



2020 Approved

Annual Audit Plan

Prepared by the Internal Audit Office

Approved by the City Manager

City of Aurora, Colorado

Affirmed by the M&F Committee

City of Aurora City Council

Background

The City of Aurora Internal Audit Department, established by City Ordinance CD2: 10.1, Sec. 2-66, operates as an independent, objective assurance and consulting activity designed to add value to and improve the City's operations. Internal Audit's mission is to be partners for meaningful performance improvement. Internal Audit executes its mission through a systematic, disciplined, professional, risk-based approach to evaluating and improving the effectiveness of risk management, internal control, and governance processes. Internal Audit offers a wide range of engagements including financial, compliance, performance, consulting, and fraud investigations. Internal Audit is an internal independent staff function residing in the Office of the City Manager. The Management and Finance Committee (M&F) acts as the City Council Audit Committee. Internal Audit provides quarterly progress reports to the M&F Committee and presents the approved annual audit plan for affirmation.

The Internal Audit function is separate and distinct from the external auditor role in local government. According to the State of Colorado Financial Management Manual: A Guide for Colorado Local Governments, *"The goal of [external] auditing is to provide assurance for citizens, legislators and others that government funds are accounted for properly and that government organizations are in substantial compliance with laws and regulations."*

The Local Government Audit Law (Section 29-1-601 et seq., C.R.S.) requires Colorado local governments to have an annual audit of their financial statements. The law states that the audit must be performed by an independent Certified Public Accountant (CPA) and be in accordance with generally accepted auditing standards.

The Internal Audit department prepares an annual audit plan that the City Manager approves and the City Council's Management and Finance Committee (M&F), which acts as the Audit Committee for the Council, affirms.

2020 Annual Audit Plan

PLAN DEVELOPMENT PROCESS

The City of Aurora Internal Audit function applies the professional standards of the Institute of Internal Auditors (IIA), the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

The International Standards for the Professional Practice of Internal Auditing require that an entity develop its annual audit plan using a risk-based approach.

Standard 2010 – Planning: The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.

IIA Interpretation: The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization’s risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consideration of input from senior management and the board. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls.

Internal Audit defines “risk” using the professional literature.

Risk *is the possibility of an event or condition occurring that will have an impact on the ability of the City of Aurora to achieve its strategic objectives.*

Management is responsible for identifying and managing the risks facing the City. Internal Audit provides an independent review of the policies, processes, and controls in place to manage and mitigate risk to acceptable levels. Our 2020 risk-based approach included an assessment of various City activities, a prioritization of those areas for Internal Audit’s attention, and the development of a proposed audit plan to address those areas commensurate with the resources available and the audit team’s skill sets.

ANNUAL RISK ASSESSMENT SURVEY

Internal Audit conducted its annual risk assessment via a survey and meetings¹. This year we also included a sampling of staff below the supervisor level in our survey population to add to our perspective. In non-respondent situations, we considered the number and level of respondents from the various divisions or departments and satisfied ourselves that we had sufficient responses from within the division or department to proceed to analysis. In situations where we determined further input was necessary, we

¹ We held in-person meetings with the Deputy City Managers and the APD Police Chief.

scheduled meetings with appropriate staff. The table below shows the number of surveys received and completed.

Survey Responses	Surveys Complete	Surveys Sent	% Complete
Supervisors - Directors	207	268	77%
Staff	124	226	55%
Total	331	494	67%

The risk assessment survey included questions—some repeated from prior years’ surveys—covering:

- general operation practices designed to assess management’s attitude and department morale, access to adequate personnel and professional development resources;
- IT support and technology use;
- critical process automation;
- contact with regulatory agencies;
- inventory controls;
- the safety environment;
- IT privacy, security risks, and emergency preparedness;
- data management, including access and security practices;
- fraud risk; and,
- business priorities and risks.

Internal Audit analyzed the survey results and selected individuals from specific departments or functions for follow up interviews. These efforts produced the following risk observations and proposed Internal Audit engagements.

Risk Observations

Risk is often measured in terms of the *likelihood* of an event occurring and the *impact* it would have if it did occur. High likelihood/high impact events should be an organization’s greatest concern. We offer these observations to encourage Management’s continued focus on them.

INFORMATION TECHNOLOGY

Cybersecurity: As we noted last two years, attacks on the City’s network continue. We anticipate that as long as capabilities and opportunities exist for the perpetrators, these attacks will continue and likely increase in quantity and sophistication. City IT Staff continue to respond to the attacks while strengthening City defenses. This seemingly never-ending threat will require continued long-term investments in staff, resources, and a commitment to changing the culture (staff behavior) and business practices to reduce the risk from daily operations and third-party interactions. These efforts must be continuous and involve staff

at all levels as the Information Security Office forecasts privacy as being a significant security driver in 2020.

A danger to preparation is complacency. IT continues its mandatory staff cybersecurity training. This is the fourth year for this training. While some staff consider the annual training to be redundant, repetition is the key to retention and changing behavior.

The City continues to determine proper access and security controls for its critical environments, and ensure those efforts are accountable to, and defined within, City policy and regulatory requirements. It has enhanced its environmental monitoring to decrease the time it takes to identify possible vulnerabilities and attacks.

Resource Demands: Demand on IT resources and support has grown significantly in 2019 and there doesn't appear to be any slowing in this trend. Risk arises when maintaining rigorous and disciplined technology and security governance within an organization that has an insatiable need to maintain and improve existing technology, especially when resources are limited, and the technology is rapidly changing. Innovation and stronger integration must be embraced to address these growing risks. Achieving secure, effective and rapid technology adoption to meet the business challenges facing the City will require the City to evaluate and, in some cases, change existing processes and mindsets, in addition to maturing governance. Lastly, establishing partnerships with private sector companies that can provide a higher level of service and more innovative solutions can be an option to address resource demands.

Applications and hardware that are coming to the end of their useable and supportable life will force the City to invest in replacements and upgrade models or risk business outages and increased potential for cyber-attack. Consolidating applications across the City wherever possible will help in easing the impact of end-of-life replacements as well as identifying the overall life cycle early in the design process.

The City is developing a Smart Cities Strategic Plan which should be completed by the end of 2019. A Smart Cities strategy will produce expectations as it is implemented. The City will need to establish priorities and develop creative funding approaches to move forward with this key initiative. Resource allocation and project management processes and practices that support rigorous, disciplined, consistent approaches to managing technology investments will be critical to ensuring that staff have the technology they need to provide cost-effective services to City residents and businesses, and that the City will be able to attract and maintain a skilled, motivated workforce.

Emergency Preparedness: Business stakeholders, residents, and City staff rely heavily upon technology for efficient service delivery. This reliance will increase during emergencies where the technology backbone will be critical to maintaining and restoring City functions while responding to the emergency itself. Establishing and maintaining the required redundancies is expensive, but necessary to support City service delivery in an emergency. Efforts to take advantage of cloud computing will increase as the opportunities and resources become available.

SAFETY AND SECURITY

These two topics were prominent in the survey responses from staff and middle management. This is not surprising considering recent events across the country. City Management takes these concerns seriously and several initiatives are in process as a result.

Physical Security

Internal Audit completed a physical security assessment in 2017. Then City Manager Skip Noe instituted a Physical Security Steering Committee to address the assessment's findings and recommendations. The Steering Committee is composed of members from Facilities, IT, Human Resources, Aurora Fire and Rescue, and Aurora Police Department (APD). A representative from Internal Audit facilitates the meetings and provides regular progress reports to the City Manager. The Steering Committee has generated recommendations to increase Aurora Municipal Center (AMC) security, many of which are being implemented or are funded through 2020 budget requests.

Part of the Steering Committee's charge included addressing internal policy gaps related to physical security. As part of that effort, the Steering Committee recently completed a draft Security Camera Policy to bring consistency and rigor to the City's security camera installations and operations.

Steering Committee members have also been active in promoting active shooter training for staff and providing recommendations to improve the use of safe rooms.

Safety

The City Manager reenergized a Safety Initiative in 2019. An employee work group has developed a health, safety and environmental vision statement. They are also working to define long-term goals and crafting new strategic approaches to health and safety for the City. The group will also be spearheading an initiative to promote safety awareness across the City. Internal Audit attends the Safety meetings to keep abreast of their progress.

2020 PROPOSED ENGAGEMENTS

Based upon the results of our annual risk assessment, Internal Audit proposes the following engagements for 2020. The engagement periods shown in the graphic below are projected commencement times. Except for the two annually recurring APD engagements in the First Quarter, the actual time investment required for each engagement is unknown as each engagement is new and unique. We avoid beginning new engagements in the Fourth Quarter unless absolutely necessary. We prefer to use that quarter to complete active engagements and to prepare for the coming year. In the proposed engagement details that follow, the engagement objectives are subject to change in accordance with changes noted in operations or in planning. Internal Audit will inform the City Manager and the M&F Committee of any material changes to the objectives.

The 2020 plan is an aggressive plan. Our approach will include a significant use of surveys in the engagements as a way of improving engagement efficiency. This will allow us to gather and process information on multiple engagements simultaneously.

Our priority order for engagements in 2020 will be:

1. Recurring engagements (these are time sensitive)
2. Carryforward engagements (those that could not be initiated or completed in 2019)
3. New proposed engagements
4. Ad hoc engagement requests (we evaluate the requirements associated with these requests and determine where they fit in our priorities)



First Quarter

<p>APD Property and Evidence Chain of Custody Audit for Commission on Accreditation of Law Enforcement Agencies (CALEA) Accreditation</p> <p><i>Recurring</i></p>	<p>Internal Audit conducts this recurring annual engagement to review controls that ensure the evidence chain of custody remains unbroken. An annual audit of property and evidence, in compliance with Appendix K, is conducted by a supervisor not routinely or directly connected with control of property and evidence is a requirement for CALEA accreditation.</p> <p>Objectives:</p> <ul style="list-style-type: none"> ❖ Ensure compliance with CALEA Standard 84 – Property and Evidence Control. ❖ Ensure the reliability and integrity of internal controls that ensure the chain of custody for property and evidence is not broken.
<p>APD Vice and Narcotics Financial Audit</p> <p><i>Recurring</i></p>	<p>To protect the confidential nature of Vice and Narcotics’ operations, Internal Audit performs this recurring annual engagement. We assess the adequacy of operational controls that safeguard assets used in the prosecution of vice and narcotics criminal activity and review the accuracy of the division’s financial information. We provide the results and audited financial statements to the City’s Finance Department for inclusion in the City’s annual audited financial statements.</p> <p>Objectives:</p> <ul style="list-style-type: none"> ❖ Assess the accuracy of the calendar year financial statements. ❖ Verify that financial records (electronic and manual) used for the financial statements are accurate. ❖ Review compliance with procedures currently in place for handling financial transactions including financial statement preparation, review of financial records, and cash handling procedures.
<p>Internal Audit Carryforward Engagements</p>	<p>These engagements will be carried forward into 2020 if not completed in 2019.</p> <ul style="list-style-type: none"> ❖ Grant Administration Processes Part 1² ❖ Payroll ❖ P-card Transactions ❖ Succession Planning Survey

² We will reconsider Grant Administration Processes Part 2 during our 2021 risk assessment.

Second Quarter

<p>Internal Audit Carryforward Engagements</p>	<p>These engagements will be carried forward into 2020 if not completed in 2019.</p> <ul style="list-style-type: none">❖ Grant Administration Processes Part 1❖ Payroll❖ P-card Transactions❖ Succession Planning Survey
<p>Finance Marijuana Enforcement Processes</p>	<p>The Marijuana Enforcement Department has been in operation for almost five years. Internal Audit will review the effectiveness and efficiency of its processes and ensure compliance with required regulations.</p> <p>Objectives:</p> <ul style="list-style-type: none">❖ How effective and efficient are the current Marijuana Enforcement processes in ensuring compliance with City policies?
<p>Citywide Secondary Employment Policy Compliance</p>	<p>The City maintains a policy to manage secondary employment for City employees. The expectation is that City employment is an individual's primary responsibility; secondary employment is allowed but must be approved. Maintaining secondary employment is contingent upon demonstration that City employment is not adversely impacted by the second job. Fatigue and injury on second jobs can impact City operations and may make the City liable for workers compensation even though an injury did not occur while on the City job. Some departments, such as APD, have a process to manage secondary employment. Other departments follow the City policy and processes. In this engagement, we will examine the existing processes and assess compliance with City policies.</p> <p>Objectives:</p> <ul style="list-style-type: none">❖ Do City policies and processes effectively and efficiently manage secondary employment?❖ How well do City staff comply with the City's secondary employment policies?❖ What has been the impact of secondary employment on the City's workers compensation liability?

APD
Body Cam Compliance

When used properly, body cameras can bring the transparency the public is demanding to their encounters with law enforcement. They can also protect officers by providing critical context leading up to acts of force. Their effectiveness can depend—to an extent—upon how well the officers and the Department comply with the policies and laws that regulate their usage.

Objectives:

- ❖ How well does the Aurora Police Department comply with policies and laws related to the use of body cameras?

Third Quarter

Citywide
City Governance
Practices

According to the International Standards for the Professional Practice of Internal Audit (The Standards), the internal audit activity must assess and make appropriate recommendations to improve the organization’s governance processes for:

- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

The Standards also require Internal Audit to evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities and to assess whether the information technology governance of the organization supports the organization’s strategies and objectives.

Objectives:

- ❖ Understand the City’s governance practices as referenced in the Standards.
- ❖ Assess and make appropriate recommendations to improve the organization’s governance processes.
- ❖ Assess the state of the City’s work culture.

<p>Public Works Construction Project Compliance Review</p>	<p>Internal Audit has never examined a City construction project. We will select a project and review compliance with City policies and contract terms from start to completion or current state, depending upon the project selected.</p> <p>Objective:</p> <ul style="list-style-type: none">❖ How well does the City comply with its policies and contract terms in major construction projects?
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<p>Courts Case Management Process Review</p>	<p>Internal Audit will process map the case management review process for Courts Administration.</p> <p>Objective:</p> <ul style="list-style-type: none">❖ Assess the efficiency and effectiveness of the case management review process.
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<p>Citywide 2021 Risk Assessment and Audit Planning- Part 1</p>	<p>Internal Audit conducts its annual risk assessment used in preparing 2021 proposed audit engagements. Part 1 will include developing and disseminating the risk assessment survey, collecting responses, and analyzing results.</p>
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Fourth Quarter

<p>Citywide 2021 Risk Assessment and Audit Planning- Part 2</p>	<p>Part 2 will include follow-up interviews, developing the proposed annual audit plan, and obtaining the City Manager’s approval and the M&F Committee’s affirmation.</p>
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<p>Internal Audit Quality Assessment</p>	<p>The professional standards of the Institute of Internal Auditors require audit shops seeking compliance with their standards to conduct an external quality assessment every five year. We have not found any records indicating that the City of Aurora’s Internal Audit Department has ever conducted an external assessment.</p>
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**Engagement
Wrap-up**

Work to complete any outstanding engagements.

INTERNAL AUDIT COOPERATIVE ACTIVITIES

Information Technology (IT)

Internal Audit and the Chief Information Security Officer (CISO) meet quarterly throughout the year to discuss matters related to IT security. The CISO assists Internal Audit in developing questions for the annual risk assessment survey. Internal Audit participates on the IT Security Council and in other technology security initiatives as appropriate.

Internal Audit and Risk Operations

Internal Audit meets quarterly with Risk Operations to discuss issues of mutual concern. The meetings foster communication on a range of potential risk issues that may lead to an audit engagement proposal. Risk Operations contributes the questions in the annual risk assessment survey related to employee safety.

OBJECTIVITY AND AFFIRMATION OF ORGANIZATIONAL INDEPENDENCE

IIA Standard 1100 – Independence and Objectivity: The internal audit activity must be independent, and internal auditors must be objective in performing their work.

IIA Interpretation:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels. Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

Internal Audit Compliance (IAC):

Internal Audit has access to senior management and the City Council through a dual-reporting relationship where Internal Audit reports to the City Manager on all audit matters (in accordance with the City Ordinance noted below) and to the M&F Committee, the Audit Committee of the City Council. We conduct our work with objectivity and do not subordinate our judgment on audit matters to others.

IIA Standard 1110-Organizational Independence: The internal audit activity must be independent and internal auditors must be objective in performing their work. The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity. [Note: Internal Audit notes its compliance with this standard in the sub-bullets below marked **IAC** (Internal Audit Compliance.)]

IIA Interpretation:

Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- ✧ *Approving the internal audit charter;*
- **IAC:** Internal Audit functions under an approved charter and operates under City Ordinance-CD2: 10.1, Sec. 2-66, Office of the Internal Auditor which reads:
 - The office of the internal auditor shall be an independent staff function reporting to the city manager on all audit matters. The auditor shall conduct financial and performance audits of all departments, boards,

activities, and agencies of the city. All city officers and employees shall furnish the auditor with requested information and records within their custody regarding powers, duties, activities, organization, property, financial transactions, and methods of business required to conduct an independent evaluation.

- ✧ *Approving the risk based internal audit plan;*
 - **IAC:** The City Manager reviews and approves the annual audit plan; the M&F Committee, the Audit Committee of the City Council, ratifies the approved plan.
- ✧ *Approving the internal audit budget and resource plan;*
 - **IAC:** The City Manager approves the Internal Audit resource budget and includes it as part of the City's budget. The City Manager proposes the City's budget to the City Council for final approval.
- ✧ *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters;*
 - **IAC:** Internal Audit provides weekly updates to the City Manager and quarterly updates to the M&F Committee.
- ✧ *Approving decisions regarding the appointment and removal of the chief audit executive;*
 - **IAC:** The City Manager has authority to appoint and remove the Internal Audit Manager.
- ✧ *Approving the remuneration of the chief audit executive; and*
 - **IAC:** The Internal Audit Manager's salary and benefits are included in the City budget that the City Manager proposes to the City Council and that the City Council approves.
- ✧ *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*
 - **IAC:** Internal Audit communicates regularly—as appropriate and necessary—on audit matters with the City Manager and the M&F Committee. The M&F Committee has direct access to the Internal Audit Manager for any questions.
- ✧ **1110.A1** – *The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.*
 - **IAC:** Management approves the annual work plan. Internal Audit determines the audit scope of each engagement, performs its work uninhibited in accordance with the City Ordinance noted above, and regularly and freely communicates its results to the City Manager and the M&F Committee.

Internal Audit affirms our organizational independence for 2020 in accordance with IIA Standard 1110.

INTERNAL AUDIT TEAM

Wayne Sommer | Internal Audit Manager

Wayne is a Certified Public Accountant (CPA) and a Chartered Global Management Accountant (CGMA) with 39 years of diverse work experience. He began his career as an auditor for KPMG in Washington, DC (then known as Peat Marwick Mitchell and Co), advancing to the Audit Senior level with specialization in not-for-profit entities and financial institutions. He spent the next seven years in various financial and management capacities at Trustbank Savings, FSB in Virginia (also known as Dominion Federal Savings and Loan.) Prior to coming to the City of Aurora, Wayne spent 23 years at the International City/County Management Association (ICMA) in Washington, DC with 14 of those as Director, Administration and Finance, and the last nine working in executive management roles performing strategic planning, business development, and organizational change and development. Wayne also managed ICMA's U.S. Programs, which offered research and consulting products and services to local governments, the private sector, and the Federal government. Wayne has been with the City of Aurora since May 2014.

Professional Associations: American Institute of Certified Public Accountants; Institute for Internal Auditors; Association of Local Government Auditors; Government Finance Officers Association

Michelle Crawford | Internal Audit Staff

Michelle is a Certified Internal Auditor (CIA), a Certified Fraud Examiner (CFE), and has 12 years of experience in governmental auditing. She began her education at the University of Montana where she received her Bachelors in Business Administration. She then obtained her Masters in Accountancy from Missouri State University. Upon graduation from Missouri State University, she started her career at the Missouri State Auditor's office as a Staff Auditor I and progressed over the next seven years to a Senior Auditor. As an auditor with the State Auditor's office, she conducted performance audits of local governments and worked on the statewide Single Audit. Michelle has been with the City of Aurora since October 2014.

Professional Associations: Association of Certified Fraud Examiners; Institute for Internal Auditors; Association of Local Government Auditors; Government Finance Officers Association

Sheree Van Buren | Internal Audit Staff

Sheree is a Certified Internal Auditor (CIA) with eight years of auditing experience, the last 5 being with the City of Aurora. She graduated from Colorado State University in 2010 with a Bachelor of Science in Business Administration – Accounting degree. Prior to joining the City of Aurora, she spent three years as an Audit Associate with PwC, LLP. During this time, Sheree worked in the financial services industry, performing year-end financial statement audits for local and international investment companies.

Professional Associations: Institute for Internal Auditors; Association of Local Government Auditors; Government Finance Officers Association