



CITY AUDITOR'S OFFICE

TO: Mayor and Council Members
THRU: Margaret Krym, City Auditor 
FROM: Oscar B. Claudio, Assistant City Auditor 
DATE: November 17, 2015
SUBJECT: Citywide Risk Assessment

Attached you will find our final report for the Citywide Risk Assessment. We perform this assessment every three years.

It should be noted that management of risk is the responsibility of City Staff. Our purpose in performing this risk assessment was to create a meaningful audit universe ranked according to risk priorities defined in the report. We have developed the City Auditor's Office Audit Plan for FY 2016, using the resulting ranking presented on Attachment C.

We wish to thank all those who participated in this risk assessment process including the Mayor, Council Members, the Audit Committee, the City Manager, the Directors and many of the Managers and staff throughout the City.

C: John Szerlag, City Manager
Dolores Menendez, City Attorney
Rebecca van Deutekom, City Clerk
Members of the Audit Committee

Citywide Risk Assessment

Date: November 16, 2015

OVERVIEW

Resolution 46-10, Section 4, requires the City Auditor to submit annually a risk based audit plan to the City Council for approval. The use of a risk assessment analysis is to determine the priorities of the internal audit activities and ensure that the audit plan will be consistent with the City's strategic goals.

The focus of a risk assessment analysis is to provide a comprehensive and systematic approach to evaluating risk exposures. For this purpose, we define *Risk* as "the potential likelihood that some event will impair the City's ability to achieve its objectives in an effective, efficient or economic manner; comply with laws and regulations; and ensure proper financial reporting". Performing a risk assessment involves breaking the City's organization down into smaller auditable units, determining the risk potential for each unit and ranking these units based on audit based risk levels. It should be noted that the responsibility to manage and/or mitigate risk belongs to City management.

This risk assessment process included identifying the audit population; defining meaningful risk factors; establishing a systematic relative weighting for each factor; gathering and evaluating relative information and data; applying professional judgment and expertise and combining these processes into an overall score for purposes of ranking.

A risk assessment methodology is established to enhance objectivity and transparency of the audit prioritization process and to provide a sound basis for the selection of potential engagements to be included in the audit plan. The information contained herein will be used to prepare the Audit Plan for Fiscal Years 2016 to 2018. The Audit Plan will be presented to the City Council for approval on November 23, 2015.

OBJECTIVES

The primary objective of the risk assessment process is to identify and prioritize potential audit areas, which pose the highest risk and liability to the City. This process provides a tool for the City Auditor to assign available audit personnel to areas determined within the City to have the highest risk potential, thereby, facilitating the reduction of risk and liability exposure through findings and recommendations. Additional objectives include: a) providing opportunities to identify inefficiencies or uneconomical practices; b) eliminating potential for overlapping audits within departments and with other auditing entities; c) supporting a non-punitive culture that promotes awareness and empowers staff to identify risk related issues; and d) educating management on emerging and known risk exposures and risk reduction initiatives.

RISK ASSESSMENT METHODOLOGY

The initial step in developing the risk assessment model was to establish an audit population representing a list of potential auditable entity's programs and functions. The City's Adopted Operating Budget for Fiscal Years 2016-2018, Strategic Plan, department performance measurements, department goals and objectives and responses to a standard questionnaire were utilized to identify the primary potential audit population.

We used the operating budget to identify materiality of dollar amount relative to specific programs and operations. We utilized the strategic planning document to align the risk assessment plan with the City's mission, vision and values described in the current strategic

planning process. Because of the importance of gaining a better understanding of City departments and their operations, we reviewed the department performance measurements and their goals and objectives. From this, we developed a standard risk assessment questionnaire, which were completed by department Directors and Managers. The information and data gathered from the operating budget, strategic planning document and responses to the questionnaire were denoted with matching scores. These scores together with an analysis performed by our office staff were used to tabulate and rank a risk calculation worksheet. As a result, 27 potential departmental programs and functions were identified and included in the audit universe.

The risk factors used to evaluate the potential audit areas were selected from professional literatures, other governmental risk assessment plans and Auditor's prior experience in developing risk assessment plans. Risk factors were selected on the basis of relevance with respect to the nature and objectives of audits and the reporting environment in which the City operates. The eight (8) risk factors are:

	<u>Weight Assigned</u>
• The nature of activity group is deemed mission critical for the department to achieve its goals and objectives	21%
• Annual budgeted dollars	21%
• Extent of potential loss due to cash or cash convertible nature of transactions	15%
• Regulations affect or have an impact on operations	15%
• Last time audit was performed in the department and findings have been addressed and recommendations implemented	15%
• Total number of budgeted full time employees (FTE's)	7%
• Extent of the activity groups' interface with the public and/or City residents	3%
• Failure to achieve the activity group's mission or goals would lead to public displeasure or negative media coverage	3%
	<hr/> <hr/> 100%

To aid in the risk evaluation process, we developed detailed definitions and guidelines for each risk factor, which are presented in **Attachment A**.

Each of the risk factors was weighted and numerical score ranges were assigned, which is shown in **Attachment B**. The factors Impact: The nature of activity group is deemed mission critical for the department to achieve its goals and objectives, Annual budgeted dollars and Regulations affect or have an impact on operations combined comprised 57% of the total weight. Each identified auditable entity in the audit universe was then evaluated and received a score based on the assigned ranges. Risk scores were totaled and entities were grouped and ranked based on the total risk score, which reflected a department's overall risk potential.

In addition to using risk assessment criteria, we analyzed operations and internal controls derived from previous internal and external audits; obtained input from City Council, Audit Committee and operational management; and considered local events and financial conditions. Evaluating potential risk areas from a variety of perspectives help ensure that we review different City programs and functions and perform various types of audits in the future. The results of these efforts became the ranked universe which can be seen on **Attachment C**.

**CITY OF CAPE CORAL
CITY AUDITOR'S OFFICE
CITYWIDE RISK ASSESSMENT**

RISK FACTORS DEFINITIONS AND GUIDELINES

DESCRIPTION OF THE IMPACT AND PROBABILITY FACTORS AND RELATED ASSIGNED WEIGHT

	FACTOR	DEFINITION AND GUIDELINES	RISK FACTOR WEIGHT	WEIGHT AS A %
1	Nature of activity group is deemed mission critical for the department to achieve its goals and objective	A measure of exposure to potential loss or embarrassment due to not achieving the maximum operational results, resources are under utilized and performance is inconsistent with established objectives.	7	21%
2	Total annual budgeted expenditures	Based on the departments' proposed annual operating budget as reported in FY16-FY18 Operating Budget. Potential loss due to volume of expenditures, lack of transaction approvals and uncontrolled/limitless expenditures.	7	21%
3	Extent of potential loss due to cash or cash convertible nature of transactions	Risk associated with cash or cash-convertible assets. Potential loss or embarrassment due to amount of uncollected cash as compared to business transacted by other means (credit card, EFT, invoice) as well as risks associated with volume, type and nature of existing assets that are susceptible to theft such as equipment,	5	15%
4	Regulations affect or have impact on operations	A measure of exposure, loss or regulatory sanctions due to complexity and volume of regulations or penalties for noncompliance. The nature and number of Federal, State, City policies, regulations and other conditions that departments would be responsible to comply with and monitor. Compliance with grants and contracts provisions were also considered for this assessment.	5	15%
5	Last time audit was performed in the department and findings have been addressed and recommendations implemented	A measure of exposure to potential loss or embarrassment due to departments' operations, programs or internal controls were not audited or evaluated against appropriate or suitable criteria. Other factors considered were timing, extent, quality and purpose of previous audit scope and findings.	5	15%
6	Total number of budgeted full time employees (FTEs)	A measure of loss due to the number of employees in a department which may impact actual expenditures, operational results, adherence to internal controls and compliance with laws and regulations.	3	7%
7	Extent of the activity groups' interface with the public and/or City residents	Based on frequency of City management and staff interface with the public and residents. Potential loss due to lack of community communication and negative interaction with the public which may result to adverse relationship between City Hall and residents it serves.	1	3%
8	Failure to achieve the activity group's mission or goals lead to public displeasure or negative media coverage	Based on activity group's level of visibility to the public, public interest in the group's activities and interest of media. Potential loss or embarrassment due activity group not performing its critical mission or goal.	1	3%
TOTAL			34	100%

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ATTACHMENT B

RISK FACTORS AND SCORES

1	Nature of activity group is deemed mission critical for the department to achieve its goals and objectives.	SCORE
	A. No contribution towards the department's goals and objectives.	0
	B. Minimal contribution towards attaining the department's goals and objectives.	3
	C. Moderate contribution towards attaining the department's goals and objectives.	5
	D. Significant contribution towards attaining the department's goals and objectives.	7
	E. Success of department's goals & objectives is fully dependent on this activity group.	9
2	Total annual operating budget for this activity group.	SCORE
	A. \$ 0 to \$ 500,000	0
	B. \$ 500,001 to \$ 5,000,000	3
	C. \$ 5,000,001 to \$10,000,000	5
	D. \$10,000,001 to \$25,000,000	7
	E. Greater than \$25,000,000	9
3	Potential loss due to cash or cash equivalent nature of activity group's transactions.	SCORE
	A. None.	0
	B. Minimal amount of cash transactions or assets are difficult to convert to cash.	3
	C. Moderate amount of cash transactions or assets can be converted to cash with some difficulty.	5
	D. Nature of operations is primarily cash or assets are easily converted to cash.	7
	E. Nature of operations includes administering safekeeping of equipment, supplies and inventory.	9
4	Regulations affect or have impact on operations.	SCORE
	A. None.	0
	B. Few regulations and little risk of noncompliance.	3
	C. Risk of either substantial regulations or substantial penalties.	5
	D. Complex, voluminous or frequently changing regulations with significant penalties.	7
	E. Heavily regulated with serious consequences for noncompliance.	9
5	Last time audit was performed in the department and findings have been addressed and recommendations implemented.	SCORE
	A. The department has not been audited at all.	9
	B. Latest audit was performed last year. Some findings are being addressed and some audit recommendations are in the process of being implemented.	7
	C. Latest audit was completed two years ago. Some findings are being addressed and some audit recommendations are in the process of being implemented.	5
	D. Latest audit was completed three years ago. All findings were addressed and recommendations were implemented.	3
	E. Latest audit was completed four years ago. All findings were addressed and recommendations were implemented.	0

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RISK FACTORS AND SCORES

6	Total number of budgeted full time employees (FTEs) for this activity group.	SCORE
	A. None.	<u>0</u>
	B. Greater 0 to 10.	3
	C. Greater than 10 to 25.	5
	D. Greater than 25 to 75.	7
	E. Greater than 75.	9
7	Interface with the public and/or city residents.	SCORE
	A. None.	<u>0</u>
	B. Rarely or infrequently.	3
	C. Monthly to quarterly level of interface.	5
	D. Weekly level of interface.	7
	E. Continual interface with the public several times daily or more.	9
8	Failure to achieve the activity group's mission or goals lead to public displeasure or negative media coverage.	SCORE
	A. No risk of loss or embarrassment.	<u>0</u>
	B. Low risk of loss or embarrassment.	3
	C. Moderate risk of loss or embarrassment.	5
	D. Significant risk of loss or embarrassment.	7
	E. Very high risk of loss or embarrassment.	9

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ATTACHMENT C

FINAL RANKING OF RISK UNIVERSE

ACTIVITY GROUP	DEPARTMENT	TIER RANKING
Special Operations Bureau - Federal and State Confiscations	Police	1
Road Resurfacing	Public Works	1
Code Compliance Division	Community Development	1
Capital Projects / Contracts	Utilities	1
Records Management	City Clerk's Office	1
UEP Capital Projects - Contracts over \$1 Million	City Manager's Office	1
Department-wide Risk Assessment	Information Technology	1
Operations Division	Fire	2
Stormwater Operations	Public Works	2
Collection and Distribution	Utilities	2
Debt Service	Financial Services	2
Payroll Compliance with IRS Tax Laws W2 form	Financial Services	2
Employee Benefits	Human Resources	2
Cash Management	Charter Schools	2
Field Services / Patrol Bureau	Police	3
Lot Mowing and Median Maintenance Contracts	Public Works	3
Parks and Recreation Programs	Parks and Recreation	3
Parks Maintenance	Parks and Recreation	3
Worker's Compensation Insurance Fund	Financial Services	3
Property Liability Insurance Fund	Financial Services	3
Annual OPEB Costs	Financial Services	3
Transportation Division	Public Works	4
Environmental Resource Division	Public Works	4
Economic Development	City Manager's Office	4
ITS Governance	Charter Schools	4