



*Presentation to the Audit Committee
February 21, 2017*

INTERNAL AUDIT CHARTER

AUDIT GOALS FOR FISCAL YEAR 2018

STATUS REPORT ON THE FISCAL YEAR 2017 AUDIT PLAN (JULY 1, 2016 to DECEMBER 31, 2016)

*Yong Ju No, CPA
Director of Internal Audit*

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INTERNAL AUDIT CHARTER

INTRODUCTION AND PURPOSE

International Standards for the Professional Practice of Internal Auditing (the “Standards”) as issued by the Institute of Internal Auditors (“IIA”) requires that an Audit Organization define its mission, scope, authority, responsibility, and accountability of the Internal Audit function using a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes, and incorporating a Code of Ethics of the IIA by adopting an Internal Audit Charter. The Internal Audit Charter is the commitment by all relevant parties to support and execute these activities correlated to items specified within this document and as expressed in Chapter 468 of the Acts of 2008 and the City of Springfield Ordinance, Article III, Sections 67-11 through 67-18.

MISSION STATEMENT

The mission of the Office of Internal Audit (“OIA”) is to promote accountability and integrity in City government by providing independent and objective reviews and assessments of the City’s departments, programs, and services to improve the efficiency of procedures and effectiveness of operations and to prevent and detect waste, fraud, and abuse.

INDEPENDENCE

To help ensure independence and objectivity, the Office of Internal Audit reports functionally to the Audit Committee, which consists of three City Council members. Administratively, the Office of Internal Audit reports to the Mayor.

SCOPE OF WORK

The scope of the Office of Internal Audit’s authority includes any operation under the direction of the Mayor, City management, Audit Committee, the City’s Retirement Board, the Superintendent of Springfield Public Schools (“School”), School Committee, and School Administration.

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the City’s system of internal control and the quality of performance in carrying out assigned responsibilities. The scope of internal auditing includes, but is not limited to:

- Review of the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Review of the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have significant impact on operations and reports, and determining whether the City is in compliance. In cases where compliance may be in question, suggest ways to remediate.
- Review of the methods of safeguarding assets, and as appropriate, verifying the existence of such assets.
- Appraisal of the economy, efficiency and effectiveness with which resources are employed, as well as, management’s operational control within and outside the scope of financial statements.
- Review operations and /or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as approved and/or planned.

- Perform consulting services, the nature and scope of which are advisory related and intended to improve the City's governance, risk management, and control processes.
- Perform special reviews and/or investigations as requested by the Mayor, City management, Audit Committee, School Superintendent, School Committee, and School Administration and/or received through the City's Fraud Hotline.

AUTHORITY

Chapter 468 of the Acts of 2008 authorizes the Director of Internal Audit to examine the records of the City and its departments to prevent and detect waste, fraud and abuse and to improve the efficiency, effectiveness and quality of public services provided in and by the City. In accordance with this legislation, all offices and employees of officers, boards, commissions, agencies, and other units of City government are required to comply with requests for information or access to systems and records by the Office of Internal Audit.

The Internal Audit Staff under the direction of the Director of Internal Audit are authorized to:

- Have access to all activities, records, property and personnel of the City.
- Allocate audit resources, set audit frequencies, select audit subjects, determine scope of work, and apply the techniques require to accomplish audit/investigative objectives.
- Obtain the necessary assistance of personnel with the City, as well as other specialized services from within and outside the City.

To maintain an independent status, Internal Audit personnel are not authorized to:

- Perform any operations duties for the City or its boards and commissions.
- Initiate or approve accounting policies and procedures or transactions external to the Office of Internal Audit.
- Direct activities of any City employees not employed by the Office of Internal Audit, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

RESPONSIBILITY

The Office of Internal Audit has responsibility to:

- Present the Office of Internal Audit's annual goals by January 31st of each year.
- Develop a flexible Annual Audit Plan using appropriate risk-based methodology, including any risk or control concerns identified by City management and/or Audit Committee and submit that plan to the Mayor and Audit Committee for review and approval on or before March 30th of each year.
- Implement the Annual Audit Plan, as approved.
- Revise the Annual Audit Plan, as necessary, to initiate additional or alternate audits and/or changes in priorities during the year. Any revisions to the Annual Audit Plan will be submitted to the Mayor and Audit Committee for review and approval.
- Provide periodic reports to the Mayor, City management, and Audit Committee summarizing the results of each engagement that identify audit findings, recommendations, City management responses, and significant findings which have not been fully addressed by City management.

- Establish a system to follow-up on reported audit issues to ensure that past audit issues are satisfactorily resolved. The follow-up system shall track all significant issues to their final resolution.
- Maintain a staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of The Standards.
- Upon request, perform consulting services, beyond the OIA's assurance services, to assist City management in meeting its objectives.
- Maintain the City's Fraud Hotline, conduct investigations of alleged or suspected impropriety, fraud, misappropriation, or other misuse of City funds communicated through the Fraud Hotline or directly by City management, and provide required reports to appropriate authorities.
- Ensure that an independent external audit of the City financial statements is conducted on an annual basis.
- Coordinate with external auditors and monitor the implementation of corrective actions recommended by external auditors as appropriate.
- Coordinate with external auditors to minimize duplication of efforts and maximize efficient audit coverage.

PROFESSIONAL STANDARDS

The Office of Internal Audit voluntarily follows the Standards which provide a framework for conducting audits with competence, integrity, objectivity, and independence.

AMENDMENT OF THE INTERNAL AUDIT CHARTER

The Director of Internal Audit is responsible for maintaining the Charter of the Office of Internal Audit to ensure that it is reviewed, updated, or revised as necessary. Any amendment or revision is to be approved by the Director of Internal Audit and the Audit Committee.

AUDIT GOALS FOR FISCAL YEAR 2018

	Goals	Initiatives
1.	Facilitate the implementation of the audit recommendations we provide within 1 year of being reported.	<ul style="list-style-type: none"> • Distribute the Corrective Action Form to audit clients which requires them to identify an owner for implementing the recommendation, and a target date for implementing the recommendation or an alternative solution. • Adhere to the follow up process which requires our office to perform testing to verify that corrective actions have been implemented and are effective.
2.	Complete 80% of the annual audit plan each fiscal year, depending on the occurrence of unforeseen events that may cause fewer resources to be available for projects scheduled in the annual audit plan.	<ul style="list-style-type: none"> • Effectively deploy resources in order to assign staff to projects in accordance with their strengths and skill levels. • Monitor annual audit plan.
3.	Reassess and update the annual risk based audit plan to prioritize audit work used to assess the adequacy and effectiveness of the City's system of internal controls.	<ul style="list-style-type: none"> • Update the citywide risk assessment model. • Prepare a feasible audit plan for submission to the Mayor and Audit Committee.
4.	Provide independent, confidential and reliable investigations of fraud, waste or abuse that reported via the City's Fraud Hotline.	<ul style="list-style-type: none"> • Maintain the City's Fraud Hotline. • Provide investigation results, including recommendations for necessary actions to be taken for all allegations of fraud, waste, or abuse that are found to be substantiated.
5.	Allocate 50% of audit effort to audits and audit-related projects, 20% to maintaining the Fraud Hotline, 30% to administration, training, development, and other.	<ul style="list-style-type: none"> • Use time management worksheets to track employee productivity weekly in Auto Audit, a project management software. • Monitor time management worksheets and project budgets in Auto Audit.

AUDIT GOALS FOR FISCAL YEAR 2018 (continued)

	<u>Goals</u>	<u>Initiatives</u>
6.	Undergo an audit of departmental policies and procedures.	<ul style="list-style-type: none"> • Engage the Association of Local Government Auditors, who is independent of the City and the OIA, to conduct the audit. • Report findings to the City management, the Mayor, and the Audit Committee.
7.	Coordinate audits with the City's external auditors.	<ul style="list-style-type: none"> • Internal Audit to audit certain school activity funds for the School Department. • Coordinate and monitor the completion of the City's Comprehensive Annual Financial Report.
8.	Use technology based audit tools.	<ul style="list-style-type: none"> • Use Audit Audit, a project management software, on all engagements. • Use data mining and flowcharting software on all audits.
9.	Obtain 40 hours of CPE for Professional Development Annually.	<ul style="list-style-type: none"> • Allocate the necessary financial support out of the annual budget so that each audit staff has the ability to attend conferences, seminars, webinars, and online training programs.

**STATUS REPORT ON THE FY17 AUDIT PLAN
(JULY 1, 2016 to DECEMBER 31, 2016)**

Title	Objective(s)	Status	Service	Results/Comments
Carry-over Assignments from FY16				
City's Information Technology Follow Up Review	Determine if the FY2014 recommendations from consultant have been implemented.	Complete	Audit and Assurance	Report issued and discussed with Audit Committee on October 11, 2016.
Citywide Cash Handling Procedures Performance Audit	Determine whether controls over cash collection, accounting, and deposit of funds are appropriate.	Complete	Audit and Assurance	Report issued and discussed with Audit Committee on October 11, 2016.
Citywide Unannounced Cash Counts	Verify accuracy of cash records and identify any weaknesses surrounding the safekeeping of cash.	Complete	Audit and Assurance	Results disclosed in Citywide Cash Handling Procedures Performance Audit Report.
Citywide Purchasing and Accounts Payable Procedures Performance Audit	Determine whether appropriate controls exists within the purchasing/disbursement process to ensure correct, appropriate and timely payments are made for goods/services received.	In-Process	Audit and Assurance	We are completing fieldwork activities. Estimated date of presentation to the Audit Committee is April 2017.
On-going Assignments				
City's Investment Quarterly Review	Determine whether the City's investments comply with City Ordinance 42-35 and Massachusetts General Laws.	On-going	Audit and Assurance	No reportable findings.
Maintain the City's Fraud Hotline	Investigate reports of fraud, waste or abuse.	On-going	Investigation	Seven allegations have been submitted all of which have been closed with no further action warranted.

STATUS REPORT ON THE FY17 AUDIT PLAN (continued)
(JULY 1, 2016 to DECEMBER 31, 2016)

Title	Objective(s)	Status	Service	Results/Comments
On-going Assignments (continued)				
Annual External Financial Audit for Year Ended June 30, 2016	The City's Ordinance requires the Office of Internal Audit to contract with an independent certified public accounting firm to conduct the annual external audit of City's financial statements. The firm also conducts the federally required Single Audit.	Complete	Audit and Assurance	External auditors report issued December 20, 2016.
The School Department's Student Activity Funds Agreed Upon Procedures	Comply with Massachusetts General Law.	In-Process	Audit and Assurance	Report expected to be issued in March 2017.
New Assignments				
Review of the City Golf Courses	Work collaboratively with the City's external auditors Powers & Sullivan, LLC to determine if Kennedy Golf Management, Inc. (KGM) complied with its contract with the City.	Complete	Audit and Assurance	<p>The draft report has been received and is being discussed internally and externally to coordinate our next steps.</p> <p>The current review is to ensure the quality in the City's decision making as it goes forward. The City does not currently have a time table for the completion of its review.</p>

**STATUS REPORT ON THE FY17 AUDIT PLAN (continued)
(JULY 1, 2016 to DECEMBER 31, 2016)**

Title	Objective(s)	Status	Service	Results/Comments
New Assignments (continued)				
The Department of Elder Affairs Parking Review	To determine if the department is paying for its employees parking.	Complete	Investigation	See attached report.
Follow Up Reviews – Springfield Police Department’s Seized Cash, Department of Elder Affairs, and the Fun and Fitness Program at the Parks Department.	Review, monitor, and test the implementation status of prior audit recommendations.	In-process	Audit and Assurance	Follow up reviews expected to be complete by June 2017. Any unimplemented recommendations will be disclosed.
Citywide Unannounced Cash Counts	Verify accuracy of cash records and identify any weaknesses surrounding the safekeeping of cash.	In-process	Audit and Assurance	Unannounced cash counts will be performed through June 30, 2016. Significant deficiencies will be disclosed.
Health and Human Services	Determine whether the controls over operations, including cash receipts, disbursements, payroll, grant compliance, and safeguarding assets are effective.	Not Started	Audit and Assurance	Audit expected to commence in May 2017.
Springfield Police Department (SPD) Follow Up Information Technology Review	Determine whether the FY 2015 recommendations from consultant have been implemented.	Not Started	Audit and Assurance	OIA proposes that this review be postponed to early FY18. SPD management has requested that this follow up review be performed after they have implemented new software at the E-Street location in early FY18.

**STATUS REPORT ON THE FY17 AUDIT PLAN
(JULY 1, 2016 to DECEMBER 31, 2016)**

Title	Objective(s)	Status	Service	Results/Comments
New Assignments (continued)				
Springfield Schools Department (SPS) Follow Up Information Technology Review	Determine whether the FY 2016 recommendations from consultant have been implemented.	Not Started	Audit and Assurance	OIA proposes that this review be postponed to early FY18. SPS management has requested that this follow up review be performed in early FY18.
Payroll Audit	Determine whether the controls over payroll are effective and that there is reasonable assurance that payroll is correct.	Not Started	Audit and Assurance	OIA proposes that this audit be postponed to FY18.