Crowe Horwath.

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City of Coral Gables, Florida

Preliminary Risk Assessment and Proposed Internal Audit Plan

January 2017 (Updated May, 2017)

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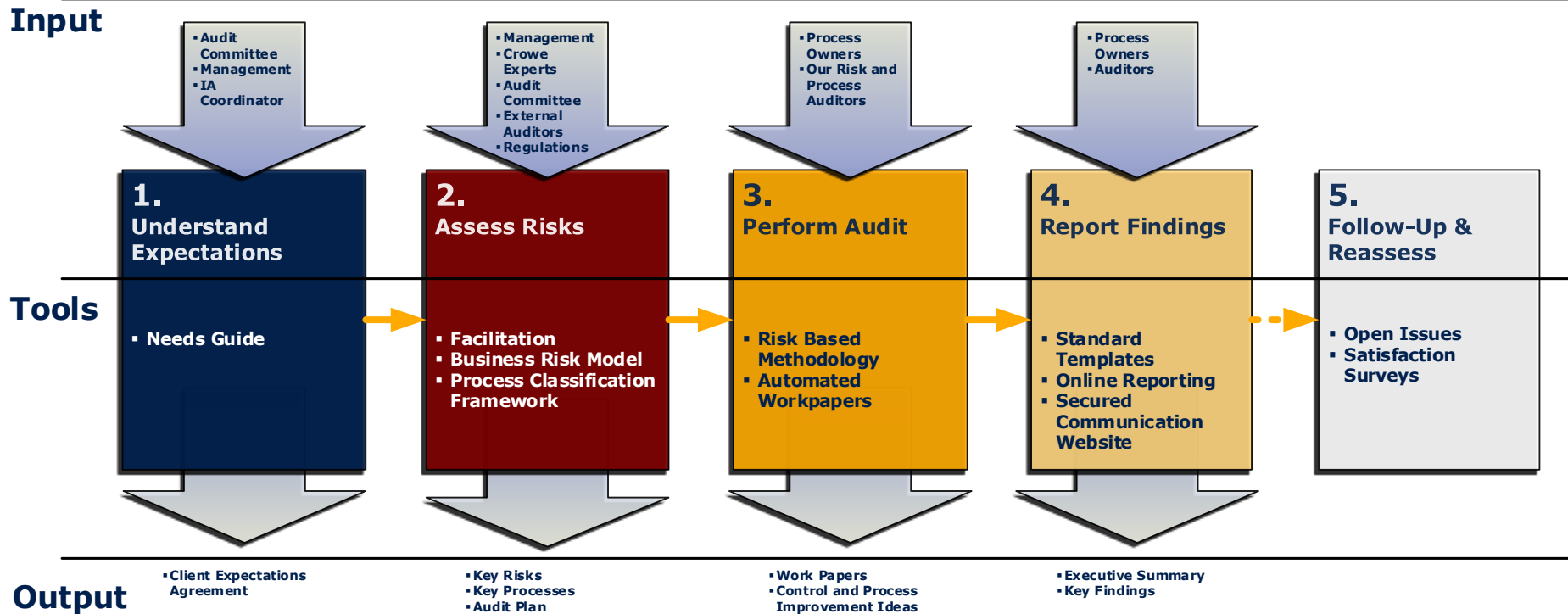- Recommended Audit Plan

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Scope of Risk Assessment

- The scope of this project included:
  - Review of previous internal audits and risk assessments
  - Obtaining opinions of management and staff, used to develop possible risks
  - Review of Budget document and CAFR's
  - Based on risks, develop a tentative audit plan
  - Risk assessment will be updated going forward on a regular basis

Approach to Internal Audit

- Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.

- Audits are essential in providing reasonable assurance that the City is operating in accordance with laws, rules, regulations and policies as well as functioning economically, efficiently and effectively. *The City is ultimately responsible for designing and implementing effective internal controls to ensure that assets are safeguarded, records are reliable, reports on operations are sufficient and well presented, and operations are conducted in an economic and efficient fashion.*

- The objective of internal auditing is to assist the City in the effective discharge of its responsibilities. Therefore, internal audit should furnish the City with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.

Engagement Approach

	Input				
Input	▪ Audit Committee ▪ Management ▪ IA Coordinator	▪ Management ▪ Crowe Experts ▪ Audit Committee ▪ External Auditors ▪ Regulations	▪ Process Owners ▪ Our Risk and Process Auditors	▪ Process Owners ▪ Auditors	
	1. Understand Expectations	**2. Assess Risks**	**3. Perform Audit**	**4. Report Findings**	**5. Follow-Up & Reassess**
Tools	▪ Needs Guide	▪ Facilitation ▪ Business Risk Model ▪ Process Classification Framework	▪ Risk Based Methodology ▪ Automated Workpapers	▪ Standard Templates ▪ Online Reporting ▪ Secured Communication Website	▪ Open Issues ▪ Satisfaction Surveys
Output	▪ Client Expectations Agreement	▪ Key Risks ▪ Key Processes ▪ Audit Plan	▪ Work Papers ▪ Control and Process Improvement Ideas	▪ Executive Summary ▪ Key Findings	

Risk Interview Participants

- James Cason – Mayor
- Frank Quesada – Vice Mayor
- Patricia Keon – City Commissioner
- Vince Lago – City Commissioner
- Jeannett Slesnick – City Commissioner
- Munirah Daniel – Comptroller
- Frank Fernandez – Asst. City Manager/Director of Public Safety
- Walter Foeman – City Clerk
- Diana Gomez – Finance Director
- Karla Green – Human Resources Director
- Peter Iglesias – Asst. City Manager for Operations and Infrastructure
- Keith Kleiman – Asst. Finance Director for Management and Budget
- Craig Leen – City Attorney
- Pamela Leja-Katsaris – Asst. Chief Procurement Officer
- Sally Ola Ola – Assistant Finance Director
- Raimundo Rodulfo – Asst. Chief Information Officer
- Catherine Swanson – City Manager

The Crowe Horwath Risk Model [SM]

Definition of Risk

Business risk is an event, action, or failure to act that may adversely affect an organization's ability to achieve its business objectives and successfully implement its strategies. Below is a graphic profile of Crowe's Risk Model, which identifies various types of risk:

External Risks
Regulatory/Legal
Investor Relations
Competitor
Financial Markets
Catastrophic Loss
Sovereign/Political

Information Risks
Product/Service Pricing
Performance Measurement
Budget & Planning
Accounting Information
Financial Reporting
Access
Availability

Operations Risk
Customer
Human Resources
Product Development
Supply Chain
Business Interruption
Compliance
Performance

Strategic Risks
Leadership
Alignment
Planning
Communication
Business Model

Integrity Risks
Fraud
Authority Limit
Unauthorized Use
Reputation

Financial Risks
Price
Liquidity
Credit

External

Strategic

Integrity

Information

Operations

Financial

Observations about Risk

- The following should be taken into account when contemplating risks and internal audit activities:
  - All kinds of risks exist, but not all risks are auditable.
  - Not all risks can be identified regardless of how much effort is put forth.
  - Making policies and processes fail safe may be cost prohibitive or create other operating issues.
  - Sometimes the greatest risk is lost opportunity.
  - The most significant risk to the City is, "I don't worry about what I know – I worry about what I don't know."
  - A significant strategic, operating, integrity, financial, and reputation risk is sometimes caused by the lack of information transparency. Some risks can be avoided if personnel are transparent with knowledge and learning.

Initial Assessment of Risks

- Taking the previous Risk Areas and Risk Factors into account, Crowe developed a Risk Scoring Matrix for several Auditable areas.
- Risks are scored at a point in time. The Risk Assessment will be updated annually to ensure any changes are captured.
- Other items taken into consideration when scoring Auditable areas included:
  - Have there been historic issues?
  - Are there processes and controls in place?
  - Has the area been audited previously?
  - Is the area reviewed by third party regulators?
  - Is the area an essential services to constituents?
  - Is the area's activity inherently complex?
  - Are processes predominantly manual?
  - Is the area appropriately staffed?
  - What is the area's impact on other Institute departments?
  - What is the significance of revenues/expenditures for the particular area?

Initial Assessment of Risks – High & Moderate Risk

- **Information Technology –** High
  - Scored as High due to the level of impact on the City's infrastructure, number of systems, importance of information housed on City's infrastructure, and the importance to ensure that appropriate access is always maintained or controlled in the right place.

- **Payroll and Human Resources –** High
  - Includes Retirement. Scored as High because of the level of activity, utilization of forms and manual timesheets, number of union contracts, need for compliance with laws and regulations regarding workers' hours, wages, compensation and conditions; immigration; health and safety. Additionally, the staff in the Payroll Department is relatively new.

- **Parking Services –** High
  - Scored as High due to the level of transactions throughout the City, and risks that there could be inadequate internal controls in place to track and safeguard cash receipts.

- **Parks and Recreation –** High
  - Scored as High due to the level of decentralized activities and risks that there could be inadequate internal controls in place to track and safeguard the City's recreational supplies and equipment and its cash receipts.

- **Public Works –** High
  - Includes Facilities, Utilities, Sanitation, Landscape Services, and Engineering. Scored as High due to the level of staff turnover, amount of activity and risks that there could be inadequate internal controls in place to manage and oversee projects.

Initial Assessment of Risks – High & Moderate Risk

- **Fuel and Fleet – High**
  - Scored as High due to the risk relating to the accountability of fuel usage and the impact on safeguarding fuel and facilities where fuel is supplied, stored, and dispensed, as well as possibility of personal usage of vehicles and lack of controls over management of the City's fleet.

- **Development Services – Moderate**
  - Includes Building, Code, and Planning and Zoning. Scored as moderate do to level of impact on residents. Additionally, the level of transactions as it relates building permitting activities, and the related fee calculations, assessments, and collections. Additionally, there are a variety of regulations that must be complied with in this area.

- **Procurement / Disbursements – Moderate**
  - Scored as Moderate due to the level of impact on other City departments, and the importance of internal controls over reviewing, awarding and monitoring contracts, and the related disbursement process.

- **Cash Management – Moderate**
  - Scored as Moderate due to the level of financial impact, the risks related to handling and reconciling cash receipts throughout the City, and the risks related to manual and/or inconsistent processes.   Would also include cash and checks receipts.

- **P-Cards and Gas Cards – Moderate**
  - Scored as Moderate due to the inherent risks related to authorizing usage and spending as well as the level of possible manual processes related to monitoring and reconciling activity.

- **Land Leases – Moderate**
  - Scored as Moderate due to the risk that the City may not be receiving the accurate amount of revenues from the related leases and that there may not be proper monitoring of contract requirements.

Initial Assessment of Risks – Moderate & Low Risk

- Law Enforcement Task Force and Strike Force - Moderate
  - Scored as Moderate due to the level of risk inherent to the proper use of monies and the level of monies received.
- Settlements – Moderate
  - Scored as Moderate due to the need that the City improve and strengthen the controls over how the City processes and disburses settlements.
- Bank Accounts and Reconciliations – Low
  - Scored as Low due to the low level of risk inherent to the process as well as being reviewed annually through the external audit process.
- Petty Cash – Low
  - Scored as Low due to the amount of activity related to the petty cash funds.
- Debt Management – Low
  - Scored as Low due to City's ability to mitigate risk by reporting financial and operating information required by regulatory agencies, as well as the City's high credit rating.
- City Clerk – Low
  - Scored as Low due to well documented policies and procedures to manage information, and the level of automation utilized.
- Police and Fire Accreditations – Low
  - Scored as Low due to the requirement to have well documented policies, and the level of review by third party accreditors.

Internal Audit Plan

- The following slides represent the suggested internal audit plan for the next Two years.

- During Year Two, Crowe, along with Management and the Commission, will determine the areas to include as Year Three Audits.

- We also recommend that during Year Two of the audit plan, that hours are set aside to perform follow up procedures on previously completed audits, rather than completely re-performing audits. Focusing on specific areas where there were issues, we feel, is a better use of the City's resources.

- As with any audit plan, this is the plan as of a point in time. Depending on future developments within the City, this plan could change at any time. No changes will be made without first discussing with management.

- The Descriptions noted for each audit include a broad explanation of the work to be performed. These descriptions will be expanded in more detail once planning for each audit commences.

Recommended Audit Plan – Year One (Updated 5.23.17)

Project Name	Description	Hours
Information Technology	Network and Data Security: Perform tests related to the technical, physical and administrative controls over the physical security of data centers, the logical security of databases. Determine whether information housed on the City's systems is maintained in a secure manner. Penetration Testing; Conduct tests to evaluate the strengths of all security controls on the City's computer systems. These tests will examine procedural and operational controls as well as technological controls.	320
Cash Management	Review and document policies and procedures related to revenue collections throughout the City. Determine if there are gaps in the process which present inefficiencies or control weaknesses. Perform tests of transactions to determine effectiveness. Determine where gaps in controls exist and provide recommendations for improvement.	520
User Access Controls	Review and document current user access related to financial systems and the users ability to record, modify and view transactions.	50
Public Works	Review and document procedures related to Public Works which includes development services, Facilities, Utilities, Sanitation, Landscape Services, and Engineering. Review and test transactions related to the processing of applications for compliance with applicable laws and regulations as well as policies and procedures. Review procedures and determine areas where there could be improvements.	80
Payroll and Human Resources	Review and document policies and procedures related to processing payroll, employee benefits, hiring and termination activities. Review and test transactions, including open enrollment, Cobra, availability of supporting documentation, flexible spending and payroll taxes, insurance etc. Inquire about recent changes to the organization and effects on current operations. Determine where gaps in controls exist and provide recommendations for improvement.	160
Total Hours		1,130

Recommended Audit Plan – Year Two (Updated 5.23.17)

Project Name	Description	Hours
Information Technology	Internal Penetration Testing: Conduct tests to evaluate the strengths of all security controls on the City's computer systems. These tests will examine procedural and operational controls as well as technological controls over the systems.	160
Fuel and Fleet	Review and document policies and procedures related to fleet management, fuel consumption, and the procurement of fleet vehicles. Upon review of these documents, determine if there any gaps within the process that present inefficiencies. Test the controls in place over the management of vehicles within fleet to ensure that they are effective. Test controls in place over fuel usage to ensure than it is appropriately authorized and limited to valid business purposes.	160
Parks and Recreation	Review and document policies and procedures related to the decentralized activities around the City's recreational supplies and equipment. Review and test transactions related to the processing of disbursements as well as operational procedures. Determine where gaps in controls exist and provide recommendations for improvement.	100
Procurement/Disbursements	Review and document policies and procedures related to procurement, disbursements, and the overall payment process. Determine if there are gaps in the process which present inefficiencies. Test contracts and disbursement transactions to ensure proper approval, documentation, segregation of duties, etc. Determine where gaps in controls exist and provide recommendations for improvement. Perform analytics on the population of disbursements.	160
Development Services	Assess aspects of the Development Services area, including permitting activities to determine the integrity and compliance of the processes with City Code and applicable regulations. Determine areas where improvements can be made in the process to streamline the process and also provide better customer services to residents.	100
Settlements	Assess the policies and procedures around how the City processes and disburses settlements. Determine areas where controls can be strengthened and improved.	60
Procurement Card/Gas Cards	Review and document policies and procedures related to procurement and gas cards throughout the City. Determine if there are gaps in the process which present inefficiencies or inconsistent processes depending on Department. Test transactions to ensure proper approval, documentation, segregation of duties, etc. Determine where gaps in controls exist and provide recommendations for improvement and perform analytics on overall population.	120
Follow Up Procedures	Perform follow up procedures on areas previously revised to determine the status of recommendations.	100
Total Hours		960

Next Steps

- Approve internal audit schedule
- Prepare and agree to internal audit procedures for upcoming internal audits
- Schedule internal audits with Management
- Meet with stakeholders
- Perform first internal audit project