



Report of Audit Activities 2014

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February 2014

Table of Contents

Transmittal Letter	1
I. Background.....	2
II. Audits Issued in 2013.....	5
III. Audits Issued Prior to 2013	9
IV. Commendations	14
Attachment I: Audits Issued in 2013.....	15
Attachment II: Audits Issued Prior to 2013	16
Attachment III: Key Risks Associated with Unimplemented Recommendations	17

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February 14, 2014

To the Mayor and
the Honorable
The Common Council
City of Milwaukee

Dear Mayor Barrett and Council Members:

Enclosed is our Report of Audit Activities, pursuant to Common Council Resolution 020897. The report covers audits that were conducted in 2013, as well as audits from prior years where recommendations were not fully implemented or sufficiently addressed. Implementation status is based on updates provided by City departments as well as procedures performed by our office to evaluate implementation status.

We would be pleased to discuss this report with you at your convenience, and before the Common Council Finance and Personnel Committee.

Internal Audit would like to thank all affected departments and City agencies for their assistance in compiling this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Aycha Sirvanci".

Aycha Sirvanci, CPA
Audit Manager

AS:pad

I. Background

Introduction

Internal Audit conducts audits and makes recommendations to strengthen accountability and improve efficiency and effectiveness of City programs. Internal Audit monitors the progress of the recommendations made in the audit reports and reports on the status of all open audit recommendations annually in accordance with Common Council Resolution 020897.

This Report of Audit Activities reports on the status of audit recommendations for all audits conducted in 2013. This report also addresses the status of audit recommendations from audits conducted in 2010 through 2012 that were included in the prior report released on February 19, 2013 that were not fully implemented as of December 31, 2012. The implementation status of all recommendations included in this Report of Audit Activities is reported as of December 31, 2013.

Objectives

The objective of the audit follow up is to confirm whether, and to what degree, the City departments have implemented the recommendations made in the original audit reports.

Scope and Methodology

The scope included the 122 open audit recommendations from 31 audits. Of the 122 open audit recommendations, 69 open recommendations were from 18 audits from 2010 through 2012 that were reported as not implemented as of December 31, 2012. The remaining 53 open recommendations were from the 13 audits issued in 2013. The implementation status of these recommendations was also assessed.

Audits conducted before 2010 are not included in this report because audit recommendations may not reflect the current business environment.

Internal Audit utilized a risk-based approach in the audit follow-up process, which contains two primary components 1) Management Status/Self-Reporting 2) Verification. Various follow up procedures were used to verify the implementation status of the recommendations, which were

inquiry, observation, sampling, walkthrough, and full testing of audit issues. Follow up procedures performed depended on the importance of the recommendation and the risk of the audit finding.

The extent of the follow up procedures for each recommendation was determined by the risk rating assigned. Audit recommendations from audits released in 2010, 2011, and 2012 were rated using high, medium and low risk levels. Risk ratings were assigned by the audit team. The impact and likelihood of the risk posed by the condition were taken into consideration in assigning the risk rating to the recommendation.

After follow up procedures were performed, Internal Audit classified recommendations using the Action Plan Maturity Model (APMM) implementation status ratings scale developed by Sunera¹:

1. **No Progress or Insignificant Progress** - Generating informal plans is regarded as insignificant progress.
2. **Planning Stage** - Formal plans for organizational changes have been created and approved by the appropriate level of management, with appropriate resources assigned and a reasonable timetable to be implemented agreed upon.
3. **Preparation for Implementation** - The entity has begun necessary preparation for implementation, such as hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation.
4. **Substantial Implementation** - Structure and processes are in place and integrated in some parts of the organization, and some achieved results have been identified. A timetable is in place for full implementation.
5. **Full Implementation** - Structures and processes are operating as intended and implemented fully in all intended areas of the organization.
6. **No Longer Applicable** - The recommendation is obsolete due to time lapses, new policies, etc.

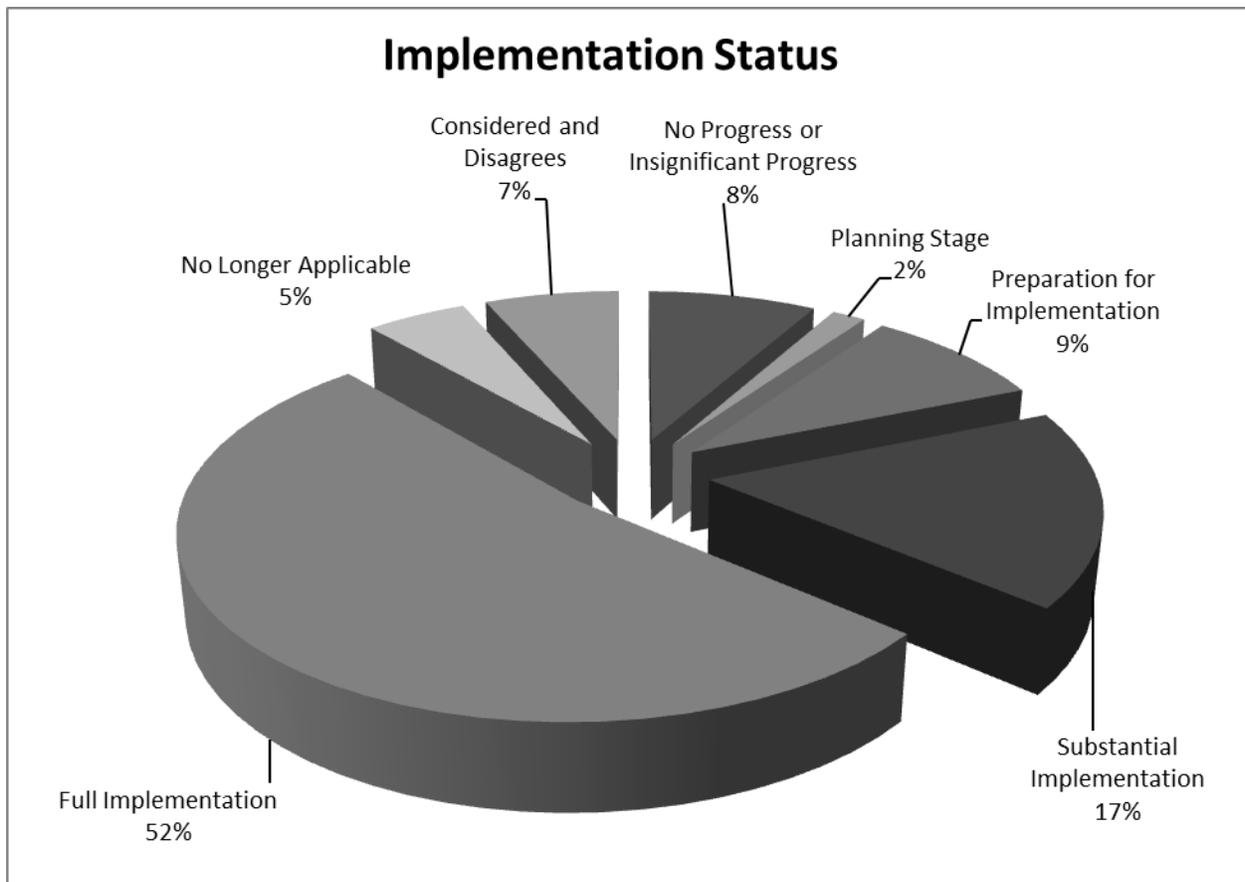
¹Goldberg, Danny. "Unit VI: Audit Follow-up." Internal Audit Best Practices and Fundamental Principles [Seminar]. Pewaukee, WI. 16 February 2011.

7. **Considered and Disagrees** - The department originally agreed with the recommendation, but decided after issuance of the report that they disagree with the recommendation. (*This classification is not part of Sunera's scale but was added by Internal Audit of the City of Milwaukee.*)

Conclusion

The 122 recommendations were classified into the 7 categories. The chart 1 below illustrates the results of follow-up procedures

Chart 1



There has been considerable progress in addressing the issues through implementation of corrective actions. Internal Audit will continue to monitor the recommendations classified as substantial implementation, preparation for implementation, planning stage and no progress or insignificant progress until remediated. Risks associated with unimplemented recommendations

are discussed in Attachment III; these are risks that the City of Milwaukee is exposed due to unremediated findings from all audits included in this report. Included in Attachment III are recommendations that no progress or insignificant progress has been made to implement, recommendations in the planning stage of implementation, recommendations in the preparation for implementation stage, recommendations that have been substantially implemented and recommendations that the auditee considered and disagrees with. Attachment III does not include recommendations that have been fully implemented and recommendations that are no longer applicable.

This report highlights the role and responsibility of the Internal Audit function within the City of Milwaukee. Internal Audit does not implement the corrective actions. The audit findings and recommendations are often the catalyst of change that result in a more efficient and effective government. Internal Audit will continue to work with the departments to ensure significant issues are resolved in a timely manner by the responsible party.

II. Audits Issued in 2013

Attachment I summarizes implementation status of recommendations of the 13 audits issued in 2013.

The **City of Milwaukee –Department of Public Works – Infrastructure Services Division Business Process Improvement Review** was intended to aid the internal business processes for the administrative/accounting function of the Division in order to make their processes more efficient and effective. The audit made four recommendations. Of the four recommendations, three recommendations are substantially implemented, and one recommendation was considered and disagrees.

The **Audit of the Department of Administration – Procurement Services – Procard Program** evaluated the adequacy of internal controls over card issuance, purchasing guidelines, and review of purchases with regard to the Procard program, assessed the adequacy and

efficiency of Procurement's secondary review of Procard purchases, and evaluated individual Procard holder and department compliance with purchasing guidelines of the Procard program including the timely and accurate recording of journal entries in FMIS. The audit made four recommendations to ensure that there are proper controls and notes two observations. All recommendations and observations have been fully implemented.

The **Review of Public Debt** provided an understanding of the process that the City utilizes to issue public debt and how the City monitors compliance with various federal and state regulations. The review made eleven recommendations. Of the eleven recommendations, six recommendations have had no significant progress, two recommendations are in the preparation for implementation stage, two recommendations have been substantially implemented, and one recommendation has been fully implemented.

The **Review of the Payroll Process** examined procedures and controls over the processing of payroll in the Payroll Administration Division. The review made two recommendations. Both recommendations have been fully implemented.

The **Audit of Datacenters** verified that the current physical and environmental controls in place at City datacenters are appropriate and adhere to Information Systems (IS) security best practices. The audit made four recommendations. Of the four recommendations, all have been fully implemented.

The **Audit of City Treasurer Cash Controls -2013** determined whether cash controls in the Office of the City Treasurer are adequate, and whether daily cash transactions are accurately and timely recorded in the City's Financial Management Information System (FMIS). The audit also assessed controls within the systems used for cashiering, cash management, and tax collection; and evaluated the status of implementation of prior audit recommendations. All prior audit recommendations have been fully implemented. The audit made no recommendations.

The **Anti-Virus Controls Audit** assessed the strength of the City's anti-virus protection. The audit made three recommendations. Of the three recommendations, two recommendations have been fully implemented and one recommendation has been substantially implemented.

The **Audit of the Milwaukee Fire Department Fixed Assets Controls** evaluated whether MFD fixed assets were appropriately acquired and disposed; verified assets owned or used in MFD operations are represented in the City's accounting system, and assets recorded in the accounting system physically exist; assessed the adequacy of MFD policies and procedures for tracking fixed assets and performing physical inventories; and determined whether MFD fixed assets are adequately safeguarded. The audit made three recommendations to improve the accuracy of fixed assets recorded in the Financial Management Information System, and includes an observation regarding voucher approval. The audit made three recommendations. Of the three recommendations, two have been fully implemented and one recommendation has been substantially implemented. Only inquiries were made of the auditee. Follow up procedures will be performed in 2014.

The **Audit of the Milwaukee Public Library Expenditures** evaluated the adequacy of controls over expenditure processes, the purchasing processes, and the reconciliation procedures, and evaluated the timeliness and the accuracy of the recording of expenditures into the City's general ledger. The audit made three recommendations and one observation to ensure that there are proper controls in place. Of the three recommendations, two recommendations are substantially implemented, and one recommendation has been fully implemented. The observation is no longer applicable. Only inquiries were made of the auditee. Follow up procedures will be performed in 2014.

The **Audit of the Milwaukee Public Library Cash Controls** evaluated controls over all collections processes, all systems used for cash collections and reconciliation procedures, evaluated the timeliness and accuracy of deposits to the Treasurer's Office, and evaluated the timeliness and accuracy of the recording of revenue to the City's general ledger. The audit made eight recommendations to ensure that there are proper controls in place. Of the eight recommendations, one recommendation is in the preparation for implementation stage, one

recommendation is substantially implemented, and four recommendations are fully implemented, and two recommendations were considered and disagree. Only inquiries were made of the auditee. Follow up procedures will be performed in 2014.

The **Audit of the Department of Employee Relations Tuition Reimbursement Program** determined if the Tuition Reimbursement Program operates in compliance with existing city policy, applicable laws and regulations, evaluated that financial transactions are processed in accordance with existing city policy, and evaluated the adequacy of controls over tuition reimbursement procedures. The audit made two recommendations to strengthen internal policies and procedures in the department. Of the two recommendations, one recommendation is in the planning for implementation stage and one recommendation has been fully implemented. Only inquiries were made of the auditee. Follow up procedures will be performed in 2014.

The **Audit of the Department of Public Works Self-Help Center Cash Controls** evaluated the controls over all collections processes, the cashiering system and reconciliation procedures, evaluated the timeliness and the accuracy of deposits to the Treasurer's office, and evaluated the timeliness and the accuracy of the recording of revenue to the city's general ledger. The audit made four recommendations to strengthen internal policies and procedures in the department. Of the four recommendations, all have been fully implemented. Only inquiries were made of the auditee. Follow up procedures will be performed in 2014.

The **Audit of the Department of Administration – Procurement Services – Contract Processing 2013** determined whether the DOA procurement activity is in compliance with the City of Milwaukee Charter and Ordinance requirements; assessed the adequacy and effectiveness of internal controls over contract processing; verified whether contracts were recorded accurately and timely on the FMIS; and assessed the adequacy of the policies and procedures for the timely, effective, and efficient acquisition of commodities and services. The audit made five recommendations. Follow up procedures will be performed in 2014.

In addition to the audits, Internal Audit operates the City's Fraud, Waste and Abuse Hotline ("Hotline"), under Common Council Resolution 040063. A report of Hotline activities was issued to the Common Council on February 6, 2014 for the year ended December 31, 2013.

III. Audits Issued Prior to 2013

Attachment II summarizes the implementation status of open recommendations from the 18 audits from 2010 through 2012.

2012

The **External IS Network Security Audit** determined if the City's computing environment is sufficiently protected through the proper configuration and maintenance of City computing devices, proper enforcement of anti-virus definitions, and server hardening precautions as defined by IS best practices. The audit made two recommendations. Of the two recommendations, one recommendation was previously fully implemented. The remaining recommendation is in the preparation for implementation stage.

The **Port of Milwaukee Billings, Receivables, and Fixed Assets Audit** evaluated the implementation status of recommendations from three audits performed at the Port of Milwaukee: 2005 Audit of Port's Billing, Collection and Accounts Receivable; 2009 Review of Port's Fixed Asset Inventory performed by M.L. Tharp and Associates; and 2009 Sales Tax Audit performed by the Wisconsin Department of Revenue. The audit also examined the accuracy and timeliness of billings and collections at the Port. The audit made 13 recommendations. Of the 13 recommendations, seven recommendations were previously fully implemented and one recommendation is no longer applicable. Of the remaining five recommendations, one recommendation is in the preparation for implementation stage, and four have been fully implemented.

The **Internal Network Security Audit** tested the internal network security of the City's computer network. The audit made two recommendations. Of the two recommendations, one

recommendation was previously fully implemented. The remaining recommendation is in the preparation for implementation stage.

The **Fire ALS Billings and Receivables Audit** evaluated the accuracy of the receivables as stated by the third party vendor (Intermedix), evaluated the accuracy and timeliness of billings, evaluated the reasonableness of the amount of refunds occurring to payees, and finally determined if ALS receivables should be recorded on the City's general ledger. The audit made nine recommendations. Of the nine recommendations, five recommendations were previously fully implemented. Of the remaining recommendations four recommendations, no significant progress has been made on three recommendations, and one recommendation is in the preparation for implementation stage. From the follow up procedures performed, it appears that the third party still has significant deficiencies as the original audit noted. However, the Fire Department is currently working with Procurement Services to issue a request for proposal for a new third party billing company.

The **Department of Public Works Billings and Receivables Audit** evaluated the timeliness and accuracy of the recording of the billings, collections, and receivables in all software used by the Department of Public Works and the City's general ledger, and the adequacy of controls over the billing and receivable procedures for code violations and property damage. The audit made nine recommendations. Of the nine recommendations, four recommendations were previously fully implemented and three recommendations are no longer applicable. Of the remaining two recommendations, insignificant progress has been made on one recommendation, and one recommendation has been considered and disagrees with currently.

The **Department of Public Works Parking Division Revenue Recognition Audit** evaluated controls over the accuracy and timeliness of Parking Fund deposits and recording of revenues. The audit made two recommendations. The two recommendations have been fully implemented.

The **Department of Neighborhood Services Billings and Receivable Audit** evaluated the timeliness and accuracy of the recording of the billings, collections, and receivables in all software used by the Department of Neighborhood Services (DNS) and the City's general ledger

and to evaluate the adequacy of controls over the DNS billing and receivable procedures. The audit made 11 recommendations. Of the 11 recommendations, nine recommendations were previously fully implemented. Of the remaining two recommendations, both have been substantially implemented.

The **Department of Public Works Water and Infrastructure Inventory Audit** evaluated and tested the inventory management policies, procedures, and internal controls; evaluated and tested the accuracy of inventory records and management reporting; evaluated the extent of obsolete or slow moving inventory; and evaluated and tested the physical security controls in place at each warehouse location. The audit report made eight recommendations. Of the eight recommendations, three recommendations were previously fully implemented. Of the remaining five recommendations two are in the preparation for implementation stage; and three have been substantially implemented.

The **Municipal Court CATS Application Audit** of the Municipal Court's Case Automated Tracking System (CATS) reviewed various information technology controls with regard to CATS and the Court's use of CATS. This audit was a component of the Comptroller's comprehensive information systems (IS) audit work plan. The audit made one recommendation which has been fully implemented.

The **Worker's Compensation – Medical Bill Review Audit** examined the timeliness of adjusters approving bills and timeliness of transporting medical bills to the third party. The audit also examined the third party vendor's application of proper coding and discounts for medical fees and examined that all medical records were properly retained with the medical bills. The audit report made three recommendations. Of the three recommendations, one has been substantially implemented and two have been fully implemented.

The **Worker's Compensation – Claims Management Audit** examined seven categories including the investigation phase, recovery phase, medical management, evaluation, reserves, negotiation/disposition and customer service. The audit report made ten recommendations. Of

the ten recommendations, two have been substantially implemented and eight have been fully implemented.

The **Department of City Development Cash Handling Audit** evaluated controls over all collections processes, the cashiering system and reconciliation procedures; evaluated timeliness and accuracy of deposits to the Treasurer's Office; and evaluated timeliness and accuracy of the recording of revenue to the City's general ledger. The audit report made ten recommendations. Of the ten recommendations, one recommendation has been substantially implemented, eight have been fully implemented and one recommendation is no longer applicable.

2011

The **IS Security Policy Audit** evaluated whether IS security policies and guidelines are current, relevant and adhere to IS security best practices. The audit made five recommendations. Of the five recommendations, four were previously fully implemented. The remaining recommendation is in the preparation for implementation stage.

The **Audit of DPW Fleet Services Inventory** evaluated whether Fleet inventory accounts and records are accurate and complete, evaluated Fleet's inventory policies, procedures and internal controls, and evaluated Fleet's inventory physical security, inventory management and oversight. The audit report made 11 primary recommendations and 31 sub-recommendations for a total of 42 recommendations. Of the 42 recommendations, 36 were previously implemented and three recommendations the auditee considered and now disagrees with them. Of the remaining three recommendations, all have been fully implemented.

The **Audit of MPD Cash Handling Procedures** evaluated cash handling controls and procedures utilized by MPD, the timeliness and accuracy of deposits and accounting records, related to cash receipts processed by MPD, and controls over parking permit stock and purchases processed by MPD. The audit report made four recommendations. Of the four recommendations, three were previously fully implemented. The remaining recommendation has been fully implemented.

The **Audit of Health Department Cashiering Controls** evaluated internal controls over collection of receipts, the reconciliation and deposit activities of cash receipts, and safeguarding of the receipts prior to deposit with the City Treasurer. The audit made six recommendations. Of the six recommendations, one was previously fully implemented. Of the remaining five recommendations, all have been fully implemented.

2010

The **Audit of City Assessments for Commercial Property** evaluated if commercial property assessments comply with Wisconsin statutes and TID commercial assessments are consistent with other commercial properties, evaluated how commercial assessments compare with market values at the time of sale, and evaluated the effect that alternative values of equalized value as calculated by WI DOR would have on the City, including the effect on the levy. The audit made four recommendations. Of the four recommendations, one recommendation the City Assessor previously considered and now disagrees with the recommendation. Of the remaining three recommendations, one recommendation is in the preparation for implementation stage, and two recommendations have been substantially implemented.

The **Audit of IS Disaster Recovery** determined if DOA ITMD has a documented Disaster Recovery Plan that includes all key components except annual testing. The audit further determined the Treasurer's Office and DPW do not have formal written disaster plans. Of the three recommendations in the audit, ITMD fully implemented one recommendation previously and one recommendation is no longer applicable. The remaining recommendation is in the planning for implementation stage.

IV. Commendations

Internal Audit would like to commend the personnel of departments that participated in the following audits for completing implementation of all or substantially all of the recommendations made in the audit report within six to eight months after the issuance of the audit report:

- DPW – Infrastructure Services Division – Business Improvement Review
- DOA – Procurement Services – Procard Program Audit
- Office of the Comptroller – Payroll Administration Division – Review of Payroll
- DPW- Self-Help Center Cash Controls Audit
- Milwaukee Fire Department Fixed Asset Controls Audit
- Office of the City Treasurer Cash Controls - 2013
- ITMD and the various departments involved in the Datacenter Audit and the Anti-Virus Controls Audit
- Milwaukee Public Library Cash Controls Audit
- Milwaukee Public Library Expenditures Audit
- Department of Employee Relations – Tuition Reimbursement Program Audit

The implementation of all or substantially all of the recommendations demonstrates the department's commitment to an efficient and effective local government.

Audits Issued in 2013
Report of Audit Activities, February 2014

Audit	Audit Title	Date Issued	Responsible Department(s)	Status of Recommendations							
				Total Recommendations	1- Insignificant Progress	2- Planning Stage	3 - Preparation for Implementation	4 - Substantial Implementation	5 - Full Implementation	6 - No longer Applicable	7 - Considered and Disagrees
1	Department of Public Works - Infrastructure Services Division - Business Improvement Review (Consultant Assisted)	2/20/2013	Department of Public Works - Infrastructure Services Division	4				3			1
2	Department of Administration - Procurement Services - Procard	2/28/2013	Procurement Services	4					4		
3	Review of Public Debt	5/21/2013	Public Debt	11	6		2	2	1		
4	Review of Payroll	6/4/2013	Payroll Administration Division	2					2		
5	Datacenter Audit (Consultant Assisted)	6/5/2013	Information & Technology Mangement	4					4		
6	City Treasurer Cash Controls	6/25/2013	City Treasurer	0					0		
7	Anti-Virus Controls	7/31/2013	Information & Technology Mangement	3				1	2		
8	Milwaukee Fire Department Fixed Asset Controls*	8/1/2013	Milwaukee Fire Department	3				1	2		
9	Milwaukee Public Library Expenditures*	9/13/2013	Milwaukee Public Library	3				2	1		
10	Milwaukee Public Library Cash Controls*	9/13/2013	Milwaukee Public Library	8			1	1	4		2
11	Department of Employee Relations Tuition Reimbursement Program*	9/25/2013	Department of Employee Relations	2		1			1		
12	Department of Public Works Self-Help Center Cash Controls*	10/16/2013	DPW- Self-Help Center	4					4		
13	Department of Administration Procurement Services Section Contract Processing*	12/19/2013	Procurement Services	5					5		
Totals				53	6	1	3	10	30	0	3

* Follow-up testing was not performed due to issuance of audit report late in the year.

Audits Issued Prior to 2013
Report of Audit Activities, February 2014

Audit	Audit Title	Date Issued	Responsible Department(s)	Status of Recommendations								
				Total Recommendations	Previously Implemented	1- Insignificant Progress	2- Planning Stage	3 - Preparation for Implementation	4 - Substantial Implementation	5 - Full Implementation	6 - No longer Applicable	7 - Considered and Disagrees
1	External IS Network Security (Consultant Assisted)	1/5/2012	Information & Technology Mangement Division	2	1			1				
2	Port of Milwaukee Billings, Receivables, and Fixed Assets	3/26/2012	Port of Milwaukee	13	7			1		4	1	
3	Internal Network Security (Consultant Assisted)	4/5/2012	Information & Technology Mangement Division	2	1			1				
4	Milwaukee Fire Department - Advanced Life Services Billings	4/5/2012	Milwaukee Fire Department	9	5	3		1				
5	Department of Public Works Billings and Receivables	5/8/2012	Department of Public Works	9	4	1					3	1
6	Department of Public Works Parking Division Revenue Recognition	5/18/2012	Department of Public Works	2	0					2		
7	Department of Neighborhood Services Billings & Receivable	6/22/2012	Department of Neighborhood Services	11	9				2			
8	Department of Public Works Water & Infrastructure Inventory	9/26/2012	Department of Public Works	8	3			2	3			
9	Municipal Court CATS Application Audit	9/29/2012	Municipal Court	1	0					1		
10	Workers Compensation - Medical Bill Review (Consultant Assisted)	10/5/2012	Department of Employee Relations	3	0				1	2		
11	Worker Compensation - Claims Management (Consultant Assisted)	10/5/2012	Department of Employee Relations	10	0				2	8		
12	Department of City Development Cash Handling Audit	11/2/2012	Department of City Development	10	0				1	8	1	
13	IS Security Policy	5/20/2011	Information & Technology Mangement Division	5	4			1				
14	Department of Public Works Fleet Services Inventory	6/24/2011	Department of Public Works	42	36					3		3
15	MPD Cash Handling Procedures	7/8/2011	Milwaukee Police Department	4	3					1		
16	Health Department Cashiering Controls	9/1/2011	Milwaukee Health Department	6	1					5		
17	City Assessments For Commercial Property (Consultant Assisted)	1/4/2010	City Assessor's Office	4				1	2			1
18	IS Disaster Recovery	7/12/2010	Information & Technology Mangement Division	3	1		1				1	
Totals				144	75	4	1	8	11	34	6	5

Key Risks Associated With Unimplemented Recommendations

Report of Audit Activities, February 2014

Risk	Open Recommendations									Total
	City Assessor's Office	Dept. of City Development	Dept. of Employee Relations	ITMD	Milwaukee Fire Department	Dept. of Neighborhood Services	Port of Milwaukee	Public Debt	Dept. of Public Works	
Asset Misappropriation Risk	2	1							1	4
Risk of Obsolescence									1	1
Risk of Inaccuracy	2		1		3	1		2	3	12
Risk of Untimeliness			1		1				1	3
Risk of Unauthorized Orders									1	1
Risk of Inconsistency				2		1	1	5	5	14
Risks from Lack of Succession Plan				1				2		3
Risk of Physical Injury			1							1
Risk of Missing Documentation									2	2
IT: Risk of Unauthorized Access								1		1
IT: Risk of Inability to Recover from Disaster				1						1
IT: Lack of Application Controls				1						1
Total	4	1	3	5	4	2	1	10	14	44

Note: Since Internal Audit could not make a definitive statement regarding the risk for audits recommendations without performing verification audits number 8-13 on Attachment I were not included in the above table. Internal Audit will perform verification of the recommendations for the excluded audits in 2014.