



## **AUDIT PLAN**

Fiscal Years 2021-2022

Status @ 6/30/21

With Conclusions and Hyperlinks

# AUDIT PLAN

## Fiscal Years 2021-2022

Note: Red font indicates changes/updates to the original Audit Plan, and report issuance or planned dates.  
Note: Blue font summarizes report conclusions and recommendation status, with hyperlink to full report.

### Overview

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Most 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 2021

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#### In Progress @ 6/30/20

- **CIP Project Management** – The City Manager requested a review of Project Management related to the City's Capital Investment Plan. The Construction Manager at Risk (CMAR) method of project delivery was also evaluated. To supplement the work of Internal Audit, consultants (RSM and Talson Solutions) were engaged to review specific projects. Multiple briefings have been held and departments provided comments on Internal Audit report drafts. Further reviews were conducted in June, and a final report issuance is targeted for July 2020. (Issued 7/23/20)

**Conclusion** – The City has not consistently used best practices to manage large capital projects. Improvements should be made in the following areas:

- Project Selection and Advance Planning*
- Estimating*
- Cost Management and Delivery*
- Performance Reporting*
- Use of the CMAR Project Delivery Method*

**Actions Taken and Planned** – There are 22 recommendations grouped under the five areas noted. Eight departments provided responses which are included throughout. The report also details actions which have been completed or are planned, in response to recommendations.

**Follow-up** – The Internal Audit Recommendation Status Report will be updated regularly to track completion of departmental responses items.

**Note:** Internal Audit continued to work with departments as progress continued satisfactorily to address the recommendations.

- **CATS BLE Professional Services (Follow-up)** – An audit report was issued in March 2019. The objective of the audit was to determine whether CATS had established adequate controls over BLE professional services agreements. Auditors recommended that some overpayments to HNTB be recovered.

A follow-up audit was announced in February 2020 to address the resolution of findings and recommendations, and to examine other City contracts with HNTB. Audit fieldwork has been completed and a draft report is under review with management (CATS, Aviation, CDOT, and General Services-E&PM). Final report issuance is targeted for July 2020. (Issued 8/24/20)

This audit was conducted to determine whether recommendations from the March 2019 CATS Blue Line Extension Professional Services audit report were implemented and to determine whether HNTB North Carolina, PC (HNTB) substantially complied with contract terms in other City agreements.

The CATS BLE Professional Services audit report (March 2019) focused on CATS' contract with HNTB for construction administration services for the Blue Line Extension and covered fiscal years 2014 through 2018. This follow-up report focused on additional HNTB contracts in place as of March 2020 and covers expenditures in fiscal years 2015 through 2020.

**Conclusion** – CATS satisfactorily implemented prior audit recommendations. City staff's commitment to more aggressively administer construction contracts will reduce unnecessary expenses.

**Actions Planned** – CATS will continue to pursue resolution of disputed payroll and vehicle costs with HNTB. City departments will document cost analyses for initial contract awards and future amendments. Templates will be utilized for approving personnel and rate changes during the life of the contract.

**Note:** CATS reportedly has reached an agreement with HNTB on the audit dispute. Per CATS, HNTB has agreed to credit the City in the amount of \$162,598.55. However, the credit had not been received as of June 30, 2021.

- **City-wide Mobile Device Usage** – The objective of this is to determine whether there is adequate monitoring of the City's mobile device/cellphone program. The audit will also seek to determine whether any cost savings can be obtained by more effective controls or administration. A draft report is under review. Final report issuance is projected for July 2020. (Issued 7/30/20)

Auditors determined that 1,169 devices were unused for three consecutive months; 752 devices had gone unused for seven consecutive months. As a result of the audit, departments have begun deactivating the unused devices and savings are accruing to the City.

Auditors' inquiries resulted in 538 devices or services being identified for deactivation. The charges for these disconnected devices and services totaled \$21,300 per month, or \$255,600 annually.

**Conclusion** – Inadequate controls over the management of mobile devices have resulted in unnecessary expenses.

**Actions Planned** – An updated policy that will include clarity around the responsibility for monitoring unused cellular lines will be implemented citywide on October 1, 2020. Additionally, I&T plans to create a dashboard to allow liaisons to better monitor their service lines. Internal Audit considers these actions to be responsive to the recommendations.

**Note:** I&T reports that additional unused devices have been disconnected and additional savings have resulted. The updated policy became effective 11/9/20.

- **CATS Department Procurement** – The FY 2020-2021 Audit Plan noted that City-wide and department-specific audits were under consideration. The CATS department was selected for a department-specific procurement audit. CBIZ, Inc. was engaged to assist with this effort and has completed fieldwork for the first phase of the review. (Internal Audit provided an interim report to CATS and General Services-City Procurement in September 2020. Additional audit work has been completed and a draft report was provided to management. A final report is expected to be issued by August 2021.)
- **Procurement Card** – The objective of the audit is to assess the performance of Procurement Management’s monitoring controls, with some focus on COVID-19 related purchases. A completion date has not yet been projected. (Issued 9/29/20)

**Conclusion** – City Procurement adequately monitors P-Card controls in accordance with policy, and COVID-19 related purchases have been appropriate.

## Annual Audits

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- **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 1/27/21)

**Conclusion** – CMPD’s Vice Imprest Fund controls are satisfactory and working effectively.

- **Revenue Collections** – Finance staff and the external auditors (Cherry Bekaert) have requested regular audits of City-wide cash collections. Each year, a summary report is completed, detailing findings of several surprise audits conducted throughout the City, and an updated review of the Finance Revenue division controls. (Issued 8/21/20)

The purpose of this audit was to determine whether departments have maintained effective controls over revenue collections and whether Citywide collection activities are adequately monitored. To support the maintenance of strong controls, Internal Audit performed unannounced audits of several cash collections sites throughout the City.

**Conclusion** – Revenue controls are satisfactory and working effectively.

## Follow-up Audits

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Internal Audit regularly follows up the status of planned actions by departments, which are in response to report recommendations. When those actions are substantial, or when implementation is lengthy, a follow-up audit may be required to determine that new controls are effective. One follow-up audit was in progress at year-end (CATS BLE). At least one is under consideration, to address issues raised in the CIP Project Management report noted above.

- See Construction Header under Initiatives section below for specific construction audits underway.

## Fiscal Year 2021-2022 Initiatives

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Although unplanned needs can arise and impact the priority of audits, the following are being planned for the two-year period FY 2021-2022. Not all initiatives will be completed in FY 2021.

- **Emergency Procurement Controls** – An April 2020 Council resolution invoked special exceptions to facilitate COVID-related purchases. This audit will review such transactions initiated throughout the City. (Issued 12/11/20)

The audit reviewed City-wide transactions from March through July 2020. This included emergency purchases authorized by the April 2020 resolution by City Council, with some focus (but not limited to) COVID-19 related purchases.

**Conclusion** – City Procurement has established adequate controls to ensure departments comply with purchasing requirements, including emergency exceptions.

- **CARES Act Fund Distributions** – In May 2020, the City of Charlotte accepted \$154 million in CARES Act funding, with \$70 million designated for Housing and Small Business Recovery Task Force oversight. These funds were intended to address the economic fallout of the COVID-19 pandemic in the United States. Auditors will focus initially on the \$50 million designated for small business recovery and \$20 million for housing relief. (Audit announced 7/15/20; preliminary findings re. the small business recovery funds were discussed with Economic Development staff in October 2020. A few potential disbursement errors were identified for follow-up. Additional testing included a review of housing relief, and food and beverage funds. A draft report was provided to management in June 2021, targeting final issuance by August 2021.)
- **Procurement** – We are assessing risks and previously identified weaknesses for follow-up. As noted above, two procurement-related audits were in progress at year-end (CATS department and Procurement Card). Additional departmental audits are under consideration.
- **Construction** – Based on prior year audits, Internal Audit noted opportunities to increase controls over capital expenditures. We will perform risk analyses of high profile construction projects and conduct audits of selected projects. Internal Audit will continue to work with CATS, Aviation, Water and General Services, to prioritize additional construction-related audits, in addition to the follow-up audit noted above.

- **Charlotte Convention Center Renovation CMAR** (Issued 4/13/21)

This audit was conducted to review the City's Construction Manager at Risk (CMAR) agreement for the Convention Center Renovation project. The City's Internal Audit Department engaged Talson Solutions, LLC for this effort. The audit focused on cost and billings associated with the Contractor Controlled Insurance Program (CCIP) and the accuracy, allowability and reasonableness of expenditures for subcontractors, labor, consultants, fees, insurances and other incurred costs.

**Conclusion** – The Holder-Edison Foard-Leeper joint venture (HEFL) is generally compliant with the CMAR agreement, but further clarifications of contract provisions and improvements in cost management may result in future cost recovery opportunities. Conducting a thorough pre-contracting financial review of significant projects can reduce costs to the City.

- **Charlotte Water Design-Build** (Issued 5/6/21)

The City of Charlotte's Internal Audit Department engaged the consulting firm RSM US LLP (RSM) to conduct an audit of Charlotte Water's use of the Design-Build contracting method. The scope of the audit focused on the assessment of the administration of controls over design-build contracts, including procurement, contracting, cost proposal evaluation and invoicing.

**Conclusion** – Charlotte Water's plan to conduct more formal reviews of rates and fees will further improve controls over costs for qualification-based contract awards.

**Action Plan** – Charlotte Water proposed an audit of the Irwin Creek project to determine potential cost differences, and will use the results to continue process improvement efforts. This audit has been announced. Internal Audit is satisfied with responses to audit recommendations, and will conduct follow-up to review implementation of actions planned, per usual.

- An audit of the **Irwin Creek Design Build Project** was announced May 4, 2021. RSM has been engaged to analyze the project cost record and assess price differentials between actual and billed costs for the Irwin Creek Sanitary Sewer Replacement project. RSM will identify and report any opportunities for improvement in contracting approaches. A timeline for completion has not yet been determined.

- An audit of **Airport Concourse A CMAR Projects** was announced March 17, 2021. Internal Audit engaged RSM to complete a review of Turner Rodgers direct and indirect charges, including labor, travel, vehicle and subcontractor expense to verify compliance with contract terms. RSM will identify and report any opportunities for improvement within the monitoring and administration processes of the CMAR agreement. A timeline for completion has not yet been determined.

- **Information Technology Security** – Audit contractor RSM completed a review of the City's IT environment and related risks in FY 2018. Internal Audit has engaged consultant Focal Point to conduct audits with a focus on reducing risks related to cyber-attacks, data leakage, ransomware and other

adverse events. We will continue to assess additional risk areas and schedule IT audits as funding and staff resources allow.

- **IT Backup & Recovery Process** (Issued 2/10/21)

This audit was conducted to assess controls related to IT backup and recovery processes. The City's Internal Audit Department engaged Focal Point Data Risk, LLC for this effort. The audit focused on backup and recovery procedures, access controls, daily backups, backup restoration, offsite backup storage, and encryption controls. Detailed results of this audit are confidential, in accordance with state statutes (G.S. §§ 132-6.1 and 132-1.7).

**Conclusion** – The City's IT backup and recovery processes have been effective.

- I&T Patch Management – This initiative was announced March 9, 2021. Internal Audit engaged Focal Point Data Risk to complete the majority of this audit. The objectives of the engagement will be to assess processes and controls associated with the patch management of servers, databases, firewalls and applications. Discussions with I&T management and final report issuance is expected to be completed in the first quarter of FY 2022.
- **Financial Accounting Controls** – Contractor Grant Thornton (GT) completed a review of controls in February 2018, 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. (This audit was announced in November 2020. Objectives included: determine whether the City has made appropriate progress in implementing recommendations made by GT; determine whether Finance has established a governance process and internal control program as recommended and outlined by GT; identify critical Finance processes and evaluate controls using the COSO framework. A draft report that summarizes the implementation status of those recommendations will be shared with Finance in July. Discussions with Finance management and final report issuance is expected to be completed in the first quarter of FY 2022.)
- **Cost Allocation Plan** – Overhead costs of support services are attributed to the supported departments. For example, the cost of Legal, Human Resources and Audit services are allocated to the departments which receive those services. This audit will review the rationale and consistency of the model used to assign costs. (This audit was announced in February 2021. The objective of the engagement was to review the rationale and consistency of the model used to allocate costs. Discussions with Strategy & Budget management and final report issuance is expected to be completed in the first quarter of FY 2022.)
- **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.
  - After becoming aware of two separate incidents of potential policy violations, auditors investigated and determined that controls were not adequate to prevent or detect violations of the **Conflict of Interest Policy**. (Issued 10/28/20)

## Other Commitments

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- 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. In FY 2019, an on-line reporting capability was added to the program.
- Management transitions occur periodically within the City. When a department head or Assistant City Manager separates from the City, Internal Audit conducts a close-out review to assess whether policies and procedures have been completed timely, including the return of assets and access to City data. An annual summary of these reviews will be completed. (A summary report for FY 2021 will be completed in the first quarter of FY 2022.)
- Recommendations from each audit are tracked and followed up through completion, as determined by Internal Audit. A Recommendation Status Report has been developed and will be available to departments in FY 2021. With departmental assistance, the Recommendation Status Report – in dashboard form – will be updated regularly for management’s review. Initially, the dashboard will only be viewable internally. At calendar year-end 2020, we will determine whether the dashboard will be circulated externally by posting a link on the City’s Audit website. (The Dashboard was provided to departments in July 2020.)