



CHARLOTTESM

INTERNAL AUDIT

AUDIT PLAN
Fiscal Years 2018-2019

Status @ June 30, 2018

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Note: Red font indicates changes/updates to the original Audit Plan.

Overview

The majority of the Audit Division activities are classified as Performance Audits, as defined by the Government Accountability Office (GAO). Other occasional efforts include Agreed-Upon Procedures (a type of attestation engagement subject to specific standards established by the GAO) and investigations. The Audit Plan includes audits in progress, regularly scheduled audits, and additional efforts being planned, or under consideration for later years.

We expect the City Manager's Office and Department Heads to make special requests for audits or other support. Internal Audit reserves a limited amount of staff time for unplanned projects. It may be necessary to delay a scheduled audit to address a newly identified need.

Performance Audits Planned for Fiscal Year 2018

In Progress – We will complete the audits which were in progress at year-end FY17:

- Annual Cash Collections Follow-Up (FY17) – In October 2015, auditors began conducting unannounced cash collection site visits throughout the City. A summary report is being prepared to document the findings, recommendations, and actions taken during the year. (Issued 8/18/17)
- CATS Blue Line Extension (Lane Construction) – The Civil B and C contract was selected for review, in consultation with CATS management. Auditors have reviewed project management controls related to inspections and measuring, payment applications, scheduling, compliance, change orders and quality control. At year-end, a draft report was being reviewed with management. (Issued 12/20/17)
- Service Contracts – This audit is a part of our ongoing review of procurement activities. Initial testing focused on FY15, but was expanded to include FY16. A draft report will be shared with departments in August. (Issued 6/28/18)
- Charlotte Business Inclusion – At the request of M&FS-Charlotte Business INclusion (CBI) management, auditors are reviewing MWSBE construction sub-contractor payments. The primary objective of the audit is to ensure subcontractors are paid for work performed. At year-end, auditors prepared certified letters to follow-up nonresponsive primes and sub-contractors, in an attempt to improve upon the 60-70% responses received from initial email and postal mail requests. (Issued 4/4/18)

- Police Secondary Employment – CMPD authorizes its police officers to provide law enforcement related services, such as traffic direction and business security, and coordinates the assignment of specific officers to fill requests. Employers pay officers according to City-established rates. At year-end, audit fieldwork was nearing completion. Preparation of a draft report for review with CMPD will follow. (Issued 11/28/17)
- Airport Rental Cars (Advantage) – At the request of Aviation, auditors are conducting a review of rental car company Advantage. The objective of the audit is to determine whether the rental car company has accurately reported and paid monthly concession fees. (Issued 1/24/18)

In Progress Limited Scope Audits (LSAs) – In an effort to be responsive to requests, and provide timely input to control issues, the Audit Department has begun to complete another type of Performance Audit – narrowly defined projects, which are termed Limited Scope Audits. Results of LSAs may be communicated as a standard Audit Report, or as a memo – and later summarized with multiple such audits to be issued in a combined report. Either way, the results will be provided to management and Council.

The following such engagements were nearing completion at fiscal year-end.

- Compensatory Time – this audit addresses inconsistencies of Comp Time policies throughout the City. (Issued 11/29/17, as a standard report)
- CATS Bus Operations Division – Payroll – this audit addresses concerns about multiple merit increases in the same calendar year for select staff. (Issued 11/16/17, as part of Limited Scope combined report #2.)
- Motor Pool Policy Exemptions – the audit addressed exemptions to the 2016 policy, which initially required all employees’ compliance, but was amended to allow staff receiving vehicle stipends to opt out. A reversal to the amendment was recommended. (Issued 9/8/17, as part of Limited Scope combined report #1.)
- Vehicle Mileage – the audit addressed the cost-effectiveness of employee reimbursements for high-mileage staff, periodic re-authorizations, and one department’s exemptions to the Motor Pool Policy for certain employees receiving significant mileage reimbursements. (Issued 9/8/17, as part of Limited Scope combined report #1.)
- Sales of Scrap – multiple departments identified control issues related to the City’s sales of scrap metals. Observations were provided to Water and CDOT. (Issued 6/27/18, as part of Limited Scope combined report #3.)

The following LSAs were also in progress at fiscal year-end:

- Inventory Physical Controls – physical access controls in place (Issued 11/16/17, as part of Limited Scope combined report #2.)

- Vendor Set-up – vendor set-up policies and procedures (Issued 4/11/18, as a followup to the 2013 Vendor Authenticity audit.)
- Council Approval Threshold – reconsidering the \$100k level (Report issued 10/4/17.)
- Debt Write-offs – policies and procedures (Researched but no audit initiated.)
- Mandatory Vacations – policy and controls (Audit work in progress.)
- Ghost Employees – related controls (Audit work in progress.)
- Fuelman – related controls (Draft report to be discussed with management in July.)

Annual Audits – The following lists efforts which have historically been completed on an annual basis, and which are expected to continue.

- Bus Operations Division Imprest Fund – We will audit the CATS Imprest Fund and include steps required to meet the needs of the external auditors for the annual (agreed upon procedures) report, as has been done for several years. (Issued 10/26/17)
- Vice Imprest Fund Reimbursements – Upon request from Police about every two months, auditors conduct detailed reviews of imprest documentation before the fund is replenished. An annual report summarizes the results. (Issued 3/14/18)
- Cash Collections – M&FS-Finance and the external auditors (Cherry Bekaert) have requested regular audits of City-wide cash collections. A summary report will be completed and a continuing plan for periodic testing will be updated, in consultation with Finance and the external auditors. (Issued 8/18/17)
- Travel Advance & Expense Reimbursements – Periodic audits of employee expenses have been conducted since FY13. Annual audits of travel expenses are planned, with scopes and approaches adjusted to address the audit risk assessment. (Issued 3/28/18)

New 2018 Initiatives – Although unplanned needs can arise and impact the priority of audits, the following are being planned and should be substantially completed in FY18.

- Business Investment Grants – Neighborhood & Business Services (now the Economic Development Department) has requested a review of this program. (Draft report issuance is targeted for July 2018.)
- P-Card FY17 – The audit scope will be fine-tuned to reflect compliance improvements in recent years. (Issued 6/27/18)
- Airport Advertising Concession – Aviation has requested this audit. (Draft report completion expected by August 2018.)

- Airport Rental Cars – Airport management has requested that additional rental car companies be reviewed. Before initiating this, we will work with Aviation to prioritize our efforts. (As noted above, one RAC audit was completed in January. Another may be started in early FY19.)
- Procurement – Audits related to Citywide and department-specific procurement have been completed several times in the past. We are assessing risks and previously identified weaknesses for follow-up.

Under Consideration – Audit priorities are regularly updated throughout the year. Depending upon staff availability and the level of requests received, the following audits may be initiated during fiscal year 2018:

- Construction Audits – Based on review of change orders and contingency spending, Internal Audit noted opportunities to increase controls over capital expenditures. We will perform risk analysis of high profile construction projects and conduct audits of selected projects. (Audit announcements for CATS BLE Professional Services and CATS BLE Construction Processes were made in May 2018.)
- Information Technology Risk Areas – At year-end, contractor RSM was completing its review of the City’s IT environment and related audit risks. Based upon Internal Audit’s review of this assessment, along with input from the OCIO, audits may be conducted by internal staff or external audit consultants. Possible areas of future audit attention include Disaster Recovery, IT Governance, and Security (application, systems, internal and external network). (The issue of Business Continuity Planning and Disaster Recovery was shared with the City Manager’s Office in December 2017.)
- Other Airport Concessions – Internal Audit will work with Aviation management to identify the priority for addressing the various concessions at Charlotte-Douglas. Management has requested that concessions and revenue contracts (including parking, restaurants and retail) be reviewed on a rotating basis. (As noted above, the Advertising contract audit is underway. At year-end, auditors are discussing priorities for FY 2019 at CLT.)
- Fraud Awareness and Prevention – While the risk of fraud is considered in every audit, we have not previously conducted testing for the sole purpose of detecting fraud or fraud risks. As audit staff obtains sufficient access to ERP data, we will communicate our risk assessment and planned reviews. (As a recent “COSO” study has reported, Internal Audit does not have appropriate access to ERP data to efficiently conduct its work. We are working to overcome this limitation.)
- Vendor Controls – Depending upon the outcome of the LSA in progress at year-end related to vendor set-up policies and controls, a broader review of vendor authenticity controls may be performed, as a follow-up to an audit report from FY13. At that time, management responded to audit concerns that Munis would address the existing control weaknesses. (The initial limited scope approach was converted to a follow-up effort, and issued 4/11/18, as noted above.)

2018 Limited Scope Audits Under Consideration – Over thirty possible audits were identified by departments during our annual risk assessment meetings. As time and resources allow, we will prioritize some of these, after consultation with management.

The following Limited Scope Audits have been initiated in FY18:

- Petty Cash – Issued, as part of LSA #3, in June 2018.
- Fuel Card Program Management (Fuelman) – related controls
- Office Depot Purchases – policy and controls
- Balance Sheet Accuracy – policy and controls
- Cybersecurity Awareness and Training – controls and comparison to best practices
- Educational Reimbursements – policy and controls
- Moving Expenses – policy and controls
- SWS Address Accuracy – data reliability

Other Commitments

- An Employee Hotline administered by the Internal Audit Division was introduced in September 2014. Investigations will be conducted as necessary, based upon information supplied by anonymous phone calls to a third-party call center. The number of calls has increased over the past few months, but there has been no substantial impact on audit resources.
- Recommendations from each audit are tracked and followed up through completion, as determined by Internal Audit.

Performance Audits Under Consideration for Fiscal Year 2019

- Police Property – Although it has been several years since we conducted a review of Police property controls, our Vice Imprest Fund audit regularly tests a random sample of evidence. In addition, we have observed inventory counts conducted in compliance with CALEA (Commission on Accreditation for Law Enforcement) standards. Working with CMPD, we will consider a performance audit that will build on these standards as well as review other property controls.
- Airport Contracts and Concessions – Internal Audit will continue to work with Aviation management to prioritize these audits on a rotating basis. At least one rental car agency audit will be initiated.
- Finance Operations – While the City can rely upon its outside auditor to assess overall controls and determine that financial statements are fairly presented, internal audits can more closely examine operations and performance. We will work with M&FS-Finance and the outside auditors to determine areas in which Internal Audit can best provide additional assurance of effective internal controls.
- Information Technology – In accordance with professional standards, we will evaluate IT risks which can be addressed via internal audit. As noted, RSM is completing an assessment which will help guide our priorities over the next few years. (RSM has completed its assessment, which is under review by Audit staff. Further efforts are being studied; some reviews may be conducted in-house. We'll also consider outsourcing some projects. Our approach will be impacted by the FY19 budget, which did not include requested funds.)
- Procurement – Our audit approach for 2019 and beyond will be based upon identified risks, including the audit conducted in 2018. Procurement is of such primary importance that audit efforts in this area are expected to continue regularly.
- Construction – Internal Audit will continue to work with CATS, Aviation, Water and E&PM, to prioritize additional audits in this area. Auditors will follow-up previous recommendations to improve policies related to construction and will address whether departments are establishing contracts in compliance with new policies/guidelines. (In March 2018, planning has begun for construction audits, using a third-party contractor to assist the Internal Audit Department. Two audits related to the CATS Blue Line Extension were announced in May 2018.)

Audit Division Internal Efforts

- Further develop the Continuous Auditing program (Progress is dependent upon increasing Audit's access to data; we are working with I&T to improve our ability to conduct data analytics; however, progress has been limited.)
- Refine the Limited Scope audit process (Six Limited Scope Audits – LSAs – were issued in FY18; two each, in combined reports, in September, November and June. Based upon the success of this new approach – addressing limited concerns and/or conducting requested reviews – we intend to continue the effort in FY 2019. Several such LSAs are in progress at year-end.)
- Increase IT auditing capabilities (Staff training has increased; we are also leveraging the input and analysis received from an outside contractor that performed an IT audit risk assessment. An FY18 “COSO” review conducted for M&FS supports the need for further development of Audit's IT capabilities. Additional resources were requested for FY19 to assist with further development. The requests were not funded.)
- Expand risk analysis
- Increase awareness, and consider expansion of Employee Hotline (In late FY18, there has been increased usage of the hotline by City employees. Internal Audit may propose an expansion to contractors and vendors later in CY 2018.)