

Office of the City Auditor

City of San Diego

Risk Assessment: *Auditing What Matters Most*

Western Intergovernmental Audit Forum

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Agenda

- Introduction
- Why Utilize A Risk Based Approach?
- Risk Assessment Steps
- Conclusion & \Questions

Keys to an Effective Audit Function

1. Enhance accountability
2. Earn and increase taxpayer confidence and respect for government
3. Provide an independent and objective assessment of performance

Why Should You Utilize A Risk Based Approach?

- IIA Standards
- Government Auditing Standards

RISK: a situation involving exposure to danger



Risk Assessment Steps

1. Understand program under audit
2. Identify the threats associated with the area or activity under review
3. Identify actual and potential controls
4. Develop Risk Matrix
5. Determine the inherent risk associated with the identified threats
6. Apply vulnerability assessment to determine the extent of your audit testing
7. Refine audit objectives and testing audit program

1. Understand Program Under Audit



Who



What



Where



When



Why

How much?

2. Develop Threat List

- Actions or events that prevent an organization from achieving its mission, goals, and objectives
- Think worse case scenario

2. Develop Threat List

Before

1. The program is under-utilized
2. Participating projects are not well distributed throughout the City
3. One type of project is dominating/crowding out other projects that also qualify for expedition (e.g. too many sustainable, not enough affordable projects)
4. The program does not actually deliver 50% faster permitting
5. The timeliness of the standard permit process has been adversely affected by the expedite program
6. In its quest for speed, projects are bypassing quality controls
7. Projects ultimately fail to deliver the number of qualifying affordable housing or sustainable units
8. Projects are being inappropriately selected for expedition
9. Projects are being inappropriately prioritized for expedition

After

Sub-objective 1 - Timeliness

1. Program performance is overstated/misstated (e.g. the program does not actually deliver 50% faster permitting)
2. Projects with errors are being overlooked or approved
3. Inability to report and share on key metrics
4. Lack of succession planning (e.g. key personnel having sophisticated institutional knowledge)
5. Failure to provide accurate, complete, and timely information regarding program outputs (e.g. timeliness of cycle review vs. timeliness of overall project completion)
6. Utilization of outdated information and reporting tools
7. Discipline checks fail to meet project deadlines

2. Develop Threat List

After

Sub-Objective 2 - Number & Distribution

1. Lack of key performance indicators (e.g. goals for the total number of projects and/or units, geographic distribution, etc)
2. Participating projects are not well distributed throughout the City
3. The number of affordable housing units produced in a given project is not the same as the number of units that were promised
4. The sustainability upgrades produced in a given project are not the same as the number of units that were promised

After

Sub-Objective 3 - Type

1. Projects are being inappropriately selected for expedition
2. Projects are being inappropriately prioritized for expedition
3. One type of project is crowding out other projects that also qualify for expedition (e.g. too many sustainable, not enough affordable projects)
4. Failure to identify and report key trends
5. The performance of the standard permit process has been adversely affected by the expedite program (e.g. fees not covering program, program subsidization(?))

3. Identify Actual and Potential Controls

1. DSD adequately documents its rationale for project selection
2. Council Policy 600-27 establishes a prioritization scheme
3. Management enforces the prioritization scheme (?)
4. DSD is engaged with diverse stakeholder groups to market and reform the program on an ongoing basis
5. DSD has robust staff training in place
6. DSD has strong incentives to achieve expedite goals
7. Quality control checkpoints are utilized throughout the program (manager sign-offs, etc)
8. There are follow-up visits to ensure consistent deliverables

Internal Control Categories

1. Safeguarding of assets
2. Compliance with applicable laws and regulations
3. Attainment of stated goals & objectives
4. Reliability of financial & other information
5. Efficient and effective use of government resources

4. Risk Matrix

Code Enforcement Division		MITIGATING FACTORS									
		C-1 CED assigns a priority to each violation type, with a policy of inspecting higher-priority (ie., health and safety or major	C-2 PTS assigns faster inspection due dates for high-priority violations than low-priority violations.	C-3 Supervisors regularly review staff work to ensure that staff are appropriately prioritizing and responding to	C-4 CED has performance metrics that measure response times and compliance rates by type of violation.	C-5 CED has performance metrics that measure the efficiency of operations (cost per violation, etc.)	C-6 PTS automatically generates reports that supervisors and managers can use to monitor inspection on-time rates,	C-7 CED policies and procedures include guidelines for compliance periods, fines, and penalties for different	C-8 Code enforcement officers receive training on how to document their work in PTS.	C-9 PTS includes controls (such as required supervisor approval) to prevent code enforcement officers from	C-10 Supervisors review staff entries in PTS to ensure that they are appropriate and reflect actual work performed
POTENTIAL RISKS											
<p>The number of high-priority (ie. Health and safety or major environmental issues) violations that can be investigated is limited because code enforcement officers spend time investigating low-priority violations.</p> <p>The response time for high-priority violations is unnecessarily high because code enforcement officers investigate low-priority violations before high-priority violations.</p> <p>Code enforcement officers focus on completing tasks (such as inspections) quickly, rather than achieving compliance.</p>	T-1	A	P	P	P		P				
	T-2	A	P	P	P		P				
	T-3			P	P		P		P		

5. Threat Rating Guide

Inherent Risk	Internal Controls	Vulnerability & Testing Extent
High	Weak	High
	Adequate	Moderate to High
	Strong	Low to moderate
Moderate	Weak	Moderate to High
	Adequate	Moderate
	Strong	Low
Low	Weak	Low to moderate
	Adequate	Low
	Strong	Very low

6. Vulnerability Assessment

	Threat/Control	Threat's Inherent Risk	Internal Control Rating	Vulnerability Assessment
T-1	Procurement card holders make purchases that are not permitted by law, regulation, or policy	Moderate		
C-1	City maintains and enforces policy on monitoring credit card usage		Weak	Moderate to high
C-2	Bank sends monthly summary statement to Approving Official listing all cardholders and transactions.		Adequate	Moderate
C-3	Approving Officials are required to review all statements and approve all purchases within 10 days.		Weak	Moderate to high
C-4	Accounting staff review approved statements for approving official signature, travel-related expenses, technology purchases, and unusual purchases.		Adequate	Moderate

7. Audit Objectives & Testing Program

- Use your Risk Assessment results to refine audit objectives
- Establish audit and testing program

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