



Internal Audit Report Governance Practices



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Auditor's Conclusion

July 27, 2023

Internal Audit has completed the Citywide Governance Practices audit. We conducted this engagement as part of our 2023 Annual Audit Plan.

The audit objective was to assess the state of City governance practices in relation to prevailing standards to determine where improvements are needed.

Internal Audit utilized the Institute of Internal Auditors Governance Toolkit, designed to assist internal auditors in planning an engagement of corporate governance processes. We held meetings with members of management staff, as appropriate, to obtain evidence or documentation to demonstrate the existence of governance practices.

Based on our engagement procedures, we conclude that the city of Aurora has good governance practices in place. We have detailed opportunities for improvement in this report's Finding and Recommendation section.

Internal Audit thanks Senior Leadership for their openness during our meetings and responsiveness to the survey.

Michelle Crawford

Michelle Crawford, M.Acct., CIA, CFE, CRMA
City Auditor

Audit Profile

Audit Team

Michelle Crawford, M.Acct., CIA, CFE, CRMA – City Auditor

Sheree Van Buren, CIA, CFE – Lead Auditor

Scope

Assess governance practices in place at the time of the engagement (first quarter of 2023).

Background

According to the International Standards for the Professional Practice of Internal Audit (The Standards), Standard 2110—Governance, 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 Executive Management, external and internal auditors, other assurance providers, and management.

The Standards also require that Internal Audit evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities. Internal Audit also applies a governance checklist in individual engagements where appropriate to address the audit objectives.

This engagement looked at governance from an organizational level; any areas identified needing further attention will be considered for future engagements.

Baseline Governance Assessment

Governance is defined as the combination of processes and structures implemented by Executive Management to inform, direct, manage, and monitor the organization's activities toward achieving its objectives. In the public sector, governance relates to how goals are established and accomplished. It also includes activities that ensure a public sector entity's credibility, establishes equitable provision of services, and assures appropriate behavior of government officials — reducing the risk of public corruption¹.

Internal Audit assessed the current state of city governance practices under the City Manager using the Institute of Internal Auditors governance toolkit². As the city of Aurora is a municipal government, we tailored the toolkit as needed to fit government terms and operations.

According to the toolkit, "It is assumed that corporate governance does not allow for a one-size-fits-all approach and that organizations will need to find their own best practices based on various factors including organization age, size, complexity, and extent of international operations."

In conducting a governance engagement approach, auditors "must apply their judgment, their knowledge of their organization, and ensure conformance with The IIA's International Standards for the Professional Practice of Internal Auditing."

The Guiding Principles of Corporate Governance define core actions and responsibilities that promote successful, ethical, and sustainable corporate governance. Each principle has a goal and individual attributes (criteria/activities) that indicate if a principle is in place.

To determine if the attributes of a guiding principle were in place, we gathered the suggested supporting evidence, held discussions with various city staff, and determined if a 'yes' or 'no' was appropriate. Using auditor judgment, we determined that having 80% or more supporting evidence items would mean that the overall attribute is 'fully met', if there was between 50-79% of supporting evidence items, the overall attribute is 'partially met', and below 49% the overall attribute was determined as 'did not meet'.

We then used the same criteria to assess if the overall principle was met based on the 'fully met, partially met, or did not meet' attribute ratings. In this report's Finding and Recommendation section, we highlighted the principle needing the most improvement. The overall results of the remaining principles are shown in the Current State of Governance.

¹ Supplemental Guidance: The Role of Auditing in Public Sector Governance www.globaliia.org/standards-guidance

² This toolkit is only accessible by members of the IIA.

Finding and Recommendation

As noted in the chart below, City Manager operations³ fully met 7 of the 8 principles and partially met the other principle.

Principle Themes	Internal Audit Determination
Principle 1 – communication	Fully met
Principle 2 – stakeholder expectations	Fully met
Principle 3 – monitoring management performance	Partially met
Principle 4 – incentivizing performance	Fully met
Principle 5 – corporate culture	Fully met
Principle 6 – information sharing	Fully met
Principle 7 – external information sharing	Fully met
Principle 8 – corporate governance	Fully met

City Manager operations would benefit the most from applying attributes from Principle 3 that relate to having a formal Senior Leadership⁴ performance management program. Below is a detailed description of this principle and its attributes.

Expanding on Principle 3

Principle 3 states: Executive Management members should act in the best interest of the City while balancing the interests of other key external and internal stakeholders.

Principle 3 Goal pertains to: Executive Management performance, monitoring management

The table below shows the Principle 3 attribute in bold, whether it was met, areas performing well, and opportunities for improvement. For attributes that were not fully met, we included examples of the criteria not fully met.

³ We did not include the city operations that do not fall under the City Manager’s authority (City Attorney, Municipal Court, and Judicial).

⁴ For purposes of this engagement, we used the following definitions:

Board (where the term ‘Board’ used in the toolkit): Executive Management, the most senior level of City management (this assessment does not include City Council)

Executive Management: Deputy City Managers and City Manager

Management or Management Team / Senior Leadership: Department Directors and above. Please note that this group includes Managers that report to a Director, however, based on the current organizational chart, they are considered "directors" for this assessment.

Attributes	Rating
<p>Executive Management has sufficient technical expertise to oversee areas of current or emerging risk.</p> <ul style="list-style-type: none"> • Training program with a robust curriculum • Comprehensive orientation for new Directors or above • Framework for risk management • Senior Leadership succession planning 	Partially met
<p>Executive Management presents diverse perspectives when discussing issues.</p>	Fully met
<p>Executive Management probes into sufficient detail for most topics.</p>	Fully met
<p>Executive Management has the necessary time and attention to fulfill their responsibilities.</p>	Fully met
<p>Executive Management conducts a thoughtful, robust evaluation of the entire Senior Leadership team and/or individual Executive Management members on an annual basis.</p> <ul style="list-style-type: none"> • Existence of formal evaluations • Criteria of annual performance reviews 	Partially met
<p>Executive Management commits and follows through to improve upon any weaknesses identified in the annual Executive Management and/or Senior Leadership evaluations.</p> <ul style="list-style-type: none"> • Results from evaluations and approach to improvement areas 	Partially met
<p>Executive Management is not afraid to offer opinions that contradict or conflict with those of the “CEO” (City Manager).</p>	Fully met
<p>Areas performing well:</p> <ul style="list-style-type: none"> • Technical expertise of Executive Management is assessed during the hiring process • Sentiment was shared among Executive Management that risk matters are discussed frequently, openly, and transparently, "bad news" is not off the table • Current and emerging risks are discussed during weekly budget meetings, Executive Meetings, and Senior Leadership meetings <p>Opportunities for improvement:</p> <ul style="list-style-type: none"> • Executive Management member training programs with robust curricula <ul style="list-style-type: none"> ○ To include professional development and continued education • Annual reviews of Executive Management members and Senior Leadership • Comprehensive orientation program for new Senior Leadership members • Senior Leadership succession planning • Framework for risk management, resulting in frequency and quality information around current and emerging risks⁵ 	

⁵ Some of the most notable risk frameworks are the Committee of Sponsoring Organizations of the Treadway Commission (COSO) risk management framework or the International Organization for Standardization (ISO) 31000. These organizations have frameworks that help organizations identify, manage, and mitigate risks.

- <https://www.gfoa.org/materials/enterprise-risk-management>

During our discussions with and observations of Executive Management, it was clear that each Deputy City Manager and the City Manager hold themselves to a high-performance standard. As an Executive team, each of them discussed how they hold each other accountable for demonstrating the Core 4 Values⁶ and doing what is right for the city. We also discussed Human Resources' development of a new performance management system for all staff, including a pay-for-performance philosophy. Human Resources and Executive Management's plan is to identify common attributes for Managers of Offices, Department Directors, Deputy Directors, and Executive Management to help establish a formal and standardized annual performance review.

In 2023, the city's pay-for-performance will expand to a 6-point performance rating scale of Significantly Exceeds, Exceeds, Meets, Below, Requires Improvement, and Unsatisfactory. Pay increases will be associated with the employee's performance rating and will not be the same for all employees⁷. The performance management system will incorporate succession planning, career advancement and progression, learning and development, and compensation.

Because both individuals and the environment in which an entity operates will change over time, there will be a continuous need to develop the entity's capacity as well as the skills and experience of the leadership of individual staff members.

Public sector governing bodies need to ensure that their entities are and remain fit for purpose. This means considering whether they continue to have the appropriate underlying governance and staffing structures to enable the delivery of planned services. At the same time, developing the capabilities of the governing body and senior management must equip the entity to respond successfully to changing legal and policy demands, as well as to economic, political, and environmental changes and risks⁸.

Recommendation: We recommend that Executive Management implement its action plan to establish a formal and standardized annual performance review for Senior Leadership.

Management Response: Management agrees. As part of the pay-for-performance rollout, the Interim City Manager and Deputy City Managers have discussed standard job dimensions, expectation setting, and performance standards for Department Directors. The Interim City Manager and Deputy City Managers will work with Human Resources to document those performance reviews standards and processes for Senior Leadership.

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- <https://www.coso.org/Shared%20Documents/Compliance-Risk-Management-Applying-the-COSO-ERM-Framework.pdf>
 - <https://www.iso.org/iso-31000-risk-management.html>

⁶ [The Core 4 Values - City of Aurora \(auroragov.org\)](https://www.aurora.gov/core-4-values)

⁷ Taken from the Performance Management Program intranet site for city staff.

⁸ International Framework: Good Governance in the Public Sector was developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the International Federation of Accountants® (IFAC®)

Estimated Implementation Date: December 31, 2023

Business Contact: Deputy City Managers

Business Reviewer: Interim City Manager

Current State of Governance

The following is a summary of the City’s current governance activities and how it compares to the attributes of the toolkit for the remaining principles. We highlighted some examples where the City is performing well and opportunities for improvement for management to consider.

Principle 1 states: Effective corporate governance requires regular and constructive interaction among key stakeholders, the Executive Management, Senior Leadership, internal audit, legal counsel, external audit, and other advisors.

Principle 1 Goal pertains to: Clear communication across the organization

Attributes	Rating
Communications between each of the members of senior leadership are clear, actionable, and collaborative.	Fully met
Management structures are effective at getting the right information to the right decision-makers in a timely manner.	Fully met
Areas performing well: <ul style="list-style-type: none">• Positive, frequent, and collaborative interactions between members of Senior Leadership• Clear lines of delegation, authority, and communication established through a well-structured organizational chart• Externally reviewed financial statements and disclosures	
Opportunities for improvement: <ul style="list-style-type: none">• A good governance practice is maintaining minutes for Senior Leadership and Executive Management meetings. Minutes serve as a record of actions taken at a meeting.	

Principle 2 states: Executive Management should ensure that key stakeholders are identified and, where appropriate, stakeholder feedback is regularly solicited to evaluate whether policies meet key stakeholders’ needs and expectations.

Principle 2 Goal pertains to: Meeting stakeholder expectations

Attributes	Rating
The company considers a wide range of stakeholder interests when making business decisions.	Fully met

<p>There is a consensus among Executive Management and senior leadership on who the key stakeholders are in your company.</p>	<p>Fully met</p>
<p>In your daily jobs, you and other key leadership members are cognizant of the impact your operations have on social and environmental issues, and you are actively pursuing ways to minimize any negative impacts.</p>	<p>Fully met</p>
<p>Areas performing well:</p> <ul style="list-style-type: none"> • City strategic planning efforts and Aurora Places Comprehensive Plan⁹ included feedback from residents, businesses, community organizations, City staff, etc. • City activities are conscious of their environmental impacts (Aurora Water, Oil & Gas¹⁰) and comply with applicable regulations • Quarterly town halls for all City staff to gain awareness of important citywide topics • “Take Ten¹¹” moments with the City Manager to inform staff of important topics • Various committees like PACE (Partnership of Aurora City Employees) and AKCRT (Aurora Key Community Response Team) provide Senior Leadership with feedback • During Internal Audits discussion with various members of Executive Management, there was a consistent theme of making decisions in the best interest of city staff, residents, businesses, and any other City of Aurora stakeholders. • Strong code of conduct that describes staff’s responsibility to be good stewards • The presence of diversity and inclusion policies <p>Opportunities for improvement:</p> <ul style="list-style-type: none"> • Reigniting the City’s strategic planning efforts and communicating the plan to staff • A good governance practice is maintaining a list of industry and/or advocacy group memberships and participation or membership in trade associations. Implementing this practice could ensure the City is not duplicating memberships and is taking advantage of “corporate” membership packages and benefits, where provided. 	

Principle 4 states: Executive Management should ensure that the company maintains a sustainable strategy focused on long-term performance and value.

Principle 4 Goal pertains to: Incentivizing performance with sustainable long-term strategies

Attribute	Rating
<p>The company’s objectives and long-term strategic goals are clearly communicated and well-known across the company.</p>	<p>Fully met</p>
<p>Executive Management is willing to discipline and take corrective action when necessary, by replacing key members of senior</p>	<p>Fully met</p>

⁹ [Comprehensive Plan - City of Aurora \(auroragov.org\)](http://www.auroragov.org)

¹⁰ Recently renamed “Energy & Environment Division”.

¹¹ Monthly, the City Manager will host a 10 minute discussion about important topics for City staff. These chats are posted to the intranet site for staff.

<p>leadership and/or adjusting compensation structures.</p> <p>Your company is not willing to sacrifice long-term strategy to benefit short-term interests.</p> <p>Your company has sufficient resources (time and money) to appropriately respond to crises or disruptions as they arise, without cutting corners or sacrificing long-term performance.</p> <p>Employees receive adequate training to complete expected job duties.</p> <p>Employees are compensated and/or incentivized in a way that encourages the achievement of corporate objectives in an ethical manner.</p>	<p>Fully met</p> <p>Fully met</p> <p>Fully met</p> <p>Fully met</p>
<p>Areas performing well:</p> <ul style="list-style-type: none"> • Periodic town halls for all City staff to gain awareness of important citywide topics • "Take Ten¹²" moments with the City Manager to inform staff of important topics • All staff are subject to the staff handbook • Disciplinary matters are handled with care and according to written policies • Weekly budget meetings with members of leadership to discuss short and long-term budgetary matters • Staff outreach activities like annual culture and engagement surveys • The implementation of pay-for-performance philosophy and a new performance review process • Investment in safe working conditions, safety management, near-miss program, and physical security • Positive operational and financial results and credit ratings • Aurora Learn newsletter and online training platform • Periodic IT security training • Tuition assistance and mentoring program <p>Opportunities for improvement:</p> <ul style="list-style-type: none"> • Communicating the strategic plan for city staff and connecting responsibilities to the "bigger picture" • Annual or periodic staff acknowledgment of the code of ethics, code of conduct, handbook, whistleblower policy, ethical advocate training, etc. • Continuing to support and promote business continuity and disaster response plans • Training key performance indicators (HR is currently looking at implementing required training for city staff to receive pay increases or promotions) 	

Principle 5 states: Executive Management should ensure that the culture of the City is healthy, regularly monitor and evaluate the company's core culture and values, assess the integrity and ethics of senior leadership, and, as needed, intervene to correct misaligned corporate objectives and culture.

¹² Monthly, the City Manager will host a 10 minute discussion about important topics for City staff. These chats are posted to the intranet site for staff.

Principle 5 Goal pertains to: Corporate Culture

Attribute	Rating
<p>Your Executive Management and “CEO” embody a strong “tone at the top” in your organization that would pass any ethical test.</p>	Fully met
<p>Your Executive Management consciously thinks and talks about the company’s culture.</p>	Fully met
<p>“Tone at the top” is communicated to and consciously embodied across all levels of the company.</p> <ul style="list-style-type: none"> • Understandable code of conduct and policies • Mandatory periodic training on ethical conduct for all employees 	Partially met
<p>The company has not been accused of ethical issues (e.g., sexual harassment, unfair working conditions, environmental issues).</p>	Fully met
<p>Management would take appropriate action if a policy, procedure, or workplace rule violation was detected.</p>	Fully met
<p>Areas performing well:</p> <ul style="list-style-type: none"> • All staff are subject to the employee handbook, including the code of conduct, conflicts of interest, prohibited conduct, etc. • Disciplinary matters are handled with care and according to written policies • Executive Management behaviors evidence making decisions for the greater good • Executive Management and Senior Leadership are implementing recommendations from the 2022 culture and engagement survey • Promotion of the Core 4 Values across the City (internally and externally) • Regular monitoring of city websites and social media sites for positive and negative reviews that need to be addressed <p>Opportunities for improvement:</p> <ul style="list-style-type: none"> • Annual or periodic staff acknowledgment of the code of ethics, code of conduct, handbook, whistleblower policy, ethical advocate training, Core 4 refresher training, etc. 	

Principle 6 states: Executive Management should ensure that structures and practices exist and are well-governed so that it receives timely, complete, relevant, accurate, and reliable information to perform its oversight effectively.

Principle 6 Goal pertains to: Information given to Executive Management

Attribute	Rating
Your Executive Management does not prefer for management to handle bad news on their own, nor do they prefer that management selectively report information to Executive Management to protect Executive Management's potential liability.	Fully met
Your Executive Management members ask whether the information presented to Executive Management is accurate and complete.	Fully met
Your "CEO" does not heavily filter or water down "bad" news before it goes to Executive Management.	Fully met
Executive Management members are given all the necessary information for effective oversight.	Fully met
<p>Areas performing well:</p> <ul style="list-style-type: none"> • Frequent meetings among the Executive Management and Senior Leadership teams that include discussions of progress and decline or setbacks • Sentiment was shared among Executive Management that risk matters are discussed openly and transparently, "bad news" is not off the table • Executive Management receives reports from Internal Audit and External Audit on risk matters relevant to the City, helping to inform Senior Leadership of risk matters • The Office of the Internal Auditor prepares an annual audit planning report that the City Manager approves and the City Council's Management and Finance Committee affirms; this activity corroborates that risk information is complete and accurate • Internal Audit spends a significant amount of time interviewing the City Manager, Deputy City Managers, some Directors, and even members of the City Council to obtain their risk or opportunity observations to ensure the audit plan aligns with overall City risks • In a City Manager interview, it was noted that issues rarely concern just one division or department, so it is important to give all the facts so the appropriate parties can collaborate to find a solution 	

Principle 7 states: Executive Management should ensure corporate disclosures are consistently transparent and accurate and in compliance with legal requirements, regulatory expectations, and ethical norms.

Principle 7 Goal pertains to: External disclosures

Attribute	Rating
Public information is accurate, adequate, complete, representative, timely, and transparent.	Fully met

<p>Employees are familiar with how to report violations of law or policy.</p> <ul style="list-style-type: none"> • Mandatory period training on codes, ethical conduct, policies • Posters or fliers with information on how to report violations in high-traffic, visible areas • Results from internal audit or external assessment around the topic <p>The internal audit function is adequately staffed in terms of both the number of staff and the expertise of the staff.</p> <p>Information submitted to hotlines or fraud reporting lines is followed through effectively.</p> <p>An officer or employee (all levels and locations) would be protected from retaliation for reporting a suspected violation of a policy, procedure, or workplace rule.</p> <p>The company has not been under investigation by the SEC or other governmental or regulatory authorities.</p> <p>The company has not experienced restatements, cybersecurity breaches, or unremediated material weaknesses, or significant deficiencies.</p>	<p>Partially met</p> <p>Fully met</p> <p>Fully met</p> <p>Fully met</p> <p>Fully met¹³</p> <p>Fully met</p>
<p>Areas performing well:</p> <ul style="list-style-type: none"> • Financial statements audited by an external accounting firm • Positive operational and financial results and credit ratings • Public releases of information available on the City's website; the Communications Department maintains the website • Local channel news broadcast (AuroraTV) • Ethics Hotline, Anti-Retaliation, and Whistleblower Policy in place to protect staff • Code of ethics and conduct for all City staff • The Ethical Advocate reporting system for City staff <ul style="list-style-type: none"> ◦ Anonymous and non-anonymous reporting options • Fully staffed ethical advocate review team <ul style="list-style-type: none"> ◦ A clear line of delegation and authority to pursue investigations or additional actions based on the reports • The Internal Audit function is adequately structured and resourced <p>Opportunities for improvement:</p> <ul style="list-style-type: none"> • Annual or periodic staff acknowledgment of the code of ethics, code of conduct, handbook, whistleblower policy, ethical advocate training, etc. • An external facing ethical hotline (for non-City staff to report violations) 	

¹³ The City of Aurora's Police Department and Aurora Fire Rescue is currently under an agreement and consent decree with the State Attorney General. <https://www.auroragov.org/cms/one.aspx?pageId=17087399>

- A quality assurance/peer review would ensure the Internal Audit activity is meeting the Institute of Internal Audit standards and conducting quality audit activities

Principle 8 states: Companies should be purposeful and transparent in choosing and describing their key policies and procedures related to corporate governance to allow key stakeholders an opportunity to evaluate whether the chosen policies and procedures are optimal for the specific company.

Principle 8 Goal pertains to: Evaluating corporate governance

Attribute	Rating
Corporate governance is regularly and consciously discussed in your company.	Fully met
The Executive Management seeks out feedback on whether corporate governance is operating effectively at the company.	Fully met
The company formally evaluates the full system of corporate governance on a regular basis.	Fully met
<p>Areas performing well:</p> <ul style="list-style-type: none"> • Citywide communications to staff • Periodic town halls for all City staff to gain awareness of important citywide topics • Consistent opportunities for staff to provide feedback during town halls, meetings with Senior and Executive Management, surveys, PACE (Partnership of Aurora City Employees), etc. • Internal and external reviews of city performance (via Internal Audit, External Audit, and consultants) • Executive Management’s and Senior Leadership’s support for this initial governance assessment and transparency during surveys and interviews <p>Opportunities for improvement:</p> <ul style="list-style-type: none"> • Periodic reviews of governance practices to ensure leading practices are in place 	