

INTERNAL AUDIT DEPARTMENT ANNUAL AUDIT PLAN

2015 / 2016

INTERNAL AUDIT
DEPARTMENT

CITY OF SANTA FE

*Santa Fe: The
City Different.
The City
Prepared*



The Internal Audit Department and the role of Internal Auditor were created by City Ordinance No. 2012-32 and amended by City Ordinance No. 2013-34, Section 2-22 Santa Fe City Code (SFCC) 1987. A primary purpose of the Internal Auditor is to share a duty with the members of the governing body to insure that the actions of public officials, employees and contractors of the city are carried out in the most responsible manner possible and that city policies, budgets, goals and objectives are fully implemented. The Internal Auditor is also the City of Santa Fe's liaison to the Audit Committee.

The Audit Committee was created by City Ordinance No. 2013-35, Section 6-5 SFCC 1987. This committee is an advisory committee and consists of five members of the community. Of the five members, one member shall be a certified public accountant, one member shall be a lawyer or have a law enforcement background and one member shall be a management consultant.

The Internal Auditor and the audit committee are structured in a manner to provide independent oversight of the City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

AUDIT COMMITTEE

Clark de Schweinitz, Esq., Chair

Hazeldine Gonzales, Vice Chair, Retired CIA, CPA, CGFM

Marc Tupler

Cheryl Pick Sommer

Loretta Valencia, CPA

INTERNAL AUDITOR

Liza Kerr, CPA, CISA, CIA, MBA

Mission Statement

The mission of the City of Santa Fe Internal Audit Department is to provide independent, objective assurance and review services designed to promote transparency, accountability, efficiency, and effectiveness of City government for the citizens of the City of Santa Fe.



City of Santa Fe – Internal Audit

200 Lincoln Ave, Santa Fe, NM 87504-0909
Liza A. Kerr, Internal Auditor

(505) 955-5728, cell (505) 490-3372

Date: April 10, 2015
To: Brian Snyder, City Manager
From: Liza Kerr, Internal Auditor
RE: 2015/2016 Audit Plan

Attached is the Internal Audit Department's 2015/2016 Annual Audit Plan.

If you have questions, please contact Liza Kerr, Internal Auditor, at (505) 955-5728.

cc: Javier Gonzales, Mayor
Kelly Brennan, Interim City Attorney
Members of the Audit Committee
Members of the Governing Body

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Overview

The Internal Audit Department of the City of Santa Fe adheres to an overall audit strategy that a high quality and transparent annual audit plan is critical for meeting the goals, objectives, and mission of the department. Internal Audit utilizes professional standards and guidelines developed by the Institute of Internal Auditors for the development of the annual audit plan. These guidelines recognize that an annual audit plan and work schedule benefit the organization by:

- Establishing which agencies, programs, contracts, or other areas will be prioritized for audits on an annual basis;
- Permitting an efficient allocation of limited audit resources;
- Providing a flexible basis for managing audit personnel;
- Projecting an estimated timetable for initiating and completing audits for the year;
- Eliminating the potential for overlapping audits with other audit organizations; and
- Providing an identifiable basis for the role of Internal Audit and justification for obtaining budgetary funds.

The following describes our planning process used to prepare the 2015 -2016 Audit Plan. The 2015-2016 Audit Plan is found as **Attachment 1**. The Audit Objectives for the planned audits are found as **Attachment 2**.

Preparing the Annual Audit Plan

Audits included in the annual audit plan are selected and prioritized using a risk-based approach. Risk assessment is a process used to identify and prioritize audits based upon specific risk factors related to the quality of internal controls and the estimated liability and level of exposure to the City of Santa Fe related to various City departments, programs, activities, and contracts. The risk factors used were:

- **Governance 15%** - The risk that City Ordinances, policies and procedures, and internal controls are not adequate.
- **Perception of Risk 10%** – is the subjective judgment that the stakeholder makes about the characteristics and severity of a risk.
- **Reputation Risk 15%** - The risk that the City’s public image will be tarnished due to improper actions on the part of officials, management, or staff.

- **Economic Factors 15%** – The risk that a significant financial impact may result in the event of a breakdown in the internal control structure.
- **Environmental Factors 15%** – The risk that a highly regulated department or division will lose funding if compliance conditions are not met.
- **Organizational Changes 5%** – The risk that new management being assigned to a department or division do not have the skills to perform the job function – or alternately, the risk that no change has occurred when it needs to occur leaving the City vulnerable.
- **Time Last Audited 20%** - The risk that certain high risk areas within the City are not audited on a periodic basis.

The 2015-2016 Risk Assessment is found as **Attachment 3**. The risk assessment is used as a tool to facilitate planning of a series of interviews with senior management. The determination of the audits to be performed was made after the interviews were conducted. For example, the City Attorney’s Office had a weighted total of 323 on the risk assessment. After conducting an interview with the Interim City Attorney it was determined that the majority of the risk dealt with in the legal department is inherent risk which is flowing through from various City departments and outside sources. As a result of this interview, it was determined that the overall risk of the City Attorney’s office does not constitute an immediate need for an audit. Another factor taken into consideration in developing the audit plan is whether or not a department is already being audited by the external financial auditor, a state or federal auditor, or a contract auditor. If the department is already being audited, the need to do an internal audit is decreased. See a summary of all audits in **Attachment 6**.

Audit Horizon Methodology

The audit plan is based on developing a realistic audit horizon of planned high-risk audits covering a three-year period. Internal Audit bases its annual audit plan on the development of such an audit horizon rather than developing a subjective, overly complex, and incomplete “audit universe.” Historically, many audit organizations have attempted to develop a comprehensive “audit universe” from which to identify and prioritize audits. However, this process is cumbersome, time consuming, and generally reveals that there are literally thousands of possible audits that would require tens of thousands of audit hours and other resources. Additionally, the inclusion of such a “universe” could potentially mislead City officials and citizens to believe that all of the audits included on the listing will be performed and, perhaps more significantly, that any departments, programs, activities, or contracts not included in the universe are not subject to audit.

As a result, instead of developing an “audit universe,” Internal Audit utilizes a realistic audit horizon strategy and approach to identify, prioritize, and manage audits deemed to be critical to City operations. Specifically, using the risk-based methodology described throughout the audit plan, Internal Audit identifies and prioritizes a select number of audits for inclusion into the annual audit plan as well as listing potential audits for the ensuing two years.

The audits included in the horizon are based on available audit hours each year to ensure that realistic expectations are established and stated goals are met. The approach also builds ample hours into the plan for specially requested audits not originally captured on the plan, and for urgent audit issues that arise throughout the year. This approach provides the Auditor with a great deal of flexibility to address emerging issues in a timely manner and for providing high quality and responsive customer service to elected officials and operational management.

This strategy and accompanying risk assessment methodology will allow the City to execute a less cumbersome annual audit planning process and generate a more realistic, flexible and transparent set of goals and work activities for the upcoming year. The audit horizon approach aligns well with the evolution of the audit profession where, in today’s increasingly complex operational environments, audit functions must stretch beyond traditional risk-assessment processes, generally focused on short-term risks, to identify and address emerging and long-term strategic risks.

Scope of Audits

The auditor is granted the authority through City Ordinance 2013-34 to conduct performance/management and financial audits, attestation engagements or to provide advisory (non-audit) services, including special investigations, to independently and objectively determine whether:

- The city, state or federal law authorizes the implemented activities and programs that are the subject of the audit;
- The objectives intended by city, state or federal law are efficiently and effectively accomplished in the implementation of activities and programs;
- The expenditure of funds was or is in compliance with applicable laws;
- The revenues were or are properly collected, deposited and accounted for;

- The entity, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices;
- The desired result or benefits are being achieved;
- Resources, including funds, property and personnel, were or are adequately safeguarded, controlled and used in a faithful, effective and efficient manner;
- Financial and other reports fairly and fully disclosed all information as required by law necessary to evaluate and ascertain the nature and scope of programs and activities;
- Management established operating and administrative procedures and practices, accounting internal control systems and internal management controls were and are adequate and functioning as intended;
- City policies, budgets, goals and objectives were and are fully implemented;
- Indications of fraud, waste, abuse or illegal acts are valid and need further investigation.

By evaluating potential audits from a variety of perspectives, we can ensure that there is widespread audit coverage in terms of both the types of audits performed, as defined in Generally Accepted Government Auditing Standards (GAGAS) promulgated by the Comptroller General of the United States, and in terms of the City's vast array of departments, programs, activities, and contracts.

Budget and Staffing

The Available Audit Hours Budget (**See Attachment 4**) for Internal Audit was prepared in accordance with the City's wage and hour guidelines.

For 2015-2016, Internal Audit has a staff of one employee, thereby making 2,088 audit hours available for fiscal year 2015-2016. The Internal Auditor is required by GAGAS to obtain a minimum of 40 hours of continuing professional training per year through such opportunities as offered by the Association of Local Government Auditors (ALGA), the Institute of Internal Auditors (IIA), ISACA formerly known as Information System Audit and Control Association, the New Mexico State Auditor's Office, and the American Institute of Certified Public Accountants. The Internal Auditor is required by GAGAS to have technical competence in all areas audited. The Internal Auditor has the professional designations of Certified Internal Auditor, Certified Information System Auditor, and Certified Public Accountant. The Internal Auditor also holds a Master Degree in Business Administration from The University of New

Mexico. This broad spectrum of certifications asserts to the technical competence of the Internal Auditor for the majority of the types of audits that the City would encounter.

Calculation of Audit Hours

The calculation of Available Audit Hours (See Attachments 4 & 5) indicates 2,088 total hours available with 856 hours for audits and projects and 914 hours available for general and administrative work. The calculation of Available Audit Hours was divided into five categories. The five categories are:

1. Audits and Project Work	841 Hours
2. General Administration/Planning	914 Hours
3. Training and CPE hours	60 Hours*
4. Holidays	88 Hours
5. Vacation and Sick Leave	185 Hours
Total	2,088 Hours

*Note: 40 hours are required as a minimum. However, it is the industry standard to allocate additional hours to the head of Internal Audit as additional time is needed for specialty certifications.

3 Year Audit Plan

A schedule has been prepared to document a 3 Year Audit Plan (See Attachment 6). This schedule lists audits, follow-up audits, and projects completed each fiscal Year. The 3 Year Audit Plan is intended to assist in future planning and scheduling of audits, follow-up audits, and projects.

Attachments