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**2017**  
**Annual Audit**  
**Work Plan**

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June 6, 2017

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

Dear Mayor and Council Members:

The enclosed report summarizes the 2017 Audit Work Plan and provides 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 2016 and audit requests received in response to the communications 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 the performance of specific audits; an example is Internal Audit's management of the City's Fraud Hotline.

Internal Audit expresses appreciation for the cooperation extended by City Management in the past; and looks forward to working with the members of the Common Council, the Mayor, and all City departments in 2017.

Sincerely,

A handwritten signature in cursive script that reads 'Adam Figon'.

Adam Figon, MBA, CRMA  
Audit Manager

ACF:rk

## **Overview**

Internal audits provide essential accountability and transparency over government programs. Given the current challenges facing governments and their programs, the oversight provided through auditing is critical. Through objective analysis, government auditing provides the information needed by stakeholders and the public to ensure accountability; improve program performance and operation; reduce costs; facilitate decision-making; stimulate improvement; and identify current and projected issues and trends that affect government programs and the people they serve.

The City of Milwaukee Internal Audit Division provides this independent and objective assurance service in order to safeguard City resources and to improve City operations. This is accomplished through examination and evaluation of both the adequacy and effectiveness of the City's systems of internal control, as well as the quality with which assigned responsibilities are performed. The City's Internal Audit function helps to mitigate risks by recommending specific improvements to City processes and controls.

## **Introduction**

The enclosed report summarizes the 2017 Audit Work Plan, as required by City Charter Chapter 3, Section 3-16.5. The charter requires that Internal Audit develop an annual audit plan and submit the plan to the Finance and Personnel Committee of the Common Council.

Audits and projects are identified via the City-wide risk assessment process, which takes into consideration input from City management; annual audit requests from the Mayor, Common Council, and City departments; as well as ongoing analysis of potential areas of risk.

This document serves as the primary work plan to carry out the responsibilities of the City's Internal Audit Division, including additional functions that Internal Audit performs throughout the year that are not related to the performance of specific audits. This plan allocates Internal Audit resources per the results of the annual risk assessment, internal audit's professional judgment, and internal or external audit requests of merit. The 2017 Annual Work Plan is comprehensive and includes City departments that provide beneficial services and programs to the City's residents.

## Work Plan Development

### Standards and Methodology

Generally Accepted Government Auditing Standards (GAGAS)<sup>1</sup> as promulgated by the Government Accountability Office (GAO) – Comptroller General of the United States, are often referred to as the *Yellow Book* and provide a framework for conducting high quality audits with competence, integrity, objectivity and independence. Audits conducted in accordance with GAGAS require sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions in relation to an audit’s objectives. To ensure compliance with these standards, an independent peer review (audit) of the City’s Internal Audit Division is required every three years. The next peer review is anticipated to be completed by the end of 2018.

The purpose of internal audit’s methodology is to provide a basis for the consistent and reliable application of audit services. Additionally, audit methodology provides guidance on the key phases and activities of work plan development. The 2017 audit work plan is based on the following:

- The results of the annual City-wide risk assessment, finalized in the second quarter of 2016, included 110 auditable units comprised of the various City departments and divisions;
- Responses to formal requests sent by the Internal Audit Division to the Mayor, Common Council and department management , seeking suggestions for potential audits of any department, division, function, or program administered by the City of Milwaukee;
- Consideration of any internal audit requested by the City’s external auditor CliftonLarsonAllen;
- The identification of potential risks due to enhancements or changes in ongoing City operations or systems; and
- Required follow-up from previously performed audits and recommendations noted in previously issued audit reports.

### Resource Allocation

Internal Audit is currently staffed with six full-time equivalent auditors and one Audit Manager. Audits and projects proposed in the 2017 work plan are based on consideration and evaluation of the following:

- Number of auditors on staff

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<sup>1</sup> GAO, Government Auditing Standards, GAO-12-331G (Washington, D.C.: December 2011).

- Available staff hours (approximately 11,900 hours in total for seven auditors)
- Staff level of expertise and experience
- Estimated number of hours required to complete an audit
- Special projects that may be requested from the Common Council, Mayor or department management
- Time allocated for the management of the Fraud Hotline
- Time allocated to satisfy continuing professional education requirements
- Time allocated to performing follow-up procedures on previously issued audits
- Utilization of external consultants/auditors when the inherent complexities of a proposed audit necessitate subject matter expertise.

Additional time and budget allocations are apportioned during the planning and scheduling of audits and projects. This includes available budget allocations for consultants and external experts and for other functions performed by Internal Audit throughout the year (i.e. management of the Fraud Hotline, training, administration, etc.). Similarly, a portion of auditor hours is dedicated to the re-evaluation of risks when changes occur within a business unit.

### **Risk Assessment**

The development of an annual, risk-based audit plan is a dynamic and continuous process. The involvement of City Management in the risk assessment process is crucial to its ongoing success. Management's understanding of key operations and inherent risks, coupled with Internal Audit's objective analysis, facilitates the development of the City's comprehensive annual risk assessment.

The overall purpose of the risk assessment is to:

- Develop foundations that will assist in the identification of critical organizational processes and systems;
- Gain an understanding of the risks that potentially threaten the organization's operations, systems, and achievement of strategic objectives;
- Assess and score the likelihood and impact of the identified risks;
- Establish which agencies, programs, operations, systems, etc. will be prioritized for an audit; and
- Develop the basis for the annual audit work plan.

The reasoning behind using a risk-based plan is to ensure the identification and prioritization of various operational and system-based threats that may create risk and/or liability for the City.

Internal Audit uses the following risk factors and overall criteria during the performance of each assessment:

- Complexity of operations
- Financial exposure
- Public image
- Personnel turnover
- Compliance
- Assessment of management controls
- Information technology
- Strategic implications.

The quantitative results of the risk assessment procedures allow Internal Audit to develop and compile risk scores that are used to rank the auditable units as high risk, medium risk, or low risk. This allows Internal Audit to determine which departments and divisions need to be audited, or audited more frequently, based on their risk score.

Audits are typically performed on a three to five year cycle; however, resource limitations, professional auditor judgement, and the ongoing re-evaluation of risk priorities can change the annual work plan each year. Audits not completed in the year initially anticipated will be carried forward into subsequent years.

### **Audit Plan Changes**

The 2017 Annual Audit Work Plan is a “working document,” meaning Internal Audit may make changes to the plan, throughout 2017, as deemed necessary based on professional judgement and City Charter Chapter 3, Section 3-16.5. Typically, any adjustments to the annual work plan will reflect identified changes in risks, changes in an audit’s scope (expansion or contraction), or additional management audit requests.

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 update report. Audits and projects completed in 2017 may include audits and projects initiated in 2015, 2016 and 2017. Similarly, some of the audits initiated in 2017 may not be completed and released until 2018. These audits, and their estimated completion dates, will be reported via the status update report.

## Semi-Annual Audit Plan Status Update

Table 1 lists the audits, initiated in 2015, that have been carried forward from the 2015 Annual Audit Work Plan which are anticipated to be completed in 2017:

**Table 1 – 2015 Annual Audit Work Plan – Carryover**

Audit Initiation Date	Audit Title	Anticipated Completion Date
June 19, 2015	Audit of 911 Emergency System Application Controls	3rd Quarter 2017 (July)
October 15, 2015	Audit of Milwaukee Police Department Overtime	3rd Quarter 2017 (July)
October 26, 2015	Audit of Fund Carryover Compliance	<b>Completed:</b> 1 <sup>st</sup> Quarter 2017

The timelines for completion of these audits were significantly affected by multiple management and staff turnovers within the Internal Audit Division, in 2015 and 2016.

Table 2 lists the audits, initiated in 2016, that have been carried forward from the 2016 Annual Audit Work Plan which are anticipated to be completed in 2017:

**Table 2 – 2016 Annual Audit Work Plan – Carryover**

Audit Initiation Date	Audit Title	Anticipated Completion Date
June 16, 2016	Audit of CRM Application Controls	3rd Quarter 2017
September 7, 2016	Audit of the DER – Compliance with the Family Medical Leave Act	3rd Quarter 2017
September 7, 2016	Audit of the DER – Compliance with Dependent Insurance Care	3rd Quarter 2017 (July)
October 31, 2016	Audit of the Department of Public Works – Parking Fund License Plate Recognition System	3rd Quarter 2017 (July)
October 31, 2016	Audit of the Port of Milwaukee – Maintenance, Monitoring and Tracking of Capital Assets	4th Quarter 2017
November 11, 2016	Audit of Public Records Requests and Controls	3rd Quarter 2017

The completion of the majority of these audits is anticipated for mid-2017.

## **2017 - Planned Activity**

Internal Audit adheres to a risk-based audit plan development strategy that seeks to identify, prioritize and manage audits deemed critical to City operations, programs and systems. As a result, this audit work plan does not, nor is it intended to, address or provide complete coverage of every City department, division, or system risk. Internal Audit believes that this plan appropriately allocates resources to the most important priorities and risks of the organization at this point in time.

### **Purpose**

The purpose of the 2017 Annual Audit Work Plan is to outline audits and activities the Internal Audit Division proposes to conduct during the calendar year January 1, 2017 through December 31, 2017.

The audit plan includes audits related to:

- Internal controls – operational and system-based
- Operational efficiency and effectiveness
- Compliance with laws, regulation and best practices
- Policies and procedures
- Follow-up to prior audits, and potentially
- Updates regarding ongoing data and risk analysis.

### **2017 Work Plan**

The 2017 Annual Audit Work Plan is comprehensive, based on a three to five year cycle, and includes both performance (Table 3) and information technology (Table 4) audits and projects. These lists represent audit units/areas where we anticipate performing a review. They are not presented in the order that they will be performed and, as previously noted, are subject to change should higher priority considerations emerge. The scope and objectives for each item will be defined once an audit has been initiated and preliminary information has been compiled and assessed. Additionally, Internal Audit notes that audits in the 2017 work plan may be divided into multiple audits during initial audit planning given the potential nature and complexity of an operation or the audit subject matter.

Table 3 lists the performance audits that will be started in 2017, and targeted for completion in either 2017 or 2018 if necessary.

**Table 3 – 2017 Audit Work Plan – Performance Audits**

Title or Subject	Department(s)
Audit of Treasury Cash and Balancing Controls: <ul style="list-style-type: none"> <li>• <i>Review of processes and controls over cash, cashiering, transactions and balancing</i></li> </ul>	Office of the City Treasurer
Enterprise-wide Audit of Policies and Procedures: <ul style="list-style-type: none"> <li>• <i>Review of processes and controls over development and maintenance of policies and procedures – enterprise-wide</i></li> </ul>	City-wide -all departments
Audit of Procurement Services – Pro-card Program: <ul style="list-style-type: none"> <li>• <i>Controls over card issuance, purchasing guidelines, individual and dept. transaction/purchase compliance</i></li> </ul>	Department of Administration
Audit of Competitive Bidding – Sole Source Contract Requirements: <ul style="list-style-type: none"> <li>• <i>Review of controls and compliance with bidding and contract threshold requirements</i></li> </ul>	City-wide -all departments
Audit of DNS Inspection Controls: <ul style="list-style-type: none"> <li>• <i>Review of controls over periodic and high risk inspections related to public and personal safety</i></li> </ul>	Department of Neighborhood Services
Audit of Food Inspection Program Controls: <ul style="list-style-type: none"> <li>• <i>Review of inspections compliance and risk mitigation (scope and coverage of inspections)</i></li> </ul>	Health Department
Audit of Seized Property Maintenance and Disposal: <ul style="list-style-type: none"> <li>• <i>Controls over receipt, monitoring and disposal of assets</i></li> </ul>	Milwaukee Police Department
Audit of Tax Exempt Properties: <ul style="list-style-type: none"> <li>• <i>Controls over tax exemption determination, maintenances and tax role eligibility</i></li> </ul>	Assessor’s Office
Audit of Contract Development and Standards: <ul style="list-style-type: none"> <li>• <i>Controls over the inclusion of required intra-departmental standard terms, conditions and requirements</i></li> </ul>	Department of Administration and various

Title or Subject	Department(s)
Audit of Voter Registration Controls: <ul style="list-style-type: none"> <li>• <i>Controls over voter registration eligibility and compliance with regulations and statutes</i></li> </ul>	Election Commission
Audit of Fleet Services: <ul style="list-style-type: none"> <li>• <i>Controls over consumption and purchasing of fuel</i></li> </ul>	Department of Public Works

Performance audits not started in 2017 will be carried forward for inclusion in the 2018 work plan as is deemed necessary.

Table 4 (below) lists the information technology audits and projects that will be started in 2017, and targeted for completion in either 2017 or 2018.

**Table 4 – 2017 Audit Work Plan – Information Technology Audits and Projects**

Title or Subject	Department(s)
Audit of the Land Management System: <ul style="list-style-type: none"> <li>• <i>Implementation and Management Change Controls</i></li> </ul>	Information Technology and Management Division (and various as is necessary)
Audit of Network Security Controls: <ul style="list-style-type: none"> <li>• <i>Penetration testing - consultant assisted</i></li> </ul>	Information Technology and Management Division (and various as is necessary)
Audit of IT Datacenter Controls: <ul style="list-style-type: none"> <li>• <i>Physical, environmental, access and backup controls</i></li> </ul>	Information Technology and Management Division
Audit of Cloud Computing Services: <ul style="list-style-type: none"> <li>• <i>Controls over the acquisition and use of cloud-based IT and application services</i></li> </ul>	Information Technology and Management Division (and various as is necessary)
Audit of TRACS Application Controls: <ul style="list-style-type: none"> <li>• <i>General and application controls testing</i></li> </ul>	Milwaukee Police Department
Audit of eVault Application Controls <ul style="list-style-type: none"> <li>• <i>General and application controls testing</i></li> </ul>	System Administered by the City Clerk's Office
Information Technology Risk Assessment <ul style="list-style-type: none"> <li>• <i>Assessment of IT systems, applications and resources - consultant assisted</i></li> </ul>	Information Technology and Management Division (and various as is necessary)

Information technology audits and projects not started in 2017 will be carried forward for inclusion in the 2018 work plan as is deemed necessary.

## **Risk Assessment – Information Technology (IT)**

An information systems risk assessment is the foundation of an accurate and appropriately designed IT audit plan. This is especially true for entities with limited IT audit resources, such as the City of Milwaukee. With respect to audit frequency, it is generally a best practice to examine riskier or more valuable technologies before, and more frequently than, lower risk systems. The results of an IT risk assessment serve to focus IT audit projects and initiatives on the areas of greatest risk and concern.

An IT risk assessment was performed in 2012 with results reported April 13, 2012. The City of Milwaukee engaged Securance Consulting to perform an enterprise-wide risk assessment which resulted in the development of a comprehensive, risk-based IT audit plan. This IT audit plan represented the prioritization of necessary technology audits based on risk ratings of the City's major technologies. This assessment provided guidance for the development of the City's IT audit work plans through 2017.

In 2017, Internal Audit will again utilize external consultants to perform a comprehensive and enterprise-wide IT risk assessment of the City's IT resources. Internal Audit will then use the reported information, based on the consultant's expertise, to develop new IT audit work plans for 2018 and beyond. This project is currently in process.

## **Audit Recommendation Follow-Up Activities**

Internal Audit conducts performance audits and makes specific audit recommendations to improve the design and operational effectiveness of internal controls over City activities. Internal Audit recommends actions to correct deficiencies and other findings identified during the audit, as well as to improve programs and operations when the potential for improvement in programs, operations, and performance is substantiated by the audit procedures and conclusions.

In keeping with professional auditing standards and Internal Audit's annual reporting requirements, codified in City Charter Chapter 3, Section 3-16.5 – which defines the periodic follow-up and reporting requirements for audit recommendations – Internal Audit has a responsibility to monitor and follow-up on audit recommendations to ensure audit findings are addressed. This follow-up activity also aids in planning future audits.

City Management is responsible for resolving identified issues by implementing the recommendations proposed by Internal Audit, in a prompt and effective manner. Recommendations are considered effective when they are directed to management that has the authority to act, and when the recommended actions are specific, practical, cost-effective, and

measurable. Accordingly, Management's implementation of a control-based recommendation is evaluated to assess whether the risk posed by an audit finding has been adequately mitigated.

Annually, outstanding audit recommendations are reviewed by Internal Audit. During this process, the audit division requests the implementation status of all open recommendations from the audited department. After the implementation status has been reported, Internal Audit requests that documentation be provided to verify the success of Management's implementation (or any interim steps to completion, as is necessary). If an audit finding was deemed high risk, additional control testing may be conducted to verify that the control or recommended activity has been implemented to mitigate the risk.

The status of the recommendations reviewed during the annual enterprise – wide follow-up process was reported in the Report of Audit Recommendation Follow-up 2017 which was distributed May 2017.

### **Fraud Hotline and Related Benefits**

Section 350-247 of the Code of Ordinances authorizes Internal Audit to manage the City of Milwaukee Fraud Hotline (Hotline) and requires the release of an annual report of Hotline activity each calendar year. The *Fraud, Waste and Abuse Hotline Report, for the Year Ending December 31, 2016*, which summarizes annual Hotline operations, was completed on February 8, 2017 and was presented to the Finance and Personnel Committee on February 23, 2017.

Internal Audit has operated the City of Milwaukee Fraud, Waste, and Abuse Hotline since its inception in 2004. The Hotline continues to benefit the citizens of Milwaukee and City employees, by providing a confidential means to report potential fraud, waste, and abuse within City government. Hotline follow-up procedures have been developed to ensure a timely and appropriate response to complaints.

The Fraud Hotline is generally managed by one Internal Auditor; however, in 2016 three auditors were trained to satisfy any potential contingency needs. Training of additional Hotline staff has helped expedite Hotline processing and has stabilized operations during peak contact periods without sacrificing investigative quality. Furthermore, daily Hotline operations will be transitioned to the most experienced Hotline staff member in the second quarter of 2017. Enhancements to Hotline processes, additional training and processing of allegations reported to the Hotline utilized 220 of the 225 hours budgeted for these activities in 2016.

The Fraud Hotline ensures integrity, accountability, and public trust through timely investigation and resolution of reported allegations. Hotline results are bolstered when City management implements preventive measures in response to reported allegations, when necessary.

Overall, the Hotline has proven to be a benefit to the City by providing both citizens and City employees with the confidential means to report fraud, waste, and abuse within City government. The established process of following-up on valid complaints has provided positive results through timely and appropriate resolutions, which will continue throughout 2017.