

Report of Accomplishments and January 2012 - June 2013 Internal Audit Plan



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Report of Accomplishments Office of the City Auditor

Mission Statement

The people elect an auditor to keep an independent watch over city operations and the resources they have provided to the government. Citizens want accountability from the city government that resources are safeguarded and efficiently and effectively applied to the intended purposes. The mission of the City Auditor is to provide accountability of city government.

Goals

To achieve this mission, the City Auditor's Office will strive to:

- Recommend adequate controls and safeguarding of assets
- Assess compliance with regulations, statutes, ordinances and established practices
- Assist management in improving operations and reducing risk of loss or waste
- Review sensitive areas and report irregularities and dereliction of duties

Methodologies

The City Auditor's Office follows the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors when performing audits and managing the Internal Auditing Department. To achieve the goals of our mission, we:

- Perform internal audits as part of an annual plan including evaluation of internal controls and compliance with regulations, statutes, ordinances, and established practices
- Perform internal control reviews
- Review systems development activities
- Perform special projects
- Perform control self-assessments
- Provide consultation services



Tulsa City Auditors

E. B. Cline
1909 – 1916

Frank Newkirk
1916 to 1918

Charles F. Burke
1918 to 1920

Mary Seaman
1920 to 1922

Roy Garbett
1922 to 1926

R. J. Moore
1926 to 1928

F. P. Kitchen, Jr.
1928 to 1930

Earl E. Logan
1930 to 1934

M. W. Davis
1934 to 1944

S. Maxwell Smith
1944 to 1954

**Elizabeth Stowell
Anderson**
1954 to 1956

A. Jackson Lawrence
1956 to 1960

William F. Lambert
1960 to 1970

Frances F. Campbell
1970 to 1987

Ron Howell
1987 to 1988

Philip W. Wood
1988 to 2009

Preston L. Doerflinger
2009 to 2011

Clift Richards
2011 to Present

A Message from the City Auditor

The role of the Internal Auditing department in city government is to examine and audit financial records, accounts, and inventories of properties of the city. We also serve as advisors for operational efficiency, internal control, and risk management by making recommendations to management to support the city in meeting its goals and objectives. The following are examples of current methodologies we are using to accomplish our role.

Auditing

Internal Auditing is applying advanced technologies to increase the number of City activities analyzed and to improve efficiency and effectiveness of audit services for the citizens of Tulsa. The City has come to rely extensively on technology in almost every service it provides. Information technology has become the single highest risk area in many large organizations. The City of Tulsa supports more than 125 different computer applications used by City employees. These computer applications require support of a diverse technology infrastructure. Assessing information technology risks has never been more important.

Information Technology Risk Assessment

Internal Auditing used computer software tools to develop and complete a comprehensive and repeatable risk assessment process for City information technology. Internal Auditing developed an online survey to assess the information technology risks faced by the City. This year the survey focused on information technology processes and projects. Risks were ranked according to reliability and efficiency, technology leverage, strategic impact, operational impact, legal/regulatory compliance, and financial reporting. Results of the information technology risk assessment help ensure a systematic, thorough and objective approach for prioritizing selection of projects for the Internal Audit Plan.

Continuous Auditing

The concept of continuously monitoring audit units is the new trend among internal audit shops across the nation due to the increase in auditing technology and the return on investment of initiating automated financial transaction monitoring. Internal Auditing has intensified its use of data extraction and analysis to improve audit results. With the aid of computer assisted audit techniques, Internal Auditing can now use data from the City's information systems to perform automated auditing on a continuous basis.

Data Analytics

Automated data extraction methods provide a tool for analysis of massive amounts of information in an efficient manner. Analysis that would have often taken days to complete is now done in minutes. Further, the effective use of data analysis techniques allows for greater insight into the risk and control issues, and includes the ability to automatically record what has been done and reliably repeat it – strengthening the quality and consistency of the audit work. Computer assisted audit techniques have become a valuable tool for achieving the mission of the City Auditor to provide accountability of city government for the citizens of Tulsa.



City Auditor and Internal Audit Staff

The Office of the City Auditor consists of the elected City Auditor and the Internal Auditing Department. Currently Internal Auditing's staff consists of eight professionals.



Clift Richards, CPA
City Auditor
BS, Business Administration



Cecilia Ackley, CPA
Internal Audit Manager
BS, Business Education



Nathan Pickard, CIA, CISA
IT Auditor
BS, Business Administration
Master, Business Administration



Steve Disler
Staff Auditor I
BS, Accounting & Finance
MBA



Seth Potter
Staff Auditor II
BS, Business Administration



Steve Jackson, CPA
Internal Audit Manager
BS, Accounting



Steve Wagner
Senior Auditor
BS, Administration

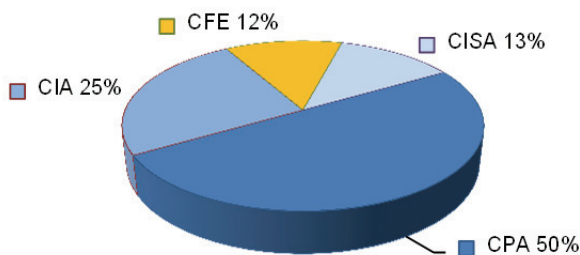


Ron Maxwell, CIA, CFE
Chief Internal Auditor
BS, Business Administration



Lela Walden, CPA
Senior Auditor
BS, Accounting

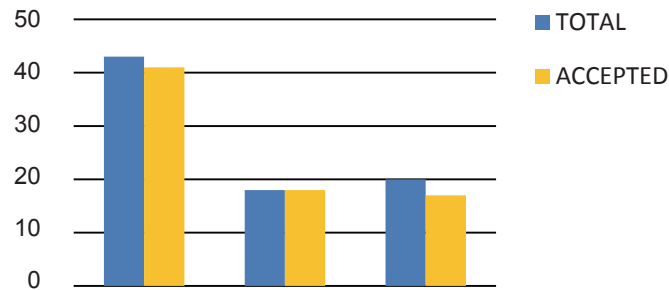
Professional Certifications



Professional certification is strongly encouraged and supported for all audit staff. Six individuals hold professional certification. Certifications include two Certified Internal Auditors, four Certified Public Accountants, a Certified Fraud Examiner, and a Certified Information Systems Auditor.

Audit Results

Audit Recommendations



In the last three years, audit reports contained a total of 81 suggestions for improvement of City operations. Overall the acceptance rate for all recommendations is 98%, 17 recommendations are currently outstanding with full implementation anticipated in the upcoming fiscal year(s).

Audit and Project Highlights

Description	Report Date
Audits	
Expenditure Analysis	January 2009
Financial Systems Support	November 2008
Insurance Administration	June 2009
Chamber of Commerce Contract Compliance	June 2008
Financial Reporting – Internal	November 2008
Annual/Ongoing	
Sensitive Payments as of 6/30/2009	December 2010
Report of Management Actions as of 6/30/11	December 2011
External Quality Assessment Report	August 2008
IT Risk Assessment	June 2011
Internal Quality Assurance Review	November 2011
Special Projects	
Special Project - TPD Inventory Controls	April 2009
Special Project – Resolution #7605 Fire Department CEU	April 2010
Special Project – Animal Welfare Center	October 2009
Special Project - TPD Payroll Recordkeeping	September 2009
Special Project – Giraffe Handling	January 2010
Special Project - Ethics Complaint	May 2011
Continuous Auditing – Sales Tax Analysis	December 2011

Select Audit and Special Project Abstracts

Expenditure Analysis

Spend management is a tool that provides knowledge about what is bought, the prices paid, who buys it, and from whom it is bought. The goal was to provide suggestions to City management for continuous monitoring of expenditures and implementation of a spend management program. Management has developed action plans to implement the recommendations presented in the Expenditure Analysis report.

Insurance Administration

Insurance and Retirement Services is a liaison between City of Tulsa employees and insurance providers, acting as the main contact for employees and retirees, and tracking premium collections to ensure premiums collected are properly submitted to carriers. Ten Improvement opportunities were recommended and all were implemented.

External Quality Assurance Review

Crawford & Associates, P.C. conducted a Quality Assessment of the Internal Audit Department. The principal objectives of the QA were to assess the Department's conformity to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, evaluate the Audit Office's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of the City's management), and to identify opportunities to enhance its management and work processes, as well as its value to the City. In their opinion, the Audit Office environment is adequately structured, well managed and progressive, the IIA *Standards* are understood and management is endeavoring to provide useful audit tools and implement appropriate practices.

Information Technology Risk Assessment

Internal Auditing used Control Objectives for Information and Related Technology (COBIT) and other tools to develop a repeatable risk assessment process. Internal Auditing developed an online survey to assess the IT risks faced by the City. This year the survey focused on IT processes and projects. Future assessments will include IT applications and infrastructure.

Tulsa Police Department Inventory Controls

The Tulsa Police Department requested an examination of existing inventory and the system of internal controls for TPD weapons and ammunition. Internal Auditing conducted a physical inventory count of TPD weapons and ammunition and traced the counts into inventory records maintained by TPD. The report provided the results of the physical inventory and recommended efficiencies and enhancements to inventory controls which have been implemented.

Fire Department CEU

On February 13, 2009, the City Council passed Resolution #7605 directing the City Auditor to conduct an investigation of the TFD's training programs and processes, primarily as they relate to the training of TFD emergency responders. The report recommended improvements to the processes and recordkeeping which TFD implemented.

Animal Welfare Center

The Director of Community Development and Education Initiatives requested Internal Audit to evaluate and report on the systems of internal controls for the cash-handling procedures of the Animal Welfare Center. The audit scope was expanded to include Parks and Recreation centers' cash-handling procedures. Improvements to the cash-handling process throughout the park system were recommended and implemented.

Tulsa Police Department - Payroll Record keeping

The Tulsa Police Department requested a review and evaluation of their internal controls for payroll record keeping. Internal Auditing made observations and recommendations which led to additional investigations and improvements by management.

Request on Behalf of the Mayor – Giraffe Handling

The Director of Community Development, on behalf of the Mayor, requested the City Auditor to investigate the details surrounding the death of a giraffe (Amali) delivered on October 18, 2009 to the Tulsa Zoo. Additional processing protocols were recommended for animal processing.

Continuous Auditing – Sales Tax Analysis

Internal Audit and Treasury's Audit and Collection teams have worked together to update, re-define, and create a continuous monitoring program to aid the Treasury Department in monitoring Oklahoma Tax Commission sales tax collections for the City of Tulsa. These queries will be used to analyze gaps in payment histories and identify vendors with problematic remittance histories. Using these tools, Treasury has identified 150 vendors for further review. This effort represents a significant potential recovery of revenue for the City.

Internal Audit Plan

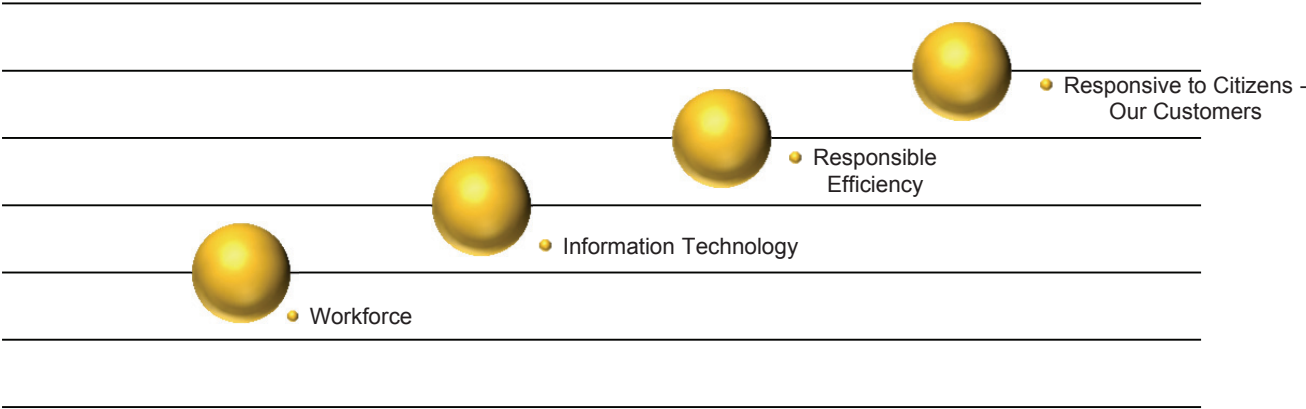
For the period ending June 30, 2013



Risk Identification

Internal Auditing considers a wide variety of information sources to develop an Annual Audit Plan that promotes fairness and ensures the City Auditor’s Office provides value-added service for the City of Tulsa by focusing its resources on those areas with the highest risk potential.

In developing the Annual Audit Plan, the department used a number of techniques and input sources to identify areas of high audit potential that can be completed or initiated during FY 2012-13 with the audit resources available. In order to identify and prioritize potential audits based on the level of risk to the City, a Citywide Risk Assessment was completed. Internal Auditing asked department directors and other executive-level leaders at the City of Tulsa to share their thoughts on the most significant risks. Following are the risks areas most often mentioned:



- Workforce**

Workforce issues include recruiting and retaining the necessary skill sets, employee development, payroll and benefits.

- Information Technology**

The City’s systems for storing and retrieving data could be improved. Obtaining the information necessary to make management decisions is cumbersome.

- Responsible Efficiency**

In improving the efficiency of its duties, management continues to be cognizant of the need for internal controls, audit verification and monitoring of output.

- Responsiveness to Citizens-Our Customers**

Management’s overriding concern is the public trust that we must uphold. The audit functions as the bellwether for evaluating and maintaining that trust.

Process for Selecting Audit Projects

The Office of the City Auditor is responsible for discharging the duties set forth in Article IV of the City of Tulsa 1989 Amended Charter, as follows:

- **Examine the accounts of all offices, divisions, departments, boards, authorities, commissions, and agencies of the City of Tulsa**
- **Make appraisals, comments, and recommendations on the systems and procedures for keeping and maintaining the financial records, accounts, and inventories**
- **Report results to the Mayor and Council**

To help maintain confidence and trust in the professionalism and integrity of our audit work, the City Auditor’s Office follows the International Standards for the Professional Practice of Internal Auditing (Standards) of the Institute of Internal Auditors. The Standards specify that selection of audit projects for application of limited audit resources should be based on a sound risk assessment.

For the 18-month period ending June 30, 2013, Internal Auditing has developed a dynamic and flexible, risk-based audit plan (Plan) to audit processes that support revenue and expenditure accounts of the city. During the risk assessment process we asked department directors and other executive-level leaders at the City of Tulsa to share their thoughts on the most significant risks. We used these discussions and the risk factors listed below to rank the processes and controls of more than 140 accounts.

These six risk factors help focus audit projects on important city issues.

Materiality	What is the dollar value of the assets, budget or revenues of the activity?
Liquidity	How safe are the assets from conversion to private use?
Criticality/Exposure	How much impact does the activity have on customers – the citizens of Tulsa?
Complexity	How complicated is the activity?
Change	Has there been significant change in operations?
Internal Controls	Are employees competent, committed, and ethical? Are there established objectives, clearly defined procedures, good information and communication, and management monitoring?

Allocation of audit resources - Internal Auditing estimated the number of staff hours available for the Plan period. These hours were allocated first to complete the audit projects in process and the ongoing audit functions carried out each year. The remaining hours available for new projects allowed the addition of six new projects. Selection of the new audit projects was based primarily on the risk assessment ranking described above. Other factors affecting project selection included previous audit date, audit coverage in particular departments, management requests and auditor judgment.

Audit Plan

January 1, 2012 - June 30, 2013

Project Name	Estimated Hours to Complete
In-process Projects:	
Human Rights Administration	75
Human Rights Monitoring	75
Worker's Compensation - Control Assessment	200
Sensitive Payments – FY 2010	100
Annual Report/Risk Assessment	150
Payroll	1000
New Employee Payroll Process – Control Assessment	100
Automated Workpapers	100
Sensitive Payments – FY 2011	625
Department Budget	25
Assess & Manage IT Risks – Consulting	100
IT Infrastructure Review	300
Manage IT Third Party Services	725
Time & Attendance – System Implementation	450
Audit Miscellaneous	200
Total In-Process	4225
Ongoing/Annual Projects:	
Annual Report/Risk Assessment FY 2014	500
ROMA FY 2012	300
Sensitive Payments FY 2012	650
IQAR/EQAR	300
IT Risk Assessment	500
Departmental Budget FY 2014	200
Continuous Auditing	500
Hotline Support	50
Audit Miscellaneous	200
Total Ongoing/Annual	3200
New Projects:	
General Obligation Bonds/Revenue Bonds	1500
Franchise Taxes	1500
Licenses and Permits	1000
Materials and Supplies	750
Total Intergovernmental Revenue from the State	500
IT General Controls	1500
Total New Projects	6750
Special Projects:	
Special Project—Implement Automated Workpapers	675
Total Special Projects	675
Total Plan Hours	14,850

New Planned Projects

General Obligation and Revenue Bonds

At June 30, 2011, outstanding general obligation and revenue bonds of the primary government totaled \$490 million and \$109 million, respectively. Bonds issued and outstanding of the City's component units totaled \$384 million. Thus, the City of Tulsa manages a total bond liability of almost one billion dollars. These figures do not include the significant costs of issuance, agent fees, arbitrage audits, etc.

Franchise Taxes

Franchisees with the City of Tulsa remit fees based on their rate structures, revenues, or value of products. These remittances include franchise fees, capital contribution fees, right-of-way, and sales taxes. Data analytics will be used to verify remittance calculations and assist management in billing and oversight activities.

Licenses and Permits

These accounts include various business, residential and commercial licenses, permits and fees processed by the City of Tulsa. Building related inspections make up the bulk of the revenue. Data analytics will be used to verify various annual on-going permits, such as those for restaurants and retail. Continuous monitoring programs in these areas will benefit the City and its customers.

Materials and Supplies

Materials and supplies are often purchased on p-cards without the requirement of an authorized purchase order in place. Items below the capitalized purchase threshold are not formally inventoried or tracked.

Total Intergovernmental Revenue from the State

The Oklahoma Tax Commission (OTC) collects gasoline excise, alcoholic beverage, and motor vehicle taxes. Based on their calculations, OTC apportions and remits the revenue to state funds and local municipalities, including the City of Tulsa.

Information Technology General Controls

Information Technology (IT) is one of the core processes, as it supports all City of Tulsa functions. IT general controls issues have been included in findings of various audits through the years. Such an audit can serve as the basis for an ongoing controls monitoring program.

Ongoing Projects

Annual Planning/Risk Assessment

Annual planning involves meeting with managers in various departments and divisions to set audit priorities. An audit plan is developed using the methodology described on page 10 of this report.

Information Technology Risk Assessment

A risk assessment is a process to determine what information resources exist that require protection, and to understand and document potential risks from IT security failures that may cause loss of information confidentiality, integrity, or availability. The purpose of a risk assessment is to help management create appropriate strategies and controls for stewardship of information assets. Periodic reviews must be conducted to analyze changes, to account for new threats and vulnerabilities created by these changes, and to determine the effectiveness of existing controls.

Report of Management Actions on Internal Audit Recommendations

Internal Auditing annually distributes inquiries on all audit recommendations with pending corrective action. The objective is to determine the current status of corrective action previously agreed to by management and to review the implementation of corrective measures as noted in the responses to audit recommendations.

Sensitive Payments Review

The Sensitive Payments Review evaluates the internal control structure and examines transactions related to executive compensation and perquisites, travel, official entertainment, un-vouchered expenditures, conflicts of interest, speaking honoraria and gifts. The objectives are:

- Evaluate the adequacy of the system of internal controls over sensitive payments
- Review transactions for compliance with applicable statutes, laws, regulations, ordinances, policies and procedures
- Determine whether executive expenses are properly authorized and approved
- Determine whether executive expenses are accurately and promptly recorded and reported

Internal Quality Assurance Review

We periodically perform an Internal Quality Assurance Review of the Internal Audit Department. The objectives are:

- Identify the degree of departmental compliance with the Institute of Internal Auditing's International Standards for the Professional Practice of Internal Auditing
- Ensure that audit operations are in compliance with organizational and departmental policies and procedures
- Provide insights into the level of audit effectiveness and efficiency
- Provide recommendations for improving the internal audit function

Department Budget

The budget provides the statement of goals. The allocation of resources reflects both the particular goals that the department hopes to attain and the priorities assigned to each goal. It includes constantly monitoring receipts and expenditures and comparing those to estimated amounts, while constantly re-evaluating progress to meet those goals, and culminating in the budget plan for the upcoming fiscal year.

Continuous Auditing

Internal Audit designed and implemented the continuous audit process for Sales Tax Monitoring and Workers Compensation. We continue to work with the departments with their ongoing efforts. Internal Auditing will continue to identify continuous audit/monitoring opportunities to benefit the City of Tulsa.

Hotline/Ethics Support

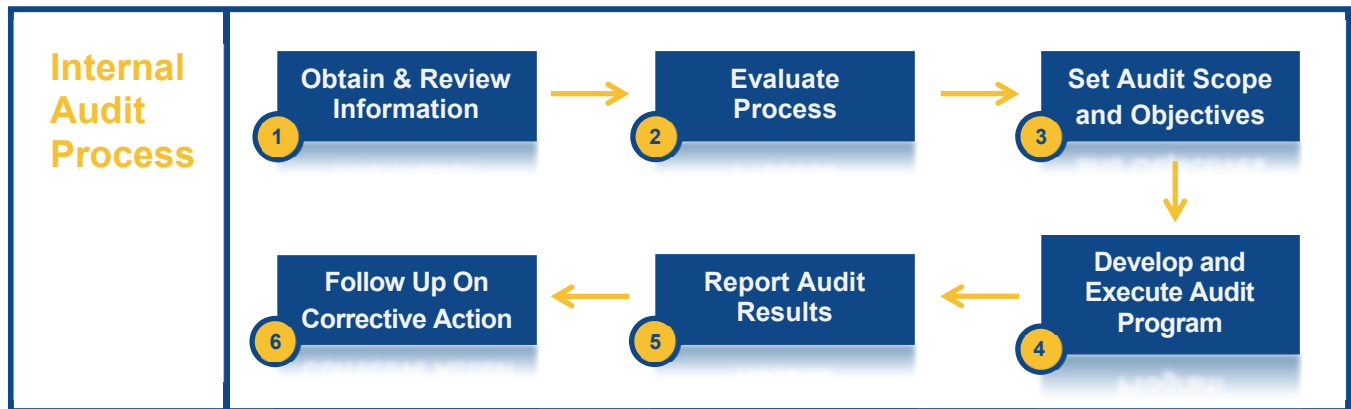
The ethics hotline is provided to employees, vendors, and customers to report ethics issues. Internal Auditing reviews each hotline report and ensures all reports are distributed to the appropriate appointing authority and follow-up occurs in a timely fashion.

Auditing Miscellaneous

Internal Audit supports various functions and requests outside of formal special projects and audits. These are brief, consultative activities. An amount of time is allocated for fulfilling miscellaneous requests that do not meet the criteria for classification as an audit or special project.

Internal Audit Process

Internal Audit uses the following techniques to identify the processes that support the accounts included in the Plan, select the specific process for audit, plan the audit engagement, and complete the audit in compliance with IIA standards.



Obtain and Review Information

Through interviews; data analytics; review of policy and procedures, laws, regulations, governing rules; and other information gathering techniques as appropriate, we gain an understanding of the processes associated with the account.

Evaluate the Information Gathered

In this phase of the audit process, we evaluate the risks and internal controls associated with the processes, prioritize the processes and select the processes that will be subject to audit procedures. Processes not selected for audit are added to a future audits database.

Set the Audit Scope and Objectives

The scope establishes the project boundaries, setting what the audit will and will not include. The objectives state what the audit will accomplish. Once the proposed scope and objectives are identified, we discuss them with senior management providing them with the opportunity to make suggestions and comments about the results of our evaluation.

Develop and Execute a Detailed Audit Program

The audit team completes the work detailed in the audit program. The work focuses on what could go wrong in the audited process and whether there are procedures to prevent breakdowns. If no preventative measures are in place, auditors develop recommendations with the help of department personnel. If procedures are in place, auditors test them to make sure they are functioning properly.

Report Audit Results

As the audit progresses, auditors write Corrective Action Plans (CAP) that report the results of fieldwork and include recommendations for correcting problems auditors observe. These are first issued in draft form and discussed with department managers to allow them to have input. After a final CAP is agreed upon, department managers provide a written response describing what action they will take. At the end of the audit, a report summarizing the audit results is written.

Follow Up

Internal Auditing follows up with managers to monitor the progress of corrective action. Each year, inquiry forms are sent on every pending item. Managers provide information on whether corrective action has been completed, is progressing, or will not be completed due to changed conditions. The responses to the inquiry forms are summarized and reported in the annual Report of Management Actions.

Special Projects and Goals FY2013



Implement Automated Workpapers

By providing an integrated paperless strategy for managing audits, audit software eliminates the barriers associated with paper-filled binders and disconnected electronic files, driving efficiencies into all facets of the internal audit workflow.

Continuous Monitoring/Auditing

Continuous monitoring processes allows a scope of analysis that includes 100% of transactions and data processed in varied applications and databases. The continuous monitoring processes can test for inconsistencies, duplication, errors, policy violations, missing approvals, incomplete data, dollar or volume limit errors, or other possible breakdowns in internal controls. Continuous monitoring is an invaluable tool for risk mitigation.

Efficiency and Productivity

Improve overall audit efficiency by increasing the hours of direct time spent on audits. Strive to reduce the staff hours necessary to perform audits. Endeavor to issue more timely audits and reduce audit duration.

Highlights from the Year



City Auditor, Clift Richards, spoke to foreign government officials on transparency in government and City of Tulsa governance at a meeting arranged by the Tulsa Global Alliance and the U.S. State Department.



Mr. Richards is active in various civic organizations.

He spoke to the Southside Sertoma Club on the Role of the City Auditor in Tulsa City Government.



He attended the 16th annual Police Memorial Service in May.



Chief Internal Auditor, Ron Maxwell, member of the Board of Governors and Historian, provides a valuable leadership role for the Tulsa Chapter of the Institute of Internal Auditors.

Mr. Maxwell is on the Advisory Board for the University of Tulsa Conference of Accountants, which provides ongoing professional development and support of accounting scholarship programs at the University.



Internal Audit staff takes an active role in various professional organizations and user groups, presenting on various professional issues and technical topics throughout the year.

Department staff is involved in various community enrichment activities and charities. Internal audit had 100% participation in the United Way campaign and volunteered a team for the annual Day of Caring work event.

Feedback Form

TO: Anyone interested in internal audits of the City of Tulsa
FROM: Clift Richards, City Auditor
RETURN TO: City Auditor – 6th Floor Room 34, One Technology Center

I welcome your comments and suggestions about auditing. This form is provided for your use in providing feedback to help us do a better job. The first section asks for your suggestions for activities that would benefit from an audit. The second section requests comments or suggestions concerning the conduct of my office.

Suggestions for Audit(s)

Comments on the Conduct of the Auditor's Office

Signature (optional)

Some things the Auditor's Office considers in deciding what to audit:

Importance - Risks - Protection of Assets - Organization - Objectives – Quality of Information - Standards and Regulations - Economy - Efficiency - Effectiveness - Controls

Some things the Auditor's Office considers in evaluating the conduct of the office:

Professional Care - Attitude - Communication - Usefulness - Significance - Knowledge - Human Relations - Cooperation - Productivity - Follow-up - Qualifications - Honesty - Independence

