



**CITY OF SAN ANTONIO**  
**INTERNAL AUDIT DEPARTMENT**

**Citywide Risk Assessment**  
**For Calendar Year 2007**



**Project No. AU06-017**

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## Table of Contents

	<u>Page</u>
<b>Executive Summary</b> .....	1
<b>Introduction</b>	
Background.....	3
Criteria.....	3
Objectives and Scope.....	3
Methodology.....	4
<b>Observations and Assessment Results</b>	
<b>1. Risk assessment Results</b> .....	6
1.1 Average Ratings for All Business Areas.....	6
1.2 Business Area Ratings by Risk Group.....	7
1.3 Detail Ratings for Functional Areas.....	14
<b>2. Utilization of Risk Assessment Results</b> .....	15
<b>3. Future Risk Assessment Phases</b> .....	15
<b>Appendices</b>	
<b>A. Data Source</b> .....	16
<b>B. Risk Factor Rating Scales</b> .....	18
<b>C. Complete Listing of the Audit Universe</b> .....	31

## EXECUTIVE SUMMARY

### Overview

Organizations, including the City of San Antonio (City), are challenged by certain risk factors that impact the ability to effectively and efficiently achieve desired goals and objectives. The purpose of the City's Internal Audit Department (CIAD) is to assist City management and the governing body by furnishing independent analyses, appraisals, and recommendations about the adequacy and effectiveness of the City's operations. These responsibilities are most often facilitated by the use of an annual audit plan. CIAD chose the risk assessment approach as a means to identify risk areas for a systematic selection of auditable units for its 2007 annual audit plan and the proper allocation of audit personnel. This report discloses specifics on this risk assessment process and resulting audit universe.

### Results in Brief

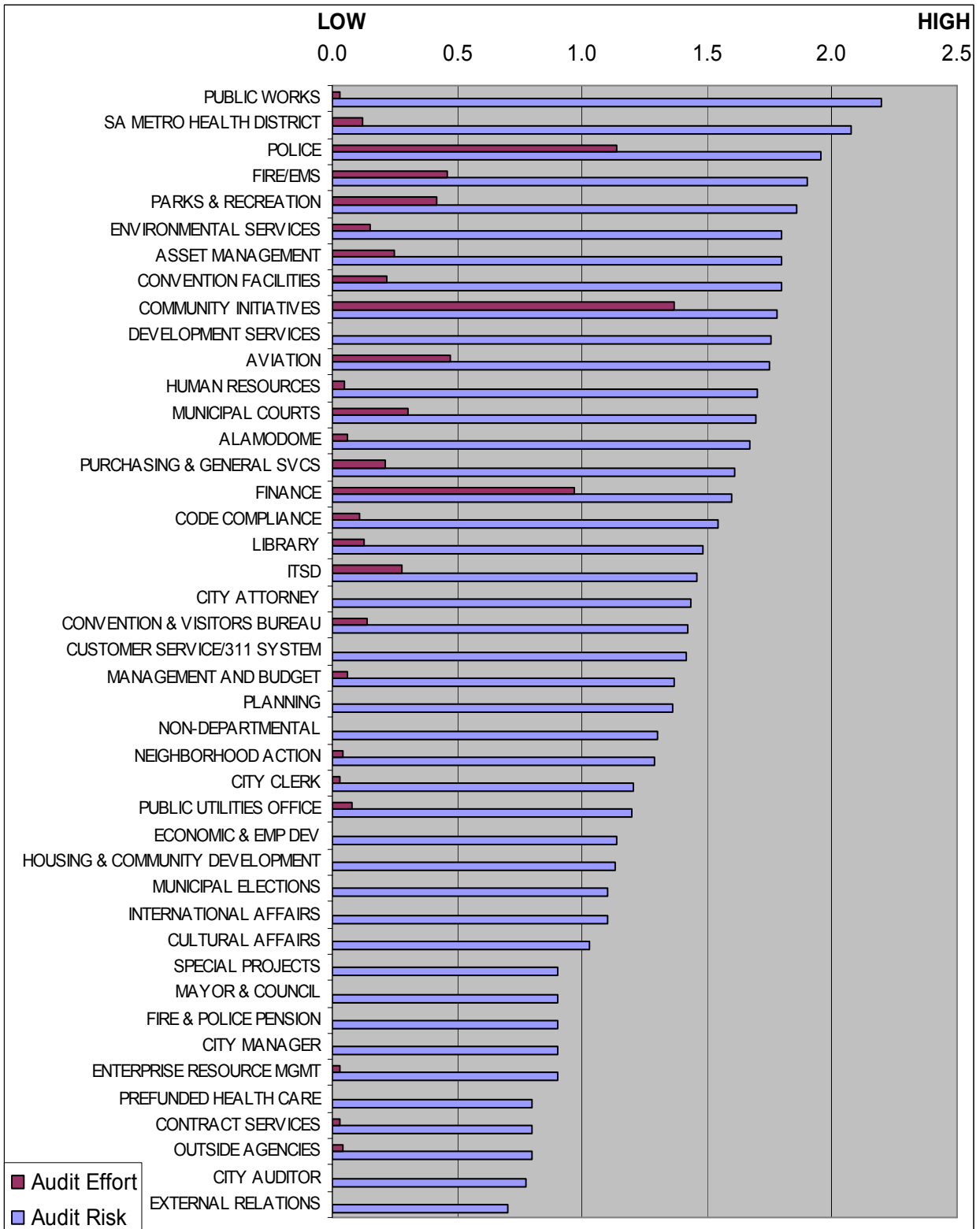
Risk factors for 43 departments (business areas) and approximately 2,300 programs and activities (functional areas) were examined to determine the risk potential within the City. This process produced a high level audit universe intended to provide CIAD auditors with a baseline to begin their audit planning. Auditors can then focus on the more risky functions when designing a detailed audit plan for the business unit selected for audit.

This risk assessment indicated that the business areas of Public Works, SA Metro Health District, Police, Parks & Recreation, and Fire/EMS fall within the ninety percentile of risk. Furthermore, the amount of audit effort for the past five years was compared to the risk assessment results (see **Exhibit 1**, page 2) and it was determined that future audit effort should prioritize the Public Works, SA Metro Health District and Development Services business areas in the 2007 Audit Plan. Possible auditable areas could include one or more of the functional areas within the above-mentioned business areas. Due to size of the entire audit universe, only page one of the ranking results is included in this report (see **Exhibit 11**, page 15 for page one). The CIAD can provide the entire report upon request.

It should be noted that ten of the twenty-eight desired risk related metrics were not available at the time of this report. Therefore, some ratings recorded in this report are incomplete. As these details become accessible and additional factors are identified, the CIAD risk assessment model will be updated accordingly.

Exhibit 1

WEIGHTED AVERAGE – ALL RISK FACTORS VERSUS FIVE YEAR AUDIT EFFORT



Audit Effort: 1 = 10,000 Audit Work Hours between 1/1/2002 and 12/31/2006

## Introduction

### **Background**

In the internal auditing profession, formal risk assessment models are extensively used and widely accepted tools for annual planning. Formal risk assessment models are designed to identify areas of activity, organizational units, or functional processes within an organization that pose high inherent risk. In addition to the preceding, a risk assessment is also a critical tool for management.

Therefore, the City of San Antonio (City) Internal Audit Department (CIAD) conducted a risk assessment in an attempt to understand and rank business risks within the various departments of the City organization. The result of this process should enable CIAD to make future audit scope reductions, ensure key risk areas are addressed without devoting valuable resources to areas that have relatively low risk and provide better deployment of audit resources. Additionally, this risk-based approach provides management with greater insight regarding the City's risk-related controls and activities, and gives some indication of the potential impact on the overall achievement of organizational goals or objectives.

While conducting this risk assessment, the CIAD employed a methodology that entailed the gathering of both qualitative and quantitative data. Qualitative assessment procedures were used where risk did not lend itself to quantification, when either sufficient credible data required for quantitative assessment was not practically available, or when obtaining or/and analyzing such data was not cost-effective. Qualitative data was applied to supplement quantitative information, for more precision and assessment completeness. Refer to **APPENDIX A** for a list of the sources of the quantitative and qualitative data used in this report.

Data gathered and used in this process was not audited by CIAD or otherwise validated. It was taken at face value as offered from City departments or obtained from City systems or organizational reports. Therefore, CIAD does not make any assertions regarding the correctness of any values, classifications, definitions, or other data obtain from informational resources for risks assessment rating purposes.

### **Criteria**

During this risk assessment process, the following criteria or benchmark information was used as a measure to assess the level of risk within the City's business areas (departments):

- City of Austin "Citywide Risk Assessment: Three Year Combined Report" issued December 2005
- City of Houston "Updated Business Risk Assessment" issued August 2004
- "Enterprise Risk Management-Integrated Framework, Application Techniques" issued September 2004
- Institute of Internal Audit seminar entitled "Enterprise Risk Management, What's New? What's Next"

### **Objective and Scope**

Knowing the areas to audit and where to commit resources is critical to a successful internal auditing function. Overall, internal audit efficiency and effectiveness is increased when audit efforts are matched to risks in the various auditable units. Thus, the objective of this risk assessment process described in the following pages was developed to provide an efficient and systematic means for:

- Identifying and cataloging key risk areas within City operations
- Determining the auditable areas within the City organization (i.e. audit universe)
- Identifying high risk City departments and programs in formulating the City Auditor's 2007 audit plan (i.e. ranking units by risk)

An added benefit of this effort is that it enables CIAD to properly allocate existing audit personnel and to potentially justify the need for added human resources during the upcoming budget process.

The scope of this project focused on the collection and assessment of quantitative and qualitative factors within all City Departments and their key functional areas for the purpose of identifying and ranking risk

factors. This project covered the Departments' financial, operational, and performance information for fiscal years 2003, 2004, and 2005.

**Methodology**

The methodology used for this project, generally, included:

- Analyzing quantitative information by business and functional areas obtained from the City's SAP financial system
- Analyzing budgetary details from the City's budget
- Reviewing survey information received from the City's Contract Management Department and the Office of Municipal Integrity
- Collecting data from telephone and in-person interviews with personnel from selected departments
- Obtaining risk related information for the City's departmental websites

Refer to the remainder of this report for specific details on the observations and results of the above-mentioned risk assessment process.

## Observations and Assessment Results

CIAD personnel collected both qualitative and quantitative information for the purpose of assessing risk by business and functional areas within the City. A risk assessment is a process of systematically scoring (or rating) the relative impact of a variety of “risk factors.” A risk factor is an observable or measurable indicator of conditions and events that could adversely affect the organization. For the purpose of this project, risk factors have been grouped around common themes, which include size and complexity, change, planning and performance, public concern and perception, safety and liability, ethics, and mitigating factors. Identified factors within each of these groups were assigned a weight based on the perceived significance to the business environment. **Exhibit 1** below details the composition of the seven risk factor groups and the related weights.

It should be noted that certain risk related data was not available at the time of this report, therefore, rating results are incomplete. Data that was not available is disclosed as “**Pending**” in **Exhibit 1** below, as well as in **APPENDIX B**. As these details become accessible, the risk assessment model will be updated accordingly.

**Exhibit 1  
Risk Factors and Relative Weights**

#	Risk Group & Factor Names	Factors	Weight	Weight
<b>1</b>	<b>Size &amp; Complexity</b>	5		<b>20</b>
1.1	Expenditures 2005		4	
1.2	FTEs 2005		4	
1.3	Revenue 2005		4	
1.4a	Diversity of Services (Non-Grants)		2	
1.4b	Diversity of Services (Grants)		2	
1.5	Contracts/Expenditures		4	
<b>2</b>	<b>Change</b>	4		<b>20</b>
2.1	Business/Strategic Plans ( <b>Pending</b> )		5	
2.2a	Revenue Actual Variance		2.5	
2.2b	Expenditure Actual Variance		2.5	
2.3	FTE Trend		5	
2.4	Employee Terminations		5	
<b>3</b>	<b>Planning/Performance</b>	4		<b>20</b>
3.1a	2005 Revenue Budget/Actual Variances		2.5	
3.1b	2005 Expenditure Budget/Actual Variances		2.5	
3.2	Performance Results ( <b>Pending</b> )		5	
3.3	Overtime as a % of Salaries		5	
3.4	Contingency Plan ( <b>Pending</b> )		5	
<b>4</b>	<b>Public Concern</b>	3		<b>9</b>
4.1	Citizen Complaints ( <b>Pending</b> )		4	
4.2	Legal Claims & Suits Filed/Paid ( <b>Pending</b> )		3	
4.3	Open Records Requests		2	
<b>5</b>	<b>Safety &amp; Liability</b>	3		<b>8</b>
5.1	Worker’s Comp Claims		3	
5.2	Emergency Plan (Employee Protection) ( <b>Pending</b> )		3	
5.3	Assigned Role in Homeland Security (Public Protection)		2	
<b>6</b>	<b>Ethics</b>	4		<b>12</b>
6.1	Investigator Ratings ( <b>Pending</b> )		3	
6.2	Number and Nature of Fraud Allegations		3	
6.3	Liquidity of Assets		3	
6.4	Cash Handling		3	
<b>7</b>	<b>Mitigating Factors</b>	4		<b>11</b>
7.1	Independent Oversight ( <b>Pending</b> )		3	
7.2	CIAD Audits		3	
7.3	Other Internal Reviews and Feedback ( <b>Pending</b> )		3	
7.4	Use of SAP vs. Non-SAP systems ( <b>Pending</b> )		2	
	<b>Total Number of Factors and Total Weight</b>	<b>28</b>	<b>100</b>	<b>100</b>

**1. Risk Assessment Results**

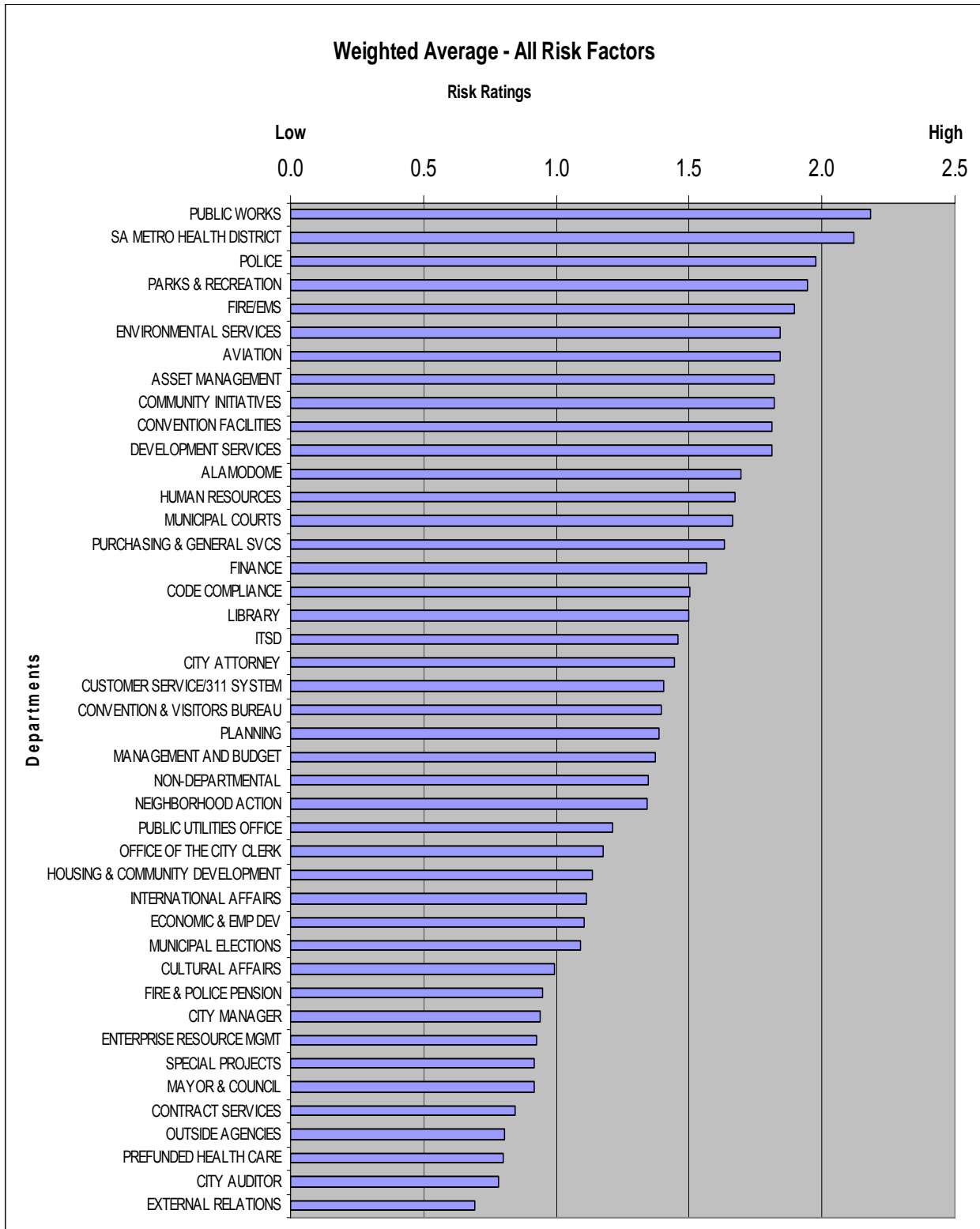
**1.1 Average Ratings For All Department**

The City is comprised of 43 departments (business areas) divided into approximately 2,300 functional areas. Each of these functional areas were ranked and classified as high, medium high, medium, medium low, or low for risk potential based on a rating scale (see **APPENDIX B** for the risk factor rating scales). An average of all the functional areas within each business area was calculated and the results depicted below in summary table (**Exhibit 2**) and bar chart (**Exhibit 3**).

**Exhibit 2  
Average Ratings for All Departments**

											H = HIGH RISK MH = MEDIUM HIGH RISK M = MEDIUM RISK ML = MEDIUM LOW L = LOW			
Factor#	1.0	2.0	3.0	4.0	5.0	6.0	7.0	Total						
Weight	20	20	20	9	8	12	11	100						
Risk Factor Groups														
Department	Size & Complexity	Change	Planning & Performance	Public Concern	Safety & Liability	Ethics	Mitigating Factors	Weighted Avg.- All Factors	Risk Rank	Percentile Rank	Risk Level			
PUBLIC WORKS	3.3	2.0	1.1	0.7	5.0	3.1	0.8	2.2	1	100.0%	H			
SA METRO HEALTH DISTRICT	2.6	2.4	1.2	1.1	5.0	2.6	0.8	2.1	2	97.6%	H			
POLICE	2.6	1.9	1.1	1.1	4.6	3.0	0.3	2.0	3	95.2%	H			
PARKS & RECREATION	2.5	2.1	1.0	0.7	4.6	3.1	0.3	1.9	4	92.8%	H			
FIRE/EEMS	2.6	1.4	1.4	1.1	5.0	2.3	0.5	1.9	5	90.4%	H			
ENVIRONMENTAL SERVICES	2.2	1.9	1.5	0.4	3.6	2.5	0.8	1.8	6	88.0%	H			
AVIATION	2.7	1.8	1.1	0.4	3.6	3.0	0.3	1.8	7	85.7%	H			
ASSET MANAGEMENT	1.7	2.8	1.2	0.4	4.0	2.1	0.5	1.8	8	83.3%	H			
COMMUNITY INITIATIVES	2.5	2.5	1.0	0.2	3.3	2.5	0.3	1.8	9	80.9%	H			
CONVENTION FACILITIES	1.9	2.8	1.0	0.7	2.9	2.2	1.1	1.8	10	78.5%	MH			
DEVELOPMENT SERVICES	2.1	1.8	1.1	0.9	3.9	2.3	1.4	1.8	11	76.1%	MH			
ALAMODOME	1.6	2.6	1.0	0.4	2.9	2.4	0.8	1.7	12	73.8%	MH			
HUMAN RESOURCES	2.3	2.6	0.7	1.1	2.5	1.5	0.8	1.7	13	71.4%	MH			
MUNICIPAL COURTS	1.8	1.8	1.0	1.1	2.1	3.2	0.8	1.7	14	69.0%	MH			
PURCHASING & GENERAL SVCS	2.0	1.8	1.1	0.8	2.9	2.3	0.8	1.6	15	66.6%	MH			
FINANCE	1.9	2.2	0.9	0.7	2.1	2.5	0.3	1.6	16	64.2%	MH			
CODE COMPLIANCE	1.6	1.8	0.8	1.1	2.5	2.2	1.1	1.5	17	61.9%	MH			
LIBRARY	2.2	2.0	1.0	0.2	2.1	2.2	0.3	1.5	18	59.5%	M			
ITSD	2.1	1.5	0.7	0.4	2.9	1.9	0.8	1.5	19	57.1%	M			
CITY ATTORNEY	1.6	2.0	0.7	0.9	2.5	1.6	1.1	1.4	20	54.7%	M			
CUSTOMER SERVICE/311 SYSTEM	1.4	2.1	0.8	0.2	1.9	1.9	1.4	1.4	21	52.3%	M			
CONVENTION & VISITORS BUREAU	1.6	2.1	0.7	0.4	1.8	1.9	1.1	1.4	22	50.0%	M			
PLANNING	1.7	2.1	1.0	0.9	1.4	1.2	0.7	1.4	23	47.6%	M			
MANAGEMENT AND BUDGET	1.3	3.0	0.8	0.2	1.0	1.1	1.1	1.4	24	45.2%	M			
NON-DEPARTMENTAL	1.2	2.0	1.7	0.4	1.0	0.9	1.3	1.3	25	42.8%	M			
NEIGHBORHOOD ACTION	1.6	2.0	0.8	0.2	1.8	1.4	1.1	1.3	26	40.4%	M			
PUBLIC UTILITIES OFFICE	1.3	2.0	1.0	0.7	1.0	1.1	0.8	1.2	27	38.0%	ML			
OFFICE OF THE CITY CLERK	1.0	2.3	0.8	0.2	1.0	2.0	0.3	1.2	28	35.7%	ML			
HOUSING & COMMUNITY DEVELOPMENT	1.7	1.6	0.7	0.9	1.0	1.2	0.3	1.1	29	33.3%	ML			
INTERNATIONAL AFFAIRS	0.8	2.0	0.7	0.2	1.0	1.4	1.4	1.1	30	30.9%	ML			
ECONOMIC & EMP DEV	1.7	1.5	0.5	0.2	1.8	1.2	0.5	1.1	31	28.5%	ML			
MUNICIPAL ELECTIONS	1.0	1.1	1.5	0.2	1.0	1.0	1.4	1.1	32	26.1%	ML			
CULTURAL AFFAIRS	1.2	1.4	0.4	0.2	1.0	1.5	1.1	1.0	33	23.8%	ML			
FIRE & POLICE PENSION	1.6	0.8	0.6	0.2	1.0	0.8	1.4	0.9	34	21.4%	ML			
CITY MANAGER	1.1	1.0	0.5	0.7	1.8	0.9	1.1	0.9	35	19.0%	L			
ENTERPRISE RESOURCE MGMT	1.2	1.2	0.8	0.2	1.0	1.1	0.5	0.9	36	16.6%	L			
SPECIAL PROJECTS	1.5	1.1	0.5	0.2	1.0	0.4	1.4	0.9	37	14.2%	L			
MAYOR & COUNCIL	0.8	0.7	0.7	0.7	1.8	1.2	1.1	0.9	38	11.9%	L			
CONTRACT SERVICES	0.7	1.6	0.3	0.2	1.0	0.7	1.4	0.8	39	9.5%	L			
OUTSIDE AGENCIES	1.3	1.1	0.2	0.4	1.0	1.2	0.3	0.8	40	7.1%	L			
PREFUNDED HEALTH CARE	1.0	1.1	0.4	0.7	1.0	0.6	0.8	0.8	41	4.7%	L			
CITY AUDITOR	1.1	0.4	0.5	0.2	1.0	1.4	1.1	0.8	42	2.3%	L			
EXTERNAL RELATIONS	0.9	0.8	0.3	0.2	1.0	0.7	1.1	0.7	43	0.0%	L			

Exhibit 3



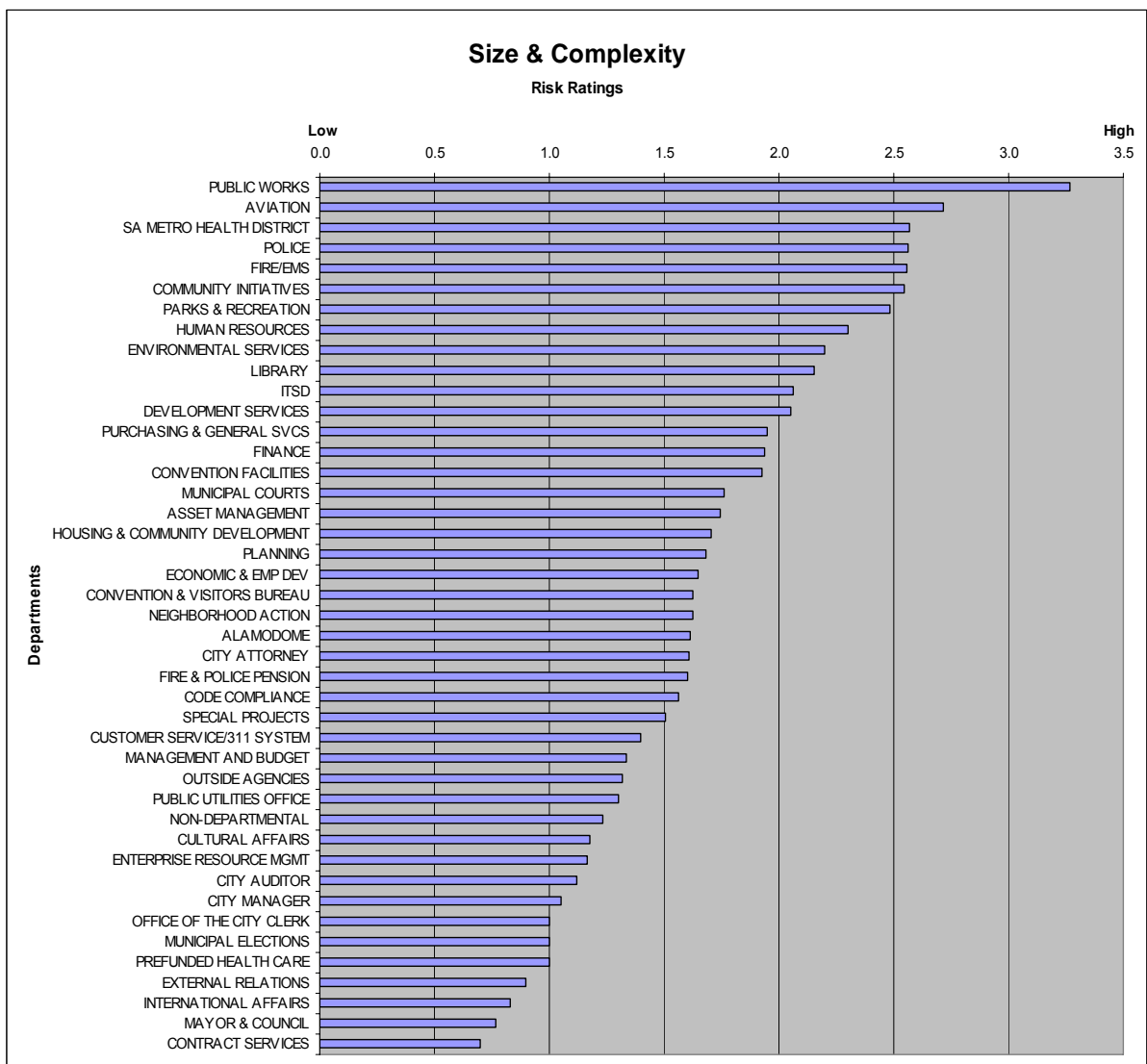
**1.2 Business Area Ratings by Risk Groups**

Risk Groups were determined as a way to categorize risk factors that had common risk attributes. Following are descriptions for each risk group and charts summarizing the risk ratings by business area. Refer to **APPENDIX A and B** for information on the individual factors assigned to each risk group.

**Risk Group 1: Size & Complexity Risk Factors**

The size risk factor reflects the risk due to the amount of dollars and number of employees associated with an individual functional area. The complexity factor reflects the risk related to the nature and complication of operations. Risk factors rated in this category include expenditures, full-time equivalent employee (FTEs), revenue, number of grant and non-grant related functional areas per each business unit and contract expenditures. See **Exhibit 4** for the rating of business areas based on size and complexity factors.

**Exhibit 4**

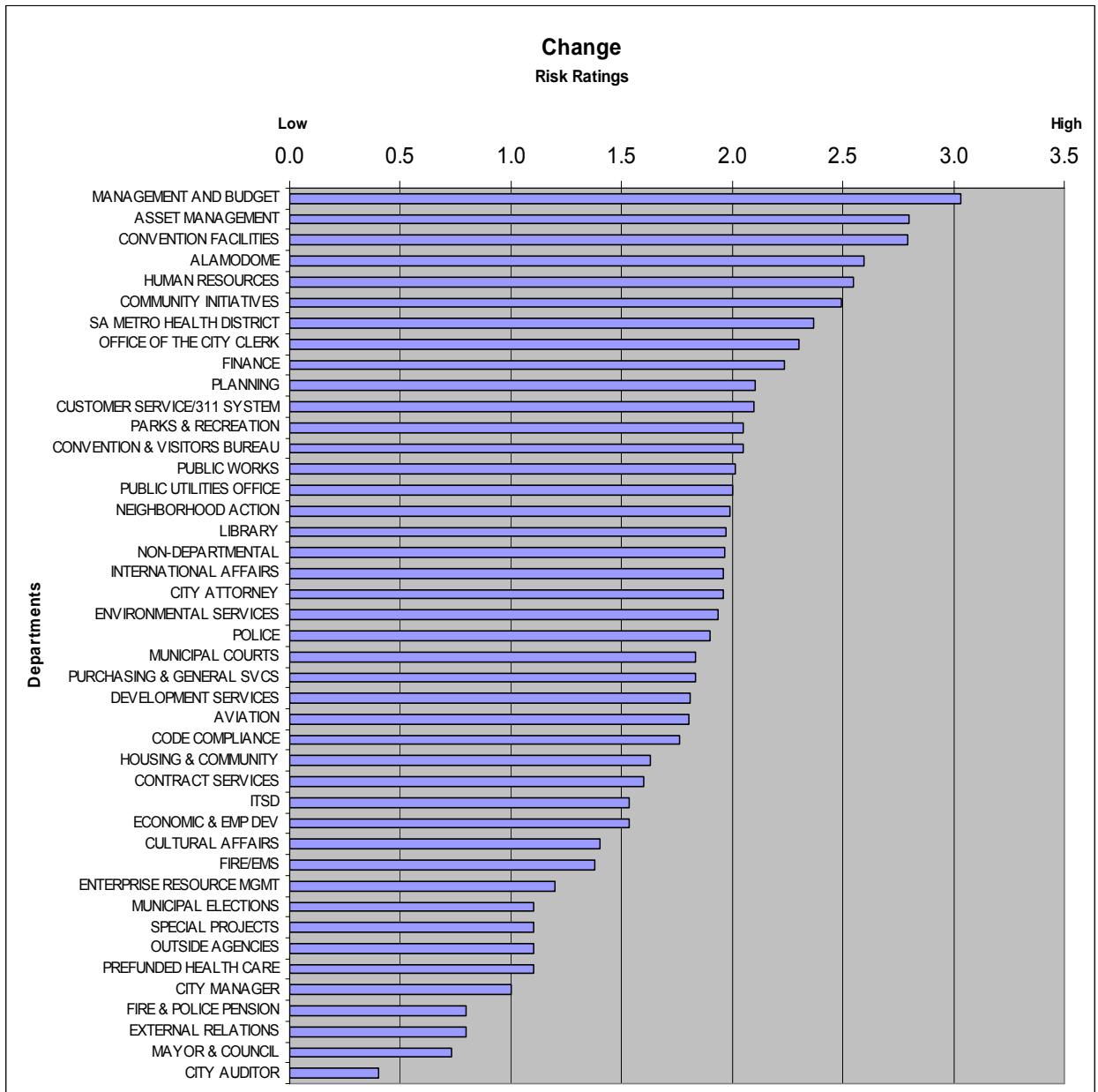


**1.2 Business Area Ratings by Risk Groups – continued**

**Risk Group 2: Change**

Change risk factors reflect the threat associated with adjustments in operations that could negatively impact City service delivery. This risk exists due to adjustments that are new and unfamiliar. Risks that are included in this risk group are business/strategic plans, revenue variances, expenditure variances, and FTE change. See **Exhibit 5** for the rating of business areas based on change factors.

**Exhibit 5**

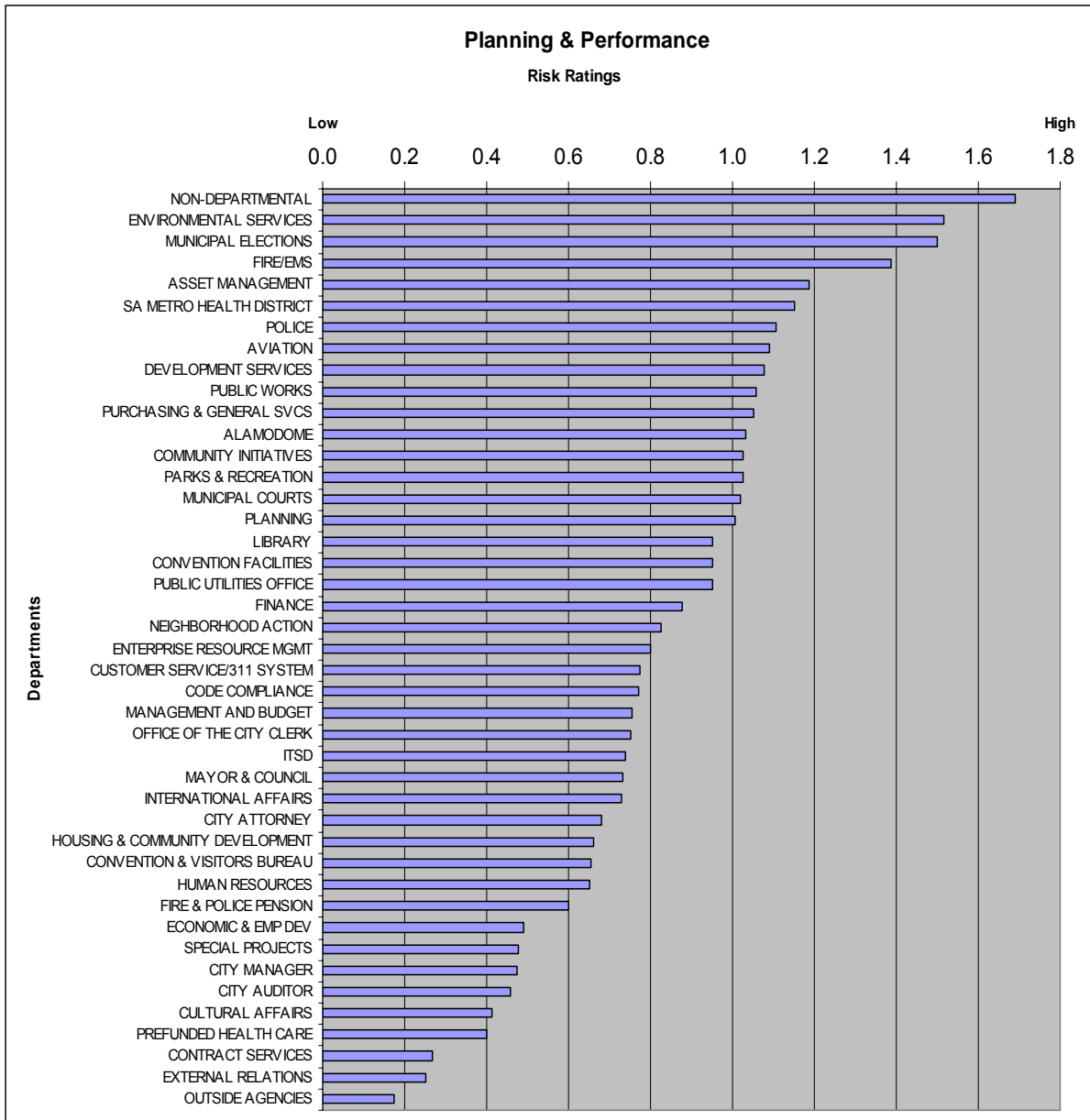


1.2 Business Area Ratings by Risk Groups – continued

**Risk Group 3: Planning & Performance**

Planning and performance risk factors reflect risks associated with an organization's ability to accurately predict expenditures and revenues, which may impact its ability to meet operating goals and objectives. Planning and performance risk was assessed by examining revenue budget to actual variance, expenditure budget to actual variance, overtime as a percent (%) of salaries, and business area contingency area. See **Exhibit 6** for the rating of business areas based on planning & performance factors.

**Exhibit 6**

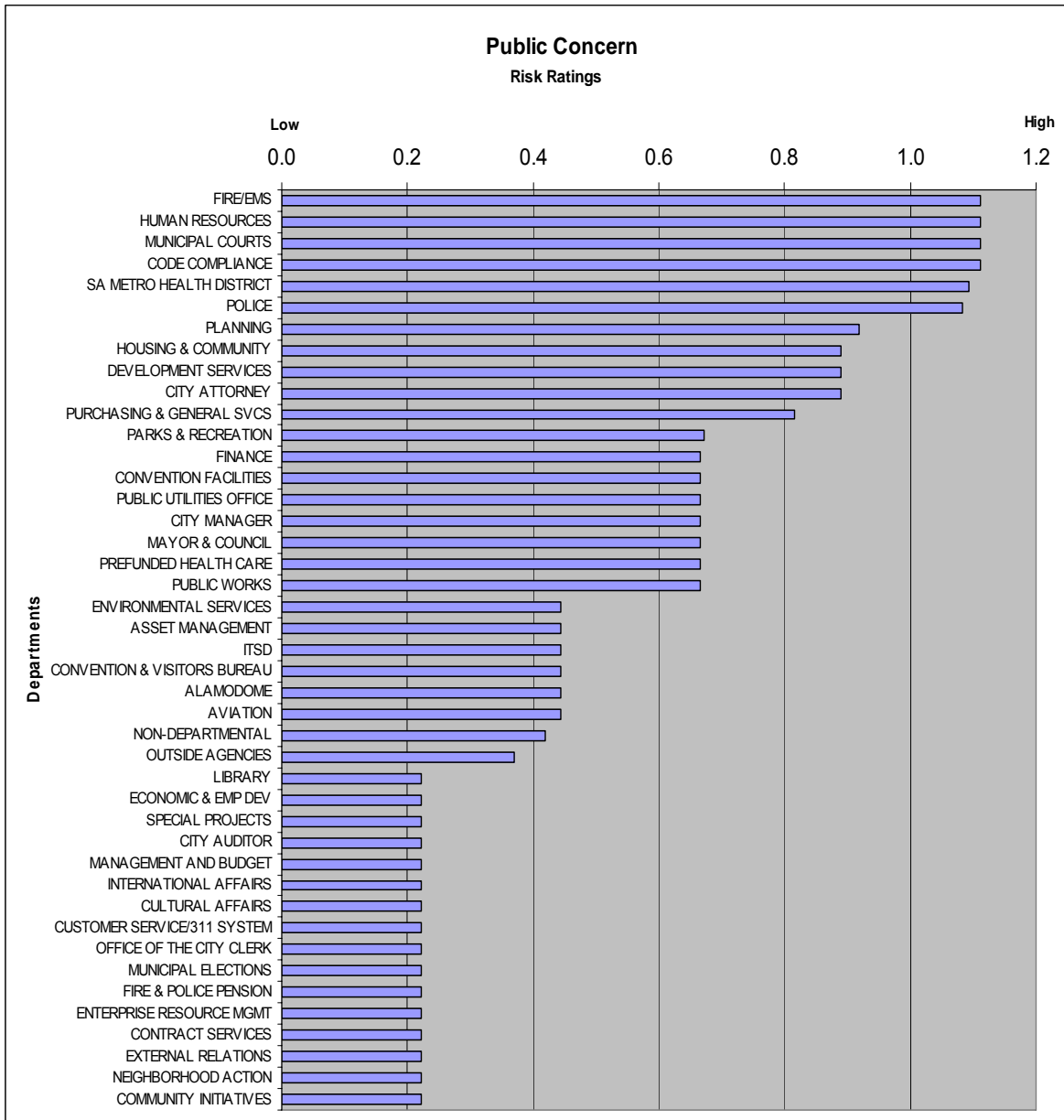


**1.2 Business Area Ratings by Risk Groups – continued**

**Risk Group 4: Public Concern and Perception**

Public concern and perception risk exists whenever an event occurs which can erode public confidence in the City. The probability of adverse publicity, tarnished reputation, and erosion of the legitimacy of the City’s mission, goals, and objectives are risk factors. The sensitivity, exposure, or potential for public embarrassment is assessed below by examining citizen complaints, legal claims/suits filed, and open records requests of individual business areas. See **Exhibit 7** for the rating of business areas based on public concern and perception.

**Exhibit 7**

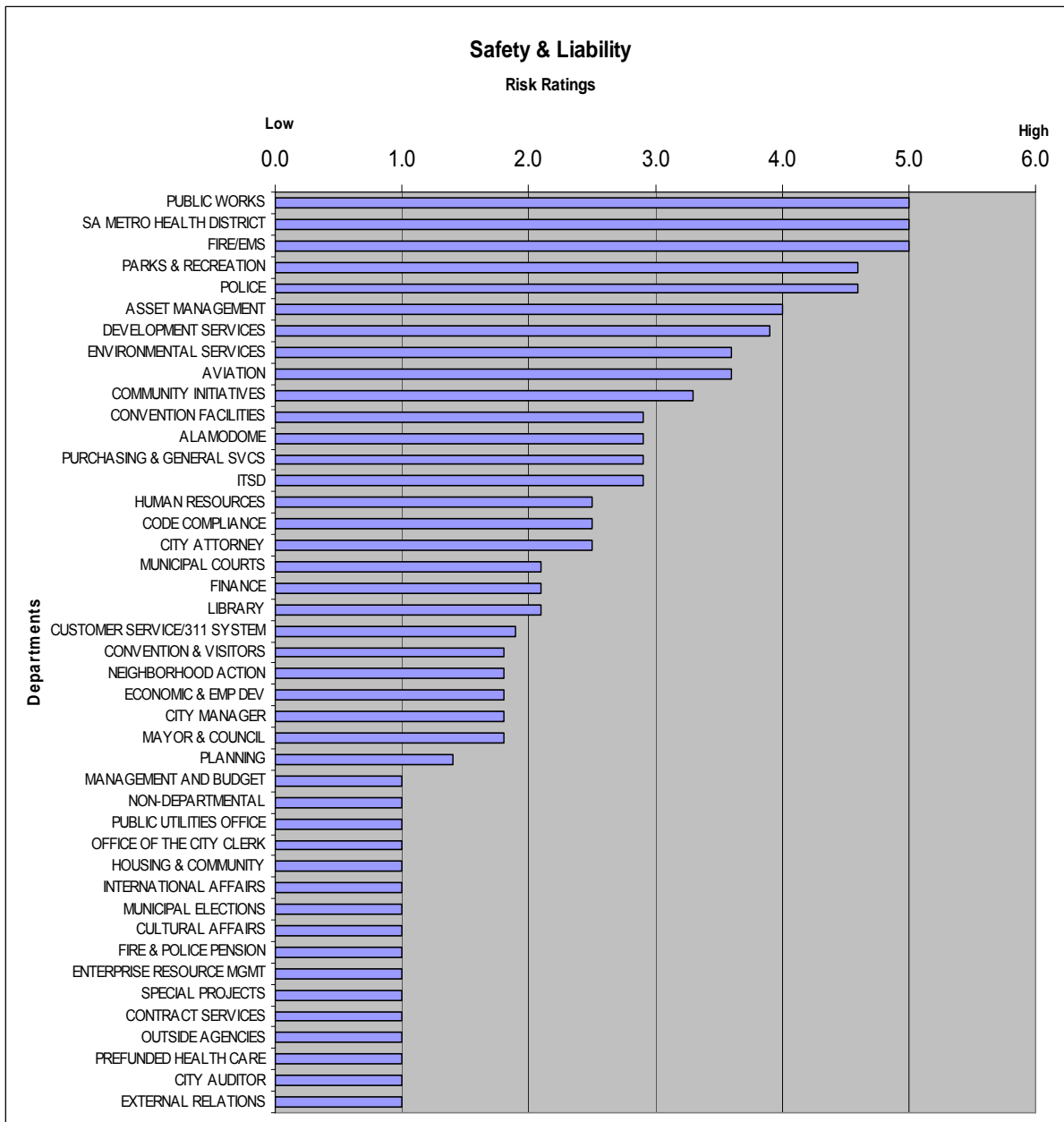


**1.2 Business Area Ratings by Risk Groups – continued**

**Risk Group 5: Safety & Liability**

Safety and liability risk factors represent the risk due to failure in protecting the health and safety of employees, citizens, and others which may result in claims, fines, low morale, or reduced productivity. Workers' compensation, emergency plans, and the assigned roles in the Homeland Security Plan were examined to determine the risk level of safety and liability within business areas. See **Exhibit 8** for the rating of business areas based on safety and liability.

**Exhibit 8**

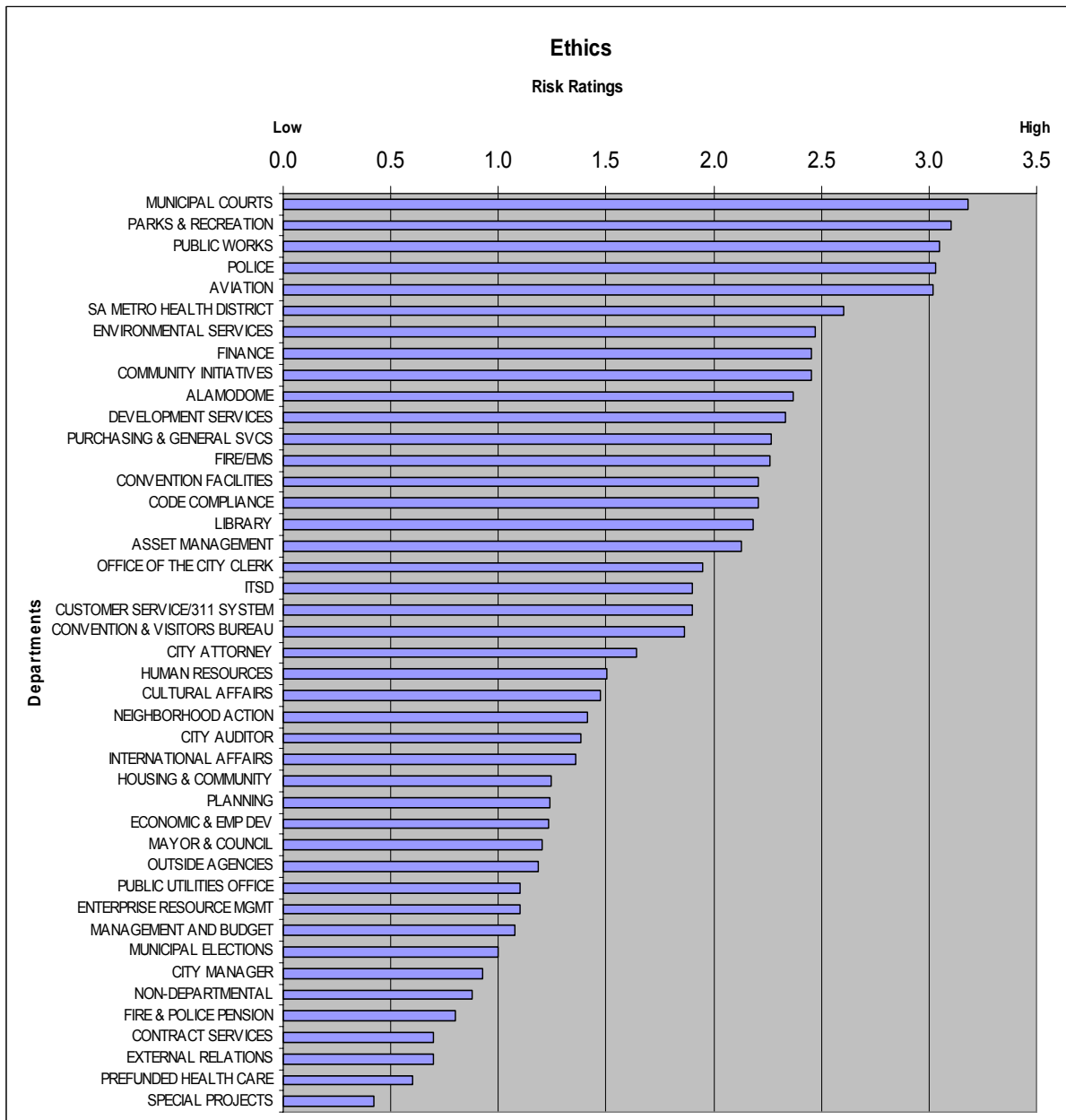


1.2 Business Area Ratings by Risk Groups – continued

**Risk Group 6: Ethics**

Failure to establish and maintain a culture that promotes behavior consistent with the ethical values and expectations may impair the City’s ability to achieve its business goals and objectives, and therefore, is a risk. Investigator ratings, fraud allegations, liquidity of assets, and cash handling statistics were considered as factors to determine risk levels. See **Exhibit 9** for the rating of business areas based on ethics.

**Exhibit 9**

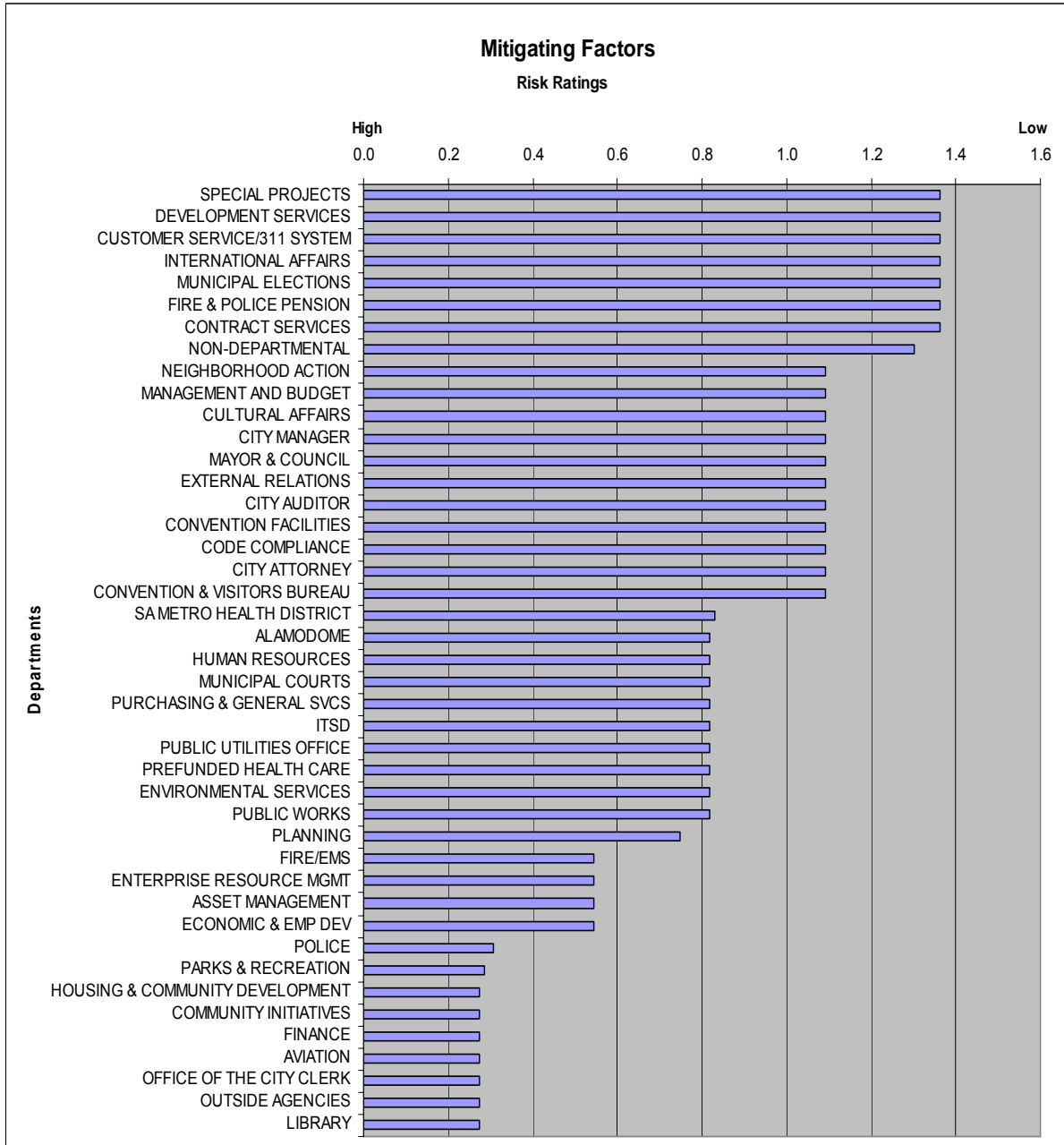


1.2 Business Area Ratings by Risk Groups – continued

Risk Group 7: Mitigating Factors

Mitigating factors represent conditions and controls that are expected to mitigate or reduce the overall risk for a business area. The mitigating factors examined include independent oversight, CIAD audits, and other internal reviews and feedback. See Exhibit 10 for the rating of business areas based on mitigating factors.

Exhibit 10





## **2. Utilization of Risk Assessment Results**

This risk assessment is only a single means of determining risk and one tool used in the selection of audit projects. Additional input to the audit plan may come from department directors, the City Manager's Office, and the Mayor and Council, along with other drivers.

The assessment model will be revised as internal and external variables change and updated as additional quantitative and qualitative information becomes available. Monitoring of the environment and City activities, along with the evaluation of the risk model, are integral to the success of an on-going risk assessment approach to audit planning.

## **3. Future Risk Assessment Phases**

Due to time and resource limitations, the initial phase of this risk assessment process was focused on risk at the business and functional area level. Future phases can be incorporated for the assessment of risk across departmental lines relative to common processes and activities. This will allow for citywide operating consistency and can reduce redundancy in audit procedures. Below is a listing of processes and activities that have been identified for future risk assessments phases.

- Grant administration
- Contract administration
- Safety and liability
- Information technology
- Cash handling
- Accounting and other city-wide processes  
(Examples: Accounts Payable, Accounts Receivable, Payroll, Human Resources, Budgeting, Purchasing)
- Capital projects, bond funds, and related
- Component units  
Below is a listing of component units that are considered discrete (entities that are separate from the City's operation, but where the City has some measure of control or influence) include:
  - City of San Antonio Education Facilities Corporation (SAEFC)
  - Greater Kelly Development Authority (GKDA)
  - San Antonio Housing Trust Foundation, Inc. (SAHTF)
  - San Antonio Local Development Company, Inc. (SALDC), dba South Texas Business Fund
  - Brooks Development Authority (BDA)
  - San Antonio Water System (SAWS)
  - City Public Service (CPS)

Those blended component units (entities that are considered a part of the City's operation, but are legally separate entities) include:

- City of San Antonio Health Facilities Development Corporation
- City of San Antonio Industrial Development Authority
- San Antonio Fire and Police Pension Fund
- San Antonio Fire and Police Retiree Healthcare Fund
- City of San Antonio Texas Municipal Facilities Corporation
- City of San Antonio Texas Starbright Industrial Development Corporation
- City of San Antonio Texas Convention Center Hotel Finance Corporation

**APPENDIX A**

**A. Data Source**

The following provides details on the source of data used to assess risk in determining the calendar 2007 audit universe.

Description of Risk Factor	Source of Information
<b>1. Size &amp; Complexity</b>	
1.1 Expenditures 2005	FY 2005 SAP Actuals (sorted in descending order)
1.2 FTEs 2005	FY 2005 Budget Document (count summarized at dept. level)
1.3 Revenue 2005	FY 2005 SAP Actuals (sorted in descending order)
1.4a Diversity of Services (Non-Grants)	SAP Listing of Business and Functional Areas (functional area with 12 digits)
1.4b Diversity of Services (Grants)	SAP Listing of Business and Functional Areas (functional area with 16 digits)
1.5 Contracts/Expenditures (high versus non-high risk)	High Risk Contracts provided by Contracts Management and other contract information extracted from SAP
<b>2. Change</b>	
2.1 Business/Strategic Plans (Pending)	Internet research, Dept. Interviews
2.2a Revenue Actual Variance	2004 vs. 2005 SAP Actual Revenues
2.2b Expenditure Actual Variance	2004 vs. 2005 SAP Actual Expenditures
2.3 FTE Change	2003, 2004, 2005 FTEs comparison per the Budget
2.4 Employee Terminations	Terminations by Dept. per SAP
<b>3. Planning &amp; Performance</b>	
3.1a Expenditure Budget/Actual Variance	2005 SAP Budget to Actual Comparison
3.1b Revenue Budget/Actual Variance	2005 SAP Budget to Actual Comparison
3.2 Performance Results (Pending)	Per Budget document
3.3 Overtime as a % of Salaries	2005 SAP Actual
3.4 Contingency Plan (Pending) (Operations)	Depts. Interviews

**APPENDIX A – continued**

**A. Data Source – continued**

Description of Risk Factor	Source of Information
<b>4. Public Concern</b>	
4.1 Citizen Complaints (Pending)	City Clerk, Depts. Interviews
4.2 Legal Claims & Suits Filed/Paid (Pending)	Request of Risk Management
4.3 Open Records Requests	Request of City Attorney and Depts. Interviews
<b>5. Safety &amp; Liability Risk</b>	
5.1a Worker's Comp Claims – Lost Time	Request of Risk Management
5.1b Worker's Comp Claims – Medical Only	Request of Risk Management
5.2 Emergency Plan (Employee Protection) (Pending)	Depts. Interviews
5.3 Assigned Roles in Homeland Security (Public protection)	Homeland Security Basic Plan
<b>6. Ethics Risk</b>	
6.1 Investigator Ratings (Pending)	Request of Municipal Integrity
6.2 Number and Nature of Fraud Allegations	Request of Municipal Integrity
6.3 Liquidity of Assets	SAP Account Classifications
6.4 Cash Handling	Cash Handling Database
<b>7. Mitigating Factors</b>	
7.1 Independent Oversight (Pending)	Depts./Phone Survey, Internet, Single Audit
7.2 CIAD Audits	CIAD files
7.3 Other Internal Reviews and Feedback (Pending)	Surveys completed by Contracts Mgmt., CIAD)
7.4 Use of SAP versus Non-SAP Systems (Pending)	Request of ITSD/Internal Audit

**APPENDIX B**

**B. Risk Factor Rating Scales**

**Risk Group 1: Size & Complexity Risk Factors**

1.1 Fiscal Year (FY) 2005 Expenditures

The amount of expenditures can indicate the size and complexity of a business area (department). Larger number and amounts of expenditures may also indicate the possibility of procurement errors and irregularities. Additionally, larger resource outflows can negatively impact the availability of funds for future needs (i.e. reduced fund balance). Below is the scale used to rate City Departments concerning risk based on their expenditure balances.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Actual Expenditures Range \$M	≤ \$2.250M	> \$2.250M - \$8.5M	> \$8.5M - \$37.5M	> \$37.5M - \$95M	> \$95M

DATA SOURCE: FY 2005 SAP (City's financial system of record) actual balances

1.2 Fiscal Year 2005 FTEs

Larger numbers of full-time equivalent employees (FTEs) may require a more complex management system to ensure effective and efficient operations, which may result in a more complex, and therefore, a more risky organization. Following is the scale used to measure risk relative to the number of FTEs within a business area.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of FTEs	≤ 20	> 20 - 50	> 50 - 200	> 200 - 500	> 500

DATA SOURCE: FY 2005 Budget document. The FTE count was summarized at the department level and then used as a measure of risk for each functional area within the associated department.

1.3 Fiscal Year 2005 Revenue

The amount of revenue generated can indicate the size and complexity of the business area. Additional process and controls are needed to bill and collect such revenues. The possibility of fraud and misuse of funds are increased for revenue producing business areas.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Actual Revenues Range \$M	≤ \$8.6M	> \$8.6M - \$35M	> \$35M - \$150M	> \$150M - \$176M	> \$176M

DATA SOURCE: FY 2005 SAP actual balances

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 1: Size & Complexity Risk Factors - continued**

The number of functional areas a business area may indicate a more diverse and complex operation. In SAP, functional areas are identified as twelve or sixteen-digit codes. Sixteen-digit functional areas are indicative of grants, which may require a more involved management system to ensure regulatory compliance and proper utilization of grant funds.

1.4a Diversity of Services (Non-Grants)

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of Functional Areas	1 - 2	3 - 5	6 - 11	12 - 19	20 or more

DATA SOURCE: SAP listing of Business and Functional Areas with twelve digits

1.4b Diversity of Services (Grants)

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of Functional Areas	0	1	2 - 4	5 - 9	10 or more

DATA SOURCE: SAP listing of Business and Functional Areas with sixteen digits

1.5 Contracts Expenditures

The greater the number and size of contracts managed by a business area, the greater the risk associated to ensure contract compliance (i.e. performance). Contract risk was assessed by rating FY2005 contract expenditures for each individual business area as a percentage of total FY2005 contract expenditures for all business areas.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Contract/ Total Expenditures	≤ 7%	> 7% - 14%	>14% - 21%	> 21% - 28%	> 28%

DATA SOURCE: SAP listing of contracts for FY2005

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 2: Change**

2.1 Business/Strategic Plans - Pending

Business areas revise operations and develop strategic plans to respond to internal and external demands and to successfully meet business goals and objectives. During this process departments analyze strengths, weaknesses, opportunities and threats. Departments that do not have an updated and current business/strategic plan may be at risk of not successfully meeting their goals and objectives and, therefore, may be at risk in providing effective and efficient service delivery. The information necessary to rate this risk factor on a citywide basis was not available at the time of this report.

<b>Risk</b>	<b>Low</b>	<b>Low/Med</b>	<b>Medium</b>	<b>Med/High</b>	<b>High</b>
<b>Rating</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Departmental Business/Strategic Plan	Plan in Place	-	Plan Currently being Developed	-	No Plan in Place or in Development

DATA SOURCE: Department websites and department interviews

2.2a Revenue Actual Variance

The degree of revenue and/or expenditure change within a business area from one year to another may be indicative of risk. This risk could involve effective and efficient accounting process resulting in untimely and inaccurate compilation and reporting of financial information. Large unexplained revenue variance could also be indicative of an intentional or unintentional under or over collections for funds, while large unexplained expenditure variances could also be a result from procurement activities that are not consistent with management directives.

<b>Risk</b>	<b>Low</b>	<b>Low/Med</b>	<b>Medium</b>	<b>Med/High</b>	<b>High</b>
<b>Rating</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Variances in Revenues	≤ 15%	> 15 - 30%	> 30 - 50%	> 50 - 75%	> 75%

DATA SOURCE: FY 2004 compared to FY 2005 SAP actual revenue

2.2b Expenditure Actual Variance

<b>Risk</b>	<b>Low</b>	<b>Low/Med</b>	<b>Medium</b>	<b>Med/High</b>	<b>High</b>
<b>Rating</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Variances in Expenses	≤ 15%	> 15 - 30%	> 30 - 50%	> 50 - 75%	> 75%

DATA SOURCE: FY 2004 compared to FY 2005 SAP actual expenditures

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 2: Change - continued**

2.3 FTE Change for 2003, 2004, and 2005

Variations in authorized staffing levels or FTEs can be an indicator of risk. The more changes and fluctuations in staff levels, the more the organization is exposed to risk in terms of challenges for maintaining quality and continuity of service delivery.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Percentage Change in FTE's (+ or -)	≤ 10%	> 10% - 20%	> 20% - 30%	> 30% - 45%	> 45% - 65%

DATA SOURCE: 2003, 2004, and 2005 FTE information from City's budget document

2.4 Employee Terminations

Employee terminations can be an indicator of risk. Terminations represent a loss of skills and institutional knowledge, and therefore, can reflect a potential risk to continue quality service delivery. Additionally, the ability to attract, develop and retain the people necessary to conduct, sustain, and grow the related business area may hinder an organization's capability to execute, manage, and monitor key business activities.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Terminated Employees/ Total FTE's	≤ 5%	> 5% - 10%	> 10% - 15%	> 15% - 30%	> 30%

DATA SOURCE: FY 2005 employee terminations per SAP as a percent of total department FTEs

APPENDIX B – continued

**B. Risk Factor Rating Scales**

**Risk Group 3: Planning & Performance**

Large revenue and/or expenditure variances between planned and actual results can indicate a risk to an organization. Ineffective budgeting can adversely affect the related department's ability to achieve the desired financial results.

3.1a Expenditure Budget/Actual Variance

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Variances in Expenditures	≤ 15%	> 15 - 30%	> 30 - 50%	> 50 - 75%	> 75%

DATA SOURCE: FY 2005 budget to actual comparison per SAP

3.1b Revenue Budget/Actual Variance

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Variances in Revenues	≤ 15%	> 15 - 30%	> 30 - 50%	> 50 - 75%	> 75%

DATA SOURCE: FY 2005 budget to actual comparison per SAP

3.2 Performance Results – Pending

Analyzing performance results and trends can assist an organization in determining whether performance levels are improving, staying level, or declining. These results can signal areas of risk. Due to the changing format in the budget document presentation, along with organizational structural changes, the information necessary to rate this risk factor on a citywide basis was not available at the time of this report.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Performance Trend	Performance improving significantly	Performance improving moderately	Performance flat	Performance declining moderately	Performance declining significantly

DATA SOURCE: City annual Budget document

3.3 Overtime as a Percent of Salaries

Large amounts of overtime payout to employees can be an indicator of risk. Employees that do not have a work/life balance are many times unhappy and less productive. Large amounts of overtime can lead to on the job injuries and related illnesses. Additionally, overtime can be an indicator of a department's inability to attract, develop and retain qualified staff, which may negatively impact service delivery. Below is the scale used to rate the City's risk when examining overtime payout as a percent of departmental salaries.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Overtime Expenditures/ All Salary Expenditures	≤ 1%	> 1% - 5%	> 5% - 10%	> 10% - 20%	> 20%

DATA SOURCE: FY 2005 SAP actual balances for overtime compared to salaries plus employee benefits

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 3: Planning & Performance - continued**

3.4 Contingency Plan (Operations) – Pending

Business continuation planning is necessary to ensure an organization can meet service needs in the case of an emergency. Without this level of planning, organizational service delivery may be in jeopardy at a critical time. Unfortunately, the information necessary to rate this risk factor on a citywide basis was not available at the time of this report.

<b>Risk</b>	<b>Low</b>	<b>Low/Med</b>	<b>Medium</b>	<b>Med/High</b>	<b>High</b>
<b>Rating</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Departmental Contingency Plan	Plan for all Critical Services	-	Plan for Most Critical Services	-	No Plan for any Critical Services

DATA SOURCE: Department interviews

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 4: Public Concern and Perception**

4.1 Citizen Complaints – **Pending**

Citizen complaints can be indicative of public concern regarding City functions or service delivery. The greater the number of complaints, the greater the potential there is for risk. Because the number of employees involved in a function would affect the potential for interaction with the public, larger functions have the potential to receive more complaints. However, the information necessary to rate this risk factor on a citywide basis was not available at the time of this report. Had this data been available, the rating of citizen complaints would be normalized by rating complaints per FTE for each activity.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of Complaints	# Range	# Range	# Range	# Range	# Range

DATA SOURCE: Department interviews

4.2 Legal Claims and Suits Filed/Paid - **Pending**

Legal claims and suits filed is also an indicator of citizen concern. Additionally, suits paid can adversely impact a business unit's budgetary capacity. Therefore, legal claims and suits filed and/or paid can present a risk to the organization. As with citizen complaints, had citywide data been available that was necessary for rating purposes, claims and suits would have been normalized for activity size.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of Claims & Suits	# Range	# Range	# Range	# Range	# Range

DATA SOURCE: City Attorney's Office and department interviews

4.3 Open Records Requests

Open records complaints are indicators of public concern and exposure which may hinder the reputation of a department and otherwise erode the public confidence regarding quality service delivery and project suspensions of fraud or operational improprieties.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of Requests per Department	0 - 4	5 - 9	10 - 19	20 - 29	30 or more

DATA SOURCE: Open records databases from the City Attorney's Office and other departments

APPENDIX B – continued

**B. Risk Factor Rating Scales**

**Risk Group 5: Safety and Liability**

The number of workers' compensation claims filed is an indicator of both a control and inherent risk. Such risks may be a reflection on the nature of the work, ineffective hiring and training practices, incomplete safety procedures and controls, and may result in reduced productivity and have an overall negative impact on the fiscal budget.

5.1a. Lost Time Workers' Compensation Claims

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Percent of Claims per FTE	0%	> 1% - 2%	> 2% - 5%	> 5% - 14%	> 14%

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Cost of Claims per FTE	≤ \$10	> \$10 - \$60	> \$60 - \$100	> \$100 - \$200	> \$200

DATA SOURCE: Workers' Compensation information provided by Human Resources

5.1b Medical Only Workers' Compensation Claims

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Percent of Claims per FTE	0%	> 1% - 4%	> 4% - 7%	> 7% - 16%	> 16% or more

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Cost of Claims per FTE	≤ \$5	> \$5 - \$12	> \$12 - \$20	> \$20 - \$40	> \$40

DATA SOURCE: Workers' Compensation information provided by Human Resources

5.2 Emergency Plan (Employee Protection) - **Pending**

Administrative Directive 4.8 requires all departments to develop and communicate an emergency plan in case of workplace violence. A business unit that has not developed and communicated such a plan places its employees at risk and is not in compliance with organizational policy. This non-action results in an increased risk to the organization. The information necessary to rate this risk factor on a citywide basis was not available at the time of this report.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Emergency Plan for Employees (Customers)	No Plan in Place	-	Plan Currently being Developed	-	No Plan in Place or in Development

DATA SOURCE: Department interviews

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 5: Safety and Liability - continued**

5.3 Assigned Roles in Homeland Security (Public Protection)

The City is exposed to many hazards, all of which have the potential for disrupting the community, causing casualties, and damaging or destroying public or private property. The City has a primary role in identifying and mitigating hazards, preparing for, responding to, and managing the recovery from emergency situations. Certain departments within the City have been tasked as first-line respondents, while others have been assigned as communication or administrative support. These departments generally parallel these emergency functions with some of their day-to-day functions. To the extent possible, the same personnel and material resources used for the day-to-day activities will be employed during emergency situations. Because of these Homeland Security or assigned emergency preparedness roles, certain departments are at greater risk.

<b>Risk</b>	<b>Low</b>	<b>Low/Med</b>	<b>Medium</b>	<b>Med/High</b>	<b>High</b>
<b>Rating</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Role in Basic Emergency Plan	None Officially Assigned	Administrative Support	Communications Support	Executive Support	First Responders/Operations

DATA SOURCE: The City's Basic Homeland Security Plan provided by the Fire Department (Office of Emergency Management)

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 6: Ethics**

6.1 Investigator Ratings - Pending

Municipal Integrity conducts investigations and performs reviews of City departments and personnel based on suspension of unethical behavior. Therefore, Municipal Integrity was asked to complete a survey to provide input and rate departmental risk based on their investigation and review experiences over the past three years. However, this rating information was not available at the time of this report.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Rating by Investigators	1	2	3	4	5

DATA SOURCE: Information provided by the Office of Municipal Integrity

6.2 Number and Nature of Fraud Allegations

The number and nature of fraud allegations is another measure of risk. Municipal Integrity investigators receive allegations of fraud, waste, and abuse within the City. The scale below is used to measure the degree of risk based on the specific feedback received from Municipal Integrity based on the number of fraud allegations per each department over the past three years.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of Municipal Integrity Cases	0	1 - 2	3 - 5	6 - 10	11 or more

DATA SOURCE: Information provided by the Office of Municipal Integrity

6.3 Liquidity of Assets

Certain assets such as inventory and small tools and minor equipment are susceptible to theft and misuse, and therefore, present a risk to the organization. Related general ledger codes used to account for these types of liquid assets were examined and subsequently counted per each department as a means of measuring such risk. The resulting rating scale is noted below.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Total of Liquid Assets	≤ \$4,999	> \$4,999 - \$14,999	> \$14,999 - \$29,999	> \$29,999 - \$49,999	> \$49,999

DATA SOURCE: SAP costs associated with various liquid asset accounts.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Count of Liquid Assets	1	2 - 4	5 - 9	10 - 14	15 or more

DATA SOURCE: Counted SAP accounts currently classified as inventory and small tools and minor equipment

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 6: Ethics - continued**

**6.4 Cash Handling**

Effectively managing currency and checks can be one of the highest risks to an organization. Because of this risk potential, the number of cash handlers per business area for FY 2005, the amount of checks and cash handled for sample month October 2005, and the number of cash handling deposit sites for FY 2005 were reviewed to assign a risk rating as scaled below.

Cash Handlers are grouped or categorized for the purpose of testing and routine background checks. These groupings are based on the risk to the City due to cash handling responsibilities on a daily basis as follows:

- "A" Risk Priority (High Risk) - Deals with cash on a daily basis
- "B" Risk Priority (Medium Risk) - Deal with cash equivalents
- "C" Risk Priority (Low Risk) - P card users and other infrequent users of small amounts of cash

Risk	Low/Low	Low/Mod	Low/High	Mod/Low	Mod/Mod
Rating	1	2	3	4	5
Number of Type A Cash Handlers	≤ 1 - 5	> 5 - 19	> 19 - 74	> 74 - 169	> 169
Number of Type B Cash Handlers	≤ 1 - 4	> 4 - 9	> 9 - 23	> 23 - 134	> 134
Number of Type C Cash Handlers	≤ 1	> 1 - 4	> 4 - 9	> 9 - 18	> 18
Cash Deposits for Sample Month - October 2003	≤ \$299,999	> \$299,999 - \$499,999	> \$499,999 - \$999,999	> \$999,999 - \$4,999,999	> \$4,999,999
# of Sites	≤ 1	> 1 - 4	> 4 - 9	> 9 - 18	> 18
Overall Weigh Cash Handling Rating	1	2	3	4	5

DATA SOURCE: Cash handling obtained from cash handling database and from other information provided by Department of Human Resources and the Finance Department

**APPENDIX B – continued**

**B. Risk Factor Rating Scales**

**Risk Group 7: Mitigating Factors**

Mitigating factors represent conditions and controls that are expected to mitigate to reduce the overall risk for a business area. The mitigating factors examined include independent oversight, CIAD audits and other internal reviews and feedback.

7.1 Independent Oversight - **Pending**

Independent oversight can reduce to likelihood of risk. Problems and issues will most likely be noticed and addressed when more than one agency provides oversight for a given business area. The scale presented below is used to rate this type of reduced risk for each business area.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of Entities Providing Oversight	3 or more	-	1 - 2	-	0

DATA SOURCE: Information provided by City departments during interviews and from City Comprehensive Annual Financial Report

7.2 CIAD Audits

Departments that have been audited by CIAD over the last three years are at less risk than those departments that have not been audited. This risk factor is rated using the scale noted below.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Number of CIAD Audits	13 or more	8 - 12	4 - 7	1 - 3	0

DATA SOURCE: Information obtained through discussions with CIAD personnel and from CIAD files.

7.3 Other Internal Reviews and Feedback - **Pending**

Other reviews, such as those performed by Contract Management and department monitoring units, also reduce the level of risk for a given business area. This risk factor is rated using the scale noted below.

Risk	Low	Low/Med	Medium	Med/High	High
Rating	1	2	3	4	5
Audits/Reviews by Other Agencies within Past 3 Years	3 or more	-	1 - 2	-	0

DATA SOURCE: Information obtained through interviews with City departments

**B. Risk Factor Rating Scales**

**Risk Group 7: Mitigating Factors - continued**

7.4 Use of SAP vs. Non-SAP systems – Pending

SAP is the official book of record for the City. Information and operating systems outside of SAP that do not automatically interface present a risk to information integrity. The data necessary to fully rate this risk factor across the City was not available at the time of this report.

Risk	Low/Low	Low/Mod	Low/High	Mod/Low	Mod/Mod
Rating	1	2	3	4	5
Use of Critical IT Systems not Associated with SAP	0	-	1	-	2 or more

DATA SOURCE: Information Technology Services Department and discussions during department interviews.

**APPENDIX C**

**C. Complete Listing of the Audit Universe**

Refer to the CIAD for a complete listing of the audit universe.