



**COVID-19 Impact on Local Governments' Internal  
Audit Departments**

**City of Minneapolis  
Internal Audit Department  
August 24, 2020**

# Table of Contents

- Purpose: .....3**
- Background: .....3**
- Process Description: .....3**
  - Questions – Organization: .....4
  - Questions – Audit Department: .....4
- Results: .....7**
  - Results – Organization: .....7
  - Results – Audit Department: .....12
  - IIA Surveys: .....15
- Themes and Conclusion: .....4**
  - Themes – Organization: .....20
  - Themes – Audit Department: .....20
  - Conclusion: .....21

## Purpose:

This document summarizes the results from the nationwide survey the City of Minneapolis Internal Audit Department (“Audit”) conducted related to the COVID-19 pandemic. It also captures relevant information from a similar survey the city of Austin conducted and various polls the Institute of Internal Auditors (IIA) released related to the impact of the pandemic on the Internal Audit profession.

Results from the sources above are discussed below followed by overall themes Audit noted.

## Background:

As part of phase 1 of our COVID-19-related work, Audit sent a survey to other audit departments across the country in July to assess the impact of the COVID-19 pandemic on their work and to identify best practices to navigate uncertain times in the post-COVID world. The survey included questions related to their organizations as a whole and questions specifically related to their departments.

Audit reviewed responses to a similar survey Austin’s audit department sent to cities and local jurisdictions across the country. The Austin audit department gathered information from 20 participating cities (including the City of Minneapolis) from April to June 2020. The results are incorporated in the summaries below and overall concluding themes that follow.

Based on the cities the Austin audit department included in their survey, Audit sent a survey to 46 additional cities of varying sizes across the nation and obtained responses from 23 (including Minneapolis).

In addition, since March 2020, the Institute of Internal Auditors (IIA) conducted 4 quick polls of internal audit shops, including shops in the public administration sector, regarding COVID-19 impacts.

As applicable, we have included selected summary results from those surveys below.

## Process Description:

Audit has been in contact with other local government audit departments across the nation, participating in discussions and sharing updates and best practices as governments adjust to the pandemic. The survey from the city of Austin included the following topics:

- Audit plan adjustments due to police-related protests and COVID-19
- New COVID-related work
- Audit staff reassignment
- Budget adjustments
- Altering telework

The following jurisdictions responded to the survey:

- Atlanta
- Austin (survey initiator)
- Berkeley

- Charlotte
- Chicago
- Dallas
- Denver
- Gainesville
- Johnson County
- Kansas City
- King County
- Minneapolis
- Oklahoma City
- Portland
- Sacramento
- San Antonio
- San Francisco
- San Jose
- Seattle
- Tempe
- Virginia Beach

The City of Minneapolis Audit survey included the following additional topics/questions, with some questions free-form response and others drop-down selections.

### Questions – Organization:

- Was remote work normal at your organization pre-COVID-19?
- Is your organization planning to formally implement remote work going forward?
- Do you think your future work environment will be a hybrid of office-based and remote work?
- What are the issues your organization encountered while implementing remote work as a result of the COVID-19 pandemic?
- As part of your organization's Disaster Recovery Plan (DRP)/Business Continuity Plan (BCP), was a pandemic or a long-recurring event considered?
- Is your organization revising its Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP) to include pandemics in the assumptions underlying BCP/DRP planning?
- Has your organization updated cyber security controls to reflect the current situation?
- What areas or functions do you feel are higher risk in the current environment?

### Questions - Audit Department:

- Has your audit plan changed as a result of the COVID-19 pandemic?
- Are you currently, or will you be, performing an organization-wide risk assessment to update your audit plan?
- Has your department performed an impact assessment of key business units with a focus on People, Processes and Technology?

- If your department has not performed an impact assessment of key business units with a focus on People, Processes and Technology, are you planning to perform one?
- Is your department considering more flexible audit plans of shorter duration (e.g., a plan for the rest of the year)?
- How has your department's role changed during the current situation?
- Is there anything you have learned or wish you had known before that you would like to share with other audit shops?

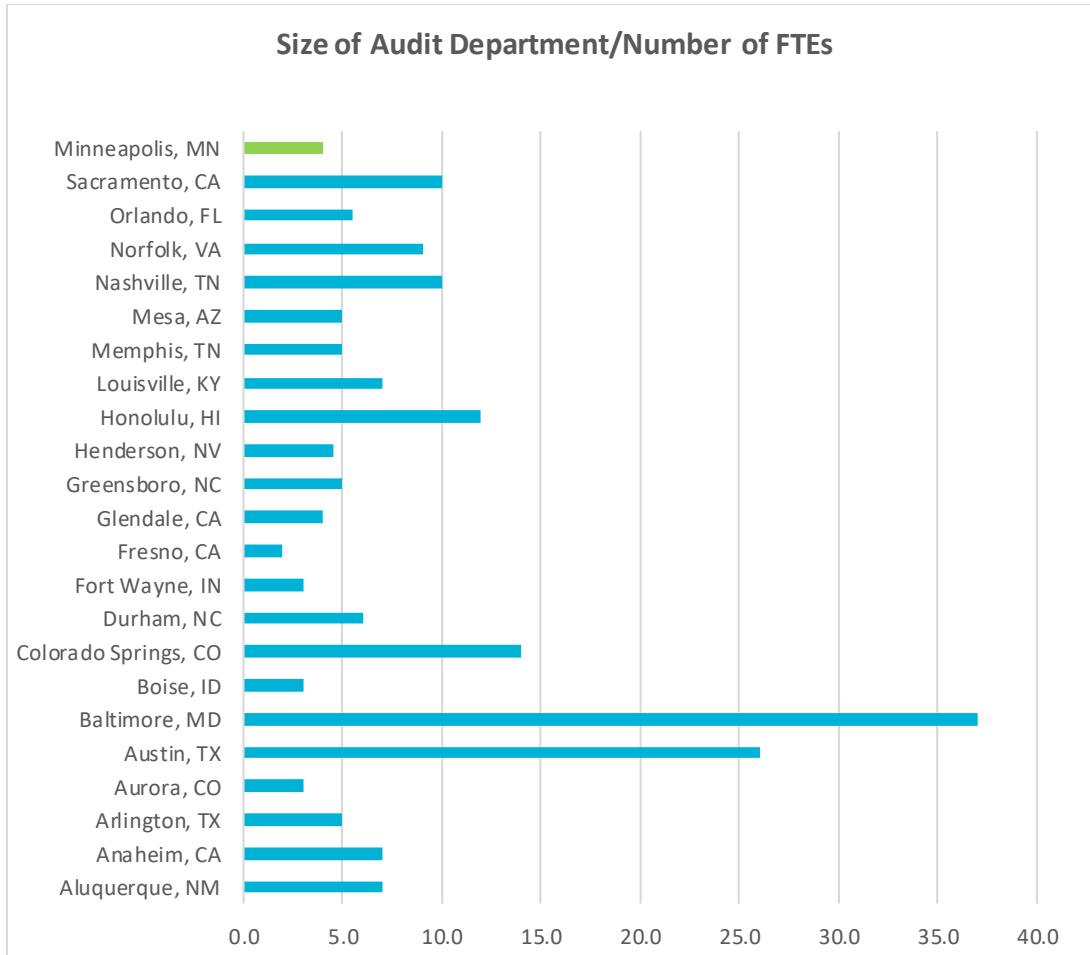
Below is a summary of the cities that received and responded to the survey:

- Albuquerque, NM
- Anaheim, CA
- Arlington, TX
- Aurora, CO
- Austin, TX
- Baltimore, MD
- Boise, ID
- Colorado Springs, CO
- Durham, NC
- Fort Wayne, IN
- Fresno, CA
- Glendale, CA
- Greensboro, NC
- Henderson, NV
- Honolulu, HI
- Louisville, KY
- Memphis, TN
- Mesa, AZ
- Minneapolis, MN (survey initiator)
- Nashville, TN
- Norfolk, VA
- Orlando, FL
- Sacramento, CA

**Note:** Austin and Sacramento are included in both the city of Austin and the City of Minneapolis survey responses.

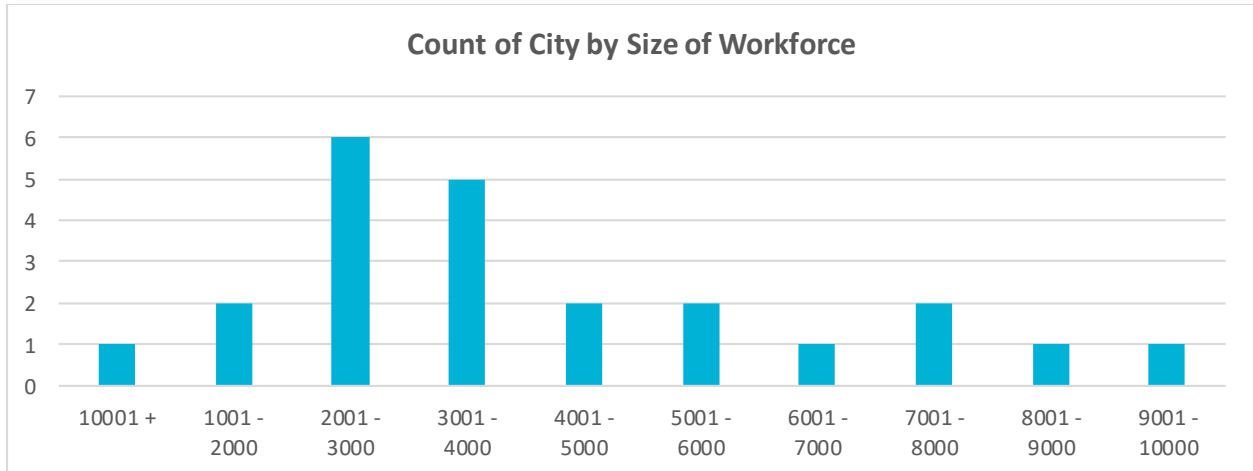
The following chart (**Figure 1**) represents the number of full-time equivalents (FTEs) in the audit departments of each survey respondent. Minneapolis (4 FTEs) ranked on the smaller size of the range, and the average audit department had 8 FTEs.

**Figure 1. Audit Department Size**



The chart below (**Figure 2**) shows the distribution of the respondent's workforce; these cities range in size but are generally comparable to Minneapolis. The City of Minneapolis' workforce at just under 4,000 is similar to four other responding cities in number of employees.

**Figure 2. City Workforce Size**



## Results:

Results from the Minneapolis and Austin audit surveys are summarized first, with graphs and figures coming from Minneapolis and supporting detail from Austin, followed by discussion of IIA survey results.

Audit summarized responses under the categories of *organization* and *audit department*.

### Results - Organization:

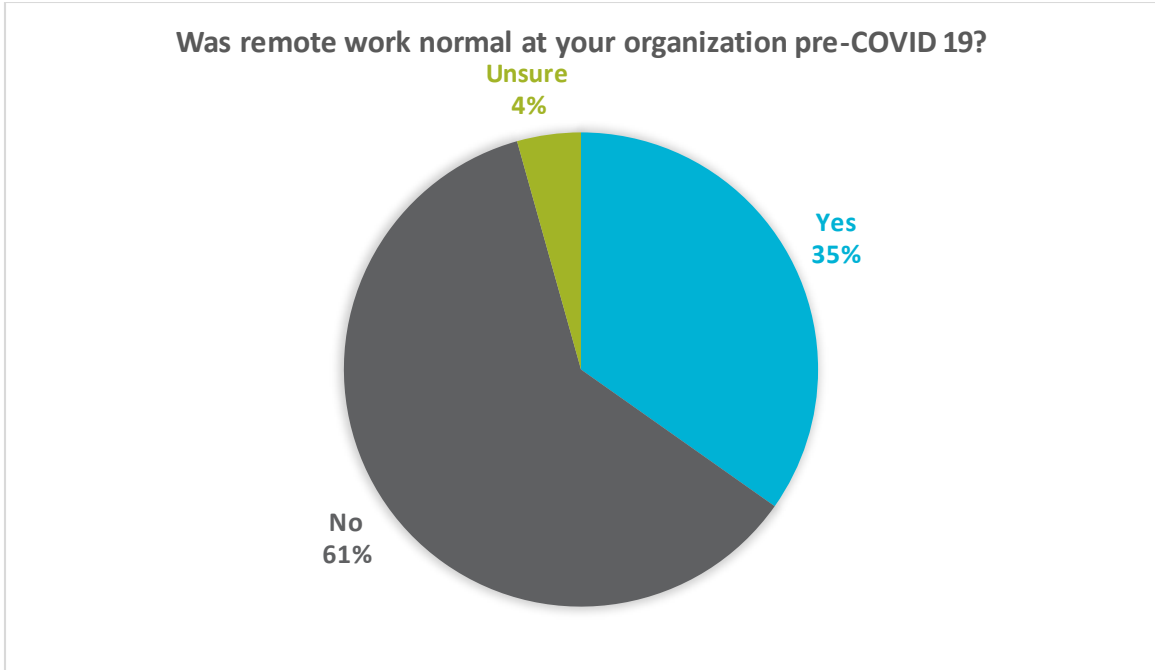
Audit first inquired about how the pandemic impacted the local government organizations, focusing on working conditions and business continuity plans. Impacts to the organization result in impacts to audit plans and work.

#### Remote Work:

Remote work was generally not common among local government organizations prior to the pandemic, as shown in **Figure 3** below. However, over half (12 of 23) of respondents to our survey are planning to formally implement remote work going forward, and most expect their organization's work environment to be a hybrid of office and remote work, as shown in **Figure 4** and **Figure 5**.

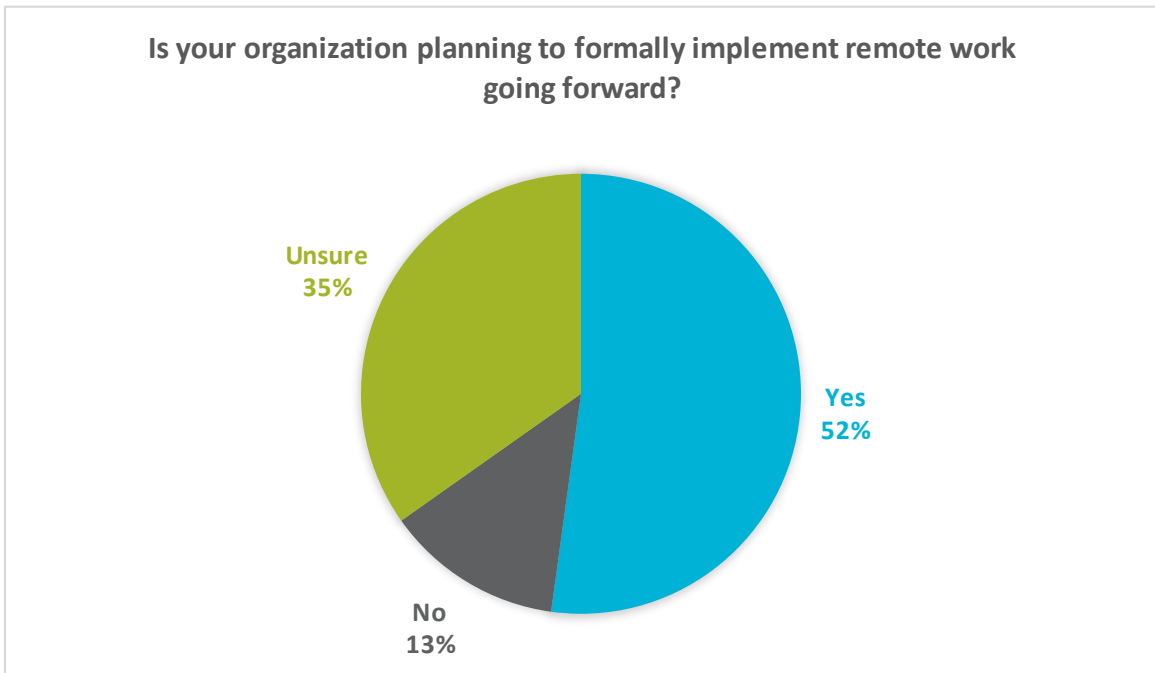
Respondents to Austin's survey have also adapted through measures such as staggered work schedules and giving staff the option to work part-time in the office; others are teleworking until the situation changes or can be re-evaluated.

**Figure 3. Pre-COVID-19 Remote Work**



As shown in **Figure 4** below, respondents are anticipating their organizations will more formally adopt a remote working environment going forward.

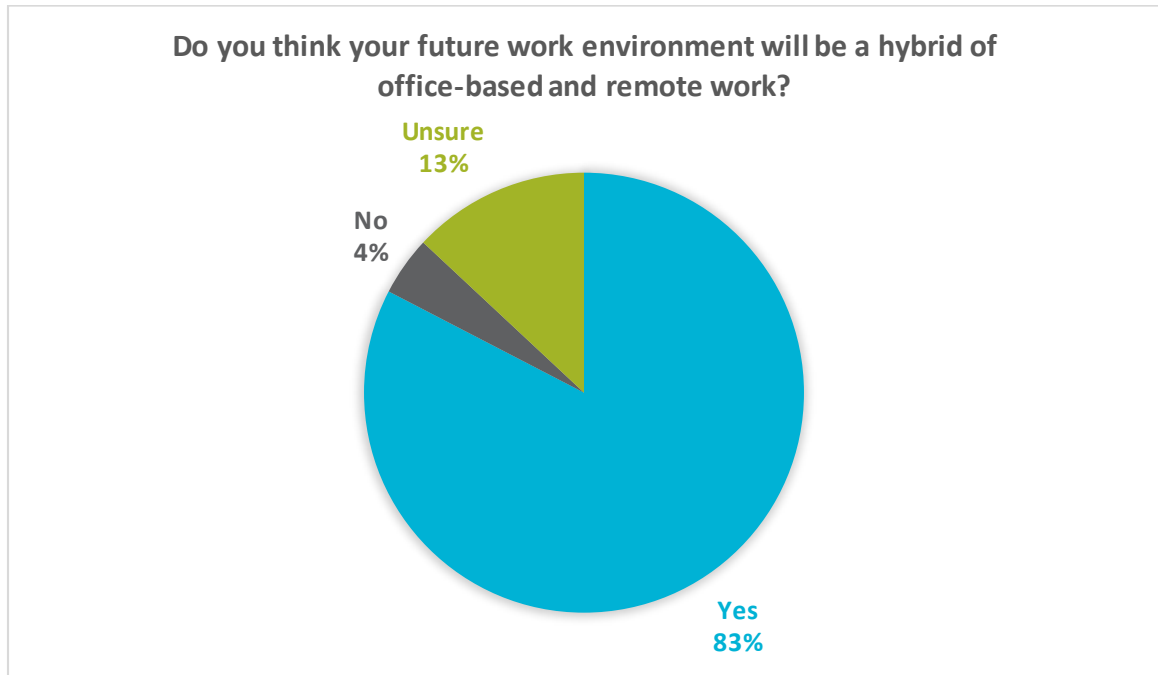
**Figure 4. Implementation of Remote Work**





And as demonstrated in **Figure 5** below, the future work environment will be different for almost all responding organizations (83%), with a switch to a hybrid approach.

**Figure 5. Future Work Environment**



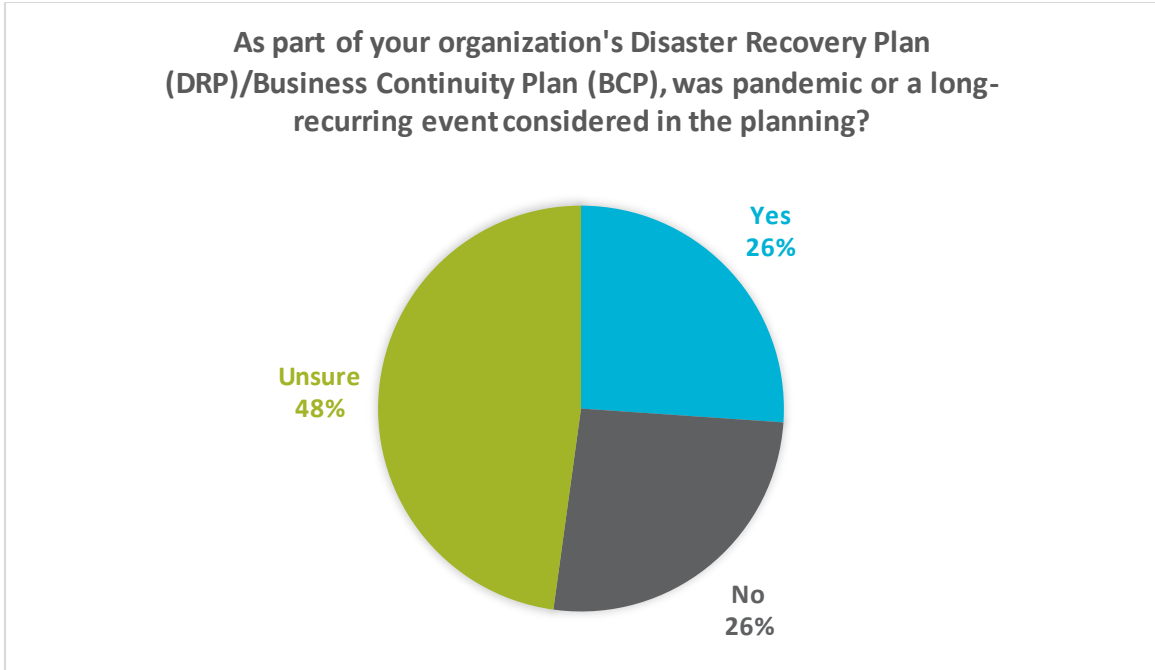
The transition to remote work in the midst of the pandemic generally created issues for organizations. Noted issues included:

- Technology updates and access, including accessing documents, hardware, software, internet and VPN; and using video and teleconference software
- Access and availability of data and needed materials to accomplish work
- Staff productivity and monitoring of work
- Team collaboration and engagement
- Change in workflows, including switching from paper and manual processes to digital

**Business Continuity Planning and Current Environment**

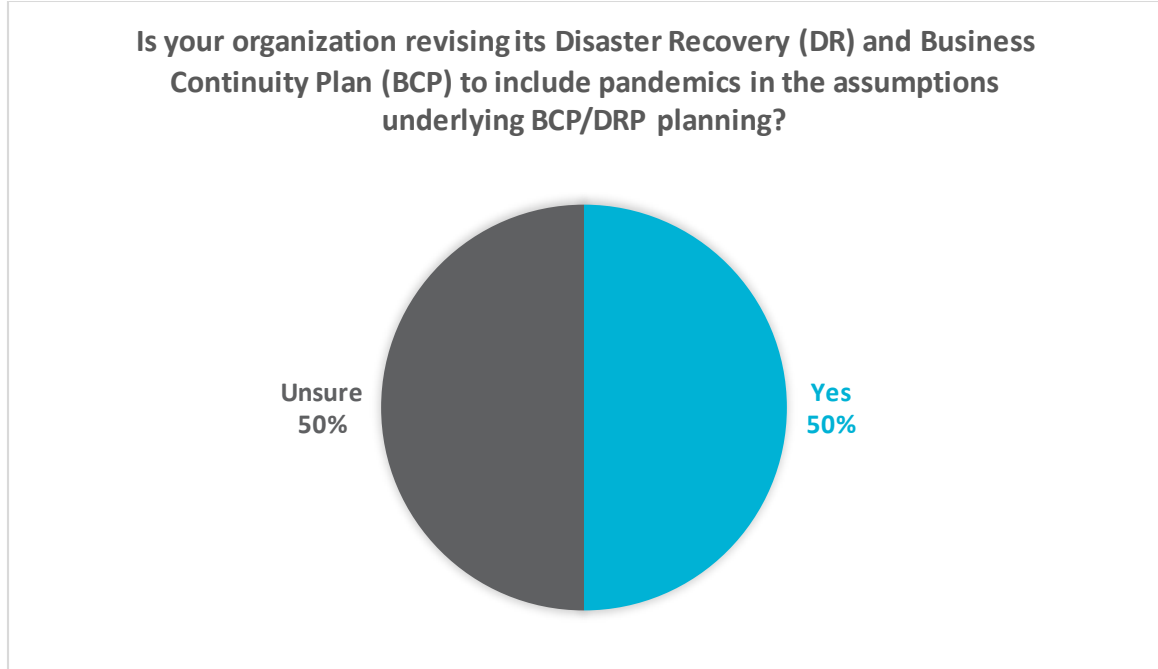
Only about a quarter (6 out of 23) of respondents noted that a pandemic or long-recurring event was considered in the planning of their organization’s Disaster Recovery Plan (DRP) or Business Continuity Plan (BCP).

**Figure 6. DRP and BCP Plans**



However, about half are consequently revising their plans to include pandemics in their assumptions. Ideally, organizations can use lessons learned from the current situation to help plan for future pandemics and long recurring events. Often, a disaster has been thought of as a one-time occurrence, with the focus on recovery; pandemics have presented a unique challenge given their long, unspecified duration and impact.

**Figure 7. Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP) Revisions**



Respondents identified organizational areas and functions deemed to be at higher risk in the current environment, including:

- IT and Cybersecurity
- Police and Public Safety
- Human Resources
- Finance and Payroll
- Health

Some respondents also commented on the risk of internal controls around payroll, spending, and emergency funds being circumvented or at higher risk in the current environment. Given the IT risks in a work from home environment, half noted their organizations have already updated their cybersecurity controls to reflect the current situation, as shown in **Figure 8**.

**Figure 8. Cyber Security Controls**



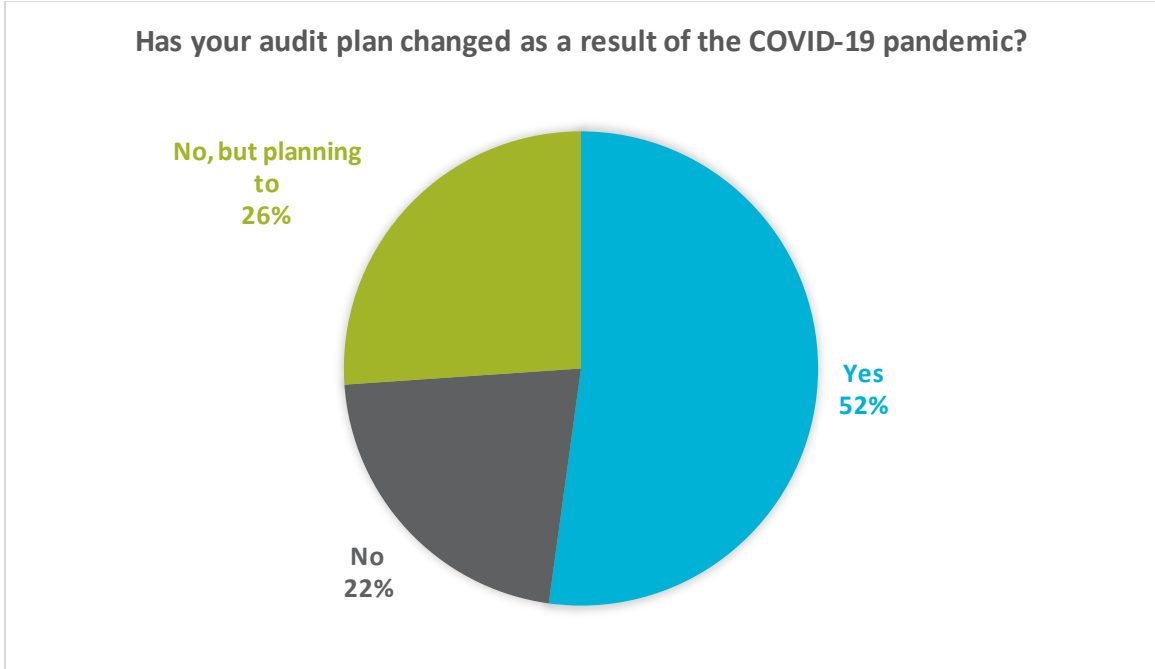
### Results - Audit Department:

The second area of inquiry focused on the internal audit department itself and how the pandemic impacted its work.

#### **Audit Plan Impact**

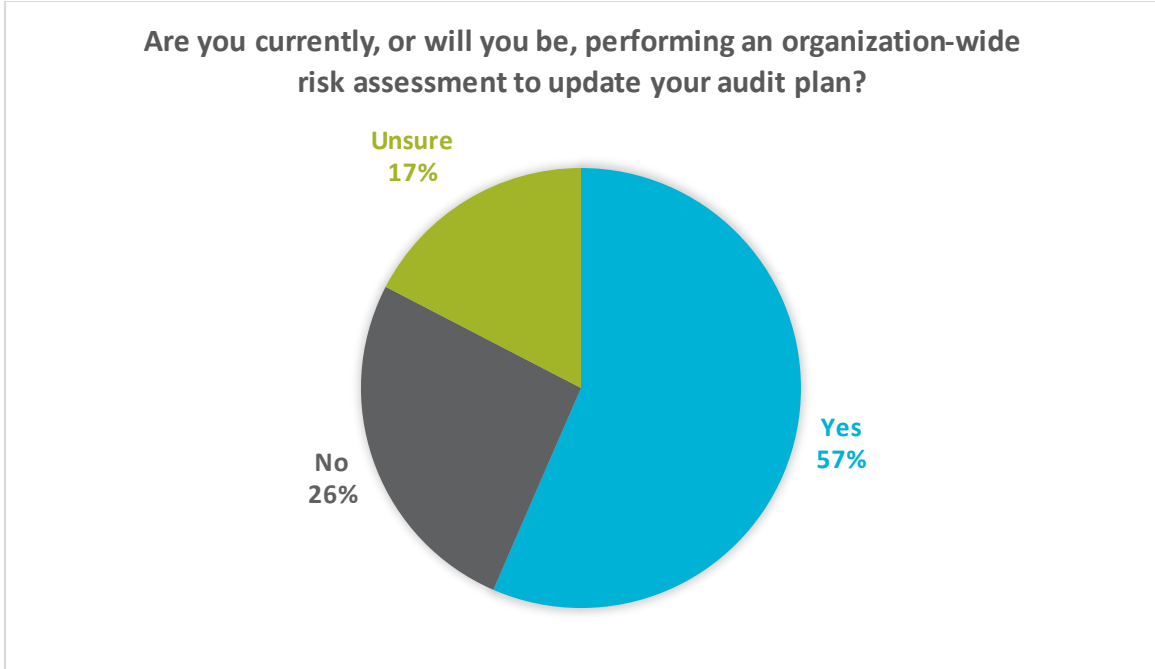
Audit inquired about impacts to the Internal Audit function and received mixed responses regarding changes due to the pandemic. About half (52%) responded that their audit plan has changed; a quarter (26%) more intend to make changes.

**Figure 9. Audit Plan Changes**



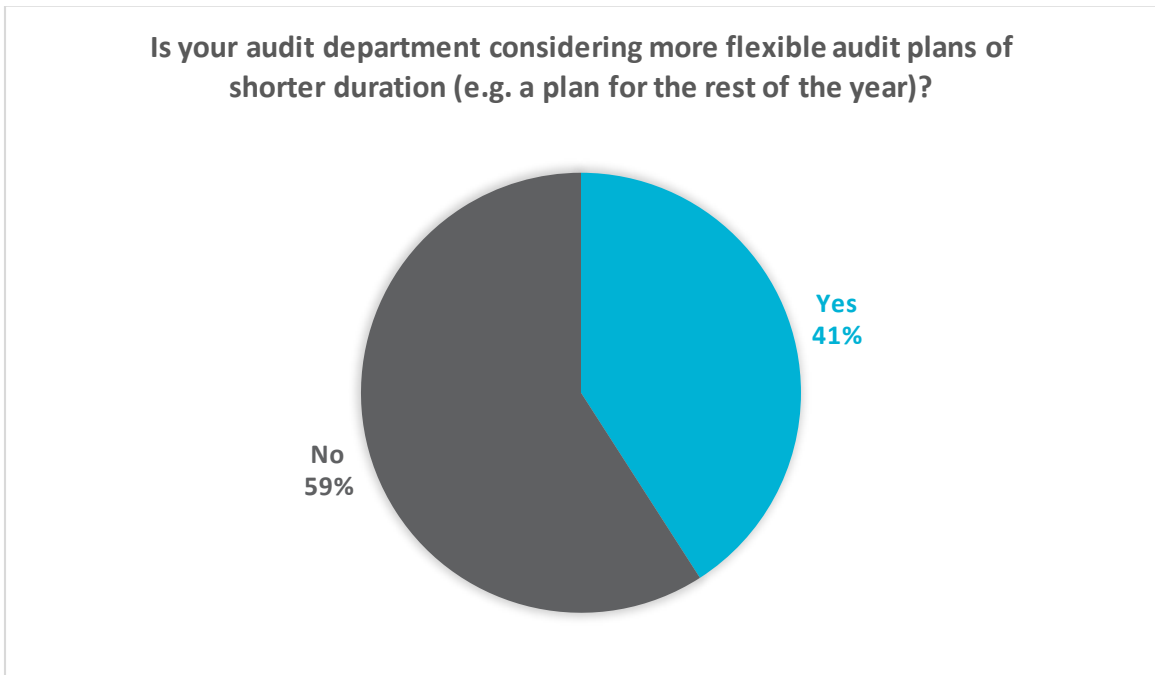
A little more than half of the survey respondents stated that they are performing or are planning to perform an organization-wide risk assessment to update the audit plan, with 17% unsure, as shown in **Figure 10**.

**Figure 10. Risk Assessment Update**



A third are considering audit plans of shorter duration, such as to the end of the year, considering the pandemic, as shown below in **Figure 11**.

**Figure 11. Audit Plan Flexibility**



Some audit departments in the Austin survey responded that they put new projects on hold and delayed some work due to auditee and staff availability. Projects on the plan deemed to be more feasible have moved up in the plan order, and some have shifted to projects of narrower scope and shorter duration for quicker results and increased audit flexibility.

Others have started or plan to start a new risk assessment and work on projects related to COVID-19, including:

- Pre-implementation reviews of policies and processes to disburse funds
- Finance internal controls
- P-Card usage evaluation
- Grant compliance audit and projects related to other relief funds (CARES)
- Pandemic response evaluation
- Cybersecurity
- Employee safety

In Austin's survey, respondents noted a general focus on finance and internal controls. Specifically, audit departments expressed concerns about revenue loss and budgetary impacts from the pandemic and are actively involved in discussions.

### **Department Impact**

Audit shops had varying degrees of telework before the pandemic, but mostly worked in the office. Many others have since switched to telework and noted positive results once they resolved issues such as document access and IT resources. A few have returned to the office, either through some phased-in plan or group rotation.

The role of internal audit has not dramatically changed within organizations; however, auditors have taken on other non-traditional audit work and in select cases are assisting in monitoring and reviewing of grants and emergency funds or serving as advisors on special projects. Some audit departments focused on assistance with reviewing and analyzing expenditures and contracts. And in some organizations, internal auditors have taken on serving as technical experts in finance and IT and have helped across the enterprise.

Based on the Austin survey, some organizations reassigned internal audit staff to other departments throughout the pandemic. Some joined their organization's emergency operations or cost recovery team; some are otherwise involved in the response in mission-critical areas, including finance, police, and administration. Others serve as contacts between their organization and grantor agencies or track and monitor COVID-19-related expenses and submission materials for reimbursements.

## **IIA Surveys**

The Institute of Internal Auditors (IIA) has also conducted multiple surveys on the impact of COVID-19 on the Internal Audit profession. The surveys focused on topics including:

- Initial actions taken by public and private sectors in North America

- The IIA administered the survey from March 19-23, 2020
  - 170 chief audit executives (CAEs) and internal audit directors responded
    - 91% respondents from the United States, and 9% from Canada
  - Most represented industries: finance and insurance (39%); manufacturing (14%); educational services (8%); and health care and social assistance (5%)
- Risk assessment, audit plans, staffing, and budget
  - The IIA administered the survey from April 9-13, 2020
  - More than 400 chief audit executives (CAEs) and internal audit directors responded
    - 90% respondents from the United States, 9% from Canada, and 1% from the Caribbean
- Workplace readiness – health, safety and liability in the COVID-19 environment
  - The IIA administered the survey from May 6-8, 2020
  - 371 chief audit executives (CAEs) and internal audit directors responded
    - 91% respondents from the United States, and 9% from Canada
- Longer-term impact on internal audit
  - The IIA administered the survey from June 3-5, 2020
  - 486 chief audit executives (CAEs) and internal audit directors responded
    - 87% respondents from the United States, and 13% from Canada

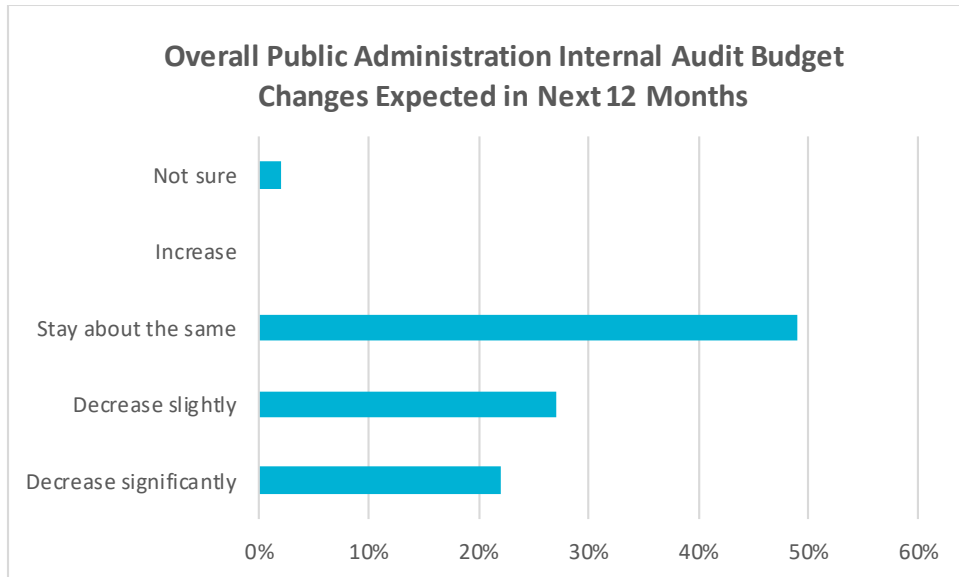
Some questions were repeated throughout the polls, allowing for analysis of the continuing impacts of the pandemic between March and June. From the surveys mentioned above, Audit selected relevant information on the impact to the budgets, risk assessments, and audit plans of public administration audit shops.

### **Budget**

As the pandemic has continued, the budgetary impacts for internal audit functions has become clearer. According to the second survey taken in April, 68% of internal audit shops in the public administration sector responded that they expected their budgets to stay the same, with about 21% expecting a decrease. However, by the fourth survey, about half of public administration respondents expected internal audit functions to experience budget decreases over the next 12 months as demonstrated in **Figure 12**. Public administration respondents roughly matched the overall average.



**Figure 12. Internal Audit Budget Changes Expected in Next 12 Months**

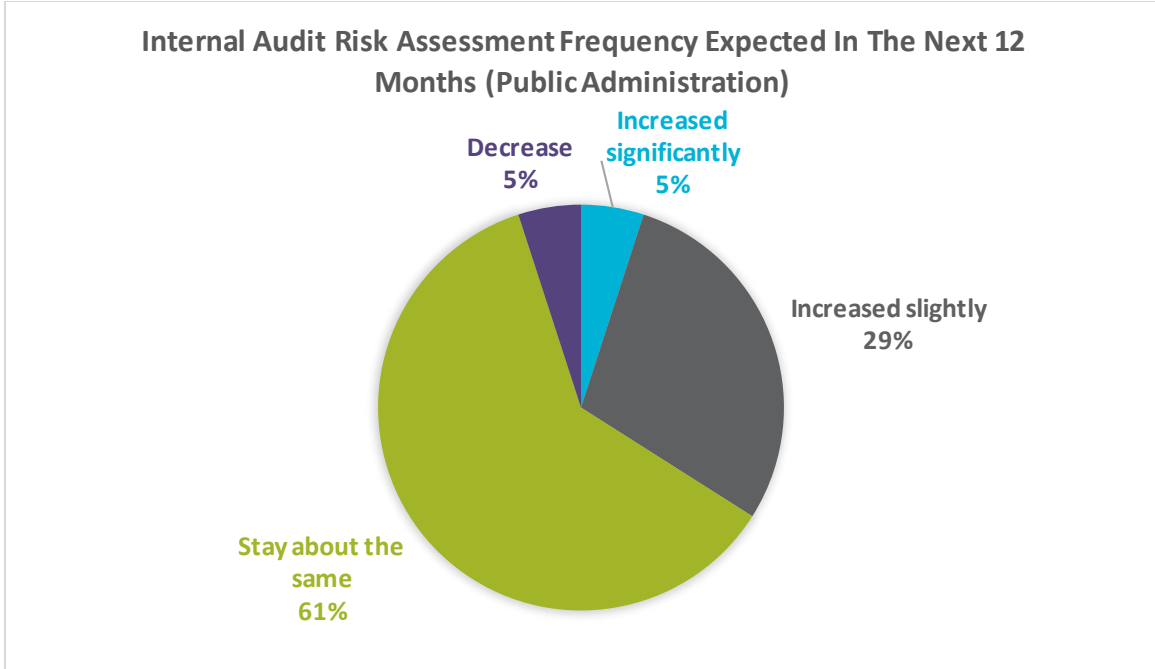


Travel and professional budget categories were highly impacted, followed by external sourcing budgets. Many respondents to the Austin survey noted ongoing hiring freezes and budget freezes for discretionary expenses such as supplies and training while preparing for significant budget decreases for next year along with their organizations. Unfilled vacancies provided another source of savings for many audit departments.

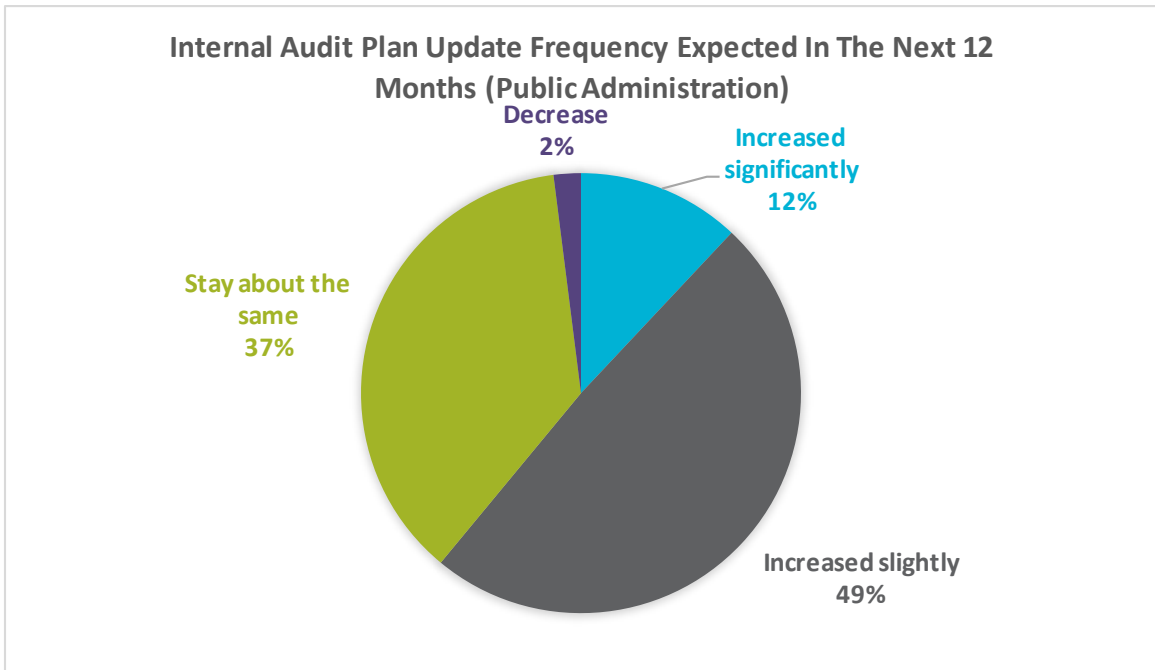
### **Risk Assessment and Audit Planning**

Similar to the results of Audit’s survey, public administration audit shops plan to increase the frequency of their risk assessments and audit plans, as shown on **Figure 13** and **Figure 14**; however, rates were generally lower than the industry overall. In public administration, there are significant portions not planning on changing frequencies as of this time.

**Figure 13. Risk Assessment Frequency Expected**

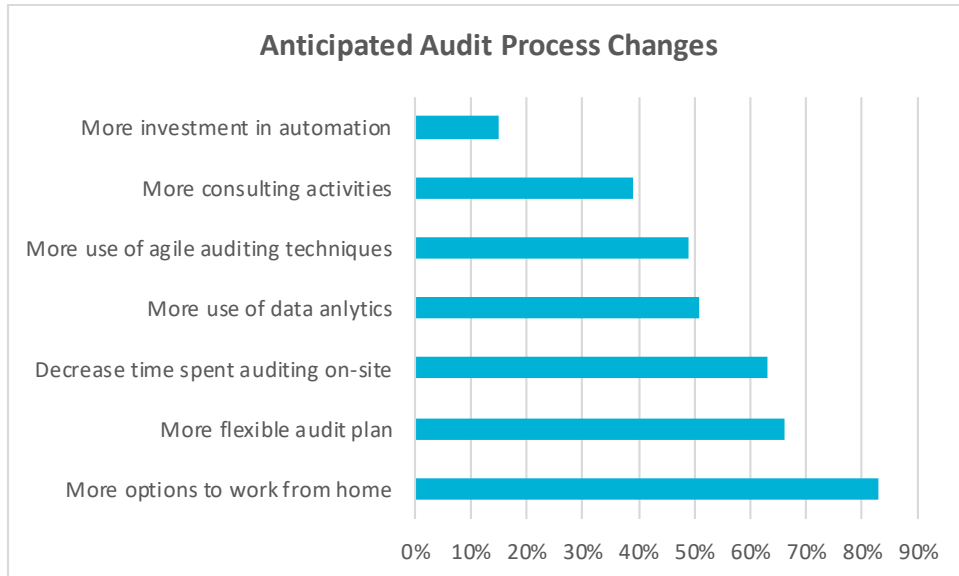


**Figure 14. Audit Plan Update Frequency Expected**



The type of work and processes internal audit uses have similarly changed in line with the nature of work as teleworking has become normal and business needs change. Audit shops are planning for more agile auditing and consulting engagements, while decreasing time spent in the office or at work sites, as shown in **Figure 15**.

**Figure 15. Anticipated Audit Process Changes**



With new projects and tasks, coverage of skills and competency needs among auditors changed. For the public administration sector, respondents noted the following needs have become some of the most important to have or acquire:

- Business Acumen
- Communication
- Cybersecurity
- Data Analytics
- Fraud
- Health and Safety
- Innovation and Change

## Themes and Conclusion:

Based on the surveys and discussions, Audit noted the following overall themes:

### Themes - Organization

- Telework and flexible working arrangements have and will continue to become the norm going forward

- IT infrastructure and cybersecurity have become more critical for organizations, and problems and issues arising early in the pandemic often related to software, hardware, connectivity, and training for use of technology
- Not all business functions and operations have been impacted the same way by the pandemic; new risks have arisen in importance and priority and different ones will continue to arise

In the comments received and discussions, IT was a frequently recurring business area respondents noted. Remote work was relatively infrequent in public administration prior to the pandemic. During the transition, there was a need first for adequate hardware, such as laptops, to ensure eligible employees could work remotely. Working on personal devices introduces new security risks.

In addition, there was a need to ensure employees had access to the software and applications needed at home, as well as sufficient and appropriate VPN privileges to access documents and shared information. This new environment introduces new risks and opportunities for an organization that internal audit can help identify over the intermediate timeframe.

The use of new applications posed a common challenge as organizations rolled out virtual meeting and messaging programs. The City of Minneapolis debuted Microsoft Teams, for example. Employees needed applications, but local governments also needed platforms to conduct public meetings and forums immediately, whereas a normal rollout process would have happened over a period with sufficient tests and opportunities to work out issues and kinks. Respondents noted it was difficult to conduct trainings and assist employees with technological issues in a short timeframe.

Over the past several months, the urgency has lessened, and business operations have established a new normal. Management and staff have had the opportunity to work out initial concerns and issues such as access to applications. New activities and processes that have developed should now be documented and risks assessed. Internal audit activities, through audits or consultations, can help ensure processes and functions are working adequately, securely, and efficiently,

A current and common area of focus for many audit shops was CARES and other COVID-19-related emergency funding that organizations have received. As the public sector receives additional funding, auditors should monitor and assist with grant management and documentation. Notably, the City of Minneapolis internal audit recently completed grant management audits of the City overall and the Community Planning and Economic Development (CPED) department specifically, prior to COVID-19, and is currently engaged in a Park Board grant management audit.

## Themes - Audit Department

- Internal audit departments should be flexible and adapt to changing conditions
  - Conduct more frequent and flexible risk assessments and audit plan updates
  - Allow flexibility in the audit process
- Internal audit departments can provide value through non-traditional audit work and consultations, assisting functions as needed

- Internal audit departments need to stay in frequent communication with stakeholders across their organizations to know and understand the changing landscape their organizations face

Responding with short term projects to address emerging risks can also be balanced with a longer term strategic pandemic response and recovery plan. Understanding the challenges auditees are facing and working in ways other than a traditional audit helps provide risk coverage.

The current risk environment is changing quickly, and that has sped up audit's transition from a rigid, yearly audit plan to a more flexible, rolling assessment and planning project. Our audit department already made this transition prior to the pandemic and will continue to update the plan as necessary.

Internal audit departments have adapted to the effects of the pandemic and play an integral part in moving government forward.

## Conclusion

The City of Minneapolis internal audit department will continue to stay in contact with peers across the nation and gather information from management on risks impacting the City. As part of the 3 phases of the COVID-19-related projects, we will update our 2020 rolling audit plan as needed to sufficiently cover emerging risks.