Memorandum

DATE: May 12, 2017

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of the Design of Internal Controls over the Department of Code Compliance's Neighborhood Code Division[1]

The Office of the City Auditor (Office) evaluated the Department of Code Compliance's (Code) Neighborhood Code Division's (Neighborhood Code) internal control system design as of September 30, 2015. The goal of this pilot project was to heighten the City of Dallas' (City) awareness of the benefits of improving accountability through implementation of an effective internal control system (see textbox on page two).

The *Standards for Internal Control in the Federal Government* (Green Book) issued by the Comptroller General of the United States were used as the evaluation criteria. The City adopted the Green Book standards through both City Council Resolution No. 88-3428 and Administrative Directive 4-09, *Internal Control* (see textbox).

Background

In October 1988, the City Council passed City Council Resolution No. 88-3428 requiring City departments to establish internal controls in accordance with the standards established by the Comptroller General of the United States pursuant to the Federal Manager's Financial Integrity Act.

These standards are based on the internal control guidance developed by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO updated its guidance in 2013 to introduce the concept of principles related to the five components of internal control.

The Government Accountability Office revised the Green Book in 2014 to adapt these principles for a government environment. City management updated Administrative Directive 4-09, *Internal Control* (AD 4-09) in 2016 to align with these Green Book revisions.

Source: City Council Resolution 88-3428, Green Book, AD 4-09

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[1] This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2014 Audit Plan approved by the Dallas City Council. The initial objective of the audit was to evaluate the Department of Code Compliance's (Code) Division of Neighborhood Code's (Neighborhood Code) effectiveness. The audit objective was revised to evaluate the design of Neighborhood Code's internal control system. The audit scope included Fiscal Year (FY) 2014 through FY 2016; however, certain other matters, procedures, and transactions outside of that period were reviewed to understand and verify information related to the audit period. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit methodology included comparing Neighborhood Code's internal control system design to the *Standards for Internal Control in the Federal Government's* (Green Book) five Components and 17 Principles of Internal Control by: (1) preparing internal control questionnaires; (2) evaluating management's responses to the internal control questionnaires and the associated documentation*;* and, (3) interviewing management.

Internal Control

"Policymakers and program managers are continually seeking ways to improve accountability in achieving an entity's mission. A key factor in improving accountability ...... is to implement an effective internal control system. An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities."

Source: Gene L. Dodaro, Comptroller General of the United States – September 2014

The internal control system design assessment (Attachment I) shows Neighborhood Code has documented certain elements of internal control that align with the five components and 17 principles of internal control identified in the Green Book. The assessment also identified opportunities to improve the design and documentation of the internal control system. This design assessment did not include tests of supporting data to evaluate whether established controls are working as intended by management.

According to the Director of Code, during FY 2016, Code continued to improve the design and documentation of the internal control system through the development of Code's: (1) Business Plan & Performance Excellence Assessment; (2) Continuity of Operations Plan update; and, (3) International Organization for Standardization (ISO) documentation enhancements.

Recommendation

We recommend the Director of Code continues to develop and document the internal control system for Neighborhood Code to more clearly align with the five components and 17 principles identified in the Green Book and in AD 4-09.

Please see Attachment II for Background and Attachment III for Excerpts from *Standards for Internal Control in the Federal Government*. See Attachment IV for Management's Response.
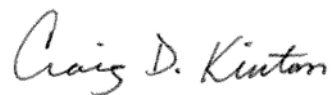
Auditor Follow-Up Comments

The Director of Code agreed with the recommendation to continue to develop and document the internal control system **except for** Principle 11, *Design Activities for the Information System*. The Director stated the information system is managed by the Department of Communication and Information Services (CIS).

The City's information systems' design and control activities are a shared responsibility among CIS and the user departments. While various aspects of the information systems are managed by CIS, each department director is responsible for the business process controls specific to that department. These business process controls help to ensure data reliability (accuracy and completeness) which are key to day-to-day decision-making.

We encourage the City Manager to work with the Director of Code, CIS, and the other user departments to ensure that the City has appropriately designed and documented the information systems and related control activities needed to achieve objectives and respond to risks.

We would like to acknowledge management's cooperation during this audit. If you have any questions or need additional information, please contact me at (214) 670-3222 or Carol Smith, First Assistant City Auditor, at (214) 670-4517.

Sincerely,

Craig D. Kinton
City Auditor

Attachments

C: T.C. Broadnax, City Manager
     Raquel Favela, Chief of Economic Development & Neighborhood Services
     Kris Sweckard, Director – Department of Code Compliance

Department of Code Compliance's Neighborhood Code Division
Alignment / Opportunities to More Fully Align
with the Green Book's Five Components and 17 Principles of Internal Control

The Green Book identifies five components of internal control that must be effectively designed, implemented and operating (and operating together in an integrated manner) for an internal control system to be effective. The five components are: (1) control environment; (2) risk assessment; (3) control activities; (4) information and communication; and, (5) monitoring. The five components are supported by 17 principles that represent the requirements necessary to establish an effective internal control system.

Control Environment Component[2]

Control Environment – The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 1 The oversight body and management should demonstrate a commitment to integrity and ethical values. **Attributes** • Tone at the Top • Standards of Conduct • Adherence to Standards of Conduct	• Texas Administrative Code Title 25, Part 1, Chapter 140 Subchapter D, *Code Enforcement Officers* • City of Dallas, Texas Code of Ordinances, Chapter 12A, *Code of Ethics* • City of Dallas, Texas Code of Ordinances, Chapter 34, *Personnel Rules,* Article V *Rules of Conduct* • International Organization for Standardization (ISO) 9001 Work Instructions • Performance appraisal process / annual evaluations	• Demonstrate Tone at the Top by documenting the reporting relationship and oversight responsibilities for internal control among the City of Dallas' (City) City Council, the City Manager's Office, the Department of Code Compliance (Code), and the Code's Division of Neighborhood Code (Neighborhood Code) • Demonstrate at the Code and at the Neighborhood Code levels the importance of integrity and ethical values through directives (policies and procedures)

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[2] The internal control design assessment for the Control Environment Component included oversight provided by the City Council, the City Manager's Office, and the Department of Code Compliance.

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 2 The oversight body should oversee the entity's internal control system. **Attributes** • Oversight Structure • Oversight for the Internal Control System • Input for Remediation of Deficiencies	• Quality of Life Committee • Administrative Directive 4-09 *Internal Control* (AD 4-09)*,* Statements on Internal Control – Fiscal Year (FY) 2014 and FY 2015 • Organization charts (City / Code / Neighborhood Code) • Code's / Neighborhood Code's management team	Formalize in Code's and in Neighborhood Code's policies and procedures the oversight bodies' (City Council, City Manager, and Code): (1) structure; (2) responsibilities for the internal control system; and, (3) direction to management on the remediation of internal control system deficiencies
Principle 3 Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. **Attributes** • Organizational Structure • Assignment of Responsibility and Delegation of Authority • Documentation of the Internal Control System	• Organization Charts (City / Code / Neighborhood Code) • Neighborhood Code job descriptions • ISO 9001 Work Instructions	**None noted**

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 4 Management should demonstrate a commitment to recruit, develop, and retain competent individuals. **Attributes** • Expectations of Competence • Recruitment, Development, and Retention of Individuals • Succession and Contingency Plans and Preparation	• Texas Administrative Code Title 25, Part 1, Chapter 140 Subchapter D, *Code Enforcement Officers* • Organization charts (City / Code / Neighborhood Code) • Neighborhood Code job descriptions • Performance appraisal process / annual evaluations	Define and document succession plans for key roles and provide associated training
Principle 5 Management should evaluate performance and hold individuals accountable for their internal control responsibilities. **Attributes** • Enforcement of Accountability • Consideration of Excessive Pressures	• City of Dallas, Texas Code of Ordinances, Chapter 34, Personnel Rules, Article VI *Discipline, Grievance, and Appeal Procedures* • Staff reassignments to respond to changing priorities • Performance appraisal process / annual evaluations	**None noted**

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Risk Assessment Component

Risk Assessment – Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 6 Management should define objectives clearly to enable the identification of risks and define risk tolerances. **Attributes** • Definitions of Objectives • Definitions of Risk Tolerances	• City of Dallas Annual Adopted Budget for FY 2013 – 2014 and FY 2014 – 2015 • ISO 9001 Work Instructions • Performance appraisal process / annual evaluations • Code / Neighborhood Code Customer Service Survey	Establish a range of risk tolerance for each performance measure

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 7 Management should identify, analyze, and respond to risks related to achieving the defined objectives. **Attributes** • Identification of Risks • Analysis of Risks • Response to Risks	• Code / Neighborhood Code annual risk assessment • AD 4-09 Statements on Internal Control – FY 2014 and FY 2015	• Document consideration of both inherent and residual risk that affect the Code / Neighborhood Code[3] • Estimate the significance of the risk by considering the magnitude of impact, the likelihood of occurrence, and the nature of the risk • Design responses to the analyzed risk so that risks are within the defined risk tolerances for the defined objectives. These responses may include the following: 1) acceptance, 2) avoidance, 3) reduction; and, 4) sharing.
Principle 8 Management should consider the potential for fraud when identifying, analyzing, and responding to risks. **Attributes** • Types of Fraud • Fraud Risk Factors • Response to Fraud Risks	• AD 4-09 Statements on Internal Control – FY 2014 and FY 2015	• Document the consideration of fraud in the risk assessment process and the response to fraud risk in the Code / Neighborhood Code • Document the process the City Council, the City Manager, and Code use to review management's assessment of fraud risk and the risk of management override of controls

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[3] The Green Book defines:
  Inherent risk – the risk to an entity in the absence of management's response to the risk
  Residual risk – the risk that remains after management's response to inherent risk.
  Management's lack of response to either risk could cause deficiencies in the internal control system.

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 9 Management should identify, analyze, and respond to significant changes that could impact the internal control system. **Attributes** • Identification of Change • Analysis of and Response to Change	**No Documentation Provided**	• Document the process to identify, analyze, and respond to change as part of the regular risk assessment process • Anticipate and plan for significant changes by using a forward-looking process for identifying change • Analyze and respond to identified changes and related risks to maintain an effective internal control system

Control Activities Component

Control Activities – The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 10 Management should design control activities to achieve objectives and respond to risks. **Attributes** • Response to Objectives and Risks • Design of Appropriate Types of Control Activities • Design of Control Activities at Various Levels • Segregation of Duties	ISO 9001 Work Instructions	Enhance documentation for the design of control activities including preventive and detective controls and segregation of duties. The ISO procedures do not fully identify incompatible functions that require segregation of duties.

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 11 Management should design the entity's information system and related control activities to achieve objectives and respond to risks. **Attributes** • Design of the Entity's Information System • Design of Appropriate Types of Control Activities • Design of Information Technology Infrastructure • Design of Security Management • Design of Information Technology Acquisition, Development, and Maintenance	**No Documentation Provided**	• Identify and document the risks for information systems and information systems' control activities • Identify and document the design of appropriate types of control activities for information systems • Document the design of the information technology infrastructure • Document the design of security management • Document the design of information technology acquisition, development, and maintenance
Principle 12 Management should implement control activities through policies. **Attributes** • Documentation of Responsibilities through Policies • Periodic Review of Control Activities	ISO 9001 Work Instructions	**None noted**

Information and Communication Component

Information and Communication – The quality information management and personnel communicate and use to support the internal control system.

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 13 Management should use quality information to achieve the entity's objectives. **Attributes** • Identification of Information Requirements • Relevant Data from Reliable Sources • Data Processed into Quality Information	• City of Dallas, Texas Code of Ordinances, Chapter 27, *Minimum Urban Rehabilitation Standards* • City of Dallas, Texas Code of Ordinances, Chapter 51A, *Dallas Development Code Ordinance 19-455, As Amended* • City of Dallas Citizen Request Management System (CRMS) / CRMS operational reports related to Code / Neighborhood Code activities	Document the management processes used to evaluate both internal and external sources of data to ensure data reliability and quality of information
Principle 14 Management should internally communicate the necessary quality information to achieve the entity's objectives. **Attributes** • Communication throughout the Entity • Appropriate Methods of Communication	• Formal presentations periodically provided to the Quality of Life Committee • CRMS / CRMS operational reports related to Code / Neighborhood Code activities • Performance measures reported monthly to City management	Communicate to employees the separate reporting lines (such as ethics hotlines), how they operate, how they are to be used, and how the information will remain confidential

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 15 Management should externally communicate the necessary quality information to achieve the entity's objectives. **Attributes** • Communication with External Parties • Appropriate Methods of Communication	• Formal presentations periodically provided to the Quality of Life Committee • Neighborhood and Crime Watch Meetings	Communicate to external parties the separate reporting lines (such as ethics hotlines), how they operate, how they are to be used, and how the information will remain confidential

Monitoring Component

Monitoring – Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

Principles / Attributes	Department Has Documented Examples of Green Book Alignment	Opportunities to More Fully Align with the Green Book
Principle 16 Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. **Attributes** • Establishment of a Baseline • Internal Control System Monitoring • Evaluation of Results	AD 4-09 Statements on Internal Control – FY 2014 and FY 2015	• Perform ongoing evaluations of the internal control system, which include cross operating units or cross-functional evaluations • Evaluate and document the results of ongoing monitoring and separate evaluations to identify internal control issues
Principle 17 Management should remediate identified internal control deficiencies on a timely basis. **Attributes** • Reporting of Issues • Evaluation of Issues • Corrective Actions	AD 4-09 Statements on Internal Control – FY 2014 and FY 2015	Evaluate and document internal control issues and determine appropriate corrective actions. The corrective actions should produce improvements and demonstrate the internal control deficiencies were remediated.

Background

Department of Code Compliance

The mission of the Department of Code Compliance (Code) is to foster clean, healthy, safe, enriching communities while preventing physical blight from City of Dallas (City) neighborhoods. The Code enforces over 900 City ordinances across 27 chapters of the City Code and inspects both residential and commercial properties for violations that may threaten the general public's safety which encompasses Animal Services, Demolition, Food Protection, Transportation Regulation, Mosquito Abatement, and Nuisance Abatement.

Neighborhood Code Division

The Neighborhood Code Division (Neighborhood Code), one of the five Code divisions, is divided into seven Community Code Districts with offices located throughout the City. Code Enforcement Officers provide for the safety, health, and welfare of citizens living and working in neighborhoods throughout the City through enforcement of building, zoning, housing, environmental, nuisance, and other codes and ordinances. According to the Neighborhood Code, complaints are addressed proactively and by citizens' service requests made in the City's Citizen Request Management System. In addition, the Neighborhood Code is responsible for specialized units, including Boarding Homes, Multi-Tenant, Community Prosecution Code Litigation, Neighborhood Investment Program, SAFE, Consumer Protection, Scrap Tire Enforcement, and Revenue & Collections (see Chart I on the following page).

Chart I

Department of Code Compliance Organization Chart
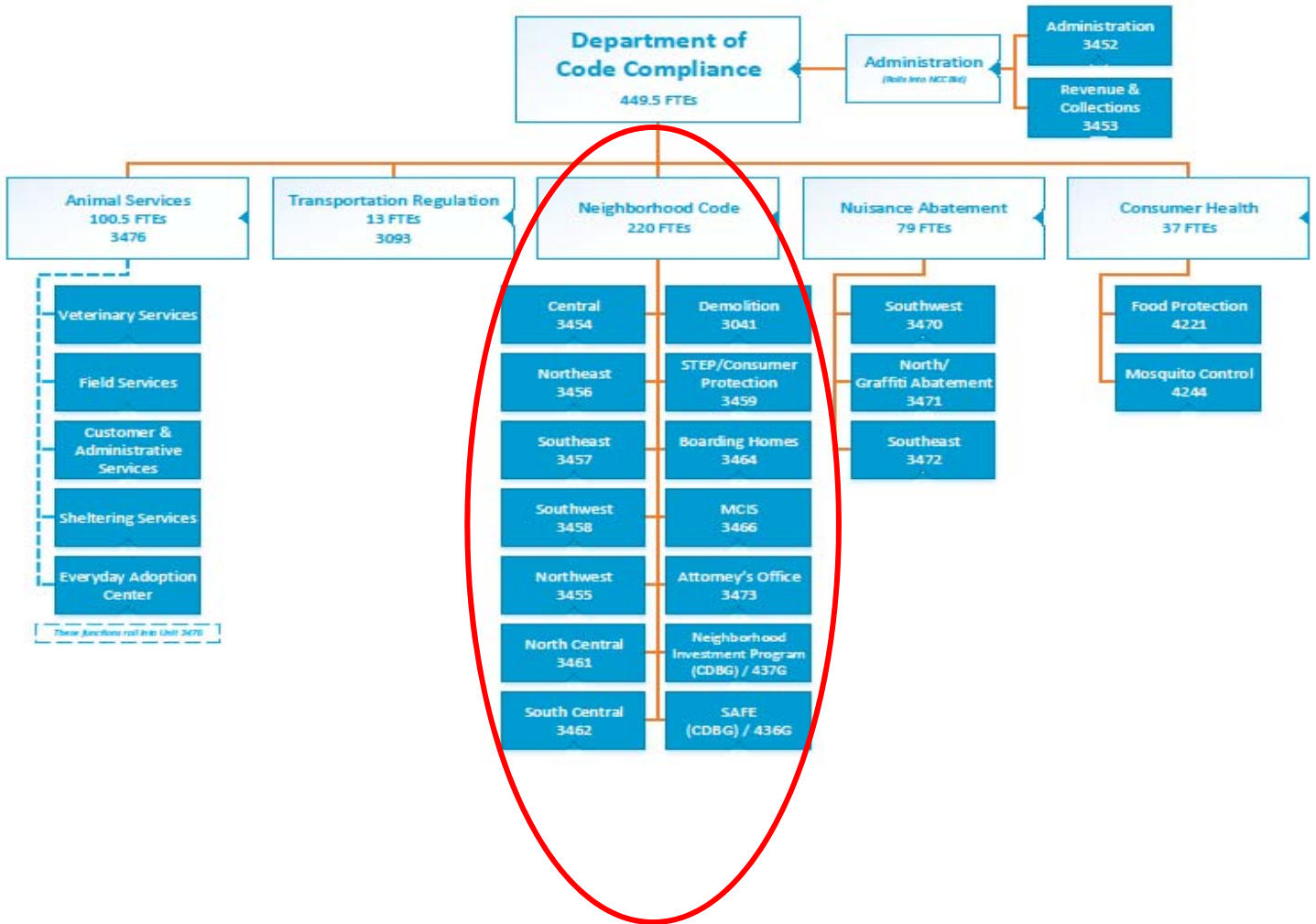
Source: Department of Code Compliance

<div align="right">**ATTACHMENT III**</div>

Excerpts from *Standards for Internal Control In the Federal Government* [4]

Policymakers and program managers are continually seeking ways to improve accountability in achieving an entity's mission. A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risk, and new priorities. As programs change and entities strive to improve operational processes and implement new technology, management continually evaluates its internal control system so that it is effective and updated when necessary.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) updated its internal control guidance in 2013, with the issuance of a revised Internal Control – Integrated Framework.[5] The COSO introduced the concept of principles related to the five components of internal control. The Green Book adapts these principles for a government environment.

Section 1 – Fundamental Concepts of Internal Control

Definition of Internal Control

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations – Effectiveness and efficiency of operations

- Reporting – Reliability of reporting for internal and external use

- Compliance – Compliance with applicable laws and regulations

These are distinct, but overlapping categories. A particular objective can fall under more than one category, can address different needs, and may be the direct responsibilities of different individuals.

Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources.

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[4] *Standards for Internal Control in the Federal Government* (Green Book)*, Report No. GAO-14-704G issued September 2014* – United States Government Accountability Office by the Comptroller General of the United States

[5] Committee of Sponsoring Organizations of the Treadway Commission, Internal Control – Integrated Framework (New York: American Institute of Certified Public Accountants 2013)

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<u>Definition of an Internal Control System</u>

An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved.

Section 2 – Establishing an Effective Internal Control System

The Green Book defines the standards for internal control in the Federal government. The Federal Managers Financial Integrity Act (FMFIA) requires Federal executive branch entities to establish internal control in accordance with these standards. The standards provide criteria for assessing the design, implementation, and operating effectiveness of internal control in Federal government entities to determine if an internal control system is effective. Non-federal entities may use the Green Book as a framework to design, implement, and operate an internal control system.

<u>Components, Principles, and Attributes</u>

An entity determines its mission, sets a strategic plan, establishes entity objectives, and formulates plans to achieve its objectives. Management, with oversight from the entity's oversight body, may set objectives for an entity as a whole or target activities within the entity. Management uses internal control to help the organization achieve these objectives. While there are different ways to present internal control, the Green Book approaches internal control through a hierarchical structure of five components and 17 principles. The hierarchy includes requirements for establishing an effective internal control system, including specific documentation requirements.

The five components represent the highest level of the hierarchy of standards for internal control in the Federal government. The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective. The five components of internal control are as follows:

- **Control Environment** – The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

- **Risk Assessment** – Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

- **Control Activities** – The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.

- **Information and Communication** – The quality information management and personnel communicate and use to support the internal control system.

- **Monitoring** – Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

The 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system.

In general, all components and principles are relevant for establishing an effective internal control system. In rare circumstances, there may be an operating or regulatory situation in which management has determined that a principle is not relevant for the entity to achieve its objectives and address related risks. If management determines that a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively. In addition to principle requirements, the Green Book contains documentation requirements.

The Green Book contains additional information in the form of attributes. These attributes are intended to help organize the application material management may consider when designing, implementing, and operating the associated principles. Attributes provide further explanation of the principle and documentation requirements and may explain more precisely what a requirement means and what it is intended to cover or include examples of procedures that may be appropriate for an entity. Attributes may also provide background information on matters addressed in the Green Book.

Attributes are relevant to the proper implementation of the Green Book. Management has a responsibility to understand the attributes and exercise judgment in fulfilling the requirements of the standards. The Green Book, however, does not prescribe how management designs, implements, and operates an internal control system.

Management's Response

Memorandum   **RECEIVED**

APR 2 7, 2017

City Auditor's
Office

CITY OF DALLAS

DATE: April 27, 2017

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report:
Audit of the Design of Internal Controls over the Department of Code Compliance's Neighborhood Code Division

Although the Department of Code Compliance agrees to implement many of the opportunities identified in the report, please note that the Department of Code Compliance does not agree to implement the opportunities identified for the City's information system. The Department of Communication and Information Services (CIS) provides the information technology needs of the City and only CIS would be able to implement the information system opportunities.

Each of the 25 opportunities identified in the audit report are discussed below in our responses to the audit report:

<u>Recommendation</u>

We recommend the Director of Code continue to develop and document the internal control system for Neighborhood Code to more clearly align with the five components and 17 principles identified in the Green Book and in AD 4-09.

<u>Opportunity 1 (Principle 1):</u>
Demonstrate Tone at the Top by documenting the reporting relationship and oversight responsibilities for internal control among the City of Dallas' (City) City Council, the City Manager's Office, the Department of Code Compliance (Code), and the Code's Division of Neighborhood Code (Neighborhood Code)

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will demonstrate Tone at the Top by documenting the reporting relationship and oversight responsibilities for internal control among the City of Dallas' (City) City Council, the City Manager's Office, the Department of Code Compliance (Code), and the Code's Division of Neighborhood Code (Neighborhood Code).

Implementation Date   **Responsible Manager**
December 31, 2018   Director of Code Compliance

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Page 1 of 8

Opportunity 2 (Principle 1):
Demonstrate at the Code and at the Neighborhood Code levels the importance of integrity and ethical values through directives (policies and procedures)

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will demonstrate at the Code and at the Neighborhood Code levels the importance of integrity and ethical values through directives (policies and procedures).

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Opportunity 3 (Principle 2):
Formalize in Code's and in Neighborhood Code's policies and procedures the oversight bodies' (City Council, City Manager, and Code): (1) structure; (2) responsibilities for the internal control system; and, (3) direction to management on the remediation of internal control system deficiencies.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will formalize in Code's and in Neighborhood Code's policies and procedures the oversight bodies' (City Council, City Manager, and Code): (1) structure; (2) responsibilities for the internal control system; and, (3) direction to management on the remediation of internal control system deficiencies.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Opportunity 4 (Principle 4):
Define and document succession plans for key roles and provide associated training

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will define and document succession plans for key roles and provide associated training.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Opportunity 5 (Principle 6):
Establish a range of risk tolerance for each performance measure

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will establish a range of risk tolerance for each performance measure.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

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Opportunity 6 (Principle 7):
Document consideration of both inherent and residual risk that affect the Code / Neighborhood Code

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will document consideration of both inherent and residual risk that affect the Code / Neighborhood Code.

Implementation Date	Responsible Manager
December 31, 2018	Director of Code Compliance

Opportunity 7 (Principle 7):
Estimate the significance of the risk by considering the magnitude of impact, the likelihood of occurrence, and the nature of the risk

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will estimate the significance of the risk by considering the magnitude of impact, the likelihood of occurrence, and the nature of the risk.

Implementation Date	Responsible Manager
December 31, 2018	Director of Code Compliance

Opportunity 8 (Principle 7):
Design responses to the analyzed risk so that risks are within the defined risk tolerances for the defined objectives. These responses may include the following: 1) acceptance, 2) avoidance, 3) reduction; and, 4) sharing.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will design responses to the analyzed risk so that risks are within the defined risk tolerances for the defined objectives. These responses may include the following: 1) acceptance, 2) avoidance, 3) reduction; and, 4) sharing.

Implementation Date	Responsible Manager
December 31, 2018	Director of Code Compliance

Opportunity 9 (Principle 8):
Document the consideration of fraud in the risk assessment process and the response to fraud risk in the Code / Neighborhood Code

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will document the consideration of fraud in the risk assessment process and the response to fraud risk in the Code / Neighborhood Code.

Implementation Date	Responsible Manager
December 31, 2018	Director of Code Compliance

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Opportunity 10 (Principle 8):
Document the process the City Council, the City Manager, and Code use to review management's assessment of fraud risk and the risk of management override of controls

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will document the process the City Council, the City Manager, and Code use to review management's assessment of fraud risk and the risk of management override of controls.

Implementation Date	Responsible Manager
December 31, 2018	Director of Code Compliance

Opportunity 11 (Principle 9):
Document the process to identify, analyze, and respond to change as part of the regular risk assessment process

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will document the process to identify, analyze, and respond to change as part of the regular risk assessment process.

Implementation Date	Responsible Manager
December 31, 2018	Director of Code Compliance

Opportunity 12 (Principle 9):
Anticipate and plan for significant changes by using a forward-looking process for identifying change

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will anticipate and plan for significant changes by using a forward-looking process for identifying change.

Implementation Date	Responsible Manager
December 31, 2018	Director of Code Compliance

Opportunity 13 (Principle 9):
Analyze and respond to identified changes and related risks to maintain an effective internal control system

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will analyze and respond to identified changes and related risks to maintain an effective internal control system.

Implementation Date	Responsible Manager
December 31, 2018	Director of Code Compliance

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<u>**Opportunity 14 (Principle 10):**</u>
Enhance documentation for the design of control activities including preventive and detective controls and segregation of duties. The ISO procedures do not fully identify incompatible functions that require segregation of duties.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will enhance documentation for the design of control activities including preventive and detective controls and segregation of duties. The ISO procedures do not fully identify incompatible functions that require segregation of duties.

Implementation Date	**Responsible Manager**
December 31, 2018	Director of Code Compliance

<u>**Opportunity 15 (Principle 11):**</u>
Identify and document the risks for information systems and information systems' control activities

Management Response / Corrective Action Plan
Agree ☐   Disagree ☒
The Director of Code is not able to implement this opportunity as the City's information system and related control activities are managed by the Department of Communication and Information Services (CIS).

Implementation Date	**Responsible Manager**
Not Applicable	Not Applicable

<u>**Opportunity 16 (Principle 11):**</u>
Identify and document the design of appropriate types of control activities for information systems

Management Response / Corrective Action Plan
Agree ☐   Disagree ☒
The Director of Code is not able to implement this opportunity as the City's information system and related control activities are managed by the Department of Communication and Information Services (CIS).

Implementation Date	**Responsible Manager**
Not Applicable	Not Applicable

<u>**Opportunity 17 (Principle 11):**</u>
Document the design of the information technology infrastructure

Management Response / Corrective Action Plan
Agree ☐   Disagree ☒
The Director of Code is not able to implement this opportunity as the City's information system and related control activities are managed by the Department of Communication and Information Services (CIS).

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Implementation Date
Not Applicable

Responsible Manager
Not Applicable

Opportunity 18 (Principle 11):
Document the design of security management

Management Response / Corrective Action Plan
Agree ☐   Disagree ☒
The Director of Code is not able to implement this opportunity as the City's information system and related control activities are managed by the Department of Communication and Information Services (CIS).

Implementation Date
Not Applicable

Responsible Manager
Not Applicable

Opportunity 19 (Principle 11):
Document the design of information technology acquisition, development, and maintenance

Management Response / Corrective Action Plan
Agree ☐   Disagree ☒
The Director of Code is not able to implement this opportunity as the City's information system and related control activities are managed by the Department of Communication and Information Services (CIS).

Implementation Date
Not Applicable

Responsible Manager
Not Applicable

Opportunity 20 (Principle 13):
Document the management processes used to evaluate both internal and external sources of data to ensure data reliability and quality of information

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will document the management processes used to evaluate both internal and external sources of data to ensure data reliability and quality of information.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Opportunity 21 (Principle 14):
Communicate to employees the separate reporting lines (such as ethics hotlines), how they operate, how they are to be used, and how the information will remain confidential

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will communicate to employees the separate reporting lines (such as ethics hotlines), how they operate, how they are to be used, and how the information will remain confidential.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Opportunity 22 (Principle 15):
Communicate to external parties the separate reporting lines (such as ethics hotlines), how they operate, how they are to be used, and how the information will remain confidential

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will communicate to external parties the separate reporting lines (such as ethics hotlines), how they operate, how they are to be used, and how the information will remain confidential.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Opportunity 23 (Principle 16):
Perform ongoing evaluations of the internal control system, which include cross operating units or cross-functional evaluations

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will perform ongoing evaluations of the internal control system, which include cross operating units or cross-functional evaluations.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Opportunity 24 (Principle 16):
Evaluate and document the results of ongoing monitoring and separate evaluations to identify internal control issues

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
The Director of Code will evaluate and document the results of ongoing monitoring and separate evaluations to identify internal control issues.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Opportunity 25 (Principle 17):
Evaluate and document internal control issues and determine appropriate corrective actions. The corrective actions should produce improvements and demonstrate the internal control deficiencies were remediated.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐
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The Director of Code will evaluate and document internal control issues and determine appropriate corrective actions. The corrective actions should produce improvements and demonstrate the internal control deficiencies were remediated.

Implementation Date
December 31, 2018

Responsible Manager
Director of Code Compliance

Sincerely,

Kris Sweckard
Director – Department of Code Compliance

Raquel Favela
Chief of Economic Development
and Neighborhood Services

C:

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