



*cutting through complexity™*



PRESENTATION  
DRAFT

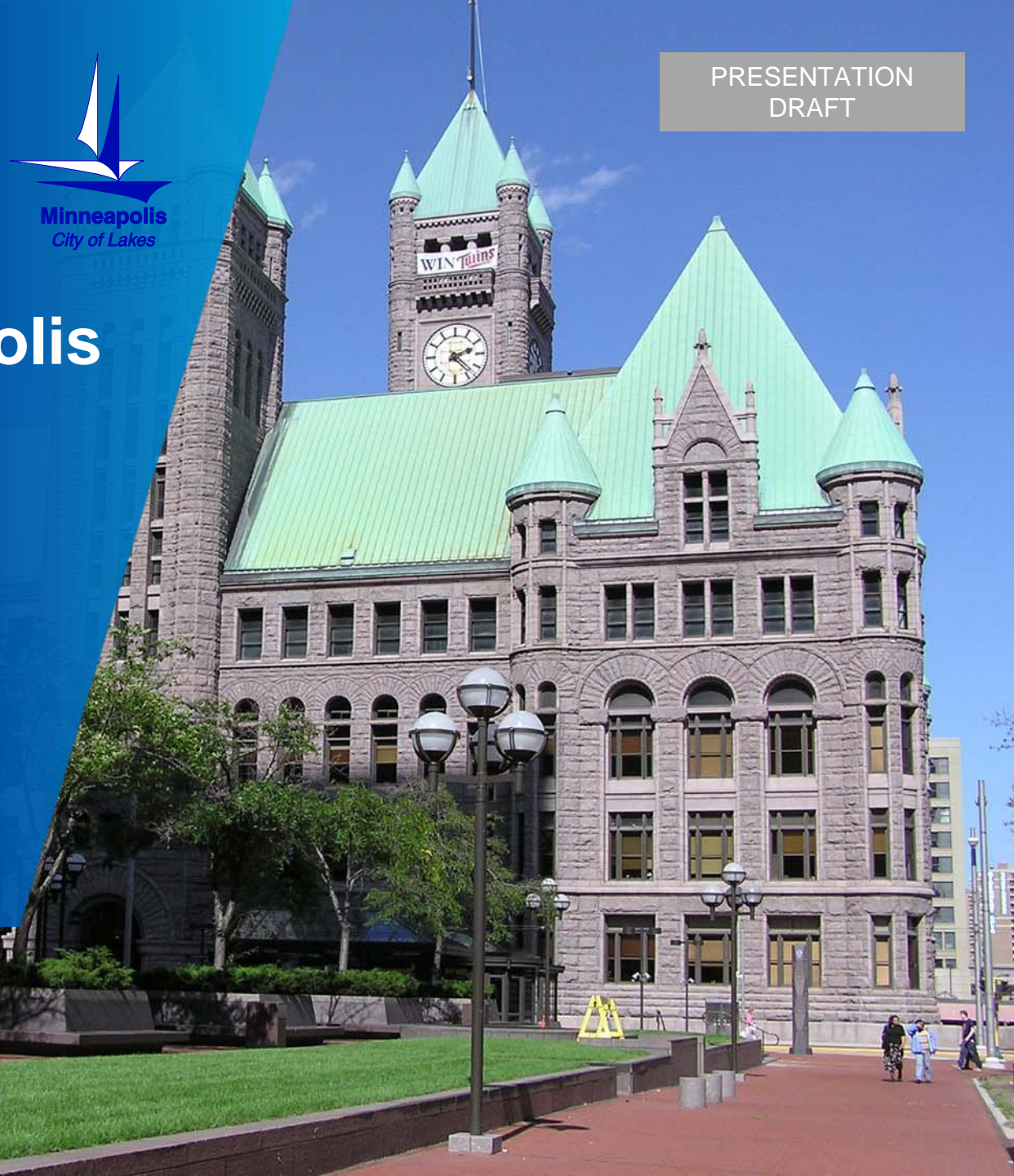
# City of Minneapolis

## Risk Assessment and Internal Audit Plan

Completed October 2010

## Audit Committee Meeting Presentation

November 16, 2010



# Contents

<b>Executive Summary</b>	<b>2</b>
• Objective and Deliverables	
• Risk Assessment Approach and Audit Plan Development	
• Three Year Audit Plan Summary	
<b>Risk Assessment Approach and Audit Plan</b>	<b>7</b>
• Risk Assessment Objectives	
• Risk Assessment Framework	
• Risk Assessment Components	
• Interview Participants	
• Auditable Unit Heat Map	
• 2011 Audit Plan	
<b>Appendix I – Supporting Documents</b>	<b>18</b>
• Risk Profile	
• Risk Ranking Criteria	
• Available Hours Calculation	
• Auditable Unit Risk Profile	
• 2012 Detail Audit Plan	
• 2013 Detail Audit Plan	

# Executive Summary

# Objective and Deliverables

## Objective

The objective of the City of Minneapolis risk assessment was to gain an understanding of the key business risks that threaten the organization's achievement of its strategic objectives and to build a three year audit plan.

## Deliverables

Risk events were identified and compiled to create an auditable unit risk profile. The auditable unit risk profile was assessed for risk and then prioritized based on the following:

- Likelihood of occurrence
- Potential impact to the City

A risk-based three year Internal Audit plan and auditable unit heat map were then developed. Certain areas of the auditable unit risk profile have an expansive list of relevant risks. Those areas were further defined into subsets in order to make achievement of specific audit objectives more realistic and measurable within a reasonable timeframe.

# Risk Assessment Approach and Audit Plan Development

- The City of Minneapolis' Internal Audit function engaged KPMG LLP to assist with the completion of an initial risk assessment and three year internal audit plan.
- The risk assessment and development of the Internal Audit plan were based on standards developed by the Institute of Internal Auditors (IIA) and the American Institute of Certified Public Accountants (AICPA) Statement on Standards for Consulting Services. To conduct the city-wide risk assessment, Internal Audit conducted over 40 individual interviews with the Mayor, City Council members, and City leaders and management.
- The City of Minneapolis' risk profile was created using identified risks, which were grouped into strategic, operational, financial and external risk categories. The risks identified within these categories were mapped against potential risk events and Internal Audit projects which created the audit population. The risk profile is included in Appendix I on page 19.
- The three year audit plan was developed based on the inherent risks identified during the risk assessment process. The plan was designed to allocate Internal Audit resources to address the City's sources of key business risk, to establish baseline assessments of core financial processes, and to improve the continued effectiveness of existing internal controls.

# Three Year Audit Plan Summary

The chart on the following page summarizes the three year Internal Audit plan hours by audit activity. The plans are based on the calendar year, except that the 2011 plan is 13 months starting December 2010.

Audit activities are defined as the following:

- Risk-based:** Audits to be performed due to risk score generated from the annual risk assessment.
- Regulatory:** Audits that should be performed due to compliance, internal policy / procedure requirements or external programs and requirements.
- Cycle:** Audits that should be performed on a periodic basis as the area under audit is critical to basic operations of the organization.
- Emerging Risk Review:** New significant processes, technology, risk or business partner. Products, services or areas in development.
- Discretionary Hours/Special Projects:** Time reserved for unplanned projects, special requests, and unplanned expansion of scope in scheduled audits/reviews.
- Follow Up on Outstanding Audit Issues:** Quarterly follow up with owners of previously identified control issues to assess progress toward resolution.
- Annual Risk Assessment:** Meetings with key stakeholders, update and confirmation of the risk assessment, auditable unit risk profile, and Internal Audit plan.
- Additional Potential Projects:** Projects Internal Audit would like to complete if additional resources or FTEs are available.

# Three Year Audit Plan Summary (continued)

Internal Audit Plan	2011 Plan		2012 Plan		2013 Plan	
		Total Hours		Total Hours		Total Hours
<b>General Activities</b>						
Discretionary Hours/Special Projects		500		500		500
Follow-up on Outstanding Audit Issues		30		60		80
Annual Risk Assessment		150		150		150
Administration, Reporting and Presentations		500		500		500
<b>Audit Projects by Type</b>	<b>Number of Projects</b>	<b>Total Hours</b>	<b>Number of Projects</b>	<b>Total Hours</b>	<b>Number of Projects</b>	<b>Total Hours</b>
Risk-based Audits	7	2100	7	2400	7	2050
Regulatory Audits	-	-	-	-	-	-
Cycle Audits	6	1600	3	900	4	1200
Emerging Risk Review	1	250	-	-	-	-
<b>Subtotal Projects</b>	<b>14</b>	<b>3950</b>	<b>10</b>	<b>3300</b>	<b>11</b>	<b>3250</b>
Additional Potential Projects	2	700	11	3450	9	2900
<b>Total Projects</b>	<b>16</b>	<b>4650</b>	<b>21</b>	<b>6750</b>	<b>20</b>	<b>6150</b>
<b>Plan Total – Activities and Projects</b>		<b>5830</b>		<b>7960</b>		<b>7380</b>

A baseline number of hours was established assuming 10 percent overtime hours as part of base salaries and deducting hours for paid time off, training, and other non-audit administrative matters. The calculation is included in Appendix 1 on page 22.

# **Risk Assessment Approach and Audit Plan**



# Risk Assessment Objectives

## The objectives of the risk assessment are to:

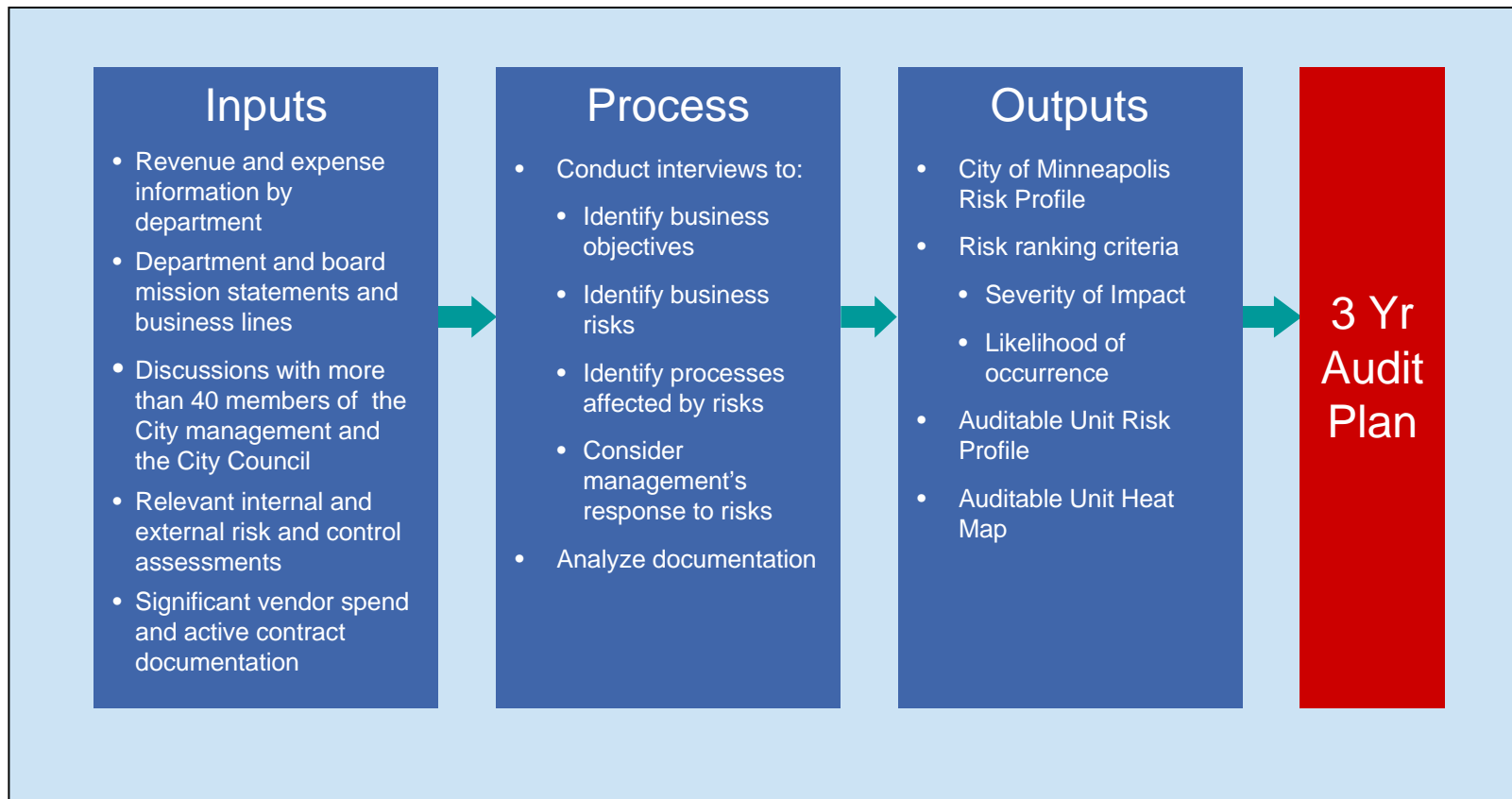
- Gain an understanding of the risks that threaten the organization's achievement of strategic objectives.
- Document the risks and map them against potential Internal Audit projects to create the auditable unit risk profile.
- Prioritize the auditable unit risk profile by ranking the risks associated with each auditable unit based on the likelihood of occurrence and severity of impact to the City.
- Develop a risk-based multi-year Internal Audit plan based on audit types: risk-based, regulatory, cycle and emerging risk reviews.

# Risk Assessment Framework

During the risk assessment we used a five step framework to develop the proposed Internal Audit plan. This framework is used to help ensure risks are considered and evaluated consistently throughout the process by Internal Audit and the organization. The risk assessment framework is based on standards developed by the IIA and the AICPA Statement on Standards for Consulting Services.



# Risk Assessment Components



# Risk Assessment Components (continued)

**In addition to interviews, Internal Audit reviewed pertinent documentation in order to gain a better understanding of the City's goals and operating environment, including:**

- Revenue and expense information by department
- Department and board mission statements and business lines
- State Auditor Management and Compliance Report for the year end December 31, 2009

# Interview Participants

## CITY COUNCIL

Kevin Reich – Ward 1  
Cam Gordon – Ward 2  
Diane Hofstede\*\* – Ward 3  
Barbara Johnson – Ward 4  
Don Samuels – Ward 5  
Robert Lilligren – Ward 6  
Lisa Goodman – Ward 7  
Elizabeth Glidden – Ward 8  
Gary Schiff – Ward 9  
Meg Tuthill – Ward 10  
John Quincy – Ward 11  
Sandy Colvin Roy\* – Ward 12  
Betsy Hodges\* – Ward 13

## OUTSIDE AUDIT COMMITTEE MEMBERS

Darrell Ellsworth  
Mark Oyaas  
Stephanie Woodruff

## DEPARTMENTS

Mayor  
City Coordinator  
Business Info Systems  
Communication  
Finance  
HR  
Inter-governmental Relations  
Convention Center  
Neighborhood and Community  
Relations  
City Clerk  
City Assessor  
City Attorney  
Civil Rights  
Community Planning and Economic  
Development  
Fire  
Health and Family Support  
Police  
Public Works  
Regulatory Services

## WITHIN FINANCE

CFO  
Controller  
Procurement  
Risk Management and Claims  
Treasury  
Development Finance  
Management and Budget

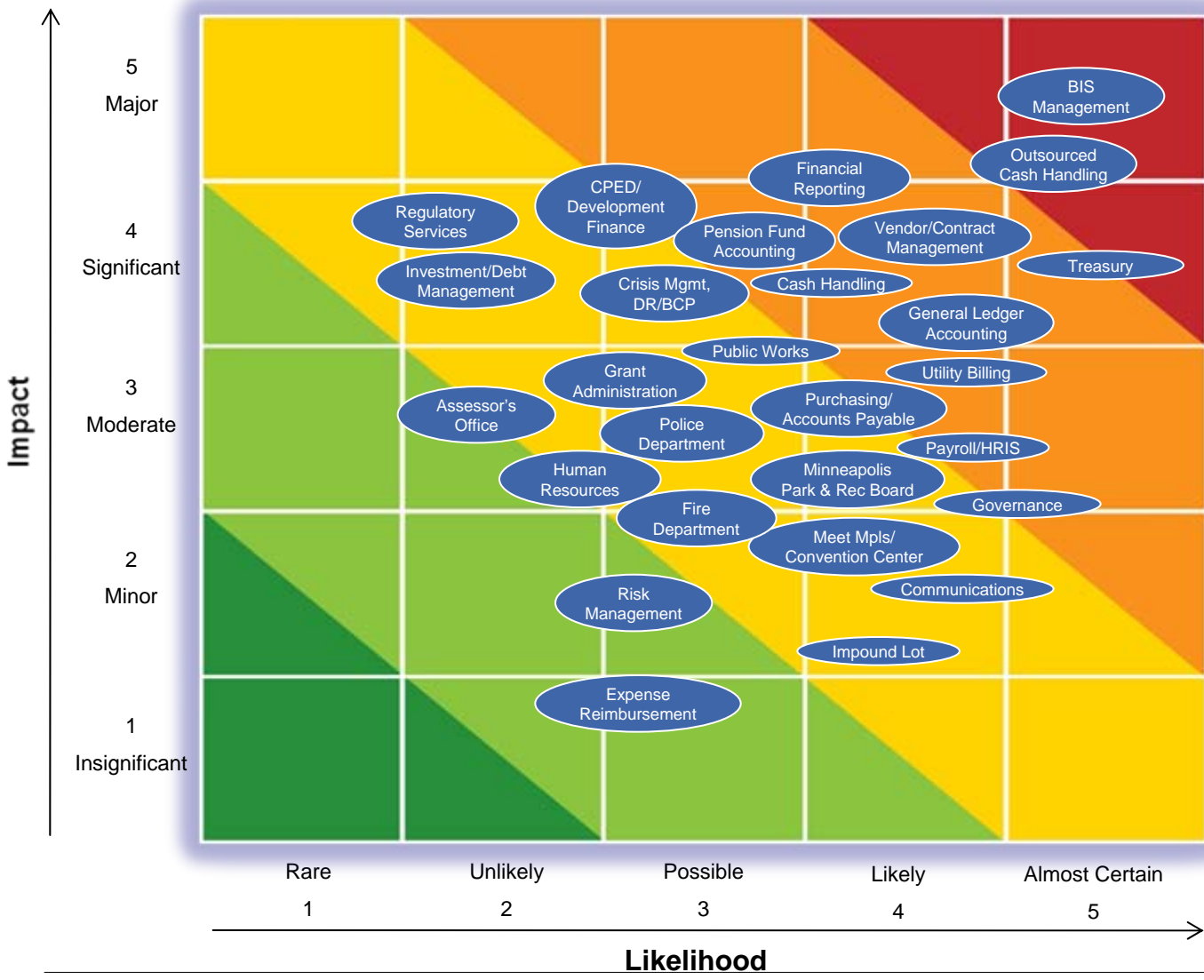
## OTHER

State Auditors

\*\* Audit Committee Chair

\* Audit Committee Member

# Auditable Unit Heat Map



- The auditable unit heat map is based on the results of more than 40 interviews with key stakeholders, review of financial and other relevant data, and professional judgment.
- The heat map is based primarily on inherent risk factors. As baseline audits are conducted within the auditable units, the Internal Audit department will begin to reassess auditable units and their residual risks after gaining an understanding of the internal control structure.
- The heat map is subject to further revision through annual and continuous risk monitoring and assessment activities conducted by the Internal Audit department.
- The risks associated with each auditable unit were ranked based on the likelihood of occurrence and severity of impact to the City. These risk ranking criteria were tailored specifically to the City based on quantitative and qualitative factors. (The risk ranking criteria are defined in Appendix I on pages 20 and 21.)

# 2011 Audit Plan

# 2011 Audit Plan

The 2011 audit plan is based on risk and business need to get a baseline understanding of the internal control structure in key business units.

Annual audit plans were created selecting projects from the auditable unit risk profile. The projects selected for each audit year were based on the following factors:

- Level of inherent risk
- Appropriate timing to perform the audit based on other City initiatives
- Available funding

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Discretionary Hours / Special Projects				500
Follow-up on Outstanding Audit Issues				30
Annual Risk Assessment				150
Administration, Reporting and Presentations				500
BIS Management	City of Minneapolis Computer Network Penetration	Determine whether appropriate controls are in place to prevent and detect attack and penetration schemes from outside the City's network. Assess internal policies, procedures and network access to determine whether access is appropriate, and user activity audit trails are available that assign accountability to individual users.	City of Minneapolis computer networks.	150
	Database Access	Assess security access administration and determine whether appropriate controls are in place.	City of Minneapolis Key Databases.	200
	Protection of Private Information	Gain an understanding of how sensitive or private information is stored on City databases. Determine whether sensitive or private information is properly encrypted. Assess encryption management processes in place.	City of Minneapolis Databases containing HIPAA data.	150
Vendor / Contract Management	UNISYS Contract Review	Determine whether controls are designed and functioning effectively to ensure appropriate vendor bidding, vendor performance, fair pricing and appropriate monitoring of contracts.	Contract effective during FY 2010. Contract oversight, performance measures, payments to contractor, and effectiveness of monitoring.	350
	AMPCO Contract Review	Determine whether controls are designed and functioning effectively to ensure appropriate vendor bidding, vendor performance, fair pricing and appropriate monitoring of contracts.	Contract effective during FY 2010. Contract oversight, performance measures, payments to contractor, and effectiveness of monitoring.	350



# 2011 Audit Plan (continued)

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Treasury	Bank Account Reconciliations	Determine whether appropriate controls and segregation of duties are in place for bank account reconciliations and transactions. Assess international ACH transaction reporting controls in place.	All open City of Minneapolis Bank Accounts.	350
	Bank Account Access			
	Automated Clearing House (ACH) Transactions			
Cash Handling	Cash Collection and Handling	Determine whether controls over cash collection, accounting, and deposit of funds are appropriate.	Cash handling locations as of October 1, 2010, or the review date. (Processes of receiving, balancing, and depositing cash).	300
Financial Reporting	Training Finance Department on Testing of Internal Controls	Train finance staff who will be responsible for performing testing on how to select, test and document key internal controls.	Limited to training, 4th quarter fiscal year 2010.	100
	Quarterly Control Testing	Evaluate the testing of the design and operating effectiveness of internal controls over financial reporting.	Key controls and significant accounts identified for fiscal year 2011.	200
	Internal Controls over Financial Reporting	Determine whether processes exist to appropriately scope significant accounts and processes, identify key risks and controls, and assess the design and effectiveness of internal controls over financial reporting.	Significant general ledger accounts and reporting processes for FY 2010 and 2011.	200
Police	Scheduling and Time Reporting	Determine whether policies and procedures for deployment and oversight of time reporting are appropriately designed and functioning properly to ensure accuracy and reasonableness of resource utilization. Determine whether overtime payments are made in accordance with applicable policies and regulations.	Scheduling and time reporting control processes, including related systems.	350
Payroll	Timekeeping System Implementation	To determine whether controls are appropriately designed in the system and that process performers understand their role in processing time reporting to ensure controls are functioning properly.	Limited review of Timekeeping system controls design.	250

# 2011 Audit Plan (continued)

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Purchasing and Accounts Payable Functions Review	Procurement Processes	Determine whether appropriate controls exist within the purchase-to-pay/disbursements process to ensure correct, appropriate and timely payments are made for goods/services received.	All purchasing transactions started/completed in FY 2010 and FY 2011.	800
	Vendor Setup			
	Invoice/Purchase Order/Receiving matching			
	Invoice Processing			
	Segregation of Duties			
Impound Lot	Contract Management, Cash collections, and Physical Security	Determine whether impound lot operations have appropriately designed controls over cash collection, accounting, physical security, and facility management.	Impound lot management contract, physical security, cash collection points as of October 1, 2010, or the review date.	200
<b>Total 2011 Project Hours</b>				<b>5,130</b>
<b>Available 2011 Staff Hours for IA Department</b>				<b>5,150</b>
<b>2011 Staff Hours over/(under) what is needed</b>				<b>20</b>
Public Works	Water Revenue Capture	Verify water charges are adequately captured to ensure timely and accurate billing to customers and collection is made in a timely manner.	Revenue capturing system, accounts receivable and general ledger.	400
Grant Administration	Grant Management Process	Evaluate oversight, accounting and reporting efforts of the City's grant management process and test effectiveness of controls in place.	Overall management and monitoring processes with detailed focus on newer agencies, sources of funds or reporting requirements.	300
<b>Total 2011 Project Hours unable to complete due to Staff Hour Availability</b>				<b>700</b>
<b>Additional FTE needed to complete all projects (Based on FTE of 1,771 hours)</b>				<b>0.40</b>
<b>Grand Total Project Hours</b>				<b>5,830</b>

# Appendix I – Supporting Documents

# Risk Profile

The risk profile was developed for City of Minneapolis to highlight the relevant risks that the organization may be exposed to from internal and external perspectives. This information was further used to identify the audit projects and develop the three year audit plan.

## EXTERNAL RISKS

- Capital Availability
- Citizen Needs
- Legislation
- Public Relations
- Political/Jurisdiction
- Airport Noise
- Economy
- Natural Hazard/Catastrophe
- Regulatory
- Terrorism

## INTERNAL RISKS

Strategic	Operational				Financial
<ul style="list-style-type: none"> <li>▪ Business Model</li> <li>▪ Business Portfolio</li> <li>▪ Governance Structure</li> <li>▪ Planning</li> <li>▪ Policy Administration</li> <li>▪ Reputation</li> <li>▪ Resource Allocation</li> <li>▪ Social Responsibility</li> <li>▪ Tax Revenue Base</li> </ul>	Process				<ul style="list-style-type: none"> <li>▪ Collections</li> <li>▪ Credit</li> <li>▪ Funding</li> <li>▪ Financial Reporting</li> <li>▪ General Ledger</li> <li>▪ Investment Management</li> <li>▪ Pension Fund</li> <li>▪ Treasury</li> <li>▪ Utility Billing</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Accounts Payable</li> <li>▪ Budgeting Process</li> <li>▪ Business Interruption</li> <li>▪ Capital Budgeting</li> <li>▪ Cash Management</li> <li>▪ Compliance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consistency</li> <li>▪ Contract Management</li> <li>▪ Crisis Management</li> <li>▪ Customer Satisfaction</li> <li>▪ Efficiency</li> <li>▪ Environmental</li> <li>▪ Grant Administration</li> <li>▪ Impound Lot</li> </ul>	<ul style="list-style-type: none"> <li>▪ Health &amp; Safety</li> <li>▪ Knowledge Management</li> <li>▪ Physical Security</li> <li>▪ Procurement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Payroll</li> <li>▪ Records Retention</li> <li>▪ Segregation of Duties</li> <li>▪ Tax Collections</li> <li>▪ Vendor Management</li> </ul>	
	Management Information	Human Capital	Integrity	Technology	
	<ul style="list-style-type: none"> <li>▪ Accounting &amp; Management Information</li> <li>▪ Budgeting &amp; Forecasting</li> <li>▪ Completeness / Accuracy</li> <li>▪ Data Pricing</li> <li>▪ Information Relevance</li> <li>▪ HIPAA Compliance</li> <li>▪ Project Evaluation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Accountability</li> <li>▪ Change Readiness</li> <li>▪ Communications</li> <li>▪ Competencies/Skills</li> <li>▪ Employee Benefits</li> <li>▪ Hiring/Retention</li> <li>▪ Leadership</li> <li>▪ Outsourcing</li> <li>▪ Resource Availability</li> <li>▪ Succession Planning</li> <li>▪ Training/Development</li> </ul>	<ul style="list-style-type: none"> <li>▪ Conflict of Interest</li> <li>▪ Employee Fraud</li> <li>▪ Ethical Decision-making</li> <li>▪ Illegal Acts</li> <li>▪ Management Fraud</li> <li>▪ Privacy</li> <li>▪ Third-Party Fraud</li> <li>▪ Unauthorized Acts</li> </ul>	<ul style="list-style-type: none"> <li>▪ Availability</li> <li>▪ Business Continuity / Disaster Recovery</li> <li>▪ Change Management</li> <li>▪ Data Integrity</li> <li>▪ Infrastructure</li> <li>▪ Reliability</li> <li>▪ System Access</li> </ul>	

# Risk Ranking Criteria

The risk ranking criteria, with both qualitative and quantitative factors, were used during the risk assessment to measure likelihood of occurrence and severity of impact.

Likelihood of Occurrence	
<b>5</b> <b>Almost Certain</b>	<ul style="list-style-type: none"><li>• <i>Event is expected to occur in most circumstances (within 1 year)</i></li></ul>
<b>4</b> <b>Likely</b>	<ul style="list-style-type: none"><li>• <i>Event will probably occur sometime in the future in most circumstances</i></li></ul>
<b>3</b> <b>Possible</b>	<ul style="list-style-type: none"><li>• <i>Event may occur at sometime in the future – moderate probability of occurrence</i></li></ul>
<b>2</b> <b>Unlikely</b>	<ul style="list-style-type: none"><li>• <i>Event could occur at sometime – low probability of occurrence</i></li></ul>
<b>1</b> <b>Rare</b>	<ul style="list-style-type: none"><li>• <i>Event may only occur in exceptional circumstances</i></li></ul>

# Risk Ranking Criteria (continued)

Significance of Impact	
<b>5</b> <b>Major</b>	<ul style="list-style-type: none"> <li>• &gt;\$500,000 impact on Fund Balance</li> <li>• Imminent cash flow problems</li> <li>• Loss of key alliances</li> <li>• Major reputation / satisfaction impact</li> <li>• Revocation of required licenses and certifications</li> <li>• Enforcement actions and / or fines are brought against the City</li> <li>• Down grade of bond rating</li> <li>• Events and problems will require City Council, Mayor, or Significant departmental action</li> <li>• Negative media coverage that is widespread and has a longer term impact</li> </ul>
<b>4</b> <b>Significant</b>	<ul style="list-style-type: none"> <li>• \$250,000 to \$500,000 impact on Fund Balance</li> <li>• Cash flow may be adversely affected</li> <li>• Key alliances threatened</li> <li>• Visible reputation / satisfaction impact</li> <li>• Loss of key employees</li> <li>• Placed on negative watch rating agencies</li> <li>• Events and problems will require departmental action</li> <li>• Negative media coverage that is widespread and has an immediate impact</li> </ul>
<b>3</b> <b>Moderate</b>	<ul style="list-style-type: none"> <li>• \$100,000 to \$250,000 impact on Fund Balance</li> <li>• Cash flow may be affected</li> <li>• Visible reputation / satisfaction impact</li> <li>• The event will require senior and middle management intervention</li> <li>• Negative media coverage that reaches a broad group of people</li> </ul>
<b>2</b> <b>Minor</b>	<ul style="list-style-type: none"> <li>• \$25,000 to \$100,000 impact on Fund Balance</li> <li>• Cash flow impact will be absorbed under normal operating conditions</li> <li>• Visible reputation / satisfaction impact</li> <li>• Issues will be delegated to middle management for resolution</li> <li>• Consequences can be absorbed under normal operating conditions</li> <li>• Negative media coverage that is only noticed by a limited number of people</li> </ul>
<b>1</b> <b>Insignificant</b>	<ul style="list-style-type: none"> <li>• \$0 to \$25,000 impact on Fund Balance</li> <li>• Little or no impact on investment portfolio</li> <li>• Little or no impact on cash flow</li> <li>• Little or no visible impact on reputation / satisfaction</li> <li>• Issues would be delegated to junior management and staff to resolve</li> <li>• Inconsequential to no negative media coverage</li> </ul>

# Available Hours Calculation

	Standard Hours	Additional Hours <sup>1</sup>	Total Hours	Holiday	Vacation	Training	Admin <sup>2</sup>	Sub-Total	Available Hours	Productive Time
Director	2,080	208	2,288	88	160	80	915	1,243	1,045	46%
Staff	2,080	208	2,288	88	128	80	229	525	1,763	77%
Staff	2,080	208	2,288	88	120	80	229	517	1,771	77%
<b>Total</b>	<b>6,240</b>	<b>624</b>	<b>6,864</b>	<b>264</b>	<b>408</b>	<b>240</b>	<b>1,373</b>	<b>2,285</b>	<b>4,579</b>	<b>67%</b>
									571	
								Add one month <sup>3</sup>	<u>571</u>	
								Total available hours for 13 month <sup>3</sup>	<u><b>5,150</b></u>	

<sup>1</sup> Planned 10% overtime for salaried employees.

<sup>2</sup> Approximately 40% administrative time for director and 10% for staff.

<sup>3</sup> December 2010 included in 2011 audit hours calculation.

# Auditable Unit Risk Profile

Auditable Units	Likelihood	Impact	Key Functions	Likelihood	Impact	Year 1	Year 2	Year 3
BIS Management	5 -Almost Certain	5 - Major	Application security access administration and segregation of duties	4 - Likely	4 - Significant		X	
			UNISYS vendor management - SAS70 scope and user considerations, invoice challenge and approval, change orders, and adherence to service level agreements	5 -Almost Certain	5 - Major	X		
			A SAS70 is provided by UNISYS, but it is unclear whether the scope of the SAS70 covers the contractual obligations between the City and UNISYS and whether the City is appropriately managing the "user considerations" of the SAS 70 report.	4 - Likely	4 - Significant	X		
			Change management	4 - Likely	4 - Significant		X	
			Data encryption management - health or other private information storage and adherence to data privacy and HIPAA regulations	5 -Almost Certain	5 - Major	X		X
			Database security access administration / data integrity	5 -Almost Certain	5 - Major	X		X
			Network security access administration	5 -Almost Certain	5 - Major	X		X
			Disaster recovery and business continuity	4 - Likely	4 - Significant		X	
			IT governance and BIS management and internal services performance management	4 - Likely	5 - Major		X	
Cash Handling	5 -Almost Certain	5 - Major	Outsourced cash handling processes - surprise reviews	5 -Almost Certain	5 - Major	X		X
Treasury	5 -Almost Certain	4 - Significant	Bank account reconciliations	5 -Almost Certain	4 - Significant	X		
			Bank account access management, ACH and wire transfer authority and capabilities, and cash management / lockbox management	4 - Likely	4 - Significant	X		
			International ACH transaction reporting	2 - Unlikely	3 - Moderate	X		
Financial Reporting	4 - Likely	4 - Significant	Internal control over financial reporting (ICOFR) / State Auditor's Report	4 - Likely	4 - Significant	X	X	X

This risk profile demonstrates the inherent likelihood and significance of risk within key functions of auditable units. The risk profile is maintained by Internal Audit as a living document. As baseline assessments are performed, the internal control structure will be evaluated allowing Internal Audit to estimate residual risk in addition to inherent risk within key functions. The risk ranking criteria are defined in Appendix I on pages 20 and 21.



# Auditable Unit Risk Profile (continued)

Auditable Units	Likelihood	Impact	Key Functions	Likelihood	Impact	Year 1	Year 2	Year 3
Vendor / Contract Management	4 - Likely	4 - Significant	Vendor review and approval processes	4 - Likely	5 - Major	X	X	X
			Requests for proposal	4 - Likely	4 - Significant	X	X	X
			Vendors management - licenses, insurance, financial and operational capacity	3 - Possible	3 - Moderate	X	X	X
			Contract negotiation	4 - Likely	3 - Moderate	X	X	X
			Vendor performance monitoring and surprise audit processes	4 - Likely	3 - Moderate	X	X	X
Cash Handling	4 - Likely	4 - Significant	Location security	4 - Likely	3 - Moderate	X	X	X
			Dual control	5 - Almost Certain	3 - Moderate	X	X	X
			Preparation, deposit, posting and balancing of cash deposits (segregation of duties)	4 - Likely	4 - Significant	X	X	X
			Cash handling areas (rotational review) o Treasury Operations – utility billing and general City payments o P&E Police deposits and cash vault work o Regulatory Services o Impound Lot o Animal Control o Park Board o Parking o GIS o Convention Center o Fire	4 - Likely	4 - Significant	X	X	X
General Ledger Accounting	4 - Likely	4 - Significant	Journal entries	4 - Likely	4 - Significant		X	
			Reconciliations	4 - Likely	4 - Significant		X	
Utility Billing	4 - Likely	3 - Moderate	Utility billing and collection	4 - Likely	3 - Moderate		X	

This risk profile demonstrates the inherent likelihood and significance of risk within key functions of auditable units. The risk profile is maintained by Internal Audit as a living document. As baseline assessments are performed, the internal control structure will be evaluated allowing Internal Audit to estimate residual risk in addition to inherent risk within key functions. The risk ranking criteria are defined in Appendix I on pages 20 and 21.

# Auditable Unit Risk Profile (continued)

Auditable Units	Likelihood	Impact	Key Functions	Likelihood	Impact	Year 1	Year 2	Year 3
CPED / Development Finance	3 - Possible	4 - Significant	Models, estimates and analysis	2 - Unlikely	4 - Significant		X	
			Compass system - access, data integrity	3 - Possible	4 - Significant		X	
			Tax Increment Financing (TIF) - compliance with State rules.	2 - Unlikely	4 - Significant		X	
			Personnel - expertise, cross-training and succession planning	4 - Likely	2 - Minor		X	
			Proposal and contracting processes	3 - Possible	4 - Significant		X	
			Terms and conditions, subsidies and protections against poor assumptions	4 - Likely	4 - Significant		X	
			Project management and post mortem review	3 - Possible	3 - Moderate		X	
Payroll / HRIS	4 - Likely	3 - Moderate	Time reporting	4 - Likely	2 - Minor	X		
			Time reporting system	4 - Likely	3 - Moderate	X		
			HRIS - access and data integrity	4 - Likely	4 - Significant		X	
			Sick leave buy back program	4 - Likely	2 - Minor		X	
			Temporary employee codes	4 - Likely	2 - Minor		X	
Purchasing / Accounts Payable	4 - Likely	3 - Moderate	Procurement - tools and spending controls	4 - Likely	3 - Moderate	X		
			Vendor / contract set up	4 - Likely	3 - Moderate	X		
			Accounts payable	4 - Likely	3 - Moderate	X		
Pension Fund Accounting	3 - Possible	4 - Significant	Compliance with state pension legislation requirements.	3 - Possible	4 - Significant		X	
			Calculations of pension benefits	3 - Possible	4 - Significant		X	
			Funding of pension liabilities	3 - Possible	4 - Significant		X	
			Segregation of duties – calculation, recording, payment, and reconciliation of pension accounting	4 - Significant	4 - Significant		X	

This risk profile demonstrates the inherent likelihood and significance of risk within key functions of auditable units. The risk profile is maintained by Internal Audit as a living document. As baseline assessments are performed, the internal control structure will be evaluated allowing Internal Audit to estimate residual risk in addition to inherent risk within key functions. The risk ranking criteria are defined in Appendix I on pages 20 and 21.

# Auditable Unit Risk Profile (continued)

Auditable Units	Likelihood	Impact	Key Functions	Likelihood	Impact	Year 1	Year 2	Year 3
Minneapolis Park & Recreation Board	4 - Likely	3 - Moderate	Finance processes run independent of the City - order to cash, purchase to pay, fixed assets, reconciliations, accounting and reporting	4 - Likely	4 - Significant		X	
			Vendor / contract management processes run independent of the City	4 - Likely	3 - Moderate		X	
			Cash handling security and segregation of duties	4 - Likely	2 - Minor		X	
Meet Minneapolis / Convention Center	4 - Likely	3 - Moderate	Funds management and performance reporting	3 - Possible	3 - Moderate		X	
			Web site content management / Internet Destination Sales System	4 - Likely	3 - Moderate		X	
			Governance	4 - Likely	3 - Moderate		X	
Crisis Management, Disaster Recovery and Business Continuity	3 - Possible	4 - Significant	Command, control and communications	3 - Possible	4 - Significant			X
			UNISYS support - planning and scenario testing	4 - Likely	4 - Significant			X
			Data redundancy	3 - Possible	4 - Significant			X
Governance	4 - Likely	3 - Moderate	Code of Conduct and Code of Ethics monitoring and enforcement	3 - Possible	3 - Moderate			X
			Conflicts of interest	4 - Likely	4 - Significant			X
			Employee / resident hotline program	3 - Possible	3 - Moderate			X
			Talent management - competencies, skills, training, and succession planning	4 - Likely	3 - Moderate			X
			Records retention / records management processes, including manual and electronic records	4 - Likely	4 - Significant			X
			Strategic goals and objectives, performance management	3 - Possible	4 - Significant			X
			Organizational structure, governance and accountability	4 - Likely	3 - Moderate			X
Grant Administration	3 - Possible	3 - Moderate	Cross-functional grant administration process management	4 - Likely	2 - Minor	X		
			Accounting and reporting transparency	3 - Possible	2 - Minor	X		
			Compliance with local, state and federal reporting requirements	3 - Possible	3 - Moderate	X		
			American Recovery and Reinvestment Act Administration	3 - Possible	3 - Moderate	X		

This risk profile demonstrates the inherent likelihood and significance of risk within key functions of auditable units. The risk profile is maintained by Internal Audit as a living document. As baseline assessments are performed, the internal control structure will be evaluated allowing Internal Audit to estimate residual risk in addition to inherent risk within key functions. The risk ranking criteria are defined in Appendix I on pages 20 and 21.

# Auditable Unit Risk Profile (continued)

Auditable Units	Likelihood	Impact	Key Functions	Likelihood	Impact	Year 1	Year 2	Year 3
Public Works	3 - Possible	3 - Moderate	Physical security of City employees and assets	4 - Likely	4 - Significant			X
			Facilities management	1 - Rare	3 - Moderate			X
			Fleet Services - inventory and fixed assets management	3 - Possible	2 - Minor		X	
			Operator / Driver deployment, licensing and risk management	3 - Possible	2 - Minor		X	
			Central Stores - procurement, inventory and distribution management services	3 - Possible	2 - Minor		X	
			Utilities management - water, gas, electric, waste management & recyclables	3 - Possible	5 - Major	X	X	X
			Infrastructure and Capital improvement management	3 - Possible	4 - Significant			X
			Parking and other contract management	3 - Possible	3 - Moderate	X		X
Police Department	3 - Possible	3 - Moderate	Ticketing and towing practices	2 - Unlikely	2 - Minor			X
			Traffic control operations, revenue and expenditures	3 - Possible	2 - Minor			X
			Use of force - guidance, enforcement and adherence, incidents and injuries	3 - Possible	4 - Significant			X
			Internal Affairs, complaint handling and corrective actions	3 - Possible	3 - Moderate			X
			Seized property security, tracking, storage and disposal	4 - Likely	5 - Major		X	
			Scheduling and time reporting	4 - Likely	4 - Significant	X		
Human Resources	3 - Possible	3 - Moderate	Personnel - expertise, cross-training and succession planning	3 - Possible	3 - Moderate			X
			Wage and labor law compliance	3 - Possible	3 - Moderate			X
			Hiring practices	3 - Possible	3 - Moderate			X
Fire Department	3 - Possible	3 - Moderate	Incident and performance reporting	3 - Possible	3 - Moderate			X
			Capacity management	3 - Possible	3 - Moderate			X
			Mutual aid agreements	4 - Likely	4 - Significant			X
			Deployment software	3 - Possible	3 - Moderate			X

This risk profile demonstrates the inherent likelihood and significance of risk within key functions of auditable units. The risk profile is maintained by Internal Audit as a living document. As baseline assessments are performed, the internal control structure will be evaluated allowing Internal Audit to estimate residual risk in addition to inherent risk within key functions. The risk ranking criteria are defined in Appendix I on pages 20 and 21.

# Auditable Unit Risk Profile (continued)

Auditable Units	Likelihood	Impact	Key Functions	Likelihood	Impact	Year 1	Year 2	Year 3
Communications	4 - Likely	3 - Moderate	Policies and procedures - private versus public information	4 - Likely	3 - Moderate			X
			Training	4 - Likely	3 - Moderate			X
Impound Lot	4 - Likely	2 - Minor	Revenue collection	4 - Likely	2 - Minor	X		
			Physical controls	4 - Likely	3 - Moderate	X		
Regulatory Services	2 - Unlikely	4 - Significant	Inspections, permits and licensing revenue collection and recording controls	2 - Unlikely	4 - Significant			X
			Land management system access, support and data integrity	4 - Likely	4 - Significant			X
			Payment Card Industry (PCI) compliance	2 - Unlikely	3 - Moderate			X
Investment / Debt Management	2 - Unlikely	4 - Significant	Analysis and information for decision making	2 - Unlikely	4 - Significant		X	
			Strategy and monitoring processes	2 - Unlikely	4 - Significant		X	
Assessor's Office (Govern system)	2 - Unlikely	3 - Moderate	Assessment challenges	3 - Possible	3 - Moderate			X
			Assessor skills and experience, retention	2 - Unlikely	3 - Moderate			X
			Govern system - access and data integrity	3 - Possible	4 - Significant			X
			Review boards and other monitoring processes	2 - Unlikely	3 - Moderate			X
Risk Management	3 - Possible	2 - Minor	Claims management including trend analysis and response	3 - Possible	2 - Minor			X
			City driver management - licensing, insurance and violations monitoring	3 - Possible	2 - Minor			X
			Insurance risk management - City and outside parties (i.e., neighborhood group D&O insurance)	2 - Unlikely	3 - Moderate			X
Expense Reporting and Reimbursement	3 - Possible	1 - Insignificant	Expense approval, reimbursement, trend and outlier analysis and reporting	3 - Possible	1 - Insignificant			X

This risk profile demonstrates the inherent likelihood and significance of risk within key functions of auditable units. The risk profile is maintained by Internal Audit as a living document. As baseline assessments are performed, the internal control structure will be evaluated allowing Internal Audit to estimate residual risk in addition to inherent risk within key functions. The risk ranking criteria are defined in Appendix I on pages 20 and 21.

# 2012 Detail Audit Plan

# 2012 Audit Plan

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Discretionary Hours / Special Projects				500
Follow-up on Outstanding Audit Issues				60
Annual Risk Assessment				150
Administration, Reporting and Presentations				500
BIS Management	Application Security	Determine whether appropriate controls are in place to prevent and detect inappropriate access to software applications. Assess internal policies and procedures, application security access to determine whether access is appropriate, and ensure users have appropriate segregation of duties.	A sample of key software applications in current use.	250
	Change Management	Review change management policies and procedures and assess operating effectiveness of controls in place.	Change management process and a sample of changes completed in FY 2011 and FY 2012.	200
	Disaster Recovery & Business Continuity (DR / BC)	Review of DR / BC documentation, including support from UNISYS. Evaluate entity readiness in the event of a disaster or business interruption.	DR/BC processes and evaluation of readiness testing performed by management.	250
	IT Governance and BIS Management	Gain an understanding of IT Governance and BIS Management processes. Test whether processes are appropriately designed and operating effectively.	BIS processes and databases	300
Vendor / Contract Management	Minneapolis Refuse, Inc. Contract Review	Determine whether controls are designed and functioning effectively to ensure vendor performance, fair pricing and appropriate monitoring of contracts.	Contract effective during FY 2012. Contract oversight, performance measures and payments to contractor.	250
	Metropolitan Council Environment Services Contract Review	Determine whether controls are designed and functioning effectively to ensure vendor performance, fair pricing and appropriate monitoring of contracts.	Contract effective during FY 2011 and/or 2012. Contract oversight, performance measures and payments to contractor.	250
Minneapolis Park & Recreation Board	Financial, Operational and Vendor / Contract Management	Assess the design of controls for purchase-to-pay, accounting-to-reporting, fixed assets, and order-to-cash financial processes. Assess the design of controls over vendor / contract management and cash handling processes.	Selected key processes and controls based on audit planning and preparation covering FY 2012.	600

# 2012 Audit Plan (continued)

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Utility Billing	Utility Billing and Collection	Determine whether appropriate controls exist within the utility billing and collection process to ensure accurate revenue capture and billing for utility services provided, including collection activities for delinquent payments.	All utility transactions billed through the Treasury function started/completed in FY 2011 and FY 2012.	300
Cash Handling	Cash Collection and Handling	Determine whether controls over cash collection, accounting, and deposit of funds are appropriate.	Cash handling locations as of January 1, 2012 (Processes of receiving, balancing, and depositing cash).	400
Police	Seized Property	Assess physical security at key locations, logging / tracking processes, and safekeeping of property considering its value, negotiable nature, and environmental needs for preservation. Assess policies and procedures for disposal, including compliance with applicable laws and regulations.	Five locations currently in use.	500
<b>Total 2012 Project Hours</b>				<b>4,510</b>
<b>Available 2012 Staff Hours for IA Department</b>				<b>4,579</b>
<b>2012 Staff Hours over/(under) what is needed</b>				<b>69</b>
CPED / Development Finance	Financial, Operational and Regulatory Compliance	Evaluate oversight, accounting and reporting efforts of the City's CPED / Development Finance processes. Test effectiveness of controls in place.	Overall management and monitoring processes with focus on a sample of development projects from 2011 and 2012.	350
Pension Fund Accounting	Pension Fund Accounting & Compliance	Determine whether appropriate controls exist within the Pension Fund Accounting function to ensure payments and reporting are accurate and in compliance with applicable regulations and that appropriate segregation of duties and account reconciliation controls may not be in place to prevent or detect errors or irregularities.	All pension fund transactions and reports started / completed in FY 2011 and FY 2012.	300
General Ledger Accounting	General Ledger Accounting	Assess the design of controls for general ledger accounting and test operating effectiveness in the areas of journal entries, account reconciliations and system access.	General ledger activity for FY 2011 and FY 2012.	300
Financial Reporting	Internal Controls over Financial Reporting	Assess management's program for effective internal controls over financial reporting through evaluation of the design of controls and sample testing of key controls for operating effectiveness.	Significant general ledger accounts and reporting processes for FY 2011 and FY 2012.	200



# 2012 Audit Plan (continued)

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Meet Minneapolis / Convention Center	Governance, Performance and Internet Destination Sales System	Assess the design of controls and test operating effectiveness.	Board and management activities and key reports, web site content and sales activities.	350
Payroll	Payroll / HRIS	Determine whether adequate controls over payroll processes are in place to ensure legitimate employees are paid for work performed and in accordance to regulations and contracts / agreements.	Payroll processed for FY 2011 and FY 2012.	450
Public Works	Fleet Management & Central Stores	Determine whether controls are adequate to properly monitor Fleet Management and Central Stores, including fuel, inventory and charges to other departments.	Fleet Management and Central Stores as of January 1, 2012 and related expenses, expenditures and revenue.	350
Public Works	Waste Management & Recyclables	Verify that waste management and recyclable charges are adequately captured to ensure timely and accurate billing to customers and collection is made in a timely manner. Assess whether appropriate controls are in place to protect the City from volatile swings in the overseas recyclable market. Ensure contract oversight.	Revenue capturing system, accounts receivable and general ledger. Trading controls with a focus on market risk and related internal controls.	350
Investment / Debt Management	Strategy and Performance of Investment Management	Determine whether controls are appropriately designed and that process performers and key decision makers understand their role in prudent investment management.	Limited review of the design and operating effectiveness of investment management controls for FY 2012.	250
	Strategy and Performance of Debt Management	Determine whether controls are appropriately designed and that process performers and key decision makers understand their role in prudent debt management.	Limited review of the design and operating effectiveness of debt management controls for FY 2012.	250
BIS	Service Cost Allocation	Review the cost allocation methodology and process to ensure accuracy, transparency, and timeliness of the charges to other City departments.	Review the most recent quarter's allocation charged to other departments. Review polices, procedures and the basis for allocation.	300
<b>Total 2012 Project Hours unable to complete due to Staff Hour Availability</b>				<b>3,450</b>
<b>Additional FTE needed to complete all projects (Based on FTE of 1,771 hours)</b>				<b>1.95</b>
<b>Grand Total Project Hours</b>				<b>7,960</b>

# 2013 Detail Audit Plan

# 2013 Audit Plan

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Discretionary Hours / Special Projects				500
Follow-up on Outstanding Audit Issues				80
Annual Risk Assessment				150
Administration, Reporting and Presentations				500
BIS Management	Network Penetration Review	Determine whether appropriate controls are in place to prevent and detect attack and penetration schemes from outside the City's network. Assess internal policies and procedures and network access to determine whether access is appropriate and that user activity audit trails are available that assign accountability to individual users.	City of Minneapolis computer networks.	300
	Database Access	Assess security access administration and determine whether appropriate controls are in place.	City of Minneapolis Key Databases.	200
	Protection of Private Information	Gain an understanding of sensitive or private information stored on City databases. Determine whether sensitive or private information is properly encrypted. Assess encryption management processes in place.	City of Minneapolis Databases containing HIPAA data.	150
Vendor / Contract Management	Northern States Power Company Contract Review	Determine whether controls are designed and functioning effectively to ensure vendor performance, fair pricing and appropriate monitoring of contracts.	Contract effective during FY 2013. Contract oversight, performance measures and payments to contractor.	250
	Medica Contract Review	Determine whether controls are designed and functioning effectively to ensure vendor performance, fair pricing and appropriate monitoring of contracts.	Contract effective during FY 2013. Contract oversight, performance measures and payments to contractor.	250
Public Works	Gas & Electric Utility Billing	Verify gas and electric charges are adequately captured to ensure timely and accurate billing to customers and collection is made in a timely manner.	Revenue capturing system, accounts receivable and general ledger.	400

# 2013 Audit Plan (continued)

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Cash Handling	Cash Collection and Handling	Determine whether controls over cash collection, accounting, and deposit of funds are appropriate.	Cash handling across multiple locations within Minneapolis Parks & Recreation as of January 1, 2013 (Processes of receiving, balancing, and depositing cash).	350
	Outsourced Cash Collection and Handling	Determine whether outsourced parking operations contain appropriate cash handling remittance controls. Determine whether the City has appropriate monitoring processes in place to detect unusual activity.	Outsourced cash management processes with the City's current parking ramp contractor as of January 1, 2013	350
Financial Reporting	Internal Controls over Financial Reporting	Assess management's program for effective internal controls over financial reporting through evaluation of the design of controls and sample testing of key controls for operating effectiveness.	Significant general ledger accounts and reporting processes for FY 2012 and 2013.	200
Crisis Management	City Preparedness and UNISYS Support	Assess crisis management plans, testing procedures, and support processes provided by UNISYS.	Crisis management and business continuity processes in place as of January 1, 2013.	400
Governance	Governance and Performance	Determine whether appropriate governance process controls exist and assess operating effectiveness.	All governance processes in place in FY 2013.	400
<b>Total 2013 Project Hours</b>				<b>4,480</b>
<b>Available 2013 Staff Hours for IA Department</b>				<b>4,579</b>
<b>2013 Staff Hours over/(under) what is needed</b>				<b>99</b>

# 2013 Audit Plan (continued)

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Police	Traffic Control Operations, Use of Force Guidance and Off Duty / Uniformed Activities	Assess police operations, including traffic control, use of force, internal affairs review, and off duty scheduling and cost / benefit analysis performed by the City.	Processes in place as of January 1, 2013.	500
Human Resources	Hiring Practices and Wage and Labor Law Compliance	Assess hiring practices and wage and labor law compliance processes in place.	Processes in place as of January 1, 2013.	400
Fire Department	Capacity Management, Mutual Aid Agreements and Performance Reporting	Assess capacity management, mutual aid agreement rights and obligations and performance reporting processes.	Processes in place as of January 1, 2013.	350
Communications	Policies and Training	Assess policies and training processes in place.	Processes in place as of January 1, 2013.	350
Regulatory Services	Inspections, Permits and Licensing Operations	Assess revenue capture and collection processes, including portions of Payment Card Industry compliance. Assess security access controls over the Land Management System.	Processes in place as of January 1, 2013.	300
Assessor's Office	Management and Reporting	Assess assessor competencies, Compass system access, and review boards and other monitoring processes in place.	All assessments in FY 2012 and FY 2013.	250
Risk Management	Claims, Licensing and Insurance	Assess the design of controls over the claims, licensing and insurance processes and sample test for operating effectiveness. Assess the adequacy of the analyses of events and action taken to reduce such events.	Selected key processes and controls based on audit planning and preparation covering FY 2013.	250

# 2013 Audit Plan (continued)

Auditable Unit	Review Name	Audit Objectives	Scope	Audit Hours
Public Works	Facilities Management	Determine whether controls are adequate to properly monitor and support physical security and infrastructure management.	Accounting and monitoring controls, including capital budgeting and review of a sample of building security designs as of January 1, 2013.	300
Expense Reporting & Reimbursement	Expense Reporting & Reimbursement	Determine whether adequate controls over expense reporting and reimbursement processes are in place and operating effectively .	All expense reports in FY 2012 and FY 2013.	200
<b>Total 2013 Project Hours unable to complete due to Staff Hour Availability</b>				<b>2,900</b>
<b>Additional FTE needed to complete all projects (Based on FTE of 1,771 hours)</b>				<b>1.64</b>
<b>Grand Total Project Hours</b>				<b>7,380</b>



*cutting through complexity™*

© 2010 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity (“KPMG International”). All rights reserved. KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative (“KPMG International”), a Swiss entity. 23425KCG

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International Cooperative (“KPMG International”).