2024-25 Annual Audit Plan

INTERNAL AUDIT DEPARTMENT

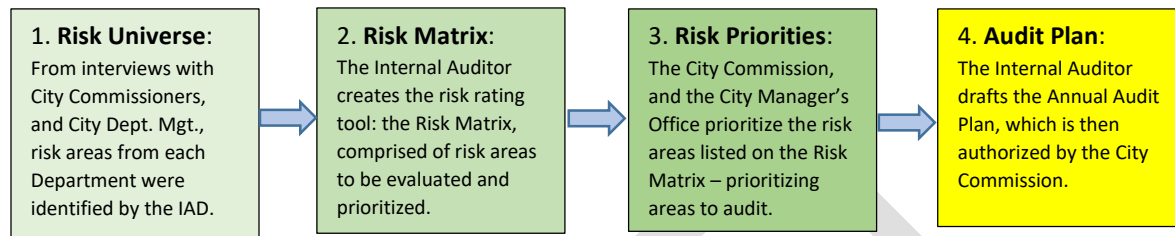DRAFT

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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.

2024-25 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 prioritize the risk areas listed on the Risk Matrix – prioritizing areas to audit. | → | 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, including:

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 and described by the City Internal Auditor - to create the **2024-25 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 listed on the matrix - effectively **prioritizing areas to audit**. The prioritization 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 prioritizations 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 prioritization (the areas of most concern or interest) are placed onto the Internal Audit Department's **2024-25 Annual Audit Plan**.

The **2024-25 Annual Audit Plan** (plan) is focused on the following City Departments and specific risk areas:

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

    *   The 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 have been addressed in timely manner, and whether certain threat vectors have increased.

2. **Accounts Payable & Vendor Database Follow-up Audit** (Finance Department)

    *   There is an increased risk of fraud if internal control recommendations are not implemented - the City could still be making duplicate payments, and may still allow uncontrolled access to the vendor database. This audit will determine if internal controls have been implemented and whether they are effective.

3. **Building Permit Process Improvement** (Community Sustainability Department)

    *   The City's reputation is at risk if the permit process is not efficient and effective in processing and communication activities. If the City's reputation suffers, it could cause projects not to be undertaken in the City. If the permitting process takes an inordinate amount of time, not only are citizens, builders, and developers frustrated, the City receives permitting revenue later than it otherwise could have. The Department had indicated 2 years ago that permitting improvements were planned – if improvements have been implemented the audit will measure the success of those improvements.

4. **City Landscape Contract Audit** (Public Works Department)

    *   The risk that the vendor is not meeting contract terms and incorrectly billing the City is mitigated through proper internal controls - the audit will report on the effectiveness of City Contract Management. Additionally, one City Commissioner desired an analysis of the contract using Florida Friendly Landscape criteria (emphasis on trees, "hat racking" and stormwater vegetation).

5. **Cash Handling Audit / Accounts Receivable Audit** (Multiple Departments)

    *   If cash transactions are not properly controlled for theft, the risk that the City may lose revenues is increased. Depending on preliminary research, this audit could also take the form of an Accounts Receivable Audit.

6. **Payroll Follow-Up Audit** (Human Resources and Finance Departments)

    *   There is an increased risk of fraud if prior audit recommendations have not been implemented, the risk of unauthorized access and unbudgeted compensation increases. This audit will determine if recommendations from the Payroll Audit are implemented.

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7. **Inventory Control Follow-Up Audit** (Public Works Department, Leisure Services Department)

- There is an increased risk of fraud if prior audit recommendations have not been implemented, the risk of unauthorized access and health-related liability is increased. This audit will determine if recommendations from the Inventory Audit are implemented.

The plan provides a core guide for the audits to be initiated during 2024-25. Depending on workload and changing priorities, one or more of the listed audits can be pushed onto the 2025-26 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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City of Lake Worth Beach Internal Audit Department

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TABLE OF CONTENTS

2024-25 Annual Audit Plan

I. Internal Audit Mission

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

The IAD assists the City achieve its mission, vision, goals, and objectives by providing independent analyses, assessments, and evaluations of the internal controls used by City 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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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 to 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 Internal Audit Department'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 a given time period. The 2024-25 planning process included input from past audits, local county auditors, the City Commission, City Management, and City Department Directors.

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2024-25 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. 2024-25 Planned Audits

The **2024-25 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 5). The **2024-25 Annual Audit Plan** includes the following planned audit work:

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

- The 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 have been addressed in timely manner, and whether certain threat vectors have increased.
  - o Type of Assistance: Follow-Up Internal Audit

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2. Accounts Payable & Vendor Database Follow-up Audit (Finance Department)

- There is an increased risk of fraud if internal control recommendations are not implemented - the City could still be making duplicate payments, and may still allow uncontrolled access to the vendor database. This audit will determine if internal controls have been implemented and whether they are effective.
    - o Type of Assistance: Follow-Up Internal Audit

3. Permitting Process Improvement (Community Sustainability Department)

- The City's reputation is at risk if the permitting process is not efficient and effective in processing and communication activities. If the City's reputation suffers, it could cause projects not to be undertaken in the City. If the permitting process takes an inordinate amount of time, not only are citizens, builders, and developers frustrated, the City receives permitting revenue later than it otherwise could have. The Department had indicated 2 years ago that permitting improvements were planned – if improvements have been implemented the audit will measure the success of those improvements.
    - o Type of Assistance: Consulting Advisory Service

4. City Landscape Contract Audit (Public Works Department)

- The risk that the vendor is not meeting contract terms and incorrectly billing the City is mitigated through proper internal controls - the audit will report on the effectiveness of City Contract Management. Additionally, one City Commissioner desired an analysis of the contract using Florida Friendly Landscape criteria (emphasis on trees, "hat racking" and stormwater vegetation).
    - o Type of Assistance: Internal Audit

5. Cash Handling Audit / Accounts Receivable Audit (Multiple Departments)

- If cash transactions are not properly controlled for theft, the risk that the City may lose revenues is increased. One Commissioner noted that City Clerk revenue records do not match those maintained by the cemetery through the City ERP. Depending on preliminary research, this audit could migrate to an Accounts Receivable Audit.
    - o Type of Assistance: Internal Audit

6. Payroll Follow-Up Audit (Finance Department)

- There is an increased risk of fraud if prior audit recommendations have not been implemented, the risk of unauthorized access and unbudgeted compensation increases.
    - o Type of Assistance: Follow-Up Internal Audit

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7. Inventory Control Follow-Up Audit (Public Works Department, Leisure Services Department)

- There is an increased risk of fraud if prior audit recommendations have not been implemented, the risk of unauthorized access and health-related liability is increased.
  - Type of Assistance: Follow-Up Internal Audit

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. Audit criteria will be developed that will ensure sufficient and appropriate evidence can be obtained to accomplish audit objectives.

VI. Special Projects/Quick Response Advisory Services

Approximately 17% 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, and 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 10% 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.

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: IT Systems Penetration Test Analysis (Information Technology Department)	125		7%
Audit B: Permitting Process Improvement (Community Sustainability Department)	240		13%
Audit C: Accounts Payable & Vendor Database Follow-up Audit (Finance Department)	125		7%
Audit D: City Landscape Contract Audit (Public Works Department)	300		17%
Audit E: Cash Handling Audit / Accounts Receivable Audit (Multiple Departments)	300		17%
Audit F: Payroll Follow-Up Audit (Finance Department)	80		5%
Audit G: Inventory Control Follow-Up Audit (Public Works Department, Leisure Services Department)	80		5%
Special Projects / Quick Advisory Services	300		17%
Total Direct Time		1550	88%
Administrative Activities	186		10%
Continuing Professional Education & Training	40		2%
Total Indirect Time		226	12%

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