INTERNAL AUDIT DEPARTMENT ANNUAL AUDIT PLAN

2017 / 2018

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INTERNAL AUDIT DEPARTMENT

CITY OF SANTA FE

Santa Fe: The City Different, The City Prepared

City of Santa Fe – Internal Audit

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Liza A. Kerr, Internal Auditor

Date: May 3, 2017

To: Brian Snyder, City Manager
Renee Martinez, Deputy City Manager

From: Liza Kerr, Internal Auditor

RE: 2017/2018 Audit Plan

I am pleased to present the 2017 / 2018 Audit Plan for the City of Santa Fe. In drafting this plan, I considered input from a wide range of sources and people. Generally Accepted Government Auditing Standards (GAGAS) will be followed to conduct all audits included on the audit plan.

In addition to conducting audits, plans for 2017 include introducing data mining techniques and continuous monitoring tools to City Management for use in monitoring accounts payable. My objective is to use these tools to conduct the audit and then train City staff to use these automated tools (which they already own) to catch errors and irregularities on a go forward basis. Data mining and analytic techniques were used to conduct the 2017 Temporary Employee Audit. These tools strengthen audit analysis and recommendations, and help management monitor accounts on a continuous basis.

As a Certified Internal Auditor, Certified Information Systems Auditor, and Certified Public Accountant I am bound by a code of ethics and professional standards, which includes being technically competent to conduct all the audits on the audit plan. In determining the audit plan, consideration was given to the obligations of my professional licensures.

I look forward to carrying out these audit engagements and delivering independent, transparent, and professional oversight, thereby safeguarding the public's interest in the City of Santa Fe.

City Ordinance 2013-34 requires the audit plan to be submitted 60 before year-end. That was not possible this year as the audit committee did not meet in April as originally scheduled due to quorum issues.

If you have questions, please contact Liza Kerr, Internal Auditor, at (505) 955-5728.

cc: Javier Gonzales, Mayor
Members of the Audit Committee
Members of the Governing Body

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The Internal Audit Department and the role of Internal Auditor were created by City Ordinance No. 2012-32 and amended by City Ordinance No. 2013-34, Section 2-22 Santa Fe City Code (SFCC) 1987. A primary purpose of the Internal Auditor is to share a duty with the members of the governing body to insure that the actions of public officials, employees and contractors of the city are carried out in the most responsible manner possible and that city policies, budgets, goals and objectives are fully implemented. The Internal Auditor is also the City of Santa Fe's liaison to the Audit Committee.

The Audit Committee was created by City Ordinance No. 2013-35, Section 6-5 SFCC 1987. This committee is an advisory committee and consists of five members of the community. Of the five members, one member shall be a certified public accountant, one member shall be a lawyer or have a law enforcement background and one member shall be a management consultant.

The Internal Auditor and the audit committee are structured in a manner to provide independent oversight of the City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

AUDIT COMMITTEE

Clark de Schweinitz, JD, Chair

Cheryl Pick Sommer, Esq., Vice Chair

Carolyn Gonzales, CPA

Alvino Castillo, Retired CPA

Barbara Borrego, CPA

INTERNAL AUDITOR

Liza Kerr, CPA, CISA, CIA, MBA

Mission Statement

The mission of the City of Santa Fe Internal Audit Department is to provide independent, objective assurance and review services designed to promote transparency, accountability, efficiency, and effectiveness of City government for the citizens of the City of Santa Fe.

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3 Year Audit Plan

2017 / 2018	These audits are the top priority of the Internal Auditor, however, they are subject to change as priorities shift
AUDIT	**OBJECTIVE**
Genoveva Chavez Community Center	The objective of this audit is to complete the audit(s) of the Genoveva Chavez Community Center, GCCC, and to assess the efficiency and effectiveness of internal controls at the community center. These audits include 1) physical security and 2) assurance of compliance with City policies and procedures with a focus on procurement, and human resource management.
Building Permits and Licenses	The objective of this audit is to determine the City's compliance with the Construction Industry Divisions regulations regarding permits and licensing on construction projects.
Assist with ALGA Peer Review	The objective of this audit is to assist in a Peer Review audit for the Association of Local Government Auditors, ALGA. Participation on a Peer Review team results in a waiver of the Peer Review audit fee which can run as much as $30,000. Participation on the team will also help the internal auditor to prepare for the City's Peer Review which is tentatively scheduled for FYE 2019.
Accounts Payable	The objective of this audit is to review accounts payable for duplicate payments to vendors, duplicate invoices, and to ensure compliance with Resolution 2016-32 which requires all vendors to be paid electronically. An additional objective is to use data analytics tools to perform the audit and to train management to use these tools so that they can self-monitor duplicate payments and duplicate vendors. This type of activity is referred to as continuous monitoring, and is an excellent detection control.
Fraud, Waste, and Abuse Hotline	The objective of these audit is to respond to hotline complaints.
Other Audits – As Time Permits 2017 / 2018	**The remaining audits for 2017 / 2017 are included as it is difficult to determine how much time will be spent working on the specified audits listed above. The intent of inclusion is to provide the auditor with a choice of high priority items to choose from in the event that time is available.**

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Cash Handling	The objective of this audit is to continue to assess the internal controls around cash handling at various City departments and to issue recommendations to management as to how to strengthen those controls.
Follow Up of Parking Findings	The objective of this audit is to determine that previously identified audit findings have been remediated by management as stated in management's responses, and to test the effectiveness of any remediation's to date.
Follow Up On Lodger's Tax Findings	The objective of this audit is to determine that previously identified audit findings have been remediated by management as stated in management's responses, and to test the effectiveness of any remediation's to date.
Payroll	The objective of this audit is to assess compliance with Federal and other mandated guidelines including the City's policies and procedures. To determine that checks are being delivered by mail and not given to payroll monitors. Other objectives may include checking for completeness and accuracy of data.
Family Medical Leave Act - Sick Leave	The objective of this audit is to assess compliance with Federal and other mandated guidelines including the City's policies and procedures. To determine that leave benefits paid are within statutory guidelines.
2018 / 2019	
DWI Forfeitures	The objective of this audit is to assess internal controls around the DWI Forfeiture processes. Audit objectives may include an assessment of record-keeping practices, acquisition and disposal processes, and cash handling and recording processes.
Peer Review	The objective of this audit is to determine if Internal Audit is complying with Governmental Auditing Standards.
Fraud, Waste, and Abuse Hotline	The objective of these audit is to respond to hotline complaints.
2019 / 2020	
Procurement	The objective of this audit is to determine what happens with a contract or purchase order once it is initially approved, 2) who is following through to ensure compliance with the process through close. What are the roles of purchasing, legal, and the individual departments? Further objectives include reviewing the use of state price agreements.

Payment Card Industry Standards Audit (PCI)	The objective of this audit is to determine that Finance and IT are complying with payment card industry standards. Specifically, has ITT completed their self-assessment review and submitted their self-review as required for compliance, and is Finance in compliance.
Fraud, Waste, and Abuse Hotline	The objective of these audit is to respond to hotline complaints.

The overall department plan includes other work that is necessary to run the department on an annual basis including, but not limited to the following:

- Annual reporting requirements as stipulated by GAGAS and City Ordinance 2013-34, including:
    - City Ordinance 2013-34
        - Annual audit plan
        - Annual report
    - GAGAS
        - Annual Independence and Objectivity Checklist
        - Annual Audit Quality Review Monitoring
- Budget development
- Participation in the RFP review and evaluation process for external auditors
- Tracking of time on a daily basis by project
- Bi-weekly meetings with senior management

The Internal Auditor is the staff liaison to the Audit Committee. Duties for this committee include:

- Monitoring audits and tracking, monitoring, updating, reporting on and following up on findings for the following entities:
    - City of Santa Fe
        - Buckman Diversion Project
        - Solid Waste Management Agency
        - AAA Assessment (Senior Services)
        - Lodger's Tax Audit
        - Airport Annual Assessment
        - Financial Management Oversight Audit (Transit)
        - Shelter Plus (Housing Authority)
    - Santa Fe Railyard
    - Santa Fe Civic Housing Authority
- Website Development
    - Internal Audit

    - Audit Committee
        - Monthly updates for the Audit Committee Agenda
        - Gathering, scanning, uploading and linking all audit committee packet materials
- Review of monthly minutes
- Room reservations and updates as changes are made
- Development of monthly agenda with Audit Committee Chair
    - Issuance to City Clerk's office for official approval
    - Uploading to the website

Overview

The Internal Audit Department of the City of Santa Fe (City), hereby referred to as "Internal Audit" adheres to an overall audit strategy that a high quality and transparent annual audit plan is critical for meeting the goals, objectives, and mission of the department. The Internal Auditor has the final authority in selecting the audits planned. An audit plan is required by City Ordinance 2013-34 §2-22.6 A (1).

Audit Plan Development

Developing the plan is an ongoing process, conducted by assembling ideas from a variety of sources, examining a broad range of City activities, and then assessing risk factors in tandem with some additional considerations. By evaluating potential audits from a variety of perspectives, Internal Audit seeks to provide widespread audit coverage both in terms of the types of audits performed and the entities assessed. Internal Audit identifies and prioritizes a select number of audits for inclusion into the annual audit plan as well as listing potential audits for the ensuing two years.

Audits included in the annual audit plan are selected and prioritized using a risk-based approach. Risk assessment is a process used to identify and prioritize audits based upon specific risk factors related to the quality of internal controls and the estimated liability and level of exposure to the City related to various City departments, programs, activities, and contracts.

Potential audits are identified and prioritized using a risk-based approach by examining a variety of factors that may expose the City to fraud, misappropriation of funds, liability, or reputational harm. Risk factors considered in evaluating the audit plan include:

Governance

- Compliance and regulations
- Quality of internal control system
    - Policies and Procedures
    - Monitoring and detection controls
    - Training

Perception of Risk

- Financial impact if no internal controls are in place
- Risk to health or safety of citizens if internal controls are not working properly
- Prior findings by other auditors in the department or division

- Prior concerns brought up by City Council about the department or division

Reputation Risk

- Internal or public concerns
- Lawsuits, and wrongful death lawsuits
- Media concerns

Economic Factors

- Revenues in excess of $1 million annually
- High volume of financial transaction (more than 1 thousand per month)
- Large volumes of cash
- Inventory control

Environmental Factors

- Regulatory environment
- Receipt of Federal or State grant money
- Complexity (or existence) of computer interfaces with the City's E-1 financial reporting system
- Age and effectiveness of computer systems and applications
- Adequacy of recovery plans if mission critical systems fail

Organizational Changes

- Turnover in the senior management
- Turnover of key personnel
- Unfilled vacancies for key employees
- High turnover / no turnover

Time Last Audited

- Internal Audit
- External Audit
    - Year-end close
    - Grant / Federal Funding
    - Contract / Regulatory
    - State Program or Grant

Risk factors are periodically evaluated and modified. In tandem with risk-based considerations, some additional considerations also provide practical guidance in determining which audits to pursue. First and foremost, resource constraints within Internal Audit inherently limit the amount of audit work performed in one year.

The audits included in the audit plan are based on projected available audit hours each year to ensure that realistic expectations are established and stated goals are met. It is difficult to determine the number of hours that will be required for an audit as there are many factors that can lead to extensive time on an audit that cannot be foreseen prior to actually beginning the audit. For this reason, the number of audits listed on the audit plan may seem to be optimistic. All audits included have been risk assessed. The thought process is to include more than might be accomplished so that the audit plan does not have to be modified mid-year. Any audits that have not been completed can then be rolled into the following year.

Time must also be considered for taking action on specially requested audits not originally captured on the plan, and for urgent audit issues such as Fraud, Waste, and Abuse Hotline (Hotline) reports that arise throughout the year. The best approach to Hotline tips is to do them timely, which may push back a planned audit. The approach outlined above provides the Internal Auditor with flexibility to address emerging issues in a timely manner.

The audit plan is not intended to be a comprehensive list of all the audits that could be done in the City. Rather it is intended to present a realistic plan of high-risk audits covering a three-year period. Internal Audit's approach to audit planning is flexible, in that each year's audit plan is subject to change, and the ultimate decision to perform any audit is at the sole discretion of the Internal Auditor.

The 2017 / 2018 audit plan is aligned with the national focus in the public sector on strengthening and improving organizational governance, internal control environments, transparency, quality of services, financial reporting, and fraud prevention activities. Aligning Internal Audit's activities with this focus will help to assure that the City is operating in the most efficient manner possible.

Scope of Audits

The auditor is granted the authority through City Ordinance 2013-34 to conduct performance/management and financial audits, attestation engagements or to provide advisory (non-audit) services, including special investigations, to independently and objectively determine whether:

- The city, state or federal law authorizes the implemented activities and programs that are the subject of the audit;
- The objectives intended by city, state or federal law are efficiently and effectively accomplished in the implementation of activities and programs;
- The expenditure of funds was or is in compliance with applicable laws;
- The revenues were or are properly collected, deposited and accounted for;
- The entity, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices;
- The desired result or benefits are being achieved;
- Resources, including funds, property and personnel, were or are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;
- Financial and other reports fairly and fully disclosed all information as required by law necessary to evaluate and ascertain the nature and scope of programs and activities;
- Management established operating and administrative procedures and practices, accounting internal control systems and internal management controls were and are adequate and functioning as intended;
- City policies, budgets, goals and objectives were and are fully implemented;
- Indications of fraud, waste, abuse or illegal acts are valid and need further investigation.

By evaluating potential audits from a variety of perspectives, we can ensure that there is widespread audit coverage in terms of both the types of audits performed, as defined in Generally Accepted Accounting Principles.

Budget and Staffing

For 2017-2018, Internal Audit has a staff of one employee. The Internal Auditor is required by GAGAS to have technical competence in all areas audited. The Internal Auditor has the professional designations of Certified Internal Auditor, Certified Information System Auditor, and Certified Public Accountant. The Internal Auditor also holds a Master Degree in Business Administration from The University of New Mexico, and has approximately 18 years of audit experience. This broad spectrum of certifications, education and experience asserts to the technical competence of the Internal Auditor for the majority of the types of audits that the City would encounter. The technical competence of the Internal Auditor was taken into consideration for all audits on the 2017 / 2018 Audit Plan.