



City of Minneapolis Internal Audit Department



Report to the Audit Committee Second Quarter 2011

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Table of Contents

A. Audit Plan: Budgeted vs. Actual Hours Update.....	3
B. 2011 Audit Follow-up Results	
Overview and Summary of Findings.....	4
C. 2009 Quality Assessment Review Status Update.....	5
D. Other Updates	
Undergraduate Student Interns.....	7



A. Audit Plan: Budgeted vs. Actual Hours Update

In the quarterly update, the Internal Audit Department would like to update the Audit Committee on the status of the 2011 Audit Plan. To provide this update, the Internal Audit Department has prepared a year to date comparison of budgeted hours as specified in the 2011 Audit Plan versus actual hours expended working on 2011 Audit Plan projects.

- As of June 24, 2011 the Internal Audit Department has completed 42% of the project hours included in the approved 2011 Audit Plan (2,448 of 5,830 hours).
- Actual project hours (2,448) are less than planned project hours (2,654) by 3.6% due to time spent on administrative activities getting the Department up and running.

The Internal Audit Department has hired two undergraduate student interns that will add to Department productivity and compensate for the current project hours shortage.



B. Audit Follow-up Results

Overview and Summary of Findings

Audits that produce management action plans require IA to monitor and follow-up on the status of any and all open items until properly addressed.

The summary below details management action plan statuses related to the reviews listed below:

1. 2011-02: Police Scheduling and Time Reporting Review
2. 2011-03: Timekeeping System Pre-Implementation Review
3. 2011-04: Procurement Process Review

The key below defines the colors used to code the management action plan statuses:

- Complete
- On track; likely to be complete by due date
- Of concern; unlikely to meet expected due date
- Of concern; deadline has passed

Summary of Follow-up Findings					
Report Name	Total Open Recommendations	Completed	On track	Of concern; unlikely to meet expected due date	Of concern; deadline has passed
2011-02: Police Scheduling and Time Reporting Review	9	3	5	1	0
2011-03: Timekeeping System Pre-Implementation Review	8	3	5	0	0
2011-04: Procurement Process Review	6	1	5	0	0
TOTALS	23	7	15	1	0



C. 2009 Quality Assessment Review Status Update

The City of Minneapolis Internal Audit Function received a Quality Assessment Review in 2009 by an Internal Audit Review Committee consisted of five professionals from two other public organizations and three members of a private audit firm with experience in internal audit services for public sector clients. The review concluded that Minneapolis Internal Audit does not comply with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing. Below is a status update, as of June 29, 2011, of the seven recommendations (three Matters for the Consideration of the Board and City Leadership and four Matters Specific to Internal Audit) made by the review team.

Recommendation	Status / Internal Audit Action Plan
Matters for the Consideration of the Board and City Leadership	
1. Organizational Independence - The city should ensure that there is an audit committee with purview over internal audit to ensure its ongoing organizational independence.	Completed - The newly created Audit Committee has purview over the Internal Audit activity.
2. Organizational Independence - The Internal Auditor should have a dual reporting relationship to the Board or its successor (Audit Committee) for audits and to the City Coordinator for administrative matters.	Completed - The current organizational structure for the Internal Audit activity is at the ideal organizational reporting level to ensure independence. The Internal Audit Department reports functionally to the newly created Audit Committee.
3. Reporting to Senior Management and the Board - The City should work to increase the staff of Internal Audit by at least two FTE and possibly as many as four as soon as possible. This will ensure better audit coverage and allow City management to better identify and manage critical risks.	Completed - Partially: Two Senior Auditors have been added to the Director of Internal Audit. Based on the three year audit plan (2011 to 2013) and benchmarking studies comparing the City of Minneapolis Internal Audit department to other Cities, the Internal Audit Department has requested adding two additional FTEs at the auditor level in the 2012 budget proposal. In light of current budget constraints, the Internal Audit Department remains hopeful about the accommodation of this request.
Matters Specific to Internal Audit	
1. The Institute of Internal Auditors (The IIA) Code of Ethics - Minneapolis Internal Audit should adopt the IIA Code of Ethics and incorporate a reference to it in its Audit Charter.	Completed - The Internal Audit department is committed to a world class quality internal audit function. Each of the Audit team members including the students interns have signed the IIA code of Ethics, it will be signed on an annual basis. The Internal Audit Charter incorporates a reference to the IIA code of Ethics.
2. Audit Charter - The Internal Audit Charter should be revised to conform to IIA Standards and clearly define the desired role for the internal audit function in the future of the City.	Completed - A decision has been made to rely on the City Ordinance, as the Charter of the Internal Audit Department.

Recommendation	Status / Internal Audit Action Plan
Matters Specific to Internal Audit (continued)	
<p>3. Audit Planning - Minneapolis Internal Audit should develop an annual risk assessment process that includes input from the Mayor, the City Coordinator, Senior Managers of City Departments and the City Council.</p>	<p>Completed - Internal Audit jointly with KPMG has developed a risk based three year audit plan that included input from the Mayor, the City Coordinator, Senior Managers of City Departments and the City Council. The process will be done annually and on an ongoing basis to update and maintain a three year audit plan.</p>
<p>4. Quality Assurance and Improvement Program - Minneapolis Internal Audit should develop a Quality Assurance Improvement Program that includes regular internal quality check elements, as well an external review within the next 2 or 3 years if the activity can be brought into conformance, and then every 5 years as required by the Standards.</p>	<p>Ongoing - Internal Audit will weave, in the audit process, the expectations/requirements for the Quality Assurance Improvement. Internal Audit is planning to request an external Quality Assessment to be performed by first quarter of 2013, and every 5 years as required by the IIA Standards.</p>



D. Other Updates

Undergraduate Student Interns

The Internal Audit Department hired two undergraduate student interns, Kelcie Brady and Lauren Heir, from the University of Minnesota, Carlson School of Management in May. The selection was made based on specific criteria and interviews; they were chosen as the best suited candidates for the internships. Both will work full-time during the summer months and 10 hours per week during the school year. It is expected that they will help the Department in completing 2011 Audit Plan and reducing the shortage of hours identified in the Audit Plan.