

# Office of the City Auditor and Clerk

## Internal Audit



### 2021 Citywide Risk Assessment And Audit Schedule

Audit Project #21-02

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# Contents

- Executive Summary ..... 1**
- Detailed Report ..... 2**
  - Purpose .....2**
  - Risk Assessment.....2**
  - The Audit Schedule .....2**
- Risk Assessment Process ..... 3**
  - Risk Assessment and Evaluation Methodology .....3**
  - Results .....4**
  - Audit Schedule .....4**
- Exhibit A: 2022 – 2024 Audit Schedule .....5**

# Executive Summary

This risk assessment provides the City with a way to measure uncertainty related to manageable City functions and processes. For the purposes of this assessment, risk is defined as the uncertainty that could impair the City's ability to achieve defined goals and plans. Risk is measured by the probability of negative events occurring, the significance of those events, and the impact such negative events could have on the City should they occur.

The risk assessment consists of a number of activities which are discussed in more detail in the report. They consist of the following:

- Identify Department activities
- Select Criteria and Develop Definitions for Use in Scoring Department Risk
- Evaluate Activities based on Department Risk
- Rank the Activities
- Consider Management and Other Outside Input
- Update Audit Schedule

The system used in the evaluation process identifies the areas of highest risk, while at the same time identifying low risk areas. The fact that a risk area is identified as high or low does not serve as a single point factor to include or exclude a risk area from audit. Some areas that are considered low to moderate risk, such as inventories and Property and Evidence are audited every year because of regulatory factors or at the request of the auditee. Similarly, audit subjects may be identified during the year that were not originally on the audit schedule.

The audit schedule consists of a variety of audit subjects as well as follow up audits, which are intended to verify corrective actions have occurred and are operating as intended to reduce the identified risk. The audit schedule includes a variety of subjects and departments (auditees). Audits that are not completed may be carried over to subsequent years or replaced by other engagements that are identified as more relevant.

## Internal Audit

### **Mission Statement -**

To perform independent and objective assurance and consulting services that provide management with accurate, valuable and appropriate evaluations and recommendations that will assist the City in utilizing public resources in a manner that is equitable, efficient, and effective.

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This Executive Summary is limited in detail. To obtain the full background on a particular item, please read the Detailed Audit Report or contact Internal Audit prior to drawing conclusions based upon the limited information contained in this summary.

# Detailed Report

## Purpose

The goal of Risk Assessment is to identify and prioritize areas of risk which pose a threat to the City's operations and achievement of objectives. Internal Audit employs a risk-based approach to auditing and, as such, the auditor utilized the results of the Risk Assessment to prepare and modify the Audit Schedule based on the determined areas of highest risk.

## Risk Assessment

Enterprise risk management<sup>2</sup> (ERM) is a process, effected by an entity's commission, management and other personnel engaged in strategy setting across the enterprise, designed to identify potential events that may affect the entity and manage risk to within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The Institute of Internal Auditors (IIA) emphasizes that organizations should fully understand that management remains responsible for risk management. Internal Auditors should provide advice, challenge, or support management's decisions on risk, as opposed to making risk management decisions.

Risk assessment is based on a set of complementary operational, financial reporting and compliance objectives linked across all levels of the organization. The process is designed to identify and analyze internal and external risks affecting achievement of objectives at both the activity and the entity level. The overall goal of the enterprise risk assessment process is to provide management with the knowledge necessary to effectively manage risk.

Annual updates to the risk assessment are necessary to take into account changes in the operating environment, new personnel, new or revised information technology, changes in transaction volumes, new activities, and revised organizational structure. The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, require Internal Audit to develop a risk-based audit schedule which is updated annually.

As part of the current year risk assessment process, Internal Audit required an update of the risk matrices prepared as part of the 2019/20 annual risk assessment. This allowed for various updates to any changes in their business processes and internal controls.

## The Audit Schedule

Audits are scheduled based on the results of the annual risk assessment to allow Internal Audit to focus its limited resources on the highest priority areas. The Audit Schedule is a rolling schedule which is subject to change due to changes in risks and/or the organizational environment, or when an individual requested that a particular area be audited that Internal Audit has determined is a significant area of risk. Internal Audit considers all requests or suggestions for audits and will modify the Audit Schedule if the risk is deemed to be significant enough to warrant a change to the schedule. Extra time is budgeted into the Audit Schedule to allow for flexibility in performing unexpected audits, investigations, consulting (non-audit) services, etc.

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<sup>2</sup> Enterprise risk management should not be confused with the City department called Risk Management.

Scheduled projects and audits may be deferred to future years if other projects become a higher priority based on a current assessment of risk. Projects may also be eliminated based on a variety of circumstances, including scope limitations or a current assessment that the risk level assessed previously has declined (or internal controls have improved).

## Risk Assessment Process

### Risk Assessment and Evaluation Methodology

As previously stated, the goal of risk assessment is to determine areas in the City which are exposed to the highest levels of risk and to include those areas in the Audit Schedule. The approach utilized in the Risk Assessment enables Internal Audit to review all potential audit areas, the “audit universe”, and rank each of the potential areas in priority order. As organizational needs and goals change, so do the areas of highest risk.

To prioritize potential audit areas, Internal Audit implemented the following steps:

- 1) **Identify Department Activities.** Internal Audit reviewed several sources, including prior Risk Assessments, audits, the City’s website, and the City’s operating and capital budgets to prepare a list of all potential audit subjects. Interviews with departments were done to review and update their respective lists of key business processes and business process owners, and to further identify any key information technology systems utilized.
- 2) **Evaluate Activities based on Department and Department Risk.** Using the audit universe identified in Step 1 above, audit staff evaluated departmental business processes. Example of some of the factors used to evaluate risk for departments included:
  - i. Annual Budget
  - ii. Number of employees
  - iii. Revenues, if any
  - iv. Grants
  - v. Degree to which the department is regulated by Federal, State or City regulations
  - vi. Staffing changes during the year
  - vii. Date since last audit
  - viii. Complexity of operations
  - ix. Cash handling

- 3) **Consider Management and Other Outside Input.** Internal Audit provided management the opportunity to suggest areas for audits or consulting services. Suggestions were reviewed by Internal Audit to determine: a) whether the areas were appropriate for an audit, and; b) whether the areas were of significant risk to the organization. If both criteria were met, the areas suggested were included on the Audit Schedule unless audit work would result in a duplication of efforts.
- 4) **Update Audit Schedule.** Internal Audit reviewed the final rankings of the business processes, considered available audit resources and time, and updated the Audit Schedule. To view the updated Audit Schedule, please see [Exhibit A](#).

## Results

The system used in the evaluation process allowed the areas of highest risk to materialize, while also revealing areas where risk appears to be lowest.

The highest-rated risk areas were those most likely to be selected for inclusion in the Audit Schedule. Inclusion in the Audit Schedule **does not** necessarily mean that there is a current or specific concern associated with an area, but rather that the area may have a higher vulnerability to risk exposure at this time.

## Audit Schedule

The annual Citywide Risk Assessment helps to ensure that audit staff focuses attention and resources on the highest priority areas by applying the systematic approach outlined in this report. All areas of the City were evaluated against the same criteria and ranked to determine which audits would be performed during the year; management and other input was also taken into consideration during this process.

Based on the results of the Risk Assessment, the Audit Schedule has been updated to reflect areas of high risk. The Audit Schedule also provides for unallocated time during which unexpected audits, consulting requests (non-audit services), investigations, or other work may be performed. It should be noted that factors including staff workload, unexpected special projects, and other unforeseen circumstances may affect the achievement of projects on the Audit Schedule where some projects may be deferred to future years and others may be added that were not originally planned. Administrative projects as well as recurring recommendation status reports are also included in the Audit Schedule.

To view the Audit Schedule, as determined by the results of this year’s Citywide Risk Assessment, please refer to [Exhibit A](#).

## What We Do

**Assurance Services** - financial, compliance, information technology, and operational audit engagements, as well as investigations.

Audits seek to provide reasonable assurance that internal controls are functioning to properly ensure the safeguarding of assets, efficiency and effectiveness of operations, reliability of financial operating information, and compliance with policies, regulations, rules, and laws.

**Consulting Services** - advice, facilitation, training, and analysis activities.

These activities are performed at the request of management and provide advisory-related services and are intended to add value and improve governance, risk management, and control processes.

## Exhibit A: 2022 – 2024 Audit Schedule

Note – Any schedule for future projects is based upon current conditions and circumstances. Future changes will result in projects moving on and off the audit schedule.

Audit Schedule								
FY	Audit #	Audit Name	Department	Preliminary Audit Description	Project Type	Audit Component	Est. Hours	Project Status
2022	22-01	FY 2022 Citywide Inventory Observation	All	Observe the annual inventory counts and perform re-counts of selected samples.	Audit	Operational, Financial, IT	100	Not Yet Started
2022	22-02	2022 Citywide Risk Assessment	All	Facilitate Annual Risk Assessment process for use in updating annual Audit Schedule; evaluate and prioritization of citywide risk.	Risk Assessment	Risk Assessment	300	Not Yet Started
2022	22-03	Remedial Action Update	All	Review status of implementation of outstanding prior audit recommendations.	Status of Open Items Report	Status Update	40	Not Yet Started
2022	22-04	SPD Property & Evidence	Sarasota Police Department	Determine whether the internal controls assist in adequately accounting for and safeguarding items in police custody.	Audit	Operational, Financial, IT	150	Not Yet Started
2022	22-05	Cash Handling – Parking Operations	Planning/Parking Division	Evaluate the cash handling process for Parking garages and on-street parking.	Audit	Operational, Compliance, Financial	300	Not Yet Started
2022	22-06	Follow-Up Audit - Cash Handling – ROW Permits	Public Works	Review implementation of audit recommendations (Audit 21-06).	Audit	Operational, Financial, Compliance	100	Not Yet Started
2022	22-07	Construction Project Management	All/Purchasing	Evaluate construction project management and compliance with contract.	Audit	Operational, Financial, Compliance	150	Not Yet Started



## Audit Schedule

FY	Audit #	Audit Name	Department	Preliminary Audit Description	Project Type	Audit Component	Est. Hours	Project Status
2022	22-08	Follow-Up Audit - Grants Administration	All	Review implementation of audit recommendations (Audit 21-08).	Audit	Operational, Compliance, Financial	100	Not Yet Started
2022	22-09	EDD – Loan/Grants to Local Businesses	Economic Development Department	Review internal controls over administration of awarding loans and grants to local businesses.	Audit	Operational, Financial, Compliance	300	Not Yet Started
2022	22-10	Cash Handling – Utility Billing	Financial Administration	Evaluate billing and the cash handling process for Utility Billing.	Audit	Operational, Compliance, Financial	400	Not Yet Started
2022	22-11	Follow-Up Audit - City Property Leasing	All	Review implementation of audit recommendations (Audit 20-06).	Audit	Operational, Financial, Compliance	100	Not Yet Started
2022	22-12	Marina Jack Revenue Audit	Financial Administration	Determine whether amounts paid to the City are in agreement with contract.	Audit	Operational, Financial, Compliance	300	Not Yet Started
2022	22-13	Cash Handling – Development Services	Development Services	Review processes and internal controls for receipt and deposit of City funds.	Audit	Operational, Compliance, Financial	300	Not Yet Started
2022	TBD	Reserved time for Investigations, Consulting Services, Unexpected Audits, Research	N/A	Conduct unplanned investigations, audits, reviews, consulting, research, etc.	Audit	Operational	600	Not Yet Started
2022	IAQ	Reserved time for Internal Audit Quality Improvement Program	N/A	Perform quality reviews of audit work and develop/enhance audit processes to improve efficiency and ensure compliance with audit standards.	Research/Special Project	Administrative	200	Not Yet Started

## Audit Schedule

FY	Audit #	Audit Name	Department	Preliminary Audit Description	Project Type	Audit Component	Est. Hours	Project Status
2023	23-01	FY 2023 Citywide Inventory Observation	All	Observe the annual inventory counts and perform re-counts of selected samples.	Audit	Operational, Financial, IT	100	Not Yet Started
2023	23-02	2023 Citywide Risk Assessment	All	Facilitate Annual Risk Assessment process for use in updating annual Audit Schedule; evaluate and prioritization of citywide risk.	Risk Assessment	Risk Assessment	300	Not Yet Started
2023	23-03	Remedial Action Update	All	Review status of implementation of outstanding prior audit recommendations.	Status of Open Items Report	Status Update	40	Not Yet Started
2023	23-04	Franchise Fees	Financial Administration	Determine if the City is receiving all energy and gas franchise fees it is entitled to.	Audit	Financial, Compliance	400	Not Yet Started
2023	23-05	Special Events	Parks & Recreation	Evaluate the controls in place to manage special events.	Audit	Operational, Compliance	250	Not Yet Started
2023	23-06	SPD Property & Evidence	Sarasota Police Department	Determine whether the internal controls assist in adequately accounting for and safeguarding items in police custody.	Audit	Operational, Financial, IT	150	Not Yet Started
2023	23-07	Construction Project Management	All/Purchasing	Evaluate construction project management and compliance with contract.	Audit	Operational, Financial, Compliance	200	Not Yet Started
2023	23-08	Cash Handling – Parking Operations	Planning/Parking Division	Evaluate the cash handling process for Parking tickets and the process for uncollectible tickets.	Audit	Operational, Financial, Compliance	300	Not Yet Started
2023	23-09	Fuel Card (WEX) Program	Public Works	Determine whether internal controls over the City's fuel card program are operating effectively.	Audit	Operational, Compliance, Financial	350	Not Yet Started

## Audit Schedule

FY	Audit #	Audit Name	Department	Preliminary Audit Description	Project Type	Audit Component	Est. Hours	Project Status
2023	23-10	Building Permits	Development Services	Evaluate the efficiency and effectiveness of processing building permits for residential and commercial construction.	Audit	Operational, Compliance	300	Not Yet Started
2023	Ext 23-01	IT Security Audit	Information Technology	Review and testing of IT controls.	Audit	Operational, Compliance	150	Not Yet Started
2023	TBD	Reserved time for Investigations, Consulting Services, Unexpected Audits, Research	N/A	Conduct unplanned investigations, audits, reviews, consulting, research, etc.	Audit	Operational	600	Not Yet Started
2023	IAQ	Reserved time for Internal Audit Quality Improvement Program	N/A	Perform quality reviews of audit work and develop/enhance audit processes to improve efficiency and ensure compliance with audit standards.	Research/Special Project	Administrative	200	Not Yet Started
2024	24-01	FY 2024 Citywide Inventory Observation	All	Observe the annual inventory counts and perform re-counts of selected samples.	Audit	Operational, Financial, IT	100	Not Yet Started
2024	24-02	2024 Citywide Risk Assessment	All	Facilitate Annual Risk Assessment process for use in updating annual Audit Schedule; evaluate and prioritization of citywide risk.	Risk Assessment	Risk Assessment	300	Not Yet Started
2024	24-03	Remedial Action Update	All	Review status of implementation of outstanding prior audit recommendations.	Status of Open Items Report	Status Update	40	Not Yet Started
2024	24-04	Local Business Tax Receipts	Development Services	Determine if funds received are accounted for correctly and in accordance with existing internal controls.	Audit	Operational, Compliance, Financial	400	Not Yet Started
2024	24-05	Marina Jack Revenue Audit	Financial Administration	Determine whether amounts paid to the City are in agreement with contract.	Audit	Operational, Financial, Compliance	300	Not Yet Started

## Audit Schedule

FY	Audit #	Audit Name	Department	Preliminary Audit Description	Project Type	Audit Component	Est. Hours	Project Status
2024	24-06	SPD Property & Evidence	Sarasota Police Department	Determine whether the internal controls assist in adequately accounting for and safeguarding items in police custody.	Audit	Operational, Financial, IT	150	Not Yet Started
2024	24-07	Construction Project Management	All/Purchasing	Evaluate construction project management and compliance with contract.	Audit	Operational, Financial, Compliance	150	Not Yet Started
2024	24-08	Fuel Operations Audit	Public Works	Evaluate the adequacy of internal controls of the City's fuel operation.	Audit	Operational, Financial, Compliance	250	Not Yet Started
2024	24-09	Purchasing Cards	Purchasing	Determine whether internal controls in place over City issued Purchasing Cards are operating effectively.	Audit	Operational, Financial, Compliance	350	Not Yet Started
2024	24-10	Fee Generated Revenue	All	Assess internal controls over fee studies and fee development processes for establishing cost recovery fees charged to the public.	Audit	Operational, Financial	300	Not Yet Started
2024	24-11	Franchise Fees	Financial Administration	Determine if the City is receiving all energy and gas franchise fees it is entitled to.	Audit	Financial, Compliance	400	Not Yet Started
2024	TBD	Reserved time for Investigations, Consulting Services, Unexpected Audits, Research	N/A	Conduct unplanned investigations, audits, reviews, consulting, research, etc.	Audit	Operational	600	Not Yet Started
2024	IAQ	Reserved time for Internal Audit Quality Improvement Program	N/A	Perform quality reviews of audit work and develop/enhance audit processes to improve efficiency and ensure compliance with audit standards.	Research/Special Project	Administrative	200	Not Yet Started