Supplemental-Status Update and 2018 Annual Audit Work Plan

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October 31, 2018

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

Dear Mayor and Council Members:

The enclosed report provides a supplemental status update of the 2018 audit activities and 2018 Annual Audit Work Plan; and, includes potential audits or projects slated for the 2019 Annual Audit Work Plan. The basis of the 2018 audit work plan included the following: a citywide risk assessment conducted in 2016; audit requests received in response to communications sent to the Mayor, the Common Council, and City departments to submit their concerns regarding the City's operations; and, Internal Audit's professional judgement.

This document clarifies the ongoing status of 2018 primary work plans utilized to carry out the responsibilities of Internal Audit for the City. This report also includes a brief update on the non-audit functions performed by Internal Audit throughout the year. For example, the management of the City's Fraud Hotline and any subsequent investigations.

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 for the remainder of 2018.

Sincerely,

Adam Figon

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Audit Manager

CC: Martin Matson, City Comptroller
ACF:bd/rk/kp

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Overview

The City of Milwaukee Internal Audit Division (IAD) provides an 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 controls, 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.

The IAD has prepared this report summarizing all of its work products including audits, projects and investigations completed and issued to date, in 2018; and a list of potential audits slated for late 2018 and inclusion on the 2018/2019 Annual Audit Work Plan as required by City Charter Chapter 3, Section 3-16.5.

I. Audit Activities Status Update

Audits and Projects

Table 1 lists all audits and projects currently in process, and their estimated issuance dates. Issuance dates are subject to change as they are dependent upon various factors and external input.

Table 1 – Audits and Projects in Progress with Completion Pending

Audit/Project Initiation Date	Audit/Project Title	Current Status	Report Issuance Target	Comments
10/14/15	Audit of Milwaukee Police Department Overtime	Finding and remediation discussions	Q1 2019	Pending follow-up from MPD and MPD IT mgmt.
08/11/16	Audit of DER Compliance with FMLA	Finding and remediation discussions	Q1 2019	New FMLA vendor has been selected - pending follow-up from DER mgmt.
10/31/16	Audit of Port of Milwaukee: Maintenance, Monitoring, Tracking of Capital Assets	Fieldwork, testing	*TBD	Pending restructure of audit into three parts
06/20/18	Audit of Municipal Court Data Center Controls	Finding and remediation discussions	Q4 2018	-

8/1/2018	Audit of Election Commission Voter Registration Controls	Report development	Q4 2018	-
8/6/2018	Audit of City-wide Procard Processes and Controls	Fieldwork, testing	Q4 2018	-
Q4 2018	Network Security – Penetration Testing and Scanning	Vendor selection process	Q1 2019	Consultant assisted
Q1 2019	Audit of Land Management System: Implementation, Change Control, and Follow-up	Planning	TBD	-
Q4 2018	Follow-up Review: MHD Childhood Lead Poisoning Prevention Program	RFP process	TBD	Consultant assisted
Q4 2018	Audit Division Peer Review	Planning	Q4 2018	-
Q4 2018	Milwaukee Water Works Additives and Corrosion Control-Lead Mitigation	RFP process	TBD	Consultant

* To be determined

Audit Recommendation Follow-up

Internal Audit conducts performance audits and makes specific audit recommendations to improve the design and operational effectiveness of internal controls over City activities. 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 – the IAD 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 the IAD, in a prompt and effective manner. The implementation status of any open recommendations from the 2018 audits, and audits issued prior to 2018, will be summarized as part of the Report of Audit Recommendation Follow-up 2018 to be released in the first quarter 2019.

Fraud Hotline

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.

Overview of 2018:

- Hotline activity/contacts have increased 17% with a total of 84 complaints reported (as of 10/26/18) compared to 72 total reports received in 2017.
- Hotline procedures have been enhanced and updated to ensure instructions for performing all critical Hotline functions are documented.
- The Hotline voice-mailbox message, for use by both City employees and the public, was updated to provide more comprehensive information about the services provided by the Hotline.
- Initial planning of the development of both a new and improved Hotline pamphlet and online informational City of Milwaukee web-based video/slide show is underway (for potential release in 2019).

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.

Audit Peer Review

Generally Accepted Government Auditing Standards (GAGAS)[1], as promulgated by the Government Accountability Office (GAO) – Comptroller General of the United States, referred to as the *Yellow Book*, provide a framework for conducting high quality audits with competence, integrity, objectivity and independence.

The IAD is required to have an external peer review conducted of its operations every three years to maintain compliance with GAGAS. This peer review is conducted by a select, volunteer group of independent government auditors and is performed under the guidance of the Association of Local Government Auditors (ALGA).

[1] GAO, Government Auditing Standards, GAO-12-331G (Washington, D.C.: December 2011).

It is anticipated that the preparation for, and completion of, the 2018 IAD peer review will require up to 650 hours. The peer review is tentatively scheduled for the fourth quarter of 2018 and will include a one-week visit by two ALGA reviewers.

II. Work Plan Framework and Development

Methodology

The purpose of the IAD'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 audit work plan is based primarily on City-wide risk assessments (IT and operational), City personnel input (solicited and unsolicited), and Internal Audit discretion and professional judgement.

Audit Plan Changes

The annual audit work plan is a "working document," meaning IAD may make changes to the plan throughout the year, as deemed necessary, based on professional judgement. 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 annual work plan are formally communicated to the Mayor, the Common Council, and the Comptroller.

Resource Allocation

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

Using a risk-based plan helps ensure the identification and prioritization of various operational and system-based threats that may create risk and/or liability for the City. IAD uses the certain risk factors and overall criteria during the performance of an assessment including complexity of operations, financial exposure, public image, personnel turnover, compliance, assessment of management controls, information technology, and strategic implications.

As a result, the City's audit work plan does not, nor is it intended to, address or provide complete coverage of every City department, division, or system risk. IAD believes that this plan appropriately allocates resources to the most important priorities and risks of the organization at this point in time.

Currently in development, the completion of an enterprise-wide risk and control self-assessment survey is anticipated in 2019. All auditable areas of the City will be ranked, based on overall risk as determined by the enterprise-wide risk and control self-assessment. The results of this assessment will serve as a partial basis for the initial development of the annual audit plan for 2020 and beyond. The IAD will communicate the results of this project to the Common Council and the Comptroller following its completion

2018 Audit Work Plan

Staffing Challenges

The IAD has experienced significant reductions to audit staff over the past year due to illness, inter-department transfers, career/goal changes, and retirement. The IAD staff typically consists of six to seven personnel; however, IAD is currently staffed with two full-time equivalent auditors and one manager. These personnel transitions have created operational, production and planning challenges throughout the year resulting in the development of an abbreviated formal work plan for 2018 as goals and priorities shifted to maintain ongoing audit progress and completion. IAD is currently pursuing replacement staff.

Work Plan

The basis of this year's annual audit work plan was the IT Risk Assessment completed in June 2018; audit requests received in response to the communications sent out annually to the Mayor, the Common Council, and City departments; and auditor professional judgement. The 2018 Annual Audit Work Plan is comprehensive, based on a three to five year cycle, and includes both performance (Table 2) and information technology (Table 3) audits and projects.

These lists represent audit units/areas where IAD anticipates performing an audit. 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. Audits in the 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.

Additionally, IAD notes that due to the resource limitations experienced throughout 2018 and subsequent planning challenges the following work plan is to be considered a precursor to the development of the 2019 Annual Audit Work Plan, slated for development and distribution in the 1st quarter of 2019.

Table 2 (below) lists the performance audits that were projected to begin in late 2018.

Table 2 – 2018 Audit Work Plan – Performance Audits

Audit/Project Title and Subject	Department(s)
Enterprise-wide Audit of Policies and Procedures • *Review of processes and controls over development and maintenance of policies and procedures, enterprise-wide*	City-wide - all departments
Audit of Seized Property Maintenance and Disposal • *Controls over receipt, monitoring, and disposal of assets*	Milwaukee Police Department
Audit of OSBD Certification and Compliance • *Review of processes to ensure compliance with certification rules*	DOA-Office of Small Business Development

Audit of Municipal Court Citation Filing Process Controls • *Review process of filing citations with Municipal Court*	Municipal Court (and various as necessary)
Audit of Vendor Administration Process and Controls • *Review of process and controls surrounding set-up and updates to City vendors.*	Office of the Comptroller
Audit of Health Department Nurse-Family Partnership Program Grant Compliance • *Review of process and controls over the establishment and achievement of Nurse-Family Partnership Program grant objectives*	Health Department

Table 3 (below) lists the information technology audits and projects that were planned to begin in late 2018.

Table 3 – 2018 Audit Work Plan – Information Technology Audits and Projects

Audit/Project Title and Subject	Department(s)
Audit of IT Datacenter Controls • *Physical, environmental, access and backup controls*	Milwaukee Water Works
Audit of IT Datacenter Controls • *Physical, environmental, access and backup controls*	Milwaukee Fire Department
Audit of Cloud Computing Services • *Controls over the acquisition and use of cloud-based IT and application services*	Information Technology and Management Division (and various as is necessary)
Audit of MUNIS Application Controls • *Tax collection system input, processing, and output controls*	Office of the City Treasurer
Audit of CAMA Application Controls • *Computer assisted mass appraisal input, processing, and output controls*	Assessor's Office
Audit of Physical Access Controls-Enterprise-wide • *Controls over physical access, updates, and termination of access*	DPW-Facilities (and various as is necessary)