

Internal Audit Department 2012 Budget Hearing

Department found on pages 376 – 379 in budget book

Presentation to Ways and Means/Budget Committee

November 1, 2011

Internal Audit Department Program by Goal

■ A City that Works

- **Operational Excellence:** Use best practice methodologies, technology and quality programs to support all activities.
- **Access to Information and Services:** Promote transparency to residents and enhance accountability of City decision makers.
- **Talent Management:** Assess risks surrounding City processes including hiring and retaining of talented and motivated personnel.
- **Culture that Fosters Innovation, Leadership and Collaboration:** Collaboratively develop action plans with City leadership to mitigate risks identified in audit reviews.
- **Empowers Residents, Businesses and Visitors as Valued Partners:** Publish audit reports to inform the public about enhancements made to mitigate risks the City faces.

- \$508K (3 FTEs) proposed by the Internal Audit Department to maintain the current 2011 level; \$378K (2 FTE) recommended by the Mayor (all funds come from General Fund)

Internal Audit History

1982 Charter Amendment

- Created CFO position.
- Created the Audit function that reported to Board of Estimate and Taxation.

2009 Quality Assessment (Peer Review) Key Recommendations

- Establish an Independent Audit Committee.
- Internal Auditor should report to the Audit Committee.
- Increase audit staff to three FTEs and possibly as many as five as soon as possible.
- Internal Audit should develop an annual risk assessment process that includes input from the Mayor, the City Coordinator and Senior Managers.
- Internal Audit should develop a Quality Assurance Improvement Program.

2009 An amendment to the City Ordinance

- Created the Audit Committee following the 2009 Peer Review.
- Moved the Internal Audit function from the Board of Estimate and Taxation to the City of Minneapolis reporting to the Audit Committee.

Definition of Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit Mission

We assist the City of Minneapolis to achieve its objectives. We serve the City of Minneapolis and the public interest by providing the Mayor, City Council, and other City leaders and management with objective services to help minimize risks, improve internal controls, maximize efficiencies and effectiveness of operations, reduce cost, and strengthen accountability.

Our role is to provide objective services in the evaluation of the adequacy and effectiveness of the City's internal system of financial controls to ensure:

- *The reliability and integrity of financial records and reports.*
- *Compliance with policies, procedures, ordinances, rules and statutes related to expenditures and financial controls.*
- *That assets are safeguarded from loss.*

Impact of Recommended Budget on Key Internal Audit Results

- The recommended 2012 Budget decreases the Department by 1 full time equivalent (FTE) from the current 2011 budget (3 FTEs). Impact to the City:
 - Reduces the overall Internal Audit capacity by 41%.
 - Reduces the ability to provide adequate audit coverage.
 - Forces a reduction in scope and depth of risk areas addressed.
 - Reduces Internal Audit's ability to perform fraud investigations (if fraud is suspected) or other special projects, as needed or requested.

Impact of Recommended Budget on the City of Minneapolis

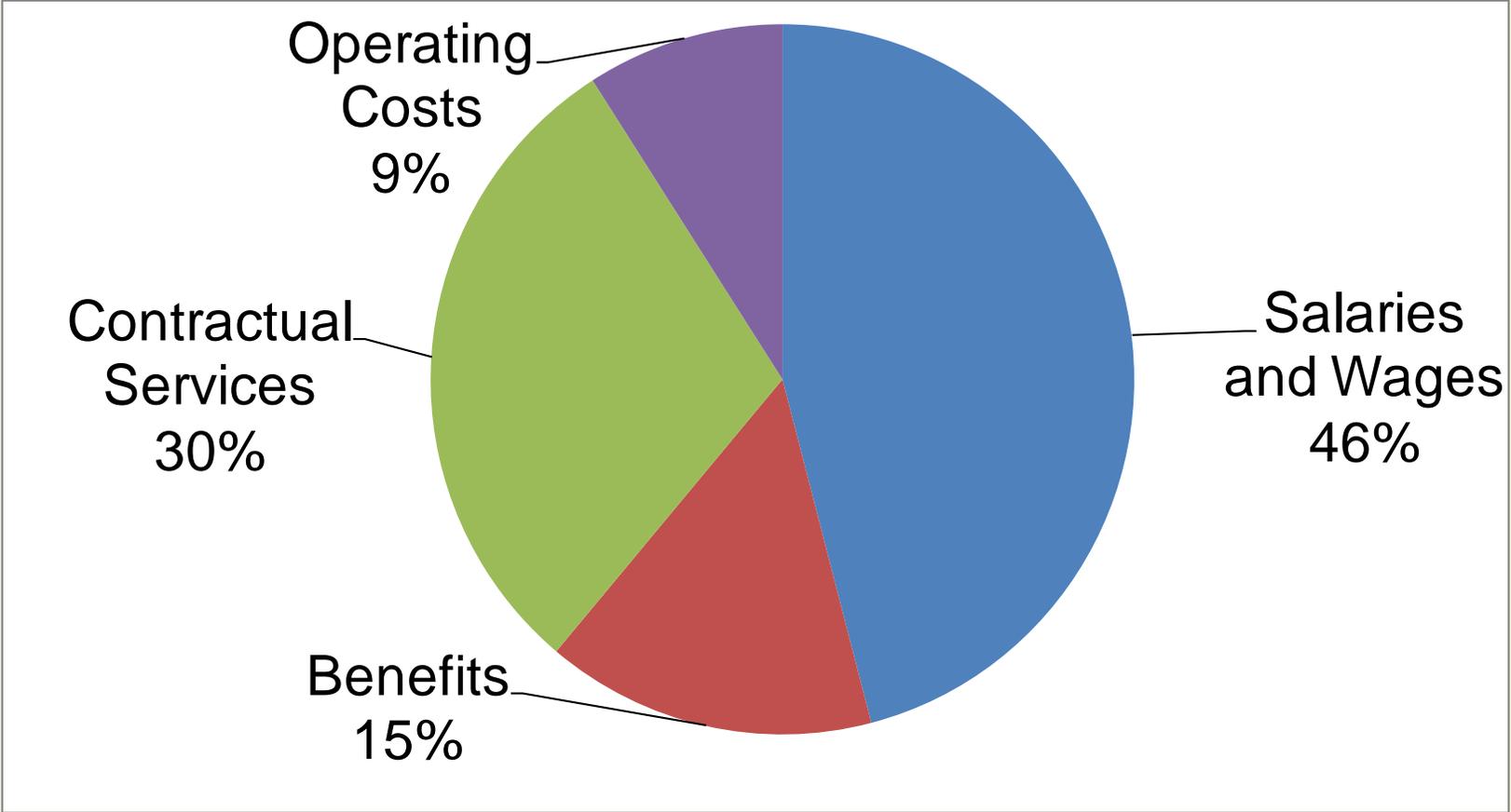
- The risk exposure to the City will be greater by not adequately covering high risk areas within the City Departments.
- Some areas requiring potential improvements will not receive the attention needed due to the lack of Internal Audit resources.
- Generally, when an organization's employees are reduced, priorities shift:
 - Primary Focus – Employees completing their work;
 - Secondary Focus – Employees adhering to internal controls;(The shift in priority increases the risk for errors and fraud, and the need for Internal Audit increases)

Major Contracts in the Internal Audit Department

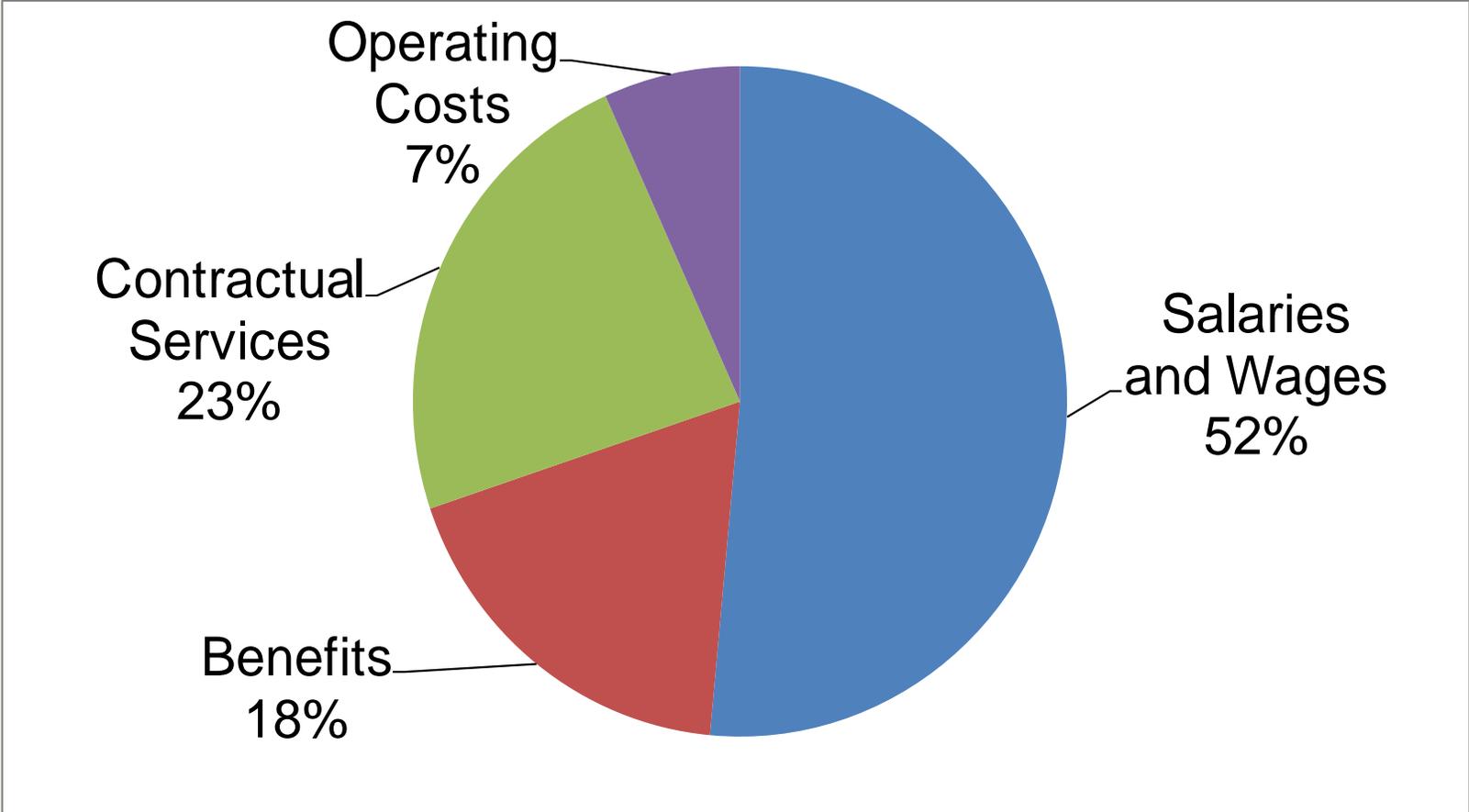
Internal Audit will need to contract outside consultants in areas where we lack relevant expertise (e.g. Information Technology or specialized areas).

Internal Audit Department – Mayor’s Recommended Budget

Expenditures by Type (\$377,559)



Internal Audit Department – Internal Audit’s Proposed Budget Expenditures by Type (\$507,513)



Internal Audit Department

Expenditures by Fund

The Internal Audit Department is entirely funded by the General Fund.

Internal Audit Department

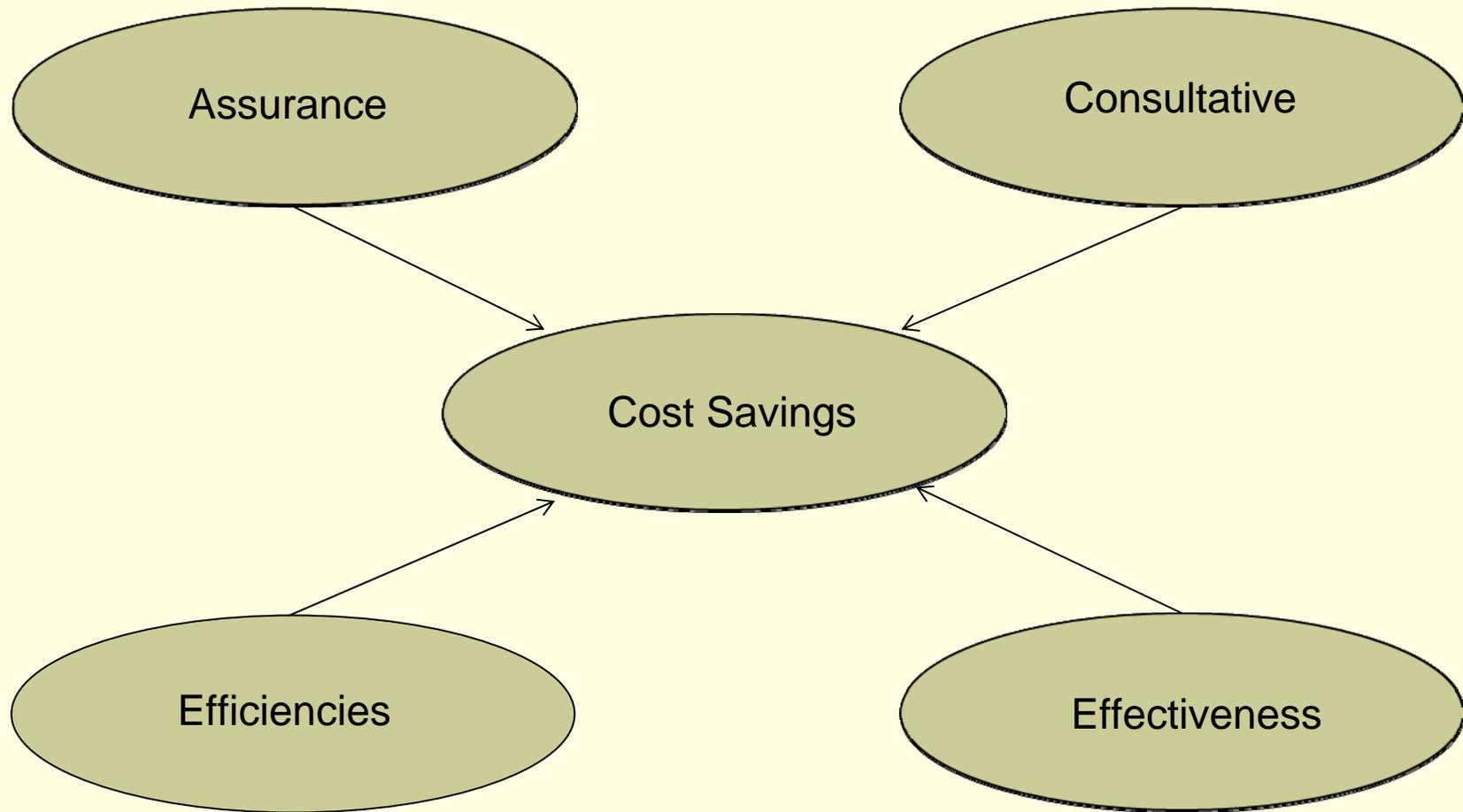
Expenditures by Program

The Internal Audit Department is comprised of a single program.

Department Budget Offset by Revenue

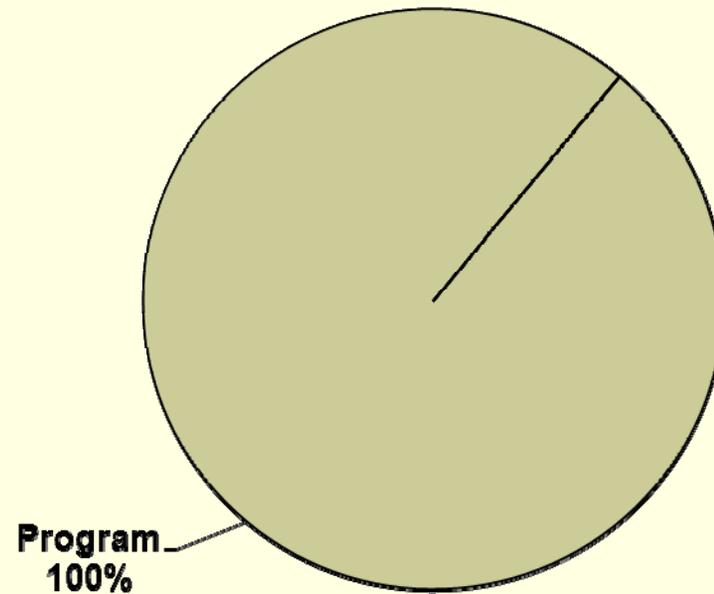
- The Internal Audit Department is a cost center.
- Internal Audit is a 'value-add' function within the City – by addressing financial & operational risks to ensure proper controls are in place to protect the City's assets and reputation.
 - As of November 1, 2011, the Internal Audit Department has completed 8 projects, that have resulted in 60 recommendations for control enhancements.

How Internal Audit Saves Cost



Internal Audit Department

Positions by Program (3 Positions)



An Outside Perspective

Outside view - Stephanie Woodruff, Vice Chair, Audit Committee (Mayor's Appointee) - NOT representing the committee, but as an expert acting in her role as Vice Chair.