

# 2024 INTERNAL AUDIT ANNUAL REPORT

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## Finance Department Internal Audit & Grants

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## Notes from the Director of Finance Desk

It is my pleasure to present the City of Madison Internal Audit Annual Report for year 2024. This report highlights the efforts made by the Internal Audit section in supporting accountability, transparency, and operational excellence across the City's departments and agencies.

### Our Mission

The Internal Audit remains committed to providing independent, objective assurance and advisory services designed to enhance the City's governance, risk management, and internal control processes. Our work is guided by the principles of integrity, objectivity, and professionalism, ensuring that our efforts align with the City's goals and priorities.

### 2024 Accomplishments

The Internal Audit undertook a series of targeted audits and risk management initiatives aimed at safeguarding the City assets, ensuring compliance with policies, and improving operational efficiency. Key achievements include:

- Conducting comprehensive performance audits of high-risk areas identified through the Baker Tilly City-wide Enterprise Risk Assessment.
- Providing actionable recommendations to strengthen internal controls and enhance service delivery.
- Facilitating risk assessment training for agency leaders, promoting a culture of proactive risk management across the enterprise.
- Implementing a City-wide risk register to centralize the identification, assessment, and mitigation of risks.

### Looking Ahead

In the coming year, we will continue to build on these successes by deepening our engagement with City agencies, leveraging technology to enhance audit processes, and aligning our efforts with the City's strategic priorities. Our focus will remain on delivering value-added services that contribute to effective governance and the efficient use of public resources.

### Acknowledgments

I extend my sincere gratitude to the Mayor, Common Council, Finance Committee, and City leadership for their support of the Internal Audit unit. I also thank the dedicated audit team for their professionalism and commitment to excellence, as well as City staff for their collaboration throughout the year.

Together, we will continue to ensure that the City of Madison remains a model of accountability and good governance.

*David Schmiedicke*

David Schmiedicke

Finance Director, City of Madison

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**OUR MISSION** in the Finance Department is to enhance the financial health of the City and provide stewardship of City resources through financial information, advice and support to the public, employees, City agencies and policymakers.



**CORE VALUES**



**Stewardship:** Care for the city's natural, economic, fiscal, and social resources



**Shared prosperity:** Create a community where everyone can achieve economic success and social mobility



**OUR SERVICES**

- Provide financial advice, information, and support to the public, employees, policymakers, and city agencies
- Develop and administer the city's internal audit programs
- Identify ways to improve city operations and services
- Make recommendations to strengthen city government accountability



CITY OF  
**MADISON - FINANCE**

## Introduction

The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.<sup>1</sup>

The audit process includes evaluating internal controls, examining financial and other records, reviewing management systems and programs, identifying control weaknesses, non-compliance with the City's policies and procedures, and making recommendations for improvement.

## The City of Madison Internal Audit Function

The City of Madison Finance Department is responsible for overseeing the internal audit function, which includes the City's grant administration responsibilities and the Single Audit process.

### Internal Audit Standards

Internal audits are conducted in accordance with generally accepted government auditing standards (GAGAS) and the Institute of Internal Auditors (IIA) Standards to ensure that its evaluations of the agencies are thorough, credible, and consistent with best practices.

Audited agencies are identified through:

- The City-wide Enterprise Risk Assessment Program (performed in the previous year), which evaluates risks across the enterprise.
- Requests made by the City's head of agencies, the Finance Committee, or the Common Council for targeted audits based on specific needs or concerns.

This structured approach ensures that the internal audit function contributes to enhancing accountability, operational efficiency, and compliance across City agencies and programs.

### Audit Process

The internal audit process comprises three key phases: planning, fieldwork, and reporting. Effective communication with the audited agencies is a critical component throughout all phases.

#### Planning Phase

At the planning phase, the auditor:

- Conducts preliminary research to understand the agency's operations.
- Reviews processes, procedures, and policies to gain insights into the agency's functionality.
- Performs a project risk assessment to identify key audit risks and objectives.
- Initiates an engagement meeting with the agency's management to discuss the audit scope, objectives, and plan, fostering collaboration.

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<sup>1</sup> <https://www.theiia.org/en/standards/what-are-the-standards/definition-of-internal-audit/>



## Fieldwork Phase

The following are some of the auditor's activities at the fieldwork phase:

- Observe and analyze the agency's operations through walkthroughs.
- Conduct interviews to reconcile documented standard operating procedures (SOPs) with actual practices.
- Perform control reviews to evaluate the efficiency and effectiveness of internal controls.
- Document observations, findings, and conclusions for further analysis.

## Reporting Phase

The reporting phase is the concluding part of the audit process. At the reporting phase, the auditor:

- Communicates audit results to the agency's management after fieldwork.
- Presents findings and recommendations in a draft report, allowing for management review and response.
- Finalizes the audit report, incorporating management responses alongside the auditor's findings and recommendations.

The internal audit process ensures transparency, identifies areas for improvement, and strengthens compliance with city policies and procedures, ultimately contributing to effective governance, risk management, and accountability.

## Highlights of 2024 Activities

The year began with the Director of Finance presenting the proposed internal audit plans to the Common Council for approval through the City's Finance Committee as mandated by Section 4.02(3)(a) of the Madison General Ordinances. The presentation was made at the Finance Committee meeting on Monday, February 26, 2024. Below is the summary of the approved audit projects:

### Performance Audits<sup>2</sup>

- City of Madison Municipal Court – a project which began during Winter 2023 and completed in 2024 Q1
- Enterprise Risk Assessment – Training and Risk Assessment Exercise
- City of Madison Park Division Audit
- City of Madison Community Development
- City of Madison Assessor's Office

### Internal Control Continuous Monitoring

- Cash Counts and Limited Cash Control Reviews
- City-wide internal control spot check

These projects reflect the City's commitment to maintaining accountability, enhancing operational efficiency, and ensuring compliance with established policies and procedures. Each initiative will follow the structured phases of the audit process—planning, fieldwork, and reporting—to achieve meaningful outcomes and foster continuous improvement.

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<sup>2</sup> Performance Audits are audits on government programs to provide assurances on the efficiency and effectiveness of these programs.

## City of Madison Municipal Court Audit

In 2023, the internal audit function initiated a comprehensive review of the City of Madison Municipal Court to evaluate its operational efficiency and effectiveness. As the judicial branch of the municipal government, the Municipal Court handles City Ordinance cases while adhering to all legal and ethical standards.

### Scope of the Audit

The audit covered all operational and administrative activities of the Municipal Court from January 1 through December 31, 2022. Key areas of review included:

- Voiding of Receipts
- Reimbursement of Expenses and Claims
- Refund of Payments for Fines and Fees
- Processes for Collecting Fines and Fees, including provisions for non-payment
- Processes for Case Disposal
- Approval and Reconciliation of P-Card Expenses
- Data Protection and Access Security, including safeguards for data storage
- Award of Contracts
- General Review of the Court's Internal Control System

### Key Findings

Below is the summary of the key findings from the audit:

- Fines and Fees Collection: The audit identified inefficiencies in the Court's process for collecting fines and fees. Between January 2019 and June 2023, \$11.75 million in fines and fees remained uncollected.
- Debt Transfer Process: The need for improvements in transferring debts to collection agents was highlighted.
- Voiding of Receipts: Controls surrounding the voiding of receipts were insufficient, increasing the risk of errors or potential misuse.
- Internal Control Systems: A general review of the Court's internal control system highlighted areas requiring reinforcement to ensure operational integrity and compliance.

### Report Availability

The audit findings and recommendations were documented in a report published in March 2024, available online. These findings aim to enhance the Municipal Court's operational practices and strengthen its financial and administrative controls. The recommendations provided in the audit report aim to address these issues effectively.

## City of Madison Enterprise Risk Assessment – Training and Risk Assessment Exercise

To enhance the efficiency of Governance, Risk Management, and Control (GRC) protocols across the city enterprise, the internal audit team conducted comprehensive risk assessment training for all agencies, divisions, and their managers as part of its approved annual plan. The training, which took place between May and July 2024, focused on equipping participants with tools and strategies to identify, assess, and mitigate risks.

### Training Highlights Include

#### Training Purpose

- To introduce the principles of risk assessment and the importance of continuous monitoring of controls.
- To provide tools for identifying potential risks and implementing effective mitigation measures.

## Training Content

- Overview of the different types of risks the city could face.
- Examination of risk sources and the components of risk assessment.
- Training on tools for risk evaluation and strategies for mitigating identified risks.

## Key Outcomes of the Training

### Comprehensive Risk Assessment Exercise

- Conducted a City-wide risk assessment between September and November 2024, marking the first of such exercise across the enterprise.
- Enabled agencies to identify inherent risks in their processes and operations while ensuring adequate controls were in place to address them.

### Development of a Risk Register

- A centralized repository was established to document all identified risks.
- The register includes details such as:
  - Potential impact of identified risks
  - Likelihood of its occurrence
  - Mitigation strategies or risk response plans

### Annual Risk Assessment Cycle

- The risk assessment exercise will be conducted annually from September to November.
- Agencies are encouraged to monitor their risks regularly and continuously, ensuring their controls remain adequate and effective.

This initiative underscores the City's commitment to fostering a proactive and structured approach to risk management, ensuring operational resilience and strong governance across the enterprise.

## City of Madison Parks Division

The City of Madison Parks Division serves the community by offering quality parks, natural resources, and recreational opportunities. Its mission also focuses on improving connectivity, ensuring equitable access to park amenities, and investing in the natural environment.

### Audit Objectives and Scope

The audit aimed to provide reasonable assurance that:

- The Division's records are reliable.
- Activities are conducted effectively.
- Programs align with those approved by the Common Council.
- Actions comply with applicable laws and regulations.

The scope of the audit covered the Parks Division's operational and administrative activities from January 1 through December 31, 2023. Key areas reviewed included:

- Hourly Employee Timecard Approvals
- Reimbursement of Expenses and Claims
- Cash Handling (Reporting and Recording of Collected Cash)
- Award of Contracts
- Mandatory Training for Parks Employees
- General Maintenance Services at Parks



- Applications Access Provisioning and Termination
- Visitor Complaint Resolution
- General Review of the Division’s Internal Control System

## Key Findings

The audit identified areas requiring improvement, which include:

- Access Management: Continuous monitoring of employee access to City applications needs improvement. Specifically, exited and terminated employees must be deactivated from all City platforms immediately upon disengagement.
- Cash Collection and Deposit Protocols: The Division should strengthen its procedures for collecting and depositing cash. Cash collected on behalf of the city should be remitted to the Finance Department Treasury Unit or deposited at the City’s designated bank within a specified period (generally within one week of collection).

## Report Access

The full audit report, which includes detailed findings and recommendations, is available online. These insights aim to enhance tighter controls over access management, operational efficiency, financial accountability, and overall governance of the Parks Division.

## Monitoring and Strengthening the City’s Internal Control Systems

In 2024, the internal audit function continued to monitor and enhance the City of Madison's internal control systems through targeted audit engagements and reviews.

### Key Activities and Focus Areas include

1. Cash Control Reviews
  - Conducted on-the-spot cash counts and limited cash control checks for agencies handling cash on behalf of the City.
  - Evaluated compliance with the City’s policies on cash collection and remittances to the Treasury section of the Finance Department.
2. General Control Checks
  - Verified that payments were approved by authorized personnel with appropriate approval rights within each agency.
  - Introduced and promoted the concept of approval limits to define the maximum expenditure individuals are authorized to approve.
  - Reviewed the City’s procurement card (P-card) policy and purchases to ensure timely retirement and reimbursement of P-card expenses, mitigating the risk of incurring excessive bank charges.

## Outcomes

- Audit reports highlighted areas requiring improvement in the City’s internal control systems.
- Recommendations provided actionable steps to strengthen control activities, improve compliance, and enhance operational efficiency.

These initiatives are integral to ensuring robust financial and operational controls across the City, fostering accountability, and minimizing risks. The internal audit team remains dedicated to enhancing the City of Madison’s governance, risk management, and control processes. In the coming years, the team will:

1. Continuously Monitor Internal Controls by

- Conducting regular reviews and assessments to ensure compliance with established policies and procedures.
  - Performing targeted audits and spot checks to identify and mitigate risks effectively.
2. Provide Transparent Reporting
- Issue detailed audit reports with findings, recommendations, and action plans to address areas requiring improvement.
  - Maintain open communication with City agencies to support the implementation of corrective actions.

## City of Madison Community Development Division

The internal audit commenced its audit of the City of Madison Community Development Division in October 2024 as part of the approved 2024 plan.

### Current Status

The audit is currently in the fieldwork phase (i.e., currently reviewing documents, testing the existence, effectiveness and efficiency of internal controls, testing compliance with policies, procedures, and regulations, etc.) at this report's time.

### Next Steps

- Upon the completion of the outstanding audit deliverables, i.e., fieldwork, a comprehensive report will be prepared.
- The report will detail the audit findings, recommendations, including areas of improvement to enhance the department's efficiency and effectiveness.
- Communicate the audit report to the Division's management for their responses and present the final report to the City's Finance Committee.
- The final output will be published i.e., uploaded on the Finance Department (internal audit) webpage for public accessibility.

This ongoing audit underscores the City's dedication to maintaining transparency, accountability, and excellence in its community development initiatives.

# Internal Audit Organization Chart

## Internal Audit and Grants Organization Chart

