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October 20, 2015

Mayor Betsy Hodges, City Council Members and City Coordinator Spencer Cronk,

Attached is the City of Minneapolis Internal Audit Department's memorandum on the Financial Controls Monitoring Program. The objective of this consultation was to review the monitoring and risk assessment program in place and to provide recommendations and suggested improvements to the program and risk assessment methodology, monitoring activities, control areas monitored, extent of documentation, and the adequacy of control monitoring activities within the program.

The Controller's Division had initiated and maintained an internal control monitoring program that appears to identify and evaluate key control activities. It appears that not all controls were included in this program, and with the enterprise resource planning upgrade in the summer of 2015, many new controls may exist and existing controls may likely have changed.

An incomplete internal control monitoring program is not an indication of a non-controlled environment; rather, it means management lacks early indications of control gaps and deficiencies. When control issues can be identified and addressed timely, it leads to more assurance that the financial statements are presented fairly, that fraud risk is monitored, and that processes are functioning as intended. With some additional resources and appropriate oversight, the City's program could identify and document the control environment, establish methodologies to address the variety of risks that should be addressed and prevent, detect and correct accounting errors that could impact the City's Comprehensive Annual Financial Report.

The attached memorandum details four observations that, if addressed, could strengthen the City's ability to prevent, detect and correct accounting errors, mitigate fraud risk, and efficiently identify control gaps and deficiencies in areas that the monitoring program covers. The control monitoring program should be balanced so as to not let controls hinder efficiency; consequently, it should not be thought of or designed to provide absolute assurance. Rather, it should consider the magnitude and frequency of risks and carefully establish governance and controls that provide a valuable level of assurance.

Sincerely,

A handwritten signature in black ink that reads "Will Tetsell".

Will Tetsell, City Auditor

Date: October 20, 2015

To: Mayor Betsy Hodges; City Council Members; Spencer Cronk

Re: Finance Internal Control Program Consultation Memo

Background

As recommended in the 2011 Office of the State Auditor Management Report for the City of Minneapolis, the Finance and Property Services Department established a program to monitor and perform a risk assessment of existing controls over significant functions of the City's accounting processes. Internal Audit was engaged by the City of Minneapolis Controller's Division to review the monitoring and risk assessment program in place and to provide recommendations and suggested improvements to the program and risk assessment methodology, monitoring activities, control areas monitored, extent of documentation, and the adequacy of control monitoring activities within the program.

Scope & Approach

Internal Audit conducted a review of the Finance Internal Control Program by reviewing program documentation such as process narratives, program risk assessments, testing and evidence documentation, tracking spreadsheets, task calendars and other resources. These resources were used to perform a limited review of the reports used to manage and monitor the program, execute testing of controls and report and remediate control deficiencies.

Overview of the Finance Internal Control Program

The program was developed in 2011 and implemented in 2012 to identify certain processes and implement a risk-identification and -monitoring program to provide assurance related to the recognition, measurement, presentation and disclosure of the City's financial information.

Observations

I. Program Oversight

The internal control program lacked adequate oversight to ensure that controls within various divisions and processes were identified, effective, regularly evaluated and consistently documented. There were an abundance of controls within the City's Finance and Accounting processes; however, their existence, performance, remediation efforts, and adequacy was not fully documented, tracked and reported on.

Program Oversight Recommendation

Establish internal control program governance to effectively assess, evaluate, document and report on the results of the program.

II. Policies and Procedures

An effective control monitoring program consists of methodologies that document the approach for various aspects of the program, such as scoping; deficiency evaluation; sampling; risk assessment; and testing methodology for general computer controls, system access, segregation of duties, spreadsheets, fraud and controls performed by third parties. While there were complete narratives explaining the different financial areas and cycles, there were no established testing methodologies, and no policies or procedures for achieving the program objectives.

Policies and Procedures Recommendation

Establish guidance on how the internal control program should be executed, including timing, communication, reporting and roles and responsibilities as well as establish and document a methodology for the City's approach to meeting the objectives of the program.

III. Risk Assessment

The risk assessment process should identify key controls throughout the various processes that the City relies on to identify the types of potential errors, and assess the factors that affect the risks of errors. The risk assessments reviewed included sufficient information to understand the process, though a process document did not exist. The reviewed assessments did show sufficient information on how the identified controls could prevent, detect and correct errors.

Risk Assessment Recommendation

The City should establish a repeatable process to identify, rate and evaluate key internal controls over financial reporting.

IV. Program Organization and Execution

The City did not appear to have established documentation standards that facilitate the testing, review and re-performance of the control testing being completed. Work papers did not include:

- Details on the risk, objective of the control and sampling methodology.
- The nature, timing, extent and results of the procedures performed, evidence obtained and conclusions made.
- A determination of who performed and reviewed the work, and the date such work was completed and reviewed.

Program Organization and Execution Recommendations

- Improve the control coding system that references controls and processes to consistently reference the risk, the related control activity and the testing done to examine the effectiveness of the control.
- Improve the organization and monitoring of the internal control program and processes to ensure consistent documentation is created and maintained.
- Implement a periodic report to management summarizing internal control monitoring activity conclusions to help identify high-level control issues, control gaps and validate completion of the testing plan.