



# 2022 Risk-Based Integrated Audit Plan

City of Minneapolis  
Internal Audit Department  
February 7, 2022

# Table of Contents

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- Executive Summary ..... 3
- Approach and Methodology..... 3
- Key Findings ..... 6
  - The City is facing heightened risks related to cybersecurity and other IT processes that require adequate attention and resources. .... 6
  - The City is facing staffing and resourcing challenges that impact department operations and services. Burnout and retention issues further complicate department capabilities. .... 7
  - Increased public safety concerns may impact employees and department operations. .... 8
  - The City uses a number of different internal investigation practices which creates consistency issues. .... 8
  - Increased grant and external funds and challenges presented by the pandemic create additional risks to the City’s finance and procurement processes. .... 8
  - Outdated or non-existent policy and policy frameworks may create risks to operations and compliance with best practices and statutory authorities. .... 9
  - Changes in the regulatory and political environments may create challenges in City operations and finances. .... 10
- Audit Plan Changes ..... 10
- Proposed 2022 Risk-Based Integrated Audit Plan ..... 11

## Executive Summary

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Internal Audit provides the City of Minneapolis management, leaders, and the Audit Committee with an independent and objective assessment of the City’s governance, risk management, and control processes, and contributes to the improvement of those processes in conformance with professional standards.

The City of Minneapolis Internal Audit performs periodic City-wide risk assessments to identify auditable functions and programs, assess risk, and build a solid audit plan where Internal Audit resources are allocated most efficiently. Consulting engagements are considered based on management input and the engagement’s potential to improve management of risks, add value, and improve the City’s operations.

The Audit Plan is presented to the Audit Committee for approval. Ongoing audit activities, results, and issue remediation efforts are presented to the Audit Committee throughout the year.

This document sets out details of the approach, methodology and matters considered in assessing areas of risk within the City of Minneapolis. It identifies audits, assessments, and consultations for the proposed 2022 internal audit plan.

## Approach and Methodology

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Internal Audit uses an industry standard approach aligning with the Institute of Internal Auditors Professional Practices Framework, in performing the risk assessment that gives consideration to the key strategic, operational, compliance, financial, information technology (IT), cybersecurity, fraud and other risks associated with the City of Minneapolis. Risk category examples are described in Table 1, below.

**Table 1 Risk Categories**

<b>Risk Category</b>	<b>Description</b>
<b>Financial</b>	Protection of City assets and Risks related to the reliability of the City’s reporting, including the accuracy and timeliness needed to support decision making and performance evaluations.
<b>Compliance</b>	Risk of failing to comply with applicable laws and regulations and failure to detect and report activities that are not compliant with statutory, regulatory, or City requirements.

<b>Operational</b>	The risk to the City’s effectiveness, reliability, or quality of services due to how the City manages key business processes that will impact its ability to meet department and City goals and objectives.
<b>Information Technology</b>	The broad risk associated with advances in technology and impacts to systems and operations. Technology used may not effectively support the current and future needs of the department or City. The City may experience compromise to the integrity, access or availability of data or operating systems.
<b>Cybersecurity</b>	Risk that the City does not adhere to fundamental cybersecurity risk management principles which requires coordination between the operational areas and IT.
<b>Public Health and Safety</b>	The risk that employee attitudes, conduct or lack of awareness of hazards could impact the protection of lives and property, and hinder efforts to prevent accidents and incidents. The risk that the City will experience loss of critical functions caused by natural disasters or hazards.
<b>Strategic – Reputation / Political</b>	The risk that business practices, behaviors, or decisions do not align with City’s core values, which could adversely impact the confidence and trust of internal or external stakeholders. The risk that the occurrence of a political event will impact the City, its mission, processes, or other activities associated with the status quo, or operations.

Management interviews are a key component in conducting the City-wide risk assessment. City leadership is given an opportunity to discuss their goals and objectives and Audit can weigh risks to achieving them. To build a comprehensive risk universe, all programs included in the City budget were included, as well as City of Minneapolis Park and Recreation Board programs. Internal Audit considered additional factors that may increase or mitigate risk, including the following:

- The probability and impact of an adverse event for all relevant risk categories
- Department or program budget
- Prior and current audit coverage and identified issues
- State Auditor findings
- Internal and external complaints, including fraud, waste, and abuse
- Strength of existing control environment
- Emerging risks that could impact our City
- Maturity of management’s risk assessment and risk management activities
- Management plans to implement key programs or systems

**COVID-19 and Remote Work Impacts**

Additional Covid-19 related questions posed during risk assessment interviews and surveys included:

- How did your business area adjust to working remotely?
- What are some new processes implemented since the pandemic began?
- Did the pandemic significantly alter your business area's work and priorities?

### Department-Level Risk Management Processes

Some City of Minneapolis departments and boards are implementing risk management processes. A risk management program drives value where management defines key activities and programs, identifies risks to achieving program objectives, creates action plans to mitigate those risks, takes action, and monitors outcomes.



As a financial or operational risk management program matures, management action should better achieve department goals and objectives. Internal Auditors are in a position to serve as risk specialists to help management identify risks and approaches for strengthening the control environment, thus providing more effective coverage of risks City-wide.

It remains a goal of Internal Audit to foster internal risk assessment programs across the enterprise. A risk manager position exists in Finance, who also maintains an internal controls team. This provides an example of a robust risk management system, lowering the residual risk in an environment with high inherent risk. In 2022, Internal Audit will continue to work with departments that wish to perform risk assessments upon request.

## Key Findings

### **The City is facing heightened risks related to cybersecurity and other IT processes that require adequate attention and resources.**

The City and Park Board, like other municipalities and organizations, continue to face cybersecurity and ransomware threats. There has been an increase in attempted and successful attacks across the country, and management across the City rated cybersecurity as a top risk. Cybersecurity is recognized as not only an IT risk, but a risk to the entire enterprise, with corresponding responsibilities for management at every level. Preventing and responding to the risks require continuous investment in systems, resources, and staffing, with urgency.

Recruiting and retaining skilled IT staff, as noted in other risk themes, is a challenge, complicated more by the highly competitive job market for IT professionals. The City is not only competing against many other governments and local companies but also tech companies offering remote options and pay the City has been unable to compete with.

Ensuring that systems are adequately protected, staff are trained and knowledgeable, and updated action plans are used in the event of a successful attack are important actions an organization can take. Once an attack is successful, insurance and quick measures may only mitigate some of the impacts. Each user to a system or a program can be a potential vector for an attack to enter the City, especially in outdated or legacy systems. The shift to remote work and access to the City network has been another area of increased risk.

The impact of a successful cybersecurity attack on the City could be severe, including costs related to system downtime, responding to the threat, and payouts, an inability to provide essential services to the public for extended periods of time, data breaches and the leak of data, and damages to reputation. Recovering from attacks can take extended period of time.

Management also highlighted the City's relationships with third parties using and reliant on the City's IT systems, such as outside agencies tapping into the Minneapolis Emergency Communications Center (MECC). City IT provides the software and systems underpinning the MECC, with complex relationships that spread across the county. There are potential risks in attacks impacting the City network due to third party access, along with cost sharing impacts and burdens on the City, which is responsible for the system.

City IT and other City departments have systems used by outside parties. These include the Municipal Building Commission (MBC) and the Park Board, which have separate systems contracts in addition to accessing the City's networks and contracts. Management has noted that sometimes workarounds are needed to optimize use of City processes. Audit has identified opportunities to explore third party relationships and agreements with the Park Board and MBC to ensure cyber risks are minimized, agreements and contracts are being followed, costs are fairly shared, and systems and processes are optimized.

Audit has proposed two engagements to address these risks:

#### **Minneapolis Emergency Communications Center (MECC) Third Party and Inter-Governmental Relationship Consultation**

**Objective:** To review the contracts and nature of the relationships the City and MECC have with other agencies and parties regarding MECC systems to ensure third party access does not increase the likelihood of cybersecurity incidents. (City doing work for other agencies and not Minneapolis) (run by Lynn Anderson)

**Business Partners:** IT, MECC

#### **Continuity of Operations Cybersecurity Audit**

**Objective:** To ensure COOP plans established by departments are updated and consistent with industry

best practices to mitigate the effects of ransomware attacks.

**Business Partners:** IT, Office of Emergency Management (OEM), City-wide

**The City is facing staffing and resourcing challenges that impact department operations and services. Burnout and retention issues further complicate department capabilities.**

Departments across the City expressed a variety of concerns and highlighted challenges involving staffing and the workforce. Management reported it has been more difficult to recruit, hire, and retain staff in the current job market, offering several possible reasons. Leaders offered several explanations; the City's negative reputation is deterring potential applicants, other organizations are offering better compensation and benefits, and the City's hiring processes take longer than applicants are willing to wait.

Employees across the City also reported being burnt out and tired, with the events of the last few years weighing on mental and physical health, and increased workloads, with work outside of the normal scope of their duties, complicated by being short staffed or under-resourced. Workload issues have been exacerbated by departures from the City and positions remaining unfilled for extended periods, either through difficulty in hiring or an extended or delayed hiring process. Hiring freezes implemented during the pandemic have also contributed to this. Some service departments noted that growth across the City in employees and programs has varied, with a corresponding increase in resources and support not occurring in the service departments.

Risks include lower employee wellbeing and increased stress and burnout leading to dissatisfaction with City. The City's efforts to create a diverse workforce reflective of Minneapolis may not occur, and employees who leave take with them valuable institutional knowledge and skills that may not be easy to replicate. There may also be tradeoffs in resourcing and staffing needs, with only certain programs or tasks prioritized and an overall decline in the quality of services the City provides.

Leaders also expressed employee safety concerns, both in dealing with the pandemic and increased threats to their physical safety and City property while performing job duties out in the field, such as trash collection, outreach, or street accessibility. This topic is explored in more detail in the next section. However, it is worth noting in this section that safety concerns may increase turnover or dissatisfaction with the City, and lead to certain programs or services not being provided. Any event or negative interaction also can impact the City's reputation among the community.

These challenges discussed above were also reported at the Park Board, and all can impact the workplace culture the City has; concerted efforts to foster a positive, diverse, and inclusive workplace culture may be hampered by the issues and risks discussed.

Audit has proposed 2 audit engagements for 2022 to address these concerns:

**Hiring and Promotion Process Audit**

**Objective:** To examine the process and controls related to hiring and promotion to ensure they are operating efficiently/sufficiently to attract and retain staff.

**Business Partners:** HR, City-wide

**Organizational Culture Risk Assessment**

**Objective:** To perform an in-depth risk analysis of workplace culture as it relates to employee retention and well-being.

**Business Partners:** HR, City-wide, Park Board

## **Increased public safety concerns may impact employees and department operations.**

Many departments expressed safety concerns for their employees, especially those working in the field across the City and Park Board. While working in the field, once employees are identified as City staff, employees reported frequent threats and harassment. In some cases, individuals were assaulted or witnessed assaults. Recently, there were two incidents where shots were fired at City vehicles.

Vehicles identified as belonging to the City (and Park Board) have been targeted to the point that some departments are removing them from the field when possible. Employees have used their own unmarked vehicles to conduct city business to avoid being recognized. While departments provide safety guidelines when possible, incidents continue to occur.

Additionally, workers have had to carry out highly stressful duties not part of their regular job, such as clearing out encampments or directing traffic at protests. While management may provide support to those employees, the work is outside the scope of their normal work environment. They may not be equipped with the training and resources to deal with the challenges presented by those situations.

Risks related to both actual safety concerns and perceived dangers abound. Beyond the risks of violence for employees, leadership reported that field staff are experiencing increased burnout due to staff shortages and increasing responsibilities. As such, there is an increased risk that these employees will separate from the City. This can compound, causing unexpected work interruptions, a decrease in the quality of services delivered, and the potential for lawsuits filed by aggrieved employees.

## **The City uses a number of different internal investigation practices which creates consistency issues.**

An employee may file an internal complaint against a coworker through a number of different processes. These complaints may be investigated by Human Resources, Ethics, Civil Rights, Internal Audit, or department managers. Standards, outcomes, and investigation processes differ depending on who investigates the complaint. There is no standard notification to investigating departments when complaints are filed.

During interviews, multiple leaders expressed concerns with complaint investigations and provided examples of instances of completed internal complaints they deemed insufficient. They relayed cases with similar sets of facts that were investigated in different ways, cases where the same complaint was investigated by multiple different departments, and cases where the proper parties were not notified of potential wrongdoing. This indicates an enterprise risk to the City's effectiveness, reliability, and quality of services related to investigations.

If the investigation process has differing standards and outcomes depending on how it is investigated, disparate outcomes could occur. This can compound risks related to employee burnout and dissatisfaction if staff do not feel complaints are taken seriously or investigated fairly. The City's reputation as an employer may also be tarnished if employees are treated unfairly or ignored in a time of need. Finally, when investigations do not result in proper corrective action, employees violating rules may be undeterred from doing so in the future. Investigations represent an important control process for any organization, and ensuring their reliability helps reduce a significant amount of residual risk. To address this issue, audit has proposed the following engagement:

### **City Internal Investigation Process Audit – Phase I**

**Objective:** To review the City's process for receiving and investigating internal complaints to ensure consistency and adequacy of investigations

**Business Partners:** HR, Ethics, City Attorney

## **Increased grant and external funds and challenges presented by the pandemic create additional risks**



## **to the City's finance and procurement processes.**

The City of Minneapolis receives several federal and state grants to support public purposes, and many departments have applied for and received more grants since the beginning of the Covid-19 pandemic. Some departments may not follow the City's normal grant process, and they may apply and receive grant funds to manage internally outside the normal City grant management process. Grants and other external funds come with specific requirements, among them usually an obligation of recipients to submit regular reports and document a project throughout its lifespan. These reports may include expense-related data and quantitative information about a project's impact. Strong controls around grants management help ensure grant funds are spent for the intended purposes and according to regulations.

Many risks are associated with grants and other external funds management; the rapid increase in Covid-19-related external funds adds more risks to grant and financial controls. Grant management staff assess and monitor processes to ensure compliance, and lend their expertise and knowledge; however, a lack of centralized grand administration increases the risks of:

- Incomplete reporting, reduced transparency, inconsistent processes, and inefficient allocation of resources
- Errors, fraud, or undetected noncompliance for grants not included in the grant management process
- Mishandling of grant funds can result in reputational damage to the City and jeopardize current and future funding.

Audit has proposed one audit to address this risk:

### **Department Managed Grants Audit**

**Objective:** To determine whether internal controls are adequate to ensure grant compliance and efficient City-wide grant management processes in grants managed by departments

**Business Partners:** Finance, Health, other departments City-wide that have funds

Relatedly, top financial risks during the pandemic, cited by organizations nationally and by management at the City, relate to the procurement, contract management, accounts payable and accounts receivable processes. As organizations adjusted during the pandemic, changing the way they work internally, established financial processes also changed, creating new opportunities for risk and the need for new internal controls. At various times, priorities may also have changed; for example, in the early days of the pandemic and public health emergency, normal procurement processes may have been bypassed to access needed personal protective equipment. Existing weaknesses in the control environments may have been exacerbated or remediated, and new weaknesses may have emerged.

Through research, discussions, and past work related specifically to the City and Park Board, Audit has noted opportunities to review various parts of the City's financial processes, including financial and accounting policies and procurement practices, to ensure they are operating effectively and in accordance with current best practices. As of this time, Audit does not have projects proposed to address these financial risks but will continue to monitor, discuss with management, and adjust work plans accordingly.

## **Outdated or non-existent policy and policy frameworks may create risks to operations and compliance with best practices and statutory authorities.**

The importance of adequate, accessible policies cannot be overstated. Generally, an overarching policy framework, with systems to catalog, create, and maintain policies assist large organizations in this effort. Throughout recent audit engagements, audit has noted inconsistent policies, policies that have not been reviewed for long periods, and policies created at a department level that impact the enterprise without widespread distribution.

The City Clerk's office is currently exploring governance systems that could remediate some of these issues. In

prior years, Audit has listed a general consultation regarding information governance on the audit plan, but the project did not come to fruition for a number of reasons, namely an immature environment for a consultation to take place. Based on the desires of the Clerk's Office to undertake this work, the project seems tangible in 2022.

The work will likely take place in phases, and Audit's initial focus will be on policy frameworks related to information governance. The city has stringent responsibilities for maintaining and securing data; robust information governance systems help reduce compliance and operational risks related to this data. Audit will lend its expertise to the development of these systems, thereby addressing one of the higher risk areas as the Clerk's Office develops the overarching system.

#### **Information Governance Consultation**

**Objective:** To assess enterprise policy framework with a focus on information governance.

**Business Partners:** City Clerk, IT

### **Changes in the regulatory and political environments may create challenges in City operations and finances.**

City leadership expressed concerns that the heightened tensions in the political environment at national and state levels could create an unstable regulatory and fiscal environment for the City. The City relies on state and federal funding for operations, and to some extent, the state can preempt the City's operations via legislation and distribution of funds. Changes in leadership at higher levels of government impact the city generally, but the risk of this event occurring may be changing.

Minneapolis has drawn a large amount of negative attention in recent years, which has led to concern that changes in leadership at the state and federal level could impact the City more so than in the past. Departments should have plans in place to deal with changes in leadership to minimize the risk of disruptions to services if this were to occur. Anticipating these impacts presents a significant challenge, and there is no guarantee that leadership will change. As such, Audit is not proposing a project to address this issue at this time. The risk is noted for future consideration.

### **Audit Plan Changes**

Internal Audit informed the proposed audit plan beginning on the next page from risk assessment results and prioritized the audit plan based on risk rating, management availability and Internal Audit resources. Internal Audit may contract out one or more audits should additional subject matter expertise be required. While general audit objectives have been included in the audit plan, specific objectives and scope will be determined once preliminary background interviews, walkthroughs and research have been conducted. This process enables Internal Audit to focus efforts on areas that pose the most significant risk or that can add the most value. Additional projects may be proposed as risks emerge and require Audit's attention.

In June 2020, Audit amended the 2020 Annual Risk-Based Integrated Audit Plan to include possible MPD-related consultations and special projects. In 2021, Audit completed several projects from the proposed list. However, due to ongoing outside investigations and work covering MPD, Audit has put additional projects on hold pending the outcome and a clear determination of where Audit can provide value in addressing MPD-related risks. This does not change Internal Audit's assessment of MPD as a high-risk organization, but recognizes that work that conflicts with the ongoing investigations may not add value to MPD or the City.

The longer-term Audit Plan is a road map meant to be frequently adjusted and reviewed. As required by IIA Standard 2010.A1, Internal Audit must review and adjust the audit plan, as necessary, in response to changes in the City's functions, risks, operations, programs, systems, and controls.

## 2022 Risk-Based Integrated Audit Plan

Project Name	Department	Project Type	Objective
Communications Spend Audit (Ongoing from 2021)	Comms, Enterprise	Audit	To assess how the City tracks spending for communications activities, develop an accurate enterprise spend on communications activities
Park Police Body Worn Camera and License Plate Reader Audit	Park Police	Audit	To test the Minneapolis Park Police's compliance with state law regarding body worn cameras and automated license plate readers.
Hiring and Promotion Process Audit	Human Resources	Audit	To examine the process and controls related to hiring and promotion to ensure they are operating efficiently/sufficiently to attract and retain staff.
Organizational Culture Risk Assessment	Human Resources (City and Park Board)	Risk Assessment	To perform an in-depth risk analysis of workplace culture as it relates to employee retention and well-being.
Department Managed Grants Audit	Enterprise	Audit	To determine whether internal controls are adequate to ensure grant compliance and efficient City-wide grant management processes in grants managed by departments
Information Governance Consultation	IT/Clerks and Park Board	Consultation	To assess enterprise policy framework with a focus on information governance.
Internal Investigation Process Audit	HR, Ethics, City Attorney	Audit	To review the City's process for receiving and investigating internal complaints to ensure consistency and adequacy of investigations
Minneapolis Emergency Communications Center (MECC) Third Party and Inter-Governmental Relationship Consultation	IT/MECC	Consultation	To review the contracts and nature of the relationships the City and MECC have with other agencies and parties regarding MECC systems to ensure third party access does not increase the likelihood of cybersecurity incidents.
Continuity of Operations Cybersecurity Audit	IT/MECC	Audit	To ensure COOP plans established by departments are updated and consistent with industry best practices to mitigate the effects of ransomware attacks
Covid-19 Related Consultation Projects - Phase III	Enterprise	Special Projects	Reviewing compliance with Continuity of Operations during Covid-19 pandemic response
Third-Party Software Systems – Use and Controls	IT/Enterprise	Audit/Consultation	Reviewing process and controls related to department use of 3rd party software and applications
<b>On Hold</b>			
<i>Affordable Housing</i>	<i>Enterprise</i>	<i>Audit</i>	<i>Review the City's progress with affordable housing strategic planning, quantifiable goals, implementation, and monitoring for compliance to identify risks to the achievement of outcomes of multiple affordable housing programs. -Phase I</i>
<i>Revenue and Collections</i>	<i>Enterprise</i>	<i>Audit</i>	<i>Review design and effectiveness of controls around City revenue and collections processes</i>