





OFFICE OF THE CITY AUDITOR

TO: Mayor and Council Members
THRU: Margaret L. Krym, City Auditor 
FROM: Oscar B. Claudio, Assistant City Auditor 
DATE: July 19, 2012
SUBJECT: Citywide Risk Assessment Report

Attached you will find our final report for the Citywide Risk Assessment.

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 will develop the City Auditor's Office Audit Plan for FY 2013, 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
Audit Committee



CITY AUDITOR'S OFFICE

CITYWIDE RISK ASSESSMENT REPORT

FISCAL YEAR 2012

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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; and combining these processes into an overall score for purposes of ranking. The City Auditor will review and update the risk assessment analysis annually or as new potential risks become known. In addition, the risk factors and scoring process will be reviewed and refined periodically as needed by the City Auditor.

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 2013 to 2015. The Audit Plan is presented to City Council for approval prior to September 30, 2012.

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 2011-2012, Strategic Plan, New Council Orientation presented on November 16, 2011, 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 New Council Orientation presentation. From this, we developed a standard risk assessment questionnaire, which we utilized in conducting interviews with department heads, managers and staff members. Through the interview process, we gained sufficient understanding of the departments and their operations to evaluate the responses to the questionnaire. The information and data gathered from the operating budget, strategic planning document and responses to the questionnaire were denoted with matching scores, analyzed and tabulated on a risk calculation worksheet. As a result, 36 potential departmental programs and functions were identified and included in the audit universe. Since the risk assessment process will evolve overtime, it should be noted that the number of identified programs and functions may increase because other potential audit subjects maybe defined in the future.

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 six (6) risk factors are:

	<u>Weight Assigned</u>
• Monetary Impact	24%
• Operational Impact	16%
• Number of Years Since Last Audit	20%
• Compliance With Laws, Regulations and Provisions	16%
• Quality of and Adherence to Internal Control	12%
• Number of Staff	<u>12%</u>
	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 Monetary Impact: Number of Years Since Last Audit Was Completed, and Compliance with Laws, Regulations and Provisions 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.

RESULTS OF RISK ASSESSMENT

The results of this Fiscal Year 2012 Risk Assessment were developed using the methodologies previously described. These results are presented in **Attachment C**. The Risk Assessment is a planning tool for the City Auditor to use in the selection of planned and anticipated audits for the next three years. However, the resulting audit plan is subject to change or may be affected by personnel turnover; audits requested by elected officials, department heads, Audit Committee; special projects or unforeseen circumstances. A total of 36 departmental functions and programs were identified and included in the audit universe.

City of Cape Coral
City Auditor's Office
Citywide Risk Assessment FY 2012
Risk Factor Definitions and Guidelines

ATTACHMENT - A

DESCRIPTION OF THE IMPACT AND PROBABILITY FACTORS AND RELATED ASSIGNED WEIGHT

	FACTOR	DEFINITION AND GUIDELINES	RISK FACTOR WEIGHT	WEIGHT AS A %
1	Monetary Impact (Actual Expenditures)	Based on the total actual expenditures by department as reported in FY2011 Operating Budget. Potential loss due to volume of expenditures; lack of transaction approvals and uncontrolled/limitless expenditures.	6	24
2	Operational Impact	A measure of exposure to potential loss or embarrassment due to not achieving the maximum operational results, resources are underutilized and performance is inconsistent with established objectives.	4	16
3	Number of Years Since Last Audit	A measure of exposure to potential loss or embarrassment due to the 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	20
4	Compliance with laws, regulations and provisions	A measure of exposure, loss or regulatory sanctions due to complexity and volume of regulations or penalties for noncompliance. We considered the nature and number of Federal, State, City policies, regulations and other conditions that the departments would be responsible to comply with and monitor. Compliance with grants and contract provisions were also considered for this assessment.	4	16
5	Quality of and adherence to internal controls	A measure of exposure to potential loss or embarrassment due to the departments' inability to produce written policies and procedures manual. Also, we measured the quality of existing policies and procedures and adherence to such controls.	3	12
6	Number of Staff (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	12
			25	100

City of Cape Coral
City Auditor's Office
Citywide Risk Assessment FY2012
Risk Factors and Scoring Criteria

ATTACHMENT - B

1. MONETARY IMPACT (ACTUAL EXPENDITURES)		
	<u>AMOUNT</u>	<u>SCORE</u>
Less Than	\$ 500,000	1
Less Than	1,000,000	2
Less Than	5,000,000	3
Less Than	10,000,000	4
Less Than	50,000,000	5
Over	50,000,000	6
2. OPERATIONAL IMPACT		
	<u>RESPONSE</u>	<u>SCORE</u>
Program is achieving minimum results	4	6
Programs performance is inconsistent with established objectives	3	4
Programs resources are effectively utilized	2	2
Program is effective and achieving desired results	1	0
3. NUMBER OF YEARS SINCE LAST AUDIT		
	<u>RESPONSE</u>	<u>SCORE</u>
Latest internal audit performed last year	1	0
Last audit was completed two years ago for suggested audit	2	3
Last audit was completed three years ago for suggested audit	3	4
Last audit was completed four years ago for suggested audit	4	5
No audit or last audit was performed five or more years ago	5	6
4. COMPLIANCE WITH LAWS, REGULATIONS & PROVISIONS		
	<u>RESPONSE</u>	<u>SCORE</u>
None	1	0
Few laws/regulations/contract provisions and little risk of noncompliance	2	2
Substantial volume of regulations with substantial penalty	3	4
Heavily regulated with serious ramifications for noncompliance	4	6
5. QUALITY OF AND ADHERENCE TO INTERNAL CONTROL		
	<u>RESPONSE</u>	<u>SCORE</u>
Written departmental policy and procedures manual is available	1	2
Policy and procedures are not strictly enforced and followed	2	4
The department has no written policy and procedures manual in place	3	6
6. NUMBER OF STAFF (FTEs)		
	<u>NUMBER</u>	<u>SCORE</u>
Less Than	50	2
Less Than	100	4
More Than	100	6

City of Cape Coral
City Auditor's Office
Citywide Risk Assessment
Ranking of Potential Audit Universe
June, 2012

ATTACHMENT - C

Department / Program	Total Score	Rank
Public Works	129	1
Transportation Division		Del Prado Widening
Storm water Operations		Public Safety Building
Santa Barbara Widening		Transportation Capital Projects
Fire Rescue & Emergency Services	121	2
Support Services		Fire Engine Supply Inventory
Life Safety - Fire Inspections		
Parks & Recreation	113	3
Golf Course Operations and inventory controls		Water Park Operations and inventory controls
Parks & Recreation Programs and inventory controls		Parks Capital Projects
Fleet Management	104	4
Fleet Management Operations		
City Attorney	92	5
Elements of Control Environment		
City Manager	88	6
Economic Development		
City Clerk	88	6
Records Management		
Facilities Management	88	6
Review of completed work orders		
Human Resources	88	6
Compliance with applicable laws and regulations		
Community Development	83	7
Code Enforcement Operations		HUD Neighborhood Stabilization
Building & Permitting Services		Parks Operations
Community Development Block Grant (CDBG)		
Utility – Water & Sewer	83	7
Water & Sewer Utility Assessment		Water Distribution
Police	79	8
US DOJ JAG Grant		Evidence Unit
Financial Services	75	9
Travel Expenses & Reimbursements		Lot Mowing
Review of grant expenses & reimbursements		Wire Transfer
Grant compliance and reporting		Payroll - compliance with IRS Tax Laws W2 form
Information Technology Services	54	10
ITS Network Administration		