



2015
Annual Audit
Work Plan

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January 2015

Table of Contents

Transmittal Letter	1
I. Background and Authority.....	2
II. Risk Assessment	3
III. 2015 Planned Activity	4
A. Audit Plan	4
B. Follow-Up Activities.....	5
C. Fraud Hotline	6
D. Audit Software Implementation	6
E. External Peer Review.....	7

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January 12, 2015

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor Barrett and Council Members:

The attached report summarizes the 2015 Audit Work Plan and a brief description of audit activities for the upcoming year. The basis of this year's annual audit work plan was the city-wide risk assessment conducted in 2013, a re-evaluation completed in fall 2014, and requests received in response to the communication sent out annually to the Mayor, the Common Council, and city departments to submit their concerns regarding the City's operations.

This document serves as the primary work plan to carry out the responsibilities of Internal Audit for the City. This report also includes other functions that Internal Audit carries out throughout the year that fill the indirect hours not related to specific audits. An example is Internal Audit's management of the City's Fraud Hotline.

The Internal Audit team looks forward to working with the members of Common Council, the Mayor, and all city departments in 2015.

Sincerely,

A handwritten signature in black ink that reads "Aycha Sirvanci".

Aycha Sirvanci, CPA
Audit Manager

I. Background and Authority

Internal Audit provides independent and objective assurance in order to safeguard City resources, add value and improve City operations. Internal audit provides key information to stakeholders and the public to maintain accountability; to help improve program performance and operations; to reduce costs; to facilitate decision making; to stimulate improvements; and to identify current and projected cross-cutting issues and trends that affect government programs and the people those programs serve.

The function of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the City's system of internal controls and the quality of performance in carrying out assigned responsibilities.

Approach and Methodology

Generally Accepted Government Auditing Standards is referred to as "Yellow Book" as promulgated by the Government Accountability Office (GAO). To ensure compliance with the standards, a peer review is required every three years. Internal Audit intends to have the next peer review completed by the end of 2015.

The annual audit plan is a flexible commitment of Internal Audit. The 2015 audit plan is based on the City-wide risk assessment conducted in 2013 and the re-evaluation performed in the fall of 2014. As part of deriving the audit plan, requests from the Mayor, Common Council and department management are taken under consideration. Additionally, the audit plan has time allocated to include follow-up on audits and recommendations in previously issued audit reports. As written in the Internal Audit Charter, Internal Audit issues reports on audit activities and follow-up performed on audit reports semi-annually to the Finance and Personnel Committee.

Audit Resource Allocation

The 2015 audit work plan prioritizes audits and activities based on the number of staff, staff level expertise, and required work products and services. Some audits selected are also based on the

budget allocated for consultants since external experts may be needed. The audit work plan is derived from the risk assessment that prioritized risks and auditable departments. Through analysis of how these risks will be addressed through audits, the City's Internal Audit function serves to mitigate risks through the recommendations of improved controls and processes.

The estimated number of projects proposed and decided upon is based on the consideration and evaluation of the following:

- Number of auditors on staff
- Average number of hours for an audit
- Special projects that may be requested from Common Council, Mayor or department management
- Time allocated for the management of the Fraud Hotline
- Time allocated for continuing professional education
- Utilization of external consultants/auditors
- Time allocated to conducting follow-up on previously issued audits from current and previous years

Status and Updates to Audit Plan

Completed work products for 2015 may vary depending on the changing work environment. Major changes to the audit work plan will be communicated to the Comptroller internally and to the Mayor and the Common Council through the semi-annual status updates. Actual released audits/projects in 2015 may include audits/projects started in 2014 and issued in 2015. Some audits beginning in 2015 may not be released until 2016; these audits and their estimated completion dates will be reported through the status updates.

II. Risk Assessment

In 2013, Internal Audit conducted the first City-wide risk assessment. This project was labor intensive and required many hours from the audit team, department management, and of the consultant hired. The quantitative results allowed Internal Audit to prioritize the departments and divisions that should be audited more frequently and routinely based on the risk score.

Scales were utilized to rank departments' risk levels with high risk units as annually audited; medium risk units audited bi-annually; and low risk units audited on a three-year cycle. These audit cycles created the basis for the three-year audit work plan. Also, risks the City faces were identified and ranked and finally used to develop audit subject matter. Annually, a portion of auditor hours are dedicated to the re-evaluation of the risks and departments to identify changes within the business environment. A full risk assessment will be conducted in a future year.

III. 2015 Planned Activity

The three-year audit plan for the City's Internal Audit function is a comprehensive plan and includes the City's departments which make up all of the programs and services that the City provides to its residents.

Based on best practices, a three-year audit plan is utilized in order to attain coverage of City departments and related risks. A total of 57 audits or approximately 20,000 hours of audits need to be completed annually. With current staff, one year of the audit plan would be completed in approximately two years. The calendar year 2015 marks the second year of the three-year audit plan following the risk assessment completion. With limited resources, Internal Audit must prioritize audits and try to conduct most, if not all high risk audits annually and then catch up to medium risk and low risk audits not audited in previous years.

A. Audit Plan

The following audits will be completed or started in 2015. They are listed in a prioritized manner of planned performance.

1. Audit of Treasury Foreclosure Management*
2. iNovah Application Audit *
3. Foreclosed Property Management Audit – DCD *
4. IT Asset Management Audit *

5. Audit of Performance Measures Management *
6. Inclusion Efforts Review (consultant conducted, managed by Internal Audit)
7. Audit of DNS Inspections Compliance with State Statutes*
8. City-Wide Disaster Planning Audit – Office of Homeland Security – consultant assisted
9. Audit of DER – Staffing Services – Planning and Posting for Vacancies
10. Audit of City Payroll
11. Audit of Residential Preference Program – performed with consultant
12. Audit of the CRM System Application – Call Center
13. Audit of TRACS Application – Police Department
14. DCD Area Plan Execution and Capital Account Expenditures Account
15. Audit of Fund Carry Over Compliance
16. Election Commission Audit
17. Field Inspections and Controls Review – Police Department
18. Audit of Comptroller – Admin/General Accounting – consultant assisted
19. Audit of DER Benefits
20. Audit of City Hall Security
21. Audit of Fire Department Operations – consultant assisted
22. Audit of Treasury Cash
23. Audit of 911 Emergency System – consultant assisted
24. Audit of Competitive Bidding Contracts
25. Audit of Port of Milwaukee – Maintenance, Monitoring and Tracking
26. Audit of Operating Plans of BIDS
27. Review of Open Records Requests and Controls

*These audits commenced in 2014 and will be released in 2015.

B. Follow-Up Activities

Annually, all audit recommendations are monitored by the audit team. During this process, the auditors request the implementation status of all recommendations by the audited department. After the status is reported to Internal Audit, depending on the magnitude of the risk of the

finding, the audit team may request documentation to provide verification of the implementation of the recommendation. If the finding is deemed high risk, additional testing may be conducted to determine that the control or recommended activity is being implemented consistently (i.e. control testing).

The results of the follow-up and testing conducted are reported in the annual Audit Activities Report released in the first quarter of each calendar year. The status of the recommendations is reported as of December 31st of the immediate preceding year.

C. Fraud Hotline

The Fraud Hotline is generally managed by one Auditor plus the Audit Manager. Currently, this does not take up a significant portion of time and makes up four percent of Internal Audit annual staff hours. Section 350-247 of the code of ordinances requires Internal Audit to release an annual report of Hotline statistics and activity for the year. This report is released in the first quarter of the calendar year immediately following the year being reported. A portion of the time also devoted under the Fraud Hotline is an effort to educate city workers about the Fraud Hotline's uses and benefits.

D. Audit Software Implementation

To further improve Internal Audit's effectiveness and efficiency, audit software was purchased and will be fully implemented in 2015. The audit software will enhance Internal Audit's ability to accomplish tasks in a variety of functional areas. This includes annual audit planning, to tracking budget to actual hours for audits, planning and performing the entire audit, to tracking the status of issues and findings reported in the audit for their implementation. Audit software provides extra security for workpapers and helps ensure consistency and compliance with government audit standards.

E. External Peer Review

To maintain compliance with Generally Accepted Government Auditing Standards (Yellow Book), Internal Audit is required to have an external peer review conducted of its operations. The peer review is conducted by a select group of other government auditors and is generally performed under the guidance of the Association of Local Government Auditors, which the City is a member. This independent review serves as a safeguard to ensure that City audit activities comply with government audit standards and the Internal Audit department is producing high quality audits and maintains independent and competent auditors. Preparing for and completing the 2015 external peer review is expected to require up to 700 hours.