



INTERNAL AUDIT OVERVIEW

Presented by: Danielle Hayes

AUDIT PROGRAM

Annual review of
the City's financial
statements

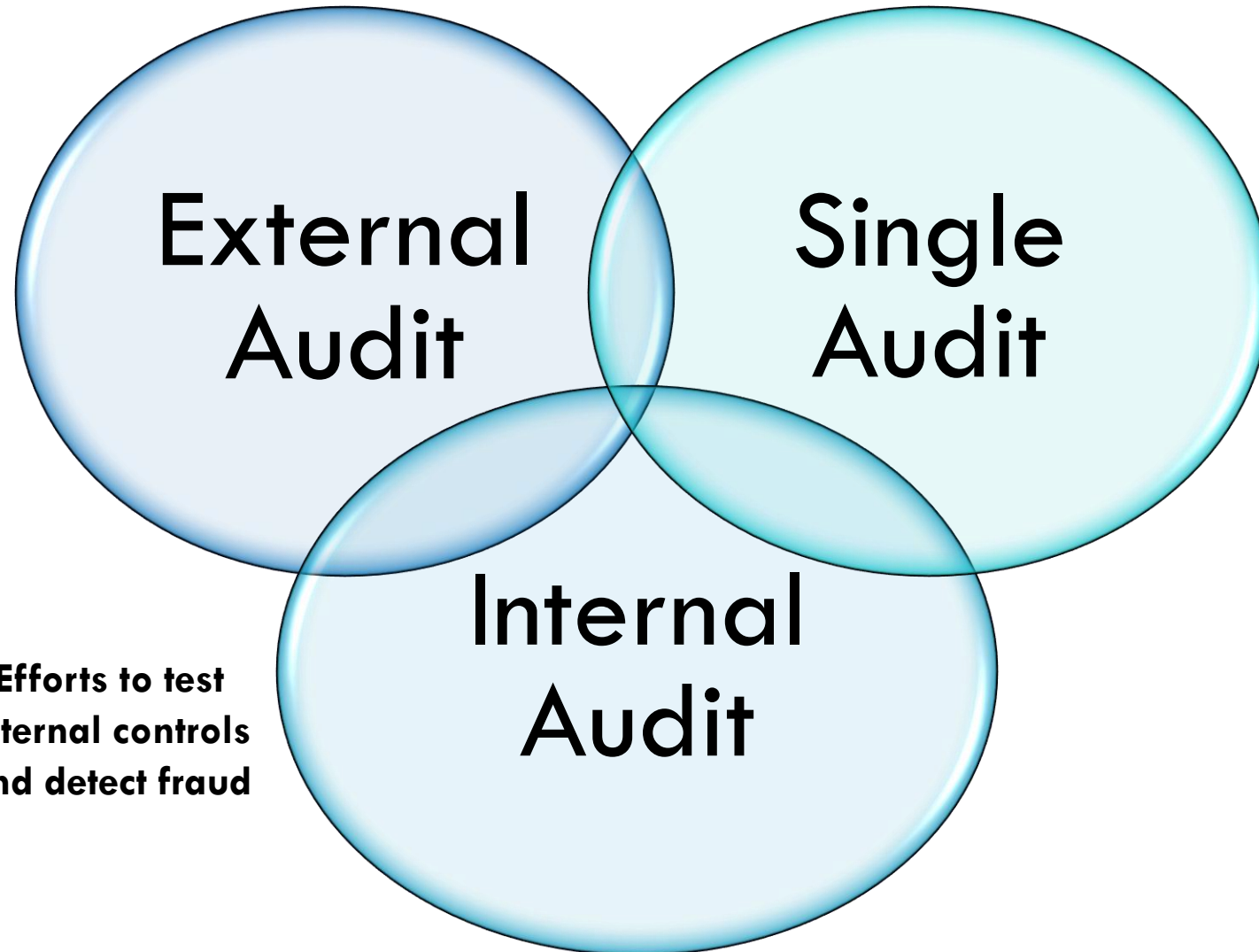
External
Audit

Single
Audit

Annual review of
grant activities

Efforts to test
internal controls
and detect fraud

Internal
Audit



WHAT IS AN AUDIT?

An audit is the formal review of financial records to ensure compliance with established policies and procedures.

Our Process



WHAT IS THE ROLE OF INTERNAL AUDIT?

- Evaluate/test internal controls
- Detect fraud
- Increase efficiency and effectiveness of operations
- Types of audits previously done:
 - P-card Audit
 - Cash Handling Audit
 - Annual Financial Audit

MADISON GENERAL ORDINANCE 4.02(3)

- BOE will be presented the audit plan in February.
- Common Council may request additional financial audits of any department to ensure compliance with city guidelines.
- Approval is required for all audits except those that are
 - Confidential, include discipline/criminal charges or prior knowledge could jeopardize the audit.
- Finance Director is responsible for the methodology and conduct of the audit and may initiate other audits where the City has a direct/indirect interest as deemed necessary to protect the City's interests.

ANNUAL AUDIT TIMELINE

First Quarter

- Presentation of annual audit plan to BOE
- Preparation for financial and single audit

Second Quarter

- Completion of financial and single audit
- Begin work on audit plan

Third Quarter

- Presentation of audited single audit report to BOE
- Work on audit plan

Fourth Quarter

- Report out findings from audit plan
- Prepare new audit plan



2017 AUDIT PROGRAM



WHY DO WE NEED AN AUDIT PROGRAM

- Identify potential non-compliance or weaknesses in our internal controls.
- Create a system for regular audits for key areas of risk.
- The 2017 program will begin to build on internal process/controls to create the framework to build a strong audit program in the future.
- Our 2017 program will cover 3 major initiatives
 - Cash Handling
 - Cost Allocation
 - Grant Management

CASH HANDLING

- Scope: Create consistency within departments on the handling of cash to reduce errors, maintain internal controls and mitigate risk.
- Timeline: Updated cash handling manual will be ready by May 2017 to be paired with a Tyler Cashiering update which will require in-person training. Questionnaire to be distributed in Fall 2017 to collect data for our 2018 audit plan.

WHAT IS CASH HANDLING?

Cash handling includes:

- Cash, check and credit card accepted in-person and via phone/mail/online.
- Segregation of duties within departments from those who collect the cash and those who prepare the deposit.
- Proper/timely deposits
- Correct use of Tyler Cashiering for all cash received.

Things to consider:

- Over \$12M passed through the Treasurer's office in 2016
- Top cash handling departments:
 - Parking: \$4.4M
 - Parks: \$2.4M
 - Treasurer: \$1.8M

COST ALLOCATION

- Scope: The 2016 audited financial data will be used with Baker Tilly to determine an updated process for completing our cost allocation.
- Timeline: The audited financial data for 2016 should be finalized by June 2017 therefore this project at that time with completion prior to the end of 2017.

WHAT IS COST ALLOCATION?

Cost allocation:

- Process of assigning central service costs consistently across all departments.
- Currently this process is not consistent and does not include all central service agencies.
- Very useful tool that can be used to budget and provides the actual cost of our central service agencies.

Things to consider:

- Allocation for Citywide central services
 - Based off of past practice which is not consistent across agencies
- Overhead Rate
 - Not calculated consistently across agencies
 - Potentially losing money on indirect costs related to grant activity

GRANT MANAGEMENT

Scope: Create a grant management workgroup which will develop a user friendly guide to assist departments from grant application to grant closeout. Once this is completed we will begin to offer quarterly grant management trainings for those who are interested.

Timeline: This group will begin meeting in April 2017 with expected completion 2018. Once we have a completed version it will be presented to Leadership for final approval before it is distributed to agencies.

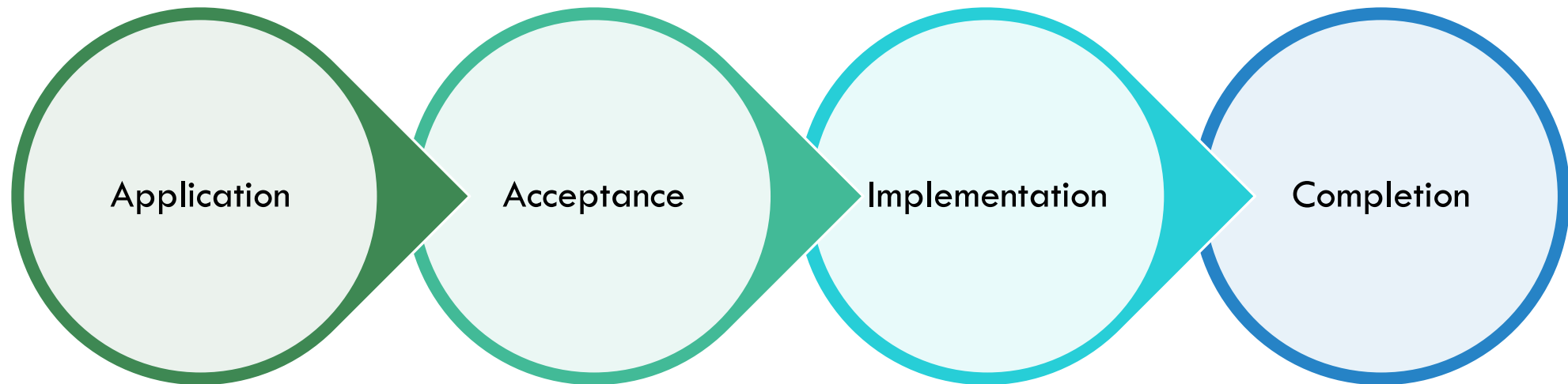
WHAT IS GRANT MANAGEMENT?

- Standardized policy and procedures across all City departments which is consistent with current federal requirements.
- Uniform Guidance which became effective in 2015 mandates grant administrative requirements and cost principles for federal awards.
- Lack of compliance with these requirements could potentially put all of our federal funds in jeopardy.

Things to consider:

- In 2015 the City had over 120 grants expenditures totaling
 - \$37M in Federal funds
 - \$19M in State funds

ELEMENTS OF GRANT MANAGEMENT





RISK ASSESSMENT



RISK ASSESSMENT TOPICS

- Prior to presentation of annual audit plan - an internal risk assessment will be completed
- Components of the risk assessment will include:
 - Weaknesses that Management/Staff have identified
 - Findings from external financial audits
 - Observed or detected items through our internal controls/audits
 - Fraud trends identified via FBI website specific to public corruption

ADDITIONAL TOPICS FOR FUTURE AUDIT PLANS

Testing of existing internal controls will take place on a rotational basis

Additional audits will be performed based on observed trends and areas of risk

■ Internal Control Testing

1. A/P
2. Payroll
3. Tax Process
4. Special Assessments
5. Cash Handling
6. Monona Terrace
7. Golf
8. Ambulance
9. Financial Close
10. Municipal Court

■ Other Topics

1. Equipment/Property
2. Related Parties
3. Fraud Reporting

KEY AUDIT CONTACTS

- Finance Director: David Schmiedicke
- Internal Auditor: Danielle Hayes
- Accounting Services Manager: Patricia McDermott
- Budget & Program Evaluation Manager: Laura Larsen