible numerical scores which ranged from a low-risk score to a high-risk score.

Please refer to **EXHIBIT B** for a full list of Risk Categories and Risk Factors used in the evaluation process.

- 3) **Evaluate Activities and Apply Scoring based on Department Risk.** Once the departments submitted all risk matrix worksheets cataloguing each of their key business processes/ functional areas, audit staff evaluated each of the departmental business processes using the scoring definitions for each risk factor.

Departments were given the option of evaluating themselves across 12 of the 29 Risk Factors. Department-determined rankings and the rationale for each were discussed with the auditor and utilized in the evaluation process.

The option of providing departmental input was extended to all departments for the Risk Factors in yellow text in **EXHIBIT B**.

Internal Audit also applied deductions to risk scores, which served to lower the overall risk score for an area, 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 all Risk Factors for each business process. The total combined risk scores were sorted in order of highest value.
- 5) **Consider Outside Input.** Internal Audit provided management the opportunity to suggest areas for audit or consulting services. Once submitted, Internal Audit reviewed the suggested areas to determine a) whether they were appropriate for an audit, and; b) whether they were areas of significant risk to the organization. If both criteria were met, the areas suggested were included on the Audit Schedule.
- 6) **Apply Adjustments and Re-Rank Activities.** Adjustments to total combined risk scores were applied, as necessary, based on outside input and other 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. For the updated three-year Audit Schedule, please see **Audit Project #11-00: 2011- 2013 Audit Schedule**.

## RESULTS

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

Of the 79 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.

<b>Lowest-rated Risk Areas</b>	
<b>Department</b>	<b>Business Process/ Functional Area</b>
Public Works	Skate Park
City Auditor and Clerk	Web Services
Human Resources	Data Administration and Staffing
City Attorney	Outside Counsel
Neighborhood and Development Services	Public Art

<b>Highest-rated Risk Areas</b>	
<b>Department</b>	<b>Business Process/ Functional Area</b>
All- Citywide	Continuity of Operations Plan (COOP)
Neighborhood and Development Services	Housing Grant Management
Neighborhood and Development Services	Building Permits
All- Citywide	Citywide Contract Management
Sarasota Police Department	Uniform Services Division
Financial Administration	Accounts Payable
Financial Administration	Procurement
Sarasota Police Department	Parking
Financial Administration	Payroll
All- Citywide	Capital Improvements Program (CIP)

## RISK ASSESSMENT GAPS

To ensure that risk/controls were catalogued and considered for all key business processes and areas in the City, Internal Audit reviewed departmental risk matrices for completeness. Internal Audit noted that the areas outlined below were overlooked or may not have been sufficiently reviewed as part of the 2010 Risk Assessment. Areas noted below were also identified in the 2009 Risk Assessment as being overlooked by management at that time as well. For these areas, management is encouraged to review and document key risks and controls.

- Geographic Information System (GIS)
- Van Wezel Performing Arts Hall- programming, performances, contract oversight

# RISK ASSESSMENT EMPLOYEE SURVEY

A new component, a Risk Assessment Employee Survey, was introduced into the 2010 Risk Assessment process and was specifically designed to capture the opinions of all employees in identifying perceived areas of strength and weakness throughout the City organization. While the results of the survey were not used in the risk evaluation and prioritization process, management is encouraged to consider the outcomes and utilize them in a manner that will affect positive change.

## SURVEY BACKGROUND

The survey was distributed to all employees (accompanied the October 1, 2010 payroll stub) to obtain information relating to the organization's control environment, risk identification processes, informational flows, monitoring, and potential for fraud/ theft.

The purpose of the survey was to identify, based on responses received, where the organization's strengths and weaknesses exist according to the City's employee base. An extended series of statements were made which asked respondents to rate the extent to which they agreed with each statement (strongly agree, agree, don't know, disagree, strongly disagree). The survey also included one open-ended question.

Three different versions of the survey were distributed and, while some survey statements were similar across all versions, others varied according to type of employee:

- 1) General Employees
- 2) Supervisors/ Managers<sup>2</sup>
- 3) Department Directors, Charter Officials, City Commissioners

The survey was conducted October 1<sup>st</sup> through October 22<sup>nd</sup>. Survey response rates are noted in the following table.

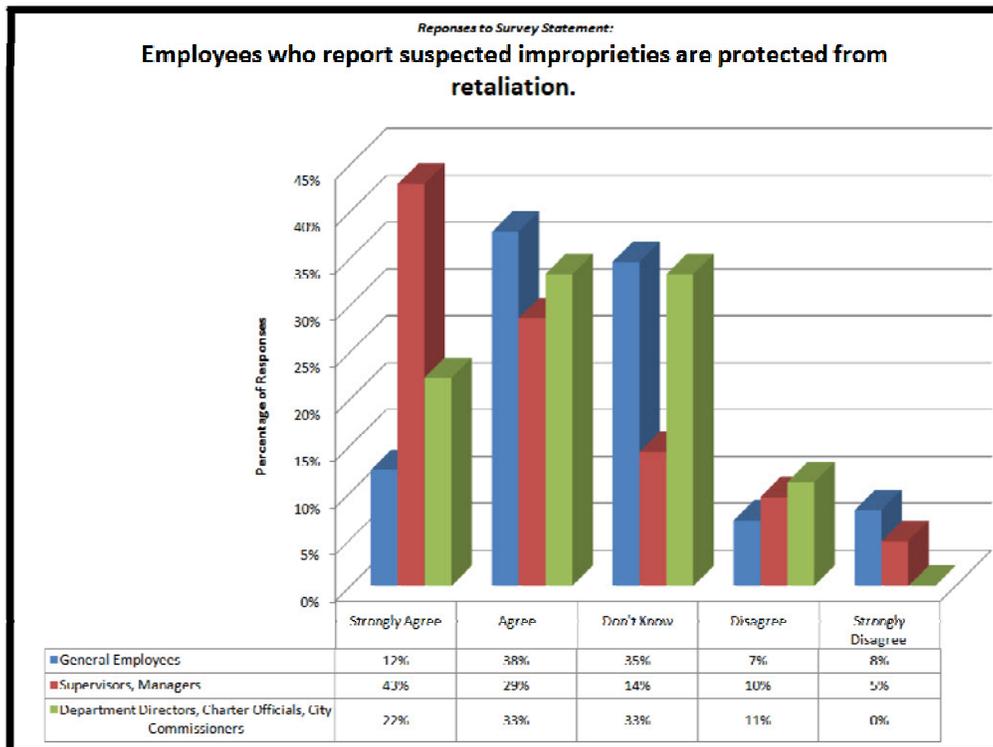
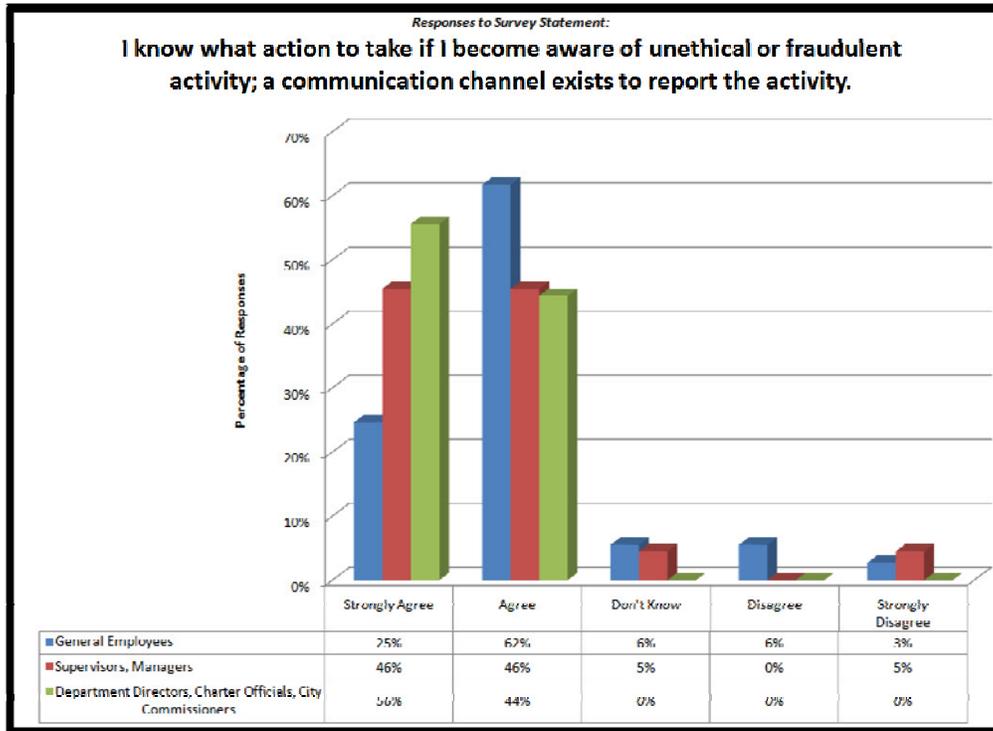
	Percentage Rate of Return
General Employees	29.2%
Supervisors, Managers	40.7%
Department Directors, Charter Officials, City Commissioners	52.9%
<b>Overall Rate of Response: 30.7%</b>	

<sup>2</sup> The supervisor/ manager survey version was only distributed to individuals who actually supervise employees. There are several individuals with the word "supervisor" or "manager" in their job titles who do not manage other employees.

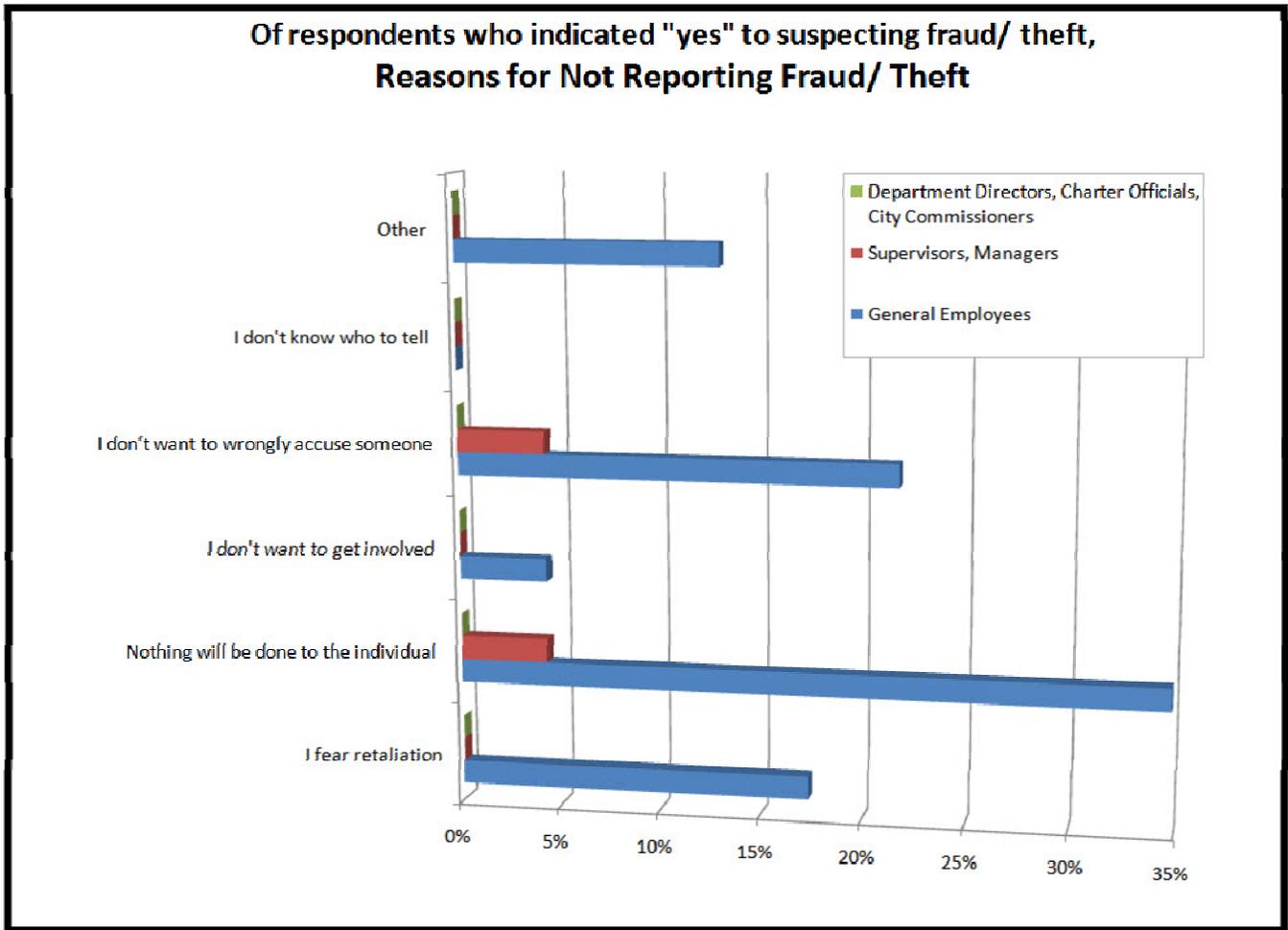
## SURVEY RESULTS

Based on survey responses, Internal Audit made four key observations:

- 1- City employees know what actions to take to report wrongdoing, but are less confident as to whether they would be protected from retaliation or whether anything would be done to stop the wrongdoing.



- 2- Employees' top reason for not reporting a suspected wrongdoing is the expectation that nothing will be done to the suspected individual.



- 3- Where similar questions were posed, responses of general employees tended to reflect different perceptions than those of supervisors.
- 4- Employees indicated that the City of Sarasota's biggest issues are budget/ economy/ money management and low employee morale.

For further information on detailed survey results, please refer to [Audit Project #11-02B: 2010 Risk Assessment Employee Survey Results](#).

## CONCLUSION

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.

Overall, departments adapted well to the changes associated with this year's process. Of note are the following:

- Internal Audit was pleased to have three departments continue to request facilitation sessions to aid in identifying risks/controls: Sarasota Police Department, Public Works, and Public Utilities. Although these sessions were not required, discussion from the sessions proved to be useful in the auditor's evaluation of all departments.
- Several departments chose to participate in the optional self-assessment process where they evaluated themselves against a series of criteria and discussed those evaluations with the auditor. Departments included: Information Technology, Human Resources, Public Works, Public Utilities, Van Wezel Performing Arts Hall, and the City Auditor and Clerk. Internal Audit received numerous comments on the value of these sessions as departments identified current assessment levels versus levels they hope to achieve in the near future.
- Employee responses to the Risk Assessment Employee Survey were insightful. Varying responses by different employee groups to similar questions demonstrated opportunities for management to better align perceptions through employee education and consistency of actions by supervisors. Responses to the open-ended question provided many suggestions for change and areas for management to focus on to assist in elevating employee morale levels.

Based on the results of the 2010 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.

**EXHIBIT A: CITY OF SARASOTA AUDIT UNIVERSE**

# All Business Processes/ Functional Activities Reviewed During 2010 Risk Assessment City of Sarasota Audit Universe

## City Attorney

- Contracted Legal Services
- Outside Counsel

## City Auditor and Clerk

- Central Records
- Clerk Functions
- Development Review and Real Property
- Internal Audit
- Pension Plans
- Public Information
- Web Services

## City Manager

- Weekly Commission Report
- Top 10 Monthly Report
- COOP Plan (Citywide)
- Overall City Administration

## Financial Administration

- Accounts Payable
- Budget Preparation
- City Property Leasing
- General Ledger Update
- FMS Administration
- Investments
- Payroll
- Procurement
- Grant Management (Citywide)

## Human Resources

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

## Information Technology

- Application Support
- Data Integrity
- Governance
- Hardware Support
- Infrastructure
- Project Management
- Security
- Server
- Telecommunications
- Contract Oversight/ Management
- Legal/ Regulatory Compliance

## Neighborhood Development Services

- Building Inspections
- Building Permits
- Capital Improvements Program (Citywide)
- Cash Handling
- Code Compliance
- Contract Management (Citywide)
- Department Payments
- Housing Grant Management
- Local Business Tax Receipts
- Neighborhood Grants
- Public Art
- Zoning Reviews

## Public Works

- Auditoriums
- Equipment Maintenance
- Solid Waste Collections
- Bobby Jones Golf Club- Maintenance
- Bobby Jones Golf Club- Outside Operations
- Bobby Jones Golf Club- Pro Shop
- Children's Fountain
- Skate Park
- Fuel Station/ Environmental Risks
- Landscape Maintenance
- Infrastructure Maintenance- Streets and Sidewalks
- Special Events

## Public Utilities

- Call Center
- Permitting for Public Works/ Utilities Facilities
- Water Distribution
- Emergency Management
- Cash Handling

## Sarasota Police Department

- Chief of Police
- Criminal Investigations Division
- Management Information Systems Division
- Uniform Services Division
- Support Services Division- Fiscal Unit
- Support Services Division- Training Unit
- Support Services Division- Parking Management
- Sarasota Police Department COOP

## Van Wezel Performing Arts Hall

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

## EXHIBIT B: RISK ASSESSMENT EVALUATION CRITERIA

# Risk Assessment Evaluation Criteria

## Seven Risk Categories



## Risk Factors in each Category



Seven main risk categories were selected to evaluate business processes across the City.

Within each of the main risk categories were a series of risk factors, which were further defined by a set of thresholds ranging from low-risk to high-risk. Scores were applied based on the threshold that best described each business process.

Departments were permitted the opportunity to self-assess themselves for the Risk Factors shown in yellow text above.