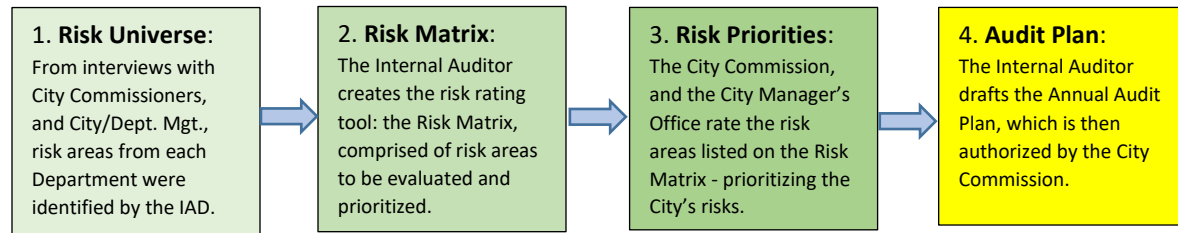# INTERNAL AUDIT DEPARTMENT

2023 Annual Audit Plan

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LAKE WORTH BEACH, FLORIDA 33460

2023 Annual Audit Plan

Introduction

A risk-based Annual Audit Plan utilizes a formal risk assessment process to identify high value, high impact, audit areas. The risk assessment process conducted by the Internal Audit Department (IAD) is documented graphically below:

| 1. **Risk Universe**: From interviews with City Commissioners, and City/Dept. Mgt., risk areas from each Department were identified by the IAD. | → | 2. **Risk Matrix**: The Internal Auditor creates the risk rating tool: the Risk Matrix, comprised of risk areas to be evaluated and prioritized. | → | 3. **Risk Priorities**: The City Commission, and the City Manager's Office rate the risk areas listed on the Risk Matrix - prioritizing the City's risks. | → | 4. **Audit Plan**: The Internal Auditor drafts the Annual Audit Plan, which is then authorized by the City Commission. |

Step 1

The risk areas included in the City's **Risk Universe** were identified using various criteria:

a) Areas that traditionally display high-risk (including: areas having large cash or electronic transactions, areas with a high degree of citizen interaction/impact, and areas with large staff turnover or new senior management).
b) Areas identified in past audits to have significant risks.
c) Areas deemed as critical to achieving the City's Objectives, as deemed by elected officials.
d) Areas of concern or interest as defined by Department management.
e) Areas of concern or interest as defined by the City Commission.

Step 2

From the City's Risk Universe, risk areas are defined by the City Internal Auditor - to create the **2023 Risk Matrix**.

Step 3

The City Internal Auditor requests the City Commission, the City Manager and the Assistant City Manager, to use the Risk Matrix to rate each risk (assign a numerical rating) listed on the matrix - effectively **prioritizing each risk area**. The rating scale is based on: a) the *likelihood* that a negative event in the risk area could take place, and b) given the negative event happens, the *degree of negative impact* that could result.

Step 4

The risk rating results from each participant are tallied and summarized by the City Internal Auditor. In this way, the Risk Matrix generates consensus areas of high risk (and hence audit priorities). The risk areas receiving the highest ratings (the areas of most concern or interest) are placed onto the Internal Audit Department's **2023 Annual Audit Plan**.

Note: This Annual Audit Plan represents a flexible planning document. As such, some audits identified herein may not be conducted this year. Also, audits may be conducted which are not included in this document.

The **2023 Annual Audit Plan** (plan) is focused on the following City Departments and specific risk areas:

1. **City-Wide Contracts Follow-up Audit** – Completed March 2023

2. **P-Card Follow-up Data Analytics Project** – Completed April 2023

3. **Parking Revenue Audit** – Scheduled for completion June 2023

4. **Inventory Control Audit of the Facilities, Garage, Grounds, and Streets inventories** (Public Works and Leisure Services Departments)

   - Risk of misuse and theft is proven to increase where storerooms and warehouses have deficient internal controls. This audit will review whether there is an adequate and consistent level of inventory controls (internal controls) in place to prevent and detect misuse or theft. The results of the audit could provide input useful for the parts warehouse in the new Public Works building.

     The Internal Audit Department (IAD) will review current parts obsolescence, purchasing trends, inventory accuracy, etc. The IAD will comment on process and technology components to enhance the efficiency, effectiveness, and security of warehouse inventory.

5. **Payroll Audit** (Human Resources Department)

   - Risk is proven to increase during times of new technology (systems) implementation. The City implemented a new payroll system (ADP) in 2021. Risk includes accurate data field migration to the ADP system, employee coding, change control monitoring, etc. This audit will review whether internal controls are in place and functioning to guard against payroll fraud. A review of internal controls will include: a) wage and payroll change control, b) Department review and sign-off of payroll, c) "phantom employee" or "ghost employee" detection, and d) pre-set control limits for paychecks.

6. **IT Systems Penetration Test Analysis** (Information Technology Department)

   - Risk of unauthorized access to City systems, and successful cyber-attacks increases when known vulnerabilities detected by pen testing are not corrected in a timely manner. The Internal Audit Department (IAD) will review the results of the City's annual penetration testing and compare the results with the results of past years to determine whether vulnerabilities are addressed in timely manner, and whether certain threat vectors have increased.

The plan provides a core guide for the audits to be initiated during 2023. Depending on workload and changing priorities, one or more of the listed audits can be pushed onto the 2024 Audit Plan. In addition to planned audit work, it is recognized that un-planned special projects and periodic assistance to the City Commission and City Manager will occur, a percentage of time for these occurrences is included in the audit plan. *Any cancellations or substitutions to the plan should be properly justified, followed by authorization by the City Commission.*

Respectfully submitted,

William Brown

William Brown, CIA, CGAP
City Internal Auditor

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2023 Annual Audit Plan

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2023 Annual Audit Plan

I. Internal Audit Mission

"The Internal Audit Department (IAD) will promote honest, efficient, effective and fully accountable City government."

The IAD contributes to the City's successful achievement of its mission, vision, goals, and objectives by providing independent analyses, assessments, and evaluations of the internal controls used by management to carry out their responsibilities.

II. Internal Audit Objectives

The Internal Audit Department (IAD) will perform audits and provide other professional services that add value and help the City of Lake Worth Beach (LWB) achieve the highest level of effectiveness, efficiency, and accountability.

Organizational Objectives:

- Promote systems of internal control
- Improve operational efficiency and effectiveness
- Advance contract compliance and fiscal responsibility
- Optimize value received from the City's internal resources
- Increase awareness and understanding of emerging issues

Functional Objectives:

- Expand staff knowledge, skills, abilities, and use of technology
- Stay current on issues and trends affecting the City
- Increase audit effectiveness
- Provide high value audit and consulting services
- Conduct audits in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) and/or Generally Accepted Government Auditing Standards (GAGAS)

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2023 Annual Audit Plan

III. Internal Audit Organizational Independence

According to the International Standards for Professional Practice of Internal Auditing (standard 1110-Organizational Independence), the City Internal Auditor must confirm to the Board, at least annually, the organizational independence of the Internal Audit Department (IAD). Accordingly, the City Commission of Lake Worth Beach is to ensure that the Internal Audit Department is organizationally independent of the departments and programs that it audits, both in fact and appearance.

Audit Plan Development

Risk must be one of the primary factors when selecting areas for audit. Those areas within the City of Lake Worth Beach (LWB) that are high risk areas should receive more audit attention than those of lower risk. It should be noted, however, that areas of lower risk are not ignored; rather, they will be addressed with less frequency than the higher risk areas.

In addition to risk assessments, management may at times have concerns about certain areas and believe that an audit is warranted. One of the IAD's goals is to be responsive to the City's management and each department director; therefore, requests for audit assistance are solicited and prioritized when scheduling future audits.

Whenever prior knowledge could compromise the integrity of an audit, there may be a need to conduct an audit on a surprise basis. These types of audits include cash counts, payroll distributions, inventory counts, and where there is suspected instances of fraud, waste or abuse.

Each year, the City Internal Auditor will develop the annual audit plan for the given year. The 2023 planning process included input from past audits/auditors, the City Commission, City Management, and City Department Directors.

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2023 Annual Audit Plan

IV. Approval Process

The Internal Audit Department (IAD) provides a draft Annual Audit Plan to the City Commission and then: a) offers to meet to discuss, b) incorporates input from the City Commission, and c) obtains the City Commission's approval of the plan. Ideally, soon after approval, a final Annual Audit Plan is: authorized by the City Commission, and distributed to the City Commission, City Manager, and Department Directors.

Changes to the Audit Plan

This Annual Audit Plan is a planning tool to help ensure the best use of internal audit resources. As such, it is subject to change throughout the year as different needs arise.

The City Commission approves all changes (e.g., special projects) to the Annual Audit Plan. This approval must be obtained prior to any audit work. The only exception to this process would be the immediate investigation of criminal or fraudulent activity. A request for audit assistance can be made to the City Internal Auditor or the City Commission. The City Commission, in consultation with the City Internal Auditor, will determine the merits and prioritization of the request.

V. 2023 Planned Audits

The **2023 Annual Audit Plan** is focused on the following City Departments and specific risk areas. In addition to the audit work listed, the Internal Audit Department allots a percentage of resources to "Special Projects/Quick Response Advisory Services" as periodically requested by the City Commission (as defined on page 6). The **2023 Annual Audit Plan** includes the following planned audit work:

    A. **City-Wide Contracts Follow-Up Audit** (Finance Department)

- The follow-up audit provides assurance that audit recommendations from the original audit report are implemented.
  - Type of Assistance: Follow-Up Internal Audit

    B. **Purchase Card Data Analytics Follow-Up Project** (Finance Department)

- The follow-up audit provides assurance that audit recommendations from the original audit report are implemented.
  - Type of Assistance: Follow-Up Internal Audit

Note: This Annual Audit Plan represents a flexible planning document. As such, some audits identified herein may not be conducted this year. Also, audits may be conducted which are not included in this document.

C. **Parking Revenue Follow-Up Audit** (Leisure Services and Finance Department)

- The follow-up audit provides assurance that audit recommendations from the original audit report are implemented.
  - Type of Assistance: Follow-Up Internal Audit

D. **Inventory Control Audit of the Facilities, Garage, Grounds, and Streets inventories** (Public Works and Leisure Services Departments)

- Risk of misuse and theft is proven to increase where storerooms and warehouses have deficient internal controls. This audit will provide input into whether there is an adequate and consistent level of inventory controls (internal controls) in place to prevent and detect misuse or theft.
  - Type of Assistance: Internal Audit

E. **Payroll Audit** (Human Resources Department)

- Risk is proven to increase during times of new technology (systems) implementation. The City implemented a new payroll system (ADP) in 2021. Risk includes accurate data field migration to the ADP system, employee coding, change control monitoring, etc. This audit will review whether internal controls are in place and functioning to guard against payroll fraud.
  - Type of Assistance: Internal Audit

F. **IT Systems Penetration Test Analysis** (Information Technology Department)

- Risk of unauthorized access to City systems, and successful cyber-attacks increases when known vulnerabilities detected by pen testing are not corrected in a timely manner. The Internal Audit Department (IAD) will review the results of the City's annual penetration testing and compare the results with the results of past years to determine whether vulnerabilities are addressed in timely manner, and whether certain threat vectors have increased.
  - Type of Assistance: Consulting / Advisory Project

It should be noted that a final scope of work and audit objectives, for each area above, will be developed following: a) a preliminary survey and document review of the area being audited, and b) discussion with the Department Director of each area. Based on *preliminary* discussions, the contemplated audit assistance for each area is described as follows:

A. Follow-Up Audit: City-Wide Contracts Audit – Finance Department

The Internal Audit Department (IAD) will conduct a follow-up to the City-Wide Contracts Audit completed in June 2020 (IAD091019-06FD). In June 2020, the Internal Audit Department released the report detailing

the results of the City-Wide Contracts Audit. The IAD documented eleven recommendations for the Finance Department to implement in order to: a) strengthen internal controls of the Contracts Process, and/or b) improve the city-wide management of contracts.

The Internal Audit Department (IAD) will obtain sufficient and appropriate evidence in order to determine whether the recommendations from the original report have been implemented as agreed by the Finance Department. The IAD will provide assurance that internal controls are in place and functioning as intended.

B. Follow-Up Audit: Purchase Card Data Analytics Project – Finance Department (Purchasing Division)

The Internal Audit Department (IAD) will conduct a follow-up of the City P-Card Data Analytics Project published in January 2021. The IAD originally utilized specialized audit software to analyze P-Card transactions for signs of fraud, compliance to P-Card policy, opportunities for improvement, etc. The analysis also documented characteristics of the P-Card program, for example: top most frequent P-Card vendors, top City staff users of P-Cards, etc.

The Internal Audit Department (IAD) suggested four actions the department could make to improve the P-Card Process. The IAD will determine whether the suggested actions from the original report have been implemented as agreed by the Finance Department.

C. Follow-Up Audit: Parking Revenue Audit – Leisure Services (Parking Office), and Finance Department

The Internal Audit Department (IAD) will conduct a follow-up audit of the Parking Revenue Audit completed in August 2021. The audit of collection and processing of parking revenue could be representative of the City's revenue collection practices in general. The IAD made three recommendations in the original report, and suggested that the Finance Department use insights from the audit as a filter to review revenue collection and recognition processes across the City.

The original audit found opportunities for improvement in the areas of: a) revenue reconciliations, b) documentation of internal controls, and c) security standards for City contractors processing citizen information and payments. The Internal Audit Department (IAD) will obtain sufficient and appropriate evidence in order to determine whether the recommendations from the original report have been implemented as agreed by the Leisure Services Department and Finance Department. The IAD will provide assurance that internal controls are in place and functioning as intended.

D. Inventory Control Audit of the Facilities, Garage, Grounds, and Streets inventories (Public Works and Leisure Services Departments)

Risk of misuse and theft is proven to increase where storerooms and warehouses have deficient internal controls. This audit will provide input into whether there is an adequate and consistent level of inventory controls (internal controls) in place to prevent and detect misuse or theft. The results of the audit could provide input useful for the parts warehouse in the new Public Works building.

The Internal Audit Department (IAD) will review current parts obsolescence, purchasing trends, inventory accuracy, etc. The IAD will comment on process and technology components to enhance the efficiency, effectiveness, and security of warehouse inventory.

E. Payroll Audit - Human Resources Department

Risk is proven to increase during times of new technology (systems) implementation. The City implemented a new payroll system (ADP) in 2021. Risk includes accurate data field migration to the ADP system, employee coding, change control monitoring, etc. This audit will review whether internal controls are in place and functioning to guard against payroll fraud. A review of internal controls will include: a) wage and payroll change control, b) Department review and sign-off of payroll, c) "phantom employee" or "ghost employee" detection, and d) pre-set control limits for paychecks.

F. IT Systems Penetration Test Analysis (Information Technology Department)

Risk of unauthorized access to City systems, and successful cyber-attacks increases when known vulnerabilities detected by pen testing are not corrected in a timely manner. The Internal Audit Department (IAD) will review the results of the City's annual penetration testing and compare the results with the results of past years to determine whether vulnerabilities are addressed in timely manner, and whether certain threat vectors have increased.

VI. Special Projects/Quick Response Advisory Services

Approximately 21% of the City Internal Auditor's net available hours are unassigned hours and reserved to perform: a) special requests (special projects), b) "quick response" advisory services (for example, providing audit input into new policies, or contract content), c) investigations, and d) other work requested by the City Commission. This assistance does not result in a formal report, must not impair the independence of the City Internal Auditor, or require more than a "few hours" of time. Requests for assistance that will result in a formal report, or require more than a few hours of time, must be approved by the City Commission.

VII. Administrative Activities

Approximately 12% of the City Internal Auditor's available hours are set aside for administrative activities and meetings. Administrative activities and meetings include: a) periodic file administration, b) organization of internal audit work papers, process documentation, etc., c) review of internal audit periodicals, d) internal audit new topic research (such as: data analytics research, or COSO / audit standards updates), and e) attendance at regularly scheduled meetings as a directed by the City Commission.

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VIII. Continuing Professional Education

Approximately 2% of the City Internal Auditor's net available hours are set aside for continuing professional education. This allows the City's Internal Auditor to maintain professional certifications and to comply with the International Standards for Professional Practice of Internal Auditing. The Internal Audit Department will make use of conferences, local seminars and web-based training to facilitate continuous improvement and growth in internal audit expertise.

IX. Internal Audit Department Budgeted Hours
[This audit plan is based on one full-time audit professional]

Resource	Name	Annual Hours	Percentage
City Internal Auditor	William Brown	2080	100%
Gross Available Resource		2080	
Holidays, Vacation, Sick, Leave (est.)		304	14%
Total Budgeted Leave		304	
Net Available Resources (normal)		1776	86%

Scheduled Audit Activities	Budgeted Hours	Total Direct/Indirect Budgeted Hours	Percentage of Net Available Hours (1776)
Audit A: Follow-Up Audit: City-Wide Contracts Audit (Finance Department)	120		7%
Audit B: Follow-Up Audit: Purchase Card Data Analytics Project (Finance Department)	120		7%
Audit C: Follow-Up Audit: Parking Revenue Audit (Leisure Services (Parking Office), and Finance Department)	120		7%
Audit D: Inventory Control Audit of the Facilities, Garage, Grounds, and Streets inventories (Public Works and Leisure Services Departments)	300		17%
Audit E: Payroll Audit (Human Resources Department)	300		17%
Audit F: IT Systems Penetration Test Analysis (Information Technology Department)	190		10%
Special Projects / Advisory Services	380		21%
Total Direct Time		1530	86%
Administrative Activities	206		12%
Continuing Professional Education & Training	40		2%
Total Indirect Time		246	14%

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