



AUDIT PLAN
Fiscal Years 2019-2020

Status @ 6/30/19

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

Overview

The majority of the Audit Department 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, follow-ups of prior year report recommendations, 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 2019

In Progress – We will complete the audits which were in progress at year-end FY18:

- Business Investment Grants – Business Investment Grants (BIG) are awarded to companies that intend to relocate to Charlotte or expand an existing footprint. The objective of the audit is to assess the performance of the grant reimbursement program, including goals, monitoring and compliance. (Issued 10/3/18)
- Cash Collections FY18 – Auditors continued to conduct unannounced cash collection site visits throughout the City. A summary report is issued annually, documenting the program and highlighting findings, recommendations, and actions taken. This report has been requested by, and provided to the external auditors since 2015. (Issued 7/31/18)
- Airport Advertising Concession (Intersection Holdings) – At the request of Aviation, auditors are conducting a review of the advertising concession agreement. The objective of the review is to determine whether advertising revenue has been accurately reported. (Issued 10/25/18)
- Employee Expense Reimbursements FY18 – This audit repeats the periodic review begun in 2013. This audit period is limited to the first six months of FY18. (Issued 11/6/18)

- CATS BLE Professional Services – The objective of the audit is to determine if CATS has established adequate controls over BLE professional services agreements. The audit includes a review of the policies and procedures in place to establish labor and overhead rates with consultants and verification of actual labor and direct costs. (Issued 3/22/19)
- CATS BLE Construction Processes – Consultant RSM will review selected BLE construction processes to determine if the City has established adequate controls. (Issued 6/20/19)

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. Several such audits were completed in FY18. 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 LSAs were in progress at fiscal year-end:

- Fuel Card Program Management (Fuelman) – controls (Issued 10/18/18)
- Office Depot Purchases – policy and controls (Issued 11/29/18)
- Balance Sheet Accuracy (Account Reconciliations) – policy and controls (Issued 1/25/19)
- Mandatory Vacations – policy and controls (Issued 4/29/19)
- Fictitious (Ghost) Employees – related controls (Issued 2/28/19)
- Cybersecurity Awareness and Training – determine whether the City has established an effective awareness/training program. (Issued 12/7/18)
- Educational Reimbursements – policy and controls (A draft report is expected to be completed in August 2019.)
- Terminated Employees and Electronic Devices – Determine whether adequate controls exist to safeguard City-owned mobile devices. (Added to Plan; announced 12/7/18. A final report will be issued in July 2019.)
- Paid Parental Leave – Determine policy compliance and whether adequate controls exist. A draft report is expected to be completed in July 2019.

Annual Audits

- 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 many years. (Issued 10/26/18)
- Vice Imprest Fund Reimbursements – Upon request from Police about every two months, auditors conduct detailed reviews of imprest documentation. The purpose of each review is to verify the cash on hand and to determine whether officers of the Vice and Narcotics Division adhere to the established policies and procedures for replenishment of funds. An annual report summarizes the results. (Issued 5/14/19)
- Cash Collections – Finance staff 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. (FY18 issued in July 2018; FY19 in progress, with a draft summary report targeted for August 2019.)
- Airport Rental Cars – All rental car companies have been audited over the past three years. Aviation has requested that the rotation be continued. (Announced 11/5/18 – Enterprise, National, Alamo, Hertz and Dollar. Fieldwork will continue through June. A draft report will be completed by August 2019.)

Follow-up Audits

A number of audit recommendations have been made in the past few years which have not been completely addressed. While auditors regularly follow-up recommendations which may require lengthy implementation, the listed audits will be reviewed in detail. Separate reports are expected to be issued for each.

- Construction Change Orders (February 2016) – Agreed upon actions to be taken by four departments will be evaluated. (Issued 1/23/19)
- Compensatory Time Policy for Exempt Employees (November 2017) – A planned policy change had not been implemented by fiscal year-end; impact in FY18 will be documented. (Issued 10/30/18)
- Overtime (issued in January 2016) – Planned quarterly monitoring by HR will be reviewed for effectiveness. (While this follow-up audit was announced in January 2019, it has been paused to allow completion of other assignments. The restart and completion dates have not yet been projected.)
- Additional Follow-ups Under Consideration – If time allows, we will also consider: Charlotte Business Inclusion (2018) and Airport Parking (2016). (Other audits have been added during the year; any other follow-ups will be considered in FY 2020.)

New Fiscal Year 2019 Initiatives

Although unplanned needs can arise and impact the priority of audits, the following are being planned and should be substantially completed in FY19.

- ERP/Munis – Consultant RSM will review City’s ERP/Munis system. The preliminary objective of the review is to determine whether adequate controls have been established over logical security, security administration, operations and change management. In addition, select Munis workflows will be reviewed to ensure adequate separation of duties and other key controls exist. (Announced 8/16/18; a draft report has been reviewed by I&T and Finance. A final report will be issued in July 2019.)
- Financial Accounting Internal Controls – City contractor Grant Thornton (GT) completed a review of controls, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, and identified many opportunities for improvements. Internal Audit will select key issues from the GT report for review. (Planning was begun, but has not progressed significantly. This audit will be prioritized in FY 2020.)
- Airport Concessions – Each year we work with Aviation to identify one or more concessions to review, in addition to the rotation of rental car companies. (The airport is also included in city-wide audits, including procurement, cash collections, etc.) One or more specific audits will be identified prior to calendar year-end. (No additional concession audits have been scheduled.)
- 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. In FY18, Internal Audit recommended that the Council approval threshold be increased from \$100,000 to \$500,000. (Whether approved or not, improved controls are planned and will be tested. If the recommended increase is implemented, an audit will focus on contracts approved by the City Manager up to the \$500,000 threshold.) (Presentation made to Council Budget & Effectiveness Committee 8/23/18; Approved by Council 12/17/18; new processes will be reviewed during calendar year 2019.)
- CIP Project Management – In January 2019, the City Manager requested that Internal Audit review Financing and Project Management related to the City’s Community Investment Plan. We are reviewing industry best practices and departmental procedures to determine what works well in one or more departments, while identifying areas of potential improvement. (We are also making note of changing approaches to capital project planning – which are under discussion with Council committees.) Auditors have conducted initial meetings with CATS, EPM, Aviation, Water and others. Several projects have been selected as case studies, and are under review. This effort is expected to continue for a few months. Internal Audit will also bring in a consultant to review preliminary findings.)

- **Financial Consultant Contract Management** – This review is related to the CIP Project Management audit. Auditors are examining departments' usage of financial consultants and assessing compliance with contracting and related procurement policies. Research, planning, and initial meetings have been completed. Fieldwork will continue through June. A draft report is targeted for July 2019.

Performance Audits Under Consideration for Fiscal Year 2020

- **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.
- **Information Technology Risk Areas** – Audit contractor RSM completed a review of the City's IT environment and related risks in FY18. Internal Audit brought forward one area (Business Continuity Planning and Disaster Recovery) to management, which received funding to begin being addressed in FY19. We will continue to assess additional risk areas and schedule IT audits as funding and staff resources allow.
- **Procurement** – Our audit approach for 2020 and beyond will be based upon identified risks, including audits conducted in 2019. Procurement is of such primary importance that audit efforts in this area are expected to continue regularly.
- **Construction** – 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. Internal Audit will continue to work with CATS, Aviation, Water and E&PM, to prioritize additional construction-related audits. A prior year review of Construction Manager at Risk (CMAR) planning processes throughout the City highlighted some areas of concern which may be addressed. **(The results of the January 2019 Change Orders Follow-Up audit – issued 1/23/19 – are impacting plans for additional construction project audits.)**
- **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 by Grant Thornton has reported, Internal Audit does not have appropriate access to ERP data to efficiently conduct its work. We are working to overcome this limitation.)
- **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.

- Limited Scope Audits (LSAs) – In prior years, auditors met with City departments, who identified over 30 possible audits for our consideration. Several of these were completed in 2018 – many using the recently implemented approach which is very focused; i.e., with a limited scope. Some results were issued individually while others were combined with another LSA for reporting purposes. Other audits on the initial list are being considered.

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 increased in FY18, but there has been no substantial impact on audit resources. In FY19, we plan to add on-line reporting capabilities to the program. (In April, the Hotline was expanded to include web-based reporting capabilities which will provide employees with another avenue to report concerns of abuse, fraud, safety and waste. The website is operational. Updated information can be found on CNET.)
- Recommendations from each audit are tracked and followed up through completion, as determined by Internal Audit. (A new Recommendation Status Report was provided to Departments in February 2019. Feedback and updates have been provided internally, in an effort to be as accurate as possible. We expect to post and update this report on our website in July 2019. This plan was addressed to the Council's Budget & Effectiveness Committee in December 2018.)

Audit Division Internal Efforts

- Further develop the Continuous Auditing program (Progress is dependent upon increasing Audit's access to data; we have worked 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.) LSA reports issued this fiscal year: Fuelman; Office Depot; Cybersecurity Awareness/Training; Balance Sheet Account Accuracy; Fictitious Employees; and Mandatory Vacation.

- 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 supports the need for further development of Audit’s IT capabilities. However, additional funds will be required to make progress in this area.)