

City of West Palm Beach

Internal Auditor's Office



# ANNUAL REPORT

FISCAL YEAR ENDING SEPTEMBER 30, 2010

April 15, 2011

Honorable Mayor, Members of the City Commission and Members of the Audit Committee:

Attached is the Internal Auditor's Office Fiscal Year 2009/10 Annual Report for your review and information. This report includes a summary of internal audit activity and achievements. Also included in this report is general information to increase overall awareness and clarity surrounding the audit function. We have included background information on the audit profession, the importance of independence and transparency, and the professional standards practiced in this office.

The primary focus of the Internal Auditor's Office is to provide the Mayor and City Commission with objective information to assist them in determining whether government operations are adequately controlled and whether the required high degree of public accountability is maintained over public funds and to improve the efficiency and effectiveness of City government. To accomplish this, we perform audits and reviews and provide a variety of consulting services to ensure the reliability and integrity of financial records, compliance with established policy and procedures, accountability and protection of City assets and the achievement of program objectives.

As in past years, we received the full support and cooperation from all levels of City personnel and management in answering our questions, facilitating our audit work and promptly addressing our audit concerns.

You have my personal commitment to managing an office that provides you with credible, professional services. Organizationally, the Internal Auditor's Office is structured to ensure its independence through the establishment of the Audit Committee. Accordingly, I pledge to you that I remain independent and objective pursuant to the professional practices of internal auditing. Thank you for your confidence and support in our work.



Imogene Isaacs, CIA, CGFM  
Internal Auditor

# **Internal Auditor's Office Mission, Vision, Goals and Objectives**

## **Mission**

CONTRIBUTE TO THE CITY'S SUCCESSFUL ACHIEVEMENT OF ITS  
MISSION, VISION, GOALS AND OBJECTIVES BY PROMOTING EFFICIENCY,  
EFFECTIVENESS, ECONOMY AND INTEGRITY

## **Vision**

TO BE A HIGHLY RESPECTED SERVICE ORGANIZATION  
AND A CATALYST FOR POSITIVE CHANGE

## **Goals**

PERFORM AUDITS AND PROVIDE OTHER SERVICES  
TO HELP THE CITY ACHIEVE THE HIGHEST EFFECTIVENESS  
AND EFFICIENCY WITH INTEGRITY

## **Organizational Objectives**

PROMOTE ADEQUATE SYSTEMS OF INTERNAL CONTROL  
IMPROVE OPERATIONAL EFFICIENCY AND EFFECTIVENESS  
ADVANCE CONTRACT COMPLIANCE AND FISCAL RESPONSIBILITY  
OPTIMIZE VALUE RECEIVED FROM CITY RESOURCES  
INCREASE AWARENESS AND UNDERSTANDING OF EMERGING ISSUES

## **Functional Objectives**

EXPAND STAFF KNOWLEDGE, SKILLS AND ABILITIES  
STAY CURRENT ON ISSUES AND TRENDS AFFECTING GOVERNMENTS  
INCREASE AUDIT EFFECTIVENESS  
PROVIDE CUSTOMER VALUED AUDIT AND CONSULTING SERVICES  
MEET GOVERNMENT AUDITING STANDARDS

## AUDIT STAFF

The audit activity requires professional, competent staff that collectively has the necessary qualifications and experience to conduct a full range of audits.

### PROFESSIONAL STAFF

The professional staff of the Internal Auditor's Office for FY 2009/10 consisted of:

Internal Auditor:	Imogene Isaacs, CIA, CGFM
Deputy Internal Auditor:	Joni Loehrig, CIA
Sr. Assistant Internal Auditor:	Scott Craig, CIA (retired March 2010)
Assistant Internal Auditor:	Veronica Rodriguez
Student Intern:	Manoucheka Michele (part time, seven months)

*CIA = Certified Internal Auditor*

*CGFM = Certified Government Financial Manager*

### PROFESSIONAL CREDENTIALS

Auditors in the Internal Auditor's Office maintain relevant certifications and are members of many prestigious professional audit and accounting associations.

Auditing certifications demonstrate a technical capability that is recognized internationally. The professional associations providing the certifications have rigorous standards and minimum requirements that include comprehensive written exams for technical knowledge and skills and verified education and experience requirements. The certifications also carry stringent ethical standards.

### TRAINING AND CONTINUING PROFESSIONAL EDUCATION

The Internal Auditor's Office emphasizes continuing professional development as a means of improving efficiency and effectiveness. Internal auditors are required to comply with the standards set out by the Government Accountability Office (GAO) and must meet minimum continuing education requirements to retain professional certifications. Government Auditing Standards require that government auditors be proficient in their duties. Therefore, auditors are required to complete at least eighty hours of continuing education and training every two years.

During FY 2009/10, the Internal Auditor's Office professional staff completed the required continuing education to maintain their professional certifications and comply with Government Auditing Standards. Training encompassed a variety of topics including leadership, government accounting and auditing, risk assessment, continuous auditing and lean government. Continuing education was primarily obtained through the following:

- Audio conferences encompassing various topics
- The Institute of Internal Auditors training courses
- City provided training
- U. S. Department of Housing and Urban Development

## PROFESSIONAL ORGANIZATIONS AND MEMBERSHIPS

Professional associations offer opportunities for continuing education and for maintaining proficiency and knowledge of current issues affecting the government and auditing professions. The Internal Auditor's Office maintains either a group or individual membership in the following organizations:

- Association of Local Government Auditors (ALGA)
- Institute of Internal Auditors (IIA)
- Government Finance Officers Association (GFOA)
- Florida Government Finance Officers Association (FGFOA)
- Association of Government Accountants (AGA)
- Florida Audit Forum

## FY 2009/10 ACCOMPLISHMENTS

### AUDITS AND REVIEWS

The Internal Auditor's Office performs audits and reviews to determine whether controls are in place over critical business processes, including an evaluation of the adequacy and integrity of internal controls, compliance with City policies, laws and regulations, and evidence of process efficiencies and effectiveness. Frequently, audits include examination of multiple areas, issues and activities.

The Internal Auditor's Office issued the following audits and reviews during FY 2009/10:

- **Audit of Forfeiture Funds:** This audit, issued in December 2009, focused on internal controls and accountability in both the Finance and Police Departments including a review of compliance with Federal and state policies and procedures and a determination of the accuracy and timeliness of posting accounting entries. Although funds were used consistently with Federal and state authorizations, recommendations were made to improve accounting and record transactions timely.
- **Review of 4<sup>th</sup> on Flagler Special Event – Cash Handling Procedures.** This review, issued May 21, 2010, was performed to assure the risks associated with handling cash were minimized and practices were consistent with procedures. Recommendations were made to improve some of the processes and to eliminate the handling of cash where appropriate; however, overall the practices implemented resulted in no loss of funds. Additional recommendations included formalization of procedures.

The Internal Auditor's Office initiated the following audits and reviews during FY 2009/10:

- **Audit of Housing and Community Development Housing Rehabilitation Assistance – Contracts and Change Orders**
- **Audit of Engineering Services Contract – Wastewater Process Engineering Consulting and Program Management for Water Supply Treatment and Distribution**

## SPECIAL INVESTIGATIONS

During FY 2009/10, the Internal Auditor's Office performed or assisted in numerous investigations involving:

- Conflicts of Interest
- Ethical Violations
- Improper Activities

Investigative activities were coordinated, as appropriate, through the Mayor, Ethics Officer, City Attorney, WPB Police Department and the State Attorney's Office.

In conjunction with the McTeague Construction/Grassy Waters contract investigation, we assisted the City Attorney's Office in finalizing this issue with the bonding company by preparing for and attending mediation.

## SPECIAL REQUESTS

The Internal Auditor's Office reserves resources to accommodate Audit Committee, City Commission, and City Administration requests for reviews not included in the Annual Audit Plan. In the event the Mayor or City Commissioners request specific audit projects requiring a substantial time commitment, the Internal Auditor places the request on the Audit Committee Agenda for approval by the Audit Committee. The Internal Auditor determines how to best accommodate special requests into the audit workload.

The Internal Auditor's Office performed the following special requests during FY 2009/10:

- Ongoing monitoring of Housing and Community Development grant activity focused on the Neighborhood Stabilization Program (NSP)
- Ongoing monitoring of American Recovery and Reinvestment Act (ARRA) grant activity and reporting
- Reviewed and commented on nine audit reports of recipients of HCD grant funds.
- Reviewed financial statements of organizations interested in the Coleman Park Community Services HUB Project focusing on working capital, gain or loss, audits reports, and tax return filing
- Reviewed and commented on Redemptive Life Proposal to perform work under NSP
- Formed a working group and headed the development of a grant monitoring, compliance and deliverables tool for the NSP project
- Fulfilled Commissioner request for data and cost analysis for Clematis-by-Night, Youth Empowerment Center and the Library

## GRANTS: ASSESSMENTS, TRAINING AND TOOLS

During FY 2009/10, the Internal Auditor's Office developed and administered a comprehensive Grants Readiness Assessment with the primary goal to determine whether City Staff had the appropriate knowledge to manage and administer highly regulated ARRA grants. This assessment encompassed multiple areas of grants management including:

- Policies, procedures and processes
- Staff qualifications, sufficiency and readiness
- Project monitoring
- Compliance
- Ethics, fraud, waste and abuse
- Tracking and reporting
- Timing and deliverables
- Procurement practices
- Risk assessment
- Control environment

The results of the assessment clearly showed the necessity for in depth grants training for City staff involved in the grants process. At the request of City Administration, the Internal Auditor's Office, in conjunction with the Grants Compliance Officer, initiated a project to develop, coordinate and perform grants-related training for key City staff.

This training effort included:

- Forming a core-working group of employees to identify and define training needs
- Surveying City staff on training requirements
- Extensive research on grants management best practices, including attending the National Grant's Management Associations (NGMA) Grant Management Bootcamp
- Development of training curriculum, pre and post training assessments
- Preparation of slides, training materials and handouts
- Selection of a recognized expert in the grants training field to assist City staff with the training presentation
- Full coordination and planning for a class of forty-five participants

To supplement and reinforce the training effort, the Internal Auditor's Office and the Grants Compliance Officer developed a Grants Management Checklist, encompassing six grants management processes: Application, Award, Implementation, Monitoring & Compliance, Reimbursement and Closeout. This tool was developed with the goal to maximize grants compliance efforts, minimize risk, promote efficiency and accountability and provide a centralized source for the City's internal grants-related procedures.

## **FRAUD AND ETHICS HOTLINE MANAGEMENT SYSTEM**

The Internal Auditor's Office performed extensive research on best practices related to centralized reporting of fraud, waste and abuse. As a result, the following actions were taken during FY 2009/10:

- Worked with the City's Ethics Officer to formulate a process based on best practices
- Developed recommended processes, including the establishment of an intake review group
- Viewed presentations from third-party providers
- Drafted an Ethics and Fraud Hotline Policy
- In conjunction with the City Attorney's Office, drafted a Fraud and Ethics Hotline Management System ordinance
- Met individually with the Mayor and each City Commissioner
- Provided a written recommendation to the Mayor and City Commission

## **CONSULTING AND ADVISORY SERVICES**

The Internal Auditor's Office performed the following consulting and advisory services during FY 2009/10:

- Participated in the Policy Working Group, reviewed and provided input on administrative policies and procedures
- Compiled data on selected business taxes from other local governments
- Reviewed and commented on proposed changes to the Procurement Code
- Compiled data on six other local governments showing the costs of pensions and retirement systems in terms of percentage of salaries
- Reissued suggestion for reducing costs through reduction in hours
- Issued comments on the City's delay in recording loans totaling \$7.5 million to the CRA and Golf Commission
- Served on the MIS Steering Committee
- Researched issues with the proposed closing of the general employees VEBA plan
- Reviewed contracts and continued participation related to the City's disaster debris and disposal plans and contracts
- Coordinated audio conference for selected City staff on the War Against Fraud
- Coordinated webinar for selected City staff on the President's Executive Order: Reduce Improper Payments and Eliminated Waste
- Prepared and presented to the Audit Committee: External Auditor/Audit Committee Communication
- Served on various procurement selection committees and interview panels

## FY 2009/10 AUDIT COMMITTEE ACTIVITIES

The Audit Committee convened for nine scheduled committee meetings. Audit Committee meetings and discussions encompassed a variety of topics and issues. The Committee's activities and accomplishments during FY 2009/10 include:

- Received and reviewed quarterly financial reports and information technology projects, the Internal Auditor's monthly status and activity reports and the quarterly audit recommendation follow-up report.
- Reviewed reports on ARRA and other grant funding, reporting and activity
- Requested and received presentations from staff on:
  - Waterfront Project – Joan Goldberg
  - Construction and Engineering Services Contracts/Change Orders – Jonathan Bramley
  - Golf Course and Community Redevelopment Agency Loans – Randy Sherman
  - Parking System Audit Recommendations and Current Problems – Chris Zachritz
  - U. S. Department of Energy ARRA Grant – Neil Melick
  - Management Study of the Fire Rescue Department – Chief Phil Webb
- Held discussions on fraud and ethics reporting mechanisms and the role of the Internal Auditor's Office in fraud and ethics investigations
- Reviewed the External Auditors plan for and progress in completing the City's annual financial audit and reviewed with the External Auditor their Report to the Audit Committee
- Discussed and reviewed the City's Comprehensive Annual Financial Report and Single Audits
- Reviewed and commented on the Internal Auditor's Office Peer Review Report.
- Approved the FY 2010/11 Internal Auditor's Audit Plan and the Internal Auditor's Office FY 2008/09 Annual Report
- Reviewed and approved for issuance the Audit of Forfeiture Funds and the Review of 4<sup>th</sup> on Flagler Special Event – Cash Handling Procedures
- Evaluated the performance of the Internal Auditor

Finally, the Audit Committee provided ongoing advice and direction to the Internal Auditor's Office. The staff of the Internal Auditor's Office appreciates the encouragement, support, and valuable input provided by the members of the Audit Committee.

## THE YEAR AHEAD

### APPROVAL OF THE FY 2010/11 AUDIT PLAN

On July 16, 2010, the Audit Committee approved the Internal Auditors FY 2010/11 Audit Plan, subsequently approved by the City Commission on September 7, 2010. This plan details scheduled audits and reviews in the upcoming fiscal year. Any substantive revisions or changes to the Audit Plan throughout the year are approved by the Audit Committee and reported in the Internal Auditor's Office Monthly Status Report.

### AUDIT PLAN HIGHLIGHTS

Planned activities including audits and reviews for FY 2010/11 include:

- Audit of Contracts e.g. engineering services
- Continuous auditing, including routine control systems assessments and special reviews such as grants. This is a change from our normal and will require a significant amount of time for planning and establishing the continuous auditing program.
- Audit of Procurement Card

## AUDITING IN THE CITY

Government auditing is a cornerstone of good public sector governance. By providing unbiased, objective assessments of whether public resources are responsibly and effectively managed to achieve intended results, auditors help government organizations achieve integrity and instill confidence among citizens and stakeholders. Auditors strive to promote accountability and improve operations through reducing costs, increasing efficiency, improving the quality of services, and ensuring the accuracy and integrity of financial and other information.

### ROLE OF INTERNAL AND EXTERNAL AUDITORS

Although they are independent of the activities they audit, Internal Auditors are integral to the organization and provide ongoing monitoring and assessment of activities. External auditors are independent of the organization and provide an annual opinion on the financial statements. Both groups play an important role in increasing government accountability and have mutual interests regarding the effectiveness of internal financial controls. Further, both Internal and External Auditors adhere to ethical codes and professional standards set by their respective professional bodies, operate independently of the activities they audit, and are expected to have extensive knowledge about the overall operations and risks faced by the entity they serve.

INTERNAL AUDITORS are City employees. Internal Auditors place emphasis on determining whether the required high degree of public accountability is maintained and how to best improve the efficiency and effectiveness of government operations and activities. To accomplish this, the Internal Auditors focus on accountability, internal controls, and improving management efficiency. Although Internal Auditors are City employees, the City Charter and City Code provide a framework for them to operate with a high degree of independence.

EXTERNAL AUDITORS are not City employees. External Auditors perform, under contract, an annual audit of the financial records of the City and the Federal and state single audits. The External Auditors provide an independent opinion on the City's financial statements and whether they conform with Accounting Principles Generally Accepted in the United States of America, whether they fairly present the financial position of the City, and whether the results for a given period of time are represented accurately.

The City is required by law to have an annual independent financial audit, annual Federal single audit, and annual state single audit of City accounts. To ensure independence, the City Commission hires the External Auditor based on the selection and recommendation of the Audit Committee. The Audit Committee oversees the annual audit. The certified public accounting firm of McGladry Pullen, LLP is currently the External Auditor for the City of West Palm Beach.

## THE INTERNAL AUDIT FUNCTION

City Charter, Section 4.05, creates the position of the Internal Auditor and establishes the function of the Internal Auditor to conduct, or cause to be conducted, financial, compliance, and expanded scope audits following generally accepted government auditing standards.

The Institute of Internal Auditors defines internal auditing as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." Internal Auditors in the public sector place an added emphasis on providing assurance on performance and compliance with policies and procedures. Concerned with all aspects of the organization -- both financial and nonfinancial -- the Internal Auditor's Office focuses on future events as a result of their continuous review and evaluation of controls and processes.

Audits provide analyses, appraisals, recommendations, and information concerning the activities reviewed. In addition to performing audits, the Internal Auditor's Office provides advice, assistance, and interpretations on policies and procedures, internal controls, contracts, performance measures, and problem areas encompassing concerns of the Mayor, City Commission, and City departments.

## OVERSIGHT, INSIGHT, FORESIGHT, AND DETECTION

The Internal Auditor's Office assists City management in exercising oversight by evaluating whether various functions are doing what they are supposed to do, spending funds for the intended purpose, and complying with laws and regulations. Audits focusing on oversight answer the questions, "Has the policy been implemented as intended?" and "Are managers implementing effective controls to minimize risks?" Oversight audits contribute to public accountability by providing access to performance information regarding areas under review.

The Internal Auditor's Office also provides insight to assist decision-makers by assessing which programs and policies are working and which are not, sharing best practices and benchmarking information, and looking at the City's operations to find opportunities to borrow, adapt, or re-engineer management practices. These activities help organizational learning by providing ongoing feedback to adjust policies. The Internal Auditor's Office conducts their work systematically and objectively to develop a detailed understanding of operations and draw conclusions based on evidence. Therefore, audits can provide a fair description of problems, resources, roles, and responsibilities that, combined with useful recommendations, can encourage management to rethink problems and programs. Audits focusing on insight contribute importantly to answering the broader question, "Has the

policy brought about the intended results?” Concurrently with the accountability function, audits contribute to improving the overall operations of the City.

The Internal Auditor’s Office also helps the City to look forward by identifying trends and bringing attention to emerging challenges before they become crises. The audit activity can highlight challenges to come and identify risks and opportunities. These issues often represent long-term risks and can sometimes receive low priority for attention where scarce resources drive more short-term focus on urgent concerns. Audits focusing on foresight help answer the question, “What policy revisions or implementation would meet a future need or risk?”

Detection activities are intended to identify improper, inefficient, illegal, fraudulent, or abusive acts that have already transpired and to collect evidence to support decisions regarding criminal prosecutions, disciplinary actions, or other remedies. Successful detection efforts may also have a deterrent effect.

## ORGANIZATIONAL INDEPENDENCE

City Charter, Section 4.05, ensures the independence of the Internal Auditor’s Office by the establishment of an Audit Committee. The City Charter specifies that the Audit Committee is a management committee and not a public board. The Audit Committee is comprised of five voting members including the Chairperson, the Mayor’s designee, and three at-large members. The President of the City Commission serves as the Chairperson of the Audit Committee.

Section 3.12 of Government Auditing Standards states: *The ability of audit organizations in government entities to perform work and report the results objectively can be affected by placement within government, and the structure of the government entity being audited. Whether reporting to third parties externally or to top management within the audited entity internally, audit organizations must be free from organizational impairments to independence with respect to the entities they audit. Impairments to organizational independence result when the audit function is organizationally located within the reporting line of the areas under audit or when the auditor is assigned or takes on responsibilities that affect operations of the area under audit.*

Organizational independence allows the Auditors to conduct work without interference by the entity under review, and contributes to the accuracy of the auditors’ work and the ability to rely on the audit results and report.

Prior to the commencement of a formal audit or review, each Internal Auditor’s Office professional staff member signs an independence statement requiring disclosure of any circumstances which may impair or lead others to question their independence.

## **AUTHORITY AND ACCOUNTABILITY**

City Charter establishes the unrestricted authority of the Internal Auditor to have access to all records and personnel. Sec. 2-399 of the City Code establishes the Internal Auditor's access to records and property stating that all City employees shall furnish the internal auditor with requested information and records within their custody for the purposes of conducting an audit or other official duties.

The Audit Committee is responsible for providing oversight and general direction to the internal audit function in addition to oversight of the City's external audit efforts and oversight for the City's systems of internal control. The Audit Committee is also responsible for evaluating the performance of the Internal Auditor on an annual basis.

### **INTERNAL AUDITOR'S ACTIVITY REPORTS TO THE AUDIT COMMITTEE**

The Internal Auditor submits to the Audit Committee in a public meeting held at least quarterly, both a monthly activity report and a monthly status report summarizing department activity during the prior month(s). During Fiscal Year 2009/2010, there were nine Audit Committee Meetings and twelve monthly report packages. This formal communication to the Audit Committee allows for more detailed discussions of audit related issues and brings a heightened level of exposure ensuring transparency of the audit process. The monthly activity report details staff utilization including both direct and indirect hours and identifies current audits and reviews, assistance to the Mayor and Commissioners, consulting services, and follow-up activity. The monthly status report includes detailed data on active or open audits including status of the audit, hours spent to date, and estimated hours to completion.

On a quarterly basis, the Internal Auditor presents to the Audit Committee a comprehensive follow-up report, detailing all open audit recommendations, including the responsible officer, the status, and the estimated date of implementation.

## **TRANSPARENCY**

The principle of transparency relates to the openness of government to its citizens. Good governance includes appropriate disclosure of information so that the public has the necessary facts about the City's performance and operations. Accordingly, the City's decisions, actions, and transactions are conducted in the open and that transparency plays a significant role in public oversight. Auditors can provide a direct link between transparency and the credibility of the government.

## THE INTERNAL AUDITOR'S OFFICE WEBPAGE

The Internal Auditor's Office strongly supports transparency to all City of West Palm Beach citizens as well as the public at large. With the assistance of the City's Support Services staff, we have created and maintain a webpage that supports this philosophy. Our webpage is informative, current and easily found under the City Services link on the City's website.

Our webpage contains an introduction and overview of the Internal Auditor's Office and includes:

- Internal Auditor's Office Annual Reports beginning with FY 2003/04
- All issued non confidential audit reports from FY 2002/03 to present
- Annual Audit Plan
- Schedule of Audit Committee Meetings
- Results of the 2009 Association of Local Government Auditor's Peer Review

## QUALITY AND STANDARDS

### AUDITING STANDARDS

The Internal Auditor's Office is committed to producing high-quality audits and applies professional auditing standards to formal audits and applicable standards to all engagements. Professional audit standards provide a framework to promote quality audit work that is systematic, objective, and based on evidence. Adherence to these standards ensures reviews and assessments of City operations are consistently informative, accurate, and objective.

The Internal Auditor's Office conforms to the professional standards of the Yellow Book - Government Auditing Standards issued by the United States Government Accountability Office (GAO). Further, the Internal Auditor's Office adheres to the independence standard formulated by The Institute of Internal Auditors, Inc. (IIA). GAO incorporates standards adopted by the American Institute of Certified Public Accountants for financial audits.

### INTERNAL AUDIT MANUAL

The Internal Auditor's Office practices under the guidelines of the City of West Palm Beach, Internal Auditor's Office - Internal Audit Manual, originally issued in 1991. This manual serves as a centralized source of the general policies and standards governing the Internal Auditor's Office and contains procedures, operating methods, and practices. The Internal Audit Manual further establishes administrative procedures for the Internal Auditor's Office and defines control and reporting procedures designed to assure effective coordination and consultation with the Audit Committee.

## BEST PRACTICES AND BENCHMARKING

The Association of Local Government Auditors has identified eighteen topic areas to measure best practices for government auditing organizations. The number in parentheses following the topic description reflects the approximate percentage of responding audit organizations that have implemented or are in the process of implementing these practices based on the most recent ALGA survey performed in 2008.

1. **Working with Audit Committee and/or Senior Management to Identify Major Issues:** Audit Committee and/or senior management reviews the audit work plan and strongly supports early involvement of the audit department. (85%)  
*Internal Auditor's Office performs this best practice.*
2. **Audit Department Planning Process:** Audit department prepares a formal risk assessment document. (81%)  
*Internal Auditor's Office has not fully implemented this best practice. Language has been incorporated into the Internal Audit Manual providing for an annual risk assessment.*
3. **Planning for the Future:** Strategic planning and/or long-term (3 to 5 year) audit work planning is on-going. (70%)  
*Internal Auditor's Office has not implemented this best practice.*
4. **Marketing the Audit Function:** Audit department has developed a marketing product, which encourages management to see audit as an advisor/consultant and supports the audit mission. (54%)  
*Internal Auditor's Office performs this best practice.*
5. **Customer Satisfaction Surveys:** Audit department obtains input through the use of formal customer surveys. (47%)  
*Internal Auditor's Office performs this best practice.*
6. **Audit Effectiveness Questionnaire:** Audit department asks customers to value audit after the engagement has been completed. (41%)  
*Internal Auditor's Office performs this best practice.*
7. **Audit Report Follow-Up:** Action dates logged and tracked, and non-compliance reported to Audit Committee and/or senior management. (81%)  
*Internal Auditor's Office performs this best practice.*
8. **Audit Report Resolution:** Audit Committee and/or senior management actively support the audit resolution process and take corrective action in a reasonable period of time. (85%)  
*Internal Auditor's Office performs this best practice.*

9. **Third Parties:** Audit department uses third parties to conduct audit work. (40%)  
Internal Auditor's Office has performed this best practice, but does not currently use third parties due to budgetary constraints.
10. **External Quality Control Reviews:** Audit department schedules external peer review once every three years. (69%)  
Internal Auditor's Office performs this best practice.
11. **High Percentage of Performance/Operational Audits:** Audits focus on business process (economy, efficiency and effectiveness) not just controls. (87%)  
Internal Auditor's Office performs this best practice.
12. **Contract Auditing:** Audits are performed at the contractor's place of business before or early in contract term; field audits are used to verify amounts billed and obtain contract repayments. (44%)  
Internal Auditor's Office performs this best practice when applicable.
13. **Information System Auditing:** Perform pre and post implementation reviews of new automated systems and/or actively involved in the audit of active automated system applications and the general control environment. (54%)  
Internal Auditor's Office lost their Information Technology auditor position in 2007 and no longer performs this best practice.
14. **Performance Measures Benchmarking and/or Best Practices:** Audit department reviews and/or analyzes submissions made by operating departments regarding performance measures to verify the reliability of management presentations. (53%)  
Internal Auditor's Office does not verify the reliability of management presentations, however has assisted City departments in developing and implementing performance measures.
15. **Continuous Monitoring:** Audit Department uses continuous monitoring or continuous auditing for selected areas of their environment. (35%)  
Internal Auditor's Office has planned implementation for continuous monitoring of grants compliance in FY 2009/10. This was a newly added topic in the 2008 survey.
16. **Organization Teams for Re-Engineering Work Process Improvements and Quality Improvements:** Audit department facilitates or participates in organizational initiatives to streamline operations and/or focus on customer needs. (66%)  
Internal Auditor's Office performs this best practice.
17. **Control Self Assessments:** Audit Department educates/facilitates/equips operating departments for self-assessment of organizational risks. (37%)  
Internal Auditor's Office has performed this best practice, but due to staffing constraints does not actively practice control self-assessments.
18. **Automated Audit Tools:** Use computer-assisted audit techniques and tools to assist in audit analysis and testing, and/or audit planning and administration. (76%)  
Internal Auditor's Office has not implemented this best practice.

The Internal Auditor's Office adopted five performance indicators as included in the Annual Audit Plan. These five indicators were:

1. Direct time to available time  
Benchmark = 82%      Internal Auditor's Office = 57%  
*Note: Internal Audit has no administrative assistant or secretary*
2. Staff fulfilling Government Audit Standards training requirements  
Benchmark = 97%      Internal Auditor's Office = 100%
3. Customers rating services as adding value  
Benchmark = 92%      Internal Auditor's Office = 100%
4. Audit recommendation accepted  
Benchmark = 95%      Internal Auditor's Office = 100%
5. Special requests completed timely  
Benchmark = N/A      Internal Auditor's Office = 100%

#### **EXTERNAL QUALITY ASSESSMENT**

Consistent with the Yellow Book, City Code provides for an independent external quality assessment of the Internal Auditor's Office at least once every three years by a professional, nonpartisan objective group. This assessment is commonly referred to as a peer review. A peer review is a process which assesses an audit organization's internal quality control system to determine if that system offers reasonable assurance of compliance with Government Auditing Standards. Specifically, peer reviews evaluate staff qualifications, adequacy of planning and supervision, sufficiency of work paper preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud and abuse, program compliance, and automated systems. The peer review also assesses the form, distribution, timeliness, context, and presentation of internal audit reports. The Internal Auditor's Office reviews are conducted by and based on the review standards set forth by the Association of Local Government Auditors.

The Internal Auditor's Office had their sixth peer review in September 2009. Consistent with the five previous reviews, this review resulted in a successful report issued by the independent reviewers. The full report is available in the Internal Auditor's Office section of the City's website.

#### **INTERNAL QUALITY REVIEWS AND CUSTOMER SURVEYS ON AUDIT SERVICES**

At the conclusion of the audit process, internal quality reviews are performed and audit service surveys are conducted when applicable.

## THE AUDIT PROCESS

The audit process involves three phases: survey, fieldwork and reporting.

**Survey:** This pre-audit work provides the audit staff with knowledge of the auditee's organization and missions, an understanding of the auditee's functions and operations, and an awareness of internal management and fiscal controls.

**Field Work:** During fieldwork, the auditor reviews and evaluates extensive data, documents findings, and develops recommendations for corrective action.

**Reporting:** At the completion of fieldwork, a draft audit report is prepared and furnished to the auditee(s) for their review and response. The final audit report includes the auditor's findings and recommendations along with management's responses.

## RECOMMENDATIONS AND FOLLOW-UP

One of the ways that audit reports provide value is through recommendations that help City departments improve efficiencies, effectiveness, and services while minimizing risk.

The implementation of audit recommendations is the responsibility of City Administration and management. The Internal Auditor's Office tracks all audit recommendations made and the status of implementation. FY 2008/09 started with twenty-one recommendations, four were implemented and cleared and four were added, as a result twenty-one were carried over into FY 2009/10.

## SCHEDULING OF AUDITS

The Internal Auditor formulates and prepares an annual audit plan at the beginning of each fiscal year. The Internal Auditor formally solicits and incorporates into the plan input from the Mayor, City Commissioners, City Administrators and department directors and managers. The audit plan is commonly revised during the year to accommodate specific requests. Criteria for scheduling audits includes:

- Requests by the Mayor, City Commissioners, and City Administrators
- Requests by department directors and the City Attorney's Office
- Potential for increased cost savings and efficiencies
- Potential for increased revenues
- Areas identified with a high risk of loss or misappropriation
- Suspected mismanagement or fraud
- Areas identified with weak internal controls or known problems
- Issues identified by the External Auditors

City employees and members of the public are welcomed and encouraged to contact the Internal Auditor regarding current or potential audits and any areas of concern.

## **FY 2009/10 Audit Committee and City Commission**

### **AUDIT COMMITTEE**

**Molly Douglas, President of the City Commission, Chairperson (thru March 2010)**  
**Kimberly Mitchell, President of the City Commission, Chairperson (from April 2010)**

**David Baker, Esq., Mayor's Designee**  
**Gregory S. Daniel, Member-at-Large**  
**Carolyn Williams-Smith, CPA, Member-at-Large**  
**Richard J. Levinson, CPA, Member-at-Large (resigned April 2010)**

### **CITY COMMISSION**

**Lois J. Frankel, Mayor**

**Molly Douglas, City Commissioner**  
**Kimberly Mitchell, City Commissioner**  
**William Moss, City Commissioner**  
**Jeri Muoio, City Commissioner**  
**Isaac Robinson, Jr., City Commissioner**

Additional copies of this report may be obtained through:

City of West Palm Beach  
Internal Auditor's Office  
401 Clematis Street, Fifth Floor  
West Palm Beach, Florida 33402  
(561) 822-1380  
Or, on the City's website at:  
[www.cityofwpb.com](http://www.cityofwpb.com)