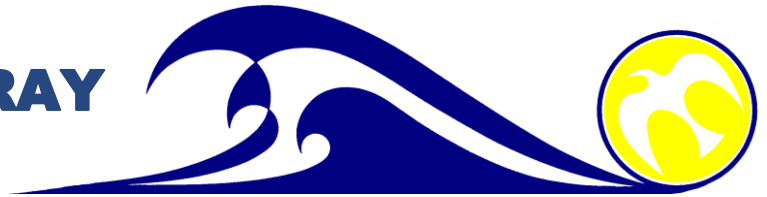




**CITY OF DELRAY  
BEACH**



# Internal Audit Plan Fiscal Year 2019

## Executive Summary

Government Auditing Standards and the Institute of Internal Auditors' Standards encourage the Chief Audit Executive to establish a risk-based approach to determine the priorities for an upcoming audit year. This report describes how Internal Audit analyzed the City's risk environment, prioritized audit areas, and prepared the annual Audit Plan for fiscal year 2019 based on available resources.

In collaboration with the City Commission and City Executive Leadership Team, Internal Audit utilized a best practice methodology and established an audit universe of auditable areas for the City. Next, a high-level risk assessment of each auditable area was conducted.

There are many activities performed by management and staff at the City of Delray Beach that are designed to mitigate risks and reduce the likelihood that a negative event will occur. The risk remaining despite those controls or efforts is called *residual risk*. It is important to note that the risk assessment process does not attempt to measure or rank residual risk. Instead, the goal of this process is to assess the *inherent risk*, that is, the total risk absent internal controls, or the "raw risk," in each of the City's auditable areas. The Internal Auditor will determine how existing controls, policies and procedures within the City's auditable areas reduce inherent risk during the planning phase of each one of the proposed audit engagements following the selection of areas from the risk assessment process.

The risk assessment process entails several steps including identification of key risk factors to be used and weighted in selecting audits for the annual plan based on ranked scores. Such risk factors were designed in conjunction with the objectives of the Internal Auditor's Charter. In general, the annual plan audits would include one or more of the following:

- Financial Audits
- Operational Audits
- Compliance Audits
- Internal Control Reviews
- Special Projects
- Follow-up Audits

The Internal Auditor exercised professional judgment in the selection of the six key areas proposed for the first internal audit plan for fiscal year 2019 based on the risk assessment analysis and resource availability. These six areas selected from the High and Medium ranked weighted risk scores include:

- IT – Security;
- Finance – Payroll;
- Purchasing – Contract Management;
- Parks & Rec. – Dept. Administration (Cash Handling);
- Finance – Utility Billing;
- Finance – Bank Reconciliations.

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**Internal Auditor**  
**City of Delray Beach**

## Risk Assessment Methodology

The rationale for conducting a risk assessment is aimed at effectively directing internal audit activities to areas that are relevant and important to the organization for purposes of creating an audit plan. There are three main steps in the risk assessment process.

### Step 1: Understand City's Strategic Goals & Gather Information

Risk is defined as any issue or event that may impact the City's ability to achieve its strategic goals. As such, identifying the City's key goals is a prerequisite to identifying key risk factors for the risk assessment. This information gathering process included review of the following:

- Delray Beach Strategic Business Plan 2019-2022 (Draft)
- Comprehensive Annual Financial Report for the Year Ended September 30, 2017
- Fiscal Year 2018-2019 Budget Worksheets (and related performance measures information)
- Capital Improvement Program Budget for Fiscal Year 2019-2023
- Other internal documents and organizational structure diagrams
- Office of Inspector General (IG) of Palm Beach County Fiscal Year 2019 Annual Risk Assessment and Audit Plan document
- Prior IG inspection and audit reports for the City of Delray Beach

In addition, throughout the risk assessment, Internal Audit met with various internal and external parties to the City to seek feedback on areas of concern.

### Step 2: Select Risk Factors and Weights

Risk factors include quantitative and qualitative criteria and attributes used for identifying areas of City operations that would benefit most from an internal audit. The number of risk factors typically ranges between five to ten factors, based on the maturity of an entity's Internal Audit program and number of years the risk assessment has been applied.

Inherent risk is determined by considering all the risk factors selected; not just an individual factor. However, not all factors are considered equal. A weighting is applied to each factor to reflect their relative importance which is a matter of auditor judgment, based on common business practices, City's strategic goal and other related information that was gathered in step 1.

The following six risk factors and weights were selected for purposes of the first Citywide risk assessment:

- Complexity of Operations (25%)
- Susceptibility to Error or Fraud (25%)
- Reputation (15%)
- Laws & Regulations (10%)
- Degree of Change (15%)
- Financial Impact (10%)

The overall risk scores were calculated using the following formula:

$$\text{OVERALL RISK SCORE} = \Sigma(\text{RAW RISK FACTOR SCORE} \times \text{FACTOR WEIGHTING})$$

The overall risk *ranking* of all the auditable units is determined based on a 33% (High) - 42% (Medium) - 35% (Low) distribution which yield the following score ranges:

Overall Risk Rank	Weighted Score Between	
	High	349
Moderate	308	348
Low	100	305

**Legend:**

**High** – significant impact on City operations, financial results and/or reputation

**Moderate** – moderate impact on City operations financial results and/or reputation

**Low** – insignificant impact on City operations, financial results and/or reputation

**Step 3: Complete a Citywide Risk Assessment by Identifying, Assessing and Ranking Auditable Areas**

There are many activities performed by management and staff at the City of Delray Beach that are designed to mitigate risks and reduce the likelihood that a negative event will occur. The risk remaining despite those controls is called residual risk. It is important to note that the risk assessment process does not attempt to measure or rank residual risk. Instead, the goal of this process is to assess the inherent risk, that is, the total risk absent internal controls, or the “raw risk” in each of the City’s auditable areas.

Determining the auditable areas, also referred to as the “audit universe,” (i.e. programs, activities, work areas) and allocating scarce audit resources to those auditable areas based on the overall ranked factors selected, is a common approach for establishing the enterprise-wide risk assessment that drives an annual audit plan. A total of 110 auditable units were identified by Internal Audit.

To assess the relative importance of potential audit area, the Internal Auditor requested input from the City’s Executive Leadership Team concerning their perceived risk in the various operational areas under their supervision. Worksheets were sent out with a set of survey questions related to each risk factor with a scoring answer option between 1 and 5. All responses were gathered, populated in the summary risk assessment worksheet and the auditable areas identified were ranked based on their overall individual risk scores. Finally, Internal Audit interviewed members of the City Commission for their input on specific areas of concerns regarding programs and operations.

**Summary:**

The first Citywide risk assessment represents the beginning point to an ongoing assessment process, to take place annually thereafter. In addition, the areas selected for the audit plan will be subject to an engagement level risk assessment to determine the specific audit goal or objective within that auditable area. In the event a need arises for substantial modification or deviation from an approved annual audit plan, such request will be brought forward in front of the City Commission for approval.

## Fiscal Year 2019 Internal Audit Plan

### Availability of Resources:

In order to determine a realistic production capacity, prior to selecting the audit areas for fiscal year 2019, a calculation of projected time available was conducted for the Internal Audit resource of one. About 1,900 hours were deemed available after considering holidays, time off and professional development hours. The available hours were allocated as follows:

- Administrative overhead and time reserved for activities such as ad hoc requests, misc. departmental consulting, unannounced tests and internal investigations was budgeted at 450 hours.
- An update of the risk assessment for fiscal year 2020 and completion of the documentation of the Internal Audit Policies and Procedures (by 12/31/18): 120 hours.
- External auditor assistance: up to 100 hours.
- Six audit areas selected: approximately 1230 hours (see next page for allocation of hours by area).

For purposes of time allocation, a rough size of an audit engagement (planning, fieldwork and reporting hours combined) was used to assess the number of audits possible. However, scope and actual hours may vary.

Description	Rough hours
Small audit	< 150
Medium audit	150-300
Large audit	>300

### Summary:

Based on availability of resources, six audit areas were selected (see next page for details). Internal Audit used several considerations when selecting these projects for fiscal year 2019. First, best practice suggests making selections from each of the risk categories (High, Medium, Low). However, given that this is the first year of the risk assessment being implemented and Internal Audit beginning its operations, it was deemed most appropriate to focus on the High and Medium risk areas.<sup>1</sup>

Internal Audit also considered the number of audit areas selected for any one department and attempted to have coverage over as many departments as was deemed practical given more pressing priorities (consideration was given to unique situations and circumstances which would supersede other audit areas with higher risk scores). Although several selections were made from one department, in total, the proposed audit plan reaches four different departments.

As the risk assessment is expected to be updated annually, in future years additional considerations such as length of time from last audit or number of findings/recommendations at last audit are going to be considered as part of the audit areas selection process.

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<sup>1</sup> Details of calculations and risk assessment scores for all 110 auditable areas are available upon request.

The following are the audit areas proposed for the Fiscal Year 2019 Internal Audit Plan:

	<b>High</b>			
	<b>IT</b>	<b>Finance</b>	<b>Purchasing</b>	<b>Parks &amp; Rec.</b>
	<b>Security</b>	<b>Payroll</b>	<b>Contract Management</b>	<b>Dept. Administration (Cash Handling)</b>
<b>Combined Rankings</b>				
<i>Complexity of Operations</i>	75	75	117	100
<i>Susceptibility to Error or Fraud</i>	92	92	50	92
<i>Reputation</i>	45	75	75	60
<i>Laws &amp; Regulations</i>	50	30	50	30
<i>Degree of Change</i>	68	68	53	53
<i>Financial Impact</i>	40	30	20	20
<i>Auditor Adjustment</i>	15	15	10	10
<b>Result:</b>	<b>384</b>	<b>384</b>	<b>374</b>	<b>364</b>
<b>Rank# on Results Worksheet:</b>	<b>#8</b>	<b>#9</b>	<b>#16</b>	<b>#29</b>
<b>Estimated Audit Hours:</b>	<b>220</b>	<b>220</b>	<b>220</b>	<b>130</b>

	<b>Medium</b>	
	<b>Finance</b>	<b>Finance</b>
	<b>Utility Billing</b>	<b>Bank Reconciliation</b>
<b>Combined Rankings</b>		
<i>Complexity of Operations</i>	67	75
<i>Susceptibility to Error or Fraud</i>	75	50
<i>Reputation</i>	45	60
<i>Laws &amp; Regulations</i>	20	20
<i>Degree of Change</i>	60	68
<i>Financial Impact</i>	40	25
<i>Auditor Adjustment</i>	15	10
<b>Result:</b>	<b>322</b>	<b>308</b>
<b>Rank # on Results Worksheet:</b>	<b>#67</b>	<b>#73</b>
<b>Estimated Audit Hours:</b>	<b>220</b>	<b>220</b>