Minneapolis
City of Lakes

Office of the Internal Audit

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Date: March 17th, 2015
To: Honorable Members of the Audit Committee
From: Will Tetsell, Director of Internal Audit
Subject: 2015 Annual Risk Assessment

Enclosed is the Annual Audit Plan proposed by the Office of Internal Audit for the remainder of the fiscal year 2015. The list of eleven proposed audits and consultations, as well as five department projects includes both enterprise-wide projects that address systemic risk, and department- and process-specific projects that assist the City in maintaining and establishing sound risk management practices.

Respectfully submitted,

Will Tetsell
Director of Internal Audit

Cc: Honorable Mayor Betsy Hodges
Honorable City Council Members
Spencer Cronk, City Coordinator

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I. Mission Statement

The Internal Audit Department serves Minneapolis and the public interest by providing objective services that enhance the city's ability to manage risk, improve internal controls, optimize efficiencies, reduce costs, and strengthen accountability.

II. Introduction

The City of Minneapolis' Internal Audit Department has established a risk-based approach to determine the priorities for the 2015 Audit Plan, as is encouraged by the Institute of Internal Auditors. The objective of the risk assessment and audit plan is to gain an understanding of the risk profile of the City and determine how to allocate the Internal Audit team's resources in a way to offer the greatest benefit to the City.

The Annual Audit Plan was developed by conducting an enterprise risk assessment. The risk assessment process involves meeting with City, Department, and Divisional leaders to discuss risks, initiatives, and roles in risk management. We're pleased to report that the City's leadership team was cooperative and forthcoming in discussing their areas of responsibility.

The Annual Audit Plan is a point-in-time approach to allocating scarce resources; consequently, the plan can and will change to address emerging risks, staff direction, and urgent matters. These updates will be reconciled and reported on quarterly to the Audit Committee.

III. Risk Assessment Process

In conducting the Annual Risk Assessment, Internal Audit met with the Mayor, Council Members, Department heads, and Divisional leaders to accomplish two things; establishing a clear set of risk and control definitions, including roles and responsibilities in risk management; and information gathering to understand areas of risk within the city. The risk assessment questionnaire and accompanying risk assessment definitions are included in appendices 1 and 2.

The risk assessment process will be a continual effort to attempt to remain informed of emerging risk, City initiatives, and opportunities to work with the City to manage risk, provide independent assurance, and consult on projects, implementations, and initiatives. The Audit Department will work with the Audit Committee and City leaders to prioritize work accordingly.

The following individuals, departments, and divisions were included in the risk assessment process:

Elected Officials
Mayor Betsy Hodges
Ward 1 Council Member Kevin Reich
Ward 2 Council Member Cam Gordon
Ward 3 Council Member Jacob Frey
Ward 4 Council President Barb Johnson
Ward 5 Council Member Blong Yang
Ward 6 Council Member Abdi Warsame
Ward 7 Council Member Lisa Goodman
Ward 8 Council Vice-President Elizabeth Glidden
Ward 9 Council Member Alondra Cano
Ward 10 Council Member Lisa Bender
Ward 11 Council Member John Quincy
Ward 12 Council Member Andrew Johnson
Ward 13 Council Member Linea Palmisano

Department & Division Leaders
911
Civil Rights
City Assessor
City Attorney
City Clerk
City Coordinator

Department & Division Leaders, cont.
Communications
Convention Center
Community Planning and Economic Dev.*
Emergency Management
Finance
- Budget
- Controller
- Procurement
- Property Services
- Treasury

Fire
Health
Human Resources
Information Technology*
Intergovernmental Relations
Neighborhood & Community Relations
Parks & Recreation*
Police
Property Services
Public Works*
Regulatory Services

*these risk assessment meetings are in progress due to the size and complexity of the department or scheduling conflicts.

IV. **Audit Resources**

The 2015 fiscal year budget for the Internal Audit Department allows for three staff members and includes limited funding for the co-sourcing of IT Audit services. The Audit Department has decided to leverage student interns in place of one staff position. The estimated audit hours available were calculated as follows:

	Standard Hours	Holiday & Vacation	Continuing Professional Education	Admin	Available Hours
Director	2,080	248	80	600	1,152
Sr. Staff	2,080	208	80	400	1,392
IT Auditor	750	-	-	-	750
Intern FT	1,365	-	40	100	1,225
Intern PT	780	-	20	50	710
				Total	5,229

V.

2015 Audit Plan

Each project is evaluated for complexity, breadth and depth, perceived control maturity, repeat audits, and several other factors. These factors and professional judgment lead to an estimate of the amount of resources needed to complete the project. Due to the nature of internal auditing and the limited amount of information available during the audit planning process, projects may require more or fewer hours than originally planned.

Project #	Project Name	Project Type	Objective	Hours
2015-01	3rd Party Governance	Consultation – Enterprise Wide	The objective of this project is to evaluate controls in place to manage contracting, monitoring and compliance as it relates to the governance of 3rd parties (vendors and other entities that receive on-going funding from the city).	300

Project #	Project Name	Project Type	Objective	Hours
2015-02	Complaint Protocol	Consultation	The objective of this consultation is to work with Legal and HR to develop protocol to follow for a complaint, ethics violation, fraud case, etc.	250
2015-03	Enterprise Land Mgt System (ELMS) Cashiering Module Implementation	Consultation	The objective of this consultation is to work with the ELMS cross-functional team to identify opportunities to improve the cashiering functionality within ELMS and identify control gaps, SOD issues, etc.	300
2015-04	Evaluation of Neighborhood & Community Relations (NCR) Programs	Project – Staff Direction	"Amending the Mayor's 2015 Recommended Budget (as amended) to direct the Department of Internal Audit to work with NCR and other Coordinator departments to create a scope of work and then oversee an evaluation of NCR Programs using existing budgeted resources."	200
2015-05	Data Governance and Records Management	Audit – Enterprise Wide	The objective of this audit is to evaluate the City's adherence to the Minnesota Government Data Practices Act and the Federal Government's Official Records Act. This will be done through an evaluation of the City's Data Governance program, including tone at the top, awareness, training, policies, and the efficiency and effectiveness of the City's ability to execute appropriate Records Management practices.	850
2015-6	Internal Controls Over Financial Reporting - Monitoring	Consultation	The objective of this consultation is towork with the City Controller to evaluate the adequacy and maturity of the continual monitoring effort around internal controls over financial reporting. This project will utilize an Urban Scholar.	500

Project #	Project Name	Project Type	Objective	Hours
2015-7	License, Permit, and Inspection Processes	Audit – Cross-Departmental	The objective of this audit is to evaluate the controls around licensing, permitting, and inspecting services that the City executes and how that activity triggers and impact downstream processes such as property tax assessments and cash collection and handling.	850
2015-8	Purchasing Card - Pilot Program Review	Review	The objective of this review of the P-Card program is for adherence to and adequacy of policies as well controls in place to monitor the ongoing execution of the P-Card program.	100
2015-09	Police Body Camera Privacy and Security Review	Consultation	The objective of this project is to assess the procedural and technology risks involved in collecting, transferring, storing, redacting, tagging, and provisioning body camera data in order to best understand and manage the unique risks of the two vendors being evaluated in the pilot program.	500
2015-10	Police Quality Assurance Program	Consultation	The objective of this consultation is to assist the MPD in establishing their internal Quality Assurance and Risk Management function.	250
2015-11	Police Records Management System Implementation	Consultation	The objective of this consultation is to work with the MPD to identify risks with the configuration and implementation of a new records management system.	400
			Total Audit Plan Hours	4500

VI.
2015 Audit Department Projects

Project	Description	Hours
Benchmarking	Benchmark against cities and counties that are categorically similar (population, size, climate, economic vitality, etc.) to identify audit findings that may be of interest to Minneapolis City Departments as well as blind spots in the City's risk management efforts.	150
Findings Follow - Up	Tracking and follow-up on all high and medium rated audit observations to determine if the remediation was completed and appropriately manages the identified risk.	100
Report Templates	Develop practical and succinct templates and tools to facilitate the work of the Audit Department and formal communications both internally and externally.	40
Risk Appetite	Continually enhance the City's Risk Management efforts using the International Standards Organization Risk Management framework to communicate and consult throughout the risk management process; establish a context for identifying, analyzing, evaluating, and treating risk associated with any activity, process, or function; and monitor and review risks.	120
Risk Assessment	The continual process of risk identification, risk analysis and risk evaluation that informs the development of the Internal Audit Plan.	160
Unassigned	Hours allocated to dealing with unforeseen projects or tasks.	160
	Total Audit Department Project Hours	730
	Total Audit Plan Hours	4500
	Total Department Productive Hours	5230
	Total Available Hours	5229
	over/(under)	(1)

VII.
Appendix 1

2015 Risk Assessment Definitions

Internal Audit

Risk – A collection of internal and external factors that affect the ability of an organization to meet its objectives. Risk is evaluated in terms of impact (financial, reputational, operational, etc.) and likelihood. Risk is also evaluated in the context of inherent and residual risk (inherent risk – controls = residual risk.)

Risk Appetite - the maximum amount of residual risk that the City is comfortable accepting. The cost of controls is included in determining risk appetite.

Risk categories – Financial, Operational, Compliance, Strategic, and Reputational

Control – an activity intended to help us manage risk.

Types of controls are:

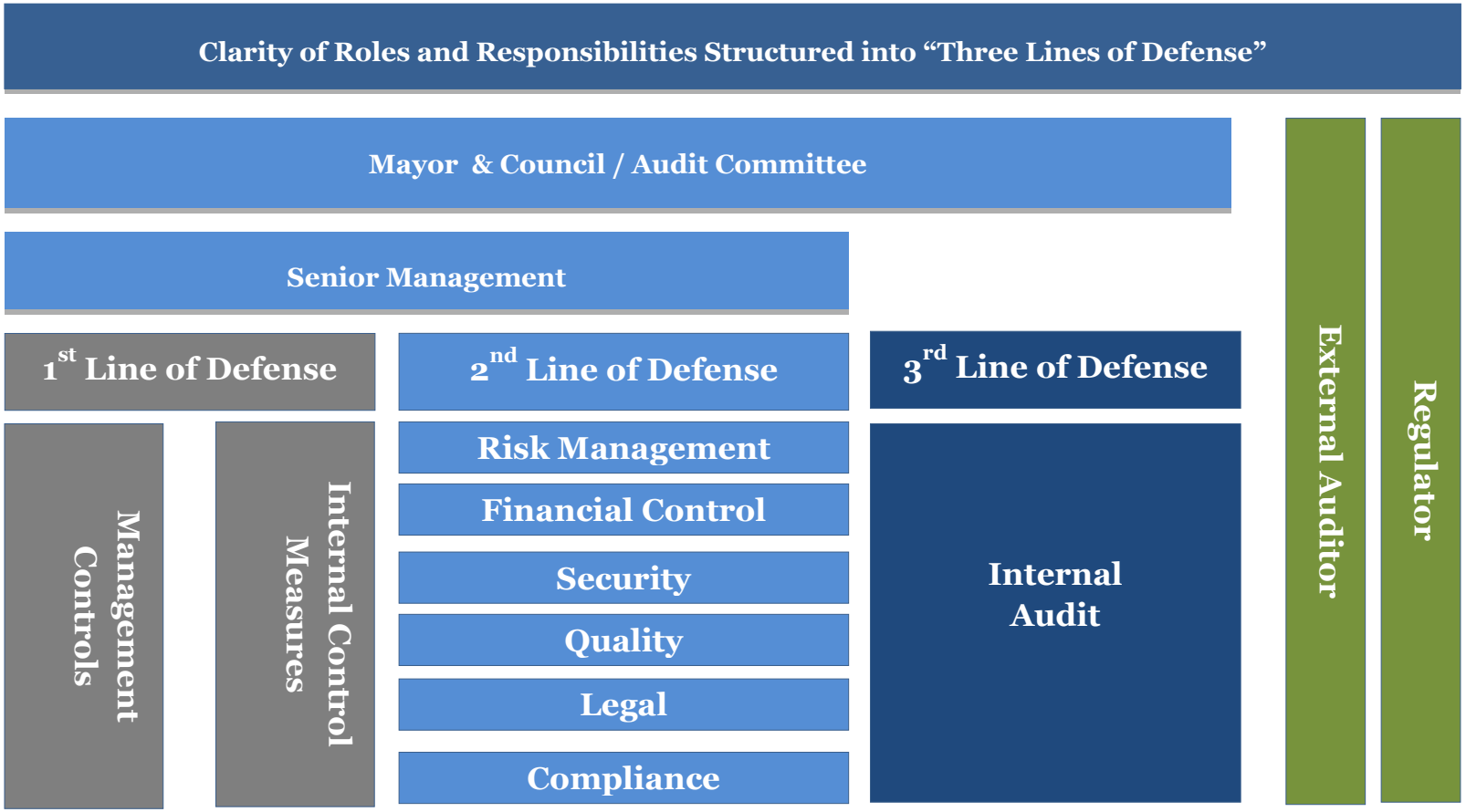
Governance: Entity-Level
Business Process: Manual, Configurable, Segregation of Duties, Restricted Access
IT General Controls: Segregation of Duties, Restricted Access, IT configurable, IT Manual

Roles in helping manage risk:

Process Owner – Understands and owns end-to-end business process, including roles and responsibilities. Understands and defines risk associated with the business process or activity being performed, as well as related internal controls.

Control Owner – Takes ownership for defining and describing the objective of the control in context of the end-to-end business process. Identifies and communicates opportunities for improved efficiency or effectiveness.

Control Operator – Executes processes and control procedures in line with understanding of associated risks, and proactively communicates gaps or exceptions. Identifies and communicates opportunities for improved efficiency or effectiveness.


Clarity of Roles and Responsibilities Structured into "Three Lines of Defense"
Mayor & Council / Audit Committee
Senior Management
1st Line of Defense
2nd Line of Defense
3rd Line of Defense
Management Controls
Internal Control Measures
Risk Management
Financial Control
Security
Quality
Legal
Compliance
Internal Audit
External Auditor
Regulator

VIII.

Appendix 2

2015 Annual Risk Assessment

As part of the Internal Audit Department's Annual Risk Assessment process, your participation is highly appreciated in this Annual Risk Assessment, outlining potential internal and external risks to the City of Minneapolis (the City).

Discussion Items:

1. Please provide your input on these risks at the *City* level and at your *functional* area's level.
    - **Operational** (e.g. Processes, Procedures, Inappropriate physical or online access, Incompatible job duties that do not provide for appropriate checks and balances, etc.)
    - **Financial** (e.g. Inaccurate or incomplete data or recording of transactions, etc.)
    - **Regulatory** (e.g. Federal, State, Local, Organizational Policy)
    - **Reputation** (e.g. Damage to City or department reputation)

2. Does any internal or external entities audit, review, oversee any work and results of your department?

3. Please discuss primary business challenges faced within your area of responsibility and within the City, including a discussion of how these challenges affect priorities/objectives (short and long term).

4. Please describe opportunities for improving interdependencies with other City Departments/offices and how they affect meeting your goals/objectives (e.g. hand-offs of operational items, data, effect on performance, etc.).

5. Are there concerns regarding potential opportunities for fraud (e.g. misappropriation of assets, conflict of interests, corruption, etc.) in your area or in other areas in the City?

6. Please discuss the key vendors/contractors/3rd parties that your department utilizes in achieving its goals and executing day-to-day processes (also include organizations that your department funds (profit or not-for-profit) that provide services on behalf of the city or conduct public purpose activities.

7. What are the key systems/applications/technologies that your department utilizes in achieving its goals and executing day-to-day processes? Are there heavily manual process that, if automated, would greatly improve the city's ability to manage risk with regards to the process or up- and down-stream processes?

8. Have or will any key processes or systems that support those processes changed?

9. To what extent does your team interface with the external public?

10. What are critical activities that your department needs to accomplish to achieve its goals?

11. To what extent does your department support internal operations or are considered critical to achieving the objectives of other entity's/departments mission/goals?

12. To what extent would failure to achieve your department's goals lead to public displeasure or negative media coverage?

13. To what extent is there potential loss due to the cash or cash-convertible nature of your department's transactions?

14. To what extent does your department track activity performance / metrics?

15. To what extent do regulations affect or have an impact on your department's operations?

16. Do procedures exist for identifying system access needs by job function, tracking of user system access, and periodic audits of controls and privileges?

17. Does a process exist to terminate information system and physical access and ensure the return of all city-related property (keys, id badges, etc.) when an individual changes assignments or resigns from the city?

18. Are proper incident reporting policies and procedures in place? These include training employees and contractors to identify and report incidents, the reporting of incidents immediately upon discovery, and preparation and submission of follow-up written reports

19. Are Incident response policies and procedures consistent with applicable laws and state policies? These include but are not limited to identification of roles and responsibilities, investigation, containment and escalation procedures, documentation and preservation of evidence, communication protocols, and lessons learned.