



**DRAFT**

# City of Minneapolis

## Risk Assessment & 2014 Proposed Internal Audit Plan

Audit Committee Meeting Presentation  
March 27, 2013

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# Objective of the Citywide Risk Assessment **DRAFT**

The objective of the City of Minneapolis risk assessment was to gain an understanding of the potential key financial, fiscal compliance and other key business risks that threaten the City's achievement of its objectives.

The 2014 risk-based audit plan was prepared using the risk assessment performed to develop the 2013 audit plan.

# Approach to the Citywide Risk Assessment **DRAFT**

- The risk assessment and development of the Internal Audit plan were based on standards developed by the Institute of Internal Auditors (IIA).
- To conduct the Citywide risk assessment, Internal Audit conducted over 40 individual interviews (listed on slide 5) with City leaders and management.
- Internal Audit additionally reviewed:
  - Revenue and expense information by Department (2013 Proposed Budget);
  - Department and board mission statements and business lines;
  - State Auditor Management and Compliance Report for the year end December 31, 2011; and
  - Various comparable cities' recent audit plans to identify emerging risk areas.

# Interview Participants

## **CITY COUNCIL**

- Kevin Reich – Ward 1
- Cam Gordon – Ward 2
- Diane Hofstede\*\* – Ward 3
- Barbara Johnson\* – Ward 4
- Don Samuels – Ward 5
- Robert Lilligren – Ward 6
- Lisa Goodman – Ward 7
- Elizabeth Glidden – Ward 8
- Gary Schiff – Ward 9
- Meg Tuthill – Ward 10
- John Quincy – Ward 11
- Sandy Colvin Roy – Ward 12
- Betsy Hodges\* – Ward 13

## **OUTSIDE AUDIT COMMITTEE MEMBERS**

- Darrell Ellsworth
- Mark Oyaas
- Stephanie Woodruff

## **DEPARTMENTS**

- Mayor
- City Coordinator
- Business Information Systems
- Communication
- Finance
- HR
- Inter-governmental Relations
- Convention Center
- Neighborhood & Community Relations
- City Clerk
- City Assessor
- City Attorney
- Civil Rights
- Community Planning & Economic Dvpt.
- Fire
- Health & Family Support
- Police
- Public Works
- Regulatory Services

## **WITHIN FINANCE**

- CFO
- Controller
- Procurement
- Risk Management & Claims
- Treasury
- Development Finance
- Management & Budget

## **OTHER**

- State Auditors  
(City’s external auditor)

\*\*Audit Committee Chair  
\*Audit Committee Member

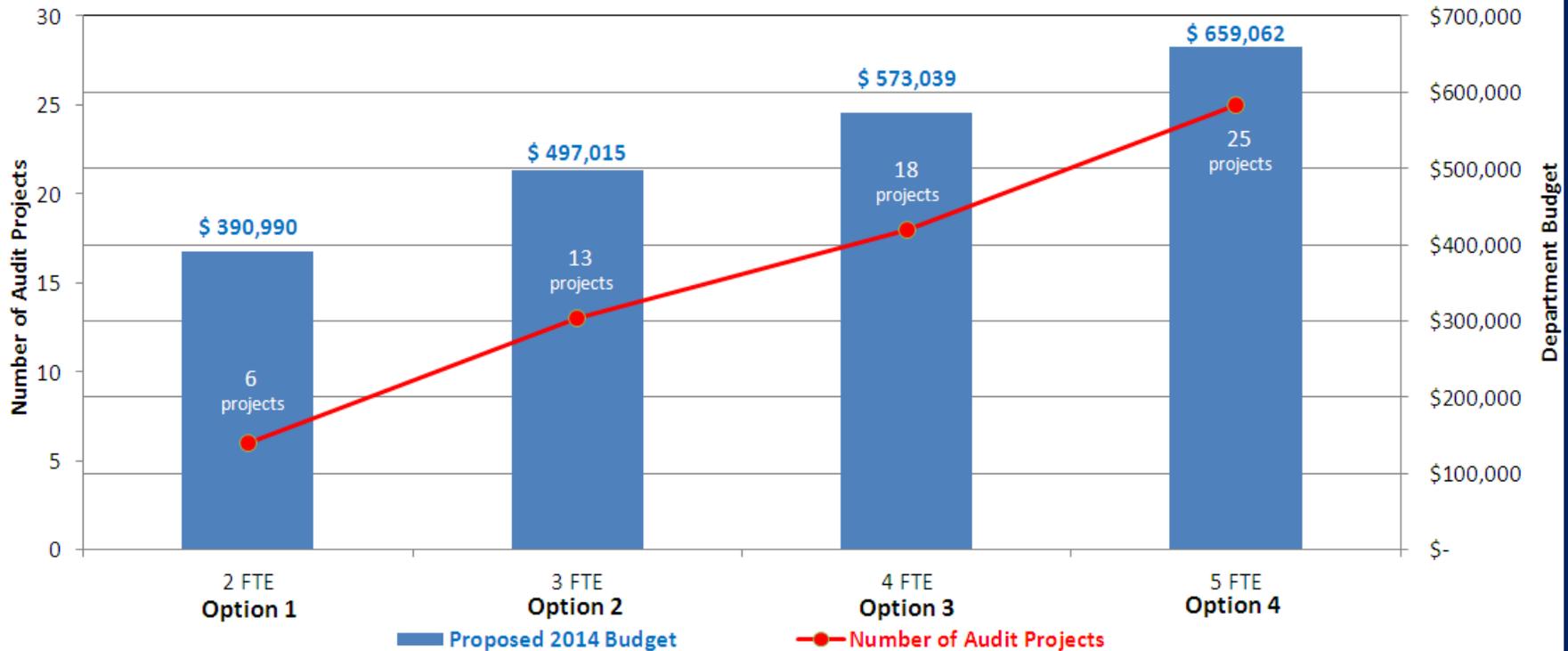
# Why is a robust Internal Audit Department necessary?

- Internal Audit is committed to ensuring the City of Minneapolis continues to be a *world-class* City by meeting its goals and objectives.
- Internal Audit is an additional check and balance that provides assurance to key external and internal stakeholders (i.e., residents/taxpayers, City leaders) pertaining to the use of tax payer dollars.
- Every Department looks for opportunities to improve their operations. Internal Audit wants to help *all* City Departments look for opportunities to increase efficiencies and the effectiveness of their operations.

# Benchmarking Resources

The Association of Local Government Auditors (ALGA) released a publication “Audit Shop [Department] Characteristics – 2013” that compared 276 local government audit departments. Among the results there were 80 audit departments for government entities with greater than \$1 billion operating budget. Only 3 of the 80 (3.75%) audit departments have less than 3 audit staff (*the City of Minneapolis Internal Audit Department is one of these 3 audit departments*).

# Internal Audit's (IA) Budget Impact on Audit Coverage



FTE	Adopted 2013 Budget	Suggested 2014 Budget (less consulting)	Estimated Consulting Fees	Total Suggested 2014 Budget	Additional Funding Needed	Number of Audit Projects	Project Reference
2	\$380,990	\$380,990	\$10,000	\$390,990	<b>\$10,000</b>	6	1 to 6
3	\$380,990	\$457,015	\$40,000	\$497,015	<b>\$116,025</b>	13	1 to 13
4	\$380,990	\$533,039	\$40,000	\$573,039	<b>\$192,049</b>	18	1 to 18
5	\$380,990	\$609,062	\$50,000	\$659,062	<b>\$278,072</b>	25	1 to 25

## 2009 City of Minneapolis Internal Audit Function: Quality Assessment

### ***Observation Two – Standard 2060 Reporting to Senior Management and the Board [Staffing Level Recommendation]***

“Increase the size of the Internal Audit function by at least 2 FTE [total of 3 FTE], possibly as many as 4 [total of 5 FTE], as soon as possible to ensure better audit coverage and to better identify and manage critical risks.”

# Staffing and Budget Comparison

(based on 2013 budget information)

Comparison Criteria	Minneapolis, MN	Raleigh, NC	Sacramento, CA	Cape Coral, FL	Honolulu, HI	Seattle, WA	Tulsa, OK	San Diego, CA	Austin, TX	Phoenix, AZ	Denver, CO	Totals (excluding the City of Minneapolis)
Number of IA Staff	2	3	4	4	9	9.5	13	20	26	26.5	47	162
Total City FTEs	4,634	3,826	4,003	1,974	10,412	11,384	3,925	10,119	12,331	14,984	10,890	83,848
IA Budget	382,136	301,961	530,402	595,425	1,356,440	1,913,014	1,249,000	3,809,105	2,628,663	2,367,167	5,964,100	20,715,277
Total City Budget (000's)	1,200,000	672,053	1,059,000	292,598	1,964,211	4,066,826	695,886	2,752,141	3,053,734	3,572,641	2,453,160	20,582,252

# Impact of IA Reduced Budget on the City of Minneapolis

- Reduces the overall Internal Audit capacity.
- Reduces the ability to provide adequate audit coverage.
- Forces a reduction in scope and depth of risk areas addressed.
- Reduces Internal Audit's ability to perform fraud investigations (if fraud is suspected) or other special projects, as needed or requested.
- The risk exposure to the City (i.e., financial, information technology, safety, etc.) will be greater by not adequately covering high risk areas within the City Departments.
- Some areas requiring potential improvements will not receive the attention needed due to the lack of Internal Audit resources.