



MEMORANDUM

DATE: October 22, 2021
TO: Honorable Mayor and Members of the City Council
FROM: Madison Rorschach, City Auditor
SUBJECT: Fiscal Year 2020-21 Fourth Quarter Report

FY20-21 Annual Audit Plan Status

Audit Project Status – The Internal Audit Department is responsible for conducting audits to assess a variety of risks including internal control weaknesses, inefficiencies in City operations, ineffectiveness of City programs, and noncompliance with laws, regulations, and policies. Each year, an annual audit plan is approved by the City Council to establish the workload of the Internal Audit Department. The following table summarizes the status of each audit project included on the FY20-21 Annual Audit Plan at the end of the third quarter.

Table 1: FY20-21 Audit Project Status As of 09/30/21

Table with 4 columns: Audit Project, Status, Months Budgeted, Month Actuals. Rows include various audit projects such as 'Overflow: Health Insurance Operations', 'Water System Operations: Rate Structure', and 'Risk Assessment'.

1 Month actuals reflect the number of months it took to complete fieldwork on the project. This is calculated from the date the project was initiated to the date first draft report was distributed to management.

2 This audit project was retitled from Emergency Medical Services: Billing & Collections during the reporting process. The scope of the audit project was not affected.

Post-Audit Feedback Survey Results – Based on the three audit project reports issued during the fourth quarter of fiscal year 2020-21, the Internal Audit Department's services were rated 5.00 out of five stars by auditee department's staff with a 40 percent response rate.

Avg. Q4 Internal Audit Service Rating: 

Ad-Hoc Project Updates – The Internal Audit Department completed the following Consultation projects during the fourth quarter of fiscal year 2020-21:

- Three Advice requests from Procurement & Compliance and Parks & Recreation.

Fiscal Year End Update

Internal Audit Department Annual Performance Metrics – Table 2 below is intended to provide the City Council and Internal Audit Advisory Committee with a snapshot of the Internal Audit Department's performance over the past fiscal year. These metrics are intended to meaningfully measure the Department's output, economy, efficiency, effectiveness, and outcomes as defined below:

- *Output*: the number of audit reports – including follow-up reviews – published during each fiscal year normalized by the number of budgeted full-time equivalent positions;³
- *Economy*: cost per audit report published including Department salaries, audit staff professional development, and audit tool expenses;
- *Efficiency*: the percentage of new audit projects closed compared to the relevant fiscal year audit plan – this measure excludes overflow project and follow-up review closures;
- *Effectiveness*: the percentage of recommendations issued that were fully concurred – this measure excludes partial concurrence; and
- *Outcomes*: the average implementation rate for audits issued during the past three fiscal years (i.e. for FY2020-21 audits issued during FY18, FY19, & FY20) – this measure will change from year to year as follow-up reviews are performed.

Table 2: Internal Audit Performance Metrics

Metric	FY 2018-19	FY2019-20	FY2020-21	Proposed Goal
Audit Reports Published Per FTE	1.67	4.67	4.00	3.00
Audit Cost per Published Report	\$79,400	\$25,500	\$27,200	\$30,000
On-Time Audit Plan Completion	25.0%	37.5%	85.7%	80.0%
Recommendations Concurred	85.9%	87.2%	93.1%	90.0%
Three-Year Implementation Rate	NA	NA	73.6%	70.0%

³ This measure has been benchmarked to other similarly sized Texas city audit shops for reference in Attachment 1.

It should be noted that these metrics have not been officially adopted. These metrics and proposed goals will be discussed with the Internal Audit Advisory Committee before being formalized in the Internal Audit Procedures Manual.

Annual Auditing Standards Compliance Report – As required by the Internal Audit Department's Procedures Manual, I have completed the Fiscal Year 2020-21 Auditing Standards Compliance Report. This report summarizes the Internal Audit Department's compliance with *Generally Accepted Government Auditing Standards* including structural independence, staff ethics, independence, & competence, and project compliance.

The report concludes that the Department's quality control system as suitably designed and operating effectively during Fiscal Year 2020-21. Additional details can be reviewed in Attachment 2 of this report.

Post-Audit Feedback Survey Results – In order to promote continuous improvement and facilitate communication between the Internal Audit Department and auditees, a Post-Audit Feedback Survey is distributed after each report issued during an audit project. For the twelve audit project reports⁴ issued during Fiscal Year 2020-21, the Department had a 41 percent average response rate to this survey. The results are summarized in Table 3:

Table 3: Post-Audit Feedback Survey Results

Survey Question	Percent Agree or Strongly Agree		Proposed Goal
	FY19-20	FY20-21	
Clearly communicated Obj., Scope, & Timing	60%	92%	90%
Professional & Constructive Approach	90%	96%	90%
Responsive to Suggestions & Concerns	70%	96%	90%
Made Efforts to Minimize Disruption	100%	92%	90%
Added Value through Meaningful Results	70%	88%	90%
Unbiased & Objective Report	60%	92%	90%
Average Internal Audit Service Rating	4.00	4.79	4.25

Additional Items of Note

Fraud Response Policy Adoption – On September 28, 2021, the City Council adopted the Fraud Response Policy. Prior to this policy, the City had established administrative procedures for responding and investigating fraud. The adoption of the Fraud Response policy formalized these procedures as a policy as well as requiring the Internal Audit Department to:

- Coordinate a city-wide fraud prevention and detection training program;
- Ensure an anonymous method of reporting fraud suspicions or allegations is made available to employees; and

⁴ Audit project reports include new audits and follow-up reviews.

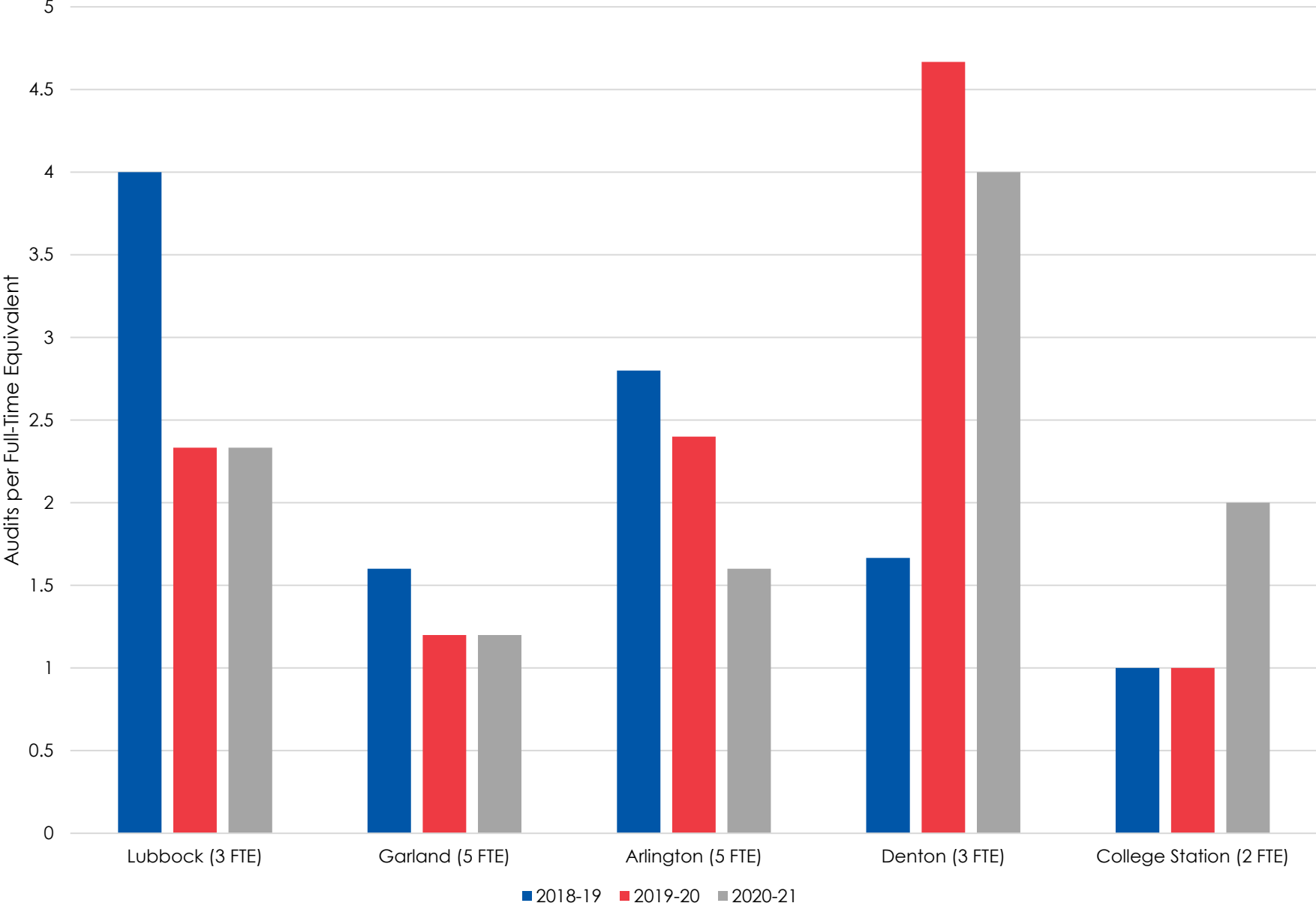
- Develop formal procedures for receiving, tracking, and managing fraud allegations and investigations in conjunction with other members of the Investigation Committee.

Adoption of the Fraud Response Policy fulfills one of the Internal Audit Department's stated goals for fiscal year 2020-21.

Attachments

1. Published Audit Report Comparison
2. Fiscal Year 2020-21 Auditing Standards Compliance Report

Published Audit Report Comparison





Effective Date: 01/26/2021
Last Updated: 09/30/2021

Auditing Standards Compliance Report

Fiscal Year: 2020-21 Procedure Manual Version: 2.0

Risk Assessment Type: Limited Audit Plan Ordinance: 21-274

Table 1: New Audit Projects Completed (FY 2020-21)

Project	Issued Date	Audit Lead	Compliance Checklist Completed
018 Health Insurance Operations	11/10/2020	Rorschach	Yes
017 Utility Meter Reading & Billing; Electric & Water Utilities	01/12/2021	Sama	Yes
020 Utility Payment Assistance Program	04/06/2021	Jackson	Yes
019 Municipal Court Payments	04/13/2021	Sama	Yes
021 Water System Operations: Rate Structure	06/22/2021	Rorschach	Yes
022 Building Permit Processes	07/20/2021	Jackson	Yes
021 Water System Operations: Distribution	07/27/2021	Sama	Yes
021 Water System Operations: Production	09/14/2021	Rorschach	Yes
023 Payroll Administration	09/28/2021	Sama	Yes

The following assessment documents the standards under which the Internal Audit Department’s work was conducted for one fiscal year and verifies the effectiveness of City’s quality control program including the following critical components:

- Department Independence & Ethics;
- Audit Staff Competence; and
- Performance Audit Standard Compliance.

Based on the results of the following review, it is my opinion that, the City of Denton Internal Audit Department’s internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audits published during the period October 1, 2020 through September 30, 2021 Based on this assessment, necessary changes have been made to the Department’s Procedure Manual.

City Auditor: Madison Rorschach Date: 10/4/2021

Digitally signed by Madison Rorschach
DN: dc=com, dc=cityofdenton, dc=codad, ou=Department Users and Groups, ou=General Government, ou=Internal Audit, cn=Madison Rorschach, email=Madison.Rorschach@cityofdenton.com
Date: 2021.10.04 10:40:39 -0500'



The Internal Audit Department currently follows the 2018 revision of Government Auditing Standards as promulgated by the United States Government Accountability Office. This checklist was developed based on these standards, the Internal Audit Department’s Procedures Manual, and the Association of Local Government Auditor’s Peer Review Guide for Yellow Book organizations. The following assessments were conducted and used to inform the opinion issued on the cover sheet.

Structural Independence

The City of Denton’s Internal Audit Department is considered structurally independent as defined by GAGAS 3.56, if the department head:

- a. Is accountable to the head or deputy head of the gov. entity or those charged with governance;
- b. Reports the engagement results both to the head or deputy head of the gov. entity and to those charged with governance;
- c. Is located organizationally outside the staff or line management function of the unit under audit
- d. Has access to those charged with governance; and
- e. Is sufficiently removed from pressures to conduct engagements and report findings, opinions, and conclusions objectively without fear of reprisal.

Audit Staff & Ethical Principles

Table 2 summarizes the Audit staff employed during the year as well as their completion of the required Annual Ethics Pledge Form for this fiscal year:

Table 2: Internal Audit Staff & Annual Ethics Pledge Summary

Staff Member	Title	Start Date	Ethics Pledge Completion Date
Madison Rorschach	City Auditor	01/02/2019	01/22/2021
Neeraj Sama	Senior Auditor	06/24/2019	01/21/2021
Amber Jackson	Senior Auditor	12/14/2020	01/21/2021



Effective Date: 01/26/2021

Last Updated: 09/30/2021

Project Independence & Competence Evaluation

Independence Evaluations are completed separately by each auditor assigned to each audit project and include an evaluation of previous non-audit services performed. Competence evaluations are completed by the City Auditor for each audit project and are based on staff previous experience and Continuing Professional Education Compliance Reports.

Table 3 shows which auditors completed independence assessments for each project and whether a competence evaluation was completed.

Table 3: Independence & Competence Evaluations for each Project (FY 20-21)

Project		Evaluations Completed	
		Independence	Competence
018	Health Insurance Operations	Rorschach, Sama	Yes
017	Utility Meter Reading & Billing: Electric & Water Utilities	Sama, Rorschach	Yes
020	Utility Payment Assistance Program	Jackson, Rorschach	Yes
019	Municipal Court Payments	Sama, Rorschach	Yes
021	Water System Operations: Rate Structure	Rorschach, Sama, Jackson	Yes
022	Building Permit Processes	Jackson, Rorschach	Yes
021	Water System Operations: Distribution	Rorschach, Sama, Jackson	Yes
021	Water System Operations: Production	Rorschach, Sama, Jackson	Yes
023	Payroll Administration	Sama, Rorschach	Yes



Effective Date: 01/26/2021

Last Updated: 09/30/2021

GAGAS Compliance Verification

Of the audits completed during this fiscal year, three projects were randomly selected and reviewed to ensure *GAGAS* was appropriately followed and compliance was adequately documented:

	Water System Ops: Rate Structure	Water System Ops: Production	Municipal Court Payments
Review of Non-Audit Projects & Legal Proceedings	Yes	Yes	Yes
Evidence of Planning	Yes	Yes	Yes
Project Risk Assessment	No	Yes	Yes
Understanding of Operations & Controls	Yes	Yes	Yes
Use of Professional Skepticism	Yes	Yes	Yes
Sufficiency & Appropriateness of Evidence	Yes	Yes	Yes
Elements of a Finding	Yes	Yes	Yes
Adequate Supervision	Yes	Yes	Yes
Objectives, Scope, & Methodology Communicated	Yes	Yes	Yes
Management Responses	Yes	Yes	Yes
Issued Report	Yes	Yes	Yes
Compliance Statement	Yes	Yes	Yes
Referenced Report	Yes	Yes	Yes
Post-Audit Feedback Survey	Yes	Yes	Yes