



MEMORANDUM

DATE: October 24, 2022
TO: Internal Audit Advisory Committee
FROM: Madison Rorschach, City Auditor *Madison Rorschach*
SUBJECT: Fiscal Year 2021-22 Fourth Quarter Performance Report

FY21-22 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 FY21-22 Annual Internal Audit Plan at the end of the third quarter.

Table 1: FY21-22 Audit Project Status As of 09/30/22

Audit Project	Status	Months Budgeted	Month Actuals ¹	Hour Actuals
Overflow: Emergency Medical Services: Ambulance Billing	Closed	4.00	4.25	NA
Energy Management Office Administration	Closed	3.00	3.75	NA
Wastewater System Operations: Collections	Closed	2.00	2.75	362.50
Wastewater System Operations: Reclamation	Closed			171.75
Network Management: Security Controls	Closed	5.00	5.50	320.00
Network Management: Asset Lifecycles	Closed			320.00
Warehouse Operations	Closed	2.00	3.25	398.50
Police Body-Worn Camera Usage	Fieldwork	3.00	3.75	216.25*
Overflow – Roadway Quality Management	Closed	1.00	0.50	NA
Overflow – Police Overtime	Complete	1.00	0.75	NA
Overflow – Police Property Room: Procedures	Closed	1.00	1.00	NA
Utility Payment Assistance Program Follow-Up Review	Complete	1.00	1.00	NA
Facilities Maintenance Follow-Up Review	Closed	1.00	0.75	NA
Capital Projects Administration: Property Acquisition Follow-Up Review	Closed	1.00	2.25	92.25
Health Insurance Operations: Follow-Up Review	Closed	1.50	2.00	15.75
Economic Development: Retention & Expansion Follow-Up Review	Reporting	1.00	2.50	27.25*
Grants Management Follow-Up Review	Reporting	1.00	2.50	17.25*
Procurement Process: Second Follow-Up Review	Reporting	1.00	3.25	70.25*

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

Post-Audit Feedback Survey Results – Based on the three audit project reports issued during the fourth quarter of fiscal year 2021-22, the Internal Audit Department's services were rated 4.80 out of five stars by auditee department's staff with a 71 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 2021-22:

- Six Advice requests from the Finance, Police, and Denton Municipal Electric Departments; and
- Two Fraud Hotline Complaints were submitted. Per City Policy 509.01 "Fraud Response," these submission were reviewed by the Investigation Committee. One of these cases has been closed and the other is currently still pending investigation.

Police Body-Worn Camera Usage Audit Report Publication Delay – This audit project was initially scheduled to be presented to the City Council on October 25, 2022. After the completion of fieldwork, Internal Audit Department staff discussed this reporting timeline with the new Police Chief, who was sworn in on October 3, 2022 and agreed to delay the presentation to Council to allow the new Chief to further acclimate to the new position. The report is tentatively scheduled for presentation in December 2022 or January 2023.

Fiscal Year End Update

Annual Auditing Standards Compliance Report – As required by the Internal Audit Department's Procedures Manual, the Fiscal Year 2021-22 Auditing Standards Compliance Report has been completed. 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 is suitably designed and operating effectively during Fiscal Year 2021-22. Additional details can be reviewed in Attachment 1 of this report.

Strategic Plan Goals and Objectives – During 2022, the City Auditor's Office adopted a Strategic Plan with certain performance measures and associated goals. Actual performance towards these goals is summarized in Attachment 2 of this report.

Department Costs by Program – In accordance with the City Auditor's Office Standard Operating procedures, the City Auditor has authorized or is required to provide administrative programs as described below. Time associated with each program is summarized in Table 2.

Table 2: Summary of Administrative Program Costs²

Program	Labor Hours	Labor Costs	Other Costs
Performance Reporting	39.00	\$2,531	\$0
Anti-Fraud	57.00	\$3,020	\$0
Consultation Projects	19.75	\$1,194	\$0
Training & Development	210.50	\$8,127	\$4,315
Internal Audit Internship	50.00	\$2,082	\$0
Community Outreach	13.75	\$801	\$440
Board of Ethics Support	58.50	\$3,521	\$2,282
Total:	448.50	\$21,276	\$7,037

In addition, key outcomes from each program are summarized below:

- **Performance Reporting Program:** designed to provide the City Council, Internal Audit Advisory Committee, and the public with information on the Internal Audit Department's activities. This program is primarily used to capture time associated with preparing quarter and annual reports.
 - During Fiscal Year 2021-22, all four quarterly reports as well as an annual report were prepared and distributed to the Internal Audit Advisory Committee as well as the City Council.

- **Anti-Fraud Program:** designed to capture time and other costs associated with designing and carrying out anti-fraud activities such as updating and developing fraud detection and response procedures as well as responding to fraud allegations as part of the City's internal Investigation Committee.
 - Fraud Awareness training developed and rolled out to City Employees in January 2022 with a 96% completion rate.
 - Began working with the Human Resources Department to ensure information on fraud awareness training and fraud allegation reporting methods is provided during New Hire Orientation.
 - Received 11 fraud, waste, or abuse allegations.

- **Consultation Projects:** designed to increase the City Auditor's Office and associated functions value to the organization as a whole by allowing City of Denton staff and City Council members to request advice, analysis, or data assistance.
 - Responded to 19 requests for advice from City Departments.
 - Continued providing advice on sole source procurements as requested.

² Labor hours and costs do not accurately reflect the full fiscal year due to procedure implementation.

- Finished providing quarterly updates on After Action Items identified after Winter Storm Uri.
 - Attended all City Investment Committee and Denton Municipal Electric Risk Committee meetings as required by City Policy.
- **Training & Development Program:** designed to assist audit staff in meeting the competency requirements of *Generally Accepted Government Auditing Standards*.
- All full-time Internal Audit Department staff on track to comply with *Generally Accepted Government Auditing Standards*.
 - City Auditor served as Chair of the Association of Local Government Auditor's Diversity, Equity, and Inclusion Committee and was elected to the Associations Board of Directors.
 - City Auditor served as the Association of Local Government Auditors representative on the Institute of Internal Auditors Public Sector Advisory Committee.
 - City Auditor began studying for the IT Audit Fundamentals Certificate issued by the Information Systems Audit and Control Association.
 - One Senior Auditor has begun the process of studying for the Certified Internal Auditor exam issued by the Institute of Internal Auditors.
 - Onboarded a new Senior Auditor to fill a vacancy.
- **Internal Audit Internship Program:** designed to provide college students or recent college graduates a structured opportunity to learn about and be immersed in local government auditing.
- Hired two interns during Fiscal Year 2021-22 who provided a total of 440 hours of work on Internal Audit Projects.
 - Issued one Internship Completion Certificate.
- **Community Outreach Program:** designed to promote the value of assurance services and engagement with the Denton public.
- City Auditor began serving on the North Central Texas College Accounting Advisory Board.
 - City Auditor attended UNT Internal Audit Day.
 - Internal Audit Awareness month proclaimed by the Mayor.
 - City Auditor presented as part of the City's Denton 360° program.
 - All 15 issued audit report's "At A Glance" translated into Spanish.
- **Board of Ethics Support:** required by the City of Denton Code of Ordinances Chapter 2, Article XXI "Ethics."
- Provided administrative support and background research for four regular Board of Ethics meetings.
 - Helped to develop and present a packet of six proposed amendments to the City Council for potential adoption.

- Processed one Ethics Complaint and one Advisory Opinion.

Attachments

1. Fiscal Year 2021-22 Annual Auditing Standards Compliance Report
2. Fiscal Year 2021-22 Strategic Plan Performance Report



Auditing Standards Compliance Report

Fiscal Year: 2021-22

Procedure Manual Version: 2.1

Risk Assessment Type: City-Wide

Audit Plan Ordinance: 22-512

Table 1: New Audit Projects Published (FY21-22)

Project	Issue Date	Audit Lead	Compliance Checklist Completed
024 Emergency Medical Services: Ambulance Billing	11/02/21	Jackson	Yes
025 Energy Portfolio Management: Transaction Administration	03/01/22	Sama	Yes
025 Energy Portfolio Management: Renewable Energy Offset	03/22/22	Sama	Yes
026 Wastewater System Operations: Collections	04/19/22	Jackson	Yes
026 Wastewater System Operations: Reclamation	05/03/22	Rorschach	Yes
027 Network Management: Security Controls	07/19/22	Sama; Rorschach	Yes
028 Warehouse Inventory Management	08/02/22	Jackson	Yes
027 Network Management: Asset Controls	09/20/22	Halter	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, except for the deficiencies noted within, 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, 2021 through September 30, 2022. Based on this assessment, necessary changes have been made to the Department's Procedure Manual.

City Auditor: *Martin P. White*

Date: 10/19/22



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; | <input type="text" value="Yes"/> |
| b. Reports the engagement results both to the head or deputy head of the gov. entity and to those charged with governance; | <input type="text" value="Yes"/> |
| c. Is located organizationally outside the staff or line management function of the unit under audit | <input type="text" value="Yes"/> |
| d. Has access to those charged with governance; and | <input type="text" value="Yes"/> |
| e. Is sufficiently removed from pressures to conduct engagements and report findings, opinions, and conclusions objectively without fear of reprisal. | <input type="text" value="Yes"/> |

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	10/27/2021
Neeraj Sama	Senior Auditor	06/24/2019	10/27/2021
Amber Jackson	Senior Auditor	12/14/2020	10/27/2021
Andy Fernandezdelara	Audit Intern	01/03/2022	01/03/2022
Scott Garcia	Audit Intern	05/23/2022	None
Jenesa Halter	Senior Auditor	07/18/2022	07/18/2022



Based on this information, the Internal Audit Department adequately documented its independence structurally and per project; however not all part-time auditors completed the required Annual Ethics Pledge.

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 (FY21-22)

Project	Evaluations Completed		
	Independence	Competence	
024	Emergency Medical Services: Ambulance Billing	Jackson, Rorschach	Yes
025	Energy Portfolio Management: Transaction Administration	Sama, Rorschach, Fernandezdelara, Jackson	Yes
025	Energy Portfolio Management: Renewable Energy Offset	Sama, Rorschach, Fernandezdelara, Jackson	Yes
026	Wastewater System Operations: Collections	Jackson, Rorschach, Fernandezdelara, Sama	Yes
026	Wastewater System Operations: Reclamation	Jackson, Rorschach, Fernandezdelara, Sama	Yes
027	Network Management: Security Controls	Sama, Rorschach, Jackson	Yes
028	Warehouse Inventory Management	Jackson, Rorschach, Garcia	Yes
027	Network Management: Asset Controls	Halter, Rorschach, Jackson	Yes

Based on this review, there do not appear to be completed independence evaluations for Audit Intern Garcia for audit project 027.



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:

	Energy Portfolio Management: Transaction Admin.	Wastewater System Operations: Reclamation	Warehouse Inventory Management
Review of Non-Audit Projects & Legal Proceedings	Yes	Yes	Yes
Evidence of Planning	Yes	Yes	Yes
Project Risk Assessment	Yes	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

City Auditor's Office Strategic Plan

Fiscal Year 2021-22 Performance

Objectives		Activities	Performance Measures	Goal	FY21-22
Strategy A: Perform high-quality, impactful audit projects					
1.	Audit Project Coverage	Audit each functional area of the City once every six years	No. of functional areas not audited during strategic plan period	≤3 areas	7 (On Track)
2.	Audit Project Impact	Issue feasible recommendations	Annual Concurrent Rate	≥90%	90%
			Annual Disagreement Rate	≤5%	0%
		Follow-up on all audit projects to evaluate progress	Three-Year Rolling Implementation Rate	≥70%	74%
3.	Audit Project Quality	Solicit feedback on audit quality from auditees on if the Dept. added value through meaningful results	Annual percent Strongly Agree	≤70%	57%
			Annual percent Strongly Disagree	≤10%	5%
			Average overall Internal Audit services rating	≥4.00	4.81
		Receive a Peer Review in accordance with GAGAS	Peer Review opinions	Pass	Pass
Strategy B: Provide valuable non-audit services					
1.	Fraud, Waste, and Abuse Program	Educate City employees on fraud risks	Annual percent of employees who completed fraud awareness training	≥90%	96%
		Promptly react to all received fraud, waste, or abuse allegations	Business days between allegation submission and Investigation Committee initial discussion	≤3 days	2.91 days
		Monitor City transactions for evidence of fraud	Annual no. of fraud detection tests	≥3 tests	0 tests
2.	Consultation Projects	Provide advice, analysis, or data assistance upon request	Quarterly no. of consultation projects completed	≥5 proj.	4.75 proj.
Strategy C: Engage Denton community members					
1.	Audit Project Engagement	Publicize audit report releases	Monthly audit report News Flash subscriptions	≥10 subs.	22 subs.
		Translate audit reports	Annual translated report unique views	≥5 views	10 views
		Solicit audit ideas from the public	Annual audit idea submissions	≥10 ideas	5 ideas
			Three-Year Rolling no. of audit ideas proposed in an audit plan	≥2 ideas	TBD
		Increase public knowledge of the Department	Attend community events to promote the Department	≥2 events	2 events