

**CITY OF CHARLOTTE
CITY MANAGER’S OFFICE – INTERNAL AUDIT DIVISION**

MEMORANDUM

To: Budget & Evaluation
From: Greg McDowell, City Auditor
Re: Internal Audit – Strategic Operating Plan FY13

July 25, 2012

Internal Audit Purpose/Goals

Internal Auditing is an independent appraisal activity established to conduct reviews of the City’s system of internal controls. The primary objective of Internal Audit is to provide reasonable assurance that the City has an operating and effective system of internal controls. A secondary objective of Internal Audit is to assist members of management in evaluating the efficiency and effectiveness of operations.

This document provides an explanation of our strategy for FY13.

	FY2011	FY2012	FY2013
Budget	\$903,274*	\$1,045,364	\$1,097,299
Positions	9	9	9

* FY2011 differs from later budgets which use the cost allocation method, rather than transfers from CATS

Introduction

Internal Audit continues to issue significant audit reports while managing to its budget, reprioritizing efforts as needs arise. The ability to achieve these results is due to effective management by senior audit staff members, benefits gained through a stable Audit Division workforce, and increased efficiencies resulting from the implementation of electronic workpapers over the past few years.

Our efforts are guided and impacted by the following:

- Annual Audit Plan – Each year, the City Auditor develops an Annual Plan to address key aspects of the City’s overall system of internal controls. Specific audits selected are based upon a continual assessment of internal control risks, and consultation with the City Manager and select Department Directors. The results of individual audits also drive follow-up issues. Finally, key operational initiatives such as the City’s ERP preparations impact audit priorities.
- Demands – Our Annual Audit Plan anticipates that audit requests will arise throughout the year. The Internal Audit Division readily evaluates the urgency of requests and re-prioritizes ongoing efforts, as needed.

- Complexity – certain audits have required extensive meetings, follow-up and briefings of senior staff; e.g., ARRA (which expanded as new grants were awarded); CATS construction; and a Continuous Auditing effort that was initiated in early FY2012.
- Follow-up – Several audits have resulted in recommendations for improvement. We track the agreed upon actions planned and follow-up with the Departments to ensure that necessary steps have been completed.

Performance Audits Planned for Fiscal Year 2013

In Fiscal Year 2013 we will complete several audits which are in progress. In addition, a number of specific audits are planned and several are under consideration, as detailed below.

In Progress – We will complete the following, which were in progress at the end of FY12: Payroll; CATS-BLE (initial STV review through December 2011); Annual Stimulus Summary; Purchased Assets and Vendor Authenticity.

Planned – The following audits will be initiated and substantially completed in FY13. Any of these which are not completed by June 2013 will be given priority for completion in early FY14:

- American Recovery and Reinvestment Act (ARRA, or Stimulus Funds) – We continue to review the City's quarterly reports and will issue another annual summary in the fall.
- CATS Construction – As noted above, one Blue Line Extension audit of STV's labor, overhead and fees is in progress. In FY13, we will focus on the prime contractor (STV) for the BLE. These efforts will be directed at determining that Labor, Overhead and Fees are charged correctly by STV and its subcontractors. CATS management has requested that we be responsive to its requests for audits of specific contractors. We will reserve flexibility in our staffing plan to accommodate requests as much as possible.
- Procurement – We have completed a number of procurement-related audits over the past few years. These have included City-wide efforts, Department-specific audits and a P-card review. Six Department-specific (previously "KBUs") audits were completed from FY08 through FY10. Two of the six required limited-scope reviews (completed in FY10 and FY11) to determine that recommended control improvements were put in place. One audit was expanded to include contracting processes.

The scope of an overall City-wide procurement audit is under development. We have conducted some preliminary analysis of Council-approved contracts and the results of a planned Direct Pay audit could impact the Audit Plan. (See Direct Pays below.)

- Direct Pays – For several years the City has been moving toward a reduction of non-contract and non-PO payments. When the Accounts Payable Payment Policy (FIN6) was updated in December 2010, the Finance Department began reporting violations to the City Manager's Office and Internal Audit. Unauthorized payments in excess of \$10,000

have been summarized and reported since that time. The audit will seek to determine the underlying causes of noncompliance.

- Grant Accounting – This audit will review accounting controls within the Finance Department, along with administrative controls within selected Departments.
- Vice Imprest Reimbursements – Upon request from Police about every 2 months, auditors conduct detailed reviews of imprest documentation before the fund is replenished. An annual report summarizes these efforts.
- Bus Operations Division Imprest – We will audit the CATS Imprest Fund and include steps required to meet the needs of the external auditors for the annual financial report, as has been done for several years.
- Competition Contracts – After completing all CMU-related competition audits in 2011, we will be auditing only SWS. This is a consolidated audit approach, addressing City-Wide services for residential, yard waste and bulky item pick-up services. The audit of FY12 operating results will be completed by October.

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 the year:

- ARRA-related – Auditors will continue to conduct ARRA-related audits through the life of grant receipts. In addition to the annual summary, other projects will be considered.
- ERP-related – Audit staff has been supporting ERP development by responding to control-related questions and staying current with the development process. We will continue to consult with the OCIO, Finance, Shared Services/IT and others.
- Construction – Various City departments manage multiple construction projects annually. While we have limited our audits of construction projects to those managed by CATS, we are considering other departments, possibly as follow-ups to previous procurement audits.
- Finance Operations – Numerous important activities occur within the Finance Department. For example, Finance receives revenues, pays bills, makes investments and keeps an accounting of the City's financial transactions. 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. Such an audit can choose to focus on efficiency, effectiveness and/or compliance. We plan to work with the Finance Department and the outside auditors to determine areas in which Internal Audit can best provide additional assurance of effective internal controls.

Resource Allocation Summary

We are staffed at 5-3/4 FTE, with one part-time temporary adding 1/2 FTE. Three positions are open, although the part-time temporary is funded by most of one open position. We are seeking to fill one position with an experienced IT auditor. We have used remaining funds to supplement our contractor resources. Our use of contractors at a rate of 2 to 2-1/2 FTE has been steady for the past few years.

Each staff member is required to obtain Continuing Professional Education (CPE), averaging 40 hours CPE per person to remain in compliance with Government Auditing Standards. Since 2008, the Manager has obtained about 150 leader credit hours from the Institute of Internal Auditing (IIA) by teaching classes for the organization. The use of credit hours has replaced fees totaling about \$6,000. One-third of those hours have been used for staff and one-third for the Manager's attendance at a conference and two seminars. (One-third remains available for use by the Manager or staff.)

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